

ANNUAL REPORT

2018/19



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Commercial Bank of Ethiopia



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Commercial Bank of Ethiopia

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PROFILE

- ◀ Serving Ethiopia since 1942.
- ◀ Pioneer in introducing Automated Teller Machine (ATM) to Ethiopia.
- ◀ First intermediary for Western Union Money Transfer Services to Ethiopia.
- ◀ A catalytic agent in the socio-economic development of the nation.
- ◀ 1,444 branches across the country as of June 30, 2019.
- ◀ Strong correspondent relationship with about 44 renowned foreign banks,
- ◀ SWIFT bilateral key arrangements with over 750 banks.
- ◀ Strong assets position of Birr 712.9 billion as of June 30, 2019.
- ◀ More than 37,000 committed permanent employees.

VISION

To become a World-Class Commercial Bank by 2025.

MISSION

We are committed to realizing stakeholders' values through enhanced financial intermediation by deploying the best professionals and technology.

VALUES

INTEGRITY

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

SERVICE EXCELLENCE

- ◀ We are dedicated to maintaining the highest operating standards.
- ◀ We are committed to offer the highest quality service to our customers.
- ◀ We are committed to be the preferred brand in service quality.
- ◀ We strive to build long-lasting relationship with our customers.
- ◀ We are committed to promoting efficient and effective services and ensuring maximum value for money.

PROFESSIONALISM

- ◀ We take ownership and personal responsibility for all what we do.
- ◀ We are professionals striving for perfection in our service delivery.
- ◀ We are responsive to the needs and interests of our customers.
- ◀ We continually develop ourselves to maintain leading-edge capabilities.
- ◀ We apply our knowledge and competence to our competitive advantage.

EMPOWERMENT

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

LEARNING ORGANIZATION

- ◀ We anticipate and respond to internal and external changes through constant improvement and adjustment.
- ◀ We establish a culture that nurtures individual and group learning.
- ◀ We retain and disseminate knowledge across the bank.

TEAM WORK

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

RESPECT FOR DIVERSITY

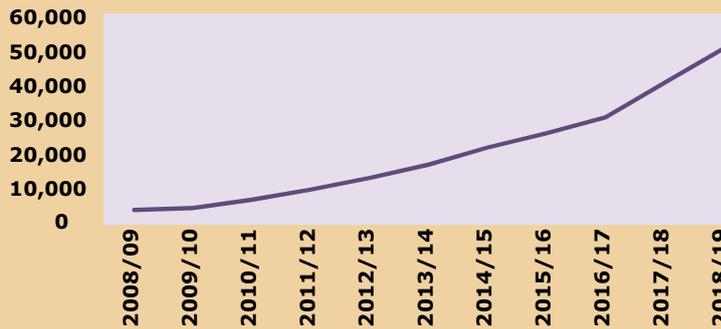
- ◀ We are sensitive to cultural, ethical, religious or other values of employees and customers.
- ◀ We value diversity of ideas and viewpoints of our employees.
- ◀ We foster an environment of inclusiveness, where all employees regardless of their sex, age, belief, etc. can exercise their maximum potential.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

CORPORATE CITIZENSHIP

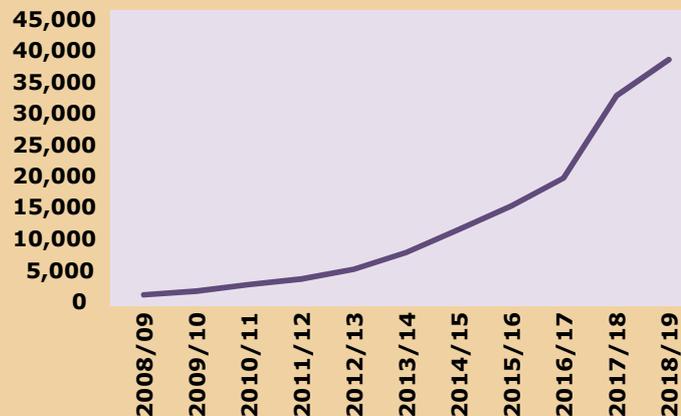
- ◀ We value the importance of our role in national development endeavors.
- ◀ We abide by the laws of Ethiopia and other countries in which we do business.
- ◀ We care about society's welfare and the environment.
- ◀ We believe that the sustainability of our business depends on our ability to maintain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

PERFORMANCE HIGHLIGHTS

Trends in Income (Mn. Birr)



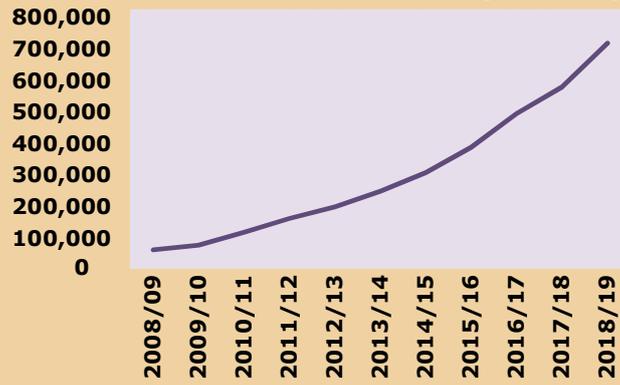
Trends in Expense (Mn. Birr)



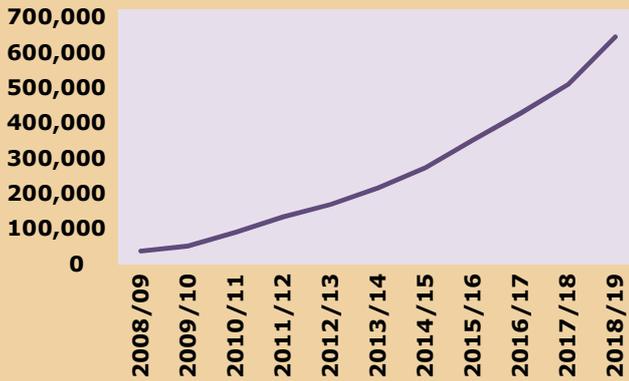
Trends in Profit Before Tax (Mn. Birr)



Trends in Total Assets (Mn. Birr)



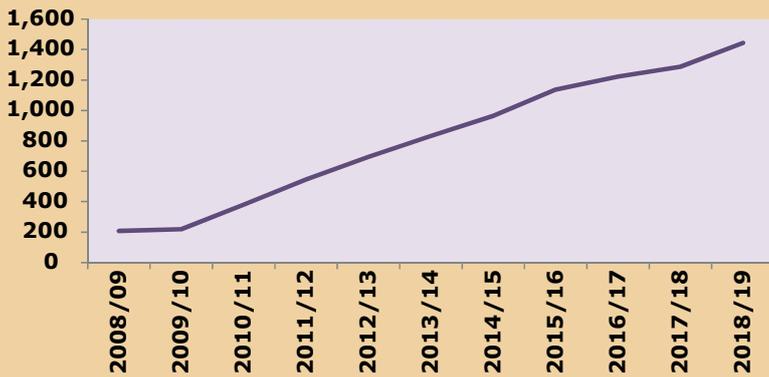
Trends in Liabilities (Mn. Birr)



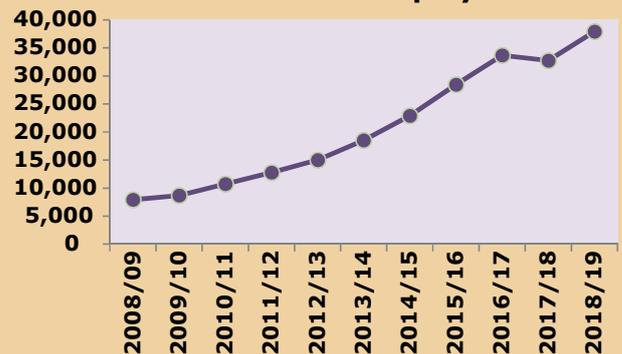
Capital & Reserve (Mn. Birr)



Number of Branches



Number of Employees



CBE BOARD OF

DIRECTORS



Ato Teklewold Atinafu
Board Chairperson



W/o. Demitu Hambissa
Board Member



Abreham Belay (Ph.D)
Board Member

BOARD OF DIRECTORS



Fitsum Assefa (Ph.D)
Board Member



W/o. Yasmin Wohabrebbi
Board Member



Ato Beyene G/Meskel
Board Member



Ato Mamo Esmelealem Mihretu
Board Member

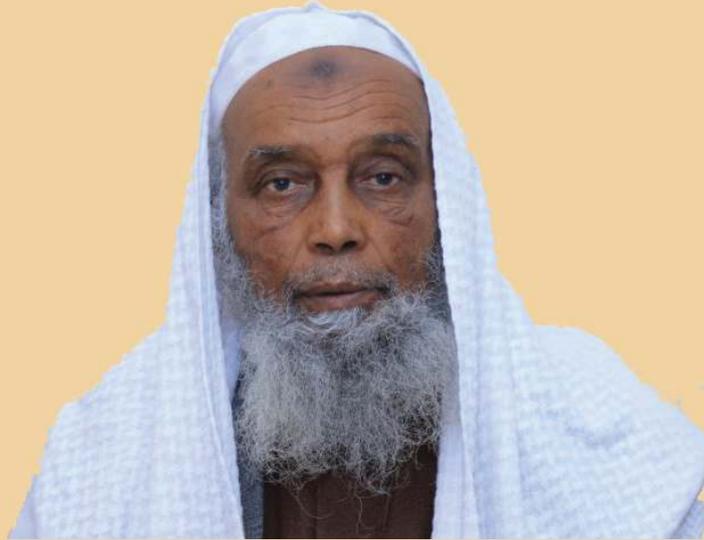


Ato Nebiyu Samuel
Board Member



Eyob Tesfaye (Ph.D)
Board Member

CBE SHARI'AH ADVISARY COMMITTEE



Dr. Jeyilan Kedir
Chairperson



Sheikh Mohammed Hamidin
Vice Chairperson



Associate Prof. Nur Abdi Gudle
Member



Dr. Mohammed Zein Nur
Member



Ustaz Awel Abdulwehab
Member

CBE EXECUTIVE

MANAGEMENT



Ato Abie Sano
President



Ato Fikiresilassie Zewdu
Executive V/P - Branch
& Digital Banking



Ato Muluneh Aboye
V/P - Risk & Compliance

EXECUTIVE MANAGEMENT



W/o. Makeda Oumer
V/P - Internal Audit



Ato Amare Assefa
V/P - Information System



Ato Dawit Keno
V/P - Resource &
Credit Managment



Ato Muluneh Lemma
V/P - Credit Appraisal &
Portfolio Management



W/o. Tiruberhan Hailu
V/P - International Banking



Ato Surra Saketa
V/P - Legal and loan
Recovery

EXECUTIVE MANAGEMENT



Ato Yonas Lidetu
V/P - Finance



Ato Giragn Garo
V/P - Quality
Management & Control



Ato Nuri Hussein
V/P - CBE NOOR



Ato Yishak Mengesha
V/P - Strategy &
Business Development



Ato Ephrem Mekuria
V/P - Facility Management



Ato Ali Ahmed
V/P - Chief of Staff



Ato Turi Goshe
A/ V/P - Human Resource



It gives me a great pleasure to present the annual report of the Commercial Bank of Ethiopia (CBE) for the 2018/19 Fiscal Year, which was a successful year for the bank. Despite the challenges faced in the Ethiopian external sector, particularly the export sector, the financial growth of the bank reflected a solid growth in every sense of the word.

CBE recorded a Birr 15.6 billion profit in the FY from its overall operation, an achievement which was up by 56.9% from that of the preceding FY. It opened 2.8 million deposit accounts in the year, raising the total number of its account holders to 21.6 million. As it mobilized a total incremental deposit of Birr 89.4 billion, its total deposit reached Birr 541.5 billion, which exceeded the level in the previous year by 19.8%. It also made a tremendous effort in meeting the growing demand for credit in the economy by channeling new loans and advances to the various projects of both public and private sectors that reached Birr 129 billion at the end of June 2019.

In addition to the noticeable improvements in its financial results, the bank registered a solid performance in its business development. It managed to open 157 new branches during the FY, pushing the total number of branches to 1,444 as at June 30, 2019. Consequently, its performance and competitive position remained strong. It continued to command over 60% of the total deposit, 61% of the total asset and 44.5% of the capital and reserve of the entire banking industry operating in Ethiopia.

PRESIDENT'S

MESSAGE

CBE still needs to improve its customer services, enhance its mobilization of resources and widen its customer base. Therefore, it will continue expanding branches where this is feasible and where it is under-represented.

During the 2018/19 FY, the bank held a fruitful consultative meeting aimed at creating and strengthening its relationships with exporters. The meeting focused mainly on identifying and seeking solutions to the challenges of export in the textile, leather and clothing sub-sectors with which it has strong relationships. It also held a similar meeting with representatives of the Ethiopian Diaspora, which brought about important issues that paved the way for the bank to properly design products and services based on this community's demands. As a result, CBE has availed credit facilities targeting the community. Moreover, it has opened the first ever branch in the country that serves only the diaspora, showing CBE's commitment to meet their expectations fully.

At the same time, the bank appointed a Sharia Advisory Committee to ensure Sharia compliance in its interest-free banking services. This allows the bank to satisfy the growing demand for Islamic banking finance and run the business independently of the conventional wing, thereby boosting customers' confidence in the service.

Recognizing the fundamental role of CBE's employees to its vibrancy and success, the bank puts training as an essential part of its core strategy. Thus, the bank offered various technical, development and ethics training programs to 64,418 employees during the FY in addition to the on-the-job training offered. Such efforts normally help the bank to improve its service delivery and meet customers' expectations better.

As it turned out, the 2018/19 FY was characterized by a series of events as Ethiopia has been undergoing various socio-economic reforms and changes. Accordingly, CBE revisited its successive five-year strategic plan to cope

with the ongoing change and move forward by sustaining its leadership position in the banking industry.

Like in the previous FY, CBE was engaged in various corporate social responsibilities. It responded promptly to the Prime Minister's initiative for beautifying Addis Ababa by funding 500 million Birr. The project has a great prospect in terms of making the capital city an attractive destination for tourists, a gorgeous African city and a model job creator. Furthermore, the bank contributed Birr 100 million to support internally displaced persons across the country.

It should be noted that these encouraging achievements are launching pads for CBE's performance in the coming year and beyond. Going forward, CBE will remain the leading bank in the competitive market and emerge stronger than ever, driven by its strong workforce that is committed to realizing its vision. Guided by the Board of Directors of the bank, the Management and the staff of CBE have pledged to leapfrog it to new heights.

Finally, I would like to take this opportunity to express my gratitude to the Board of Directors, the Management and staff of CBE, our esteemed customers and other stakeholders that have contributed to the success of the bank during the FY. We are fully aware that the unreserved support and trust we have enjoyed so far are the reasons for our success as well as the impetus to our long-term plans, which we are committed to.

I am confident that your support and trust will continue with us in the years ahead. With such support, we will have the strength to register even greater achievements and realize CBE's vision of becoming a world-class commercial bank by 2025.

Abie Sano
President

1. Global and Domestic Economic Highlights

1.1 Global Economy

In 2019, the world recorded the lowest output growth after the 2008 financial crises as it dropped to 2.4% from the 3% growth in 2018, mainly due to the poor performance of global trade and investment. The output growth in all regions, including Sub-Saharan Africa, had been low. The weak output growth in countries that are the major trade partners of Ethiopia and the key destinations of the Ethiopian Diaspora indicates that the external sector of the economy had been affected adversely.

The global average price index of all commodities increased slightly (by 0.7%) during the year. The price of crude oil rose by 7.4%, while the prices of Ethiopia's major export commodities, such as coffee, oil seeds and gold encountered a price fall, indicating the growing import bill and the falling export gain of the country.



The global remittance was estimated to grow by 3.6%. It reached USD 714 billion in 2019 from USD 689 billion in 2018. Sub-Saharan Africa collected a remittance inflow amounting to USD 46 billion in 2018 and USD 48 billion in 2019. Inconvenience of channels and high cost of remittance remained global challenges. Capital flow in terms of foreign direct investment to Africa was estimated to be USD 52 billion in 2019 with no apparent growth for several years.

1.2 Ethiopian Economy

The Ethiopian economy registered a 9.0% growth during the 2018/19 FY, which showed a 2.7 percentage point increase from that of the 2017/18 FY. This growth was attributed to the 2.6% growth in industrial output, 11.0% increase in the service sector, and 3.3% expansion in agriculture.

Ethiopia earned USD 2.67 billion from export proceeds in the 2018/19 FY mainly from agricultural commodities that decreased slightly from the 2017/18 FY level. The export earnings from textile and cereals showed increments, while those from gold and coffee dropped from the levels in the previous year. Ethiopia earned a USD 140.6 million export revenue from industrial parks in 2019. Poor performance of the export sector limited the foreign currency gain of the country in general and of the Ethiopian banks in particular.

About 976 investment projects with a total investment capital of Birr 9 billion became operational in the 2018/19 FY, which exhibited a fall both in number and invested capital from the 2017/18 FY level. Moreover, the country attracted USD 3.3 billion from foreign direct investment in the 2018/19 FY.

Though better than the 16.8% inflation in June 2018, the 15.3% annual inflation rate in June 2019 remained in double digit, with some adverse effect on households saving and deposit mobilization of banks.

The government introduced the Home Grown Economic Reform Agenda to leverage the economic growth of the past decade and set the country's economic vision for the coming years. The reform was designed to address macroeconomic imbalances and lay the foundation for a sustainable and inclusive growth. Furthermore, the reform aims to open up for a more private sector investment and strengthen the private sector as a driving force and engine of the economy. The plan brought a huge financing assignment as well as opportunities for the banking industry in Ethiopia.

2. CBE's Financial Statement Highlights

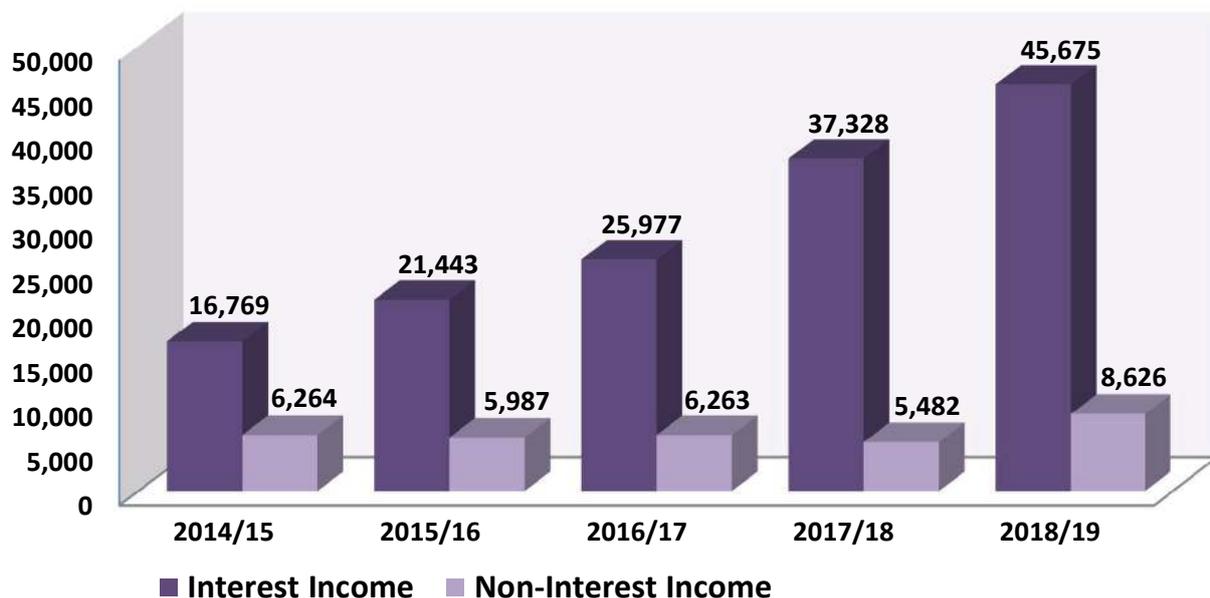
2.1 INCOME

During the 2018/19 FY, CBE generated a total income of Birr 54.3 billion, depicting a growth of 26.8% from last FY's performances that was driven by an increase in interest income, commission and charges. Interest income rose by 22.4% and stood at Birr 45.7 billion, reflecting a surge in loan disbursement. Similarly, non-interest income increased from Birr 5.5 billion to 8.6 billion, largely associated with a buildup in income from commissions.

Income Statement Comparison with 2017/18 FY			
Particulars	2018/19 FY (Mn. Birr)	2017/18 FY (Mn. Birr)	Growth (%)
Total Income	54,301.3	42,810.9	26.8
Interest Income	45,675.2	37,328.5	22.4
Non-Interest Income	8,626.1	5,482.4	57.3
Total Expense	38,601.8	32,804.8	17.7
Interest Expense	20,056.8	14,750.3	36.0
Non-Interest Expense	18,545.0	18,054.6	2.7
Profit Before Tax	15,699.5	10,006.1	56.9

CBE's performance shows that the total income of the bank registered a consistent growth. Interest income contributed the lion's share to the total income growth largely associated with the increase in the disbursement of loans.

Trends in Income (Mn. Birr)



Net gain on foreign Exchange

During the year being considered, CBE's net gain from foreign exchange transactions reached Birr 479 million, in contrast to the Birr 3.8 billion net loss incurred in the previous year due to the 2017 Birr devaluation.

2.2 EXPENSE

The total expense of the bank rose to Birr 38.6 billion by the end of June 2019, depicting a growth of 17.7% compared with that of the previous year. The growing expense was primarily influenced by a surge in interest-bearing deposits and staff-related expenses.

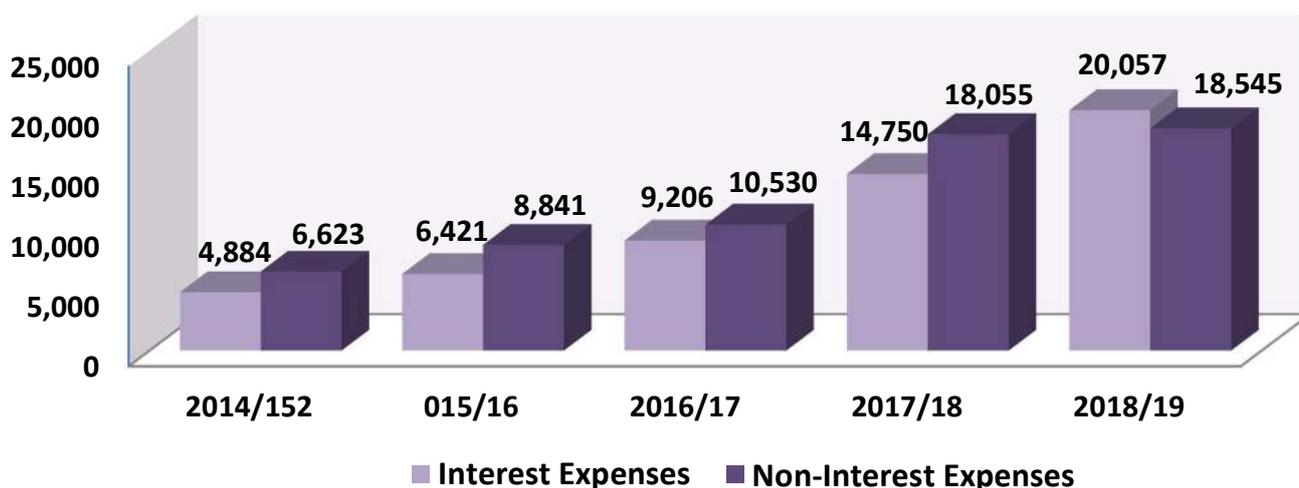
Interest Expense

Interest expense reached Birr 20.1 billion during the reviewing period, increasing by 36.0% from that of the previous year, mirroring an expansion of the bank's interest-bearing deposits.

Non-Interest Expense

Non-interest expense increased by 2.7% from Birr 18.1 billion of the previous FY to Birr 18.5 billion. Total salaries and employee benefits expense stood at Birr 9.7 billion, indicating a growth of 24.4% from the figure in the previous year.

Trends in Expense (Mn. Birr)



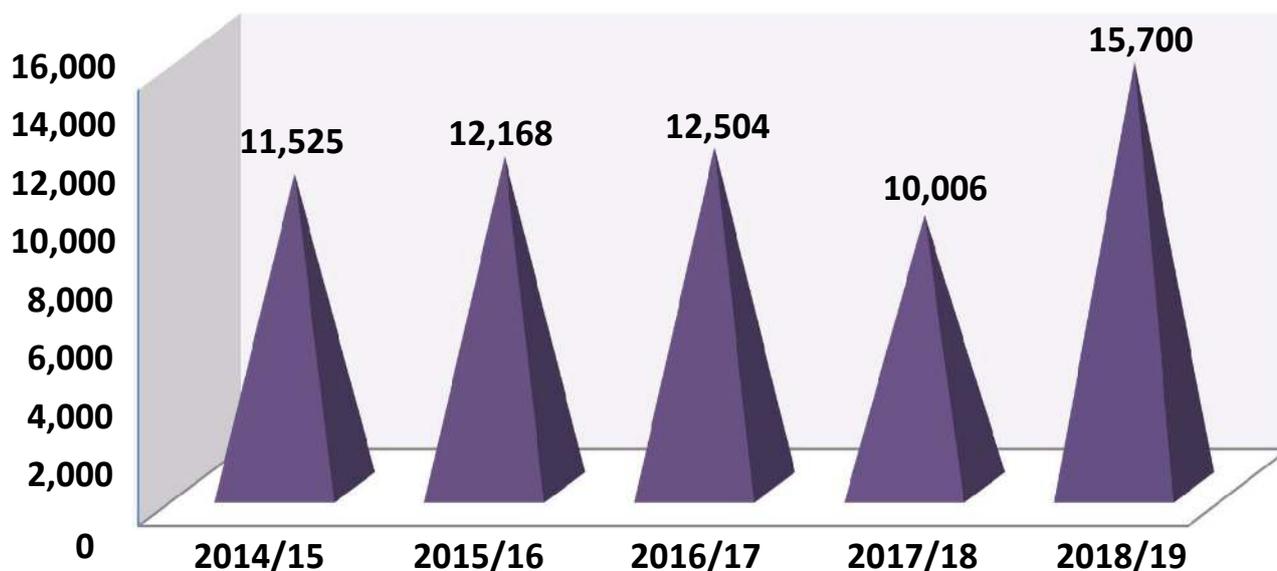
2.3 PROFIT

CBE registered a high profit growth during the 2018/19 FY that was driven by the rise in both interest and non-interest incomes. The bank registered an all-time high gross profit of Birr 15.7 billion as of June 30, 2019, an increase by 56.9% when compared with that of the previous year.

Profit Comparison with 2017/18 FY			
Particular	2018/19 FY (Mn. Birr)	2017/18 FY (Mn. Birr)	Growth (%)
Total Income	54,301.3	42,810.9	26.8
Total Expense	38,601.8	32,804.8	17.7
Profit Before Tax	15,699.5	10,006.1	56.9

Except for the 2017/18 FY, the bank's profit trend showed a consistent increment by registering the highest profit in the FY being considered.

Trends in Profit Before Tax (Mn Birr)



2.4 PROFITABILITY INDICATORS

The bank's Return on Assets (RoA) stood nearly at 1.8% and Return on Equity (RoE) at 23.6%, rising significantly from those of the previous year.

Profitability Indicators Comparison with 2017/18 FY			
Particular	2018/19 FY (%)	2017/18 FY (%)	Growth (%)
Return on Asset (RoA)	1.79	1.03	73.8
Return on Equity (RoE)	23.6	12	96.7

2.5 BALANCE SHEET ANALYSIS

2.5.1 Assets

The total asset of the bank reached Birr 712.9 billion as of June 30, 2019, showing a growth of 24.2% when compared with the previous year balance of Birr 573.9 billion.

2.5.2 Outstanding Loans

CBE's total outstanding balance of loan and bonds reached Birr 593 billion as at 30 June 2019 with a 20.5% increase from last year's balance. The outstanding balance of bonds, both debt and equity, grew by 23.9% and reached Birr 395.2 billion, of which a great majority (79.3%) were held in the form of corporate bonds. The total outstanding loans of the bank to customers reached Birr 197.9 billion, showing a 14.4% increase on the balance of the previous year.

From the total outstanding loans provided for customers, the highest share (57.8%) went to the manufacturing sector. On the other hand, loans to domestic and international trades dropped by 20.1% and 14.1%, respectively, compared to those of the previous FY, because of the need to focus on the manufacturing and other priority sectors.



Belayineh Kinde oil Factory Bure

Comparison of Outstanding Loans & Advances and Bonds			
Particulars	2018/19 FY (Mn. Birr)	2017/18 FY (Mn. Birr)	Growth (%)
Debt & Equity securities	395,196.9	319,069.3	23.9
Loans to customers (Net of impairment losses)	197,364.8	172,688.4	14.4
Agriculture	10,179.9	9,874.6	3.1
Manufacturing	113,968.7	100,404.2	13.5
Domestic trade and services	12,947.5	16,202.1	-20.1
Foreign trade	17,166.1	19,973.0	-14.1
Building and construction	12,350.8	2,651.5	365.8
Personal loan/Consumer loan	19,809.5	16,410.4	20.7
Interest receivable from loans	10,942.4	7,172.7	52.6
Loans to financial institutions	506.5	307.2	64.9
Total outstanding loans & securities	593,068.18	492,064.91	20.5

During the 2018/19 FY, the amount of loan disbursement to the various economic sectors was Birr 129 billion, showing a growth of 28.1% from the previous year performance. Moreover, the overall loan collection of the bank stood at Birr 68.8 billion.



Hawassa Industry Park

2.5.3 Liabilities

The total liabilities of the bank reached Birr 662.6 billion at the end of the FY being reviewed. The liabilities grew by 25.8%, compared with those of the previous year, due to the increase in deposit, accounts payable to NBE, state dividend payable, and other payable accounts.

Comparison of Year-End Deposits with 2017/18 FY			
Particulars	2018/19 FY (Mn. Birr)	2017/18 FY (Mn. Birr)	Growth(%)
Customer deposit	540,941	450,681	20.0
Demand deposit	222,697	200,867	10.9
Savings deposit	270,216	224,304	20.5
Fixed time deposit	23,580	15,171	55.4
IFB deposit	23,972	9,815	144.2
Blocked account	476	524	(9.1)
Deposits due to other banks	519	1,177	(55.9)
Total Deposit	541,450	451,858	19.8

2.5.4 Capital and Reserves

At the end of the 2018/19 FY, the total capital and reserves of CBE reached Birr 50.2 billion, showing a 6.4% growth from the Birr 47.2 billion balance of the previous year. The capital adequacy ratio also stood at 27.4%, which is far higher than the minimum 8% regulatory standard.

3. Non-Financial Development Highlights

3.1 Human Resource Development

Considering the critical role of the human capital in distinguishing organizations in the globally-targeted knowledge economy and that of the efficiency and talent of CBE's employees to its growth, the bank took human resource development as a focal area during the year being reviewed. CBE recruited 5,937 new employees during the year, increasing the total workforce from 32,739 in 2017/18 FY to 37,894 in the 2018/19 FY. As part of its ongoing development program to enhance the capacity of its employees, it organized and conducted various training programs. During the budget year, 54,867 employees attended technical training programs and 5,570 received developmental training, while 3,981 employees attended ethics training programs.



Training

3.2 Technology Deployment

During the FY being considered, CBE continued to give high priority to the deployment of modern banking technologies by including digitalization as one strategic theme. The accessibility of the bank increased with the newly deployed 828 ATMs and 539 POS machines. As a result, the total number of ATMs and POS machines reached 2,513 and 9,539, respectively. About 1.4 million new cards were distributed to customers, which consequently raised the total number of active cardholders to 4.4 million. The total number of mobile banking users reached around 2.4 million, and a growing number of CBE's customers could conduct their banking transactions outside its branches.

3.3 Branch and Customer Base Expansion

During the 2018/19 FY, the bank opened 157 new branches and hence the total number of branches of the bank reached 1,444. As a result, the accessibility of the bank was enhanced significantly, contributing to the financial inclusion endeavor of Ethiopia. Customer recruitment also increased by 2.8 million because of the effort made by the existing and new branches opened during the year. Consequently, the number of account holders of the bank rose to 21.6 million. With such a solid customer base and branch network, CBE was positioned well in the banking industry to continue its leadership in all parameters. The bank had market shares of 28%, 61% and 61.4% in the industry's branch network, deposit and asset, respectively. These efforts will continue to be strengthened to ensure CBE's continued leadership in the banking industry.



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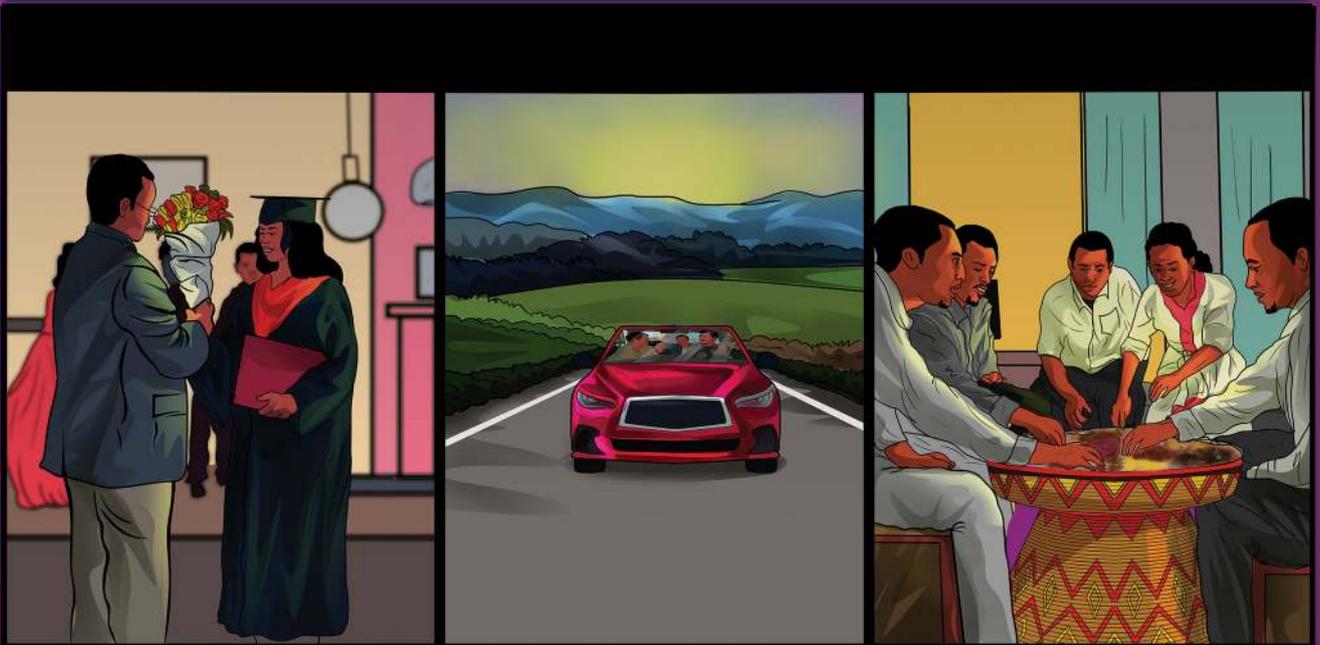
**ሲቢኤ ነር
CBE NOOR**

የተሟላ ከወለድ ነፃ የባንክ አገልግሎት



የኢትዮጵያ ንግድ ባንክ
Commercial Bank of Ethiopia

ለልዩ ቀንዎ፣ ቀድመው ይቆጥቡ



የበዓል ቁጠባ ሒሳብ

ለምርቃት፣ ለጉብኝት፣ ለበዓላት



የኢትዮጵያ ንግድ ባንክ
Commercial Bank of Ethiopia

2018/19
Auditor's
Report

Audited by:
The Federal Democratic Republic of
Ethiopia Audit Services Corporation

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አገልግሎት ኮርፖሬሽን



**AUDIT SERVICES
CORPORATION**

COMMERCIAL BANK OF ETHIOPIA
INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
30 JUNE 2019



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የሂሳብ ምርመራ አገልግሎት ኮርፖሬሽን

**The Federal Democratic Republic of Ethiopia
Audit Services Corporation**

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Commercial Bank of Ethiopia (the Bank) and its consolidated subsidiaries (the Group), which comprise the consolidated and the Bank's statements of financial position as at 30 June 2019, and the consolidated and the Bank's statements of profit or loss and other comprehensive income, consolidated and Bank's statements of changes in equity and consolidated and the Bank's statements of cash flows for the year then ended, and notes to the consolidated and the Bank's financial statements, including consolidated and the Bank's summaries of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial positions of the Group and of the Bank as at 30 June 2019 and the consolidated and the Bank's financial performances and the consolidated and the Bank's cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

Key Audit Matters

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

A. Group and consolidation

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

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

B. Loans and advances

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.



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

Auditors' Responsibilities for the Audit of the Financial Statements (Continue)

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

Audit Services Corporation

17 July 2020

Statement of Director's Responsibility

The Directors are responsible for the preparation and fair presentation of the consolidated financial statement of Commercial Bank of Ethiopia ("The Group"), comprising the statement of financial position as at 30 June 2019, statement of comprehensive income, changes in equity and cash flows for the year then ended and the notes to the financial statement, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRS).

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

To 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 Group to the date of signing of this financial statement and its prospects based on prepared budgets, and are satisfied that the Group is a going concern and, therefore, have adopted the going concern assumption in the preparation of this consolidated financial statement.

Approval of the annual financial statement

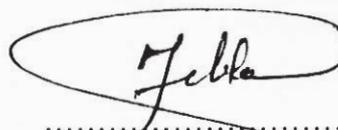
The Board of Directors have approved the issuance of financial statement on 17 July 2020 in accordance with Bank Corporate Governance Directive No. SBB/62/2015 of National Bank of Ethiopia.

Signed on behalf of the Directors



President

Date: 20/07/2020



Chief Finance Officer (CFO)

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019
(IN ETHIOPIAN BIRR)

For the year ended June 30

		2019	2018
	Note		
Interest Income	7	45,675,245,455	37,328,464,816
Interest Expense	7	(20,056,803,363)	(14,750,251,230)
Net interest income		25,618,442,092	22,578,213,586
Impairment losses on loans and advances		(3,267,965,350)	(1,547,644,864)
Net interest income after provisions		22,350,476,742	21,030,568,722
Gain on foreign currency transactions		479,230,584	(3,847,440,979)
Equity investments in associates	14	26,766,205	15,728,241
Non-interest income	8	8,120,063,274	5,466,708,599
Non-interest expense	8	(15,276,994,392)	(12,659,476,721)
Profit before tax		15,699,542,413	10,006,087,861
Income tax		(4,212,497,802)	(4,639,743,141)
Profit for the year		11,487,044,611	5,366,344,720
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability	23	(278,877,817)	98,499,378
Related tax	25	83,889,676	(29,549,813)
		(194,988,141)	68,949,565
Items that are or may be reclassified to profit or loss: financial assets:			
- Unrealized (loss)/gain arising from measurement at fair value		39,446,716	67,149,663
Related tax	25	(11,834,015)	(20,144,899)
Foreign currency translation differences for foreign operations		11,712,583	(299,923,222)
		39,325,284	(252,918,458)
Other comprehensive income, net of tax		(155,662,857)	(183,968,893)
Total comprehensive income		11,331,381,754	5,182,375,827

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

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 JUNE 2019
(IN ETHIOPIAN BIRR)

		30 June 2019	30 June 2018
	Note		As Restated
Assets			
Cash and cash equivalents	9	85,473,472,580	52,003,793,543
Debt & Equity securities	10	395,196,878,559	319,069,307,014
Loans and advances to customers, net	11	197,364,804,056	172,687,492,850
Loans to micro-finance institutions, net	12	506,532,587	307,167,397
Receivables	13	8,071,372,366	8,380,417,594
Investments in associates	14	140,067,243	113,301,038
Non-current assets held for sale	15	1,007,145,000	1,102,353,512
Investment property	16	22,099,692	23,135,132
Property, plant and equipment, net	17	11,207,837,514	9,523,534,957
Intangible assets	18	179,865,829	39,662,818
Other assets	19	8,175,926,543	7,399,997,183
Right of use asset	20	2,958,241,804	2,504,472,883
Deferred tax assets	25	2,577,975,411	739,643,477
Total assets		712,882,219,184	573,894,279,397
Liabilities			
Deposits due to other banks		518,988,994	1,176,699,445
Customers' deposits	21	540,940,798,427	450,680,917,749
Current tax liabilities	25	5,992,447,406	2,761,831,547
Provisions	22	662,030,142	641,791,149
Finance lease obligations	20	301,128,800	304,340,641
Dividends		8,683,368,689	5,343,106,150
Employee benefits	23	2,766,551,435	1,943,328,149
Other liabilities	24	102,768,223,015	63,836,532,122
Total Liabilities		662,633,536,908	526,688,546,952
Equity			
Capital	26	40,000,000,000	40,000,000,000
Legal reserve		9,678,098,118	6,807,195,127
Capital reserve		143,256,736	134,745,949
Statutory Reserve		886,658,841	666,432,050
IFB reserve		1,057,658	608,463
Fair value reserve		125,424,189	97,811,488
Foreign Currency Translation Reserve		32,559,741	(293,439,122)
Accumulated Profit or Loss		(207,429,766)	8,114,350
Remeasurement of defined benefit liability		(410,943,241)	(215,735,859)
Total equity		50,248,682,276	47,205,732,446
Total liabilities and equity		712,882,219,184	573,894,279,397

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

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019
(IN ETHIOPIAN BIRR)

	Capital	Legal reserve	Capital reserve	Statutory reserve	IFB reserve	Fair value reserve	Foreign currency translation reserve	Accumulated Profit or Loss	Remeasurement of defined benefit liability	Total Equity
Balance as of June 30, 2017	40,000,000,000	5,011,302,709	113,723,743	-	608,443	50,806,724	6,484,100	(344,241,330)	(284,685,423)	44,553,998,966
Opening Adjustment								1,821,479,083		1,821,479,083
Profit for the year	-	-	-	-	-	-	-	5,366,344,720	-	5,366,344,719
Other comprehensive income	-	-	-	-	-	47,004,764	-	-	68,949,565	115,954,328
Transfer to capital reserve	-	-	21,022,206	-	-	-	-	-	-	21,022,206
Transfer to/(from) IFB reserve	-	-	-	-	20	-	-	-	-	20
Transfer to/(from) legal reserve	-	1,795,892,418	-	-	-	-	-	(1,792,285,195)	-	3,607,223
Transfer to/(from) Statutory reserve	-	-	-	666,432,050	-	-	-	-	-	666,432,049
Loss on foreign exchange	-	-	-	-	-	-	(299,923,222)	299,923,222	-	-
Dividends	-	-	-	-	-	-	-	(5,343,106,150)	-	(5,343,106,150)
Balance as of June 30, 2018	40,000,000,000	6,807,195,127	134,745,949	666,432,050	608,463	97,811,488	(293,439,122)	8,114,350	(215,735,859)	47,205,732,446

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019
(IN ETHIOPIAN BIRR)

	Capital	Legal reserve	Capital reserve	Statutory reserve	IFB reserve	Fair value reserve	Foreign currency translation reserve	Accumulated Profit & Loss	Remeasurement of defined benefit liability	Total Equity
Balance as of June 30, 2018	40,000,000,000	6,807,195,127	134,745,949	666,432,050	608,463	97,811,488	293,439,122	8,114,350	(215,735,858)	47,205,732,446
Total comprehensive income										
Opening Adjustment	-	(6,390,138)	-	-	-	-	-	115,428,599	-	109,038,461
Profit for the year	-	-	-	-	-	-	-	11,487,044,611	-	11,487,044,611
Other comprehensive income	-	-	8,510,787	-	-	27,612,701	-	-	(195,207,382)	(159,083,894)
	-	-	-	-	-	-	-	-	-	-
Transfer to/(from) IFB reserve	-	-	-	-	449,195	-	-	-	-	449,195
Transfer to/(from) legal reserve	-	2,877,293,129	-	-	-	-	-	(2,877,293,129)	-	-
Transfer to/(from) Statutory reserve	-	-	-	220,226,791	-	-	-	-	-	220,226,791
Loss on foreign exchange	-	-	-	-	-	-	325,998,863	(325,998,863)	-	-
Dividends	-	-	-	-	-	-	-	(8,614,725,334)	-	(8,614,725,334)
Balance as of June 30, 2019	40,000,000,000	9,678,098,118	143,256,736	886,658,841	1,057,658	125,424,189	32,559,741	(207,429,766)	(410,943,241)	50,248,682,276

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019
(IN ETHIOPIAN BIRR)

	2019	2018 As Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	15,699,542,413	10,006,087,861
Adjustment		
Provisions /Impairment	3,582,368,494	1,548,615,151
Depreciation and amortization	2,001,714,562	1,698,190,717
Income from associate recognized in profit or loss	(26,766,205)	(15,728,242)
Loss (Gain) on Disposal of Property, Plant and Equipment	1,163,095	(564,998)
Finance lease charge	7,340,261	9,281,080
	21,265,362,620	13,245,881,569
Movement in working capital		
Change In Debt and Equity Securities	(76,127,571,545)	(58,294,031,032)
Change in Loans and advances	(28,144,641,745)	(21,977,124,452)
Change in receivables	329,193,382	(2,911,624,289)
Change in Non Current Asset Held for Sale	25,626,948	(1,682,495)
Change in other assets	(736,482,645)	565,156,451
Change in Restricted fund	(3,956,502,340)	(5,627,835,530)
Change in customers' deposits	90,260,329,873	86,650,590,317
Change in provisions	20,238,994	109,950,527
Change in employee benefits	546,162,193	1,132,641,728
Change in other liabilities	41,007,228,097	(5,178,736,174)
	44,488,943,831	7,713,186,621
Cash generated from operations		
Income taxes paid	(2,761,831,547)	(5,309,742,911)
Net cash generated by operating activities	41,727,112,284	2,403,443,710
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property ,plant and equipment	(2,865,926,533)	(2,917,377,775)
Proceeds from disposal of property, plant and equipment	-	4,379,863
Payment right of use assets	(1,167,314,452)	(1,174,553,076)
Net cash used in investing activities	(4,033,240,986)	(4,087,550,987)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(7,350,000,000)	(5,575,654,069)
Finance lease obligation paid	(55,522,362)	(50,644,986)
Net cash outflow from financing activities	(7,405,522,362)	(5,626,299,054)
Increased (decrease) in cash and cash equivalents	30,288,348,937	(7,310,406,331)
Unrealized gain (losses) arising from change in foreign currency exchange rates	(117,461,788)	1,069,688
Cash and cash equivalents at the beginning of the year	19,392,098,513	26,701,435,156
Cash and cash equivalents at the end of the year	49,562,985,661	19,392,098,513
Cash and cash equivalents comprise		

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019
(IN ETHIOPIAN BIRR)

Cash in hand	7,854,724,368	6,207,037,962
Balance with National Bank of Ethiopia	37,879,794,339	12,181,985,574
Balance with Bank of South Sudan	102,333,633	276,218,756
Balance with Bank of Djibouti	154,423,967	-
Placement with other banks	4,048,187,039	1,895,792,518
Deposit due to other banks	(518,988,994)	(1,176,699,445)
Cash In transit	42,511,309	7,763,148
Cash and cash equivalents	49,562,985,661	19,392,098,513

COMMERCIAL BANK OF ETHIOPIA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

(1) REPORTING ENTITY

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

The Bank's registered office is in Addis Ababa, Ethiopia and it has 1,444 branches.

(2) BASIS OF CONSOLIDATION

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

(3) BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

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

(c) Use of judgments and estimates

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

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

Judgments

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

(3) Basis of preparation - (Continued)

Note 4 (a) – determination of control over investees.

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

Assumptions and estimation uncertainties

Note 4((c) and (l)) – identification and measurement of impairment for financial instruments

Note 4 (g) and note 4 (k) – useful lives of tangible and intangible assets;

Note 4(o) – measurement of defined benefits obligations: key actuarial assumptions;

Note 4(n) and note 4(u) – recognition and measurement of provisions and contingencies;

Note 4(t) – recognition of deferred taxes.

Note 4(c) vii) Fair value measurement of financial instruments

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

d) Classification and Impairment of financial assets

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

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

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

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

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

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

e) Deferred tax

The Group is subject to income tax under different jurisdictions. Estimates are made through a tax projection for determining the provision for income taxes and liabilities. When the final tax outcome is different from the amounts that were recorded, differences will impact the provision for income taxes and deferred taxes in the period in which such determination is made (see note 4(t)).

(4) SIGNIFICANT ACCOUNTING POLICIES

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

(a) Details of Consolidation

i. Subsidiaries

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

The Bank’s subsidiaries are as follows:

Name	Principal place of business	30 June 2019	30 June 2018
Commercial Nominees PLC	Federal Democratic Republic of Ethiopia	100%	100%
CBE Southern Sudan Limited	The Republic of South Sudan	100%	100%
CBE Djibouti Limited	The Republic of Djibouti	100%	100%

ii. Associates

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

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

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

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

iii. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statement. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to

(4) Significant accounting policies - (Continued)

(a) Details of Consolidation - (Continued)

the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of Groups entities at the spot exchange rate at the date of the transactions.

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

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

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

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

(ii) Foreign operations

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

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

(c) Financial assets and financial liabilities

(i) Recognition and initial measurement

The Group initially recognises loans and advances, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value

(4) Significant accounting policies - (Continued)

(c) Financial assets and financial liabilities - (Continued)

(i) Recognition and initial measurement - (Continued)

through profit or loss) are initially recognised on the trade date on which the Group becomes a party to the contractual provision of the instrument.

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

(ii) Classification and measurement

Classification and measurement of financial assets

On initial recognition, a 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

Financial assets include both debt and equity instruments.

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

All other financial assets are classified as measured at FVTPL.

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

(4) Significant accounting policies - (Continued)

(c) Financial assets and financial liabilities - (Continued)

(ii) Classification and measurement - (Continued)

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

Classification of debt instruments is determined based on:

- (i) The business model under which the asset is held; and
- (ii) The contractual cash flow characteristics of the instrument.

Business model assessment

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

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

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

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

(4) Significant accounting policies - (Continued)

(c) Financial assets and financial liabilities - (Continued)

(ii) Classification and measurement -(Continued)

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

Assessment whether contractual cash flows is solely payments of principal and interest

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

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

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

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

Debt instruments measured at amortized cost

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

(4) Significant accounting policies - (Continued)

(c) Financial assets and financial liabilities - (Continued)

(ii) Classification and measurement - (Continued)

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

Debt instruments measured at FVOCI

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

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

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

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

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:

- i) Are held for trading purposes;
- ii) Are held as part of a portfolio managed on a fair value basis; or
- iii) Whose cash flows do not represent payments that are solely payments of principal and interest.

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

Debt instruments designated at FVTPL

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

(4) Significant accounting policies - (Continued)

(C) Financial assets and financial liabilities - (Continued)

(ii) Classification and measurement- Continued

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

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

Equity instruments

Equity instruments are classified into one of the following measurement categories:

- Fair value through profit or loss (FVTPL); or
- Elected at fair value through other comprehensive income (FVOCI).

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

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

Reclassifications

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

Classification and measurement of financial liabilities

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

(iii) Derecognition

Financial assets:

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

(4) Significant accounting policies - (Continued)

(C) Financial assets and financial liabilities - (Continued)

(iii) Derecognition - Continued

Financial assets: - Continued

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

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

Financial liabilities:

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

(iv) Modifications of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

(v) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and 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 Group's trading activity.

(4) Significant accounting policies - (Continued)

(C) Financial assets and financial liabilities - (Continued)

(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.

(vii) Fair value measurement

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

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

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

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

(viii) Impairment

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

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to 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 (see Note 3(a)).

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

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

(4) Significant accounting policies - (Continued)

(C) Financial assets and financial liabilities - (Continued)

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments- as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts- the expected payments to reimburse the holder less any amounts that the Group expects to recover. See also Note 4(a).

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

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

(4) Significant accounting policies - (Continued)

(C) Financial assets and financial liabilities - (Continued)

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

- 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.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

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

- **financial 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 Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- **debt instruments measured at FVOCI:** no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

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

(d) Cash and cash equivalents

Cash comprise cash on hand, placements with other banks, cash reserve with the National Bank of Ethiopia, payment and settlement account with the National Bank of Ethiopia and Cash in Transit. Cash equivalents are deemed of immediate realization since they are easily convertible into cash within three months following the date of the financial statement.

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

(e) Loans and advances

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

(4) Significant accounting policies - (Continued)

(f) Debt Securities

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

(g) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

Minor repairs and maintenance costs are expense as incurred.

(h) Leases

(i) Group acting as a lessee

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

(4) Significant accounting policies - (Continued)

(h) Leases - (Continued)

(i) Group acting as a lessee - Continued

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

(ii) Bank acting as a lessor – Finance leases

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

Finance lease

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

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

Operating lease

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

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

(i) Investment property

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

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

(j) Non-current assets held for sale

Non-Current assets held for sale correspond to Acquired assets such as real estate and moveable property foreclosed in the absence of repayment of loans due to the Group. These type of non-current available-for-sale assets are expected to be recovered mainly through sale and not through continued use.

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

(4) Significant accounting policies - (Continued)

(j) Non-current assets held for sale - (Continued)

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

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

(k) Intangible assets

Software

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

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

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

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

(l) Impairment of non-financial assets

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

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

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

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

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

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

(4) Significant accounting policies - (Continued)

(l) Impairment of non-financial assets - (Continued)

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

(m) Deposits from banks and customers

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

(n) Provisions

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

(o) Employee benefits

i. Defined benefit plans

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

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

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

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

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

ii. Short-term benefits

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

Liability is recognized for the amount expected to be paid under short-term cash and includes mainly

(4) Significant accounting policies - (Continued)

(o) Employee benefits - (Continued)

i. Defined benefit plans- continued

wages and salaries, bonuses, leave benefits and other allowances, and incentives to pay this amount as a result of past services provided by the employees, and the obligation can be estimated reliably.

iii. Termination benefits

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

(p) Legal reserve

The legal reserve is a statutory reserve required by the regulators. The Bank has to transfer annually 25% of its annual net profit as a legal reserve until such reserve equals its capital. When the legal reserve equals the capital of the Bank, the amount to be transferred to the legal reserve shall be 10% of the annual net profit.

(q) Revenue and expense recognition

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

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

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

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

Gross carrying amount

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

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.

(4) Significant accounting policies - (Continued)

(q) Revenue and expense recognition - (Continued)

If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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

Presentation of interest income and expenses

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

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

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

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

(r) Fees and commissions

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

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

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(s) Dividend income

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

(t) Income tax

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

(4) Significant accounting policies - (Continued)

(t) Income tax - (Continued)

(a) Current tax

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

(b) Deferred tax

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

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

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

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

(u) Contingencies

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

(v) New standards, amendments and interpretations

The following new standards and amendments are in issue but are not yet effective during the year ended 30 June 2019, including consequential amendments to other standards with the date of initial application by the Group being 1 July 2019. The nature and effects of the changes are as explained here in.

All standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the Group).

(4) Significant accounting policies - (Continued)

(v) New standards, amendments and interpretations - (Continued)

New standard or amendments	Effective for financial period beginning on or after
- IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1 January 2019
- Annual improvement cycle (2015-2017)- various standards	1 January 2019
- Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)	1 January 2019
- IFRS 3 Definition of a Business	1 January 2019
- Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2019
- Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	To be determined

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments clarify those financial assets containing prepayment features with negative compensation can now be measured at amortized cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption is permitted.

The adoption of these changes will not affect the amounts and disclosures of the Group's financial statement.

Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate and joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

(4) Significant accounting policies - (Continued)

(v) New standards, amendments and interpretations -(Continued)

The amendments apply for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

The adoption of these changes will not affect the amounts and disclosures of the Group’s financial statement.

IFRIC 23 Uncertainties over Income Tax Treatments

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statement.

IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:

- judgments made;
- assumptions and other estimates used; and
- the potential impact of uncertainties that are not reflected.

IFRIC 23 applies for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted.

The Group currently have no uncertainty over the tax treatment.

Annual Improvement Cycle (2015-2017) – Various Standards

Standards	Amendments
IFRS 3 Business Combinations and IFRS 11 Joint Arrangements	Clarifies how the Group accounts for increasing its interest in a joint operation that meets the definition of a business. <ul style="list-style-type: none"> — If a party maintains (or obtains) joint control, then the previously held interest is not remeasured. — If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.
IAS 12 Income taxes	Clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, Other Comprehensive Income or equity.
IAS 23 Borrowing costs	Clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

(4) Significant accounting policies - (Continued)

(v) New standards, amendments and interpretations - (Continued)

The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted.

The adoption of these amendments is not expected to affect the amounts and disclosures of the Group's financial statement

Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)

The IASB's amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.

The amendments clarify that:

- on amendment, curtailment or settlement of a defined benefit plan, it is now mandatory for entities to use the updated actuarial assumptions to determine the current service cost and net interest for the period; and
- the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

The Group has considered the impact on its financial statement resulting from these amendments. The amendments should be applied prospectively to plan amendments, curtailments or settlements that occur on or after 1 January 2019, with earlier application permitted.

Amendments to References to the Conceptual Framework in IFRS Standards

This amendment sets out amendments to IFRS Standards (Standards), their accompanying documents and IFRS practice statements to reflect the issue of the International Accounting Standards Board (IASB) revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework).

Some Standards, their accompanying documents and IFRS practice statements contain references to, or quotations from, the IASC's Framework for the Preparation and Presentation of Financial Statement adopted by the IASB in 2001 (Framework) or the Conceptual Framework for Financial Reporting issued in 2010.

Amendments to References to the Conceptual Framework in IFRS Standards updates some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments are based on proposals in the Exposure Draft Updating References to the Conceptual Framework, published in 2015, and amend Standards, their accompanying documents and IFRS practice statements that will be effective for annual reporting periods beginning on or after 1 January 2020.

The adoption of these changes will not affect the amounts and disclosures of the Group's financial statement.

(4) Significant accounting policies - (Continued)

(v) New standards, amendments and interpretations-Continued

IAS 1 and IAS 8 Definition of Material

The amendment refines the definition of Material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework.

The amendment includes the concept of ‘obscuring’ to the definition, alongside the existing references to ‘omitting’ and ‘misstating’. Additionally, the amendments also adds the increased threshold of ‘could influence’ to ‘could reasonably be expected to influence’ as below.

“Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statement, which provide financial information about a specific reporting entity.”

However, the amendment has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier. This amendment provides additional guidance on assessing materiality.

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.

The effective date for these changes has now been postponed until the completion of a broader review.

The adoption of these changes is not expected to have a significant impact on the financial statement of the Group.

(5) FINANCIAL RISK REVIEW

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

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

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

(5) FINANCIAL RISK REVIEW - (Continued)

Risk management framework

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

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

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

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

(a) Credit Risk

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

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(5) Financial Risk Review - (Continued)

(a) Credit risk - (Continued)

Risk classification Amounts in ETB	12 month ECL Stage 1	Lifetime ECL not credit impaired Stage 2	Lifetime ECL credit impaired Stage 3	Purchased credit impaired	Total 30 June 2019	Total 01 July 2018
Loans and advances to Customers and microfinance institutions (at amortised cost)				-		
Stage 1	173,461,851,995	-		-	173,461,851,995	166,935,717,276
Stage 2	-	3,840,237,285		-	3,840,237,285	4,292,058,497
Stage 3	-	-	29,706,013,693	-	29,706,013,693	8,260,206,231
Gross carrying amount	173,461,851,995	3,840,237,285	29,706,013,693	-	207,008,102,974	179,487,982,004
Expected Credit Loss allowance (excluding off balance sheet)	1,639,537,381	192,298,446	7,304,930,505	-	9,136,766,332	(6,493,321,756)
Carrying amount	171,822,314,614	3,647,938,839	22,401,083,188	-	197,871,336,642	172,994,660,247
Investment securities - debt instruments (at amortised cost)				-		
Stage 1	395,557,276,584	-	-	-	395,557,276,584	318,900,683,717
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Gross carrying amount	395,557,276,584	-	-	-	395,557,276,584	318,900,683,717
Expected Credit Loss allowance	586,925,193	-	-	-	586,925,193	14,623,090
Carrying amount	394,970,351,391	-	-	-	394,970,351,391	318,886,370,014
Other financial assets (at amortised cost)						
Stage 1	9,385,581,580	-	-	-	9,385,581,580	8,170,340,173
Stage 2	-	-	-	-	-	87,430,371
Stage 3	-	-	-	-	-	1,391,180,046
Gross carrying amount	9,385,581,580	-	-	-	9,385,581,580	9,648,950,590
Expected Credit Loss allowance	200,184,122	-	-	-	200,184,122	(1,268,532,995)
Carrying amount	9,185,397,458	-	-	-	9,185,397,458	8,380,417,595

COMMERCIAL BANK OF ETHIOPIA
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(5) Financial Risk Review - (Continued)

(a) Credit risk - (Continued)

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

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

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

Customer Classification	Score (X)	
	New customer/70	Existing customer/100
Business	$55\% \leq X \leq 70\%$	$80\% \leq X \leq 100\%$
Corporate	$35\% \leq X < 55\%$	$60\% \leq X < 100\%$
Commercial	$X < 35\%$	$X < 60\%$

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

Parameter	Weight
Financial Risk/Strength of financial management system	35%
Business/Industry Risk	10%
Management Risk	15%
Account Performance Risk	25%
Customer Relationship Risk	15%

(5) Financial Risk Review - (Continued)

(a) Credit risk - (Continued)

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

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

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

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

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

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

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

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

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

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

(5) Financial Risk Review - (Continued)

(a) Credit risk - (Continued)

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

Grade 6: These are “High risk” borrowers.

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

Grade 7: “Very High” risk borrowers

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

Grade 8: “Default Risk”

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

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

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

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

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

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

(5) Financial Risk Review - (Continued)

(a) Credit risk - (Continued)

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

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

30 June 2019				
Risk Grade	Classification	Individually Significant Loans	Other Loans	Gross Amount
1	Exceptionally low risk	57,504,865,519	23,227,021,560.80	80,731,887,080.00
2	Very low risk	29,444,402,305	36,654,098,948	66,098,501,253
3	Low risk		23,787,746,174	23,787,746,174
4	Moderate Risk	8,000,000,000	6,410,356,430	14,410,356,430
5	Potential Risk		1,710,695,597	1,710,695,597
6	High Risk	4,291,684,499	691,989,571	4,983,674,070
7	Very High Risk		4,334,083,141	4,334,083,141
8	Default Risk		1,833,425	1,833,425
Total principal		99,240,952,322	96,817,824,848	196,058,777,170
Interest receivable from loans				10,949,325,804
Provision for loan losses				(9,136,766,332)
Net Loan				197,871,336,642

30 June 2018				
Risk Grade	Classification	Individually Significant Loans	Other Loans	Gross Amount
1	Exceptionally low risk	69,604,132,285	18,669,301,421	88,273,433,706
2	Very low risk	6,196,780,936	33,133,171,448	39,329,952,385
3	Low risk	-	21,621,260,590	21,621,260,590
4	Moderate Risk	12,738,560,707	1,570,948,737	14,309,509,444
5	Potential Risk	-	2,237,340,562	2,237,340,562
6	High Risk	-	3,367,852,607	3,367,852,607
7	Very High Risk	-	3,171,273,886	3,171,273,887
8	Default Risk	-	595,115	595,115
Total principal		88,539,473,929	83,772,744,368	172,311,218,297
Interest receivable from loans				7,176,792,858
Provision for loan losses				(6,493,350,908)
Net Loan				172,994,660,247

(5) Financial Risk Review - (Continued)

(a) Credit risk - (Continued)

Inputs, assumptions and techniques used for estimating impairment

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

Significant increase in credit risk

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

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

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

Credit risk grading

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

Generating the term structure of PD

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

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

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

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

(5) Financial Risk Review - (Continued)

(a) Credit risk - (Continued)

Determining whether credit risk has increased significantly

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

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

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

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

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

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

Modified financial assets

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

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

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

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

(5) Financial Risk Review - (Continued)

(a) Credit risk - (Continued)

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

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

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

Definition of default

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

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

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

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

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

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

Incorporation of forward-looking information

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

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

(5) Financial Risk Review - (Continued)

(a) Credit risk - (Continued)

The scenario probability weightings are derived from each segment's macroeconomic information values. Average portfolio probability weights are as follows:

As at 30 June	2019			2018		
	Upside	Base	Downside	Upside	Base	Downside
Portfolio average probability weights	15%	70%	15%	20%	60%	20%

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 30 June 2019 included the following key indicators:

- Real GDP growth rate
- Gross National Expenditure (% of GDP)
- Real Rate of Interest; lending
- Gross National Savings
- Gross National Income
- Exports of goods and services
- Debt servicing
- Import of goods and services
- Real Rate of Interest; Time deposit
- Gross domestic savings
- Official Exchange rate

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

Measurement of ECL

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

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

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical models, and assessed using tools tailored to the various categories of counterparties and exposures.

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

(5) Financial Risk Review - (Continued)

(a) Credit risk - (Continued)

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based mainly on the counterparties' collateral and also on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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

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

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

- instrument type;
- credit risk gradings;
- collateral type;
- date of initial recognition;
- industry; and
- geographic location of the borrower.

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

Loss allowance

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

**COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(5) Financial Risk Review - (continued)

(a) Credit risk- (Continued)

	30 June 2019					30 June 2018				
	12 month ECL Stage 1	Lifetime ECL not credit impaired Stage 2	Lifetime ECL credit impaired Stage 3	Total	12 month ECL Stage 1	Lifetime ECL not credit impaired Stage 2	Lifetime ECL credit impaired Stage 3	Total		
Amounts in ETB										
Loans and advances at amortised cost										
Balance at 1 July 2018/1 July 2017	(969,007,487)	(174,343,126)	(4,865,652,882)	(6,009,003,495)	4,056,353,037	-	2,821,657,924	6,878,010,961		
IFRS 9 adjustment					(3,261,889,637)	128,881,148	1,251,238,524	(1,881,769,965)		
Balance at 1 July 2018/1 July 2017	(969,007,487)	(174,343,126)	(4,865,652,882)	(6,009,003,495)	794,463,400	128,881,148	4,072,896,448	4,996,240,996		
Transfer to 12 months ECL	(670,529,894)			(670,529,894)	-	-	-	-		
Transfer to Lifetime ECL not credit impaired		(17,955,320)		(17,955,320)	-	-	-	-		
Transfer to Lifetime ECL credit impaired			(2,439,277,623)	(2,439,277,623)	-	-	-	-		
Net remeasurement of loss allowance					(2,230,348,642)	(320,677,783)	(8,938,549,331)	(11,489,575,755)		
Balance at 30 June 2019/30 June 2018	(1,639,537,381)	(192,298,446)	(7,304,930,505)	(9,136,766,332)	(1,435,885,242)	(191,796,635)	(4,865,652,882)	(6,493,334,759)		
Investment securities - debt instruments (at amortised cost)										
Balance at 1 July 2018/2017	14,623,090	-	-	14,623,090	11,754,614	-	-	11,754,614		
adjustment	-	-	-	-	-	-	-	-		
Balance at 1 July 2018/2017	14,623,090	-	-	14,623,090	11,754,614	-	-	11,754,614		
Transfer to 12 months ECL	572,302,103	-	-	572,302,103	-	-	-	-		
Net remeasurement of loss allowance	-	-	-	-	2,868,476	-	-	2,868,476		
Balance at 30 June 2019/30 June 2018	586,925,193	-	-	586,925,193	14,623,090	-	-	14,623,090		

(5) Financial risk review - (Continued)

(a) Credit risk - (Continued)

	30 June 2019			30 June 2018				
	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
Other financial assets (at amortised cost)								
Balance at 1 July 2018/30 June 2017	1,567,033	612,994	1,230,978,839	1,233,158,866	249,308,980	-	1,230,978,839	1,480,287,819
IFRS 9 adjustment					(247,938,871)	1,505,271	49,012,430	(197,421,170)
Balance at 1 July 2018/2017	1,567,033	612,994	1,230,978,839	1,233,158,866	1,370,109	1,505,271	1,279,991,269	1,282,866,649
Net remeasurement of loss allowance	198,617,089	(612,994)	(1,230,978,839)	(1,032,974,744)	196,924	(892,277)	(49,012,430)	
Balance at 30 June 2019/30 June 2018	200,184,122	-	-	200,184,122	1,567,033	612,994	1,230,978,839	1,233,158,866

The impairment of loans and debt securities are determined by comparing the book value of the assets and its recoverable amounts as of 30, June 2019 and 30 June 2018.

(5) Financial risk review - (Continued)

(a) Credit risk - (Continued)

- Default but not impaired loans:

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

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

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

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

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

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

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

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

(5) Financial risk review - (Continued)

(a) Credit risk - (Continued)

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

(a) Renegotiated term loans equivalent of all past due interest is paid by the borrower in cash at the time of renegotiation and the following payments are made by the borrower on a consistent and timely basis in accordance with the restructured terms of the loan or advance.

- Loans with monthly or quarterly installment payments, at least 3 (three) consecutive repayments.
- Loans with semi-annual installment repayments, at least 2 (two) installments.
- Loans with annual installment repayments, at least one repayment.

(b) Renegotiated non-performing overdraft facilities equivalent of all past due interest is paid by the borrower in cash at the time of renegotiation and the account shows at a minimum:

- A nil balance at least once
- A turnover rate of once the approved limit

▪ Write-off policy:

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

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

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

Loan write-offs can be initiated for the following reasons:

- Absence of attachable property
- Insolvency of the borrower
- Declaration of bankruptcy of the borrower by a court

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(5) Financial risk review - (Continued)

(a) Credit risk - (Continued)

- Higher Cost of Recovery than the Realizable Value of the Property
- Defects in Documentation – if the Bank has no legal ground to sue the borrower because of defects in the contract
- Court decision
- Statute limitation

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

Range	Loan Status	30 June 2019	30 June 2018
From 1 to 29 days	Pass	187,979,169,164	162,423,621,394
From 30 to 89 days	Special Mention	4,570,345,418	4,076,669,413
From 90 to 179 days	Sub-standard	838,420,644	1,569,148,147
From 180 to 360 days	Doubtful	320,215,947	1,083,364,499
Over 360 days	Loss	2,350,625,998	3,158,414,844
Total Principal		196,058,777,170	172,311,218,297
Interest Receivable		10,949,325,804	7,176,792,858
Allowance for Impairment		(9,136,766,332)	(6,493,350,908)
Net Loan		197,871,336,642	172,994,660,247

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

	30 June, 2019	30 June, 2018
Rating		
Between AA+ and AA-	3,394,827	18,846,056
Between A+ and A-	11,101,479,310	549,929,252
Between BBB+ and BBB-	749,638,832	8,749,684
Other (including unrated)	79,051,044	8,437,682,748
Total	11,933,564,013	9,015,207,740
Provision for loss	1,436,606	-
	<u>11,932,127,407</u>	<u>9,015,207,740</u>
Domestic Bank Account Balances		
Sovereign Counterparty (NBE)	64,355,453,120	-
Between A+ and A-	833,815,544	-
Between BBB+ and BBB-	65,189,268,663	-
Other (including unrated)	103,906,387	-
Total	65,085,362,277	-

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

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(5) Financial risk review - (Continued)

(a) Credit risk - (Continued)

Collateral

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

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

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

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

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

The table below shows the value of collateral held by CBE as a security for loans granted as at 30 June 2019 and 30 June 2018.

Fair value of collaterals and guarantees	30 June 2019	30 June 2018
Blocked Account	586,506,475	489,433,600
Building	87,256,973,860	87,673,848,905
Bank Guarantee	152,861,449	158,564,462
Business Mortgage	191,417,146,081	192,585,795,318
Documentary Credit	3,000,000	3,000,000
Government Bond	82,191,416,389.44	-
Lease Right	122,084,991	128,522,192
Machinery	40,556,914,101	38,124,746,946
Others	390,570,181	426,471,579
Personal Guarantee	16,502,366,652	17,241,571,399
Vehicle	15,160,328,376	15,400,500,735
Corporate Guarantee	1,189,321,711	
Total Collateral Value	435,529,490,267	352,232,455,136
Total Outstanding Loan	197,871,336,642	172,994,660,247
Collateral Coverage ratio	220%	204%

(5) Financial risk review - (Continued)

(a) Credit risk- (Continued)

As can be seen from the above table, the value of collateral held by CBE as a security for loan granted are measured when the loans are initially granted. The overall collateral coverage ratio to the outstanding principal loan is estimated about 220 %, (2018: 204%).

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

Concentration of Credit Risk

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

Some of the collateral classes are very liquid and equivalent to cash such as blocked account balance and government bond. The collateral data indicates the balance of collateral securities held by CBE for loans and advances disbursed up to 30 June, 2019.

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

i. Concentration by sector

Sector	30 June 2019	30 June 2018
Agriculture	11,316,050,059	10,932,693,148
Manufacturing	117,295,712,185	101,761,425,340
Domestic Trade and Services	14,355,750,013	18,154,326,413
International Trade	19,822,890,912	20,584,074,657
Building and Construction	12,756,420,747	2,857,578,275
Consumer Loan	20,012,259,571	17,718,063,809
Financial Institutions	499,693,683	303,056,655
Total Principal	196,058,777,170	172,311,218,297
Interest Receivable from Loan	10,949,325,804	7,176,792,858
Provision for Loan Loss	(9,136,766,332)	(6,493,350,908)
Net Loan	197,871,336,642	172,994,660,247

The loan portfolio is diversified in all economic sectors. However, the lion's share of the outstanding loan is concentrated in the prime economic sectors such as Manufacturing, Agriculture and International trade sectors because of the Bank's policy.

ii. Concentration by Product line

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

(5) Financial risk review - (Continued)

(a) Credit risk - (Continued)

Product type	Outstanding loan balances	
	30 June 2019	30 June 2018
Term loan	175,430,349,129	153,220,413,268
Overdraft	4,554,164,208	3,622,889,136
Advance loan	15,490,845,523	15,458,615,893
Merchandise loan	9,303,799	9,300,000
Total Principal	196,058,777,170	172,312,218,297
Interest receivable from Loan	10,949,325,804	7,176,792,858
Provision for Loan Loss	(9,136,766,332)	(6,493,350,908)
Net Loan	197,871,336,642	172,994,660,247

(iii) Loan Concentration by Jurisdiction

Jurisdiction	30 June 2019	30 June 2018
Ethiopia	197,871,336,642	172,994,660,247

From the group, Commercial Bank of Ethiopia is the only entity engaged in lending activity and the remaining associates and subsidiaries have no any loan portfolio in their book of records. Basically, these loans are provided to businesses operating in Ethiopia and there is no loan granted to an entity operating in a foreign country. The outstanding loan portfolio by jurisdiction is stated in the underneath table.

(iv) Loan Commitment by Product Line

	30 June 2019	30 June 2018
Concentration by Commitment type		
Term Loan and Bond Commitment	15,892,796,891	46,011,893,923
Letter of Credit	30,385,893,175	38,761,278,563
Letter of Guarantee	37,055,905,994	23,390,719,336
Total	83,334,596,059	108,163,891,822
Provision for Loan Loss	48,772,032	52,801,865
	83,285,824,027	108,111,089,957

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

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

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

(5) Financial risk review - (Continued)

(b) Liquidity risk

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

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

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

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

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

	30 June 2019	30 June 2018
Loans and advances to customers	197,364,804,056	172,687,492,850
Deposits from customers	540,962,651,409	450,680,917,749
Advances to deposits ratio	36.49%	38%

(5) Financial risk review- (Continued)

(b)Liquidity risk - (Continued)

The table below summarizes the Group's liquidity risk as at 30 June 2019 and 30 June 2018, categorized into relevant maturity groupings based on the earlier of the remaining contractual maturities.

Amounts in Million Birr

Total Financial Assets and Financial Liabilities

30 June 2019	Upto 1 month	1-3 months	3 month upto 1 year	1-3 years	Over 3 years	Non-Maturity Items	Total
I. Assets							
On balance sheet							
Cash and balances with NBE	55,331	129	581	1	16,623	0	72,665
Placements with other banks	12,641			167			12,808
Loans and advances to banks	3	20	85	362	37		507
Loans and advances to customers	9,562	17,346	21,486	48,174	100,797		197,365
Receivables	5,436	867	1,768				8,071
Investment in associates	-	-	-	-		140	140
Debt Securities	1,374	5,495	18,160	72,227	297,717	183	394,972
A. Total Assets	84,348	23,857	42,080	120,931	415,174	140	686,528
II. Liabilities							
On balance sheet							
Deposits due to other banks	166	-	-	-	353		519
Customers' deposits	40,730	10,129	12,301	40	477,741		540,941
Current Tax Liability		5,992					5,992
Other liabilities	708	16,112	5,287		106	80,555	102,768
B. Total liabilities	41,604	32,232	17,588	40	478,200	80,555	650,220
C. Net liquidity Gap (A-B) as at 30 June 2019	42,743	(8,375)	24,492	120,632	(63,026)	(80,415)	36,309
Cumulative Gap as at 30 June 2019	42,743	(34,368)	58,859	179,750	116,724	36,309	

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(5) Financial risk review - (Continued)

(b)Liquidity risk - (Continued)

30 June 2018	Upto 1 month	1-3 months	3 month upto 1 year	1-3 years	Over 3 years	Non-Maturity Items	Total
I. Assets							
On balance sheet							
Cash and balances with NBE	24,372	549	581	1	16,314	-	41,816
Placements with other banks	9,989			167			10,156
Loans and advances to banks	3	20	85	163	35		305
Loans and advances to customers	5,947	18,057	20,684	30,157	97,842		172,687
Receivables	4,612	2,000	1,768				8,380
Investment in associate						113	113
Debt Securities	1,374	5,495	18,160	72,227	221,630		318,886
A. Total Assets	46,296	26,120	41,278	102,715	335,822	113	552,343
II. Liabilities							
On balance sheet							
Deposits due to other banks	166				1,011		1,176
Customers' deposits	35,965	2,418	12,197	13	400,089		450,681
Current Tax Liability		2,762					2,762
Other liabilities	708	16,112	5,288		106	46,623	68,837
B. Total liabilities	36,838	21,292	17,484	13	401,206	46,623	523,456
C. Net liquidity Gap (A-B) as at 30 June 2018	9,458	4,829	23,793	102,702	(65,385)	(46,510)	28,887
Cumulative Gap as at 30 June 2018	9,458	14,286	38,080	140,782	75,397	28,887	

(5) Financial risk review - (Continued)

(b) Liquidity risk - (Continued)

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

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

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

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

(c) Market risk

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

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

(a) Interest rate risk:

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

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

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

(5) Financial risk review - (Continued)

c. Market risk – (Continued)

Exposure to interest rate risk
(Amounts in Millions Birr)

30 June 2019	Effective Interest Rate	Upto 1 month	1-3 months	3 month upto 1 year	1-3 years	Over 3 years	Non -interest Sensitive Items	Total
I. Assets								
A. Interest Rate Sensitive Assets								
Cash & Balances with NBE	-	129	581	1	16,623	-	55,331	72,665
Placements with other Banks	0.07%	12,641	-	-	167	-	-	12,808
Loans and Advances to Banks	5.40%	1	27	197	270	12	-	507
Loans and Advances to Customers	8.30%	9,562	17,346	21,486	48,174	100,797	-	197,365
Debt Securities	5.40%	1,374	5,495	18,160	72,227	297,717	-	394,972
Total Rate Sensitive Assets		23,707	23,449	39,844	137,461	398,526	55,331	678,317
II. Liabilities								
B. Rate Sensitive Liabilities								
Deposits Due to other Banks	4.74%	166	-	-	-	553	-	519
Customers' Deposits		40,730	10,129	12,301	40.31	477,741	-	540,941
Total Rate sensitive liabilities		40,896	10,129	12,301	40	478,294	0	541,460
C. Rate Sensitive Gap		(17,189)	13,320	27,543	137,421	(79,768)	55,331	138,857
Cumulative Rate Sensitive Gap		(17,189)	(3,869)	23,674	160,095	81,327	136,658	273,514
Adjusted Interest Rate Change		0.14	0.25	1.5	1	1		
Relative Gap Ratio (RSG to Total Asset)		-3.88	0.9	0.78	1	-0.26		
Total Asset		7,430	23,594	33,781	102,614	308,691		

(5) Financial risk review - (Continued)

c. Market risk - (Continued)

Exposure to interest rate risk
(Amounts in Millions Birr)

30 June 2018	Effective Interest Rate	Upto 1 month	1-3 months	3 month upto 1 year	1-3 years	Over 3 years	Non -interest Sensitive Items	Total
I. Assets								
A. Interest Rate Sensitive Assets								
Cash & Balances with NBE		-	-	-	-	-	41,816	41,816
Placements with other Banks	0.07%	-	-	167	-	-	10,156	10,323
Loans and Advances to Banks	5.40%	3	20	85	163	35		305
Loans and Advances to Customers	8.30%	5,947	18,057	20,684	30,157	97,842		172,687
Debt Securities	5.40%	1,374	5,495	18,160	72,227	221,630	-	318,886
Total Rate Sensitive Assets		7,324	23,572	39,096	102,547	319,507	51,972	544,018
II. Liabilities								
B. Rate Sensitive Liabilities								
Deposits Due to other Banks		166	-	-	-	1,010		1,176
Customers' Deposits	4.74%	35,964.57	2,417.55	12,196.82	12.59	400,089.37	-	450,681
Total Rate sensitive liabilities		36,130	2,418	12,197	13	401,099	-	451,857
C. Rate Sensitive Gap		(28,806)	21,154	26,899	102,534	(81,592)	51,972	92,161
Cumulative Rate Sensitive Gap		(28,806)	(7,652)	19,247	121,781	40,189		
Adjusted Interest Rate Change		0.14	0.25	1.50	1.00	1.00		
Relative Gap Ratio(RSG to Total Asset)		(3.88)	0.90	0.80	1.00	(0.26)		
Total Asset		7,430	23,594	33,781	102,614	308,691		

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(5) Financial risk review - (Continued)

(c) Market risk - (Continued)

(b) Exchange rate risk

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

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

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

30 June 2019	USD	Euro	GBP	Other	Total
ASSETS					
Cash, deposits and advances to banks	11,609,452,032	58,386,216	334,983,007	188,497,677.57	12,191,318,932
Loans and advances to customers	-	-	-	-	-
Other assets	73,688,620	32,882,938	-	19,378	106,590,935
Related parties	-	-	-	-	-
At 30 June 2019	11,683,140,652	91,269,153	334,983,007	188,517,055	12,297,909,867
LIABILITIES					
Deposits from banks	167,086,822	263,147,430	65,004.00	10,895,232	441,194,488
Deposits from customers	25,063,459,231	956,565,024	88,892,954	54,827	26,108,972,037
Other liabilities	-	-	-	-	-
Related parties	-	-	-	-	-
At 30 June 2019	25,230,546,053	1,219,712,454	88,957,958	10,950,060	26,550,166,525
Net statement of position exposure	(13,547,405,402)	(1,128,443,300)	246,025,049	177,566,996	(14,252,256,658)

30 June 2018	USD	Euro	GBP	Other	Total
ASSETS					
Cash, deposits and advances to banks	9,051,391	26,405	22,016	180,284.67	9,280,096
Loans and advances to customers	-	-	-	-	-
Other assets	187,604	25,446	-	1,291	214,341
Related parties	-	-	-	-	-
At 30 June 2018	9,238,995	51,851	22,016	181,575	9,494,437
LIABILITIES					
Deposits from banks	677,636	354,079	62	-	1,031,777
Deposits from customers	2,660,312	21,485	805	-	2,682,601
Other liabilities	9,722,226	9,393	6,710	-	9,738,330
Related parties	12,302,074	571,894	51,446	52	12,925,466
At 30 June 2018	25,362,247	956,851	59,024	52	26,378,174
Net statement of position exposure	(16,123,252)	(905,000)	(37,008)	181,523	(16,883,737)

(5) Financial risk review - (Continued)

(c) Market risk - (Continued)

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonable possible change in the value of Birr when measured against the US dollar as at 30 June 2019, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). The stress test analysis is based projected movements of Birr against the US dollar since more than 95% of the Bank's foreign currency assets and liabilities are denominated in dollars. On average, the US dollar has appreciated at a rate of 5% against birr every year during the previous periods.

For the stress testing, 5% appreciation of dollar against ETB has taken in anticipation of the trend continuing. The analysis assumes that all the other variables, in particular interest rates, remain constant.

Items	30 June 2019			30 June 2018		
	Currency Carrying Amount	5% depreciation	5% appreciation	Currency Carrying Amount	5% depreciation	5% appreciation
Assets (Million)						
USD	11,683,140,652	11,381,220,648	12,579,243,874	9,240,267,000	8,778,253,650	9,702,280,350
EUR	91,269,153	107,661,211	118,993,970	51,851,000	49,258,450	54,443,550
GBP	334,983,007	317,541,600	350,967,031	22,016,000	20,915,200	23,116,800
	12,109,392,812	11,806,423,459	13,049,204,875	9,314,134,000	8,848,427,300	9,779,840,700
Liabilities						
USD	25,230,546,053	25,540,721,211	28,229,218,180	24,941,978,000	23,694,879,100	26,189,076,900
EUR	1,219,712,454	1,393,775,693	1,540,488,924	1,107,556,000	1,052,178,200	1,162,933,800
GBP	88,957,958	75,254,722	83,176,272	131,671,000	125,087,450	138,254,550
	26,539,216,465	27,009,751,627	29,852,883,377	26,181,205,000	24,872,144,750	27,490,265,250
Total (decrease) increase from major Currencies	(14,429,823,653)	(15,203,328,168)	(16,803,678,502)	(16,867,071,000)	(16,023,717,450)	(17,710,424,550)

At 30 June 2019 if the Birr had weakened by 5% against the major trading currencies, with all other variables held constant, net profit would have decreased by ETB 15,203,328,168 (2018: ETB 16,023,717,450) while a strengthening by 5% would have resulted in an increase in profit by ETB 16,803,678,502 (2018: ETB 17,710,424,550).

d. Operational Risk Management

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

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

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

(5) Financial Risk Review - (Continued)

(d) Operational risk management - (Continued)

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

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

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

e. Capital management

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

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

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

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

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

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

The Bank and its individually regulated subsidiaries have met with all of the external capital requirements to which they are subject. As of 30 June 2019, and 30 June 2018 respectively, the Bank's regulatory capital position was as follows:

(5) Financial risk review - (Continued)

(e) Capital management - (Continued)

	30 June 2019	30 June 2018
Capital - Level 1		
State Capital	40,000,000,000	40,000,000,000
Legal Reserves	9,678,098,118	6,807,195,127
Capital Reserve	143,256,736	134,745,949.00
IFB Reserve	1,057,658	608,463
Statutory Reserve	886,658,841	666,432,050
Accumulated profit or loss	(207,429,766)	8,114,350
Total	50,501,641,587	47,617,095,940
Capital - Level 2		
Fair Value Reserve	125,424,189	97,811,488
Foreign Currency Translation Reserve	32,559,741	(293,439,122)
Remeasurement of Defined Benefit BS	(410,943,241)	(215,735,859)
Subordinated liabilities	-	-
Debt securities issued	-	-
Total	(252,959,311)	(411,363,493)
Total Regulatory Capital	50,248,682,276	47,205,732,445
Total assets and weighted contingencies	183,335,079,949	156,086,484,858
Total regulatory capital / risk weighted assets	27.40%	30%

(6) FAIR VALUE OF FINANCIAL INSTRUMENTS

a. Accounting classifications

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

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

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

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

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

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

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

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

(6) Fair value of financial instruments - (Continued)
a. Accounting classifications - (continued)

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

	Amortized Cost	FVOCI	FVTPL	Total carrying amounts	Fair value			Fair value
					Level 1	Level 2	Level 3	
30 June 2019								
Financial Instruments								
Financial Assets:								
Cash and Balances with NBE	ETB 72,665,285,542							72,665,285,542
Placement with other Banks	12,808,187,039							12,808,187,039
Loans and advances to customers	197,364,804,056							197,364,804,056
Loans to micro-finance institutions	506,532,587							506,532,587
Debt and equity Securities	395,196,878,559							395,196,878,559
Receivables	8,071,372,366							8,071,372,366
Investment in Associates		140,067,243					140,067,243	140,067,243
Total financial assets	686,613,060,149	140,067,243		686,753,127,392		140,067,243		686,753,127,392
Financial liabilities:								
Deposits due to other banks	518,988,994							518,988,994
Customers' deposits	540,940,798,427							540,940,798,427
Current tax liability	5,992,447,406							5,992,447,406
Other liabilities	102,768,223,014							102,768,223,014
Total financial liabilities	650,220,457,841	-		650,220,457,841				650,220,457,841

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(6) Fair value of financial instruments - (Continued)

a. Accounting classifications - (Continued)

	Amortized Cost	FVOCI	FVTPL	Total carrying amounts	Fair value		
					Level 1	Level 2	Level 3
30 June 2018	ETB	ETB	ETB	ETB	ETB	ETB	ETB
Financial Instruments							
Financial Assets:							
Cash and Balances with NBE	43,715,399,267			43,715,399,267			
Placement with other Banks	9,553,386,282			9,553,386,282			
Loans and advances to customers	172,687,492,850	-	-	172,687,492,850	-		
Loans to micro-finance institutions	307,167,397	-	-	307,167,397	-		
Debt & equity Securities	319,069,307,014	-	-	319,069,307,014	-		
Receivables	8,380,417,594	-	-	8,380,417,594	-		
Investment in Associates		113,301,038	-	113,301,038	-		
Total financial assets	500,444,384,855	113,301,038	-	500,557,685,893	-	500,557,685,893	-
Financial liabilities:							
Deposits due to other banks	1,176,699,445	-	-	1,176,699,445	-		
Customers' deposits	450,680,917,749	-	-	450,680,917,749	-		
Current tax liability	2,761,831,547			2,761,831,547			
Other liability	63,836,532,122			63,836,532,122			
Total financial liabilities	451,857,617,194	-	-	451,857,617,194	-	451,857,617,194	-

(6) Fair value of financial instruments- (Continued)

b. Valuation hierarchy

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

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

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(7) INTEREST INCOME AND EXPENSE

Interest income and expense are analyzed as follows:

	30 June 2019	30 June 2018
Interest Income		
Loans and advances to customers	20,488,378,485	17,732,171,036
Debt securities	25,186,866,970	19,536,628,252
Cash and cash equivalents	-	59,665,528
Total interest income	45,675,245,455	37,328,464,816
Interest expense	30 June 2019	30 June 2018
Depository obligations	20,056,803,363	14,728,166,410
Other obligations	-	22,084,820
Total interest expense	20,056,803,363	14,750,251,230

(8) NON-INTEREST INCOME AND EXPENSES

	30 June 2019	30 June 2018
NON-INTEREST INCOME		
Commissions	5,573,994,427	3,233,171,652
Bank services and transaction fees	1,301,338,447	1,059,977,345
Discount Earned on Securities	448,617,995	484,734,485
Other income	796,112,405	688,825,116
Total Non-Interest Income	8,120,063,274	5,466,708,599

	30 June 2019	30 June 2018
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	9,672,644,428	7,778,590,774
Impairment loss as per regulatory	220,226,791	408,318,158
Depreciation and Amortization	1,270,102,746	1,110,730,842
Deprecation Right of Use Asset	779,874,642	579,558,087
Advertising and publicity	86,650,628	155,243,276
Repairs and maintenance	171,970,306	170,199,989
Electronic data process	261,142,673	221,139,162
Stationery and office supplies	215,675,364	439,821,560
Discount Loss	448,617,991	360,443,124
Other expenses	2,150,088,825	1,435,431,749
Total non- interest expenses	15,276,994,392	12,659,476,721

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(9) CASH AND CASH EQUIVALENTS

	30 June 2019	30 June 2018
Cash on hand	7,854,724,368	6,207,037,962
Cash reserve with National Bank of Ethiopia	26,370,161,619	23,020,161,619
Cash reserve with Central Bank of South Sudan	146,000,000	-
Cash reserve with Central Bank of Djibouti	115,336,307	154,423,967
Placements with other banks	12,808,187,039	10,156,202,518
Payment and settlement accounts:		
- with National Bank of Ethiopia	37,985,291,500	12,181,985,574
- with Central Bank of South Sudan	102,333,633	276,218,756
- with Central Bank of Djibouti	154,423,967	-
Cash in Transit	42,511,309	7,763,148
	85,578,969,742	52,003,793,543
Allowance for Loan Losses	(105,497,162)	
	85,473,472,580	52,003,793,543

(1) The cash reserves is non-interest earning and is based on the value of deposits as adjusted for National Bank of Ethiopia requirements. At 30 June 2019 and 30 June 2018, the cash reserve requirement was 5%, for the two dates of the eligible deposits. These funds are not available to finance the Group's day-to-day operations.

(2) The cash reserve is a non-interest earning and is based on a fixed value of 25% of the paid up capital of the CBE-South Sudan limited. The amount is equivalent to 5,000,000 US Dollars.

(3) The cash reserve at Central Bank of Djibouti is equivalent to 90% of CBE Djibouti Limited's initial capital which is held in reserve as per regulatory requirements.

(10) DEBT AND EQUITY SECURITIES

		30 June 2019	30 June 2018
Debt and Equity Securities	ETB	395,196,878,559	319,069,307,014

i. Debt Securities

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

		30 June 2019	30 June 2018
Debt Securities	ETB	395,558,776,584	318,900,683,717
Allowance for Impairment Losses		(586,771,025)	(14,313,703)
		394,972,005,559	318,886,370,014

(10) Debt and Equity securities - (Continued)

(i) Debt securities - (Continued)

	30 June 2019	30 June 2018
Coupon bonds	59,089,939,870	48,421,766,805
Corporate bonds	313,493,304,392	247,843,891,977
Government securities	22,975,532,322	22,635,024,935
	395,558,776,584	318,900,683,717

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

Interest receivable	30 June 2019	30 June 2018
Coupon bonds	6,832,549,762	3,906,439,844
Corporate bonds	10,642,104,705	6,280,700,843
Government securities	3,686,183	7,087,216
Total	17,478,340,649	10,194,227,903

ii. Equity securities

	30 June 2019	30 June 2018
Ethswitch Share Company	26,802,000	11,326,000
African Export Import Bank	193,948,000	162,804,000
S.W.I.F.T. SCRL	4,123,000	8,807,000
	224,873,000	182,937,000

The change in the carrying amount of equity securities comprises:

Ethswitch Share Company	30 June 2019	30 June 2018
At 1 July at cost	11,326,000	12,002,000
Additions	-	-
Changes in fair value	15,476,000	(676,000)
	26,802,000	11,326,000

African Export Import Bank

	30 June 2019	30 June 2018
At 1 July at cost	162,804,000	30,960,189
Additions	2,489,284	-
Changes in fair value	28,654,716	131,843,811
	193,948,000	162,804,000

S.W.I.F.T. SCRL

	30 June 2019	30 June 2018
At 1 July at cost	8,807,000	244,114
Additions	-	-
Changes in fair value	(4,684,000)	8,562,886
	4,123,000	8,807,000

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(11) LOANS AND ADVANCES TO CUSTOMERS

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

30-June-2019			
	Gross Amount	Allowance for loan losses	Total
Agriculture			
Term loan	11,279,617,574	(1,135,834,204)	10,143,783,370
Overdraft	25,642,735	(280,091)	25,362,644
Merchandise loan	10,789,750	(65,800)	10,723,950
	11,316,050,059	(1,136,180,095)	10,179,869,964
Manufacturing			
Term loan	113,761,673,521	(3,190,333,407)	110,571,340,114
Overdraft	2,480,859,693	(59,970,607)	2,420,889,086
Advance loan	1,043,878,971	(76,656,356)	967,222,615
Merchandise loan	9,300,000	(57,410)	9,242,590
	117,295,712,185	(3,327,017,781)	113,968,694,406
Domestic & Trade services			
Term loan	13,628,631,332	(1,373,140,800)	12,255,490,532
Overdraft	713,115,882	(33,321,485)	679,794,397
Advance loan	14,000,000	(97,265)	13,902,735
Merchandise loan	2,799	(1,719,175)	(1,716,376)
	14,355,750,013	(1,408,278,725)	12,947,471,288
International trade			
Term loan	3,675,267,025	(445,169,450)	3,230,097,575
Overdraft	1,151,331,575	(35,170,088)	1,116,161,487
Advance loan	14,422,176,802	(1,855,545,420)	12,566,631,382
Merchandise loan	1,000	(1,970)	(970)
IFB	574,114,510	(320,878,298)	253,236,212
	19,822,890,912	(2,656,765,225)	17,166,125,686
Building and construction			
Term loan	12,573,206,424	(399,974,049)	12,173,232,375
Overdraft	183,214,323	(5,696,631)	177,517,692
	12,756,420,747	(405,670,680)	12,350,750,067
Consumer Loan			
Term loan	20,012,259,571	(202,761,685)	19,809,497,886
	20,012,259,571	(202,761,685)	19,809,497,886
Total	195,559,083,487	(9,136,674,051)	186,422,501,436
Interest receivable on loan	10,942,394,760	-	10,942,394,760
Total	206,501,478,247	(9,136,674,191)	197,364,804,056

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(11) Loans and advances to customers - (Continued)

		30 June 2018		
		Gross Amount	Allowance for loan losses	Carrying Value
Agriculture				
Term loan	ETB	10,930,965,900	(1,057,902,877)	9,873,063,023
Overdraft		1,698,095	(125,512)	1,572,583
		10,932,663,995	(1,058,028,389)	9,874,635,606
Manufacturing				
Term & merchandise loan		100,274,546,613	(1,329,937,833)	98,944,608,780
Overdraft		1,486,878,726	(28,222,038)	1,458,656,688
		101,761,425,340	(1,358,159,872)	100,403,265,469
Domestic & Trade services				
Term loan		17,661,517,351	(1,943,503,884)	15,718,013,466
Overdraft		492,809,062	(8,688,530)	484,120,532
		18,154,326,413	(1,952,192,415)	16,202,133,998
International trade				
Term loan & Advance loan		19,106,855,329	(591,387,684)	18,515,467,645
Overdraft		1,477,219,328	(19,735,950)	1,457,483,378
		20,584,074,657	(611,123,634)	19,972,951,023
Building and construction				
Term loan		2,693,294,350	(202,242,572)	2,491,051,779
Overdraft		164,283,925	(3,878,259)	160,405,666
		2,857,578,275	(206,120,831)	2,651,457,444
Consumer Loan				
Term loan		17,718,063,809	(1,307,669,196)	16,410,394,613
Overdraft		-	-	-
		17,718,063,809	(1,307,669,196)	16,410,394,613
Interest receivable on loan		7,172,654,696	-	7,172,654,697
Total Loans		179,180,787,186	(6,493,294,336)	172,687,492,850

(11) Loans and advances to customers - (Continued)

(a) Allowance for loan losses is as shown below:

		Allowance for loan losses
At 1 July 2017	ETB	6,876,244,805
IFRS 9 Adjustment		(1,880,040,516)
Impairment recognized during the year		1,497,090,047
At 30 June 2018		6,493,294,336
Impairment recognized during the year		2,647,339,116
Written off during the year		(3,959,261)
At 30 June 2019		9,136,674,191

(12) LOANS TO MICRO-FINANCE INSTITUTIONS

(a) Classification

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

		30 June 2019	30 June 2018
	ETB		
Term loans		499,693,683	303,056,655
Less: Allowance for loan losses		(92,140)	(27,420)
		499,601,543	303,029,235
Interest receivable on loan		6,931,044	4,138,162
Less: Allowance for loan losses		-	-
		6,931,044	4,138,162
		506,532,587	307,167,397

(b) Impairment losses on loans and advances

		2018/19	2017/18
At 1 July	ETB	27,420	1,604,156
IFRS 9 Adjustment			(1,576,736)
Amounts recognized during the year			-
Addition		64,720	
As at 30 June		92,140	27,420

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(13) RECEIVABLES

		30 June 2019	30 June 2018 As Restated
Government receivables	ETB	1,639,240,381	1,630,861,639
Foreign receivables		643,084,754	526,389,364
Other receivables		3,034,626,352	2,448,492,465
Receivable-Seda		-	821,687,377
Other advances		2,390,397,031	2,886,418,508
Staff loans – prepayments		806,228,080	1,008,619,153
Tax Receivable		872,004,980	326,482,083
		9,385,581,578	9,648,950,589
Less: Allowance for doubtful debts		(1,314,209,212)	(1,268,532,995)
		8,071,372,366	8,380,417,594

Allowance for doubtful debts:

	2019/18
Balance as at 1 July 2018	(1,540,980,541)
Adjustment as per IFRS 9	258,113,892
Doubtful debts written off during the year	4,001,987
Reduction (Addition) during the year	10,331,667
Balance as at 30 June 2018	(1,268,532,995)
Adjustment	(53,284,985)
Doubtful debts written off during the year	7,608,768
Reduction (Addition) during the year	-
Balance as at 30 June 2019	(1,314,209,212)

(14) INVESTMENT IN ASSOCIATES

Investments in associates as of 30 June, 2019 and 2018 are as follows:

Ethiopia Re-insurance Company

	30 June 2019	30 June 2018
Percentage ownership interest	20.00%	20.00%
Revenue (100%)	720,161,899	558,002,085
Total comprehensive income (100%)	133,831,025	78,641,207
Group's share of total comprehensive income (20.00%)	26,766,205	15,728,241
Group's investment in associate	140,067,243	113,301,038

(15) NON CURRENT ASSETS HELD FOR SALE

		2018/19		
Costs:		Building	Movable property	Total
At 1 July 2018	ETB	810,924,906	305,895,652	1,116,820,558
Acquisition				
Transfer to property, plant and equipment				
Reclassification			(25,626,948)	(25,626,948)
Sale/Disposal		(9,192,326)	(71,710,046)	(80,902,372)
Adjustment				
Total		801,732,580	208,558,658	1,010,291,238
Less Provisions:				
Impairment loss on acquired assets		(3,780,930)	(10,686,116)	(14,467,046)
Movement for the year		3,359,008	7,961,800	11,320,809
Closing balance		(421,922)	(2,724,316)	(3,146,238)
Non-current assets held for sale As at 30 June 2019		801,310,658	205,834,342	1,007,145,000

		2017/18		
Costs:		Building	Movable property	Total
At 1 July 2017	ETB	807,320,147	307,817,917	1,115,138,064
Acquisition		4,203,695	3,320,992	7,524,687
Transfer to property, plant and equipment				
Sale/Disposal		(598,935)	(5,243,257)	(5,842,192)
Adjustment				
Total		810,924,907	305,895,652	1,116,820,559
Less Provisions:				
Impairment loss on acquired assets		(8,820,642)	(4,676,117)	(13,496,759)
Movement for the year		5,039,712	(6,009,999)	(970,287)
Closing balance		(3,780,930)	(10,686,116)	(14,467,046)
Non-current assets held for sale As at 30 June 2018		807,143,977	295,209,536	1,102,353,512

Some assets are kept under this category for more than a year. The delay for the sale is caused by a circumstance beyond the Bank's control and the Bank is still committed to sell these assets. Assets in this group are presented for auction at least once a year.

(16) INVESTMENT PROPERTY

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

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

	2019	2018
Balance as at 1 July	23,135,132	11,669,542
Addition		15,942,195
Accumulated Depreciation	(1,035,440)	(4,476,605)
Balance as at June 30	22,099,692	23,135,132

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

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(17) PROPERTY, PLANT AND EQUIPMENT

	Balance at July 1, 2018 As Restated	Additions	Disposals	Reclassifications	Translation differences	Balance at June 30, 2019
Cost						
Building	2,198,224,874	178,195,508	(713,322)	107,606,056	(2,604,546)	2,480,707,570
Computer and software	2,132,004,225	348,509,419	(5,391)		(29,668)	2,480,478,585
Fixtures, fittings and equipment	2,873,490,626	733,822,761		6,513,664	(175,786)	3,613,651,265
Motor vehicles	1,266,438,710	420,832,933	(872,636)		26,936	1,686,425,943
Work in progress	4,409,138,882	1,184,565,912		(114,118,719)		5,479,586,075
	12,879,297,316	2,865,926,533	(1,591,349)	-	(2,783,063)	15,740,849,438
Depreciation						
Building	(303,994,629)	(85,892,965)	-	-	1,355,196	(388,532,398)
Computer and software	(1,292,426,039)	(398,876,195)	-	-	326,187	(1,690,976,047)
Fixtures, fittings and equipment	(1,314,554,578)	(499,109,073)	-	-	340,729	(1,813,322,922)
Motor vehicles	(444,787,113)	(195,914,443)	428,254	-	92,745	(640,180,558)
	(3,355,762,360)	(1,179,792,331)	428,254	-	2,114,858	(4,533,011,925)
Net carrying amount	9,523,534,957	1,686,134,202	(1,163,095)	-	(668,205)	11,207,837,514

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(17) Property, plant and equipment - (Continued)

	Balance at 01 July 2017 As Restated	Additions	Transfers	Disposals	Reclassifications	Translation differences	Balance at 30 June 2018 As Restated
Cost							
ETB							
Building	2,209,664,682	2,480,629	(11,253,781)	-	-	(2,666,656)	2,198,224,874
Computer and software	1,803,885,597	328,089,235	-	(10,953)	4,204	36,141	2,132,004,225
Fixtures, fittings and equipment	1,965,469,946	791,142,949	117,070,795	(58,463)	(4,204)	(130,396)	2,873,490,626
Motor vehicles	1,006,157,678	265,470,654	-	(5,165,331)	-	(24,291)	1,266,438,710
Work in progress	2,996,227,178	1,557,191,124	(144,279,421)	-	-	-	4,409,138,882
	9,981,405,080	2,944,374,591	(38,462,407)	(5,234,747)	-	(2,785,201)	12,879,297,316
Depreciation							
Building	(247,638,764)	(60,701,826)	3,092,173	-	-	1,253,788	(303,994,629)
Computer and software	(931,552,553)	(364,658,230)	-	6,601	(4,162)	3,782,305	(1,292,426,039)
Fixtures, fittings and equipment	(815,413,039)	(499,570,573)	-	22,162	4,162	402,709	(1,314,554,578)
Motor vehicles	(272,614,636)	(173,687,674)	-	1,391,119	-	124,077	(444,787,113,42)
	(2,267,218,992)	(1,098,618,303)	3,092,173	1,419,883	-	5,562,879	(3,355,762,360)
Net carrying amount	7,714,186,089	1,845,756,289	(35,370,234)	(3,814,865)	-	2,777,678	9,523,534,957

There were no capitalized borrowing costs related to the acquisition of property, plant and equipment during the year (2018: Nil)

(18) INTANGIBLE ASSETS

2019		Software
Cost	ETB	
Balance at 1 July 2018		239,829,346
Additions		202,549,981
Balance at 30 June 2019		442,379,327
<i>Amortization and impairment</i>		
Balance at 1 July 2018		(200,166,528)
Additions		(62,346,971)
Balance at 30 June 2019		(262,513,499)
Net carrying value		179,865,829

2018		Software
Cost	ETB	
Balance at 1 July 2017		239,829,346
Additions		-
Balance at 30 June 2018		239,829,346
<i>Amortization and impairment</i>		
Balance at 1 July 2017		(181,996,595)
Additions		(18,169,933)
Balance at 30 June 2018		(200,166,528)
Net carrying value		39,662,818

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

The amortization expense recognized within non-interest expense for the year ended 30 June 2019 was ETB 62,346,971 (2018: ETB 18,169,933).

(19) OTHER ASSETS

		30 June 2019	30 June 2018
Purchase in progress	ETB	643,798,322	145,191,334
Stationary and other supplies		487,153,632	315,758,107
IT expansion project		762,529,597	809,192,589
Prepaid		5,281,833,842	5,703,436,953
Others		1,000,611,149	426,418,199
		8,175,926,543	7,399,997,182

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(20) RIGHT OF USE ASSETS AND FINANCE LEASE OBLIGATIONS

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

a. Right-of-use assets:

2018/19	Land	Building	Total
Cost			
Balance at 01 July 2018	84,930,076	3,992,538,519	4,077,468,595
Adjustment	-	(189,161,338)	(189,161,338)
Additions	2,811,527	1,398,634,523	1,401,446,050
Balance at 30 June 2019	87,741,603	5,202,011,704	5,289,753,307
Depreciation			
Balance at 01 July 2018	(6,824,756)	(1,566,170,956)	(1,572,995,712)
Adjustment	-	26,783,127	26,783,127
Additions	(1,797,697)	(783,501,221)	(785,298,918)
Balance at 30 June 2019	(8,622,453)	(2,322,889,050)	(2,331,511,503)
Net carrying value	79,119,150	2,879,122,654	2,958,241,804
2017/18			
Cost			
Balance at 1 July 2017	84,930,076	2,767,010,860	2,851,940,936
Additions	-	1,225,540,142	1,225,540,142
Balance at 30 June 2018	84,930,076	3,992,551,002	4,077,481,078
Depreciation			
Balance at 1 July 2017	(5,070,779)	(983,442,760)	(988,513,539)
Additions	(1,753,976)	(582,740,678)	(584,494,655)
Balance at 30 June 2018	(6,824,755)	(1,566,183,438)	(1,573,008,193)
Net carrying value	78,105,320	2,426,367,563	2,504,472,883

(20) Right of Use Assets And Finance Lease Obligations - (Continued)

a. Finance Lease Obligation

2018/19	Land	Building	Total
Cost			
Balance at 1 July 2018	16,618,255	258,741,599	275,359,854
Adjustment	-	(31,447,231)	(31,447,231)
Addition	685,227	75,732,263	76,417,490
Payment	(3,266,345)	(52,256,016)	(55,522,361)
Balance at 30 June 2019	14,037,137	250,770,615	264,807,752
Interest expense			
Balance at 1 July 2018	9,225,306	19,755,483	28,980,789
Adjustment		(2,555,307)	(2,555,307)
Additions	2,154,990	7,740,576	9,895,566
Balance at 30 June 2019	11,380,296	24,940,752	36,321,048
Net carrying value	25,417,433	275,711,367	301,128,800
2017/18			
Cost			
Balance at 1 July 2017	19,887,739	255,130,034	275,017,773
Addition	-	50,987,066	50,987,066
Payment	(3,269,485)	(47,375,501)	(50,644,986)
Balance at 30 June 2018	16,618,255	258,741,599	275,359,853
Interest expense			
Balance at 1 July 2017	7,048,938	12,650,770	19,699,708
Additions	2,176,367	7,104,712	9,281,080
Balance at 30 June 2018	9,225,306	19,755,483	28,980,788
Net carrying value	25,843,560	278,497,081	304,340,641

The Group recognizes a lease liability at the present value of the lease payments that are not paid at that date. The Group uses an incremental borrowing rate that is based on the weighted average cost of deposits across the years. The rates used to compute the present values of buildings lease liabilities as at 30 June 2019 was 4.13% (**2018: 3.58%**). The rates used to compute the land lease liabilities as at 30 June 2019 was 8.50% (**2018: 8.50%**).

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

The Group leases land for construction of its own office buildings. The land leases typically run for a period of between 40 years and 99 years with majority of the contracts running for a period of 50 and 60 years. These leases include an option to renew the lease.

(21) CUSTOMERS' DEPOSITS

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

	30 June 2019	30 June 2018
Payable on demand		
Local and Central Government	76,480,169,354	59,141,556,119
Private sector and retail customers	74,059,097,894	62,756,551,746
Public enterprises and agencies	72,157,880,000	78,968,898,358
	222,697,147,248	200,867,006,223
Savings deposits		
Private sector and retail customers	261,978,587,511	217,054,053,740
Public enterprises and agencies	8,237,191,641	7,249,899,233
	270,215,779,152	224,303,952,973
Term deposits		
Public enterprises and agencies	15,415,213,397	12,708,511,144
Private sector and retail customers	2,164,339,605	2,462,878,862
Local and Central Government	6,000,000,000	-
	23,579,553,002	15,171,390,005
Blocked accounts	476,017,937	523,766,820
Interest free banking	23,972,301,088	9,814,801,727
	540,940,798,427	450,680,917,749

Payable on demand accounts represents deposits that are non-interest bearing. The weighted average effective interest rate on Savings deposits as at 30 June 2019 was 7% (2018: 7%). The weighted average effective interest rate on Term deposits as at 30 June 2019 was 7.2% (2018: 7.2%). Blocked accounts represent blocked current accounts and blocked savings accounts whose average effective interest rates as at 30 June 2019 were 0% and 7% respectively (2018: 0% and 7% respectively). Interest free banking represents deposits that are non-interest bearing.

(22) PROVISIONS

	Bonuses	Legal	Unutilized O/D,LC and Guarantee	Total
Balances at 30 June 2017	427,883,562	33,100,176	-	460,983,738
Increases (decrease) recorded in income	537,834,088		70,856,884	608,690,973
Provision used during the year	(427,883,562)		-	(427,883,562)
Balances at 30 June 2018	537,834,088	33,100,176	70,856,884	641,791,149
Increases (decrease) recorded in income	22,943,385	31,816,102	(22,028,040)	32,731,446
Provision used during the year	(12,492,452)	-	-	(12,492,452)
Balances at 30 June 2019	548,285,021	64,916,278	48,828,844	662,030,142

Bonus represent short-term benefits arising from past services provided by employees and are expected to pad within the next 12 months.

Legal provisions represent various claims that are pending outcome at the courts. These amounts are estimates of the likely legal claims that may not be ruled in the Group's favor.

(23) EMPLOYEE BENEFITS

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

	2018/19	2017/18
DBO at 01 July	1,943,328,149	909,185,799
Current service costs	417,673,396	276,437,489
Interest cost	256,515,220	198,510,556
Past service cost for seniority recognition	43,214,562	2,927,601
Past Service due to Plan Amendment		731,525,634
Payments for the year	(173,057,709)	(76,800,089)
Inflation adjustment		40,537
Expense charged to income	2,487,673,618	2,041,827,527
Actuarial gains (losses) recognized in other comprehensive income	278,877,817	(98,499,378)
DBO at 30 June	2,766,551,435	1,943,328,149

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

ii. Actuarial losses recognized in other comprehensive income

	2018/19	2017/18
Cumulative amount at 1 July	(215,735,859)	(284,685,423)
Recognized during the year	(278,877,817)	98,499,378
Deferred income taxes	83,889,676	(29,549,813)
Actuarial gains, net of taxes at June 30	(410,724,000)	(215,735,859)

iii. Actuarial assumptions

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

	30 June 2019	30 June 2018
Discount rate	5-13.20%	4.19-13.25%
Salary increase rate	1-14.00%	1-14.00%
Gold increase rate	4.00%	3.00%
Long term inflation rate	3-20.6%	3-8.70%

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

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(23) EMPLOYEE BENEFITS - (Continued)

iv. Sensitivity analysis

Reasonably possible changes at the reporting date, in any of the actuarial assumptions and assuming that all the other variables remain constant, would have affected the defined benefit obligations as of 30 June 2019 by the amounts shown below:

	2019		2018	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5% variance)	(157,610,820)	175,312,610	(116,983,825)	130,485,813
Salary increase rate (1.00% variance)	288,870,595	(240,686,584)	212,084,887	(176,097,238)

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

(24) OTHER LIABILITIES

Other liabilities as of the reporting dates are as follows:

		30 June 2019	30 June 2018
National Bank of Ethiopia	ETB	74,752,034,764	34,970,027,087
Margin accounts and deposits for guarantees		14,878,151,338	10,283,786,551
Certified Payment Order's and Fund transfers		-	3,635,176,508
Payable to other banks		8,504,190,257	10,111,499,402
Blocked amounts		2,230,997,378	182,252,121
Other taxes		278,669,657	337,967,916
Unearned income		265,220,258	121,004,137
Pension contributions		274,792,463	84,743,371
Miscellaneous		1,584,166,899	4,110,075,029
Total		102,768,223,014	63,836,532,122

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

Dividends

Future dividends payable: 75% of CBE's profit is prorated to dividends to the government and booked as a payable in the Bank's books. The Group retains the dividend in their books till such a point when the government will collect the entire amount.

- During 2018, dividend payable was ETB 5,343,106,150
- During 2019, dividend payable was ETB 8,683,368,689

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(25) INCOME TAXES

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

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

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

In the Republic of Djibouti, a business profit tax shall be charged on the taxable profit of a tax payer at the rate of 25%.

a) Reconciliation of effective tax rate

	30 June 2019	30 June 2018
Profit before tax	15,699,542,413	10,006,087,861
Blended statutory tax rate	30%	30%
“Expected” tax expense	4,709,862,724	3,001,826,358
Non-deductible expenses	1,554,806,516	1,296,873,760
Allowed expenses	(246,134,866)	(1,102,418,389)
Tax-exempt income	(59,135,533)	(457,281,241)
Tax effect of Consolidation	33,048,564	22,831,059
Income tax Payable	5,992,447,406	2,761,831,547

For the year ended 30 June 2019 the Group had an effective income tax rate of 38.17% (27.60% in 2018).

b) Income tax recognized directly in other comprehensive income

	30 June 2019			30 June 2018		
	Income tax	Before taxes	Net of taxes	Income tax	Before taxes	Net of taxes
Remeasurement of defined benefit liability	83,889,676	(278,877,817)	(194,988,141)	(29,549,813)	98,499,378	68,949,565
financial assets – fair valuation	(11,834,015)	39,446,716	27,612,701	(20,144,899)	67,149,663	47,004,764

(25) INCOME TAXES - (Continued)

c) Recognized deferred tax assets

At 30 June 2019 and 2018, the tax effects of temporary differences that give rise to significant portions of the deferred income tax assets are Loans & Advances, Receivables, PPE, Intangible & Other Assets, Provisions and Employees' Benefit.

Balance as of June 2018	739,643,477
Recognized in Profit & Loss	1,766,276,272
Recognized in Other Comprehensive Income	72,055,662
Balance as of June 2019	2,577,975,411
Balance as of June 2017	1,517,089,572
Recognized in Profit & Loss	(747,896,282)
Recognized in Other Comprehensive Income	(29,549,813)
Balance as of June 2018	739,643,477

(26) EQUITY

(a) Capital

Commercial Bank of Ethiopia is owned by the government of the Federal Democratic Republic of Ethiopia, there are no shares. As of 30 June 2019, the Bank's capital was ETB 40,000,000,000 (2018: ETB 40,000,000,000).

(b) Legal reserve account

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

(c) Statutory Reserve

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

(d) IFB reserve

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

(e) Accumulated Profit/Loss

The profits/loss that the Group has earned to date, less any dividends or other distributions paid.

(f) Fair Value Reserve, Remeasurement of defined benefit liabilities and Foreign currency translation reserve.

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

(27) COMMITMENTS AND CONTINGENT LIABILITIES

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

Commitments-

	30 June 2019	30 June 2018
Loans committed but not disbursed at year end	29,222,364,030	32,811,893,923
Bond commitment	751,094,580	13,200,000,000
Construction Commitment	7,938,596,024	357,445,612
	37,912,054,634	46,369,339,535

Contingent liabilities-

	30 June 2019	30 June 2018
Letter of credit	45,264,044,513	38,761,278,563
Guarantees	23,005,986,916	23,390,719,336
	68,270,031,429	62,151,997,899

Nature of contingent liabilities

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

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

(28) RELATED PARTIES

(a) Remuneration of key management personnel-

Key management members received the following remuneration during the years ended 30 June 2019 and 2018:

	30 June 2019	30 June 2018
Short-term benefits	10,813,029	11,150,346
Post-employment benefits	843,751	633,892

Compensation of the Group's key management personnel includes salaries, housing allowance, fuel allowance representation amounts and bonuses. These amounts are also included in non-interest expenses within salaries and wages.

(b) Transactions with key management personnel-

Key management members entered into the following transactions:

	30 June 2019	30 June 2018
Loans granted	18,741,814	7,156,290

COMMERCIAL BANK OF ETHIOPIA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(28) Related Parties (Continued)

The loans issued to process council members granted are secured against the property being acquired by the borrower. At the end of each reporting period the Group performs an impairment assessment on the outstanding balances and provides an allowance for impairment losses at the reporting date. No impairment losses have been recorded against loan balances with key management personnel as at 30 June 2019 (2018: Nil).

(c) Related party transactions-

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions. These transactions include loans, deposits and foreign currency transactions. The volumes of the related party transactions, outstanding balances at the end of the year and the related expenses and incomes for the year are as follows:

	30 June 2019	30 June 2018
<i>a. Expense:</i>		
Interest expense paid to associates	5,160,317	14,113,916
<i>b. Balances due to group companies:</i>		
Associate entity	83,351,690	219,024,378

(29) RESTATEMENTS

Adjustments are to correct errors in the following items.

(i) Consolidated Statement of Financial Position

For the year ended 30 June 2018

	As previously reported ETB	Adjustment ETB	As Restated ETB
Property, Plant and Equipment- July 1, 2017 (opening balance)	9,501,165,623	(1,786,979,531)	7,714,186,092
Property, Plant and Equipment - June 30, 2018	11,157,871,470	(1,634,336,513)	9,523,534,957
Other Asset- June 30, 2018	5,765,660,670	1,634,336,513	7,399,997,183

The above mentioned amounts representing advances paid for construction was erroneously included in Property, Plant and Equipment under Work in Progress sub category. The advance amount paid for the work not yet executed is now adjusted and reclassified to Prepaid for Construction account under Other Assets.

COMMERCIAL BANK OF ETHIOPIA
SEPARATE STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019
(IN ETHIOPIAN BIRR)

		30 June 2019	30 June 2018
	Note		
Interest Income	32	45,675,248,719	37,328,626,517
Interest Expense	32	(20,056,806,627)	(14,750,708,706)
Net interest income		25,618,442,092	22,577,917,811
Impairment losses on financial instruments		(3,267,965,350)	(1,547,644,864)
Net interest income after provisions		22,350,476,742	21,030,272,947
Gain/loss on foreign currency transactions		475,260,518	(3,847,185,511)
Gain (loss) on Equity inv in subsidiaries and associates	39	87,619,438	149,152,902
Non-interest income	33	7,631,373,237	5,157,818,725
Non-interest expense	33	(14,902,437,794)	(12,529,277,021)
Profit before tax		15,642,292,141	9,859,637,542
Income tax	50	(4,155,991,695)	(4,556,975,091)
Profit for the year		11,486,300,446	5,302,662,451
<i>Items that will never be reclassified to profit or loss:</i>			
Remeasurement of defined benefit liability		(281,396,652)	97,956,419
Related tax		84,418,995	(29,386,926)
		(196,977,657)	68,569,493
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Unrealized (loss)/gain arising from measurement at fair value		39,446,716	67,149,663
Related tax		(11,834,015)	(21,774,310)
		27,612,701	47,004,764
Other comprehensive income (Loss), net of tax		(169,364,956)	115,574,258
Total comprehensive income		11,316,935,489	5,418,236,708

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

COMMERCIAL BANK OF ETHIOPIA
SEPARATE STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 JUNE 2019
(IN ETHIOPIAN BIRR)

		30 June 2019	30 June 2018As Restated
Assets	Note		
Cash and cash equivalent	34	84,879,801,308	51,583,168,082
Debt & Equity securities	35	395,195,378,559	319,067,807,014
Loans and advances to customers, net	36	197,364,804,056	172,688,434,731
Loans to micro-finance institutions, net	37	506,532,587	307,167,397
Receivables	38	7,674,366,152	7,247,631,192
Investments in subsidiaries and associates	39	2,072,992,252	1,985,372,814
Non-current assets held for sale	40	1,007,145,000	1,076,726,564
Investment property	41	22,099,692	23,135,132
Property, plant and equipment, net	42	11,044,886,245	9,420,941,849
Intangible assets, net	43	179,150,155	39,662,818
Other assets	44	7,165,225,093	7,146,030,543
Right of use asset	45	2,943,552,721	2,490,364,421
Deferred tax asset	50	2,600,565,454	743,741,424
Total assets		712,656,499,274	573,820,183,981
Liabilities			
Deposits due to other banks		532,015,977	1,191,260,217
Customers' deposits	46	540,962,651,409	450,752,000,493
Current tax liabilities	50	5,940,230,745	2,691,985,867
Provisions	47	653,913,365	629,298,696
Finance lease obligations	45	293,912,339	294,845,173
Dividend		8,683,368,689	5,343,106,150
Employee benefits	48	2,755,948,146	1,933,933,141
Other liabilities	49	102,590,085,755	63,662,267,535
Total Liabilities		662,412,126,424	526,498,697,272
Equity	51		
Capital		40,000,000,000	40,000,000,000
Legal reserve		9,645,981,642	6,774,406,532
Statutory Reserve		886,658,840	666,432,050
IFB reserve		1,057,658	608,463
Fair value reserve		125,424,189	97,811,488
Remeasurement of defined benefit liability		(414,749,480)	(217,771,824)
Total equity		50,244,372,849	47,321,486,709
Total liabilities and equity		712,656,499,274	573,820,183,981

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

COMMERCIAL BANK OF ETHIOPIA
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019
(IN ETHIOPIAN BIRR)

	Capital	Legal reserve	Statutory Reserve	IFB Reserve	Accumulated profit or loss	Fair value reserve	Remeasurement of defined benefit liability	Total Equity
Balance as of 30 June 2017	40,000,000,000	4,993,410,101		608,443	-	50,806,724	(286,341,317)	44,758,483,951
Opening Adjustment					1,821,479,083			1,821,479,083
Total comprehensive income								
Profit for the year	-	-		-	5,302,662,450	-	-	5,302,662,451
Other comprehensive income	-	-		-	-	47,004,764	68,569,493	115,574,258
Transfer to/(from) IFB reserve	-	-		20	-	-	-	20
Transfer to/(from) Statutory reserve	-	-	666,432,050	-	-	-	-	666,432,050
Transfer to/(from) legal reserve	-	1,780,996,430		-	(1,781,035,383)	-	-	(38,953)
Dividends	-	-		-	(5,343,106,150)	-	-	(5,343,106,150)
Balance as of 30 June 2018	40,000,000,000	6,774,406,532	666,432,050	608,463	-	97,811,488	(217,771,824)	47,321,486,709
Opening Adjustment								
Total comprehensive income								
Profit for the year					11,486,300,446	27,612,701	(196,977,656)	11,486,300,446
Other comprehensive income				449,195				449,195
Transfer to/(from) IFB reserve								
Transfer to/(from) Statutory reserve			220,226,790					220,226,790
Transfer to/(from) legal reserve		2,871,575,111			(2,871,575,111)			-
Dividends					(8,614,725,334)			(8,614,725,334)
Balance as of 30 June 2019	40,000,000,000	9,645,981,643	886,658,840	1,057,658	-	125,424,189	(414,749,480)	50,244,372,849

COMMERCIAL BANK OF ETHIOPIA
SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019
(IN ETHIOPIAN BIRR)

	30 June 2019	30 June 2018As Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	15,642,292,141	9,859,637,542
Adjustment		
Impairment of loans and advance and suspense account	3,267,965,350	1,547,644,864
Allowance for Placement with other Banks	105,497,161	-
Provision against Non current asset held for sale	(11,320,808)	970,287
Depreciation and amortization	2,058,223,984	1,665,704,929
Income from subsidiary and associate recognized in profit or loss	(118,158,100)	(48,008,402)
Loss (Gain) on Disposal of Property, Plant and Equipment	144,382	(564,998)
Finance lease charge	9,646,840	9,207,735
	20,954,290,950	13,034,591,956
Movement in working capital		
Change in debt and equity security	(76,088,124,830)	(58,295,984,741)
Change in Loans and advances	(28,143,699,864)	(21,973,480,929)
Change in receivables	(206,508,168)	(1,951,234,067)
Change in Non Current Asset Held for Sale	80,902,372	(1,682,496)
Change in other assets	(19,194,550)	667,126,839
Change in Restricted cash	(3,849,590,000)	(5,708,650,000)
Change in customers' deposits	90,211,100,111	86,652,387,347
Change in provisions	24,614,669	103,583,126
Change in employee benefits	540,618,352	1,128,906,133
Change in other liabilities	41,003,355,424	(5,288,592,234)
	44,507,764,467	8,366,970,935
Cash generated from operations		
Income taxes paid	(2,691,985,867)	(5,292,579,150)
Net cash generated by operating activities	41,815,778,600	3,074,391,784

COMMERCIAL BANK OF ETHIOPIA
SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019
(IN ETHIOPIAN BIRR)

CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property ,plant and equipment	(2,823,612,122)	(2,908,499,318)
Proceeds from disposal of property, plant and equipment	-	4,379,863
Payments for Investments	30,538,663	(22,718,972)
Payment for intangibles	(201,834,307)	-
Payment right of use assets	(1,206,267,333)	(1,176,420,933)
Net cash used in investing activities	(4,201,175,100)	(4,103,259,360)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash included in assets acquired		
Dividend paid	(7,350,000,000)	(5,575,654,069)
Finance lease obligation paid	(52,818,872)	(42,293,895)
Net cash outflow from financing activities	(7,402,818,872)	(5,617,947,963)
Increased (decrease) in cash and cash equivalents	30,211,784,628	(6,646,815,539)
Cash and cash equivalents at the beginning of the year	19,111,336,246	25,758,151,784
Cash and cash equivalents at the end of the year	49,323,120,874	19,111,336,246
Cash and cash equivalents comprise		
Cash in hand	7,819,954,484	6,186,281,992
Balance with National Bank of Ethiopia	37,985,291,500	12,181,985,574
Placement with other banks	4,007,379,557	1,926,565,748
Deposit due to other banks	(532,015,976)	(1,191,260,217)
Cash In transit	42,511,309	7,763,148
Cash and cash equivalents	49,323,120,874	19,111,336,246

(30) FINANCIAL RISK REVIEW

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

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

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

Risk management framework

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

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

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

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

a. Credit Risk

Refer page number (48-66)

(30) Financial Risk Review - (Continued)

b. Liquidity risk

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

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

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

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

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

	30 June 19	30 June 18
Loans and advances to customers	197,364,804,056	172,995,602,128
Deposits from customers	540,962,651,409	450,752,000,493
Advances to deposits ratio	36.49%	38%

(30) Financial Risk Review - (Continued)
b. Liquidity risk - (Continued)

The table below summarizes the Bank's liquidity risk as at 30 June 2019 and 30 June 2018, categorized into relevant maturity groupings based on the earlier of the remaining contractual maturities.

Amounts in Million Birr

	30 June 2019	Upto 1 month	1-3 months	3 month upto 1 year	1-3 years	Over 3 years	Non-Maturity Items	Total
I. Assets								
On balance sheet								
Cash and balances with NBE	55,193		129	581	1	16,314	-	72,218
Placements with other banks	12,767		-	-	-	-	-	12,767
Loans and advances to banks	1		27	197	270	12	-	507
Loans and advances to customers	9,562		17,346	21,486	48,174	100,797	-	197,365
Receivables	4,829		867	1,768	-	-	-	7,674
Investment in subsidiary	-		-	-	-	-	1,928	1,928
Investment in associates	-		-	-	-	-	140	140
Debt Securities	1,374		5,495	18,160	72,227	298,301	183	395,557
A. Total Assets	83,726		23,864	42,192	120,672	415,424	2,068	688,156
II. Liabilities								
On balance sheet								
Deposits due to other banks	166		-	-	-	366	-	532
Customers' deposits	40,730		10,129	12,301	40	477,763	-	540,963
Current Tax Liability			5,939	-	-	-	-	5,939
Other liabilities	708		16,112	5,287	-	106	80,377	102,590
B. Total liabilities	41,604		32,180	17,588	40	478,235	80,377	650,024
C. Net liquidity Gap (A-B) as at 30 June 2019	42,122		(8,316)	24,604	120,632	(62,811)	(78,309)	38,132
Cumulative Gap as at 30 June 2019	42,122		33,806	58,410	179,042	116,231	38,132	

(30) Financial Risk Review - (continued)

b. Liquidity risk - (Continued)

30 June 2018	Upto 1 month	1-3 months	3 month upto 1 year	1-3 years	Over 3 years	Non-Maturity Items	Total
I. Assets							
On balance sheet							
Cash and balances with NBE	24,372	129	581	1	16,314	-	41,396
Placements with other banks	10,020	-	-	167	-	-	10,187
Loans and advances to banks	3	20	85	163	37	-	307
Loans and advances to customers	5,947	18,057	20,685	30,157	97,842	-	172,688
Receivables	4,612	867	1,768	-	-	-	7,247
Investment in subsidiary	-	-	-	-	-	1,872	1,872
Investment in associates	-	-	-	-	-	113	113
Debt Securities	1,374	5,495	18,160	72,227	221,644	-	318,900
A. Total Assets	46,326	24,568	41,279	102,715	335,838	1,985	552,710
II. Liabilities							
On balance sheet							
Deposits due to other banks	166	-	-	-	1,026	-	1,191
Customers' deposits	35,965	2,418	11,621.82	13	400,439	-	450,752
Current Tax Liability	-	2,692	-	-	-	-	2,692
Other liabilities	708	16,112	5,287	-	106	41,447.99	63,662
B. Total liabilities	36,838	21,222	16,909	13	401,571	41,448	518,297
C. Net liquidity Gap (A-B) as at 30 June 2018	9,488	3,346	24,369	102,702	(65,733)	(39,463)	34,412
Cumulative Gap as at 30 June 2018	9,488	12,834	37,204	139,906	74,172	34,709	

(30) Financial Risk Review - (Continued)

b. Liquidity risk - (Continued)

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

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

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

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

c. Market risk

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

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

Interest rate risk:

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

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

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

(30) Financial Risk Review - (Continued)

c. Market risk - (Continued)

Exposure to interest rate risk

(Amounts in Million Birr)

30 June 2019	Effective Interest Rate	Upto 1 month	1-3 months	3 month upto 1 year	1-3 years	Over 3 years	Non -interest Sensitive Items	Total
I. Assets								
A. Interest Rate Sensitive Assets								
Cash & Balances with NBE	-	129	581	1	16,314	0	55,193	72,218
Placements with other Banks	0.07%	12,767	-	-	-	-	-	12,767
Loans and Advances to Banks	5.40%	0.77	26.97	197	270	11.96	-	507
Loans and Advances to Customers	8.30%	9,562	17,346	21,486	48,174	100,797	-	197,365
Debt Securities	5.40%	1,374	5,495	18,160	72,227	298,301	-	395,557
Total Rate Sensitive Assets		23,833	23,449	39,844	136,985	399,110	55,193	678,400
II. Liabilities								
B. Rate Sensitive Liabilities								
Deposits Due to other Banks	4.74%	166	-	-	-	366	-	532
Customers' Deposits		40,730	10,129	12,301	40	477,763	-	540,963
Total Rate sensitive liabilities		40,896	10,129	12,301	40	478,129	0	541,495
C. Rate Sensitive Gap		(17,063)	13,320	27,543	136,945	(79,019)	55,193	136,905
Cumulative Rate Sensitive Gap		(17,063)	(3,743)	23,800	160,745	81,725	136,918	273,823
Adjusted Interest Rate Change		0.14	0.25	1.5	1	1	-	-
Relative Gap Ratio (RSG to Total Asset)		-3.88	0.9	0.78	1	-0.26	-	-
Total Asset		7,430	23,594	33,781	102,614	308,691		

(30) Financial Risk Review - (Continued)

c. Market risk – (Continued)

Exposure to interest rate risk

Amounts in Million Birr

30 June 2018	Effective Interest Rate	Upto 1 month	1-3 months	3 month upto 1 year	1-3 years	Over 3 years	Non -interest Sensitive Items	Total
I. Assets								
A. Interest Rate Sensitive Assets								
Cash & Balances with NBE		-	-	-	-	-	41,396	41,396
Placements with other Banks	0.07%	-	-	167	-	-	9,989	10,156
Loans and Advances to Banks	5.40%	3	20	85	163	35		305
Loans and Advances to Customers	8.30%	5,947	18,057	20,327	30,157	97,842		172,330
Debt Securities	5.40%	1,374	5,495	18,160	72,227	221,597	47	318,900
Total Rate Sensitive Assets		7,324	23,572	38,739	102,547	319,474	51,432	543,087
II. Liabilities								
B. Rate Sensitive Liabilities								
Deposits Due to other Banks	4.74%	166	-	-	-	1,010		1,191
Customers' Deposits		35,965	2,418	12,408	13	399,949	-	450,752
Total Rate sensitive liabilities		36,131	2,418	12,408	13	400,974	-	451,943
C. Rate Sensitive Gap		(28,807)	21,154	26,331	102,534	(81,500)	51,432	91,144
Cumulative Rate Sensitive Gap		(28,807)	(7,653)	18,679	121,213	39,713	-	-
Adjusted Interest Rate Change		0.14	0.25	1.50	1.00	1.00		
Relative Gap Ratio (RSG to Total Asset)		(3.88)	0.90	0.78	1.00	(0.26)		
Total Asset		7,430	23,594	33,781	102,614	308,691		

(30) FINANCIAL RISK REVIEW - (Continued)

(c.) Market risk – (Continued)

(a) Exchange rate risk:

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

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

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

30 June 2019	USD	Euro	GBP	Other	Total
ASSETS					
Cash, deposits and advances to banks	11,609,452,032	58,386,216	334,983,007	188,497,677.57	12,191,318,932
Loans and advances to customers	-	-	-	-	-
Other assets	73,688,620	32,882,938	-	19,378	106,590,935
Related parties	-	-	-	-	-
At 30 June 2019	11,683,140,652	91,269,153	334,983,007	188,517,055	12,297,909,867
LIABILITIES					
Deposits from banks	167,086,822	263,147,430	65,004.00	10,895,232	441,194,488
Deposits from customers	25,063,459,231	956,565,024	88,892,954	54,827	26,108,972,037
Other liabilities	-	-	-	-	-
Related parties	-	-	-	-	-
At 30 June 2019	25,230,546,053	1,219,712,454	88,957,958	10,950,060	26,550,166,525
Net statement of position exposure	(13,547,405,402)	(1,128,443,300)	246,025,049	177,566,996	(14,252,256,658)

(30) Financial Risk Review - (Continued)

(c.) Market risk – (Continued)

30 June 2018	USD	Euro	GBP	Other	Total
ASSETS					
Cash, deposits and advances to banks	9,051,391	26,405	22,016	180,284.67	9,280,096
Loans and advances to customers	-	-	-	-	-
Other assets	187,604	25,446	-	1,291	214,341
Related parties	-	-	-	-	-
At 30 June 2018	9,238,995	51,851	22,016	181,575	9,494,437
LIABILITIES					
Deposits from banks	677,636	354,079	62	-	1,031,777
Deposits from customers	2,660,312	21,485	805	-	2,682,601
Other liabilities	9,722,226	9,393	6,710	-	9,738,330
Related parties	12,302,074	571,894	51,446	52	12,925,466
At 30 June 2018	25,362,247	956,851	59,024	52	26,378,174
Net statement of position exposure	(16,123,252)	(905,000)	(37,008)	181,523	(16,883,737)

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonable possible change in the value of Birr when measured against the US dollar as at 30 June 2019, with all other variables held constant, of the Bank's profit before tax (due to changes in the fair value of monetary assets and liabilities). The stress test analysis is based projected movements of Birr against the US dollar since more than 95% of the Bank's foreign currency assets and liabilities are denominated in dollars. On average, the US dollar has appreciated at a rate of 5% against birr every year during the previous periods.

For the stress testing, 5% appreciation of dollar against ETB has taken in anticipation of the trend continuing. The analysis assumes that all the other variables, in particular interest rates, remain constant.

(30) Financial Risk Review - (Continued)

(c.) Market risk – (Continued)

Items	30 June 2019			30 June 2018		
	Currency Carrying Amount	5% depreciation	5% appreciation	Currency Carrying Amount	5% depreciation	5% appreciation
USD	11,683,140,652	11,381,220,648	12,579,243,874	9,240,267,000	8,778,253,650	9,702,280,350
EUR	91,269,153	107,661,211	118,993,970	51,851,000	49,258,450	54,443,550
GBP	334,983,007	317,541,600	350,967,031	22,016,000	20,915,200	23,116,800
	12,109,392,812	11,806,423,459	13,049,204,875	9,314,134,000	8,848,427,300	9,779,840,700
Liabilities		-	-			
USD	25,230,546,053	25,540,721,211	28,229,218,180	24,941,978,000	23,694,879,100	26,189,076,900
EUR	1,219,712,454	1,393,775,693	1,540,488,924	1,107,556,000	1,052,178,200	1,162,933,800
GBP	88,957,958	75,254,722	83,176,272	131,671,000	125,087,450	138,254,550
	26,539,216,465	27,009,751,627	29,852,883,377	26,181,205,000	24,872,144,750	27,490,265,250
Total (decrease) increase from major Currencies	(14,429,823,653)	(15,203,328,168)	(16,803,678,502)	(16,867,071,000)	(16,023,717,450)	(17,710,424,550)

At 30 June 2019 if the Birr had weakened by 5% against the major trading currencies, with all other variables held constant, net profit would have decreased by ETB 15,203,328,168 (2018: ETB 16,023,717,450) while a strengthening by 5% would have resulted in an increase in profit by ETB 16,803,678,502 (2018: ETB 17,710,424,550).

d. Operational Risk Management

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

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

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

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

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

(30) Financial Risk Review - (Continued)

d. Operational Risk Management - (Continued)

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

e. Capital management

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

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

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

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

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

The Bank and its individually regulated subsidiaries have met with all of the external capital requirements to which they are subject. As of 30 June 2019, and 30 June 2018 respectively, the Bank's regulatory capital position was as follows:

	30 June 2019	30 June 2018
Capital - Level 1		
State Capital	40,000,000,000	40,000,000,000
Legal Reserves	9,645,981,642	6,774,406,532
IFB Reserve	1,057,658	608,463
Statutory Reserve	886,658,840	666,432,250
Fair value reserve	125,424,189	97,811,488
Re-measurement of Defined benefit liability	(414,749,481)	(217,771,824)
Total	50,244,372,849	47,321,486,709
	183,360,128,864	156,086,484,858
Total regulatory capital / risk weighted assets	27.40%	30%

(31) FAIR VALUE OF FINANCIAL INSTRUMENTS

a. Accounting classifications

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

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

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

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

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

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

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

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

(31) Fair Value Of Financial Instruments - (Continued)

a. Accounting classifications

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

	30 June 2019	Amortized Cost	FVOCI	FVTPL	Total carrying amounts	Fair value			Fair value
						Level 1	Level 2	Level 3	
		ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB
Financial Instruments									
Financial Assets:									
Cash and Balances with NBE		72,217,918,912			72,217,918,912				72,217,918,912
Placement with other Banks		12,767,379,557			12,767,379,557				12,767,379,557
Loans and advances to customers		197,364,804,056			197,364,804,056				197,364,804,056
Loans to micro-finance institutions		506,532,587			506,532,587				506,532,587
Debt Securities		395,557,276,584			395,557,276,584				395,557,276,584
Receivables		7,674,366,152			7,674,366,152				7,674,366,152
Investment in Associates			140,067,243		140,067,243		140,067,243		140,067,243
Investment in Subsidiaries			2,076,764,710		2,076,764,710		2,076,764,710		2,076,764,710
Total financial assets		686,088,277,848	2,216,831,953	-	688,305,109,801		2,216,831,953		688,305,109,801
Financial liabilities:									
Deposits due to other banks		532,015,976			532,015,976				532,015,976
Customers' deposits		540,962,651,409			540,962,651,409				540,962,651,409
Total financial liabilities		541,494,667,384	-	-	541,494,667,384				541,494,667,384

(31) Fair value of financial instruments - (Continued)

a. Accounting classifications (continued)

	Amortized Cost	FVOCI	FVTPL	Total carrying amounts	Fair value		
					Level 1	Level 2	Level 3
30 June 2018	ETB	ETB	ETB	ETB	ETB	ETB	Fair value
Financial Instruments							
Financial Assets:							
Loans and advances to customers	172,687,492,850	-	-	172,687,492,850	-	172,687,492,850	172,687,492,850
Loans to micro-finance institutions	307,167,397	-	-	307,167,397	-	307,167,397	307,167,397
Debt Securities	318,886,370,014	-	-	318,886,370,014	-	318,886,370,014	318,886,370,014
Receivables	8,380,417,594	-	-	8,380,417,594	-	8,380,417,594	8,380,417,594
Investment in Associates		113,301,038	-	113,301,038	-	113,301,038	113,301,038
Total financial assets	500,261,447,856	113,301,038	-	500,374,748,894	-	500,374,748,894	500,374,748,894
Financial liabilities:							
Deposits due to other banks	1,176,699,445	-	-	1,176,699,445	-	1,176,699,445	1,176,699,445
Customers' deposits	450,680,917,749	-	-	450,680,917,749	-	450,680,917,749	450,680,917,749
Total financial liabilities	451,857,617,194	-	-	451,857,617,194	-	451,857,617,194	451,857,617,194

(31) Fair value of financial instruments - (Continued)

b. Valuation hierarchy:

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

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

(32) INTEREST INCOME AND EXPENSE

Interest income and expense are analyzed as follows:

Interest Income	30 June 2019	30 June 2018
Loans and advances to customers	20,488,381,750	17,731,963,831
Debt securities	25,186,866,970	19,536,539,681
Cash and cash equivalents	-	60,123,005
Accounts receivable	-	-
Total interest income	45,675,248,719	37,328,626,517

Interest expense	30 June 2019	30 June 2018
Depository obligations	20,056,806,627	14,728,623,886
Other obligations	-	22,084,820
Total interest expense	20,056,806,627	14,750,708,706

(33) NON-INTEREST INCOME AND EXPENSES

Non-Interest Income	30 June 2019	30 June 2018
Commissions	5,572,866,866	3,232,460,046
Bank services and transaction fees	1,010,027,907	792,585,639
Discount Earned on Securities	448,617,995	484,734,485
Other income	599,860,469	648,038,556
Total Non-Interest Income	7,631,373,237	5,157,818,725

Non-Interest Expense	30 June 2019	30 June 2018
Salaries and Employee Benefits	9,484,749,689	7,746,263,248
Impairment loss as per regulatory	220,226,791	408,318,158
Depreciation and Amortization	1,262,477,129	1,089,239,015
Deprecation Right of Use Asset	779,874,642	579,558,087
Advertising and publicity	86,650,628	359,544,446
Repairs and maintenance	171,970,306	153,468,320
Electronic data process	257,529,623	169,229,406
Stationery and office supplies	215,675,364	219,816,961
Discount Loss	448,617,991	439,821,560
Other expenses	1,974,665,631	1,364,017,820
Total non- interest expenses	14,902,437,794	12,529,277,021

COMMERCIAL BANK OF ETHIOPIA
NOTES TO SEPARATE FINANCIAL STATEMENTS

(34) CASH AND CASH EQUIVALENTS

		30 June 2019	30 June 2018
Cash on hand	ETB	7,819,954,484	6,186,281,993
Cash reserve with National Bank of Ethiopia		26,370,161,619	23,020,161,619
Placements with other banks		12,767,379,557	10,186,975,748
Payment and settlement accounts:			
- with National Bank of Ethiopia		37,985,291,500	12,181,985,574
Cash in Transit		42,511,309	7,763,148
		84,985,298,469	51,583,168,082
Allowance for impairment losses		(105,497,161)	
		84,879,801,308	51,583,168,082

The cash reserves is non-interest earning and is based on the value of deposits as adjusted for National Bank of Ethiopia requirements. At 30 June 2019 and 30 June 2018, the cash reserve requirement was 5%, for the two dates of the eligible deposits. These funds are not available to finance the Bank's day-to-day operations. Cash reserve and USD 300,000,000 deposit at EXIM Bank of China are not available to finance the Bank's day-to-day operations.

(35) DEBT AND EQUITY SECURITIES

		30 June 2019	30 June 2018
Debt Securities	ETB	394,970,505,559	318,884,870,014
Equity Securities		224,873,000	182,937,000
Debt and Equity Securities		395,195,378,559	319,067,807,014

i. Debt Securities

This account is comprised as follows:

		30 June 2019	30 June 2018
Debt securities	ETB	395,557,276,584	318,899,183,717
Allowance for Impairment Losses		(586,771,025)	(14,313,703)
		394,970,505,559	318,884,870,014

		30 June 2019	30 June 2018
Coupon bonds	ETB	59,089,939,870	48,421,766,805
Corporate bonds		313,493,304,392	247,843,891,977
Government securities		22,974,032,322	22,633,524,935
		395,557,276,584	318,899,183,717

(35) Debt and equity securities (Continued)

i. Debt securities – continued

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

Interest receivable	30 June 2019	30 June 2018
Coupon bonds	6,832,549,762	3,906,439,844
Corporate bonds	10,642,104,705	6,280,700,843
Government securities	3,686,183	7,087,216
Total	17,478,340,649	10,194,227,903

ii. Equity securities

	30 June 2019	30 June 2018
Ethswitch Share Company	26,802,000	11,326,000
African Export Import Bank	193,948,000	162,804,000
S.W.I.F.T. SCRL	4,123,000	8,807,000
	224,873,000	182,937,000

The change in the carrying amount of equity securities comprises:

	30 June 2019	30 June 2018
Ethswitch Share Company		
At 1 July at cost	11,326,000	12,002,000
Additions	-	-
Changes in fair value	15,476,000	(676,000)
	26,802,000	11,326,000

	30 June 2019	30 June 2018
African Export Import Bank		
At 1 July at cost	162,804,000	30,960,189
Additions	2,489,284	-
Changes in fair value	28,654,716	131,843,811
	193,948,000	162,804,000

	30 June 2019	30 June 2018
S.W.I.F.T. SCRL		
At 1 July at cost	8,807,000	244,114
Additions	-	-
Changes in fair value	(4,684,000)	8,562,886
	4,123,000	8,807,000

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(36) LOANS AND ADVANCES TO CUSTOMERS

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

	30-Jun-2019		
	Gross Amount	Allowance for loan losses	Total
Agriculture			
Term loan	11,279,617,574	(1,135,834,204)	10,143,783,370
Overdraft	25,642,735	(280,091)	25,362,644
Merchandise loan	10,789,750	(65,800)	10,723,950
	11,316,050,059	(1,136,180,095)	10,179,869,964
Manufacturing			
Term loan	113,761,673,521	(3,190,333,407)	110,571,340,114
Overdraft	2,480,859,693	(59,970,607)	2,420,889,086
Advance loan	1,043,878,971	(76,656,356)	967,222,615
Merchandise loan	9,300,000	(57,410)	9,242,590
	117,295,712,185	(3,327,017,781)	113,968,694,406
Domestic & Trade services			
Term loan	13,628,631,332	(1,373,140,800)	12,255,490,532
Overdraft	713,115,882	(33,321,485)	679,794,397
Advance loan	14,000,000	(97,265)	13,902,735
Merchandise loan	2,799	(1,719,175)	(1,716,376)
	14,355,750,013	(1,408,278,725)	12,947,471,288
International trade			
Term loan	3,675,267,025	(445,169,450)	3,230,097,575
Overdraft	1,151,331,575	(35,170,088)	1,116,161,487
Advance loan	14,422,176,802	(1,855,545,420)	12,566,631,382
Merchandise loan	1,000	(1,970)	(970)
IFB	574,114,510	(320,878,298)	253,236,212
	19,822,890,912	(2,656,765,225)	17,166,125,686
Building and construction			
Term loan	12,573,206,424	(399,974,049)	12,173,232,375
Overdraft	183,214,323	(5,696,631)	177,517,692
	12,756,420,747	(405,670,680)	12,350,750,067
Consumer Loan			
Term loan	20,012,259,571	(202,761,685)	19,809,497,886
	20,012,259,571	(202,761,685)	19,809,497,886
Total	195,559,083,487	(9,136,674,051)	186,422,501,436
Interest receivable on loan	10,942,394,760	-	10,942,394,760
Total	206,501,478,247	(9,136,674,191)	197,364,804,056

(36) Loans and advances to customers - (Continued)

		30 June 2018		
		Gross Amount	Allowance for loan losses	Carrying value
Agriculture				
Term loan	ETB	10,930,965,900	(1,057,902,877)	9,873,063,023
Overdraft		1,698,095	(125,512)	1,572,583
		10,932,663,995	(1,058,028,389)	9,874,635,606
Manufacturing				
Term & merchandise loan		100,274,546,613	(1,329,937,833)	98,944,608,780
Overdraft		1,487,820,607	28,222,039	1,459,598,568
		101,762,367,221	1,358,159,872	100,404,207,349
Domestic & Trade services				
Term loan		17,661,517,351	(1,943,503,885)	15,718,013,466
Overdraft		492,809,062	(8,688,530)	484,120,532
		18,154,326,413	(1,952,192,415)	16,202,133,998
International trade				
Term loan & Advance loan		19,106,855,329	(591,387,684)	18,515,467,644
Overdraft		1,477,219,328	(19,735,950)	1,457,483,378
		20,584,074,657	(611,123,634)	19,972,951,023
Building and construction				
Term loan		2,693,294,350	(202,242,571)	2,491,051,779
Overdraft		164,283,926	(3,878,260)	160,405,666
		2,857,578,275	(206,120,831)	2,651,457,444
Consumer Loan				
Term loan		17,718,063,809	(1,307,669,196)	16,410,394,613
Overdraft		-	-	-
		17,718,063,809	(1,307,669,196)	16,410,394,613
Interest receivable on loan		7,172,654,696	-	7,172,654,697
Total Loans		179,181,729,067	(6,493,294,337)	172,688,434,731

(36) Loans and advances to customers - (Continued)

Allowance for loan losses is as shown below:

		Allowance for loan losses
At 1 July 2017	ETB	6,876,244,805
IFRS 9 Adjustment		(1,880,040,516)
Impairment recognized during the year		1,497,090,047
At 30 June 2018		6,493,294,336
Impairment recognized during the year		2,647,339,116
Written off during the year		(3,959,261)
At 30 June 2019		9,136,674,191

(37) LOANS TO MICRO-FINANCE INSTITUTIONS

a. Classification

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

		30 June 2019	30 June 2018
Terms loans	ETB	499,693,683	303,056,655
Less: Allowance for loan losses		(92,140)	(27,420)
		499,601,543	303,029,235
Interest receivable on loan		6,931,044	4,138,162
Less: Allowance for loan losses		-	-
		6,931,044	4,138,162
		506,532,587	307,167,397

b. Impairment losses on loans and advances

		2018/19	2017/18
At 1 July	ETB	27,420	1,604,156
IFRS 9 Adjustment		-	(1,576,736)
Amounts recognized during the year		64,720	-
As at 30 June		92,140	27,420

(38) RECEIVABLES

		30 June 2019	30 June 2018 As Restated
Government receivables	ETB	1,639,240,381	1,630,861,639
Foreign receivables		653,596,351	526,970,942
Other receivables		2,627,108,541	2,136,811,862
Tax Receivable		872,004,980	326,482,083
Other advances		2,390,397,031	2,886,418,508
Staff loans – prepayments		806,228,080	1,008,619,153
		8,988,575,365	8,516,164,187
Less: Allowance for doubtful debts		(1,314,209,212)	(1,268,532,995)
		7,674,366,152	7,247,631,192

Allowance for doubtful debts:

	30 June 2019	30 June 2018
Balance as at 1 July	(1,268,532,995)	(1,540,980,541)
Adjustment as per IFRS 9	(53,284,986)	258,113,892
Doubtful debts written off during the year	7,608,768	4,001,987
Reduction (Addition) during the year	-	10,331,667
Balance as at 30 June	(1,314,209,212)	(1,268,532,995)

(39) INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries and associates as of 30 June 2019 and 2018 are as follows:

Subsidiaries:

		30 June 2019	30 June 2018
Commercial Nominees PLC (100% participation)	ETB	1,572,696,406	1,473,209,173
Commercial Bank of Ethiopia(CBE) South Sudan Limited (100% ownership)		247,095,507	252,672,276
Commercial Bank of Ethiopia (CBE) Djibouti Limited (100% ownership)		113,133,096	146,190,327
		1,932,925,009	1,872,071,776

Associates:

Ethiopian Reinsurance share co (20%)		140,067,243	113,301,038
		140,067,243	113,301,038
Total investments in subsidiaries and associates		2,072,992,252	1,985,372,814

(39) Investments in subsidiaries and associates – (Continued)

(a) Commercial Nominees plc

	30 June 2019	30 June 2018
Percentage ownership interest	100%	100%
Revenue (100%)	1,381,085,275	925,780,766
Total comprehensive income (100%)	99,487,233	143,473,750
CBE's share of total comprehensive income (100%)	99,487,233	143,473,750

(b) Commercial Bank of Ethiopia (CBE) South Sudan Limited

	30 June 2019	30 June 2018
Percentage ownership interest	100%	100%
Revenue (100%)	10,080,115	5,482,758
Total comprehensive income (100%)	(5,576,769)	(105,520,451)
CBE's share of total comprehensive income (100%)	(5,576,769)	(105,520,451)

(c) Commercial Bank of Ethiopia (CBE) - Djibouti Limited

	30 June 2019	30 June 2018
Percentage ownership interest	100%	100%
Revenue (100%)	845,515	26,722
Total comprehensive income (100%)	(18,024,623)	(5,673,138)
CBE's share of total comprehensive income (100%)	(18,024,623)	(5,673,138)

Investments in associates as of 30 June, 2019 and 2018 are as follows:

(d) Ethiopian Re-insurance Share Company

	30 June 2019	30 June 2018
Percentage ownership interest	20.00%	20.00%
Revenue (100%)	720,161,899	558,002,085
Total comprehensive income (100%)	133,831,025	78,641,207
CBE's share of total comprehensive income (20%)	26,766,205	15,728,241

(40) NON CURRENT ASSETS HELD FOR SALE

		2018/19		
Costs:		Building	Movable property	Total
At 1 July 2018	ETB	810,924,906	280,268,704	1,091,193,610
Acquisition		-	-	-
Transfer to property, plant and equipment		-	-	-
Sale/Disposal		(9,192,326)	(71,710,046)	(80,902,372)
Adjustment				
Total		801,732,580	208,558,658	1,010,291,238
Less Provisions:				
Impairment loss on acquired assets		(3,780,930)	(10,686,116)	(14,467,046)
Movement for the year		3,359,008	7,961,800	11,320,808
Closing balance		(421,922)	(2,724,316)	(3,146,238)
Non-current assets held for sale As at 30 June 2019		801,310,658	205,834,342	1,007,145,000

		2017/18		
Costs:		Building	Movable property	Total
At 1 July 2017	ETB	807,320,147	282,190,969	1,089,511,116
Acquisition		4,203,695	3,320,992	7,524,687
Transfer to property, plant and equipment		-	-	-
Sale/Disposal		(598,935)	(5,243,257)	(5,842,192)
Adjustment				
Total		810,924,907	280,268,704	1,091,193,611
Less Provisions:				
Impairment loss on acquired assets		(8,820,642)	(4,676,117)	(13,496,759)
Movement for the year		5,039,711	(6,009,999)	(970,288)
Closing balance		(3,780,931)	(10,686,116)	(14,467,047)
Non-current assets held for sale As at 30 June 2018		807,143,977	269,582,588	1,076,726,564

Some assets are kept under this category for more than a year. The delay for the sale is caused by a circumstance beyond the Bank's control and the Bank is still committed to sell these assets. Assets in this group are presented for auction at least once a year.

(41) INVESTMENT PROPERTY

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

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

	2019	2018
Balance as at 1 July	23,135,132	11,669,542
Addition		15,942,195
Accumulated Depreciation	(1,035,440)	(4,476,605)
Balance as at June 30	22,099,692	23,135,132

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

(42) PROPERTY, PLANT AND EQUIPMENT

	Balance at 01 July 2018 As Restated	Additions	Disposal	Reclassification	Balance at 30 June 2019
Cost					
Building	2,070,118,788	156,762,820	-	107,605,056	2,334,486,664
Computer and software	2,120,113,885	347,939,389	-	-	2,468,053,274
Fixtures, fittings and equipment	2,808,826,877	720,595,468	-	6,513,664	3,535,936,009
Motor vehicles	1,223,896,604	413,748,533	(572,636)	-	1,637,072,501
Work in progress	4,409,138,882	1,184,565,912	-	(114,118,720)	5,479,586,074
	12,632,095,035	2,823,612,122	(572,636)	0	15,455,134,522
Depreciation					
Building	(277,311,846)	(84,390,681)	-	-	(361,702,527)
Computer and software	(1,259,630,797)	(398,227,602)	-	-	(1,657,858,399)
Fixtures, fittings and equipment	(1,256,551,105)	(521,023,081)	-	-	(1,777,574,186)
Motor vehicles	(417,659,438)	(195,881,981)	428,254	-	(613,113,165)
	(3,211,153,186)	(1,199,523,344)	428,254	-	(4,410,248,277)
Net carrying amount	9,420,941,849	1,624,088,778	(144,382)	0	11,044,886,245

(42) Property, plant and equipment - (Continued)

	Balance at 01 July 2017 As Restated	Additions	Transfer	Disposal	Balance at 30 June 2018 As Restated
Cost					
Building	2,078,891,940	2,480,629	(11,253,781)	-	2,070,118,788
Computer and software	1,793,227,393	326,897,445	-	(10,953)	2,120,113,885
Fixtures, fittings and equipment	1,903,019,222	788,795,323	117,070,795	(58,463)	2,808,826,877
Motor vehicles	968,930,321	260,131,614	-	(5,165,331)	1,223,896,604
Work in progress	2,996,227,178	1,558,564,060	(144,279,421)	-	4,409,138,882
	9,740,296,054	2,936,869,071	(38,462,407)	(5,234,747)	12,632,095,035
Depreciation					
Building	(196,964,187)	(83,439,832)	3,092,173	-	(277,311,846)
Computer and software	(923,365,529)	(336,271,870)	-	6,601	(1,259,630,797)
Fixtures, fittings and equipment	(772,255,595)	(484,317,672)	-	22,162	(1,256,551,105)
Motor vehicles	(252,010,849)	(167,039,708)	-	1,391,119	(417,659,437.62)
	(2,144,596,160)	(1,071,069,082)	3,092,173	1,419,883	(3,211,153,186)
Net carrying amount	7,595,699,894	1,865,799,989	(36,743,170)	(3,814,865)	9,420,941,849

There were no capitalized borrowing costs related to the acquisition of property, plant and equipment during the year (2018: Nil).
Capital work in progress relates to construction of the CBE head office and branch optimization that was ongoing during the year.

(43) INTANGIBLE ASSETS

2019		Software
Cost	ETB	
Balance at 1 July 2018		239,829,346
Additions		201,834,307
Balance at 30 June 2019		441,663,653
Amortization and impairment		
Balance at 1 July 2018		(200,166,528)
Additions		(62,346,971)
Balance at 30 June 2019		(262,513,499)
Net carrying value		179,150,155

2018		Software
Cost	ETB	
Balance at 1 July 2017		239,829,346
Additions		-
Balance at 30 June 2018		239,829,346
Amortization and impairment		
Balance at 1 July 2017		(181,996,595)
Additions		(18,169,933)
Balance at 30 June 2018		(200,166,528)
Net carrying value		39,662,818

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

The amortization expense recognized within non-interest expense for the year ended 30 June 2019 was ETB 62,346,971 (2018: ETB 18,169,933).

(44) OTHER ASSETS

		30 June 2019	30 June 2018
Purchase in progress	ETB	643,798,322	145,191,334
Stationery and other supplies		487,153,632	315,758,107
IT expansion project		762,529,597	809,192,589
Prepaid		5,155,105,381	5,703,436,953
Others		116,638,161	172,451,560
		7,165,225,093	7,146,030,543

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(45) RIGHT OF USE ASSETS AND FINANCE LEASE OBLIGATIONS

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

a. Right-of-use assets:

2018/19	Land	Building	Total
Cost			
Balance at 01 July 2018	84,930,076	3,973,505,972	4,058,436,047
Adjustment	-	(189,173,821)	(189,173,821)
Additions	-	1,395,441,154	1,395,441,154
Balance at 30 June 2019	84,930,076	5,179,773,305	5,264,703,380
Depreciation			
Balance at 01 July 2018	(6,824,756)	(1,561,234,388)	(1,568,059,144)
Adjustment	-	26,795,609	26,795,609
Additions	(1,753,976)	(778,120,666)	(779,874,642)
Balance at 30 June 2019	(8,578,732)	(2,312,571,927)	(2,321,150,659)
Net carrying value	76,351,343	2,867,201,378	2,943,552,721
2017/18	Land	Building	Total
Cost			
Balance at 1 July 2017	84,930,076	2,750,444,559	2,835,374,634
Additions	-	1,223,061,413	1,223,061,413
Balance at 30 June 2018	84,930,076	3,973,505,972	4,058,436,047
Depreciation			
Balance at 1 July 2017	(5,070,779)	(983,442,760)	(988,513,540)
Additions	(1,753,976)	(577,804,110)	(579,558,087)
Balance at 30 June 2018	(6,824,756)	(1,561,246,871)	(1,568,071,626)
Net carrying value	78,105,320	2,412,259,101	2,490,364,421

(45) Right of Use Assets And Finance Lease Obligations - (Continued)

b. Finance Lease Obligation

	Land	Building	Total
Cost			
Balance at 1 July 2018	16,618,255	249,319,476	265,937,730
Adjustment	-	(31,447,231)	(31,447,231)
Addition	-	76,241,732	76,241,732
Payment	(3,266,345)	(49,552,526)	(52,818,871)
Balance at 30 June 2019	13,351,910	244,561,451	257,913,361
Interest expense			
Balance at 1 July 2018	9,225,306	19,682,138	28,907,443
Adjustment	-	(2,555,306)	(2,555,306)
Additions	2,076,189	7,570,652	9,646,840
Balance at 30 June 2019	11,301,494	24,697,484	35,998,978
Net carrying value	24,653,404	269,258,934	293,912,339
Cost			
Balance at 1 July 2017	19,887,739	241,703,404	261,591,143
Addition	-	50,987,066	50,987,066
Payment	(3,269,485)	(43,370,995)	(46,640,480)
Balance at 30 June 2018	16,618,254	249,319,475	265,937,729
Interest expense			
Balance at 1 July 2017	7,048,938	12,650,770	19,699,708
Additions	2,176,367	7,031,367	9,207,734
Balance at 30 June 2018	9,225,306	19,682,138	28,907,444
Net carrying value	25,843,560	269,001,613	294,845,173

The Bank recognizes a lease liability at the present value of the lease payments that are not paid at that date. The Bank uses an incremental borrowing rate that is based on the weighted average cost of deposits across the years. The rates used to compute the present values of buildings lease liabilities as at 30 June 2019 was 4.13% (2018: 3.58%). The rates used to compute the land lease liabilities as at 30 June 2019 was 8.50% (2018: 8.50%).

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

(45) Right of Use Assets And Finance Lease Obligations - (Continued)

The Bank leases land for construction of its own office buildings. The land leases typically run for a period of between 40 years and 99 years with majority of the contracts running for a period of 50 and 60 years. These leases include an option to renew the lease.

(46) CUSTOMERS' DEPOSITS

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

	30 June 2019	30 June 2018
Payable on demand		
Local and Central Government	76,480,169,354	59,141,556,119
Private sector and retail customers	74,155,301,120	62,878,118,980
Public enterprises and agencies	72,157,880,000	78,968,898,358
	222,793,350,474	200,988,573,457
Savings deposits		
Private sector and retail customers	261,904,237,267	217,003,569,251
Public enterprises and agencies	8,237,191,641	7,249,899,233
	270,141,428,908	224,253,468,484
Term deposits		
Public enterprises and agencies	15,415,213,397	12,708,511,144
Private sector and retail customers	2,164,339,605	2,462,878,862
Local and Central Government	6,000,000,000	-
	23,579,553,002	15,171,390,005
Blocked accounts	476,017,937	523,766,820
Interest free banking	23,972,301,088	9,814,801,727
All sectors	540,962,651,409	450,752,000,493

Payable on demand accounts represents deposits that are non-interest bearing. The weighted average effective interest rate on Savings deposits as at 30 June 2019 was 7% (2018: 7%). The weighted average effective interest rate on Term deposits as at 30 June 2019 was 7.2% (2018: 7.2%). Blocked accounts represent blocked current accounts and blocked savings accounts whose average effective interest rates as at 30 June 2019 were 0% and 7% respectively (2018: 0% and 7% respectively). Interest free banking represents deposits that are non-interest bearing.

(47) PROVISIONS

	Bonuses	Legal	Unutilized O/D,LC and Guarantee	Total
Balances at 30 June 2017	421,758,510	33,100,176	-	454,858,686
Increases (decrease) recorded in income	525,341,636	-	70,856,884	596,198,520
Provision used during the year	(421,758,510)	-	-	(421,758,510)
Balances at 30 June 2018	525,341,636	33,100,176	70,856,884	629,298,696
Increases (decrease) recorded in income	14,826,607	31,816,102	(22,028,040)	24,614,669
Provision used during the year	-	-	-	-
Balances at 30 June 2019	540,168,243	64,916,278	48,828,844	653,913,365

Bonus represent short-term benefits arising from past services provided by employees and are expected to pad within the next 12 months.

Legal provisions represent various claims that are pending outcome at the courts. These amounts are estimates of the likely legal claims that may not be ruled in the Bank's favor.

(48) EMPLOYEE BENEFITS

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

	2018/19	2017/18
DBO at 01 July	1,933,933,141	902,983,427
Current service costs	414,437,622	274,616,996
Interest cost	255,279,175	197,550,592
Past service cost for seniority recognition	43,214,562	2,927,601
Past service due to Plan Amendments	-	729,305,617
Payments for the year	(172,313,007)	(75,494,673)
Expense charged to income	2,474,551,493	2,031,889,560
Actuarial gains (losses) recognized in other comprehensive income	281,396,653	(97,956,419)
DBO at 30 June	2,755,948,146	1,933,933,141

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

(48) Employee Benefits - (Continued)

ii. Actuarial losses recognized in other comprehensive income

	2018/19	2017/18
Cumulative amount at 1 July	(217,771,824)	(286,341,317)
Recognized during the year	(281,396,652)	97,956,419
Deferred income taxes	84,418,996	(29,386,926)
Actuarial gains, net of taxes at June 30	(414,749,480)	(217,771,824)

iii. Actuarial assumptions

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

	30 June 2019	30 June 2018
Discount rate	13.20%	13.25%
Salary increase rate	14.00%	14.00%
Gold increase rate	4.00%	3.00%
Long term medical inflation rate	10.70%	10.70%
Long term inflation rate	8.70%	8.70%

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

iv. Sensitivity analysis

Reasonably possible changes at the reporting date, in any of the actuarial assumptions and assuming that all the other variables remain constant, would have affected the defined benefit obligations as of 30 June 2019 by the amounts shown below:

	2019		2018	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5% variance)	(157,374,954)	175,058,319	(116,791,781)	130,277,248
Salary increase rate (1.00% variance)	288,453,440	(240,085,261)	211,670,434	(175,737,954)

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

COMMERCIAL BANK OF ETHIOPIA
NOTES TO SEPARATE FINANCIAL STATEMENTS

(49) OTHER LIABILITIES

Other liabilities as of the reporting dates are as follows:

		30 June 2019	30 June 2018
Other Liabilities			
National Bank of Ethiopia	ETB	74,752,034,764	34,970,027,087
Margin accounts and deposits for guarantees		14,878,151,338	10,280,626,865
Payable to other banks		8,504,190,257	10,111,499,402
CPO's, telegraphic transfers and money transfers		2,230,997,378	3,635,176,508
Blocked accounts		278,669,657	182,252,113
Other taxes		265,220,258	337,722,177
Unearned income		274,792,463	121,004,137
Miscellaneous		1,406,029,642	4,023,959,246
Total		102,590,085,757	63,662,267,535

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

(50) INCOME TAXES

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

a) Reconciliation of effective tax rate

	30 June 2019	30 June 2018
Profit before tax	15,642,292,141	9,859,637,542
Blended statutory tax rate*	30%	30%
"Expected" tax expense	4,692,687,642	2,957,891,263
Non-deductible expenses	1,552,813,176	944,528,377
Allowed expenses	(246,134,866)	(753,289,906)
Tax-exempt income	(59,135,208)	(457,143,866)
Income tax Payable	5,940,230,745	2,691,985,867

For the year ended 30 June 2019, the Bank had an effective income tax rate of 37.98% (2018:27.30%).

b) Income tax expense

	30 June 2019	30 June 2018
Current Tax Payable	5,940,230,745	2,691,985,867
Deferred Tax Expense	(1,856,824,031)	761,290,060
Withholding tax Receivable	-	215,722
Related Tax -OCI	72,584,981	(49,531,826)
Tax Expense for prior periods salary & Benefit	-	1,153,015,267
	4,155,991,695	4,556,975,090

(50) Income Taxes - (Continued)

c) Income tax recognized directly in other comprehensive income

	30 June 2019			30 June 2018		
	Income tax	Before taxes	Net of taxes	Income tax	Before taxes	Net of taxes
Remeasurement of defined benefit liability	84,418,996	(281,396,653)	(196,977,657)	(29,386,926)	97,956,419	68,569,493
Unrealized (loss) gain arising from measurement at fair value	(11,834,015)	39,446,716	27,612,701	(20,144,899)	67,149,663	47,004,764

d) Recognized deferred tax assets and liabilities

At 30 June 2019 and 2018, the tax effects of temporary differences that give rise to significant portions of the deferred income tax assets are Loans & Advances, Receivables, PPE, Intangible & Other Assets, Provisions and Employees' Benefit.

Balance as of June 2018	743,741,424
Recognized in Profit & Loss	1,784,239,050
Recognized in Other Comprehensive Income	72,584,981
Balance as of June 2019	2,600,565,455
Balance as of June 2017	1,505,031,484
Recognized in Profit & Loss	(731,903,134)
Recognized in Other Comprehensive Income	(29,386,926)
Balance as of June 2018	743,741,424

(51) EQUITY

a) Capital

The Bank is owned by the government of the Federal Democratic Republic of Ethiopia, there are no shares. As of 30 June 2019, the Bank's capital was ETB 40,000,000,000 (2018: ETB 40,000,000,000).

b) Legal reserve account

The Legal reserve in accordance with the Directive No. SBB/4/95 issued by the National Bank of Ethiopia, every bank shall transfer annually 25% of its annual net profit as a legal reserve until such account equals its capital.

c) Statutory Reserve

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

(51) Equity - (Continued)

d) IFB reserve

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

e) Accumulated Profit/Loss

The profits/loss that the Bank has earned to date, less any dividends or other distributions paid.

f) Fair Value Reserve, Remeasurement of defined benefit liabilities and Foreign currency translation reserve

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

(52) COMMITMENTS AND CONTINGENT LIABILITIES

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

Commitments-

	30 June 2019	30 June 2018
Loans committed but not disbursed at year end	29,222,364,030	32,811,893,923
Bond commitment	751,094,580	13,200,000,000
Construction Commitment	7,938,596,024	357,445,612
	37,912,054,634	36,446,010,612

Contingent liabilities-

	30 June 2019	30 June 2018
Letter of credit	45,264,044,513	38,761,278,563
Guarantees	23,005,986,916	23,390,719,336
	68,270,031,429	62,151,997,899

(52) Commitments and Contingent Liabilities - (Continued)

Nature of contingent liabilities

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

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

(53) RELATED PARTIES

a) Remuneration of key management personnel

Key management members received the following remuneration during the year ended 30 June 2019 and 2018:

		30 June 2019	30 June 2018
Short-term benefits	ETB	12,091,439	11,150,346
Post-employment benefits		843,751	633,892
		13,638,666	11,784,238

Compensation of the Bank's key management personnel includes salaries, housing allowance, fuel allowance, representation amounts and bonuses. These amounts are also included in non-interest expenses within salaries and wages.

b) Transactions with key management personnel

Key management members entered into the following transactions:

		30 June 2019	30 June 2018
Loans granted	ETB	18,741,814	7,156,290

The loans to process council members are at a lower rate compared to the prevailing market rates and bear annual interest of 7%.

The loans issued to process council members granted are secured against the property being acquired by the borrower. Normal impairment losses have been recorded against balances outstanding during the period with key management personnel and specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the reporting date.

COMMERCIAL BANK OF ETHIOPIA
NOTES TO SEPARATE FINANCIAL STATEMENTS

(54) RESTATEMENTS

Adjustments are to correct errors in the following items.

Separate Statement of Financial Position

For the year ended 30 June 2018

	As previously reported ETB	Adjustment ETB	As Restated ETB
Property, Plant and Equipment- July 1, 2017 (opening balance)	9,382,679,425	(1,786,979,531)	7,595,699,894
Property, Plant and Equipment - June 30, 2018	11,055,278,362	(1,634,336,513)	9,420,941,849
Other Asset- June 30, 2018	5,511,694,030	1,634,336,513	7,146,030,543

The above mentioned amounts representing advances paid for construction was erroneously included in Property, Plant and Equipment under Work in Progress sub category. The advance amount paid for the work not yet executed is now adjusted and reclassified to Prepaid for Construction account under Other Assets.

(55) EVENTS AFTER THE REPORTING PERIOD

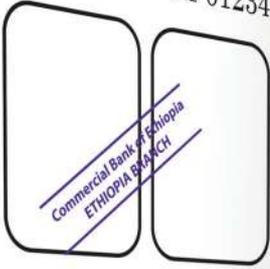
There were no material facts or circumstances that have occurred between the accounting date and the date of this financial statement that require disclosure in or adjustment to the financial statement.

This financial statement is authorized for issue by the President of the Bank on 17 July 2020.

Consolidated Financial Statement For the year ended 30 June 2019

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COMMERCIAL BANK OF ETHIOPIA

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Full Name

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Address

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Nationality

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Bank Official Signature
Commercial Bank of Ethiopia
ETHIOPIA



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