ANNUAL REPORT 2017/18

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Commercial Bank of Ethiopia

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የኢትዮጵያ ንግድ ባንክ
Commercial Bank of Ethiopia

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ፋክስ: 251 11 551 2166
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Contents

PROFILE

- Established in 1942.
- Pioneer in introducing Automated Teller Machine (ATM) to Ethiopia.
- Introduced Western Union Money Transfer Services to Ethiopia.
- Plays a catalytic role in the socio-economic development of Ethiopia.
- Had 1,287 branches across the country as at June 30, 2018.
- Strong correspondent relationship with about 44 renowned foreign banks, and SWIFT bilateral key arrangements with over 750 banks.
- Strong assets position of Birr 565.5 billion as of June 30, 2018.
- Combines wide capital base with more than 33,000 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.

Milestones in the history of

1942

The State Bank of Ethiopia (SBE), the forerunner of the Commercial Bank of Ethiopia,established in 1942 and started operation in April 1943 with 43 personnel of which many of them were foreigners. The bank used to function both as commercial and central bank.

1959

Ato Mennassie Lemma took over the governorship of the State Bank of Ethiopia from the last foreign governor G.P.Rea.

1963

The State Bank of Ethiopia (SBE), split into the Commercial Bank of Ethiopia (CBE) and National Bank of Ethiopia (NBE).

CBE was reestablished with 20 million Birr paid up capital, 22 branches and 850 employees of which 65 women.

1980

Addis Bank (the former Addis Ababa Bank merged with Banco di Roma and Banco di Napoli following the nationalization), and was integrated with the Commercial Bank of Ethiopia.

1984

The HQs of CBE moved into the current white circular building at La Gare area.

1995

CBE was restructured following the recommendation of group of experts from Addis Ababa University, banks and other sectors.

2001

Introduced autometed teller machine to the country.

Commercial Bank of Ethiopia

1966

The bank inaugurated a modern headquarters dubbed "Golden Building" with 4 million Birr. It generously shared the building with the National Bank of Ethiopia.

1972

President Tolbert of Liberia and Emperer Hailesellasie inaugurated CBE's bulding for its newly established subsidiary Housing and Saving Bank.

1974

The capital of CBE was revised and reached Birr 48.1 million and the number of brances increased to 93.

1975

Private banks were nationalized.

2008

The bank made fundamental internal restructuring by implementing Business Process Re-engineering (BPR)

2013

CBE launched Core Banking using T-24 systems.

2016

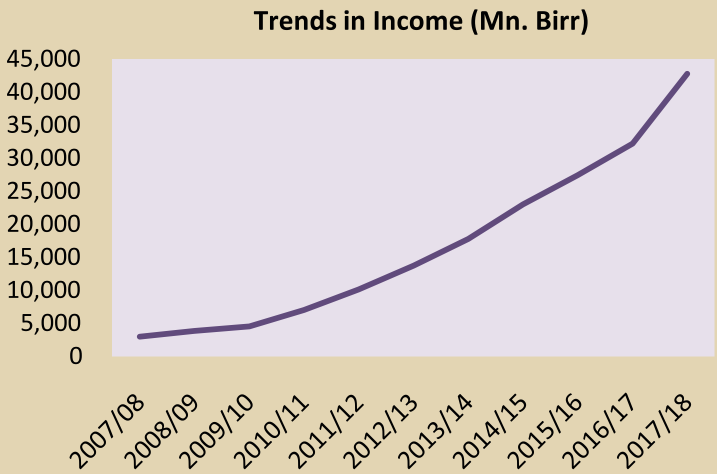
Construction & Business Bank, the former Housing & Saving Bank, merged with CBE.

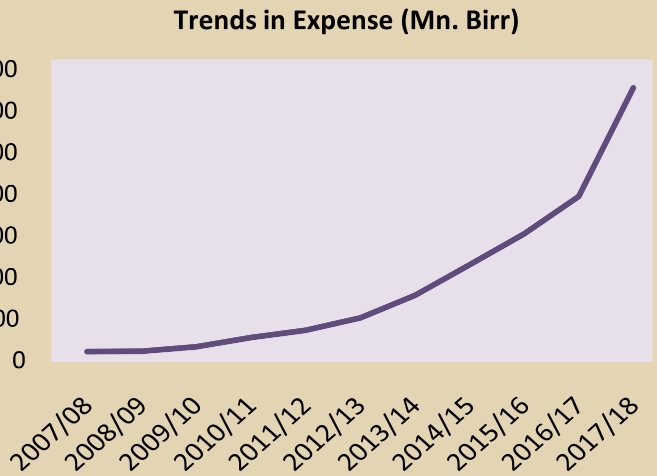
CBE decided to build a skyscraper with 46-story building, which is now under construction.

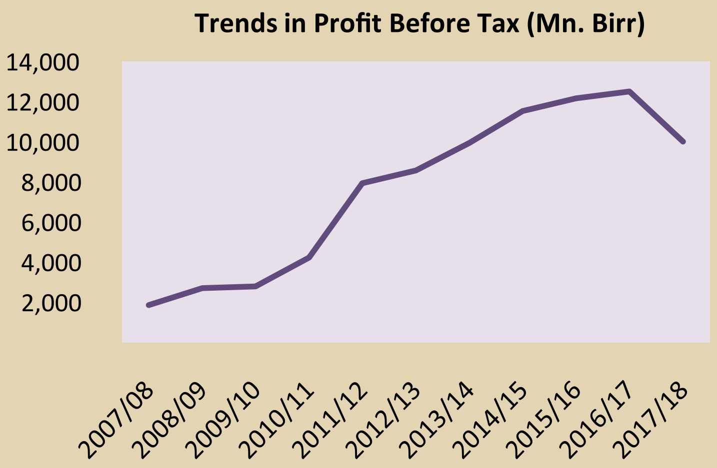
2018

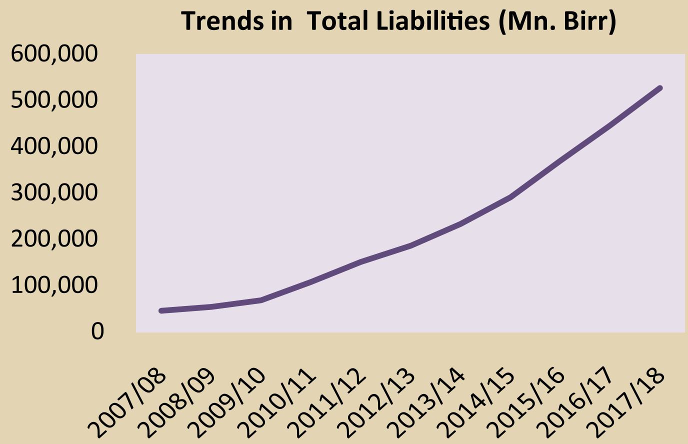
CBE celebrated 75th Anniversary colorfully.

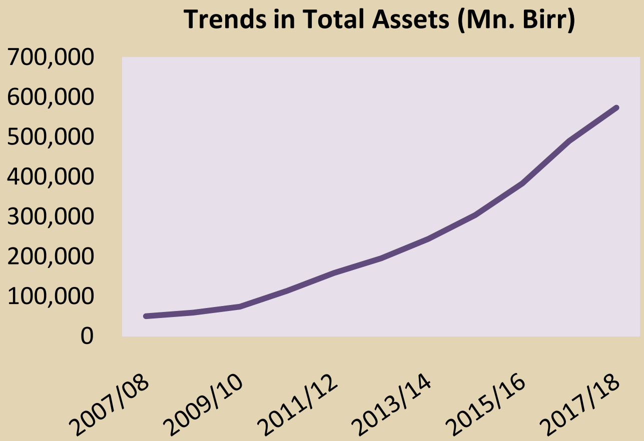
PERFORMANCE HIGHLIGHTS

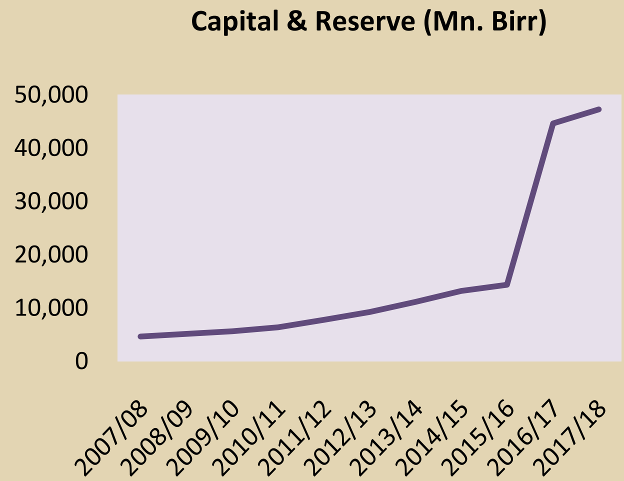


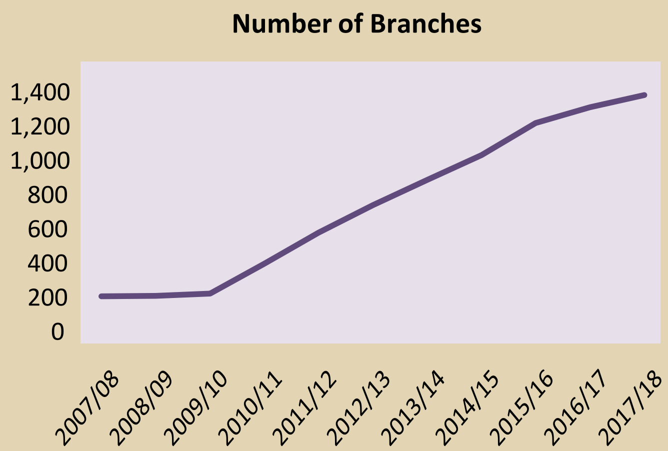


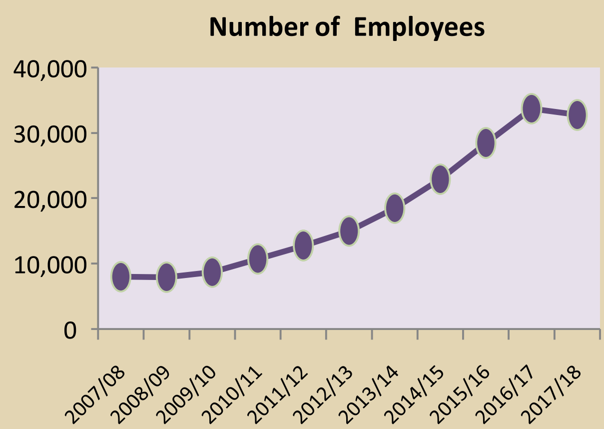



Trends in Total Liabilities (Mn. Birr)
600,000
500,000
400,000
300,000
200,000
100,000
0
2007/08
2008/09
2009/10
2010/11
2011/12
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18


Trends in Total Assets (Mn. Birr)
700,000
600,000
500,000
400,000
300,000
200,000
100,000
0
2007/08
2009/10
2011/12
2013/14
2015/16
2017/18


Capital & Reserve (Mn. Birr)
50,000
40,000
30,000
20,000
10,000
0
2007/08
2008/09
2009/10
2010/11
2011/12
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18


Number of Branches
1,400
1,200
1,000
800
600
400
200
0
2007/08
2008/09
2009/10
2010/11
2011/12
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18


Number of Employees
40,000
30,000
20,000
10,000
0
2007/08
2008/09
2009/10
2010/11
2011/12
2012/13
2013/14
2014/15
2015/16
2016/17
2017/18

COMMERCIAL BANK OF ETHIOPIA

BOARD OF

DIRECTORS

Fitsum Assefa (Ph.D)
Board Chairwoman

Wzo. Demitu Hambisa
Board Member

Ato Temesgen Tiruneh
Board Member

Abreham Belay (Ph.D)
Board Member

Ato Beyene G/Meskel
Board Member

Ato Admasu Nebebe
Board Member

Ato Mamo Esmelalem Mihretu
Board Member

Ato Nebiyou Samuel
Board Member

Eyob Tesfaye (Ph.D)
Board Member

EXECUTIVE MANAGEMENT

Ato Bacha Gina
President & CEO

Wzo. Melika Bedri
Chief Finance Officer

Ato Fikresilassie Zewdu
Chief Business Officer

Wzo. Tiruberhan Hailu
Chief Risk Officer

Ato Kidane Mengesha
A/Chief International Banking Officer

Ato Ali Ahmed
Chief Human Resource Officer

Ato Sura Saketa
Chief Legal Officer

Wzo. Makida Oumer
A/Chief Internal Auditor

Ato Amare Assefa
A/Chief Information System Officer

Bacha Gina

PRESIDENT & CEO

MESSAGE FROM THE PRESIDENT & CEO

The fiscal year 2017/18 was a special year for the Commercial Bank of Ethiopia (CBE). It was a year the bank marked its 75th anniversary. As a milestone in the bank's history, CBE celebrated the anniversary colorfully through series of events and activities.

Given the remarkable progress and transformation it has achieved, CBE has indeed every reason to celebrate. In the face of the numerous challenges the banking industry has been facing during the past 75 years, the Commercial Bank of Ethiopia has steadfastly maintained its leadership position.

Yet, I believe that this should not make us complacent. Instead, we need to be a forward-looking bank determined to sustain the leadership position for the years to come. We will have no better future if satisfied with the successes so far attained.

As usual, CBE has registered impressive gains in the fiscal year 2017/18. In June 2018, the bank recorded a gross profit of Birr 10 billion, which happened to be slightly lower than the previous fiscal year, largely caused by the 15% devaluation of the Birr that inflated its expenses by Birr 3.8 billion. Its overall income for the year was Birr 42.8 billion, which is 33% up compared to the previous year.

Credit demand in the economy remained robust and the bank gave a special focus on deposit mobilization. The bank's total deposit stood at 451.8 billion Birr reflecting a 24% growth over the preceding year deposit level. The growth is consistent with the increase in the number of customers, which reached 18.8 million at the end of the 2017/18 FY.

As was the case in the previous years, CBE also continued to play a leading role in introducing new products and implementing technology-based banking services. We are constantly leveraging technology that makes our customers' life easier by providing a variety of services, including CBE Birr, which is a mobile phone-based service.

In this same fiscal year, CBE started implementing a new organizational structure that is believed to bring about meaningful changes in effectiveness and efficiency of the bank. The new structure is tuned with the global banking sector that has become strategically focused and technologically advanced in order to meet the ever growing expectations of customers. As a bank with a vision of becoming a world-class bank, CBE is thus doing its level best to adjust with the fast changing global banking system. When celebrating its 75th anniversary, we are looking forward to the two decades and half when the bank turns centennial and the generation in charge will have fundamental reasons to celebrate a robust and world-class bank.

Cognizant of the dynamic nature of the banking business, the Commercial Bank of Ethiopia has continued to invest in its human resource development. Strengthening capabilities and capacities of its workforce through providing relevant and consistent training is among the priorities of the bank. New technologies demand new work skills and knowledge. In view of this, training and development are not options but obligations for the bank. This is because, CBE is well aware that its success is highly dependent on employees' productivity, which can be acquired and accelerated through developing their knowledge and skills. Though CBE has done commendable jobs on this front, much remains to be done given the ongoing progressive environment.

I grab this opportunity to express my gratitude to the Board of Directors without whose unreserved leadership and wisdom the accomplishment registered in the year under review would not have been possible. We sincerely appreciate the guidance they provided throughout the fiscal year. Most importantly, I also thank our customers for their loyalty, trust and support. CBE is aware that its customers are the reason for the continued success. Stay with us, we greatly value your trust. Besides, I thank employees of the bank for all the efforts and dedication you demonstrated and for the success registered.

Finally, I am confident that the years ahead will be more successful with the patronage of our valued customers and dedication of our workforce.

Thank you for supporting and working with CBE!
Bacha Gina

1. Global and Domestic Economic Highlights

1.1 Global Economy

Largely supported by a recovery in investment, the global economy registered the fastest growth in six years in 2017 at 3.8 percent. About two thirds of countries experienced stronger growth in 2017 than in the previous year (IMF: April 2018). Following a prolonged period of marked weakness, a cyclical recovery in global manufacturing and investment propelled global goods trade growth to 4.6% in 2017 and the momentum remained sustained in early 2018 (World Bank, June 2018).

After a prolonged period of stable global financing, a rise in global borrowing cost as well as volatility in global equity markets have also been observed since the start of 2018 due to fear of escalating trade tensions and geopolitical crises. Across the advanced economies, the growth is explained almost entirely by investment spending which remained weak for some time following the 2008-09 global financial crises. In emerging markets and developing economies, however, the economic surge in 2017 came primarily from acceleration in private consumption (Ibid).

Growth in the United States reached 2.3% in 2017 and the Euro area economy grew at 2.4% in 2017, its fastest increase since the financial crisis, reflecting strong consumption, investment and exports (Ibid). Growth in China reached 6.9% in 2017 and remained same in early 2018. Growth in emerging and developing economies accelerated to 4.3% in 2017 and has generally continued to be firm in the first half of 2018. According to the WB report, activities in emerging and developing economies, excluding China, have benefited from the recovery of global manufacturing, investment and trade.

The sub-Saharan economy has picked up in 2017 and in the first quarter of 2018. Regional GDP increased by 3% year-on-year in the first quarter of 2018 that surpassed the 2.8% expansion recorded in the fourth quarter of 2017. The acceleration came on the back of firmer commodity prices and healthier domestic demand (Focus Economics: July 2018).

In a nutshell, 2017 and early 2018 has been characterized by notable rebound in global trade, investment recovery, upswing in emerging Europe and signs of recovery in several commodity exporters. However, during the end of the review period, multiple risks clouded the outlook for global growth. Protectionist and escalated trade tensions, and economic risks posed by the complex and deepening tensions in the Middle East have immense impact on the performance of the global economy. Moreover, prolonged Brexit process is reported to have diminished corporate investment and with some negative impact on European economy as a whole.

1.2 Ethiopian Economy

The Ethiopian economy was projected to grow at a rate of 11.1% in 2017/18 as per the targets of the second Growth & Transformation Plan[1] . However, the growth recorded in the year was 7.7%, which is lower than the previous year growth and the target, due to growth decelerations in agriculture and industry sectors (NBE, 2018). But the growth of Ethiopian economy for this year is much higher than the 3.1% average growth in Sub-Saharan Africa (WB, 2018).

With the objective to improve competitiveness the Birr was devaluated by 15% effective October 11, 2017[2] . Along with the devaluation, which was the first since 2010, interest rates on savings deposit rose by 2% to reach 7%[3] while inflation rate stood at 14.7% in June 2018[4] .

The total export proceed in 2017/18 was 2.8 billion USD, registering a modest growth rate of 2.3% but falling short of the plan. Delays in key export-oriented projects that are now completed or near completion (Hawassa Industrial Zone, Djibouti Railway, etc) have contributed to the low performance. Despite the challenges, Foreign Direct Investment grew strongly by 27.6 percent, driven by investor interest in new industrial parks and privatization proceeds[5] . During the period, the overall foreign currency earnings from remittances and related services amounted to 6.9 billion USD, accounting for 70.4% (IBID). This indicates that export proceeds from various commodities had low influence on the overall achievement of foreign currency earnings for the fiscal year.

Smooth political power transfer has been made and multi directional social, political and economic reforms have been exercised in Ethiopia during the year. The reform has gained strong approval by the public and the international community, which would create strong foundation for economic performances such as FDI and remittance through banks.

The Government of Ethiopia has declared that it will sell a host of state-owned firms, either partially or entirely, as part of a major economic reform drive designed to “unleash the potential of the private sector”[6], with the expectation that the private sector will play a fundamental role in the development of the economy. This program, when successfully done, will have large impact on private investment and business expansion in the economy.

[1]Ministry of Finance and Economic Cooperation: Budget Speech: June 2009 E.C.
[2]Africanews: Reuters October 10, 2017
[3]Ibid
[4]Central Statistical Agency, Country and Regional Level Consumer Price Indices, July 5, 2018
[5]IMF : Country Report No. 18/18 of Federal Democratic Republic of Ethiopia January 18, 2018
[6]Africanews: Reuters July 19, 2018

2. Highlights of CBE's Financial Statement

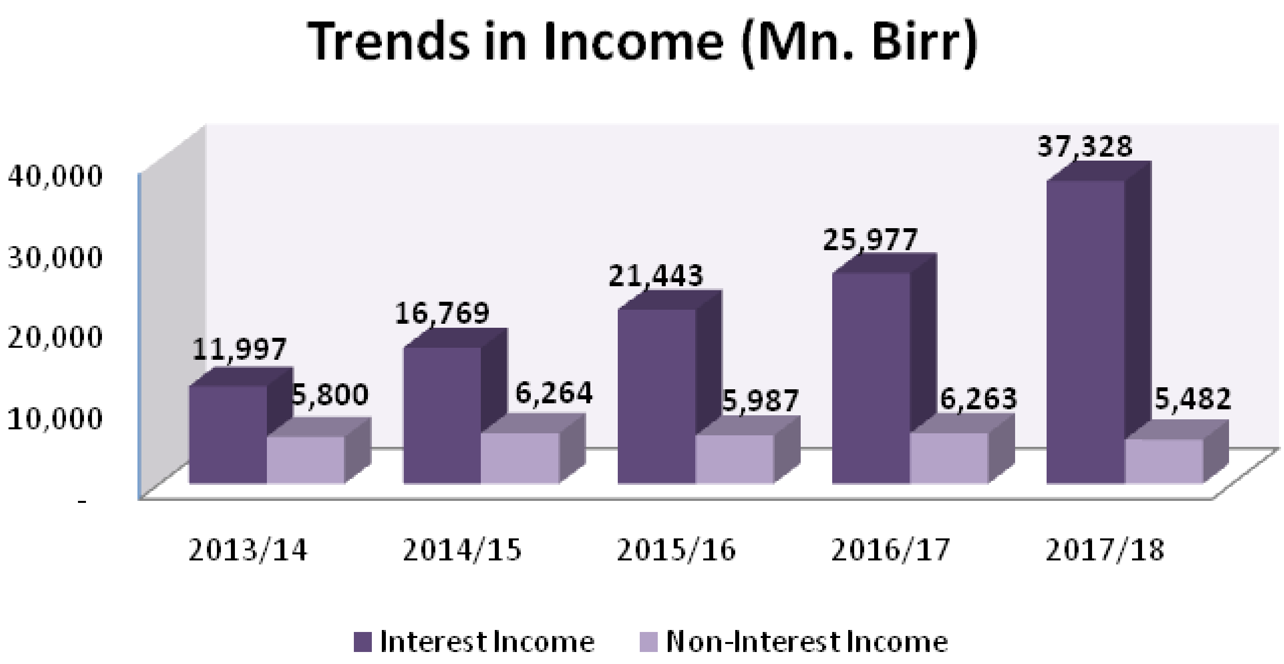
2.1 Income

The Commercial Bank of Ethiopia grossed total income of Birr 42.8 billion in 2017/18, higher than the Birr 32.2 billion income in 2016/17. The increase was mainly related to the growth in interest income, which rose by 44%, compared the previous year.

Trends in Income Statement (Mn.Birr)

Particulars	2016/17	2017/18	Growth (%)
Total Income	**32,239.8**	**42,810.9**	**32.8**
Interest Income	25,977.1	37,328.5	43.7
Non-Interest Income	6,262.7	5,482.4	(12.5)
Total Expense	**19,735.5**	**32,804.8**	**66.2**
Interest Expense	9,205.7	14,750.3	60.2
Non-Interest Expense	10,529.3	18,054.6	71.5
Profit Before Tax	**12,504.3**	**10,006.1**	**(20.0)**

Interest income increased from Birr 26 billion of the previous fiscal year to Birr 37 billion in 2017/18 while non-interest income diminished from Birr 6.2 billion to Birr 5.5 billion, largely because of the devaluation of the Birr by 15%.



Net Gain on Foreign Exchange

During the year under review, the bank generated a foreign exchange gain of Birr 1.1 billion, which was netted off by the foreign currency loss incurred. This was caused mainly due to the adverse effect of the 15% devaluation made on Birr during the second quarter of the fiscal year, impacting the bank with a loss of Birr 4.9 billion in relation to foreign currency denominated liability items. In effect, the bank incurred a net loss of Birr 3.8 billion on foreign currency transactions.

2.2 Expense

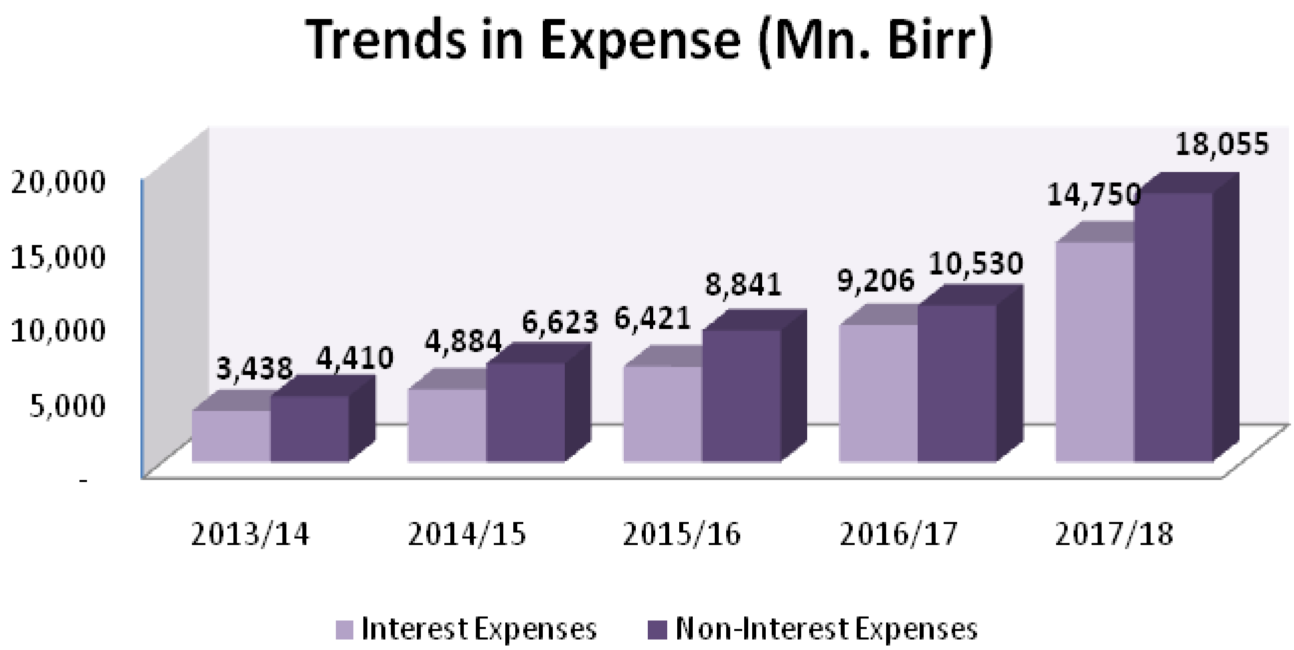
The total expense of CBE, which was Birr 32.8 billion during the fiscal year under review, continued to expand largely because of the expansion of the bank. Total expense of the bank soared by 66%.

Interest Expense

Interest expense that was Birr 9.2 billion in the preceding fiscal year expanded to Birr 14.8 billion following the interest rate adjustments by the central bank and the rapid expansion in interest bearing deposits of the bank.

Non-Interest Expense

Non-interest expense, which was Birr 10.5 billion in the previous year increased by 71% to Birr 18.1 billion. Total salaries and employees benefits for the fiscal year under review stood at Birr 7.8 billion, increasing by 68% from the preceding year. The growth is attributed to the settlement of the five years accumulated tax claims on employees' allowances of about Birr 1.5 billion.



2.3 Profit

At the end of the fiscal year, the profit of the bank before tax reached Birr 10.0 billion. The profit generated for the period was adversely impacted by the 15% devaluation of the Birr, which resulted in a net loss of Birr 3.8 billion. In addition, the bank's total expense was above the plan mainly due to the increase in interest expense as a result of the interest adjustment on deposits as well as the escalation of salaries and benefit expenses due to settlement of employee benefit tax arrears.

Profit Summary (Mn Birr)

Particular	2016/17	2017/18	Growth (%)
Total Income	32,239.8	42,810.9	32.8
Total Expense	19,735.5	32,804.8	66.2
Profit Before Tax	**12,504.3**	**10,006.1**	**(20.0)**

2.4 Profitability Indicators

Return on Asset (RoA) and Return on Equity (RoE) of the bank were 1.03% and 12%, showing 52% and 635 decline from the previous year, respectively.

2.5 Balance Sheet

2.5.1 Assets

At the end of the fiscal year of 2017/18, the total asset of CBE crossed the half trillion mark and stood at Birr 573.9 billion, showing an annual increment of 17%. The major components of these assets were investment in bonds, loans and advances to customers.

2.5.2 Outstanding Loans

The total outstanding loans of the bank to customers reached Birr 173 billion, representing a growth of 15.2 percent as compared to its balance of the preceding fiscal year. Of the total outstanding loans provided for customers, the lion's share (58%) went to the manufacturing sector.

Phibela Industrial PLC

Outstanding Loans and Advances by sector (Mn. Birr)

Particulars	2016/17	2017/18	Growth (%)
Agriculture	11,187.3	9,874.6	(11.7)
Manufacturing	91,590.0	100,403.3	9.6
Domestic Trade & Services	13,713.1	16,202.1	18.2
Foreign Trade	11,869.8	19,973.0	68.3
Building and Construction	2,945.7	2,651.5	(10.0)
Personal Loan/Consumer Loan	14,619.4	16,410.4	15.2
Interest Receivable from Loans	4,002.0	7,172.7	79.2
Loans to Customers (Net of Impairment Losses)	**149,927.4**	**172,687.5**	**15.2**
Loans to Financial Institutions	**322.8**	**307.2**	**(4.8)**
Total Outstanding Loans	**150,250.2**	**172,994.7**	**15.1**

The amount of fresh loans disbursed to the various economic sectors during the fiscal year reached Birr 100.7 billion, indicating a growth of 6.6 percent. Similarly, the overall loan collection of the bank stood at Birr 62.2 billion.

CBE has also invested heavily on debt securities which stood at the end of the year under review at Birr 319.1 billon of which majority is held in the form of corporate bonds.

Adama Steel Factory

2.5.3 Liabilities

The total liabilities of the bank stood at Birr 526.7 billion as at June 30, 2018 which shows a growth of 18% compared with the preceding year. The increase is mainly due to the expansion of deposit by 23.8% in line with the bank's business expansion strategy. The total deposits position reached Birr 451.9 billion.

Deposit at Year-end (Mn. Birr)

Particulars	2016/17	2017/18	Growth(%)
Demand deposit	162,736.8	203,114.8	24.8
Savings deposit	189,052.5	233,571.4	23.5
Fixed time deposit	13,312.6	15,171.4	14.0
Total Deposit	**365,101.9**	**451,857.6**	**23.8**

2.5.4 Capital and Reserves

CBE continued to be well capitalized as in the preceding year. The total capital and reserves of the Commercial Bank of Ethiopia reached Birr 47.2 billion as at June 30, 2018, exhibiting a 6% growth from the preceding year of Birr 41.5 billion. The capital adequacy ratio as well stood at 30%, which is far higher than the minimum standard of 8%.

3 Other Business Developments

3.1 Human Resources

The total number of permanent employees reached 32,739. The Commercial Bank of Ethiopia continued to give large emphasis on improving its human resource quality in the period under review as this was key to its sustained growth. CBE has been implementing its Human Resources Development Strategy (HRD), focusing on three major work programs grouped under Learning and Development, Employee Performance Management, and Career and Succession Planning. CBE did commendable jobs in all the three fronts of its HRD strategy.

Empowering CBE Women for Leadership Training

The learning and development program focused on the provision of various technical, developmental and ethical training. The aggregate number of training participants stood at 76,825 in 2017/18. Of these, 62,800 participants attended technical training while others participated in developmental and ethical training programs.

3.2 Technology Deployment

The bank has been consistently endeavoring to modernize its services through deployment of modern banking technologies. In this regard, various IT projects were under implementation during the budget year which includes upgrading T24 system to the latest version and data center upgrading. Moreover, the bank has increased its accessibility by deploying 207 ATMs and 4,414 POSs during the reporting period increasing the total number to 1,708 ATMs and 11,796 POSs as of June 30, 2018.

3.3 Branch Expansion

As part of the growth strategy and enhancing its accessibility, 65 new and full-fledged branches were opened and the total number of branches reached 1,287. In this case, CBE is proud of being the most accessible bank inside the country, which significantly enhanced customers' convenience and help reduce cost of accessing to our branches on the part of our customers.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2017/18 Auditor's Report

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

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AUDIT SERVICES
CORPORATION

COMMERCIAL BANK OF ETHIOPIA
INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
30 JUNE 2018

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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 2018, 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 2018 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.

C. Dividends

A dividend based on the profit of the year is stated as a liability. The propriety of this was discussed with the appropriate officials and documentation obtained to support this contention. We found the inclusion of the dividend as a liability to be acceptable.

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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.

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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

26 November 2019

Statement of Director's Responsibility

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements of Commercial Bank of Ethiopia ("The Group"), comprising the statement of financial position as at 30 June 2018, statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRS).

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

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

Approval of the annual financial statements

The financial statements on pages 6 to 157 were approved by the Board of Directors on 26 November 2019 in accordance with Bank Corporate Governance Directive No. SBB/62/2015 of National Bank of Ethiopia.

Signed on behalf of the Directors

....
President & CEO

Date: 3/12/19

Commercial Bank of Ethiopia

....
Chief Finance Officer (CFO)

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018
(In Ethiopian Birr)

	Note	30 June 2018	30 June 2017
Interest Income	7	37,328,464,816	25,977,121,538
Interest Expense	7	(14,750,251,230)	(9,205,661,360)
Net interest income		**22,578,213,586**	**16,771,460,178**
Impairment losses on loans and advances		(1,547,644,864)	(1,206,454,194)
Net interest income after provisions		**21,030,568,722**	**15,565,005,984**
Gain(loss) on foreign currency transactions		(3,847,440,979)	827,034,544
Gain(loss) on Equity investments in associates	14	15,728,241	(9,427,203)
Non-interest income	8	5,466,708,598	5,445,061,042
Non-interest expense	8	(12,659,476,721)	(9,323,359,074)
Profit before tax		**10,006,087,861**	**12,504,315,293**
Income tax		(4,639,743,141)	(2,939,528,036)
Profit for the year		**5,366,344,720**	**9,564,787,257**
Items that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability	23	98,499,378	(179,998,312)
Related tax	26	(29,549,813)	(53,999,494)
		68,949,565	**(233,997,806)**
Items that are or may be reclassified to profit or loss:			
Unrealized (loss)/gain arising from measurement at fair value		67,149,663	72,581,034
Related tax	26	(20,144,899)	(21,774,310)
Revaluation of statutory reserve		-	11,653,116
Foreign currency translation differences for foreign operations		(299,923,222)	80,640,440
		(252,918,458)	**143,100,280**
Other comprehensive Income(loss), net of tax		**(183,968,893)**	**(90,897,526)**
Total comprehensive income		**5,182,375,827**	**9,473,889,731**

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

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2018
(In Ethiopian Birr)

	Note	30 June 2018	30 June 2017
Assets			
Cash and cash equivalents	9	52,003,793,543	53,584,027,014
Debt & Equity Securities	10	319,069,307,014	260,789,589,685
Loans and advances to customers, net	11	172,687,492,850	149,927,449,731
Loans to micro-finance institutions, net	12	307,167,397	322,763,100
Receivables	13	8,380,417,594	5,182,991,089
Investments in associates	14	113,301,038	97,572,796
Non- current assets held for sale	15	1,102,353,512	1,101,641,304
Investment property	16	23,135,132	11,669,542
Property, plant and equipment, net	17	11,157,871,470	9,501,165,623
Intangible assets	18	39,662,818	57,832,751
Other assets	19	5,765,660,670	6,111,024,440
Right of use asset	20	2,504,472,883	1,863,427,396
Deferred tax assets	26	739,643,477	1,517,089,573
Total assets		**573,894,279,398**	**490,068,244,043**
Liabilities			
Deposits due to other banks		1,176,699,445	1,071,584,438
Customers' deposits	21	450,680,917,749	364,030,327,452
Current tax liabilities	26	2,761,831,547	4,156,523,806
Provisions	22	641,791,149	460,983,738
Finance lease obligations	20	304,340,641	294,717,481
Dividends		5,343,106,150	5,575,654,069
Employee benefits	23	1,943,328,149	909,185,799
Other liabilities	24	63,836,532,122	69,015,268,295
Total Liabilities		**526,688,546,952**	**445,514,245,078**
Equity			
Capital	25	40,000,000,000	40,000,000,000
Legal reserve	25	6,807,195,127	5,011,302,710
Capital reserve	25	134,745,949	113,723,743
Statutory reserve	25	666,432,050	-
IFB reserve	25	608,463	608,443
Accumulated profit/loss	25	8,114,350	(344,241,330)
Fair value reserve	25	97,811,488	50,806,724
Remeasurement of defined benefit liability	25	(215,735,859)	(284,685,424)
Foreign currency translation reserve	25	(293,439,122)	6,484,100
Total equity		**47,205,732,446**	**44,553,998,966**
Total liabilities and equity		**573,894,279,398**	**490,068,244,043**

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

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018
(IN ETHIOPIAN BIRR)

	Capital	Legal reserve	Capital reserve	Statutory reserve	IFB reserve	Accumulated Profit /loss	Remeasure-ment of de-fined benefit liability	Fair value reserve	Foreign currency translation reserve	Total Equity
Balance as of June 30, 2016	**8,082,416,551**	**7,170,840,058**	**952,616,061**	**-**	**86,268**	**(1,966,029,410)**	**(50,687,617)**	**-**	**71,196,971**	**14,260,438,882**
Additional capital	26,500,000,000	-	-	-	-	-	-	-	-	**26,500,000,000**
Total comprehensive income										**-**
Profit for the year	-	-	-	-	-	9,564,787,257	-	-	-	**9,564,787,257**
Other comprehensive income	-	-	11,653,116	-	-		(233,997,806)	50,806,724	80,640,440	**(90,897,526)**
Transfer to capital reserve	839,048,611.00	-	(839,048,611)	-	-	-	-	-	-	**-**
Transfer to/(from) IFB reserve	-	-	-	-	522,175	-	-	-	-	**522,175**
Transfer to Subsidiaries Capital	-	-	-	-		(88,034,000)	-	-	-	**(88,034,000)**
Transfer to/(from) legal reserve	4,578,534,838	(2,159,537,349)	(11,496,823)	-	-	(2,418,997,489)	-	-	-	**(11,496,823)**
Loss on foreign exchange	-		-	-	-	139,317,198	-	-	(145,353,311)	**(6,036,113)**
Dividends	-	-	-	-	-	(5,575,284,886)	-	-	-	**(5,575,284,886)**
Balance as of June 30, 2017	**40,000,000,000**	**5,011,302,709**	**113,723,743**	**-**	**608,443**	**(344,241,330)**	**(284,685,423)**	**50,806,724**	**6,484,100**	**44,553,998,966**

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018
(IN ETHIOPIAN BIRR)
(CONTINUED)

	Capital	Legal reserve	Capital reserve	Statutory reserve	IFB reserve	Accumulated Profit /loss	Remea-surement of defined benefits	Fair value reserve	Foreign currency translation reserve	Total Equity
Balance as of June 30, 2017	**40,000,000,000**	**5,011,302,709**	**113,723,743**	**-**	**608,443**	**(344,241,330)**	**(284,685,423)**	**50,806,724**	**6,484,100**	**44,553,998,966**
Total comprehensive income										
Opening Adjustment						1,821,479,083				1,821,479,083
Profit for the year	-	-	-	-	-	5,366,344,720	-	-	-	5,366,344,720
Other comprehensive income	-	-	-	-	-		68,949,564	47,004,764	-	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	-	-	-	-	-	666,432,050
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**	**8,114,350**	**(215,735,859)**	**97,811,488**	**(293,439,122)**	**47,205,732,445**

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENTS OF CASHFLOWS
FOR THE YEAR ENDED 30 JUNE 2018
(IN ETHIOPIAN BIRR)

	30 June 2018	30 June 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	**10,006,087,861**	**12,504,315,293**
Adjustment		
Impairment	1,548,615,151	1,341,006,709
Depreciation and amortization	1,698,190,717	1,274,603,558
Income (Loss) from associate recognized in profit or loss	(15,728,242)	9,427,203
Loss (Gain) on Disposal of Property, Plant and Equipment	(564,998)	(17,549,246)
Written off in profit or loss	-	17,647,433
Finance lease charge	9,281,080	8,057,920
	13,245,881,569	**15,137,508,870**
Movement in working capital		
Change in Debt and Equity Securities	(58,294,031,032)	(41,201,185,803)
Change in Loans and advances	(21,977,124,452)	(14,040,514,071)
Change in receivables	(2,911,624,289)	(7,941,075,543)
Change in Non Current Asset Held for Sale	(1,682,495)	-
Change in other assets	412,513,433	(5,315,187,835)
Change in Restricted fund	(5,627,835,530)	(4,499,971,613)
Change in customers' deposits	86,650,590,317	75,702,550,347
Change in provisions	109,950,527	114,587,044
Change in employee benefits	1,132,641,728	177,201,813
Change in other liabilities	(5,178,736,173)	10,025,316,917
	7,560,543,603	**28,159,230,126**
Cash generated from operations		
Income taxes paid	(5,309,742,911)	(4,357,606,690)
Net cash generated by operating activities	**2,250,800,692**	**23,801,623,436**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property ,plant and equipment	(2,764,734,757)	(3,059,792,367)
Proceeds from disposal of property, plant and equipment	4,379,864	22,906,576
Payments for Investments	-	(106,600,000)
Payment for intangibles	-	(14,384,359)
Payment right of use assets	(1,174,553,076)	(841,417,465)
Net cash used in investing activities	**(3,934,907,969)**	**(3,999,287,615)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(5,575,654,069)	(3,063,461,781)
Finance lease obligation paid	(50,644,985)	(36,813,449)
Net cash outflow from financing activities	**(5,626,299,054)**	**(3,100,275,230)**
Increased (decrease) in cash and cash equivalents	**(7,310,406,331)**	**16,702,060,591**
Unrealized gain (losses) arising from change in foreign currency exchange rates	**1,069,688**	**3,050,283**
Cash and cash equivalents at the beginning of the year	26,701,435,156	9,996,324,282
Cash and cash equivalents at the end of the year	**19,392,098,513**	**26,701,435,156**

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENTS OF CASHFLOWS
FOR THE YEAR ENDED 30 JUNE 2018
(IN ETHIOPIAN BIRR)
(CONTINUED)

Cash and cash equivalents comprise	**30 June 2018**	**30 June 2017**
Cash in hand	6,207,037,962	6,373,910,267
Balance with National Bank of Ethiopia	12,181,985,574	18,654,631,381
Balance with Bank of South Sudan	276,218,756	111,976,097
Balance with Bank of Djibouti	-	12,892,888
Placement with other banks	1,895,792,518	2,551,626,282
Deposit due to other banks	(1,176,699,445)	(1,075,431,802)
Cash In transit	7,763,148	71,830,043
Cash and cash equivalents	**19,392,098,513**	**26,701,435,156**

(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 1,288 branches.

(2) BASIS OF CONSOLIDATION

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

(3) BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

1. Available for sale debt securities (applicable prior to 1 July 2017)
2. Equity instruments designated at fair value through other comprehensive income; (effective 1 July 2017)
3. Non-current assets held for sale measured at lower of their carrying amounts and fair value less costs to sell; and
4. 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 consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. 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 consolidated financial statements 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 Group controls a trust, an investment fund or an entity without ownership interest.

Assumptions and estimation uncertainties

Note 4 (c) and 4(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

Applicable after 1 July 2017

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 3 (c).

(3) Basis of preparation- continued

Applicable before 1 July 2017

Loans are assessed for impairment on a regular basis for any events that may produce such impairment and adjusted if appropriate in profit or loss of the year. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes decisions as to whether there is any observable data indicating that there is a reduction of the loan value that can be measured in the estimated future cash flows of loans .

This evidence includes observable data indicating that there has been an adverse change in the payment status of borrowers, or economic conditions that correlate with defaults on loans. The methodology and assumptions used to estimate the amount and time of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience (see note 3(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 these consolidated financial statements.

(a) Details of Consolidation

i. Subsidiaries

Subsidiaries are investees controlled by an entity. A parent 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. Commercial Bank of Ethiopia 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 consolidated 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 2018	30 June 2017
Commercial Nominees PLC	Federal Democratic Republic of Ethiopia	100%	100%
CBE Southern Sudan Limited	South Sudan	100%	100%
CBE Djibouti Limited	Djibouti	100%	100%

ii. Associates

Associates are all entities over which the Group 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.

(4) Significant accounting policies (Continued)
(a) Details of Consolidation (Continued)

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 group and its associate are recognized in the Group's financial statements 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 statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

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

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

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

These consolidated financial statements are presented in Ethiopian Birr ("ETB"), which is the parent'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 Bank 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 South Sudan the legal currency is the South Sudanese pound while Djibouti Franc is the legal currency in Djibouti.

(4) Significant accounting policies (Continued)
(b) Foreign currency (Continued)
(ii) Foreign operations

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

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

(c) Financial assets and financial liabilities

(i) Recognition and initial measurement

Policy applicable after 1 July 2017

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

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.

Policy applicable before 1 July 2017

The Bank initially recognizes loans and advances, deposits and borrowings from other banks on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification and measurement

Classification and measurement of financial assets

Policy applicable from 1 July 2017

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

(4) Significant accounting policies (Continued)
(c) Financial assets and financial liabilities (Continued)
(ii) Classification and measurement- Continued

- 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 Group may irrevocably elect to present subsequent changes in fair value in OCI . This election is made on an investment-by investment basis.

All other financial assets are classified as measured at FVTPL.

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

Debt instruments, including loans and debt securities, are classified into one of the following measurement categories:

- 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.

(4) Significant accounting policies (Continued)

(c) Financial assets and financial liabilities (Continued)

(ii) Classification and measurement- Continued

Business model assessment

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

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

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

— the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

— how the performance of the portfolio is evaluated and reported to the Group's management;

— the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

— how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

— the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

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

(4) Significant accounting policies (Continued)
(c) Financial assets and financial liabilities (Continued)
(ii) Classification and measurement - Continued

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

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

Debt instruments measured at amortized cost

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

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

Debt instruments measured at FVOCI

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

When designated in a fair value hedge relationship, any changes in fair value due to changes in the hedged risk are recognized in Non-interest income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Upon derecognition, realized gains and losses are reclassified from OCI

(4) Significant accounting policies (Continued)

(c) Financial assets and financial liabilities (continued)

(ii) Classification and measurement- continued

and recorded in Non-interest income in the Consolidated 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 Consolidated 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 Consolidated 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 ECL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the Consolidated 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 Consolidated Statement of Profit or Loss and Other Comprehensive Income. The accumulated allowance recognised in OCI is recycled to the Consolidated 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 Consolidated Statement of Financial Position, with transaction costs recognized immediately in the Consolidated 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 Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Debt instruments designated at FVTPL

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

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

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

(4) Significant accounting policies (Continued)
(c) Financial assets and financial liabilities (Continued)
(ii) Classification and measurement- Continued

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 Consolidated 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 Consolidated 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 Consolidated 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 Consolidated 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 Consolidated 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.

<u>Policy applicable before 1 July 2017</u>

Financial assets:

The Bank classifies its financial assets into one of the following categories:

a) loans and receivables;
b) held to maturity;
c) fair value through profit or loss; and
d) available-for-sale

(4) Significant accounting policies (Continued)
(c) Financial assets and financial liabilities (continued)
(ii) Classification and measurement- continued

Management determines the classification of its investments at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money directly to a debtor with no intention of trading the receivable. They include mortgage and advances to customers, staff loans and placements with other banks. Loans and advances are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at their amortised cost using the effective interest method.

Held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held to maturity assets, the entire category would be tainted and reclassified as available for sale. These investments are held at amortised cost.

Available for sale

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale and are not classified as; (a) loans and receivables; (b) held to maturity; or (c) financial assets at fair value through profit or loss. These assets are initially measured at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, are recognized in OCI and accumulated in the fair value reserve.

Financial liabilities:

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

(iii) Derecognition

Financial assets:

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

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

From 1 July 2017 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

(4) Significant accounting policies (Continued)
(c) Financial assets and financial liabilities (Continued)
(iii) Derecognition- Continued

Group is recognised as a separate asset or liability.

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

Financial liabilities:

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

(iv) Modifications of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

(v) Offsetting

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

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

(vi) Amortized cost measurement

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

(4) Significant accounting policies (Continued)
(c) Financial assets and financial liabilities (Continued)

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

Policy applicable after 1 July 2017

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 in creased significantly since their initial recognition.

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'.

(4) Significant accounting policies (Continued)
(c)Financial assets and financial liabilities (continued)
(viii) Impairment - continued

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.

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.

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)(iii)) 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.

(4) Significant accounting policies (Continued)

(c) Financial assets and financial liabilities (Continued)

(viii) Impairment (Continued)

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.

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 Group's procedures for recovery of amounts due. Writeoff policy of the Group is the same under both IAS 39 & IFRS 9.

(4) Significant accounting policies (Continued)
(c) Financial assets and financial liabilities (Continued)
(viii) Impairment - Continued

Policy applicable before 1 July 2017

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

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- Observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

A loan that was renegotiated due to deterioration in the borrower's condition is usually considered to be 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.

Individual and collective assessment

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In the case where the Bank has a sovereign debt, the bank will have to make an assessment of whether such an investment has been impaired. The Bank will consider 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 capacity to fulfil the required criteria.

(4) Significant accounting policies (Continued)
(c) Financial assets and financial liabilities (Continued)
(viii) Impairment - Continued

An individual measurement of impairment applies to financial assets evaluated individually for impairment and found to be individually impaired, and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

The collective allowance for groups of homogeneous loans is established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience.

The roll rate methodology uses statistical analysis of historical data on delinquency to estimate the amount of loss. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the economic conditions and product mix at the reporting date.

Roll rates and loss rates were regularly benchmarked against actual loss experience.

The "incurred but not reported" (IBNR) allowance covers credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired items but the individual impaired items cannot be identified.

In assessing the need for collective loss allowance, management considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance.

Measurement of impairment

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on available-for-sale assets are calculated as the difference between the carrying amount and the fair value.

For assets measured at amortised cost, if an event occurring after the impairment is recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

For available-for-sale debt security, if in a subsequent period, the fair value of an impaired debt security increases and the increase can be related objectively to an event occurring after the impairment loss is recognised, then the impairment loss is reversed through profit or loss; else, any increase in fair value is recognised through OCI.

(4) Significant accounting policies- (Continued)

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

(viii) Impairment - Continued

Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in OCI.

Presentation

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired assets continued to be recognised through the unwinding of the discount.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

Changes in impairment attributable to the application of the effective interest method are reflected as a component of interest income.

Write-off

The Bank writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Bank's Credit team determines that there was no realistic prospect of recovery.

(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, cash reserve with the Central Bank of South Sudan, cash reserve with the Central Bank of Djibouti, payment and settlement account with the Central Bank of South Sudan 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 statements.

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.

(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.

(4) Significant accounting policies (Continued)

(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.

The cost of property, plant and equipment acquired in a business combination is determined at the acquisition date, based on fair values according to appraisals performed by independent experts.

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.
The depreciation methods, useful lives and residual values were reviewed and adjusted appropriately at transition date.

(h) Leases

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

(4) Significant accounting policies (Continued)
(h) Leases (Continued)

implicit in the lease; if that rate can be readily determined, the Group used the lessee's incremental borrowing rate.

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

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 all of the 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 acquire assets such as real estate and moveable property foreclosed in the absence of repayment of loans due to the Group. Included is also a warehouse acquired by one of the subsidiaries, Commercial Nominees, which the Group is in the process of disposing.

(4) Significant accounting policies (Continued)
(j) Non- current assets held for sale (Continued)

The asset is not disposed due to a long process in transferring the title to Commercial Nominees PLC. This 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.

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.

(4) Significant accounting policies (Continued)
(l) Impairment of non-financial assets (Continued)

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.

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 and the fair value of any plan assets 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.

(4) Significant accounting policies (Continued)
(o) Employee benefits (Continued)

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 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. To the National Bank of Ethiopia, the CBE has to transfer annually 25% of its annual net profit 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 Group 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.

Amortized cost

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus

(4) Significant accounting policies (Continued)
(q) Revenue and expense recognition (Continued)

the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or incurred credit loss allowance before 1 July 2017).

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 (or incurred credit loss allowance before 1 July 2017).

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.

Calculation of interest income and expenses-continued

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

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

Presentation of interest income and expenses

<u>**Policy applicable from 1 July 2017**</u>

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;

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group'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.

(4) Significant accounting policies (Continued)

(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.

(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 consolidated financial statements. Contingent revenues, earnings or assets are not recognized until realization is assured.

(4) Significant accounting policies (Continued)
(v) New standards, amendments and interpretations

(i) New standards, amendments and interpretations effective and adopted during the period ended 30 June 2018

The Bank has adopted the following new standards and amendments during the period ended 30 June 2018. The nature and effects of the changes are explained below:

New standard or amendments	Effective for financial period beginning on or after
- Revenue contracts with customers (IFRS 15)	1 July 2018
- Leases (IFRS 16)	1 July 2019
-Financial instruments (IFRS 9)	1 July 2018

Revenue contracts with customers (IFRS 15)

This standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model feautres a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The bank recognises revenue when it transfers a service to a customer.

Leases (IFRS 16)

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. Refer to note 20 for the impact the adoption of this standard has had on the financials of the Bank.

Financial instruments (IFRS 9)

This standard drives changes in the measurement bases of the Bank's financial assets to amortised cost, fair value through other comprehensive income of fair value through profit or loss. The standard also defines measurement of impairment from an "incurred loss" model under IAS 39 to an "expected credit loss" model.

(ii) New and amended standards in issue but not yet effective during the period ended 30 June 2018

The following new standards and amendments are in issue but are not yet effective during the year ended 30 June 2018, including consequential amendments to other standards with the date of initial application by the Bank being 1 July 2018. 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 Bank).

(4) Significant accounting policies (Continued
(v) New standards, amendments and interpretations (Continued)

(ii) New and amended standards in issue but not yet effective during the period ended 30 June 2018 (Continued)

New standard or amendments	Effective for financial period beginning on or after
- IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 July 2018
- IAS 40 Transfers of Investment Property	1 July 2018
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 July 2018
- IFRIC 23 Uncertainty over Income Tax Treatments	1 July 2019
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 July 2019
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1 July 2019
- Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)	1 July 2019
- Insurance contracts (IFRS 17)	1 July 2021

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).

This Interpretation stipulates that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

This Interpretation does not apply to income taxes, insurance contracts and circumstances when an entity measures the related asset, expense or income on initial recognition:

(a) at fair value; or
(b) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IFRS 3 Business Combinations).

The amendments apply retrospectively for annual periods beginning on or after 1 January 2018, with early application permitted.

The adoption of these changes may have an impact on the amounts and disclosures of the Bank's financial statements.

Transfers of Investment property (Amendments to IAS 40)

The IASB has amended the requirements in IAS 40 Investment property on when a company should transfer a property asset to, or from, investment property.

(4) Significant accounting policies (Continued)
(v) New standards, amendments and interpretations (Continued)

(ii) New and amended standards in issue but not yet effective during the period ended 30 June 2018 (continued)

The adoption of these changes is not expected to have any impact on the amounts and disclosures of the Bank's financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements, about

(a) judgments made;
(b) assumptions and other estimates used; and
(c) potential impact of uncertainties not reflected.

The adoption of these changes will not have an impact on the amounts and disclosures of the Bank's financial statements.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments clarify that, financial assets containing prepayment features with negative compensation can now be measured at amortised 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 may have an impact on the amounts and disclosures of the Bank's financial statements.

(4) Significant accounting policies (Continued)

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

(ii) New and amended standards in issue but not yet effective during the period ended 30 June 2018 (continued)

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.

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

The adoption of these changes is not expected to have any impact on the amounts and disclosures of the Bank's financial statements.

IFRS 9 Financial instruments with IFRS 4 Insurance contracts (Amendments to IFRS 4)

The differing effective dates of IFRS 9 and IFRS 4 could have a significant impact on insurers. In response to concerns regarding temporary accounting mismatches and volatility, and increased costs and complexity, the IASB has issued amendments to IFRS 4 Insurance Contracts. The two optional solutions proposed by the amendments are a temporary exemption from IFRS 9 or an overlay approach.

The adoption of these changes is not expected to have any impact on the amounts and disclosures of the Bank's financial statements.

Plan Amendment, Curtailment or Settlement (Amendments 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 adoption of these changes may have an impact on the amounts and disclosures of the Bank's financial statements.

Insurance contracts (IFRS 17)

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

(4) Significant accounting policies (Continued)

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

(ii) New and amended standards in issue but not yet effective during the period ended 30 June 2018 (continued)

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

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

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

The adoption of these changes is not expected to have any impact on the amounts and disclosures of the Bank's financial statements

5. FINANCIAL RISK REVIEW

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

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

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

Risk management framework

According to the Loan and Risk Review Committee charter, the Board of Directors of the Bank, as the institution with most representation in the consolidated financial statements, through the Loan and Risk Review Committee (LRRC) of the board provide for the minimum parameters to be followed by each institution's management, and are responsible for developing and monitoring the Group´s risk management policies. According to the regulatory provisions of each supervisory entity in each of the countries in which the Group operates, and consistent with the level of complexity of the activities performed by each of the Group entities the members of the Risk Management Committees, responsible for the development and monitoring of the risk management policies are authorized and inform on their activities and results to the management of each of the Group entities, at least on an annual basis or when required.

The Group´s risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to those limits.

5. Financial Risk Review (continued)

The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group´s activities. The Group´s administration 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 the Bank oversees how management monitors compliance with the Group´s risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risk faced by the Group. The Group´s Board Audit Committee is assisted in its oversight role by the 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 Group´s Audit Committee.

Additionally, the Bank is subject to the regulations of the National Bank of Ethiopia, its subsidiaries, depending on the countries where they operate, are subject to the regulations of the Ministry of Trade and the Ethiopian Revenue and Customs Authority and the Bank of The South Sudan, 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, FVOCI debt investments (2018) and available-for-sale debt assets (2017). 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)(iii) for the explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired.

5. Financial Risk Review (continued)

Risk classification	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Purchased credit impaired	Total 30 June 2018	Total 01 July 2017
Loans and advances to Customers and microfinance institutions (at amortised cost)						
Stage 1	166,935,717,276	-	-	-	166,935,717,276	146,476,196,852
Stage 2	-	4,292,058,497	-	-	4,292,058,497	4,676,412,953
Stage 3	-	-	8,260,206,231	-	8,260,206,231	5,975,613,987
Gross carrying amount	**166,935,717,276**	**4,292,058,497**	**8,260,206,231**	**-**	**179,487,982,004**	**157,128,223,792**
Expected Credit Loss allowance (excluding off balance sheet)	(1,435,856,089)	(191,812,784)	(4,865,652,882)	-	(6,493,321,756)	(6,878,010,961)
Carrying amount	**165,499,861,187**	**4,100,245,713**	**3,394,553,349**	**-**	**172,994,660,247**	**150,250,212,831**
Investment securities - debt instruments (at amortised cost)						
Stage 1	318,900,683,717	-	-	-	318,900,683,717	235,092,282,339
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Gross carrying amount	**318,900,683,717**	**-**	**-**	**-**	**318,900,683,717**	**260,663,064,348**
Expected Credit Loss allowance	14,623,090	-	-	-	14,623,090	
Carrying amount	**318,886,370,014**	**-**	**-**	**-**	**318,886,370,014**	**260,663,064,348**
Other financial assets (at amortised cost)						
Stage 1	8,170,340,173	-	-	-	8,170,340,173	5,264,880,209
Stage 2	-	87,430,371	-	-	87,430,371	162,282,607
Stage 3	-	-	1,391,180,046	-	1,391,180,046	1,296,808,814
Gross carrying amount	**8,170,340,173**	**87,430,371**	**1,391,180,046**	**-**	**9,648,950,590**	**6,723,971,630**
Expected Credit Loss allowance	(1,567,033)	(612,994)	(1,266,352,968)	-	(1,268,532,995)	(1,540,980,541)
Carrying amount	**8,168,773,140**	**86,817,377**	**124,827,078**	**-**	**8,380,417,595**	**5,182,991,089**

(5) Financial risk review- continued
(a) Credit risk - continued

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

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

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

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

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

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

(5) Financial risk review- continued

(a) Credit risk - continued

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

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

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

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

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

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

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

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

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

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

(5) Financial risk review- continued
(a) Credit risk - continued

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

Grade 6: These are "High risk" borrowers.

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

Grade 7: "Very High" risk borrowers

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

Grade 8: "Default Risk"

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

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

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

All loans and that are unrated assumed to be graded as follows:
- All ungraded Pass status retail loans are assigned with grade 2.
- All ungraded Special Mention status retail loans are assigned with risk grade 3
- All ungraded Sub-Standard status retail loans are assigned with risk grade 5
- All ungraded Doubtful status retail loans are assigned with risk grade 6.
- All ungraded Loss status retail loans are assigned with risk grade 7.
- All loans and advances under litigation decision (ALD) are assigned with risk grade 8.

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

(5) Financial risk review- continued
(a) Credit risk - continued

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

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**

30 June 2017				
Risk Grade	Classification	Individually Significant Loans	Other Loans	Gross Amount
1	Exceptionally low risk	75,487,160,576	17,606,184,263	93,093,344,839
2	Very low risk	-	48,607,450,816	48,607,450,816
3	Low risk	-	7,545,881,611	7,545,881,611
4	Moderate Risk	-	39,181,586	39,181,586
5	Potential Risk	-	1,245,872,773	1,245,872,773
6	High Risk	-	999,992,855	999,992,855
7	Very High Risk	-	1,314,140,613	1,314,140,613
8	Default Risk	-	93,107,798	93,107,798
Total Principal		**75,487,160,576**	**77,451,812,315**	**152,938,972,891**
Interest Receivable from Loan				**4,189,250,901**
Provision for Loan Loss				**(6,878,010,961)**
Net Loan				**150,250,212,831**

(5) Financial risk review (Continued)
(a) Credit risk (Continued)

<u>Applicable after 1 July 2017</u>

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

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

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group 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 Group'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 Group 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 Group collects performance and default information about its credit risk exposures analysed by economic sector.

The Group 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 Group 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 Group 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 Group's quantitative modelling, the days past due excedes 30 days.

Using its expert credit judgement and, where possible, relevant historical experience, the Group 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 Group 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 Group 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(c).

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 Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group'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 Group Audit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group 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 Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group 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 Group. 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 Group 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 Group; 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 Group for regulatory capital purposes.

Incorporation of forward-looking information

The Group 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 Group Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates and selected private-sector and academic forecasters.

(5) Financial risk review (Continued)

(a) Credit risk (Continued)

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group 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 2018 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.

LGD is the magnitude of the likely loss if there is a default. The Group 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.

(5) Financial risk review (Continued)
(a) Credit risk (Continued)

EAD represents the expected exposure in the event of a default. The Group 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 Group 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 Group considers a longer period. The maximum contractual period extends to the date at which the Group 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). Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

(5) Financial risk review (Continued)
(a) Credit risk (Continued)

	30 June 2018				30 June 2017		
Amounts in ETB	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total	Specific impairment	Collective impairment	Total
Loans and advances at amortised cost							
Balance at 1 July 2017/2016	**4,056,353,037**	**-**	**2,821,657,924**	**6,878,010,961**	**2,309,277,580**	**3,320,377,566**	**5,629,655,146**
IFRS 9 adjustment	(3,261,889,637)	128,881,148	1,251,238,524	**(1,881,769,965)**	-	-	-
Balance at 1 July 2017/2016	**794,463,400**	**128,881,148**	**4,072,896,448**	**4,996,240,996**	**2,309,277,580**	**3,320,377,566**	**5,629,655,146**
Transfer to 12 months ECL				**-**	-	-	-
Transfer to Lifetime ECL not credit impaired				**-**	-	-	-
Transfer to Lifetime ECL credit impaired				**-**	-	-	-
Net remeasurement of loss allowance	(2,230,348,642)	(320,677,783)	(8,938,549,331)	**(11,489,575,755)**	512,380,344	735,975,471	**1,248,355,815**
New financial assets originated or purchased				**-**	-	-	-
Changes in models/risk parameters				**-**	-	-	-
Foreign exchange and other movements				**-**	-	-	-
Financial assets derecognised				**-**	-	-	-
Write off				**-**	-	-	-
Recoveries from write off				**-**	-	-	-
Balance at 30 June 2018/30 June 2017	**(1,435,885,242)**	**(191,796,635)**	**(4,865,652,882)**	**(6,493,334,759)**	**2,821,657,924**	**4,056,353,037**	**6,878,010,961**

(5) Financial risk review (Continued)
(a) Credit risk (Continued)

	30 June 2018				30 June 2017		
Amounts in ETB	12 month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total	Specific impairment	Collective impairment	Total
Investment securities - debt instruments (at amortised cost)							
Balance at 1 July 2017/2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**
adjustment	11,754,614	-	-	**11,754,614**	-	-	-
Balance at 1 July 2017/2016	11,754,614	-	-	**11,754,614**	-	-	-
Transfer to 12 months ECL				**-**	-	-	-
Transfer to Lifetime ECL not credit impaired				**-**	-	-	-
Transfer to Lifetime ECL credit impaired				**-**	-	-	-
Net remeasurement of loss allowance	2,868,476	-	-	**2,868,476**	-	-	-
New financial assets originated or purchased				**-**	-	-	-
Changes in models/risk parameters				**-**	-	-	-
Foreign exchange and other movements				**-**	-	-	-
Financial assets derecognised				**-**	-	-	-
Write off				**-**	-	-	-
Recoveries from write off				**-**	-	-	-
Balance at 30 June 2018/30 June 2017	**14,623,090**	**-**	**-**	**14,623,090**	**-**	**-**	**-**

(5) Financial risk review (Continued)
(a) Credit risk (Continued)

	30 June 2018				30 June 2017		
Amounts in ETB	**12 month ECL**	**Lifetime ECL not credit impaired**	**Lifetime ECL credit impaired**	**Total**	**Specific impairment**	**Collective impairment**	**Total**
Other financial assets (at amortised cost)							
Balance at 1 July 2017/2016	**249,308,980**	**-**	**1,230,978,839**	**1,480,287,819**	**1,230,978,839**	**193,652,519**	**1,424,631,358**
IFRS 9 adjustment	(247,938,871)	1,505,271	49,012,430	**(197,421,170)**	-	-	**-**
Balance at 1 July 2017/2016	**1,370,109**	**1,505,271**	**1,279,991,269**	**1,282,866,649**	**1,230,978,839**	**193,652,519**	**1,424,631,358**
Transfer to 12 months ECL				**-**	-	-	**-**
Transfer to Lifetime ECL not credit impaired				**-**	-	-	**-**
Transfer to Lifetime ECL credit impaired				**-**	-	-	**-**
Net remeasurement of loss allowance	196,924	(892,277)	(49,012,430)	**(49,707,783)**	-	65,013,341	**65,013,341**
New financial assets originated or purchased				**-**	-	-	**-**
Changes in models/risk parameters				**-**	-	-	**-**
Foreign exchange and other movements				**-**	-	-	**-**
Financial assets derecognised				**-**	-	-	**-**
Write off				**-**	-	(9,356,880)	**(9,356,880)**
Recoveries from write off				**-**	-	-	**-**
Balance at 30 June 2018/30 June 2017	**1,567,033**	**612,994**	**1,230,978,839**	**1,233,158,866**	**1,230,978,839**	**249,308,980**	**1,480,287,819**

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 2018 and 30 June 2017.

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The loan portfolio is assessed collectively for impairment based on similar characteristics, basically the economic sector. Individually significant loans are those above 5% of the paid up capital as of the reporting period.

(5) Financial risk review (Continued)

(a) Credit risk (Continued)

Default but not impaired loans

According to the NBE's directive No. SBB/43/2008, 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 Group 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 Group;
- The Group does not encourage additional finance for the loan recovery cases. However, the Group may approve additional loan for Grade 6 and 7 customers, if there are appropriate and concrete justifiable reasons; and an existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy. Once a non-performing loan has been restructured, it doesn't remains in the same category of loan status as prior to the restructuring. However, the status (category) is turned to "substandard), without prejudice to the standard definition of substandard when:

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

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

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

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

Write-off policy

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

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

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

- Absence of attachable property.
- Insolvency of the borrower.
- Declaration of bankruptcy of the borrower by a court.
- Higher Cost of Recovery than the Realizable Value of the Property.

(5) Financial risk review (Continued)
(a) Credit risk (Continued)

- Defects in Documentation – if the Group 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 2018	30 June 2017
From 1 to 29 days	Pass	162,423,621,394	143,964,630,872
From 30 to 89 days	Special Mention	4,076,669,413	4,614,494,719
From 90 to 179 days	Sub-standard	1,569,148,147	1,700,262,788
From 180 to 360 days	Doubtful	1,083,364,499	1,246,127,377
Over 360 days	Loss	3,158,414,844	1,413,457,135
Total Principal		**172,311,218,297**	**152,938,972,891**
Interest Receivable		**7,176,792,858**	**4,189,250,901**
Allowance for Impairment		**(6,493,350,908)**	**(6,878,010,961)**
Net Loan		**172,994,660,247**	**150,250,212,831**

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

	30 June, 2018	30 June, 2017
Rating		
Between AA+ and AA-	18,846,056	62,311,702
Between A+ and A-	549,929,252	7,708,720,000
Between BBB+ and BBB-	8,749,684	2,959,234
Other (including unrated)	8,437,682,748	453,490,501
Total	**9,015,207,740**	**8,227,481,437**

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

Collateral

CBE has guarantee on loans granted, mainly Government bond and written government undertaking by the Ministry of Finance 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 Group has technical employees (appraisers) for a constant monitoring of these collaterals in order to update such fair values if it is necessary. In addition, the fair value of collateral is updated when a loan is individually assessed as impaired or by any change in conditions that the debtor request in advance and in the case of project financing, according to the progress of work.

(5) Financial risk review - continued

(a) Credit risk - continued

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 Group 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 2018 and 30 June 2017.

Fair value of collaterals and guarantees

	30 June 2018	30 June 2017
Blocked Account	489,433,600	394,705,511
Building	87,673,848,905	72,148,718,894
Bank Guarantee	158,564,462	169,405,302
Business Mortgage	192,585,795,318	16,914,772,354
Ministry of Finance and Economic Development Guarantee	-	72,142,422,955
Documentary Credit	3,000,000	3,000,000
Government Bond	-	74,101,666,389
Lease Right	128,522,192	147,143,234
Machinery	38,124,746,946	5,890,295,991
Merchandise	-	40,000,000
Others	426,471,579	1,912,671,064
Personal Guarantee	17,241,571,399	1,951,207,377
Vehicle	15,400,500,735	21,460,268,256
Total Collateral Value	352,232,455,136	267,276,277,328
Total Outstanding Loan	**172,994,660,247**	**150,250,212,831**
Collateral Coverage ratio	**204%**	**178%**

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 204 %,(2017: 178%).

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, 2017.

(5) Financial risk review - continued

(a) Credit risk - continued

Concentration of Credit Risk

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

(i) Concentration by sector

Sector	30 June 2018	30 June 2017
Agriculture	10,932,693,148	11,917,349,642
Manufacturing	101,761,425,340	92,851,532,499
Domestic Trade and Services	18,154,326,413	14,724,412,379
International Trade	20,584,074,657	12,584,532,205
Building and Construction	2,857,578,275	3,290,436,576
Consumer Loan	17,718,063,809	17,249,875,164
Financial Institutions	303,056,655	320,834,425
Total Principal	**172,311,218,297**	**152,938,972,890**
Interest Receivable from Loan	**7,176,792,858**	**4,189,250,901**
Provision for Loan Loss	**(6,493,350,908)**	**(6,878,010,961)**
Net Loan	**172,994,660,247**	**150,250,212,830**

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 Group'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.

Product type	Outstanding loan balances	
	30 June 2018	30 June 2017
Term loan	153,220,413,268	139,426,150,068
Overdraft	3,622,889,136	3,757,870,493
Advance loan	15,458,615,893	9,739,986,470
Merchandise loan	9,300,000	14,965,860
Total Principal	**172,311,218,297**	**152,938,972,891**
Interest receivable from Loan	**7,176,792,858**	**4,189,250,901**
Provision for Loan Loss	**(6,493,350,908)**	**(6,878,010,961)**
Net Loan	**172,994,660,247**	**150,250,212,831**

(5) Financial risk review- continued

(a) Credit risk – continued

(iii) Loan Concentration by Jurisdiction

Jurisdiction	30 June 2018	30 June 2017
Ethiopia	**172,994,660,247**	**150,250,212,831**

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 2018	30 June 2017
Concentration by Commitment type		
Term Loan and Bond Commitment	46,011,893,923	38,440,399,460
Letter of Credit	38,761,278,563	46,226,191,766
Letter of Guarantee	23,390,719,336	18,142,117,319
	108,163,891,822	**102,808,708,545**

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 Group is committed to meet their obligation when they fail.

	30 June 2018	30 June 2017
Geographic concentrations **Ethiopia**	**108,163,891,822**	**102,808,708,545**
Total	**108,163,891,822**	**102,808,708,545**

(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 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 2018	30 June 2017
Loans and advances to customers	172,687,492,850	149,927,449,731
Deposits from customers	450,680,917,749	364,030,327,452
Advances to deposits ratio	**38%**	**41%**

(5) Financial risk review (Continued)
(b) Liquidity risk (Continued)

The table below summarizes the Group's liquidity risk as at 30 June 2018 and 30 June 2017, categorized into relevant maturity groupings based on the earlier of the remaining contractual maturities.

Financial Assets and Liabilities

Amounts in Million Birr							
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, CBSS,CBD	1,807	549	581	1	16,314	22,565	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 associates						113	113
Debt Securities	1,374	5,495	18,160	72,227	221,630		318,886
A. Total Assets	**23,731**	**26,120**	**41,278**	**102,715**	**335,822**	**22,678**	**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 libilities and Equities	**36,838**	**21,292**	**17,484**	**13**	**401,206**	**46,623**	**523,456**
C. Net liquidity Gap (A-B) as at 30 June 2018	**(13,107)**	**4,829**	**23,793**	**102,702**	**(65,385)**	**(23,945)**	**28,887**
Cumulative Gap as at 30 June 2018	**(13,107)**	**(8,279)**	**15,515**	**118,217**	**52,832**	**28,887**	

(5) Financial risk review (Continued)

(b) Liquidity risk (Continued)

Amounts in Million Birr							
30 June 2017	**Upto 1 momth**	**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	1,472.41	92.45	1,774.00	1.19	20,486.39	20,204.21	44,031
Placements with other banks	9,385.76		167.45				9,553
Loans and advances to banks	28.78	13.39	83.83	153.93	43.07		323
Loans and advances to customers	6,143.80	13,039	24,906.82	24,926.47	80,910.91		149,927
Receivables	205.08	22.21	-	195.54	4,760.00		5,183
Investment in associates	-		-			98.00	98
Debt Securities	7,309	2,383	21,202	56,664	173,105		260,663
A. Total Assets	**24,544.83**	**15,550.05**	**48,134.10**	**81,941.13**	**279,305.37**	**20,302.21**	**469,778**
II. Liabilities	**-**		**-**				
On balance sheet	**-**		**-**				
Deposits due to other banks	146.00		-		925.95		1,072.00
Customers' deposits	29,298.77	1,848.99	10,527.40	23.75	322,331.09		364,030.00
Current Tax Liability	-	4,157.00	-				4,157.00
Other liabilities	535.26	14,092.35	10,764.56		79.81	43,543.02	69,015.00
B. Total libilities and Equities	**29,980.03**	**20,098.34**	**21,291.96**	**23.75**	**323,336.85**	**43,543.02**	**438,274.00**
C. Net liquidity Gap (A-B) as at 30 June 2017	**(5,435.20)**	**(4,548.29)**	**26,842.14**	**81,917.38**	**(44,031.48)**	**(23,240.81)**	**31,504.00**
Cumulative Gap as at 30 June 2017	**(5,435.20)**	**(9,983.49)**	**16,858.65**	**98,776.03**	**54,744.55**		

(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 to meet business goals and targets set in terms of the overall Group strategy.

(c) Market risk

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

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

(a) Interest rate risk

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

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

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

(5) Financial risk review- continued

(c) Market risk – continued

(a) Interest rate risk – continued

Amounts in Million Birr

Exposure to interest rate risk

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**		

(5) Financial risk review (Continued)

(c) Market risk (Continued)

(a) Interest rate risk (Continued)

Amounts in Million Birr

Exposure to interest rate risk

30 June 2017	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 and balances with NBE		-	-	-	-	-	44,031	44,031
Placements with other banks	0.07%	-	-	167	-	-	9,412	9,579
Loans and advances to banks	5.40%	29	13	84	154	43		323
Loans and advances to customers	8.30%	6,144	13,039	24,906	24,926	80,911		149,926
Debt Securities	5.40%	7,309	2,383	21,202	56,664	173,112		260,670
Total Rate Sensitive Assets		**13,482**	**15,435**	**46,359**	**81,744**	**254,066**	**53,443**	**464,529**
II. Liabilities		**-**		**-**				**-**
B. Rate Sensitive Liabilities		**-**		**-**				**-**
Deposits due to other banks		-		-			1,072	1,072
Customers' deposits	4.74%	29,299	1,849	10,527	24	322,331	-	364,030
Total Rate sensitive liabilities		**29,299**	**1,849**	**10,527**	**24**	**322,331**	**1,072**	**365,102**
C. Rate Sensitive Gap		**(15,817)**	**13,586**	**35,832**	**81,720**	**(68,265)**	**52,371**	**99,427**
Cumulative Rate Sensitive Gap		**(15,817)**	**(2,231)**	**33,601**	**115,321**	**47,056**	**99,427**	
Adjusted Interest Rate Change		**0.14**	**0.25**	**1.5**	**1**	**1**	**-**	**-**
Relative Gap Ratio (RSG to Total Asset)		**(0.64)**	**0.87**	**0.76**	**1.00**	**(0.24)**	**1.38**	
Total Asset		**24,571**	**15,550**	**46,934**	**81,941**	**278,645**	**37,985**	**485,626**

(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. A foreign exchange rate risk arises from financial instruments denominated in currencies other than the Group'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:

(All figures are in thousands of ETB)

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	187,603.71	25,446.54	-	1,290.76	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	0	2,682,601
Other liabilities	9,722,226	9,393	6,710	0	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)**

30 June 2017	USD	Euro	GBP	Other	Total
ASSETS					
Cash, deposits and advances to banks	69,860	27,139	6,151	109,114	212,264
Loans and advances to customers	-	-	-	-	-
Other assets	8,183,091	412,499	17,818	54,544	8,667,952
Related parties	-	-	-	-	-
At 30 June 2017	**8,252,951**	**439,638**	**23,969**	**163,658**	**8,880,216**
LIABILITIES					
Deposits from banks	146,058	428,945	52	-	575,055
Deposits from customers	20,783,489	491,689	101,837	45	21,377,060
Other liabilities	-	-	-	-	-
Related parties	-	-	-	-	-
At 30 June 2017	**20,929,547**	**920,634**	**101,889**	**45**	**21,952,115**
Net statement of position exposure	**(12,676,596)**	**(480,996)**	**(77,920)**	**163,613**	**(13,071,899)**

(5) Financial risk review (Continued)

(c) Market risk (Continued)

(b) Exchange rate 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 2018, 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 Group'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 2018			30 June 2017		
Assets (Million)	Currency Carrying Amount	5% depreciation	5% appreciation	Currency Carrying Amount	5% depreciation	5% appreciation
USD	9,240,267,000	8,778,253,650	9,702,280,350	8,252,950,859	7,840,303,060	8,665,598,119
EUR	51,851,000	49,258,450	54,443,550	439,638,085	417,656,181	461,619,989
GBP	22,016,000	20,915,200	23,116,800	23,968,582	22,770,153	25,167,011
		8,848,427,300	**9,779,840,700**		**8,280,729,393**	**9,152,385,119**
Liabilities						
USD	24,941,978,000	23,694,879,100	26,189,076,900	12,896,193,663	12,251,383,980	13,541,003,346
EUR	1,107,556,000	1,052,178,200	1,162,933,800	920,633,839	874,602,147	966,665,531
GBP	131,671,000	125,087,450	138,254,550	101,888,651	96,794,218	106,983,084
		24,872,144,750	**27,490,265,250**		**13,222,780,345**	**14,614,651,961**
Total (decrease) increase from major Currencies		**(16,023,717,450)**	**(17,710,424,550)**		**(4,942,050,952)**	**(5,462,266,842)**

At 30 June 2018 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 16,023,717,450 (2017: ETB 4,942,050,952) while a strengthening by 5% would have resulted in an increase in profit by ETB 17,710,424,550 (2017: ETB 5,462,266,842).

(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.

(5) Financial risk review (Continued)
(e) Capital management (Continued)

The Bank and its individually regulated subsidiaries have met with all of the external capital requirements to which they are subject. As of 30 June, 2018, and 2017, respectively, the Group's regulatory capital position was as follows:

	30 June 2018	30 June 2017
Capital - Level 1		
State Capital	40,000,000,000	40,000,000,000
Legal Reserves	6,807,195,127	5,011,302,710
Capital Reserve	134,745,949.00	113,723,743.00
IFB Reserve	608,463	608,443
Fair Value Reserve	97,811,488	50,806,724
Statutory Reserve	666,432,050	
Foreign Currency Translation Reserve	(293,439,122)	6,484,100
Retained earnings	8,114,350	(344,241,330)
Remeasurement of Defined Benefit BS	(215,735,859)	(284,685,424)
Total	**47,205,732,445**	**44,553,998,966**
Capital - Level 2		
Subordinated liabilities	-	-
Debt securities issued	-	-
Total	-	-
Total Regulatory Capital	**47,205,732,445**	**44,553,998,966**
Total assets and weighted contingencies	**156,086,484,858**	**146,237,377,907**
Total regulatory capital / risk weighted assets	**30%**	**30%**

(6) Fair Value Of Financial Instruments

(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:

					Fair value			
	Amortized Cost	FVOCI	FVTPL	Total carrying amounts	Level 1	Level 2	Level 3	Fair value
30 June 2018	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB
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**

(6) Fair value of financial instruments (Continued)

(a) Accounting classifications (Continued)

	Carrying amounts					Fair value			
	Held to maturity	Loans and receivables	Available for sale	At Amortised cost	Total carrying amounts	Level 1	Level 2	Level 3	Fair value
30 June 2017	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB
Financial Instruments									
Financial Assets:									
Loans and advances to customers	-	149,927,449,731	-	-	149,927,449,731	-	149,927,449,731	-	**149,927,449,731**
Loans to micro-finance institutions	-	322,763,100	-	-	322,763,100	-	322,763,100	-	**322,763,100**
Financial assets held to maturity	260,663,064,348	-	-	-	260,663,064,348	-	260,663,064,348	-	**260,663,064,348**
Financial assets available for sale	-	-	53,944,303	-	53,944,303	-	126,525,337	-	**126,525,337**
Total financial assets	**260,663,064,348**	**150,250,212,831**	**53,944,303**	**-**	**410,967,221,482**	**-**	**388,843,637,440**	**-**	**388,843,637,440**
Financial liabilities:									
Deposits due to other banks	-	-	-	1,071,584,438	1,071,584,438	-	1,071,584,438	-	**1,071,584,438**
Customers' deposits	-	-	-	364,030,327,452	364,030,327,452	-	364,030,327,452	-	**364,030,327,452**
Total financial liabilities	**-**	**-**	**-**	**365,101,911,890**	**365,101,911,890**	**-**	**365,101,911,890**	**-**	**365,101,911,890**

(6) Fair value of financial instruments (Continued)

(a) Accounting classifications (Continued)

Fair value if 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 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.

(b) Valuation hirarchy

The Group uses the following hierarchy for determining and disclosing the fair value of availabl 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.

(6) Fair value of financial instruments (Continued)
(b) Valuation hierarchy - (Continued)

Classification of Financial Assets and Financial Liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 30 June 2017 and 1 July 2017 respectively:

			30 June 2017	01 July 2017
	Original classification under IAS 39	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Financial assets				
Cash and cash reserves	Loans and receivables	Amortised cost	53,584,027,014	53,584,027,014
Investment securities Corporate Bonds	Held to Maturity	Amortised cost	197,616,446,874	197,616,446,874
Investment securities Government securities	Held to Maturity	Amortised cost	22,415,275,193	22,403,666,545
Investment securities Treasury bills	Held to Maturity	Amortised cost	2,953,709	2,953,709
Investment securities Equity securities	Available for Sale	FVOCI	126,525,337	126,525,337
Loans and advances to customers and to micro finance institutions	Loans and receivables	Amortised cost	150,250,212,831	152,131,982,796
Receivables	Loans and receivables	Amortised cost	5,182,991,089	5,182,991,089
Total financial assets			**429,178,432,047**	**431,306,707,257**
Financial liabilities				
Deposits due to other banks	Amortised cost	Amortised cost	1,071,584,438	1,071,584,438
Customers' deposits	Amortised cost	Amortised cost	364,030,327,452	364,030,327,452
Dividends	Amortised cost	Amortised cost	5,575,654,069	5,575,654,069
Other liabilities and provisions	Amortised cost	Amortised cost	69,476,252,033	69,524,934,468
Total financial liabilities			**440,153,817,992**	**440,202,500,427**

(6) Fair value of financial instruments (Continued)
(b) Valuation hierarchy - (Continued)

The following table reconciles the carrying amounts under IAS 39 as at 30 June 2017 to the carrying amount under IFRS 9 on transition to IFRS 9 on 1 July 2017:

	IAS 39 carrying amount	Re-classification	Re-measurement	IFRS 9 carrying amount
	30 June 2017			**01 July 2017**
Financial assets				
Amortised cost				
Cash and cash reserves	53,584,027,014		-	53,584,027,014
Investment securities Corporate Bonds	197,616,446,874		-	197,616,446,874
Investment securities Government securities	22,415,275,193		(11,608,647)	22,403,666,545
Investment securities Treasury bills	2,953,709		-	2,953,709
Investment securities Equity securities	126,525,337		-	126,525,337
Loans and advances to customers and to micro finance institutions	150,250,212,831		1,881,769,965	152,131,982,796
Receivables	5,182,991,089		258,113,892	5,441,104,981
Total financial assets	**429,178,432,047**	**-**	**2,128,275,210**	**431,306,707,257**
Financial liabilities				
Amortised cost				
Deposits due to other banks	1,071,584,438	-	-	1,071,584,438
Customers' deposits	364,030,327,452	-	-	364,030,327,452
Other liabilities & Provisions	69,476,252,033	-	48,682,435	69,524,934,468
Dividend	5,575,654,069	-	-	5,575,654,069
Total amortised cost	**440,153,817,992**	**0**	**48,682,435**	**440,202,500,427**

(7) INTEREST INCOME AND EXPENSE

Interest income and expense are analyzed as follows:

Interest Income	**30 June 2018**	**30 June 2017**
Loans and advances to customers	17,732,171,036	13,510,437,520
Debt securities	19,536,628,252	12,402,841,554
Cash and cash equivalents	59,665,528	63,842,464
Total interest income	**37,328,464,816**	**25,977,121,538**

Interest expense	**30 June 2018**	**30 June 2017**
Depositary obligations	14,728,166,410	9,193,920,091
Other obligations	22,084,820	11,741,269
Total interest expense	**14,750,251,230**	**9,205,661,360**

(8) NON-INTEREST INCOME AND EXPENSES

NON-INTEREST INCOME	**30 June 2018**	**30 June 2017**
Commissions	3,233,171,652	3,692,603,369
Bank services and transaction fees	1,059,977,345	1,243,437,816
Discount Earned on Securities	484,734,485	107,756,282
Other Income	688,825,116	401,263,575
	5,466,708,598	**5,445,061,042**

NON-INTEREST EXPENSE	**30 June 2018**	**30 June 2017**
Salaries & Employee Benefit	7,778,590,774	4,636,867,284
Impairment loss as per regulatory requirement	408,318,158	-
Depreciation and amortization	1,110,730,842	839,846,946
Depreciation-Right of use asset	579,558,087	431,347,260
Repairs and maintenance	155,243,276	118,173,205
Electronic data process	170,199,989	141,953,489
Stationery and office supplies	221,139,162	168,435,773
Discounted loss	439,821,560	107,756,282
Advertizing and publicity	360,443,124	69,542,511
Other expenses	1,435,431,749	2,809,436,325
Total non- interest expenses	**12,659,476,721**	**9,323,359,074**

(9) CASH AND CASH EQUIVALENTS

	30 June 2018	30 June 2017
Cash on hand	6,207,037,962	6,373,910,267
Cash reserve with National Bank of Ethiopia	23,020,161,618	18,570,161,619
Cash reserve with Bank of South Sudan	-	116,696,000
Cash reserve with Central Bank of Djibouti	154,423,967	118,542,437
Placements with other banks	10,156,202,518	9,553,386,282
Payment and settlement accounts:		
- with National Bank of Ethiopia	12,181,985,574	18,654,631,381
- with Central Bank of South Sudan	276,218,756	111,976,097
- with Central Bank of Djibouti	-	12,892,888
Cash in Transit	7,763,148	71,830,043
	52,003,793,543	**53,584,027,014**

(1) The cash reserve with National Bank of Ethiopia is non-interest earning and is based on the value of deposits as adjusted for National Bank of Ethiopia requirements. At 30 June 2018 and 30 June 2017, 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 Bank of South Sudan. 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 2018	30 June 2017
Debt and Equity Securities	**319,069,307,014**	**260,789,589,685**

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 2018	30 June 2017
Debt Securities	318,900,683,717	260,663,064,348
Allowance for Impairment Losses	(14,313,703)	-
	318,886,370,014	**260,663,064,348**

(10) Debt and Equity securities (Continued)
(i) Debt securities (Continued)

	30 June 2018	30 June 2017
Coupon bonds	48,421,766,805	40,628,388,572
Corporate bonds	247,843,891,977	197,616,446,874
Treasury bills	-	2,953,709
Government securities	22,635,024,935	22,415,275,193
	318,900,683,717	**260,663,064,348**

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

Interest receivable	30 June 2018	30 June 2017
Coupon bonds	3,906,439,844	2,794,611,023
Corporate bonds	6,280,700,843	3,495,018,303
Government securities	7,087,216	867,044
Total	**10,194,227,903**	**6,290,496,370**

Following are details of coupon bonds:

	30 June 2018	30 June 2017
Addis Ababa City Government		
Bonds bearing interest at the savings deposit rate plus 1% per annum repayable in semi-annual installments.	25,451,838,657	20,691, 139,737
Addis Ababa City Administration Savings House Development		
Bonds bearing interest at the savings deposit rate plus 1% per annum repayable in semi-annual installments.	18,484,888,645	16,526,836,639
Oromia Regional State		
Bonds bearing interest at the savings deposit rate plus 1% per annum repayable in semi-annual installments.	436,055,088	456,295,708
Tigray Regional State		
Bonds earning interest at the savings deposit rate plus 1% per annum repayable in semi-annual installments.	142,544,572	159,505,465
	44,515,326,962	**37,833,777,549**

Following is the detail of corporate bonds:

	30 June 2018	30 June 2017
Ethiopian Electric Power		
Bonds bearing interest at the savings deposit rate plus 1% per annum and repayable in fourteen semi-annual installments starting August 2016.	209,500,000,000	172,400,000,000
Ethiopian Electric Utility		
Bonds bearing interest at the savings deposit rate plus 1% per annum and repayable in fourteen semi-annual installments starting August 2016.	2,750,000,000	2,800,000,000
Ethiopian Railway Corporation		
Bonds bearing interest at the savings deposit rate plus 1% per annum and repayable in fourteen semi-annual installments starting November 2016.	29,313,191,134	18,921,428,571
	241,563,191,134	**194,121,428,571**

(10) Debt and Equity securities (Continued)
(i) Debt securities (Continued)

Following are the details of government securities:

	30 June 2018	30 June 2017
Ministry of Finance and Economic Development (MOFED)		
Securities earning interest at 2% and 5 % per annum. Interest is payable semi-annually and principal repayments are made on annual basis.	197,038,157	218,610,117
Non-interest bearing bond Principal is payable annually.	22,430,899,560	22,195,798,032
	22,627,937,717	**22,414,408,149**

ii. Equity securities	30 June 2018	30 June 2017
Ethswitch Share Company	11,326,000	7,961,660
African Export Import Bank	162,804,000	112,440,403
S.W.I.F.T. SCRL	8,807,000	6,123,274
	182,937,000	**126,525,337**

Since equity investments are not held for trading, the group has designated them to be designated at fair value through other comprehensive income.

The change in the carrying amount of equity securities comprises:

Ethswitch Share Company	30 June 2018	30 June 2017
At 1 July at cost	12,002,000	22,740,000
Additions	-	-
Changes in fair value	(676,000)	(14,778,340)
	11,326,000	**7,961,660**

African Export Import Bank	30 June 2018	30 June 2017
At 1 July at cost	30,960,189	29,098,497
Additions	-	1,861,692
Changes in fair value	131,843,811	81,480,214
	162,804,000	**112,440,403**

S.W.I.F.T. SCRL	30 June 2018	30 June 2017
At 1 July at cost	244,114	244,114
Additions	-	-
Changes in fair value	8,562,886	5,879,160
	8,807,000	**6,123,274**

(11) LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

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

	30 June 2018		
ETB	Gross Amount	Allowance for loan losses	Carrying Value
Agriculture:			
Term loan	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 loan	100,274,546,614	(1,329,937,833)	98,944,608,781
Overdraft	1,486,878,726	(28,222,038)	1,458,656,688
Merchandise loan	-	-	-
	101,761,425,340	**(1,358,159,871)**	**100,403,265,469**
Domestic & Trade services:			
Term loan	17,661,517,351	(1,943,503,884)	15,718,013,467
Overdraft	492,809,062	(8,688,531)	484,120,531
	18,154,326,413	**(1,952,192,415)**	**16,202,133,998**
International trade:			
Term loan	19,106,855,329	(591,387,684)	18,515,467,645
Overdraft	1,477,219,328	(19,735,950)	1,457,483,378
Advance loan	-	-	-
	20,584,074,657	**(611,123,634)**	**19,972,951,023**
Building and construction:			
Term loan	2,693,294,350	(202,242,572)	2,491,051,778
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	7,172,654,697	-	6,989,138,318
Total Loans	**179,180,787,186**	**(6,493,294,336)**	**172,687,492,850**

(11) Loans and advances to customers (Continued)
(a) Classification (Continued)

	30 June 2017		
ETB	Gross Amount	Allowance for loan losses	Carrying Value
Agriculture:			
Term loan	11,904,161,123	(729,192,897)	11,174,968,226
Overdraft	13,188,519	(807,867)	12,380,652
	11,917,349,642	**(730,000,764)**	**11,187,348,878**
Manufacturing:			
Term loan	91,473,411,804	(1,242,714,014)	90,230,697,790
Overdraft	1,363,154,835	(18,581,465)	1,344,634,751
Merchandise loan	14,965,860	(203,319)	14,762,541
	92,851,532,499	**(1,261,498,798)**	**91,590,033,701**
Domestic & Trade services:			
Term loan	13,711,561,072	(941,714,872)	12,769,846,200
Overdraft	1,012,851,307	(69,562,987)	943,288,320
	14,724,412,379	**(1,011,277,859)**	**13,713,134,520**
International trade:			
Term loan	1,565,881,643	(88,928,293)	1,476,953,350
Overdraft	1,278,664,092	(72,616,865)	1,206,047,227
Advance loan	9,739,986,470	(553,145,493)	9,186,840,977
	12,584,532,205	**(714,690,651)**	**11,869,841,554**
Building and construction:			
Term loan	3,200,424,837	(335,314,212)	2,865,110,625
Overdraft	90,011,740	(9,430,690)	80,581,050
	3,290,436,577	**(344,744,902)**	**2,945,691,675**
Consumer Loan:			
Term loan	17,249,875,164	(2,630,515,453)	14,619,359,711
Overdraft			
	17,249,875,164	(2,630,515,453)	14,619,359,711
Interest receivable on loan	4,185,556,070	(183,516,378)	4,002,039,692
Total Loans	**156,803,694,536**	**(6,876,244,805)**	**149,927,449,731**

(11) Loans and advances to customers (Continued)
(b) Allowance for loan losses is as shown below:

		Allowance for loan losses
At 1 July 2016	ETB	5,627,598,522
Impairment recognized during the year		1,248,646,283
At 30 June 2017		**6,876,244,805**
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**

(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 2018	30 June 2017
Terms loans	ETB	303,056,655	320,834,425
Less: Allowance for loan losses		(27,420)	(1,604,156)
		303,029,235	319,230,269
Interest receivable on loan	ETB	4,138,162	3,694,831
Less: Allowance for loan losses		-	(162,000)
		4,138,162	3,532,831
		307,167,397	**322,763,100**

(b) Impairment losses on loans and advances

		2017/18	2016/17
At 1 July	ETB	1,604,156	1,882,004
IFRS 9 Adjustment		(1,576,736)	-
Amounts written off during the year		-	(277,848)
As at 30 June		**27,420**	**1,604,156**

(13) RECEIVABLES

		30 June 2018	30 June 2017
Government receivables	ETB	1,630,861,639	1,230,978,839
Foreign receivables		526,389,364	523,782,805
Other receivables		2,448,492,465	1,805,826,613
Receivable - Seda		821,687,377	-
Other advances		2,886,418,508	2,575,812,015
Staff loans – prepayments		1,008,619,153	582,280,249
Tax Receivable		326,482,083	5,291,109
		9,648,950,589	**6,723,971,630**
Less: Allowance for doubtful debts		(1,268,532,995)	(1,540,980,541)
		8,380,417,594	**5,182,991,089**

Allowance for doubtful debts:

		2017/18	2016/17
Balance as at 1 July	ETB	(1,540,980,541)	(1,424,631,359)
Adjustment as per IFRS 9		258,113,892	-
Doubtful debts written off during the year		4,001,987	9,356,880
Reduction(Addition) during the year		10,331,667	(125,706,062)
Balance as at 30 June		**(1,268,532,995)**	**(1,540,980,541)**

(14) INVESTMENTS IN ASSOCIATES

Investments in associates as of 30 June, 2018 and 2017 are as follows:

Ethiopia Re-insurance Company

		30 June 2018	30 June 2017
Percentage ownership interest	ETB	20.00%	20.00%
Revenue (100%)		558,002,085	519,787,503
Total comprehensive income (100%)		78,641,207	(47,136,017)
Group's share of total comprehensive income (20.00%)		**15,728,241**	**(9,427,203)**
Group's investment in associate		**113,301,038**	**97,572,796**

(15) NON CURRENT ASSETS HELD FOR SALE

		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 Impairment Allowance:				
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**

		2016/17		
Costs:	ETB	**Building**	**Movable property**	**Total**
At 1 July 2016		133,921,146	60,593,471	194,514,617
Acquisition		700,800,474	251,471,962	952,272,436
Transfer to property, plant and equipment		(24,843,570)	-	(24,843,570)
Sale/Disposal		(2,557,903)	(4,247,516)	(6,805,419)
Adjustment		-	-	-
Total		**807,320,147**	**307,817,917**	**1,115,138,064**
Less Impairment Allowance:				
Impairment loss on acquired assets		(7,397,605)	-	(7,397,605)
Movement for the year		(1,423,037)	(4,676,117)	(6,099,154)
Closing balance		(8,820,642)	(4,676,117)	(13,496,759)
Non-current assets held for sale As at 30 June 2017		**798,499,505**	**282,190,969**	**1,101,641,304**

(16) INVESTMENT PROPERTIES

		2017/18	2016/17
Balance as at 1 July	ETB	11,669,542	-
Addition		15,942,195	13,053,974
Accumulated Depreciation		(4,476,605)	(1,384,432)
Balance as at 30 June		**23,135,132**	**11,669,542**

Rental income from investment property of ETB 1,297,075 (2017: ETB 844,545) has been recognised in other income.

The above items of investment property have been depreciated on a straight line method at rate of 5% per annum.

(17) PROPERTY, PLANT AND EQUIPMENT

		Balance at 01 July 2017	Additions	Transfers	Disposals	Reclassifica-tions	Adjustments	Translation differences	Balance at 30 June 2018
Cost	ETB								
Building		2,209,664,682	164,944	(11,253,781)	-	-	2,315,685	(2,666,656)	2,198,224,874
Computer and software		1,803,885,597	327,456,354	-	(10,953)	4,204	632,880	36,141	2,132,004,225
Fixtures, fittings and equipment		1,965,469,945	790,492,143	117,070,795	(58,463)	(4,204)	650,806	(130,396)	2,873,490,626
Motor vehicles		1,006,157,678	263,656,698	-	(5,165,331)	-	1,813,956	(24,291)	1,266,438,710
Work in progress		4,783,206,709	1,405,921,042	(144,279,421)	-	-	(1,372,935)	-	6,043,475,395
		11,768,384,611	**2,787,691,182**	**(38,462,407)**	**(5,234,747)**	**-**	**4,040,391**	**(2,785,201)**	**14,513,633,829**
Depreciation									
Building		(247,638,764)	(87,100,899)	3,092,173	-	-	-	1,253,788	(330,393,702)
Computer and software		(931,552,553)	(364,658,230)	-	6,601	(4,162)	26,399,072	3,782,305	(1,266,026,966)
Fixtures, fittings and equipment		(815,413,039)	(396,825,578)	-	22,162	4,162	(102,744,994)	402,709	(1,314,554,578)
Motor vehicles		(272,614,636)	(173,371,365)	-	1,391,119	-	(316,309)	124,077	(444,787,114)
		(2,267,218,992)	**(1,021,956,072)**	**3,092,173**	**1,419,883**	**-**	**(76,662,231)**	**5,562,879**	**(3,355,762,360)**
Net carrying amount		**9,501,165,620**	**1,765,735,110**	**(35,370,234)**	**(3,814,865)**	**-**	**(72,621,840)**	**2,777,678**	**11,157,871,470**

(17) Property, plant and equipment - continued

		Balance at 1 July 2016	Additions	Transfers	Disposals	Reclassifi-cations	Adjust-ments	Transla-tion differ-ences	Balance at 30 June 2017
Cost	**ETB**								
Building		1,947,294,688	20,068,973	(13,053,974)	(13,128,858)	268,483,853	-	-	2,209,664,682
Computer and software		1,229,326,004	603,873,907	-	(29,914,181)	-	-	-	1,803,285,730
Fixtures, fittings and equipment		1,438,943,585	521,365,105	-	(74,937,103)	80,107,218	-	(8,859)	1,965,469,946
Motor vehicles		705,806,230	310,965,342	-	(10,005,773)	-	-	(8,255)	1,006,757,544
Work in progress		3,410,887,107	1,735,959,060	-	-	(350,082,268)	(13,557,190)	-	4,783,206,709
		8,732,257,614	**3,192,232,387**	**(13,053,974)**	**(127,985,915)**	**(1,491,197)**	**(13,557,190)**	**(17,114)**	**11,768,384,611**
Depreciation									
Building		(160,641,400)	(74,151,324)	1,384,432	647,880	-	(10,381,430)	(4,496,922)	(247,638,764)
Computer and software		(579,261,283)	92,983,907	-	10,356,099	-	(1,523,266)	266,322	(477,178,221)
Fixtures, fittings and equipment		(564,500,417)	(258,723,865)	-	13,245,113	-	(6,922,958)	1,489,092	(815,413,035)
Motor vehicles		(134,147,825)	(594,014,361)	-	3,456,880	-	(3,641,366)	1,357,704	(726,988,968)
		(1,438,514,144)	(833,905,643)	1,384,432	27,705,972	-	(22,469,020)	(1,383,804)	**(2,267,218,988)**
Net carrying amount		**7,293,743,470**	**2,358,326,744**	**(11,669,542)**	**(100,279,943)**	**(1,491,197)**	**(36,026,210)**	**(1,400,918)**	**9,501,165,623**

There were no capitalized borrowing costs related to the acquisition of property, plant and equipment during the year (2017: Nil).

(17) Property, plant and equipment – continued

Capital work in progress relates to construction of the CBE head office, district offices and branches optimization that was ongoing during the year.

Included in property, plant and equipment as at 30 June 2018 are assets with a gross value of ETB 730,289,997 (2017: 629,664,782) which are fully depreciated but still in use. The notional depreciation charge of these assets for the year would have been ETB 146,203,560 (2017: 143,348,272).

An amount of ETB 1,491,197 was expenses from Work in progress. It relates to work in progress on construction done for the Mahateme Ghandi branch.

An adjustment of ETB 13,557,190 was made on work in progress. It relates to error correction adjustments. Other adjustments of ETB 22,469,020 relate to assets lost in the CBE South Sudan entity as a result of political instability.

There were no idle assets as at 30 June 2018 and 2017.

(18) INTANGIBLE ASSETS

		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		(18,169,932)
Balance at 30 June, 2018		(200,166,527)
Net carrying value		**39,662,818**

		Software
Cost	ETB	
Balance at 1 July 2016		225,444,988
Additions		14,384,358
Balance at 30 June 2017		239,829,346
Amortization and impairment		
Balance at 1 July 2016		(172,645,941)
Additions		(9,350,654)
Balance at 30 June 2017		(181,996,595)
Net carrying value		**57,832,751**

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 2017 was ETB 18,169,932 (2017: ETB 9,350,654).

As at 30 June 2018, assets with a gross value of ETB 158,943,478 (2017:158,943,478) are fully amortized but still in use. The notional amortization charge for the year on these assets would have been ETB 39,735,870 (2017: 39,735,870).

There were no idle assets as at 30 June 2018 and 2017.

(19) OTHER ASSETS

ETB	30 June 2018	30 June 2017
Purchase in progress	145,191,334	503,673,812
Stationary and other supplies	315,758,107	268,191,258
IT expansion project	809,192,589	599,272,798
Prepaid Interest	4,069,100,440	4,508,922,000
Others	426,418,199	230,964,575
	5,765,660,670	**6,111,024,440**

(20) RIGHT OF USE ASSETS AND FINANCE LEASE OBLIGATION

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

i. Right-of-use assets:

	Land	Building	Total
Cost ETB			
Balance at 01 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 01 July 2017	(5,070,779)	(983,442,760)	(988,513,540)
Additions	(1,753,976)	(582,740,679)	(584,494,655)
Balance at 30 June 2018	(6,824,756)	(1,566,183,439)	(1,573,008,195)
Net carrying value	**78,105,320**	**2,426,367,563**	**2,504,472,883**

	Land	Building	Total
Cost			
Balance at 01 July 2016	84,930,076	1,824,178,544	1,909,108,619
Additions	-	942,832,317	942,832,317
Balance at 30 June 2017	84,930,076	2,767,010,860	2,851,940,936
Depreciation			
Balance at 01 July 2016	(3,316,803)	(553,849,476)	(557,166,279)
Additions	(1,753,976)	(429,593,284)	(431,347,260)
Balance at 30 June 2017	(5,070,779)	(983,442,760)	(988,513,540)
Net carrying value	**79,859,296**	**1,783,568,100**	**1,863,427,396**

(20) Right of Use Assets and Finance Lease Obligation- Continued

ii. Finance Lease Obligation

		Land	Building	Total
Cost	ETB			
Balance at 01 July 2017		19,887,739	255,130,034	275,017,773
Additions		-	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				
Balance at 01 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**
Cost				
Balance at 01 July 2016		23,160,364	187,241,953	210,402,317
Additions		-	101,414,852	101,414,852
Payment		3,272,625	33,540,825	36,813,450
Balance at 30 June 2017		19,887,739	255,115,980	275,003,719
Interest				
Balance at 01 July 2016		4,780,596	6,875,246	11,655,842
Additions		2,268,342	5,789,579	8,057,921
Balance at 30 June 2017		7,048,938	12,664,824	19,713,762
Net carrying value		**26,936,678**	**267,780,804**	**294,717,482**

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 2018 was 3.58% (2017: 2.65%). The rates used to compute the land lease liabilities as at 30 June 2018 was 8.50% (2017: 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 2018	30 June 2017
Payable on demand		
Local and Central Government	59,141,556,119	57,228,806,484
Private sector and retail customers	62,756,551,746	56,428,003,619
Public enterprises and agencies	78,968,898,358	47,182,893,479
	200,867,006,223	**160,839,703,582**
Savings deposits		
Private sector and retail customers	217,054,053,740	178,038,879,859
Public enterprises and agencies	7,249,899,233	5,350,386,434
	224,303,952,973	**183,389,266,293**
Term deposits		
Public enterprises and agencies	12,708,511,144	10,796,991,484
Private sector and retail customers	2,462,878,862	2,515,572,440
	15,171,390,005	**13,312,563,924**
Blocked accounts	**523,766,820**	**398,175,712**
Interest free banking		
All sectors	9,814,801,727	6,090,617,941
	450,680,917,749	**364,030,327,452**

Payable on demand accounts represents deposits that are non-interest bearing. The weighted average effective interest rate on Savings deposits as at 30 June 2018 was 7% (2017: 5%). The weighted average effective interest rate on Term deposits as at 30 June 2018 was 7.2% (2017: 5.2%). Blocked accounts represent blocked current accounts and blocked savings accounts whose average effective interest rates as at 30 June 2018 were 0% and 7% respectively (2017: 0% and 5% respectively). Interest free banking represents deposits that are non-interest bearing.

(22) PROVISIONS

	Bonuses	Legal	Unutilized O/D, L/C and Garantee	Total
Balances at 30 June 2016	355,547,430	-	-	355,547,430
Increases (decrease) recorded in income	427,883,562	33,100,176	-	460,983,738
Provisions used during the year	(355,547,430)	-	-	(355,547,430)
Balances at 30 June 2017	**427,883,562**	**33,100,176**	**-**	**460,983,738**
Increases (decrease) recorded in income	537,834,088	-	70,856,885	608,690,973
Provisions 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**

(22) Provisions- Continued

Bonus represents short-term benefits arising from constractive obligation and 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)

	2017/18	2016/17
DBO at 01 July	909,185,799	551,985,673
Current service costs	276,437,489	161,757,092
Interest cost	198,510,556	107,557,861
Past service cost for seniority recognition	2,927,601	20,849,876
Past Service due to Plan Amendment	731,525,634	-
Payments for the year	(76,800,089)	(118,379,471)
Inflation adjustment	40,537	33,992
IFRS Adoption recognized in Accumulated Profit or loss	-	5,382,464
Expense charged to income	2,041,827,527	729,187,487
Actuarial gains (loses) recognized in other comprehensive income	(98,499,378)	179,998,312
DBO at 30 June	**1,943,328,149**	**909,185,799**

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

	2017/18	2016/17
Cumulative amount at 01 July	(284,685,423)	(50,687,617)
Recognized during the year	98,499,378	(179,998,312)
Deferred income taxes	29,549,813	(53,999,494)
Actuarial gains, net of taxes at 30 June	**(156,636,232)**	**(284,685,423)**

iii. Actuarial assumptions

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

	30 June 2018	30 June 2017
Discount rate	4.19-13.25%	5.1 – 14.25%
Salary increase rate	1-14.00%	1.00 – 14.00%
Gold increase rate	3.00%	3.00%
Long term inflation rate	3-8.70%	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.

(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 2018 by the amounts shown below:

	2018		2017	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5% variance)	(116,983,825)	130,485,813	(42,358,176)	46,610,324
Salary increase rate (1.00% variance)	212,084,887	(176,097,238)	77,508,722	(65,083,652)

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 2018	30 June 2017
National Bank of Ethiopia	34,970,027,087	34,530,240,718
Margin accounts and deposits for guarantees	10,283,786,551	14,092,347,253
Certified Payment Order´s and Fund transfers	3,635,176,508	3,531,705,616
Payable to other banks	10,111,499,402	14,552,078,933
Blocked amounts	182,252,121	135,211,002
Other taxes	337,967,916	179,557,299
Unearned income	121,004,137	127,562,389
Pension contributions	84,743,371	36,296,775
Miscellaneous	4,110,075,029	1,830,268,309
	63,836,532,122	**69,015,268,294**

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

Dividends

Reserve for future dividends: CBE bank usually declares 75% of its profits as dividends to the government and books the same as a payable in its books. The Group retains the declared dividends by the bank in their books till such a point when the government will collect the entire amount.

— During 2017, the owners of the Group declared dividends for ETB 5,575,654,069.
— During 2018, the owners of the Group declared dividends for ETB 5,343,106,150.

(25) EQUITY

(a) Capital

The Group is owned by the government of the Federal Democratic Republic of Ethiopia, there are no shares. As of 30 June 2018, the Group's capital was ETB 40,000,000,000 (2017: ETB 40,000,000,000). The increase in Group's capital is fully paid in cash and in kind and was increased through a gazette notice No. 397/2017 as issued by the Council of Ministers on February 3, 2017.

(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. As per IFRS the allowance for uncollectable suspense account was ETB 1,268,532,995 and as per NBE requirement it is ETB 1,934,965,045 and the difference of ETB 666,432,050.- between the two is reflected on the statutory reserve

	As per IFRS	As per NBE
Balance as at 1 July 2017	1,540,980,541	1,540,981,541
Adjustment as per IFRS 9	(258,113,892)	
Doubtful debts written off during the year	(4,001,987)	(4,001,987)
Impairment Reduction During the year	(10,331,667)	-
Additional provision during the year		397,986,491
Balance as at June 30, 2018	**1,268,532,995**	**1,934,965,045**

(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.

(25) EQUITY (Continued)

(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.

(26) INCOME TAXES

The Group is subject to income taxes in Ethiopia, South Sudan and 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 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.

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

a) Reconciliation of effective tax rate

	30 June 2018	30 June 2017
Profit before tax	10,006,087,861	12,504,315,293
Blended statutory tax rate	30%	30%
"Expected" "tax expense	3,001,826,358	3,751,294,588
Non-deductible expenses	1,296,873,760	877,439,284
Allowed expenses	(1,102,418,389)	(428,242,881)
Tax-exempt income	(457,281,241)	(108,393,251)
Tax effect of tax losses not available or set off against the profit of 2017	-	7,996,315
Tax effect of Consolidation	22,831,059	56,429,752
Income tax Payable	**2,761,831,547**	**4,156,523,806**

For the year ended 30 June 2018 the Group had an effective income tax rate of 27.60% (33.24% in 2017).

b) Income tax recognized directly in other comprehensive income

	30 June 2018			30 June 2017		
	Income tax	Before taxes	Net of taxes	Income tax	Before taxes	Net of taxes
Remeasurement of defined benefit liability	(29,549,813)	98,499,378	68,949,565	(53,999,494)	(179,998,312)	(233,997,806)
Available for sale financial assets – fair valuation	(20,144,899)	67,149,663	47,004,764	(21,774,310)	72,581,034	50,806,724

(26) Income taxes (Continued)
(c) Recognized deferred tax assets

At 30 June 2018 and 2017, 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 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**
Balance as of June 2016	**368,745,513**
Recognized in Profit & Loss	1,202,343,553
Recognized in Other Comprehensive Income	(53,999,494)
Balance as of June 2017	**1,517,089,572**

(27) COMMITMENTS AND CONTINGENT LIABILITIES

In the ordinary course of business, the Group 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 2018**	**30 June 2017**
Loans committed but not disbursed at year end	32,811,893,923	33,499,962,000
Bond commitment	13,200,000,000	5,315,000,000
Construction Commitment	357,445,612	511,951,941
	46,369,339,535	**39,326,913,941**

Contingent liabilities	**30 June 2018**	**30 June 2017**
Letter of credit	38,761,278,563	32,143,299,328
Guarantees	23,390,719,336	18,142,117,318
	62,151,997,899	**50,285,416,646**

Nature of contingent liabilities

Letters of credit: commit the Group 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 2018 and 2017:

	30 June 2018	30 June 2017
Short-term benefits	11,150,346	9,829,125
Post-employment benefits	633,892	1,129.572

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 2018	30 June 2017
Loans granted	7,156,290	13,977,528

The loans to process council members are at a lower rate compared to the prevailing market rates and bear annual interest of 5%. The interest paid on balances outstanding from key management personnel amounted to ETB 428,960 (2017: ETB 1,008,518).

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 2018 (2017: 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 2018	30 June 2017
a. Income:		
Interest income	428,960	1,008,518
b. Expense:		
Interest expense paid to associates	14,113,916	13,909,263
c. Balances due to group companies:		
Associate entity	219,024,378	241,648,239

COMMERCIAL BANK OF ETHIOPIA
SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018
(IN ETHIOPIAN BIRR)

	Note	30 June 2018	30 June 2017
Interest Income	31	37,328,626,517	25,977,694,224
Interest Expense	31	(14,750,708,706)	(9,207,060,716)
Net interest income		**22,577,917,811**	**16,770,633,508**
Impairment losses on financial instruments		(1,547,644,864)	(1,206,454,194)
Net interest income after provisions		**21,030,272,947**	**15,564,179,314**
Gain(loss) on foreign currency transactions		(3,847,185,511)	815,313,086
Gain (loss) on Equity investments in subsidiaries and associates	38	48,008,402	149,152,902
Non-interest income	32	5,157,818,725	5,217,179,932
Non-interest expense	32	(12,529,277,021)	(9,189,383,583)
Profit before tax		**9,859,637,542**	**12,556,441,652**
Income tax	50	(4,556,975,091)	(2,899,217,930)
Profit for the year		**5,302,662,451**	**9,657,223,722**
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Remeasurement of defined benefit liability		97,956,419	(181,272,077)
Related tax		(29,386,926)	(54,381,623)
		68,569,493	(235,653,700)
Items that are or may be reclassified subsequently to profit or loss:			
Unrealized (loss)/gain arising from measurement at fair value		67,149,663	72,581,034
Related tax		(20,144,899)	(21,774,310)
		47,004,764	50,806,724
Other comprehensive income(Loss), net of tax		**115,574,257**	**(184,846,976)**
Total comprehensive income		**5,418,236,708**	**9,472,376,746**

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

COMMERCIAL BANK OF ETHIOPIA
SEPARATE STATEMENTS OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 JUNE 2018
(IN ETHIOPIAN BIRR)

	Note	30 June 2018	30 June 2017
Assets			
Cash and cash equivalent	33	51,583,168,082	52,405,505,205
Debt & Equity securities	34	319,067,807,014	260,786,135,976
Loans and advances to customers, net	35	172,688,434,731	149,932,035,135
Loans to micro-finance institutions, net	36	307,167,397	322,763,100
Receivables	37	7,247,631,192	5,010,594,909
Investments in subsidiaries and associates	38	1,985,372,814	1,914,645,440
Investment property	40	23,135,132	11,669,542
Property, plant and equipment, net	41	11,055,278,362	9,382,679,425
Intangible assets, net	42	39,662,818	57,832,751
Non-current assets held for sale	39	1,076,726,564	1,076,014,355
Other assets	43	5,511,694,030	5,959,028,188
Right of use asset	44	2,490,364,421	1,846,861,095
Deferred tax asset	50	743,741,424	1,505,031,484
Total assets		**573,820,183,981**	**490,210,796,605**
Liabilities			
Deposits due to other banks		1,191,260,217	1,075,431,802
Customers' deposits	45	450,752,000,493	364,099,613,166
Current tax liabilities	50	2,691,985,867	4,111,659,836
Provisions	46	629,298,696	454,858,686
Finance lease obligations	44	294,845,173	281,290,853
Dividend		5,343,106,150	5,575,654,069
Employee benefits	47	1,933,933,141	902,983,427
Other liabilities	48	63,662,267,535	68,950,820,815
Total Liabilities		**526,498,697,272**	**445,452,312,654**
Equity			
Capital	49	40,000,000,000	40,000,000,000
Legal reserve		6,774,406,532	4,993,410,101
Statutory Reserve		666,432,050	-
IFB reserve		608,463	608,443
Fair value reserve		97,811,488	50,806,724
Remeasurement of defined benefit liability		(217,771,824)	(286,341,317)
Total equity		**47,321,486,709**	**44,758,483,951**
Total liabilities and equity		**573,820,183,981**	**490,210,796,605**

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

COMMERCIAL BANK OF ETHIOPIA
SEPARATE STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018
(IN ETHIOPIAN BIRR)

	Capital	Capital reserve	Legal reserve	Statutory Reserve	IFB reserve	Accumulated profit/loss	Fair value reserve	Remeasurement of defined benefit liability	Total Equity
Balance as of 30 June 2016	**8,082,416,551**	**839,048,611**	**7,157,639,009**		**86,268**	**(1,667,632,904)**	**-**	**(50,687,617)**	**14,360,869,917**
Additional capital	26,500,000,000								**26,500,000,000**
Total comprehensive income									
Profit for the year						9,657,223,722			**9,657,223,722**
Other comprehensive income	-	-	-		-	-	50,806,724	(235,653,700)	**(184,846,976)**
Prior Period Adjustment									
Transfer to/(from) Capital reserve	839,048,611	(839,048,611)	-		-	-	-	-	**-**
Transfer to/(from) IFB reserve	-	-	-		522,175	-	-	-	**522,175**
Transfer to/(from) legal reserve	4,578,534,838	-	(2,164,228,908)			(2,414,305,930)	-	-	**-**
Dividends	-	-	-		-	(5,575,284,886)	-	-	**(5,575,284,886)**
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	-	-	-		-	5,302,662,451	-	-	**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**

COMMERCIAL BANK OF ETHIOPIA
SEPARATE STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018
(IN ETHIOPIAN BIRR)

	30 June 2018	30 June 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	**9,859,637,542**	**12,556,441,652**
Adjustment		
Impairment of financial instruments	1,547,644,864	1,209,040,000
Provision against Receivable	-	125,706,062
Provision against Non current asset held for sale	970,287	6,260,647
Depreciation and amortization	1,665,704,929	1,248,899,981
Income from subsidiary and associate recognized in profit or loss	(48,008,402)	(149,152,902)
Loss (Gain) on Disposal of Property, Plant and Equipment	(564,998)	(17,549,246)
Written off in profit or loss	-	17,647,433
Finance lease charge	9,207,735	8,057,920
	13,034,591,957	**15,005,351,547**
Movement in working capital		
Change in debt and equity security	(58,295,984,741)	(41,208,362,371)
Change in Loans and advances	(21,973,480,929)	(14,037,348,954)
Change in receivables	(1,951,234,067)	(7,779,021,787)
Change in Non Current Asset Held for Sale	(1,682,496)	-
Change in other assets	514,483,821	(5,280,769,483)
Change in Restricted cash	(5,708,650,000)	(4,253,080,060)
Change in customers' deposits	86,652,387,347	75,794,776,530
Change in provisions	103,583,126	108,461,992
Change in employee benefits	1,128,906,133	169,725,677
Change in other liabilities	(5,288,592,234)	10,044,097,486
	8,214,327,917	**28,563,830,577**
Cash generated from operations		
Income taxes paid	(5,292,579,150)	(4,330,437,508)
Net cash generated by operating activities	**2,921,748,767**	**24,233,393,069**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property ,plant and equipment	(2,755,856,300)	(3,077,910,964)
Proceeds from disposal of property, plant and equipment	4,379,863	22,906,576
Payments for Investments	(22,718,972)	(1,178,479,034)
Payment for intangibles	-	(14,384,359)
Payment right of use assets	(1,176,420,933)	(838,277,792)
Net cash used in investing activities	**(3,950,616,342)**	**(5,086,145,573)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash included in assets acquired		
Dividend paid	(5,575,654,069)	(3,063,092,600)
Finance lease obligation paid	(42,293,895)	(36,813,449)
Net cash outflow from financing activities	**(5,617,947,964)**	**(3,099,906,049)**
Increased (decrease) in cash and cash equivalents	**(6,646,815,539)**	**16,047,341,447**
Cash and cash equivalents at the beginning of the year	25,758,151,784	9,710,810,337
Cash and cash equivalents at the end of the year	**19,111,336,245**	**25,758,151,784**

COMMERCIAL BANK OF ETHIOPIA
SEPARATE STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018
(IN ETHIOPIAN BIRR)

	30 June 2018	30 June 2017
Cash and cash equivalents comprise		
Cash in hand	6,186,281,992	5,529,672,447
Balance with National Bank of Ethiopia	12,181,985,574	18,654,631,381
Placement with other banks	1,926,565,748	2,577,449,715
Deposit due to other banks	(1,191,260,217)	(1,075,431,802)
Cash In transit	7,763,148	71,830,043
Cash and cash equivalents	**19,111,336,245**	**25,758,151,784**

(29) FINANCIAL RISK REVIEW

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

- Credit risk
- Liquidity risk
- Market risk
- Capital management
- 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 statements.

Risk management framework

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

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

The Bank's 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.

(29) Financial risk review (continued)

a. Credit Risk

Refer page No. 55-74

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 18	30 June 17
Loans and advances to customers	172,688,434,731	149,932,035,135
Deposits from customers	450,752,000,493	364,099,613,166
Advances to deposits ratio	**38%**	**41%**

(29) Financial risk review (Continued)
(b) Liquidity risk (Continued)

The table below summarizes the Bank's liquidity risk as at 30 June 2018 and 30 June 2017, 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 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	1,807	129	581	1	16,314	22,565	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	183	319,083
A. Total Assets	**23,761**	**24,568**	**41,279**	**102,715**	**335,838**	**24,733**	**552,893**
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 libilities	**36,838**	**21,222**	**16,909**	**13**	**401,571**	**41,448**	**518,297**
C. Net liquidity Gap (A-B) as at 30 June 2018	**(13,077)**	**3,346**	**24,369**	**102,702**	**(65,733)**	**(16,715)**	**34,596**
Cumulative Gap as at 30 June 2018	**(13,077)**	**(9,731)**	**14,639**	**117,341**	**51,607**	**34,892**	**-**

(29) Financial risk review (Continued)
(b) Liquidity risk (Continued)

30 June 2017	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	1,472	92	569	1	20,486	20,204	42,826
Placements with other banks	9,412	-	167	-	-	-	9,579
Loans and advances to banks	29	13	84	154	43	-	323
Loans and advances to customers	6,144	13,039	24,912	24,926	80,911	-	149,932
Receivables	4,793	22	-	196	-	-	5,011
Investment in subsidiary	-	-	-	-	-	1,818	1,818
Investment in associates	-	-	-	-	-	98	98
Debt Securities	7,309.04	2,382.66	21,202.00	56,664.05	173,058.58	53.94	260,670
A. Total Financial Assets	**29,159**	**15,549**	**46,934**	**81,941**	**274,499**	**22,174**	**470,257**
II. Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**
On balance sheet	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Deposits due to other banks	149	-	-	-	926	-	1,075
Customers' deposits	29,299	1,849	10,597	24	322,331	-	364,100
Current Tax Liability	-	4,112	-	-	-	-	4,112
Other liabilities	535	14,092	10,765	-	80	43,479	68,951
B. Total Financial liabilities	**29,983**	**20,053**	**21,362**	**24**	**323,337**	**43,479**	**438,238**
C. Net liquidity Gap (A-B) as at 30 June 2017	**(824)**	**(4,504)**	**25,572**	**81,917**	**(48,838)**	**(21,305)**	**32,019**
Cumulative Gap as at 30 June 2017	**(824)**	**(5,328)**	**20,244**	**102,161**	**53,322**	**32,017**	**-**

(29) Financial risk review (Continued)
(b) Liquidity risk (Continued)

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

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

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

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

c. Market risk

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

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

(a) Interest rate risk:

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

The Bank monitors the sensitivity of changes in interest rates, and 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.

(29) 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		-	-	-	-	-	41,396	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**		

(29) Financial risk review (Continued)
(c) Market risk (Continued)

Exposure to interest rate risk
(Amounts in Millions Birr)

30 June 2017	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 and balances with NBE		-	-	-	-	-	44,031	44,031
Placements with other banks	0.07%	-	-	167	-	-	9,412	9,579
Loans and advances to banks	5.40%	29	13	84	154	43	-	323
Loans and advances to customers	8.30%	6,144	13,039	24,906	24,926	80,911	-	149,926
Debt Securities	5.40%	7,309	2,383	21,202	56,664	173,112	-	260,670
Total Rate Sensitive Assets		**13,482**	**15,435**	**46,359**	**81,744**	**254,066**	**53,443**	**464,529**
II. Liabilities		**-**		**-**				**-**
B. Rate Sensitive Liabilities		**-**		**-**				**-**
Deposits due to other banks	-	-	-	-	-	-	1,072	1,072
Customers' deposits	4.74%	29,299	1,849	10,527	24	322,331		364,030
Total Rate sensitive liabilities		**29,299**	**1,849**	**10,527**	**24**	**322,331**	**1,072**	**365,102**
C. Rate Sensitive Gap		**(15,817)**	**13,586**	**35,832**	**81,720**	**(68,265)**	**52,371**	**99,427**
Cumulative Rate Sensitive Gap		**(15,817)**	**(2,231)**	**33,601**	**115,321**	**47,056**	**99,427**	**198,854**
Adjusted Interest Rate Change		**0.14**	**0.25**	**1.5**	**1**	**1**	**-**	**-**
Relative Gap Ratio(RSG to Total Asset)		**(0.64)**	**(0.87)**	**0.74**	**1.00**	**(0.24)**	**1.38**	
Total Asset		**24,571**	**15,550**	**46,934**	**81,941**	**278,645**	**37,985**	**485,626**

(29) Financial risk review (Continued)
(c) Market risk (Continued)

(b) Exchange rate risk:

Exchange rate risk is the risk a financial instrument's value fluctuates as a result of changes in the exchange rates of foreign currencies and other financial variables. Foreign exchange rate risks arises 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:

All figures are in thousands of ETB:

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)**

(29) Financial risk review (Continued)
(c) Market risk (Continued)

30 June 2017	USD	Euro	GBP	Other	Total
ASSETS					
Cash, deposits and advances to banks	69,860	27,139	6,151	109,114	212,264
Loans and advances to customers	-	-	-	-	-
Other assets	8,183,091	412,499	17,818	54,544	8,667,952
Related parties	-	-	-	-	-
At 30 June 2017	**8,252,951**	**439,638**	**23,969**	**163,658**	**8,880,216**
LIABILITIES					
Deposits from banks	146,058	428,945	52	-	575,055
Deposits from customers	20,783,489	491,689	101,837	45	21,377,060
Other liabilities	-	-	-	-	-
Related parties	-	-	-	-	-
At 30 June 2017	**20,929,547**	**920,634**	**101,889**	**45**	**21,952,115**
Net statement of position exposure	**(12,676,596)**	**(480,996)**	**(77,920)**	**163,613**	**(13,071,899)**

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 2017, 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.

Items	30 June 2018			30 June 2017		
Assets (Million)	Currency Carrying Amount	5% depreciation	5% appreciation	Currency Carrying Amount	5% depreciation	5% appreciation
USD	9,240,267,000	8,778,253,650	9,702,280,350	8,252,950,859	7,840,303,060	8,665,598,119
EUR	51,851,000	49,258,450	54,443,550	439,638,085	417,656,181	461,619,989
GBP	22,016,000	20,915,200	23,116,800	23,968,582	22,770,153	25,167,011
		8,848,427,300	**9,779,840,700**		**8,280,729,393**	**9,152,385,119**
Liabilities						
USD	24,941,978,000	23,694,879,100	26,189,076,900	12,896,193,663	12,251,383,980	13,541,003,346
EUR	1,107,556,000	1,052,178,200	1,162,933,800	920,633,839	874,602,147	966,665,531
GBP	131,671,000	125,087,450	138,254,550	101,888,651	96,794,218	106,983,084
		24,872,144,750	**27,490,265,250**		**13,222,780,345**	**14,614,651,961**
Total (decrease) increase from major Currencies		**(16,023,717,450)**	**(17,710,424,550)**		**(4,942,050,952)**	**(5,462,266,842)**

At 30 June 2017 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 16,023,717,450 (2017: ETB 4,942,050,952) while a strengthening by 5% would have resulted in an increase in profit by ETB 17,710,424,550 (2017: ETB 5,462,266,842).

(29) Financial risk review (Continued)

(d) Operational risk management

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

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

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

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

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

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

e. Capital management

The Bank 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 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.

(29) Financial risk review (Continued)

(e) Capital management (Continued)

In addition to regulatory requirements, CBE conducts objective analysis on the adequacy of its capitalization on a regular basis. Based on the result of rigorous analysis made on capital management and adequacy, CBE injects additional capital after proposing the required 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, 2018, and 30 June, 2017 respectively, the Bank's regulatory capital position was as follows:

	June 30 2018	30 June 2017
Capital - Level 1		
State Capital	40,000,000,000	40,000,000,000
Legal Reserves	6,774,406,532	4,993,410,101
IFB Reserve	608,463	608,443
Statutory Reserve	666,432,250	-
Fair value reserve	97,811,488	50,806,724
Re-measurement of Defined benefit liability	(217,771,824)	(286,341,317)
Total	**47,321,486,709**	**44,758,483,951**
Subordinated liabilities	-	-
Debt securities issued	-	-
Total	**-**	**-**
Total Regulatory Capital	**47,321,486,709**	**44,758,483,951**
Total assets and weighted contingencies	**156,086,484,858**	**146,237,377,907**
Total regulatory capital / risk weighted assets	**30%**	**30.61%**

(30) FAIR VALUE OF FINANCIAL INSTRUMENTS
(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:

					Fair value			
	Amortized Cost	FVOCI	FVTPL	Total carrying amounts	Level 1	Level 2	Level 3	Fair value
30 June 2018	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB
Financial Instruments								
Financial Assets:								
Loans and advances to customers	172,688,434,731	-	-	172,688,434,731	-	172,688,434,731	-	172,688,434,731
Loans to micro-finance institutions	307,167,397	-	-	307,167,397	-	307,167,397	-	307,167,397
Debt & Equity Securities	319,067,807,014	-	-	319,067,807,014	-	319,067,807,014	-	319,067,807,014
Receivables	7,247,631,192	-	-	7,247,631,192	-	7,247,631,192	-	7,247,631,192
Investment in Associates		113,301,038	-	113,301,038	-	113,301,038	-	113,301,038
Total financial assets	**499,311,040,334**	**113,301,038**	**-**	**499,424,341,372**	**-**	**499,424,341,372**	**-**	**499,424,341,372**
Financial liabilities:								
Deposits due to other banks	1,191,260,217	-	-	1,191,260,217	-	1,191,260,217	-	1,191,260,217
Customers' deposits	450,752,000,493	-	-	450,752,000,493	-	450,752,000,493	-	450,752,000,493
Total financial liabilities	**451,943,260,710**	**-**	**-**	**451,943,260,710**	**-**	**451,943,260,710**	**-**	**451,943,260,710**

(30) Fair value of financial instruments (continued)
(a) Accounting classifications (continued)

	Carrying amounts					Fair value			
	Held to maturity	Loans and receivables	Available for sale	At Amortised cost	Total carrying amounts	Level 1	Level 2	Level 3	Fair value
30 June 2017	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB
Financial Instruments									
Financial Assets:									
Loans and advances to customers	-	149,932,035,135	-	-	149,932,035,135	-	149,932,035,135	-	149,932,035,135
Loans to micro-finance institutions	-	322,763,100	-	-	322,763,100	-	322,763,100	-	**322,763,100**
Financial assets held to maturity	260,659,610,639	-	-	-	260,659,610,639	-	260,659,610,639	-	**260,659,610,639**
Financial assets available for sale	-	-	126,525,337	-	126,525,337	-	126,525,337	-	**126,525,337**
Receivables		5,010,594,909			5,010,594,909		5,010,594,909		**5,010,594,909**
Investment in Assoc.			97,572,797		97,572,797		97,572,797		**97,572,797**
Total financial assets	**260,659,610,639**	**155,265,393,144**	**224,098,134**	**-**	**416,149,101,917**	**-**	**416,149,101,917**	**-**	**416,149,101,917**
Financial liabilities:									
Deposits due to other banks	-	-	-	1,075,431,802	1,075,431,802	-	1,075,431,802	-	1,075,431,802
Customers' deposits	-	-	-	364,099,613,166	364,099,613,166	-	364,099,613,166	-	364,099,613,166
Total financial liabilities	**-**	**-**	**-**	**365,175,044,968**	**365,175,044,968**	**-**	**365,175,044,968**	**-**	**365,175,044,968**

(30) Fair value of financial instruments (Continued)

(a) Accounting classifications (Continued)

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

When 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.

(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 & 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.

(30) Fair value of financial instruments (Continued)

(b) Valuation hierarchy (Continued)

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 30 June 2017 and 1 July 2017 respectively:

			30-Jun-17	1-Jul-17
	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial assets				
Cash and cash reserves	Loans and receivables	Amortised cost	52,405,505,205	52,405,505,205
Investment securities - Corporate Bonds	Held to Maturity	Amortised cost	197,616,446,874	197,616,446,874
Investment securities - Government securities	Held to Maturity	Amortised cost	22,414,775,193	22,403,666,545
Investment securities - Equity securities	Available for Sale	FVOCI	126,525,337	126,525,337
Loans and advances to customers and to micro-finance institutions	Loans and receivables	Amortised cost	150,254,798,235	152,136,568,200
Receivables	Loans and receivables	Amortised cost	5,010,594,909	5,268,708,801
Total financial assets			**427,828,645,753**	**429,957,420,962**
Financial liabilities				
Deposits due to other banks	Amortised cost	Amortised cost	1,075,431,802	1,075,431,802
Customers' deposits	Amortised cost	Amortised cost	364,099,613,166	364,099,613,166
Dividends	Amortised cost	Amortised cost	5,575,654,069	5,575,654,069
Other liabilities and provisions	Amortised cost	Amortised cost	69,405,679,501	69,454,361,936
Total Financial Liabilities			**440,156,378,538**	**440,205,060,973**

(30) Fair value of financial instruments (Continued)

(b) Valuation hierarchy (Continued)

The following table reconciles the carrying amounts under IAS 39 as at 30 June 2017 to the carrying amount under IFRS 9 on transition to IFRS 9 on 1 July 2017:

	IAS 39 carrying amount	Re-classification	Re-measurement	IFRS 9 carrying amount
	30-Jun-17			**1-Jul-17**
Financial assets				
Amortised cost				
Cash and cash reserves	52,405,505,205	-	-	52,405,505,205
Investment securities - Corporate Bonds	197,616,446,874		-	197,616,446,874
Investment securities - Government securities	22,414,775,193		-11,608,647	22,403,166,545
Investment securities - Equity securities	126,525,337		-	126,525,337
Loans and advances to customers and to micro-finance institutions	150,254,798,235		1,881,769,965	152,136,568,200
Receivables	5,010,594,909		258,113,892	5,268,708,801
Total financial assets	**427,828,645,753**	**0**	**2,128,275,210**	**429,956,920,962**
Financial liabilities				
Amortised cost				
Deposits due to other banks	1,075,431,802	-	-	1,075,431,802
Customers' deposits	364,099,613,166	-	-	364,099,613,166
Other liabilities and Provisions	69,405,679,501	-	48,682,435	69,454,361,936
Dividend	5,575,654,069	-	-	5,575,654,069
Total amortised cost	**440,156,378,538**	**0**	**48,682,435**	**440,205,060,973**

(31) INTEREST INCOME AND EXPENSE

Interest income and expense are analyzed as follows:

Interest Income	30 June 2018	30 June 2017
Loans and advances to customers	17,731,963,831	13,511,010,206
Debt securities	19,536,539,681	12,395,007,686
Cash and cash equivalents	60,123,005	63,842,464
Accounts receivable	-	7,833,868
Total interest income	**37,328,626,517**	**25,977,694,224**

Interest expense	30 June 2018	30 June 2017
Depositary obligations	14,728,623,886	9,195,319,447
Other obligations	22,084,820	11,741,269
Total interest expense	**14,750,708,706**	**9,207,060,716**

(32) NON-INTEREST INCOME AND EXPENSES

NON-INTEREST INCOME	30 June 2018	30 June 2017
Commissions	3,232,460,046	3,690,606,716
Bank services and transaction fees	792,585,639	1,026,939,047
Discount Earned on Securities	484,734,485	107,756,282
Other income	648,038,555	391,877,887
Total Non-Interest Income	**5,157,818,725**	**5,217,179,932**

NON-INTEREST EXPENSE	30 June 2018	30 June 2017
Salaries and Employee Benefits	7,746,263,248	4,585,262,023
Impairment loss as per regulatory	408,318,158	125,706,062
Depreciation and Amortization	1,089,239,015	817,552,721
Deprecation Right of Use Asset	579,558,087	431,347,260
Advertising and publicity	359,544,446	69,523,476
Repairs and maintenance	153,468,320	118,173,205
Electronic data process	169,229,406	141,953,489
Stationery and office supplies	219,816,961	168,435,773
Discount Loss	439,821,560	107,756,282
Other expenses	1,364,017,820	2,623,673,292
Total non- interest expenses	**12,529,277,021**	**9,189,383,583**

(33) CASH AND CASH EQUIVALENTS

		30 June 2018	30 June 2017
Cash on hand	ETB	6,186,281,992	5,529,672,447
Cash reserve with National Bank of Ethiopia		23,020,161,619	18,570,161,619
Placements with other banks		10,186,975,748	9,579,209,715
Payment and settlement accounts:			
- with National Bank of Ethiopia		12,181,985,574	18,654,631,381
Cash in Transit		7,763,149	71,830,043
		51,583,168,082	**52,405,505,205**

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 2018 and 30 June 2017, 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 deposit at EXIM bank amounting ETB 8,260,410,000 (USD 300,000,000 at exchange rate of 27.5347 as at 30 June 2018) are not available to finance the Bank's day-to-day operations.

(34) DEBT AND EQUITY SECURITIES

		30 June 2018	30 June 2017
Debt Securities	ETB	318,884,870,014	260,659,610,639
Equity Securities		182,937,000	126,525,337
Debt and Equity Securities		**319,067,807,014**	**260,786,135,976**

i. Debt Securities

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

		30 June 2018	30 June 2017
Debt securities	ETB	318,899,183,717	260,659,610,639
Allowance for Impairment Losses		(14,313,703)	-
		318,884,870,014	**260,659,610,639**

(34) DEBIT AND EQUITY SECURITIES (Continued)

(i) Debt securities (Continued)

		30 June 2018	30 June 2017
Coupon bonds	ETB	48,421,766,805	40,628,388,572
Corporate bonds		247,843,891,977	197,616,446,874
Government securities		22,633,524,935	22,414,775,193
		318,899,183,717	**260,659,610,639**

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

Interest receivable	30 June 2018	30 June 2017
Coupon bonds	3,906,439,844	2,794,611,023
Corporate bonds	6,280,700,843	3,495,018,303
Government securities	7,087,216	867,044
Total	**10,194,227,903**	**6,290,496,370**

Following are details of coupon bonds:

	30 June 2018	30 June 2017
Addis Ababa City Government		
Bonds bearing interest at the savings deposit rate plus 1% per annum repayable in semi-annual installments.	25,451,838,657	20,691, 139,737
Addis Ababa City Administration Savings House Development		
Bonds bearing interest at the savings deposit rate plus 1% per annum repayable in semi-annual installments.	18,484,888,645	16,526,836,639
Oromia Regional State		
Bonds bearing interest at the savings deposit rate plus 1% per annum repayable in semi-annual installments.	436,055,088	456,295,708
Tigray Regional State		
Bonds earning interest at the savings deposit rate plus 1% per annum repayable in semi-annual installments.	142,544,571	159,505,464
	44,515,326,962	**37,833,777,549**

Following is the detail of corporate bonds:

		30 June 2018	30 June 2017
Ethiopian Electric Power	**ETB**		
Bonds bearing interest at the savings deposit rate plus 1% per annum and repayable in fourteen semi-annual installments starting August 2016.		209,500,000,000	172,400,000,000
Ethiopian Electric Utility			
Bonds bearing interest at the savings deposit rate plus 1% per annum and repayable in fourteen semi-annual installments starting August 2016.		2,750,000,000	2,800,000,000
Ethiopian Railway Corporation			
Bonds bearing interest at the savings deposit rate plus 1% per annum and repayable in fourteen semi-annual installments starting November 2016.		29,313,191,134	18,921,428,571
		241,563,191,134	**194,121,428,571**

(34) DEBIT AND EQUITY SECURITIES (Continued)

(i) Debt securities (Continued)

Following are the details of government securities:

	30 June 2018	30 June 2017
Ministry of Finance and Economic Development (MOFED)		
Securities earnings interest at 2% and 5% per annum. Interest is repayable semi-annually and principal repayment is made on annual basis.	195,538,157	217,743,073
Non-interest bearing Government bond principal repayment is made on annual basis.	22,430,899,560	22,196,165,076
	22,626,437,717	**22,413,908,149**

ii. Equity securities

	30 June 2018	30 June 2017
Ethswitch Share Company	11,326,000	7,961,660
African Export Import Bank	162,804,000	112,440,403
S.W.I.F.T. SCRL	8,807,000	6,123,274
	182,937,000	**126,525,337**

The change in the carrying amount of equity securities comprises:

Ethswitch Share Company	30 June 2018	30 June 2017
At 1 July at cost	12,002,000	22,740,000
Additions	-	-
Changes in fair value	(676,000)	(14,778,340)
	11,326,000	**7,961,660**

African Export Import Bank	**30 June 2018**	**30 June 2017**
At 1 July at cost	30,960,189	29,098,497
Additions	-	1,861,692
Changes in fair value	131,843,811	81,480,214
	162,804,000	**112,440,403**

S.W.I.F.T. SCRL	**30 June 2018**	**30 June 2017**
At 1 July at cost	244,114	244,114
Additions	-	-
Changes in fair value	8,562,886	5,879,160
	8,807,000	**6,123,274**

(35) LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

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

		30 June 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**

(35) Loans and advances to customers (Continued)

(a) Classification (Continued)

		30 June 2017		
		Gross Amount	Allowance for loan losses	Carrying Value
Agriculture:				
Term loan	ETB	11,904,161,123	(729,192,897)	11,174,968,226
Overdraft		13,188,519	(807,867)	12,380,652
		11,917,349,642	**(730,000,764)**	**11,187,348,878**
Manufacturing:				
Term loan		91,473,411,804	(1,242,714,014)	90,230,697,790
Overdraft		1,367,740,239	18,581,465	1,349,158,774
Merchandise loan		14,965,860	(203,319)	14,762,541
		92,856,117,903	**1,261,498,798**	**91,594,619,105**
Domestic & Trade services:				
Term loan		13,711,561,072	(941,714,872)	12,769,846,200
Overdraft		1,012,851,307	(69,562,987)	943,288,320
		14,724,412,379	**(1,011,277,859)**	**13,713,134,520**
International trade:				
Term loan		1,565,881,643	(88,928,293)	1,476,953,350
Overdraft		1,278,664,092	(72,616,865)	1,206,047,227
Advance loan		9,739,986,470	(553,145,493)	9,186,840,977
		12,584,532,205	**(714,690,651)**	**11,869,841,554**
Building and construction:				
Term loan		3,200,424,837	(335,314,212)	2,865,110,625
Overdraft		90,011,740	(9,430,690)	80,581,050
		3,290,436,577	**(344,744,902)**	**2,945,691,675**
Consumer Loan:				
Term loan		17,249,875,164	(2,630,515,453)	14,619,359,711
Overdraft		-	-	-
		17,249,875,164	**(2,630,515,453)**	**14,619,359,711**
Interest receivable on loan		4,185,556,070	(183,516,378)	4,002,039,692
Total Loans		**156,808,279,940**	**6,876,244,805**	**149,932,035,135**

(35) Loans and advances to customers (Continued)
(b) Allowance for loan losses is as shown below:

		Allowance for loan losses
At 1 July 2016	ETB	5,627,598,522
Impairment recognized during the year		1,248,646,283
At 30 June 2017		**6,876,244,805**
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**

(36) 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 2018	30 June 2017
	ETB		
Terms loans		303,056,655	320,834,425
Less: Allowance for loan losses		(27,420)	(1,604,156)
		303,029,235	**319,230,269**
Interest receivable on loan		4,138,162	3,694,831
Less: Allowance for loan losses		-	(162,000)
		4,138,162	3,532,831
		307,167,397	**322,763,100**

(b) Impairment losses on loans and advances

	2017/18	2016/17
At 1 July	1,604,156	1,882,004
IFRS 9 Adjustment	(1,576,736)	-
Amounts written off during the year	-	(277,848)
As at 30 June	**27,420**	**1,604,156**

(37) RECEIVABLES

		30 June 2018	30 June 2017
Government receivables	ETB	1,630,861,639	1,230,978,839
Foreign receivables		526,970,942	523,782,805
Other receivables		2,136,811,862	1,633,430,433
Tax Receivable		326,482,083	5,291,109
Other advances		2,886,418,507	2,575,812,015
Staff loans – prepayments		1,008,619,153	582,280,249
		8,516,164,186	**6,551,575,450**
Less: Allowance for doubtful debts		(1,268,532,995)	(1,540,980,541)
		7,247,631,192	**5,010,594,909**
Allowance for doubtful debts:			
		2017/18	**2016/17**
Balance as at 1 July		(1,540,980,541)	(1,424,631,359)
Adjustment as per IFRS 9		258,113,892	-
Doubtful debts written off during the year		4,001,987	9,356,880
Reduction (Addition) during the year		10,331,667	(125,706,062)
Balance as at 30 June		**(1,268,532,995)**	**(1,540,980,541)**

(38) INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries and associates as of 30 June 2018 and 2017 are as follows:

Subsidiaries:

		30 June 2018	30 June 2017
Commercial Nominees PLC (99.99% participation)	ETB	1,476,745,551	1,329,735,423
Commercial Bank of Ethiopia(CBE) South Sudan Limited (100% ownership)		252,672,276	358,192,727
Commercial Bank of Ethiopia (CBE) Djibouti Limited (100% ownership)		146,190,327	129,144,493
		1,872,071,776	**1,817,072,643**
Associates:			
Ethiopia Reinsurance		113,301,038	97,572,797
		113,301,038	**97,572,797**
Total investments in subsidiaries and associates		**1,985,372,814**	**1,914,645,440**

(38) Investments in subsidiaries and associates (Continued)
(a) Commercial Nominees plc

	30 June 2018	30 June 2017
Percentage ownership interest	99.99%	99.99%
Revenue (100%)	925,780,766	725,150,753
Total comprehensive income (100%)	143,473,750	94,709,326
CBE's share of total comprehensive income (99.99% and 93.40%)	**143,473,750**	**94,699,856**

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

	30 June 2018	30 June 2017
Percentage ownership interest	100%	100%
Revenue (100%)	5,482,758	25,186,694
Total comprehensive income (100%)	(105,520,451)	59,931,789
CBE's share of total comprehensive income (100%)	**(105,520,451)**	**59,931,789**

(c) CBE Djibouti Limited

	30 June 2018	30 June 2017
Percentage ownership interest	100%	100%
Revenue (100%)	26,722	16,600
Total comprehensive income (100%)	(5,673,138)	3,948,460
CBE's share of total comprehensive income (100%)	**(5,673,138)**	**3,948,460**

Investments in associates as of 30 June, 2018 and 2017 are as follows:

Ethiopia Re-insurance Company

	30 June 2018	30 June 2017
Percentage ownership interest	20.00%	20.00%
Revenue (100%)	558,002,085	519,787,503
Total comprehensive income (100%)	78,641,207	(47,136,017)
CBE's share of total comprehensive income (20.00%)	**15,728,241**	**(9,427,203)**

(39) NON CURRENT ASSETS HELD FOR SALE

		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		5,039,712	(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**	**269,582,588**	**1,076,726,564**

(40) INVESTMENT PROPERTY

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

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

	2017/18	2016/17
Balance as at 1 July	11,669,542	-
Addition	15,942,195	13,053,974
Accumulated Depreciation	(4,476,605)	(1,384,432)
Balance as at June 30	**23,135,132**	**11,669,542**

Rental income from investment property of ETB 1,297,075 (2017; 844,545) has been recognized in other income.

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

(41) PROPERTY, PLANT AND EQUIPMENT

		Balance at 01 July 2017	Additions	Transfer	Disposal	Adjustments	Balance at 30 June 2018
Cost							
Building	ETB	2,078,891,940	164,944.43	(11,253,781)	-	2,315,685	2,070,118,788
Computer and software		1,793,227,393	326,264,564.33	-	(10,953)	632,880	2,120,113,885
Fixtures, fittings and equipment		1,903,019,222	788,144,517.32	117,070,795	(58,463)	650,806	2,808,826,877
Motor vehicles		968,930,321	258,317,658.19	-	(5,165,331)	1,813,956	1,223,896,604
Work in progress		4,783,206,709	1,405,921,041.90	(144,279,421)	-	(1,372,935)	6,043,475,395
		11,527,275,585	**2,778,812,726**	**(38,462,407)**	**(5,234,747)**	**4,040,391**	**14,266,431,548**
Depreciation							
Building		(196,964,187)	(83,439,832)	3,092,173	-	-	(277,311,846)
Computer and software		(923,365,529)	(362,735,772)	-	6,601	26,463,902.30	(1,259,630,797)
Fixtures, fittings and equipment		(772,255,595)	(381,915,122)	-	22,162	(102,402,550.57)	(1,256,551,105)
Motor vehicles		(252,010,849)	(167,039,708)	-	1,391,119	-	**(417,659,437.62)**
		(2,144,596,160)	**(995,130,434)**	**3,092,173**	**1,419,883**	**(75,938,648)**	**(3,211,153,186)**
Net carrying amount		**9,382,679,425**	**1,965,947,058**	**(11,465,590)**	**(3,814,865)**	**(71,898,257)**	**11,055,278,362**

(41) Property, plant and equipment- continued

		Balance at 1 July 2016	Additions	Disposals	Reclassifications	Transfers	Adjustments	Balance at 30 June 2017
Cost								
Building	ETB	1,806,800,172	29,790,747	-	268,483,853	`(13,053,974)	(13,128,858)	2,078,891,940
Computer and software		1,220,704,774	602,094,863	-	-	-	(29,572,244)	1,793,227,393
Fixtures, fittings and equipment		1,389,851,441	506,333,796		80,107,218	-	(73,273,233)	1,903,019,222
Motor vehicles		666,683,208	310,636,580	(8,389,467)	-	-	-	968,930,321
Work in progress		3,410,968,466	1,735,877,701	-	(350,082,268)	-	(13,557,190)	4,783,206,709
		8,495,008,061	**3,184,733,687**	**(8,389,467)**	**(1,491,197)**	**(13,053,974)**	**(129,531,525)**	**11,527,275,585**
Depreciation								
Building		(131,033,685)	(67,962,814)	-	-	1,384,432	647,880	(196,964,187)
Computer and software		(575,430,326)	(358,232,393)	-	-	-	10,297,190	(923,365,529)
Fixtures, fittings and equipment		(537,490,656)	(247,824,570)	-	-	-	13,059,631	(772,255,595)
Motor vehicles		(121,055,994)	(134,182,290)	3,227,435	-	-	-	(252,010,849)
		(1,365,010,661)	**(808,202,067)**	**3,227,435**	**-**	**1,384,432**	**24,004,701**	**(2,144,596,160)**
Net carrying amount	**ETB**	**7,129,997,400**	**2,376,531,620**	**(5,162,032)**	**(1,491,197)**	**(11,669,542)**	**(105,526,824)**	**9,382,679,425**

There were no capitalized borrowing costs related to the acquisition of property, plant and equipment during the year (2017: Nil).

(41) Property, plant and equipment (Continued)

Capital work in progress relates to construction of the CBE head office and branch optimization that was ongoing during the year.

Included in property, plant and equipment as at 30 June 2018 are assets with a gross value of ETB 721,081,656 (2017: 620,616,085) which are fully depreciated but still in use. The notional depreciation charge of these assets for the year would have been ETB 144,216,325 (2017: 143,348,272).

(42) INTANGIBLE ASSETS

		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**

		Software
Cost	ETB	
Balance at 1 July 2016		225,444,988
Additions		14,384,358
Balance at 30 June 2017		239,829,346
Amortization and impairment		
Balance at 1 July 2016		(172,645,941)
Additions		(9,350,654)
Balance at 30 June 2017		(181,996,595)
Net carrying value		**57,832,751**

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 2018 was ETB 18,169,933 (2017: ETB 9,350,654).

As at 30 June 2018, assets with a gross value of ETB 158,943,478 (2017:158,943,478) are fully amortized but still in use. The notional amortization charge for the year on these assets would have been ETB 39,735,870 (2017: 39,735,870).

(43) OTHER ASSETS

		30 June 2018	30 June 2017
Purchase in progress	ETB	145,191,334	503,673,812
Stationary and other supplies		315,758,107	267,588,857
IT expansion project		809,192,589	599,272,798
Prepaid Interest		4,069,100,440	4,508,922,000
Others		172,451,560	79,570,721
		5,511,694,030	**5,959,028,188**

(44) RIGHT OF USE ASSETS AND FINANCE LEASE OBLIGATIONS

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

a. Right-of-use assets:

	Land	Building	Total
Cost			
Balance at 01 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 01 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**

	Land	Building	Total
Cost			
Balance at 1 July 2016	84,930,076	1,824,178,544	1,909,108,619
Additions	-	926,266,015	926,266,015
Balance at 30 June 2017	84,930,076	2,750,444,559	2,835,374,634
Depreciation			
Balance at 1 July 2016	3,316,803	553,849,476	557,166,279
Additions	1,753,976	429,593,284	431,347,260
Balance at 30 June 2017	5,070,779	983,442,760	988,513,540
Net carrying value	**79,859,296**	**1,767,001,799**	**1,846,861,095**

(44) Right of use assets and finance lease obligations-continued

b. Finance Lease Obligation

	Land	Building	Total
Cost			
Balance at 1 July 2017	19,887,739	241,703,405	261,591,145
Addition	-	50,987,066	50,987,066
Payment	(3,269,485)	(43,370,995)	(46,640,480)
Balance at 30 June 2018	16,618,255	249,319,476	265,937,730
Interest expense			
Balance at 1 July 2017	7,048,938	12,650,770	19,699,708
Additions	2,176,367	7,031,367	9,207,735
Balance at 30 June 2018	9,225,306	19,682,138	28,907,443
Net carrying value	**25,843,560**	**269,001,613**	**294,845,174**
Cost			
Balance at 1 July 2016	23,160,364	187,241,953	210,402,317
Addition	-	88,002,277	88,002,277
Payment	(3,272,625)	(33,540,825)	(36,813,450)
Balance at 30 June 2017	19,887,739	241,703,405	261,591,144
Interest expense			
Balance at 1 July 2016	4,780,596	6,875,246	11,655,842
Additions	2,268,342	5,775,575	8,043,867
Balance at 30 June 2017	7,048,938	12,650,770	19,699,708
Net carrying value	**26,936,678**	**254,354,175**	**281,290,853**

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 2018 was 3.58% (2017: 2.65%). The rates used to compute the land lease liabilities as at 30 June 2018 was 8.50% (2017: 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.

(44) Right of use assets and finance lease obligations (Continued)

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

(45) CUSTOMERS' DEPOSITS

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

	30 June 2018	30 June 2017
Payable on demand		
Local and Central Government	59,141,556,119	57,228,806,484
Private sector and retail customers	62,878,118,980	56,506,362,560
Public enterprises and agencies	78,968,898,358	47,182,893,479
	200,988,573,457	160,918,062,523
Savings deposits		
Private sector and retail customers	217,003,569,251	178,029,806,632
Public enterprises and agencies	7,249,899,233	5,350,386,434
	224,253,468,484	183,380,193,066
Term deposits		
Public enterprises and agencies	12,708,511,144	10,796,991,484
Private sector and retail customers	2,462,878,862	2,515,572,440
Local and Central Government	-	-
	15,171,390,005	13,312,563,924
Blocked accounts	523,766,820	398,175,712
Interest free banking		
All sectors	9,814,801,727	6,090,617,941
	450,752,000,493	**364,099,613,166**

Payable on demand accounts represents deposits that are non-interest bearing. The weighted average effective interest rate on Savings deposits as at 30 June 2018 was 7% (2017: 5%). The weighted average effective interest rate on Term deposits as at 30 June 2018 was 5.2% (2017: 5.2%). Blocked accounts represent blocked current accounts and blocked savings accounts whose average effective interest rates as at 30 June 2018 were 0% and 7% respectively (2017: 0% and 5% respectively). Interest free banking represents deposits that are non-interest bearing.

(46) PROVISIONS

	Bonuses	Legal	Unutilized O/D,LC and Guarantee	Total
Balances at 30 June 2016	**346,396,694**	**-**	**-**	**346,396,694**
Increases (decrease) recorded in income	421,758,510	33,100,176	-	454,858,686
Provision used during the year	(346,396,694)	-	-	(346,396,694)
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**

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.

(47) EMPLOYEE BENEFITS

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

	2017/18	2016/17
DBO at 01 July	902,983,427	551,985,673
Current service costs	274,616,996	160,375,235
Interest cost	197,550,592	106,880,037
Past service cost for seniority recognition	2,927,601	20,849,876
Past service due to Plan Amendments	729,305,617	-
Payments for the year	(75,494,673)	(118,379,471)
Expense charged to income	2,031,889,560	721,711,350
Actuarial gains (losses) recognized in other comprehensive income	(97,956,419)	181,272,077
DBO at 30 June	**1,933,933,141**	**902,983,427**

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

(47) Employee benefits (Continued)

ii. Actuarial losses recognized in other comprehensive income

	2017/18	2016/17
Cumulative amount at 1 July	(286,341,317)	(50,687,617)
Recognized during the year	(97,956,419)	(181,272,077)
Deferred income taxes	(29,386,926)	(54,381,623)
Actuarial gains, net of taxes at June 30	**(413,684,662)**	**(286,341,317)**

iii. Actuarial assumptions

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

	30 June 2018	30 June 2017
Discount rate	13.25%	14.25%
Salary increase rate	14.00%	14.00%
Gold increase rate	3.00%	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 2018 by the amounts shown below:

	2018		2017	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5% variance)	(116,791,781)	130,277,248	(42,232,013)	46,475,501
Salary increase rate (1.00% variance)	211,670,434	(175,737,954)	77,258,951	(64,814,556)

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

(48) OTHER LIABILITIES

Other liabilities as of the reporting dates are as follows:

		30 June 2018	30 June 2017
Other Liabilities			
National Bank of Ethiopia	ETB	34,970,027,087	34,530,240,718
Margin accounts and deposits for guarantees		10,280,626,865	14,092,347,253
Payable to other banks		10,111,499,402	14,552,078,933
CPO's, telegraphic transfers and money transfers		3,635,176,508	3,531,705,616
Blocked accounts		182,252,113	135,211,002
Other taxes		337,722,177	168,731,547
Unearned income		121,004,137	127,562,389
Pension contributions		84,505,431	36,214,856
Miscellaneous		3,939,453,815	1,776,728,501
Total		**63,662,267,535**	**68,950,820,815**

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

Dividends

Reserve for future dividends: CBE bank usually declares 75% of its profits as dividends to the government and books the same as a payable in its books. The Bank retains the declared dividends in its books till such a point when the government will collect the entire amount.

- During 2018, the owners of the Bank declared dividends for ETB. 5,343,106,150.
- During 2017, the owners of the Bank declared dividends for ETB 5,575,654,06.

(49) 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 2018, the Bank's capital was ETB 40,000,000,000 (2017: ETB 40,000,000,000).

b) Legal Reserve accounts

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.

(49) EQUITY (Continued)

(d) IFB Reserve

The IFB (Interst Free Banking) 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) Remeasurement of defined benefits and Fair Value Reserve

Represents the accumulated amount, net of deferred income taxes, arising from changes in actuarial assumptions used in the calculation of labor obligations and the calculation´s effect of the change in fair value of equity investment.

(50) INCOME TAXES

The Bank is subject to income taxes in Ethiopia.

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 2018	30 June 2017
Profit before tax	9,859,637,542	12,556,441,652
Blended statutory tax rate*	30%	30%
"Expected" "tax expense	2,957,891,262	3,766,932,496
Non-deductible expenses	1,290,432,957	860,262,137
Allowed expenses	(1,099,194,486)	(439,478,781)
Tax-exempt income	(457,143,866)	(76,056,016)
Income tax Payable	2,691,985,867	4,111,659,836

For the year ended 30 June 2018 the Bank had an effective income tax rate of 27.30% (2017:32.75 %).

(50) Income taxes (Continued)

(b) Income tax expense

	30 June 2018	30 June 2017
Current Tax Payable	2,691,985,867	4,111,659,836
Deferred Tax Expense	761,290,060	(1,136,285,969)
Withholding Tax Receivable	215,722	-
Related Tax -OCI	(49,531,826)	(76,155,933)
Tax Expense for prior periods salary & Benefit	1,153,015,267	-
	4,556,975,090	**2,899,217,930**

c) Income tax recognized directly in other comprehensive income

	30 June 2018			30 June 2017		
	Income tax	Before taxes	Net of taxes	Income tax	Before taxes	Net of taxes
Remeasurement of defined benefit liability	(29,386,926)	97,956,419	68,569,493	(54,381,623)	(181,272,077)	(235,653,700)
Unrealized (loss) gain arising from measurement at fair value	(20,144,899)	67,149,663	47,004,764	(21,774,310)	72,581,034	50,806,724

d) Recognized deferred tax assets and liabilities

At 30 June 2018 and 2017, 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 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**
Balance as of June 2016	**368,745,513**
Recognized in Profit & Loss	1,190,667,594
Recognized in Other Comprehensive Income	(54,381,623)
Balance as of June 2017	**1,505,031,484**

(51) COMMITMENTS AND CONTINGENT LIABILITIES

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

Commitments-

	30 June 2018	30 June 2017
Loans committed but not disbursed at year end	32,811,893,923	33,499,962,000
Bond commitment	13,200,000,000	5,315,000,000
Construction Commitment	357,445,612	511,951,941
	36,446,010,612	**39,326,913,941**

Contingent liabilities-

	30 June 2018	30 June 2017
Letter of credit	38,761,278,563	32,143,299,328
Guarantees	23,390,719,336	18,142,117,318
	62,151,997,899	**50,285,416,646**

Nature of contingent liabilities

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

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

(52) RELATED PARTIES

a) Remuneration of key management personnel

Key management members received the following remuneration during the year ended 30 June 2018 and 2017:

		30 June 2018	30 June 2017
Short-term benefits	ETB	11,150,346	9,829,125
Post-employment benefits		633,892	1,129,572
		11,784,238	**10,958,697**

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.

(52) Related Parties (Continued)

(b) Transactions with key management personnel

Key management members entered into the following transactions:

		30 June 2018	30 June 2017
Loans granted	**ETB**	7,156,290	13,977,528

The loans to process council members are at a lower rate compared to the prevailing market rates and bear annual interest of 7%. The interest paid on balances outstanding from loans to key management amounted to ETB 428,960 (2017: ETB 1,008,518).

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.

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Notes

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