

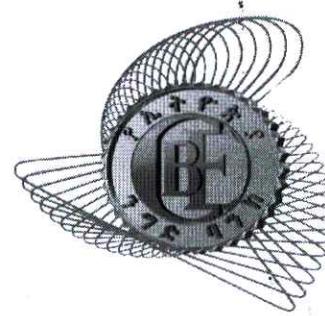
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Commercial Bank of Ethiopia

INTER DEPARTMENTAL MEMORANDUM

ቀን:-	February 4, 2024
ለ፡-	V/P- Risk Management & Compliance
TO:	
ከ፡-	Secretary to the Board
FROM:	
SUBJECT	Sending Credit Policy
ገዢ፡-	
Copy	
ገልጻዎች፡-	<ul style="list-style-type: none">➤ Chief of Staff➤ V/P Credit Division

Enclosed herewith please find one copy of "Credit Policy" by the Board and signed by the Chair. The Board approved the Document on January 16, 2025 (Minutes No.010/2024.25).

Mekdim Amare



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COMMERCIAL BANK OF ETHIOPIA

CREDIT POLICY

January 2025



BB



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ACRONYMS

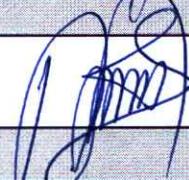
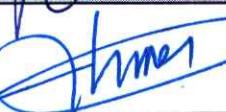
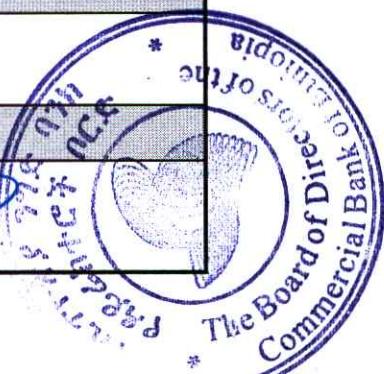
CBE	-	Commercial Bank of Ethiopia
CDD	-	Customer Due Diligence
DLL	-	Discretionary Lending Limit
FCY	-	Foreign Currency
IFRS	-	International Financial Reporting Standards
KPIs	-	Key Performance Indicators
KYC	-	Know Your Customer
LAF	-	Loan Approval Form
LCY	-	Local Currency
MOF	-	Ministry of Finance
NBE	-	National Bank of Ethiopia
NPLs	-	Non-Performing Loans
SOEs	-	State Owned Enterprises



Document Control Detail

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	Name	Role	Signature	Date
Author				
1	Credit Division	Vice President		
Reviewers and Validators				
1	EMC			
Approver				
	Ato Ahmed Shide	Board Chairman		

Document Version History

Version	Date	Author	Change
V.1.0	March 20, 2013	CREDIT APPRAISAL AND PORTFOLIO MANAGEMENT	1 st Final version
V.2.0	December 22, 2021	CREDIT APPRAISAL AND PORTFOLIO MANAGEMENT	2 nd Final version
V.3.0	March 30, 2024	CREDIT MANAGEMENT	3 rd Final Version

CHAPTER ONE

INTRODUCTION

1.1. Preamble

WHEREAS, the Credit Policy is one of the major policy instruments that serve to manage credit risk, guide and govern the credit business of the Bank to enhance financial soundness and sustainable profitability;

WHEREAS, it is found necessary to transform the existing Bank's credit business to improve its asset quality;

WHEREAS, it is required to align with the strategic objective of the Bank to become a risk-conscious bank, and embed prudent lending, monitoring and effective follow-up practices across all credit organs;

WHEREAS, there is a need to address changes related with the newly implemented credit business structure to ensure the efficacy of the credit service provision by rearranging the management of some responsibilities and inclusion of new ones;

WHEREAS, it is found necessary to diversify the credit portfolio towards financially viable, economically feasible and environmentally friendly businesses in line with the Bank's strategic directions;

WHEREAS, the Credit Policy shall be revised periodically to address identified gaps that require improvement;

Whereas, the Credit Policy is revised to bring alignment with the Directives recently issued by NBE, incorporating major changes and assigning additional responsibilities;

WHEREAS, the Credit Policy is revised in accordance with Proclamation No. 592/2008, and its amendment proclamation no. 1159/2019 and article and subsequent amendments thereon, and the Corporate Governance Framework of the Bank;

NOW, therefore, the Board of Directors of the Bank has issued this revised Credit Policy.



1.2. Short Title

This policy may be cited as "***Credit Policy of the Commercial Bank of Ethiopia***"

1.3. Definitions of Terms

For the purpose of this Policy, unless the context provides otherwise:

1. **"Arm's length principle"** means the Bank shall not conduct any transaction, with a related party on preferential terms, as compared to with an unrelated party in the normal course of business, including credit assessment, conditions, tenor, interest rates, fees, amortization, schedules, requirement for collateral, and repayment periods.
2. **"Bank"** means Commercial Bank of Ethiopia.
3. **"Beneficial owner"** means any natural person/s who ultimately owns or controls the company even though the business is in another name.
4. **"Board"** means the supervisory Board of the Bank formed in accordance with Article 15 of the Federal Government-Owned Proclamation Enterprise no.1314/2024.
5. **"Clean Track Record"** means a borrower's history or achievement that shows its performance in meeting its loan contractual obligations.
6. **"Conflict of Interest"** means a situation where a lending officer or member of his/her immediate family (spouse or relation in the first degree of consanguinity) may personally benefit as a result of a decision taken in his/her official capacity.
7. **"Consumer Loan"** means a loan granted for natural persons for the purpose of buying and/or constructing a residential house, to buy an automobile and for consumption in the form of personal loan.
8. **"Counterparty"** means any natural or legal person to which the Bank has exposure.
9. **"Credit Card Facility"** means a revolving facility extended to natural persons that enable a cardholder to overdraw his/her account and repay later to the Bank.
10. **"Credit Decision"** means the act or process of deciding on any credit-related requests and/or resolution mechanisms as per the Bank's Credit Policy, Procedure and Guidelines.
11. **"Credit Risk"** means the potential for a financial loss arising from a borrower or counterparty's failure to fulfil a contractual obligation to repay a loan or meet other credit-related commitments.

- 12. "Creditworthy"** means a borrower with a good financial position and performance, who generates adequate cash flow, with a clean track record and other qualities that reasonably assure the full repayment of loans and advances.
- 13. "Customer Due Diligence"** means a process that the Bank uses to gather information about the customers to determine the creditworthiness and identify probable risks along with the risk mitigating factors.
- 14. "Customer's Journey"** means the complete set of interactions that a customer has with the Bank for any credit process or decision.
- 15. "Customer Segmentation"** means the approach of classifying potential and existing credit customers broadly as wholesale and Retail to develop customer value propositions in terms of differentiated products, services and privileges.
- 16. "Customer Value Proposition"** means the value that the Bank promises to deliver to its customers.
- 17. "Digital financing"** means a credit product of different forms provided either through CBE's digital channels or that of a third party.
- 18. "Discretionary Lending Limit (DLL)"** means loan approving authority given to an individual or a team.
- 19. "Days Past Due"** means the number of days elapsed from the first scheduled repayment date up to the full payment of the arrears amount by the borrower.
- 20. "Early Warning System (EWS)"** means a system that helps to understand the likelihood of a default so as to take early mitigation action;
- 21. "Early Alert Meeting"** means a meeting conducted by a team of supervisors with the aim of giving direction/decision on loan cases identified by the EWS as High risk and are not resolved by CRMs.
- 22. "Expected Credit Loss"** means the probability-weighted estimate of credit losses over the expected life of a credit.
- 23. "Exposures"** means either on-balance sheet items, including loan and advances, and/or off-balance sheet items such as letters of guarantee, letter of credit, commitment by a bank to advance loans to customers.
- 24. "Forbearance-restructure"** occurs when a counterparty is experiencing financial difficulty in meeting its financial commitments and the Bank grants a concession that it would not otherwise consider.



- 25. "Exposure Limit"** means the aggregate loan or extension of credit facility by the Bank to an individual/group of borrowers.
- 26. "Force Majeure"** means an event that cannot be reasonably anticipated or controlled.
- 27. "Government Institution"** means Federal, Regional and City Administrations.
- 28. "Group of Connected Counterparties"** means a group of counterparties with specific relationships of control or economic interdependencies, such that, if one of the counterparties were to fail, all of the counterparties would very likely to fail.
- 29. "Impairment of Loans & Advances"** means a reduction in the value of an asset, either fixed or intangible, to reflect a decline in the quality, quantity, or market value of the asset.
- 30. "Import Letter of Credit Facility"** means a credit product that the Bank extends to importers or other applicants who import for various purposes with or without a payment of a certain percentage of the value of the document while opening a Letter of Credit.
- 31. "Large Exposure"** means any financial assets of the Bank to a counterparty or to a 'group of connected counterparties', that is equal to or above ten percent (10%) of the Bank's total capital.
- 32. "Lending Officer"** means the Bank's performer involved in the credit process: credit origination, collateral valuation, analysis, recommendation, approval, contract signing, collateral registration, disbursement, security file custodianship, follow-up, collection, negotiation, foreclosure, debt litigation, write-off and post write-off follow-up.
- 33. "Letter of Guarantee Facility"** means a written promise/irrevocable obligation by the Bank to compensate to the beneficiary (local or foreign) a maximum of guaranteed amount in the event that the obligor fails to honor his/her/its obligations in accordance with the terms and conditions of the guarantee and claims lodged within stated validity period.
- 34. "Loan against a Government Bond"** means a type of loan granted against bonds backed by MOF's unconditional letter of guarantee.
- 35. "Loan Portfolio"** means total loans and advances extended to all borrowers in any sector, tenure, product, form of business ownership, geographical location or others.
- 36. "Loan Pricing"** means setting interest rates, fees, commissions and others to be charged by the Bank on loans, advances and guarantees extended to customers.
- 37. "Loan Recovery Management"** means a collection of impaired loans through negotiation with customers and legal means. And its objective is to protect the Bank from

possible loan loss when the loan repayment or business performance of the customer deteriorates.

- 38. "Loans and Advances"** means any financial assets of the Bank arising from a commitment to advance funds by a Bank to a person that is conditioned on the obligation of the person to repay the funds, either on a specified date or dates or on demand, usually with interest, or from indirect advances such as unplanned overdrafts, participation in loan syndication and the purchase of loans from another lender; and includes a contractual obligation of a Bank to advance funds to or on behalf of a person's claim evidenced by a lease financing transaction in line with provisions of the relevant law in which the Bank is the lessor and letter of credit facility to be funded by a Bank on behalf of a person.
- 39. "Loan Workout"** means a process of renegotiation between the bank and a borrower to normalize repayments of problem loans and advances.
- 40. "Long-Term Loan"** means loans or advances with repayment or maturity period of more than 5 (five) years as per the NBE's Directive SBB/90/2024 or as amended.
- 41. "Medium-Term Loan"** means loans or advances with a repayment or maturity period of more than 1 (one) year but less than or equal to 5 (five) years as per the NBE's directive SBB/90/2024 or as amended.
- 42. "Merchandise Loan Facility"** means a credit facility provided against a pledge of merchandise or documentary evidence.
- 43. "Micro Loan"** means a loan provided to micro businesses and individuals to support businesses and for personal uses.
- 44. "National Laws"** means any domestic law enacted by the Ethiopian Government including but not limited to the Constitution, Proclamation, Regulation and Directive of Regulatory and Supervisory Organs.
- 45. "Net Present Value"** means how much an investment is worth throughout its lifetime, which is the difference between the present value of cash inflows and the present value of cash outflows over a period of time.
- 46. "Non-accrual status"** means that a loan or an advance has been placed on a cash basis for financial reporting purposes. Interest on such loans or advances accrued on the books of the bank, or for which a specific reserve (such as a suspended interest account) has been established by the bank to offset the full amount of interest being accrued, shall not be taken into income.



- 47. "Non-Performing Exposures"** means defaulted exposures as stated in the NBE's Directive SBB/90/2024, or as amended.
- 48. "Off-balance Sheet Item"** means a commitment to advance loans, undrawn credit commitment, revocable or irrevocable documentary letters of credit, standby letters of credit, and guarantees issued on behalf of a borrower.
- 49. "Overdraft Facility"** means a renewable credit facility by which a customer is allowed to draw beyond the deposits of its current accounts for the sole purpose of the day-to-day operational needs of a viable and ongoing business.
- 50. "Post-Shipment Export Credit Facility"** means an advance extended to exporters upon presentation of valid export documents, indicating shipment of goods to the port.
- 51. "Potential Credit Customer"** means a prospect customer who has the potential to be interested in the credit products that are offered by the Bank but has not yet served.
- 52. "Pre-Approval Limit"** means a loan amount determined by a preliminary evaluation offered to a potential borrower.
- 53. "Preferential Claim"** means a priority right granted by law to government bodies and employees of a borrower over the bank's debts at the time of foreclosure and collection of the proceeds.
- 54. "Pre-Shipment Export Credit Facility"** means a loan extended for the purchase of trading items/commodities, raw materials and processing and converting them into finished goods, warehousing, packing and transporting the goods until the time of shipment.
- 55. "Prudent Credit Sanctioning"** means generally accepted underwriting and lending practices based on sound judgment during loan processing, documentation, loan approval, collections, servicing, administrative procedures, collateral protection and recovery actions.
- 56. "Prudent Lending Practices"** means "generally accepted underwriting and lending practices based on rules and agreed principles during loan processing, documentation, loan approval, collections, servicing, administrative procedures, collateral protection and recovery actions.
- 57. "Reconsideration"** means a customer's request lodged to the Bank to reconsider its credit decisions.
- 58. "Regular Loans"** means loans and advances which have been classified as pass or special mention.

59. "Related Party" means:

- a. The Bank's majorly owned subsidiaries, and any party that the Bank exerts control over or that exerts control over the Bank;
- b. The Bank's Board members, President, senior executive officers;
- c. The spouse or relative in the first degree of consanguinity or affinity of the Board directors, President, or senior executive officers; an entity in which such, director, chief executive officer, senior executive officer and/or the spouse or relative in the first degree of consanguinity or affinity owns 10% or more interest as shareholder or serves as a director, chief executive officer or senior executive officer;
- d. State-owned banks and State/Federal Government-Owned Enterprises;
- e. Parties that can exert significant influence as may be determined by the NBE; and
- f. any other relationships, as may be determined by the National Bank.

60. "Relationship by Affinity" means a relationship created as a result of marriage. Provisions to this definition shall be governed as per the Revised Family Code and Civil Code of Ethiopia.

61. "Relationship by Consanguinity" means a relationship derived from common ancestors to be governed as per the Revised Family Code and Civil Code of Ethiopia.

62. "Retail Customer" means individuals other than those engaged in businesses that demand the Bank's financial services.

63. "Safe Custody File" means important documents such as title deeds, plans, loan and security contracts, and other valuable documents that must be kept in a secure place with a defined access protocol.

64. "Secured Loan" means loans and advances availed as per the minimum collateral coverage requirement which is to be set in the credit procedure.

65. "Short-Term Loan" means loans and advances with repayment or maturity period of 1 (one) year or less as per the NBE's Directive No SBB/90/2024 or as amended.

66. "State Owned Enterprises (SOEs)" shall mean a legal entity owned by the government and/or government and private partnership (if the government owns above 50% capital) in order to partake in commercial activities.

67. "Syndicate Loan" means a type of loan that the CBE would collaborate with other banks and any financer and provide loan jointly to a borrower.

68. "Term Loan" means a loan granted for working capital and/or project finance or acquisition of fixed assets for commercial or personal uses in the form of short-term,



medium-term or long-term loans to be repaid within a specific period with agreed periodic installments.

69. **"Unsecured Loan"** means loans and advances availed below the minimum collateral coverage requirement which is to be set in the credit procedure.
70. **"Value Chain"** means the process or activities by which a company adds value to an article, including production, marketing, and the provision of after-sales service.
71. **"Warehouse Receipt Financing"** means a type of Collateralized Commodity Finance, where the loan is secured against a Warehouse Receipt pledged by the borrower to the financier in accordance with the Warehouse Receipt System Proclamation No. 372/2003 or as amended.
72. **"Wholesale Customer"** means all customers which are licensed by a government organ, those established by law and regional and federal government organs.

1.4. Objectives of the Credit Policy

1. To provide a framework for credit service excellence;
2. To enhance the realization of the Bank's vision, mission and strategies;
3. To provide direction and guidance to lending officers to ensure consistency in credit management, and provide a framework for credit collection and allocation;
4. To enhance the value of the Bank while serving the public in need;
5. To ensure prudent lending practice while being competitive; and
6. To support the design of a strong risk management system in the provision of credit business.

1.5. Scope of Application

1. This Credit Policy applies to the credit process that starts with recruiting potential customers to establish a credit relationship and ends up with full collection including post-write-off follow-up and reinstatement of written off loans;
2. This Credit Policy shall also govern all credit-related activities of lending officers; and
3. CBE NOOR financing is not governed by this Policy.

1.6. Governing Rules

1. Banking Business Proclamation No. 592/2008 and its amendment proclamation no. 1159/2019, or as amended;



2. Federal Government-Owned Enterprise Proclamation no. 1314/2024 or as amended;
3. Directives of Regulatory and Supervising Organs;
4. Corporate Governance Framework of the Bank;
5. Risk Appetite Framework of the Bank;
6. Relevant policies of the Bank such as but not limited to Conflict-of-Interest Management Policy; and
7. Other Laws, Regulations and Conventions of the country applicable to banking business.

1.7. Guiding Principles

1. Ensuring application of "Know-Your-Customer" principle while recruiting credit customers;
2. Practicing prudent credit sanctioning standards;
3. Limiting overall credit risk exposure to an individual borrower and a group of connected borrowers as per the pertinent NBE's Directive;
4. Operating as per the Bank's defined risk appetite framework;
5. Providing credit in a manner that ensures full repayment;
6. Serving the legitimate needs of the markets and communities in which the Bank operates with due consideration to environmental, social and governance issues;
7. Ensuring early recovery or resolution of problem loans and advances;
8. CBE shall enhance transparency and monitor the defined KPIs across the credit journey;
9. Ensuring adequate and up-to-date information management that supports the credit management of individual account relationships and the overall loan portfolio; and
10. Ensuring sustainable financial performance of the Bank to the satisfaction of the stakeholders.

CHAPTER TWO

POLICY STATEMENT

2.1. General Policy Statements

1. The Bank shall implement a credit risk assessment for business financing loans to minimize potential losses while maximizing returns and expanding the Bank's customer base;
2. The Bank shall maintain a diversified loan portfolio, implement a robust risk management system, and adhere to the relevant country's law, regulations, directives, policies and procedures;



3. The Bank shall provide innovative and diversified credit products while adhering to regulatory requirements and maintaining a strong reputation as a reliable lender.
4. All natural or juridical persons engaged in lawful trading activities and whose business is creditworthy are eligible to borrow; and
5. All persons who have a defined and sustainable source of income, except condominium loan applicants for whom the Bank shall not require a defined and sustainable source of income, are eligible to borrow retail loans.

2.2. Specific Policy Statement

2.2.1. Credit Products .

1. CBE shall extend short, medium and long-term loans and advances, with or without a pre-established repayment program to borrowers for commercial and non-commercial purposes;
2. All loans and advances shall be given in local currency except foreign guarantee and Letter of Credit (LC) facilities in which the Bank's commitment would be in FCY;
3. The Bank may provide a grace period for a loan repayment depending on the nature and cash flow of the business; and
4. CBE shall have the following credit products and other new products approved by the Board:
 - i. Term Loans
 - ii. Overdraft Facility
 - iii. Pre-Shipment Export Credit Facility
 - iv. Post-Shipment Export Credit Facility
 - v. Import Letters of Credit Facility
 - vi. Merchandise Loan Facility
 - vii. Warehouse Receipt Financing
 - viii. Letter of Guarantee Facility
 - ix. Loan against Government Bond
 - x. Syndicate Loan financing
 - xi. Supply chain financing
 - xii. Consumer Loan
 - xiii. Credit Card Facility



- xiv. Start up Financing
- xv. Buy Now Pay Later (BNPL)
- xvi. Digital financing both for retail and wholesale customers

2.2.2. New Product Development and Approval

1. CBE shall develop new products based on customers need assessment including customized credit products for customer segments to promote financial inclusion, enhance its competitiveness, maximize earnings, and diversify risk;
2. The Bank shall also periodically revise its credit products to meet the ever-increasing credit demand of customers and to accommodate innovative credit products;
3. Inherent risks shall be assessed before operationalizing a new credit product; and
4. CBE, upon the recommendation of the President, shall decide on the introduction of new credit products.

2.2.3. Customer Segmentation

CBE shall segment its potential and existing credit customers broadly as Wholesale and Retail to facilitate provision of customer value proposition in terms of differentiated products, services and privileges.

2.2.4. Credit Processing

1. The credit process shall be set up under independent divisions called Wholesale/Retail Banking (recruitment, origination and relationship management) and Credit Management (for credit appraisal, valuation, operation, monitoring and collection);
2. The Wholesale and Retail Banking Divisions shall be entrusted with responsibilities in selling credit products and services, originating credit requests, establishing and maintaining relationships with customers, and ensuring customers' financial resources (both FCY and LCY) are channeled through and a big portion of that kept in the CBE;
3. The Credit Division is entrusted with the function of undertaking credit appraisal, credit risk grading, collateral valuation, credit operation, monitoring and collection including resolving problem loans through negotiation and/or transferring for litigation and foreclosure, and reinstatement of written-off loans; and
4. A designated credit decision team is the sole responsible body to deliberate and decide on the credit request of a customer.



2.2.5. Credit Origination

1. All credit requests shall originate from the Wholesale and Retail & Branch Banking Divisions;
2. The Wholesale and Retail and Branch Banking Divisions shall advise customers and sell credit products and services;
3. Credit customers shall be primarily recruited based on their creditworthiness; The Wholesale Banking Division shall recruit credit customers, conduct KYC based on the standard checklist and prepare a due diligence report, and submit customer credit requests to the Credit Division;
4. The Bank shall put in place an end-to-end digitized financing platform for micro and retail customers for which the credit scoring parameters and corresponding weights shall be pre-established by the Credit Division;
5. Branches shall recruit wholesale customers and forward their requests to the Wholesale Division/Districts in accordance with the DLL set for lending units;
6. Branches shall recruit retail customers and may pass decisions in accordance with the credit procedure or a guideline prepared for this purpose;
7. The wholesale Banking Division may request the Credit Division to set a pre-approved limit for selected Wholesale customers as a value proposition; and
8. The Wholesale Banking team is responsible for thoroughly gathering customer data, identifying related parties and connected counterparties, and reporting this information to the Credit Division.

2.2.6. Credit Analysis/Appraisal

1. Objectives of Credit Appraisal
 - i) To determine a borrower's ability to meet loan repayment obligations for all borrowings;
 - ii) To evaluate the viability of a business from different aspects;
 - iii) To determine the financing requirement, the purpose of the loan and period of repayment; and
 - iv) To identify probable risks and put in place risk mitigating mechanisms.
2. Scope of Credit Analysis/Appraisal



- i) In conducting credit analysis/appraisal, the primary focus shall be determining a repayment capacity which is demonstrated by the future cash flow of the business, customers' character, track record, and financial position;
- ii) The depth and content of a credit analysis/appraisal may vary depending on the nature of a loan, the type of customer, the amount of loan, the customer's risk level and the complexity of the customer's business;
- iii) If an applicant for a credit facility offers cash collateral with 100% coverage and fulfills the general eligibility criteria, a credit facility can be approved without doing an appraisal;
- iv) The Credit Appraisal team shall perform its activities independently; and
- v) Collateral coverage shall be analyzed to minimize collateral risk as per the minimum requirements.

3. Credit Risk Grading

- i) Credit risk grading shall be done for all loan applicants including those with no credit relationship with CBE before. The credit risk grading shall be done by a Guideline prepared for this purpose; and
- ii) The customer's credit risk grading shall be regularly reviewed based on the financial strength of the borrower business, industry outlook, confidence on the top management of the business, account performance, length of borrowing relationship and other relevant factors.

2.2.7. Collateral

1. Collateral shall be considered as a second way-out for a loan recovery next to the creditworthiness of a loan applicant;
2. Movable or immovable assets to be offered for collateral shall be those that are marketable, accessible and transferable;
3. Banks guarantee (local and foreign) shall be accepted as collateral;
4. For digital micro loans, there may not be a collateral requirement;
5. All properties held as collateral shall have insurance coverage. However, those properties that cannot be insured shall be clearly identified and incorporated into the credit procedure;
6. All properties offered as collateral shall be accepted if they can be registered with a legally empowered government organ. Acceptable properties for collateral which may not be



registered by a government organ shall be clearly identified and incorporated into the credit procedure;

7. There should be a standard property valuation manual that should be revised when a market situation demands to do so;
8. For aircrafts and ships, insurance value, purchase contract value, commercial invoice value, or valuators value can be taken as collateral value;
9. The variables and the values given in the Valuation manual should be in a way that avoids either an understatement or overstatement of a collateral value;
10. The CBE may use external collateral valiators as deemed necessary; and
11. Loans and Advances, a Guarantee and LC facilities may be granted without collateral either for a portion of it or fully depending on the creditworthiness of a borrower.

2.2.8. Credit Decision System

1. The Bank shall use a team-based credit decision system;
2. The Bank may empower individuals to decide on retail (non-commercial) loan requests;
3. Credit decision-making teams/individuals shall deliberate and decide on credit requests;
4. Credit decision-making teams/individuals shall clearly state adequate reasons for any credit decision;
5. No member of the Bank's staff shall participate in evaluating or making a credit decision for any customer's credit request with whom he/she has a business relationship and/or consanguinity or affinity or his/her own credit request;
6. Lending officers who are responsible for credit origination shouldn't be involved in a credit decision in any way except for retail customers; and
7. Credit decision committees shall have a Guideline.

2.2.9. Credit Decision Execution and Loan File Management

1. Any credit decision shall be communicated by a Relationship Manager to a customer in writing immediately after receiving a credit decision through a letter and/or electronic media;
2. If a customer does not accept a credit decision, she/he/it may request for a reconsideration of the credit decision;
3. Loans shall be disbursed after signing loan and mortgage contracts between the Bank and the customer/mortgagor;

4. Security rights backed by movable property shall be registered online on Ethiopian Movable Collateral Registry System;
5. Standard contracts shall always be designed by a legal expert. Any change or modification afterward shall also be checked by a legal expert to protect the legal interest of the Bank;
6. The Bank shall digitize the whole credit process; and
7. All safe custody files shall be held under a dual control arrangement. In the case of electronic documentation of safe custody files, it shall also have defined access rights and file security system.

2.2.10. Credit Follow-up, Monitoring and Reporting

1. Loan follow-up shall be effective enough to identify early warning signals and initiate timely remedial measures;
2. Regular monitoring shall be conducted to ensure the Bank's credit exposures in line with credit risk appetite, strategy, policy and procedures at portfolio and individual exposure level as appropriate;
3. The Bank shall introduce Early Warning Signals System, Early Alert Meetings and KPIs to timely identify potential defaults and take actions;
4. Review of loans and advances approved by credit decision committees shall be performed so as to enhance the quality of future credit decisions; and
5. Competency gaps of lending officers shall be continuously identified and addressed by appropriate training and other capacity development initiatives.

2.2.11. Credit Portfolio Management and Provisioning

1. The Bank shall maintain a diversified and balanced portfolio spread based on the pre-established portfolio limits over different sectors, group exposures, geographical areas, maturities, product types, collateral groups, risk grades and others;
2. The Bank shall allocate at least five percent (5%) of its credit disbursements of the year to individuals, persons in the agricultural sector including cooperatives, unions and others, and Micro, Small and Medium Enterprises against Movable Property as collateral as per the NBE Directive No MCR/01/2020 or as amended;
3. The Bank shall periodically review its loan portfolio to ensure that the quality of loans and advances are to the satisfaction of the stakeholders.



4. The Bank shall maintain relevant data and monitor loan performance of a group of connected borrowers, and related parties to the Bank as per the regulatory requirements;
5. The Bank shall classify all its exposures, whether the exposures have pre-established repayment program or not, into Pass, Special Mention, Substandard, Doubtful and Loss as per NBE Directive No SBB/90/2024, or as amended;
6. If there are multiple loans outstanding to a single borrower, and if one of them which accounts for at least 20% of the borrower's total loans with the Bank meets the criteria to be classified as a non-performing loan, then all other loans or advances to the borrower shall automatically be placed on non-performing status;
7. Regardless of the loan classification based on an objective condition of days past due, the Bank shall categorize loans as non-performing if they are deemed unlikely to be repaid regardless of the number of days an exposure has been overdue. However, the circumstances to do that shall be clearly outlined in the Credit Business Procedure;
8. The Bank shall maintain at least a minimum prudential provision as per the NBE's Directive SBB/90/2024 for both on-Balance sheet and off-Balance sheet exposures;
9. The Bank shall determine provisions for the impairment of loans and advances based on the relevant standards of the IFRS and maintain an appropriate level of provision that satisfies the applicable directives of the NBE;
10. The Bank shall periodically calculate Expected Credit Loss (ECL) and develop client-level probability of default at least for top corporate customers;
11. Adequacy and appropriateness of provisions shall be periodically done and approved by the Executive Management and overseen by the Board;
12. The loan portfolio database of the Bank shall be maintained centrally;
13. Performance reports on the credit process shall be prepared and maintained by all credit performing organs and compiled centrally;
14. All concerned organs of the Bank including the Board and other stakeholders shall have access to the reports without compromising its business secret and confidentiality of customers' information through a dedicated bank organ; and
15. A periodic report must be submitted to the NBE covering the following: classification and provisioning of loans and advances, provisioning for off-balance sheet exposures, restructured loans and advances, loans and advances that have been reclassified from non-accrual to accrual status, total exposure to related parties, all related party exposures, and the exposure of each individual counterparty that exceeds 10% of the bank's total

capital, as per the formats attached in the NBE Directive, SBB/87/2024, SBB/88/2024 and SBB/90/2024.

2.2.12. Loan Pricing

1. The Bank shall set and apply competitive loan pricing based on the level of risks and value factors tailored to a customer segment;
2. The Board upon the recommendation of the President shall periodically review and decide the lending interest rate to sustain the business growth and competitiveness of the Bank;
3. In view of the prevailing competition and maintaining the Bank's profitability, the President shall periodically review and decide fees, commissions, penalties and others to be applied on loans and advances;
4. Penalty interest shall be applied on non-performing loans on top of the lending rate in a manner that discourages failure to commit as per the loan agreement and/or compensate for the forgone interest income to the Bank; and
5. The Bank shall also apply disincentives (penalty interest), as appropriate, when a customer fails to perform as agreed on the contract signed.

2.2.13. Interest Realization

1. Interest on loans and advances are realized on accrual basis;
2. All loans and advances classified as non-performing, in accordance with the NBE directive No. SBB/90/2024 or as amended, shall be placed in non-accrual status;
3. Accrued but uncollected interest being carried on the books of a bank for loans and advances, which are required to be placed on non-accrual status in accordance with the requirement laid out in Directive SBB/90/2024, shall be eliminated by the end of the calendar quarter in which the loans or advances are required to be placed on non-accrual status, but in no event latter than the fiscal year-end of CBE, whichever is sooner; and
4. For tax purpose, treatment of interest shall be dictated by the relevant tax proclamation.

2.2.14. Loan Collection and Non-Performing Exposure Management

A. Loan Collection

1. The Bank shall have an independent collection team to execute its loan collection strategy;
2. The collection team shall be organized based on loan classification category and customer segment;



3. All amicable loan workout strategies should be pursued first for loan recovery;
4. If the amicable workout strategies fail to bring a result, foreclosure and/or litigation should be initiated without delay; and
5. An automated system should be put in place to monitor the repayment performance of all loans.

B. Renegotiation

1. The Bank shall strictly adhere to the prevailing NBE Directive No SBB/90/2024 or as amended for renegotiation of loans;
2. The Bank may sit for a renegotiation of the terms of a loan contract early to prevent deterioration of a loan status;
3. CBE may inject additional financing in a business with an NPL status within CBE if it finds that doing so would be the best option to recover an NPL by rehabilitating the business;
4. The performance of a borrower in fulfilling a commitment resulting from a renegotiation should be sufficiently evaluated before going for an additional renegotiation; and
5. In establishing an opinion on the repayment capacity of a borrower, all repayment obligations in banks should be taken into consideration.

2.2.15. Write-Off

CBE shall fully or partially write-off non-performing exposures from its books of accounts, and conduct post write-off follow up and reinstatement of written-off loans and advances in accordance with the write-off policy of the Bank.

2.2.16. Exceptions

Any credit sanctioning decisions on policy exceptions shall not be allowed. However, any requested policy exceptions shall be referred to the Board for appropriate directions or inclusion in policy provisions.

2.2.17. Exclusions

1. The Bank shall not provide loans to unlawful businesses and businesses harmful to the environment and society;
2. The Bank shall not engage in a loan buyout except for CBE's staff consumer loan; and



3. The Board shall not engage in a credit decision of any type except for related parties as stipulated in SBB/88/2024.

CHAPTER THREE

AUTHORITY AND RESPONSIBILITY

3.1. The Board

In accordance with the Federal Government-Owned Enterprise Proclamation no.1314/2024, the Corporate Governance Framework of the Bank and other applicable national laws, the duties and responsibilities of the Board shall include the following:

1. Approves this credit policy;
2. Approves amendments to this Policy initiated by itself or proposed by the President;
3. Decides the lending interest rates of the Bank;
4. Approves new credit products;
5. Approves the Bank's Credit Risk Framework and oversees credit portfolio structure;
6. Decides credit allocation by sector, product and tenure based on the approved Credit Risk Framework of the Bank;
7. Oversees that credit risk is adequately measured, monitored and managed;
8. Oversees the Bank's credit process compliance to the relevant laws, regulatory and supervisory body directives;
9. Oversees the capital adequacy of the Bank on an ongoing basis;
10. Oversees the implementation of this Credit Policy and overall credit management of the Bank;
11. Decides on financing requests of related parties exceeding Birr 15 million as stipulated in SBB/88/2024, Article 7 or as amended. However, it may delegate the approval to a single individual or a team from the Board or to the CBE's President or an existing Credit Approving Committee after getting permission from the NBE;
12. Oversees that the Arm's Length Principle is strictly adhered to when approving credit to related parties;
13. Oversees that a review is made on the quality of loans or advances portfolio on a regular basis, but no less than once each calendar quarter; and



14. Oversees that appropriate measures are taken in response to the findings of the loan review function to correct problems, either in individual loans or advances, loan underwriting practices, compliance with prudent lending standards and lending policy, or other credit administration weaknesses as may be identified by the loan review function, within a specified time frame.

3.2. The President

In line with the power and duties vested under the Federal Government-Owned Proclamation Enterprise no.1314/2024, the Corporate Governance Framework of the Bank and other applicable national laws, the duties and responsibilities of the President shall include the following:

1. Approves Credit Procedures and Guidelines and Amendments to same in line with this Credit Policy;
2. Establishes credit approving and workout committees;
3. May serve as a member of a credit approving and workout committee;
4. Setting, reviewing, revising, suspending, and canceling approval authority and limits for all lending committees and ensuring full delegation of the approval decisions of the performing and nonperforming exposures to the credit committees with their respective Discretionary Lending Limits (DLL);
5. Ensures proper implementation of the Credit Policy of the Bank and take appropriate actions on non-compliance;
6. Ensures the application of credit related laws, directives and regulations issued by the pertinent authorities and takes appropriate action on deviation;
7. Ensures the alignment of the credit business with other organs of the Bank;
8. Ensures the quality of the credit portfolio and ensures that the exposures are classified in line with SBB/90/2024;
9. Ensures adequate provision is held both for On-Balance sheet and Off-Balance sheet exposures;
10. Ensures the prudence of Forbearance-Restructuring process as per the NBE Directive No. SBB/90/2024;
11. Ensures the total exposure that the Bank to a counterparty or a group of connected counterparties that it doesn't exceed 25% of the Bank's total capital in accordance with NBE's Directive SBB/87/2024 except for the specific exclusions stated in the same Directive, Article 5;

12. Approves fees, commissions and others to be charged on loans, advances and guarantees;
13. May suspend the execution of a credit decision based on concerns raised by any organ when he/she believes that the case should be investigated until confirmed by the Bank's Internal Audit;
14. May revoke/callback any credit decision passed at any time based on the reports from Credit Division, Risk and Compliance and Internal Audit;
15. Ensures sustainability of team-based credit processing;
16. Ensures that the Arm's Length Principle is strictly adhered in credit transaction with related parties;
17. Initiates changes on Credit Policy, lending interest rate and new products, when deemed necessary, and presents to the Board for approval; and
18. Ensures that Limits on Exposure to Related Parties that the aggregate sum of all exposures directly or indirectly held by the Bank to any one related party or to all related parties at any one time are within the limit stipulated in the Directive SBB/88/2024 or as amended.

3.3. Executive Vice President - Retail and Branch Banking

1. Guides and coordinates the overall retail credit activities in the Bank;
2. Ensures retail banking credit functions such as customer recruitment, customer due diligence, selling products, approval, operation and collection are being conducted as per the Bank's policies, procedures and standards;
3. Ensures that the Bank has obtained sustainable financial resources (LCY & FCY) from its retail customers;
4. Ensures proper segmentation of retail customers and appropriate customer value propositions are in place based on the customer's segment;
5. Ensures customers experience is being improved through digitizing customer's journey;
6. Ensures that there is strict loan follow-up to ascertain timely collection of retail loans and advances;
7. Enhances integration of retail banking with other organs of the Bank; and
8. Participates in finding attachable properties of defaulters to support the legal division in its loan recovery effort.

3.4. Vice President – Wholesale Banking

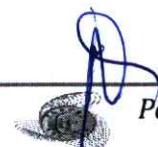
1. Ensures that the end-to-end banking needs of wholesale customers are satisfied;



2. Ensures that wholesale banking credit functions such as customer recruitment, customer due diligence, selling the Bank's products through enhancing sales force effectiveness, etc. are being conducted as per the Bank's directions, policies, procedures and standards;
3. Collects sufficient information to identify a group of connected counterparties that have specific relationships of control or economic interdependence as stipulated in NBE's Directive SBB/87/2024 or as amended. Present this information to the Credit Division. Moreover, maintain a database of the group of connected counterparties;
4. Ensure the total exposure, which the Bank has to a counterparty or a group of connected counterparties, ensuring it does not exceed 25% of the Bank's total capital in accordance with NBE's Directive SBB/87/2024 or as amended;
5. Ensures that the Bank has obtained sustainable financial resources (LCY/FCY) from its wholesale customers;
6. Ensures proper segmentation of credit customers under the wholesale banking and appropriate customer value propositions are in place based on the customer's segment;
7. Ensures the Bank's loans and advances are in appropriate use, only for the intended purpose and corrective actions are taken in case of diversion;
8. Ensures that there is strict loan follow-up to ascertain timely collection of wholesale loans and advances;
9. Ensures portfolio expansion to target priority segments and their respective value chains;
10. Enhances integration of the Wholesale Banking with other organs of the Bank;
11. Ensures that loan contracts are properly signed and forwarded to the credit operation department;
12. Assists the legal division's surveillance of defaulting borrowers' properties on which additional properties is required;
13. Ensure that the Arm's Length Principle is strictly adhered in credit transaction with related parties; and
14. Ensures that Limits on Exposure to Related Parties that the aggregate sum of all exposures directly or indirectly held by a bank to any one related party or all related parties at any one time are within the limit stipulated in the directive SBB/88/2024.

3.5. Vice President – Credit

1. Guides and coordinates the overall credit functions (appraisal, valuation, operation, monitoring and collection);



2. Ensures that credit functions are being performed independently as per the Bank's policies, procedures and standards;
3. Ensures that the Bank maintains high-quality exposures and those non-performing loans remain within regulatory requirements, the Bank's strategic plan, and its risk appetite.
4. Ensures the implementation of an Early Warning System;
5. Ensure classification of exposures in accordance with the NBE Directive SBB/90/2024;
6. Ensures that the Bank maintains a loan portfolio concentration in line with the Risk Appetite Framework;
7. Monitors the total exposure that the bank has to a counterparty or a group of connected counterparties, ensuring it does not exceed 25% of the Bank's total capital in accordance with NBE Directive SBB/87/2024;
8. Ensures that the Bank maintains an adequate level of loan provision both for On-Balance sheet and Off-Balance sheet exposures in line with IFRS and NBE's requirements;
9. Controls and maintains records of those borrowers whose exposure is close to the single borrower limit, group exposure, related party exposure and other Supervisory Body requirements as per the relevant NBE directives;
10. Ensures quality of credit analysis and establishes differentiated appraisal processes based on customer's importance and ensures risk grading system is well established;
11. Ensures that appropriate industry analysis is conducted, and a proper database is established to enhance the quality of credit analysis;
12. Ensure that all non-performing loans are placed in non-accrual status and re-categorize back as performing and upgrade to accrual status as per the criteria outlined in the NBE Directive SBB/90/2024;
13. Proposes revision of the lending strategy, credit policy, credit procedures, and new credit products, as deemed necessary;
14. Ensures that an appropriate level of competency and proficiency is maintained by lending officers in dealing with the credit process activities and enhances their capacity, as appropriate;
15. Enhances integration of credit with other organs of the Bank;
16. Ensures follow-up and recovery mechanisms are in place on the follow-up of written-off loans & advances and its reinstatement when a debtor becomes solvent;
17. Monitor that the Arm's Length Principle is strictly adhered in credit transaction with related parties;



18. Monitors that Limits on Exposure to Related Parties that the aggregate sum of all exposures directly or indirectly held by a bank to any one related party or all related parties at any one time are within the limit stipulated in the directive SBB/88/2024; and
19. Ensures periodic report is submitted to the NBE regarding Loans and advance classification, provisioning for off-balance sheet exposures, restructured loans and advances, loans and advances re-categorized from non-accrual to accrual status, aggregate exposure to related parties, all related party exposures, and exposure of every single counterparty as the regulator requires.

3.6. Vice President – Legal Services

1. Ensures the development of standardized loan and security contracts to keep the interest of the Bank;
2. Ensures that proper legal advisory service is provided to Wholesale/Retail & Branch Banking and Credit teams;
3. Forecloses properties on which corresponding decision is passed by the approving committee;
4. Undertakes surveillance on defaulting borrowers' properties on which additional properties are required; and
5. Undertakes litigation to recover unsecured loans representing the Bank in courts.

3.7. Vice President – International Banking

1. Ensures opening of LC as per approved credit facility conditions;
2. Ensures timely communication of default of settling import LC;
3. Ensures issuing of foreign guarantee as per credit decision committee approval and follow up of its expiry;
4. Ensures timely communication of default of Foreign Bank Guarantee and follow up for its recovery/reimbursement;
5. Ensures proper follow-up on export proceeds of customers who have taken pre-shipment or post-shipment credit to facilitate loan settlement and inform credit organ; and
6. Ensures timely communication of foreign currency approval for credit customers' requests.



3.8. Vice President – Information System

Ensures that credit data is properly maintained and timely available to internal users and for reporting to external parties;

1. Ensures integration with credit division on digitization and automation of manual processes;
2. Enhances the core banking system and any other information systems utilized in the credit business process to accommodate the requirements of the credit division; and
3. Provides other required technical support to the credit division.

3.9. Vice President – Risk Management and Compliance

1. Ensures lending activities are in compliance with the regulatory organ directives, Bank's policy and procedure;
2. Reviews the quality of loans or advances on a regular basis;
3. Establishes portfolio and risk appetite limits for on and off-balance sheet exposures by economic sectors, ownership, group exposures, geographical areas, maturities, product types, collateral type, and others and get it approved by the Board;
4. Ensures credit facilities are in appropriate use, and only for intended purpose through its credit review exercises;
5. Ensures proper provisions are maintained as per NBE's requirement;
6. Ensures that the restructured NPL are classified in line with the provisional requirement;
7. Ensures the adequacy of the provision for expected credit losses and write-off of uncollectible loans;
8. Ensures that all loans or advances are categorized as non-performing in accordance with the requirement laid out in the NBE Directive SBB/90/2024 are placed on non-accrual status and accrued but uncollected interest has been reversed out of the bank's income.
9. Assures the Board of directors is adequately informed on the credit risks and potential loss exposure in outstanding loans or advances;
10. Ensures problem or deteriorating loans or advances are properly and timely identified, classified, and placed on non-accrual status in accordance with the NBE directive no. SBB/90/2024 or as amended;
11. Ensures appropriate provisions are made for loan losses as per the NBE asset classification requirements;



12. Reviews all loans or advances which exceed 5% (five percent) of the Bank's total capital to a single counterparty calculated in accordance with the Large Exposure Directive;
13. Puts in place internal control function to ensure compliance with prudential limits, adherence to the bank's decision-making process, and the sound and prudent management of conflicts of interest intrinsic in related party transactions;
14. Measures the risks inherent in related party transactions; oversee internal limits assigned to business lines; control the consistency of the operations of each business line with the risk appetite defined by the internal policies; and
15. Ensures the reliability of this policy and systems adopted in conducting related party transactions and ensure compliance with bank's own policies and regulatory requirements.

3.10. All Lending Officers

1. Each Lending Officer engaged in credit processing is responsible for the proper application of the Credit Policy of CBE, NBE directives, and other laws and regulations applicable to the banking business;
2. Each Lending Officer engaged in credit processing is accountable for any negligence and/or intentional practices against these governing rules;
3. Each Lending Officer is expected to exclude himself/herself from deliberations of cases causing conflict of interest and the remark shall be recorded on the LAF;
4. Each Lending Officer shall report any credit transaction that has a suspicious nature to the Compliance Department depending on the appropriate KYC/CDD of the customer; and
5. Each Lending Officer shall ensure beneficial owners are identified and reasonable measures are taken to verify the identity of the beneficial owner by using relevant information or data obtained from a reliable source.

CHAPTER FOUR

MISCELLANEOUS PROVISIONS

4.1. Compliance Provision

Any Lending officer shall strictly comply with this Policy; a non-compliance either intentionally or negligently would entail legal and/or administrative measures.



4.2. Disclosure of Information

CBE always respects the privacy of its customers. Customer information shall always remain confidential and may not be disclosed to any person or institution unless the customer give consent for the disclosure, or the disclosure is required either by law or court order.

4.3. Applicability of other Policies

No other Policy in the Bank if found not in alignment with the provisions of this policy shall have effect with respect to matters provided by this policy.

4.4. Repeal

The Credit Policy issued on **30th day of March 2024**, Version No V.3.0 with Document Index No CAP/PO/01/3.0/24, is hereby repealed and replaced by this Credit Policy.

4.5. Policy Revision

The credit policy shall be revised every five years. However, if a need arises, it may be revised at any time.

4.6. Effective Date

This Credit Policy is approved by the Board and shall be effective as of _____, 2025.



Ahmed Shide

CBE's Board of Directors - Chairperson

