ANNUAL REPORT
2019/20

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Commercial Bank of Ethiopia

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Commercial Bank of Ethiopia
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Commercial Bank of Ethiopia

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PROFILE

- Has been serving Ethiopia since 1942.
- Pioneered ATM services in Ethiopia.
- Introduced Western Union Money Transfer Services to Ethiopia.
- Plays a catalytic role in the socio-economic development of the nation.
- Had 1,604 branches across the country as of June 30, 2020.
- Has strong correspondence relationships with about 44 renowned foreign banks and SWIFT bilateral key arrangements with over 750 banks.
- Achieved a strong asset position of Birr 819.3 billion as of 30 June 2020.
- Combines a wide capital base with more than 63,000 committed permanent and contract employees as of 30 June 2020.

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.

TEAMWORK

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

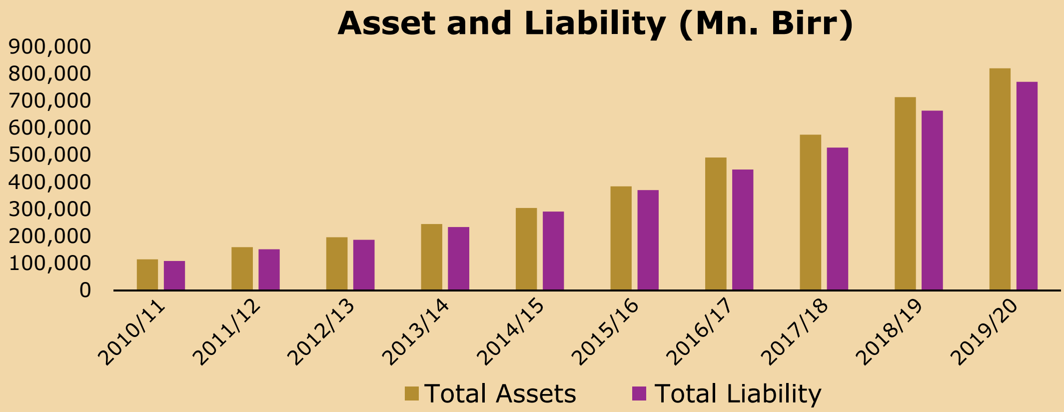
RESPECT FOR DIVERSITY

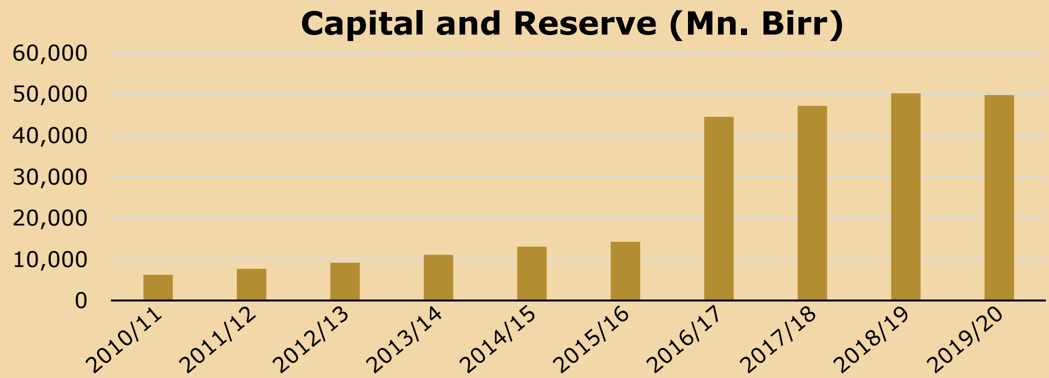
- We are sensitive to cultural, ethical, religious or other values of employees and customers.
- We value diversity of ideas and viewpoints of our employees.
- We foster an environment of inclusiveness, where all employees regardless of their sex, age, belief, etc. can exercise their maximum potential.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

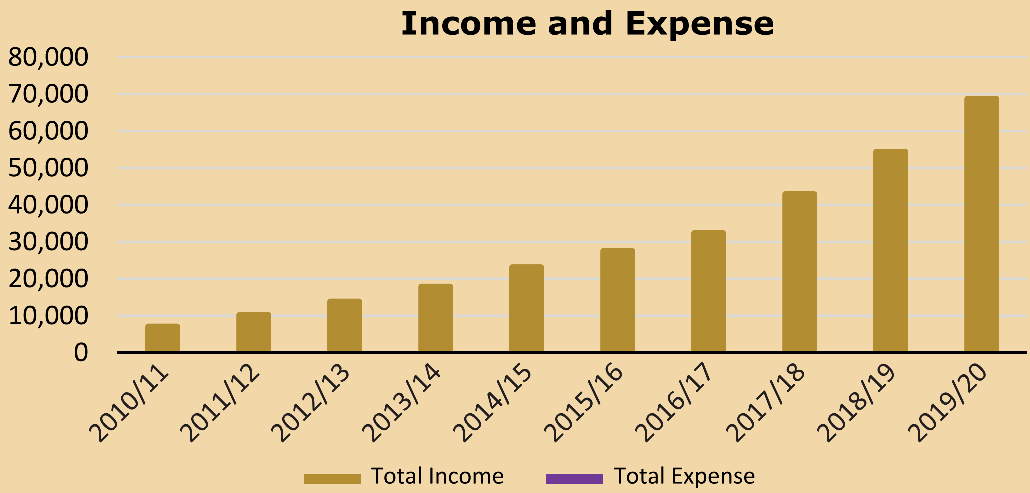
CORPORATE CITIZENSHIP

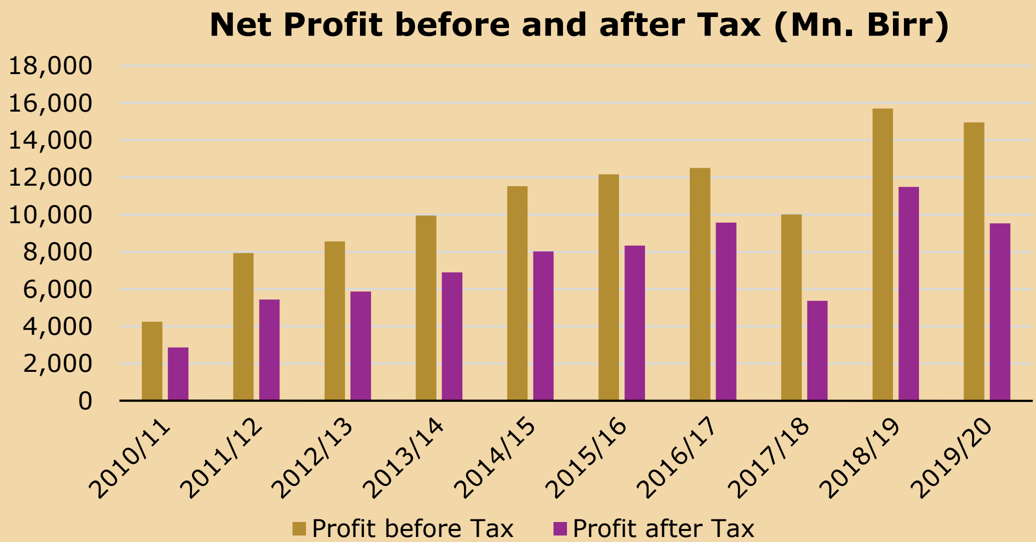
- We value the importance of our role in national development endeavors.
- We abide by the laws of Ethiopia and other countries in which we do business.
- We care about society's welfare and the environment.
- We believe that the sustainability of our business depends on our ability to maintain and build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

PERFORMANCE HIGHLIGHTS

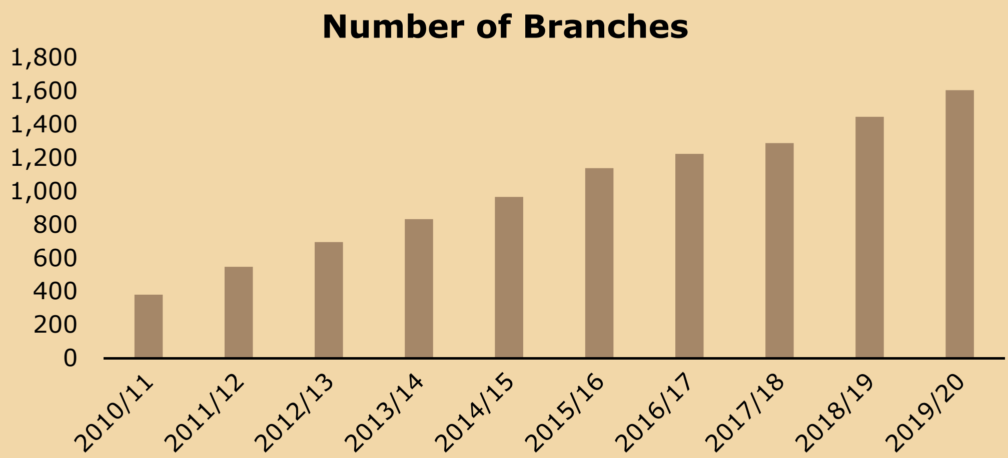


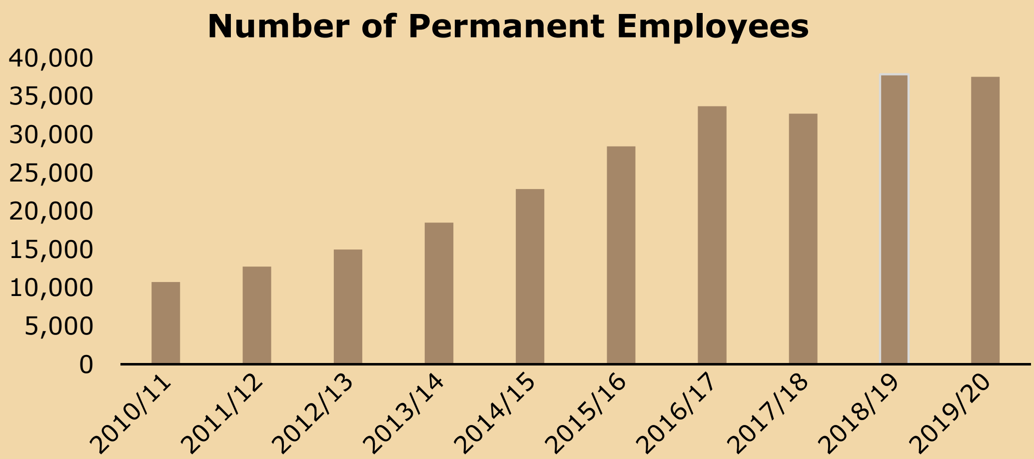


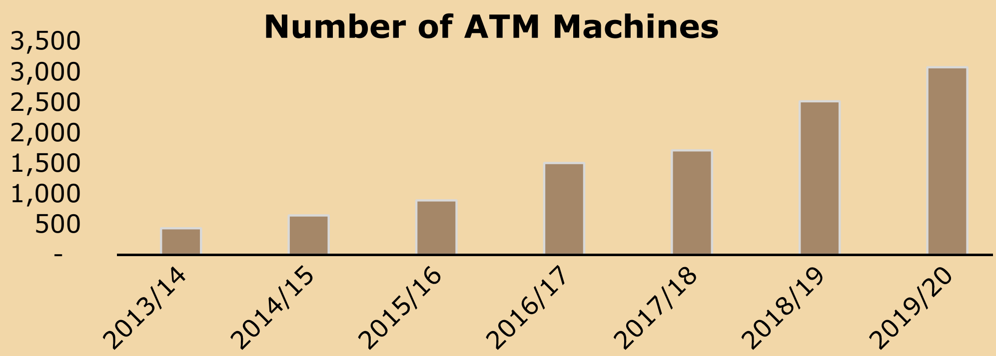


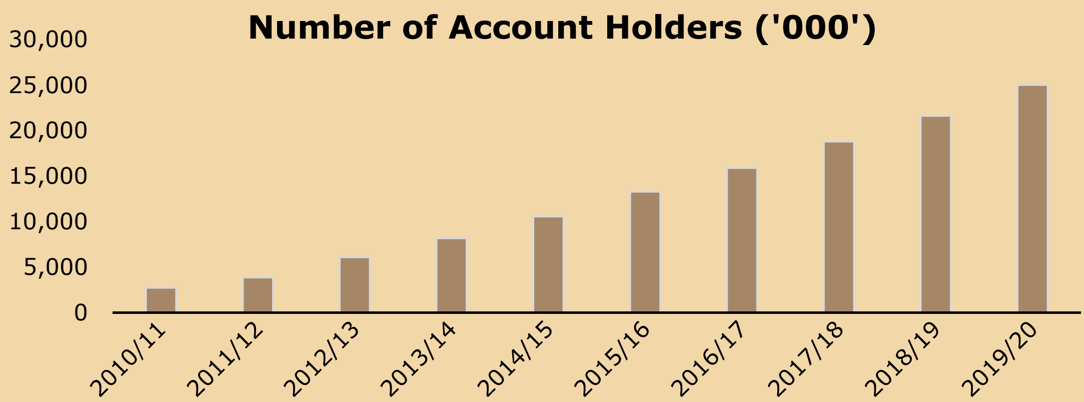


PERFORMANCE HIGHLIGHTS









CBE BOARD OF DIRECTORS

Ato Teklewold Atinafu

Chairperson

Abreham Belay (Ph.D)

Member

Fitsum Assefa (Ph.D)

Member

W/ro. Yasmin Wohabrebbi

Member

Ato Ahmed Tusa

Member

BOARD OF DIRECTORS

Ato Mamo Esmelealem Mihretu

Member

Ato Getachew Negera

Member

Eyob Tesfaye (Ph.D)

Member

Ato Nebiyou Samuel

Member

Ato Addisu Haba

Member

CBE SHARI'AH ADVISORY COMMITTEE

Dr. Jeyilan Kedir

Chairperson

Sheikh Mohammed Hamidin

Vice Chairperson

Associate Prof. Nur Abdi Gudle

Member

Dr. Mohammed Zein Nur

Member

Ustaz Awel Abdulwehab

Member

CBE EXECUTIVE MANAGEMENT

Ato Abie Sano

President

Ato Fikireselassie Zewdu

Executive V/P - Branch & Digital Banking

Ato Muluneh Aboye

V/P - Risk & Compliance

W/ro. Makeda Oumer

V/P - Internal Audit

W/ro. Tiruberhan Hailu

V/P - International Banking

EXECUTIVE MANAGEMENT

Ato Muluneh Lemma

V/P - Resource &
Credit Managment

Ato Haileyesus Bekele

V/P - Credit Appraisal &
Portfolio Management

Ato Amare Assefa

V/P - Information Systems

Ato Surra Saketa

V/P - Legal loan
Workout & Recovery

Ato Nuri Hussein

V/P - CBE NOOR

Ato Yonas Lidetu

V/P - Finance

EXECUTIVE MANAGEMENT

Ato Giragn Garo

V/P - Quality
Management & Control

Ato Ephrem Mekuria

V/P - Facility Managment

Ato Yishak Mengesha

V/P - Strategy &
Business Development

Ato Turi Goshe

A/ V/P - Human Resource

Ato Ali Ahmed

Chief of Staff

PRESIDENT'S

MESSAGE

I am delighted to write this message on the various performances of the Commercial Bank of Ethiopia (CBE) in the 2019/20 Fiscal Year (FY), which were below targets in some ways, largely due the COVID-19 pandemic, but a commendable achievement altogether.

To start with, CBE registered a net profit before tax of Birr 14.96 billion in the 2019/20 FY, which was lower by 4.7% than in the preceding FY. It also secured a Birr 52.7 billion additional deposit and collected Birr 109 billion from term loans and bonds. Mobilizing foreign exchange (FCY) amounting to USD 3.4 billion from various sources, the bank could meet a major part of the national need for FCY. These are remarkable financial performances in view of the pandemic.

Thanks to these performances, the financial standing of the bank in the 2019/20 FY was generally good as the various indicators show: 0.96% return on asset ratio, 14.7% return on equity ratio, and 22.4 % capital adequacy ratio. CBE's business development endeavors in the fiscal year too showed creditable achievements. The bank opened 160 new branches (including one Diaspora and 56 CBE NOOR) and 3.4 million new accounts. In an effort to promote digital banking, it deployed 567 ATMs, redeployed 182 POS machines, and distributed 2.7 million ATM cards. Moreover, it recruited 2.3 million mobile banking customers, 8.1 thousand internet banking subscribers, and 2.3 million CBE Birr users. These increments had positive implications for boosting deposit volumes and CBE-mediated transactions.

With regard to human resource status, both the number and quality of CBE's workforce were enhanced during the budget year. The total number of employees was raised to 63,716 in response to the expansion in branches and services. Over 35,000 employees received training in developmental, technical, and ethical areas. These are appreciable in consideration of the pandemic.

CBE restructured itself in the FY so as to function more smoothly and efficiently. Particularly, it adopted a hybrid flat organization and set up three divisions on a geographical basis to facilitate the management of district offices. Although the reorganization of units and the resulting reassignment of staff members were bound to create some inconveniences, the bank's employees adjusted to the changes quickly.

Committed to social responsibility as ever, CBE disbursed over Birr 25.4 million in the FY for various social causes. Notably, it donated Birr 10 million to support the national effort to prevent the COVID-19 pandemic.

In 2019/20, CBE won two important awards. It received the first class platinum award from the Ministry of Revenues for being the most loyal top taxpayer. Secondly, it won the Global Business Outlook Award for being the best commercial bank in terms of continued profitability, speedy expansion, significant increase in number of customers, ability to finance development projects, and fulfillment of social responsibilities.

I am deeply grateful for the unwavering patronage of our customers, the abreast leadership of the Board of Directors, and the continued commitment of fellow employees despite the pandemic. CBE's ability to cope with the challenges in the 2019/20 FY should build our confidence and motivate us for better achievements in the next fiscal years. As ambitious targets are awaiting our commitment, we need to become stronger, more capable, and dedicated to meet the demands of our customers and other stakeholders. I am confident that all stakeholders will continue to support us in the coming years as well.

Abie Sano
President

1. Highlights of Global and Domestic Economies

1.1 The Global Economy

The year 2019 witnessed a 2.8% output growth, the lowest since the 2008 financial crisis, because of poor performance in global trade and manufacturing as well as geopolitical tensions and weather-related disasters. Advanced countries experienced a slow growth driven by the sluggish growth in the US, despite the fall in unemployment. Emerging economies had been very subdued.

This was followed by the COVID-19 pandemic and worldwide lockdown in 2020 when global output dropped by 3.5%. The pandemic caused output contraction among major economies, except in China (IMF, 2020; IMF, 2021). The unemployment rate in the advanced countries grew from 5.3% in 2019 to 12.6% in 2020.

The average price indexes of energy items dropped by 26% in 2019/20 due to fuel price slump, while no significant price change was registered on other items, except a slight increment in coffee price. However, the price of precious metals, especially gold, rose significantly because of uncertainties induced by the COVID-19 pandemic.

Capital and foreign currency inflow from remittance, tourism and foreign direct investment inflow dropped in many developing nations in 2020 as a result of constrained movements and level of income due to the pandemic.

1.2 The Ethiopian Economy

The Ethiopian economy registered a 6.1% growth in the 2019/20 FY, dropping by 3 percentage points from that of 2018/19 FY. This was because of the economic shock from the coronavirus pandemic in the second half of the year. The total growth was attributed to the 9.6% growth in industrial output, 5.3% increase in the service sector, and 4.3% expansion in agriculture. The nation's GDP per capita reached USD 1,080 during the FY.

After Ethiopia reported its first COVID-19 case on 13 March 2020, the partial lockdown, state of emergency, and other responses of the nation affected fiscal space, prices of basic goods, unemployment, investment activities, and tourism negatively.

In the 2019/20 FY, Ethiopia received a USD 2.5 billion foreign direct investment (FDI), which was lower than the FDI in the 2018/19 FY by USD 600 million and the lowest in the past five years. The drop in FDI inflow had a negative impact on the number of employment opportunities and FCY inflow.

The average annual inflation rate rose to 19.9% in the FY from 12.6% in the previous budget year, while the average annual inflation of food and non-food items stood at 23.3% and 15.8%, respectively. This high inflation might have affected the saving capacities of households negatively.

The adverse economic situation, particularly among the trade partners of Ethiopia and the major countries of residence of the Ethiopian Diaspora, had negative implications for the external economy. Yet, foreign market price developments had been in favor of the domestic economy in spite of supply constraints.

Ethiopia earned USD 3 billion from export proceeds in the FY. This showed a 12% annual increment driven by a surge in earnings from gold, coffee, and flower. However, FCY earning from individual cash remittance decreased by 16.1% (falling to USD 2.4 billion) due to the COVID-19 pandemic and its negative effect on the economy of source countries. The value of Birr depreciated by 11.7% during the year, contributing to the inflation rate.

The federal government collected a 253.3 billion Birr revenue in the 2019/20 FY, mainly (90.2%) from tax, and spent Birr 358.7 billion. This led to a budget deficit of Birr 82.6 billion, which was mostly financed by external sources.

The broad money supply that indicates domestic liquidity rose by 17% in the fiscal year to reach Birr 1.04 trillion as of 30 June 2020. The amount of currency outside the banking system reached Birr 109 billion, indicating a high deposit potential for the banking sector.

Following the government's Homegrown Economic Reform Agenda, the National Bank of Ethiopia (NBE) introduced various directives that stimulate growth, stability, and competition in the banking industry and make the environment more conducive to banking services.

Generally, the economy, which was in good position until the 8th month of the FY, suffered from the direct and indirect impacts of the pandemic in the remaining months of the FY.

2. Highlights of CBE's Financial Statement

2.1 Income Statement

2.1.1 Income

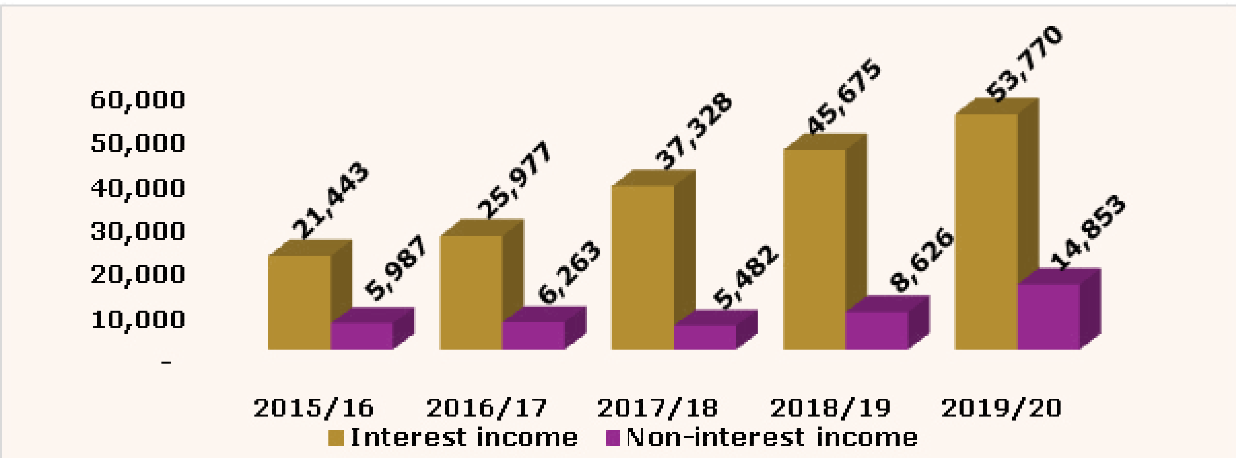
CBE generated a total income of Birr 68.6 billion in 2019/20 FY, depicting a growth of 26.4% due to increase in interest income, commission and charges. The bank's interest income rose by 17.7% and stood at Birr 53.8 billion, reflecting a surge in loan disbursement. Similarly, its non-interest income increased by Birr 6.2 billion (72.1%), largely owing to the revision made on commissions and charges.

Income Statement Comparison with 2018/19 FY

Particulars	2018/19 FY (Mn. Birr)	2019/20 FY (Mn. Birr)	Growth (%)
Total income	**54,301.3**	**68,623.4**	**26.4**
Interest income	45,675.2	53,769.8	17.7
Non-interest income	8,626.1	14,853.6	72.2
Total expense	**38,601.8**	**53,666.7**	**39.0**
Interest expense	20,056.8	24,680.1	23.1
Non-interest expense	18,545.0	28,986.6	56.3
Profit before tax	**15,699.5**	**14,956.7**	**-4.7**

The trend in the past five fiscal years, 2019/20 included, shows that CBE's total income had registered a consistent growth to which growth in interest income contributed the lion's share.

Trends in Income (Mn. Birr)



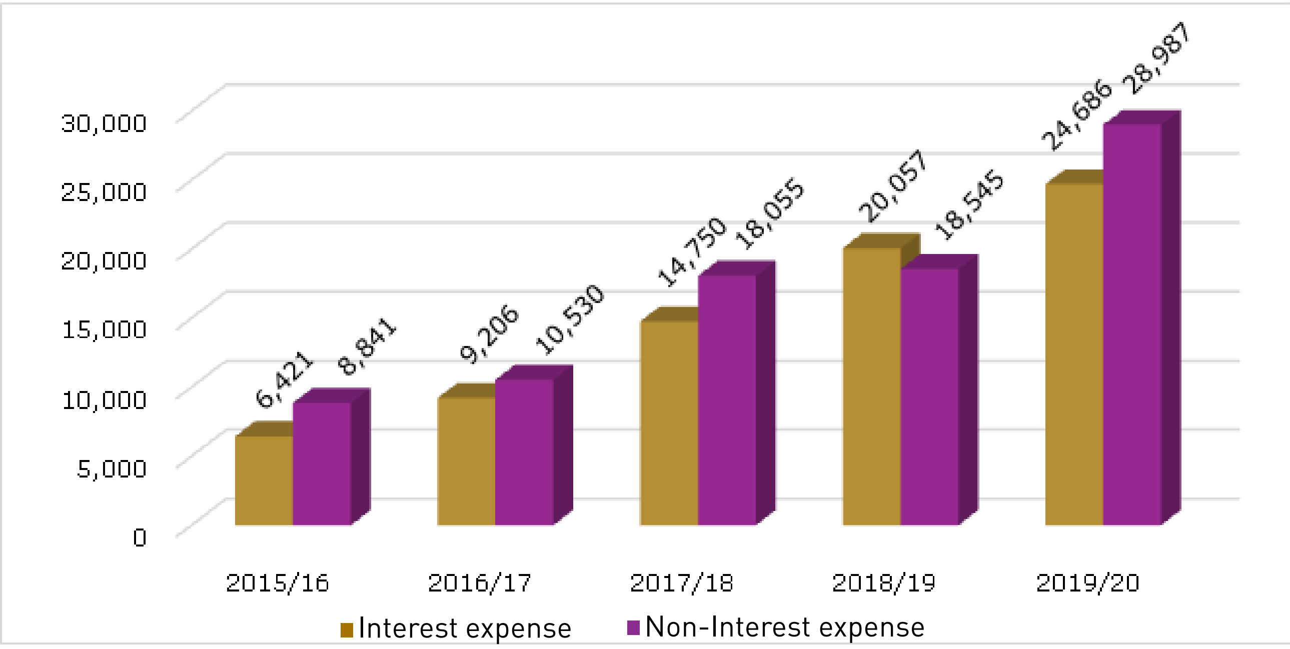
2.1.2 Expense

The total expense of the bank reached Birr 53.6 billion by the end of June 2020, depicting a growth of 39% when compared with that of the previous year. The growing expense was primarily influenced by a surge in staff-related and general expenses.

The interest expense of the bank reached Birr 24.7 billion during the 2019/20 FY, increasing by 23.1% from that of the previous year and mirroring an expansion of the bank's interest-bearing deposits. The non-interest expense increased significantly (by 56.3%) from Birr 18.5 billion in the previous FY, largely reflecting expansion in the bank's business.

CBE's total salary and employee benefit expenses stood at Birr 16.7 billion in the 2019/20 FY, indicating a growth of 73% from the figure in the previous year. The growth was associated with the implementation of a new salary scale, re-grading of branches, and adjustments made on employee benefits as per IFRS requirements.

Trends in Expense (Mn. Birr)



During the 2019/20 FY, CBE registered a net loss of about Birr 3.4 billion from foreign exchange transactions due to the continued and fast depreciation of the Birr, in contrast to the Birr 479 million net gain in the previous year.

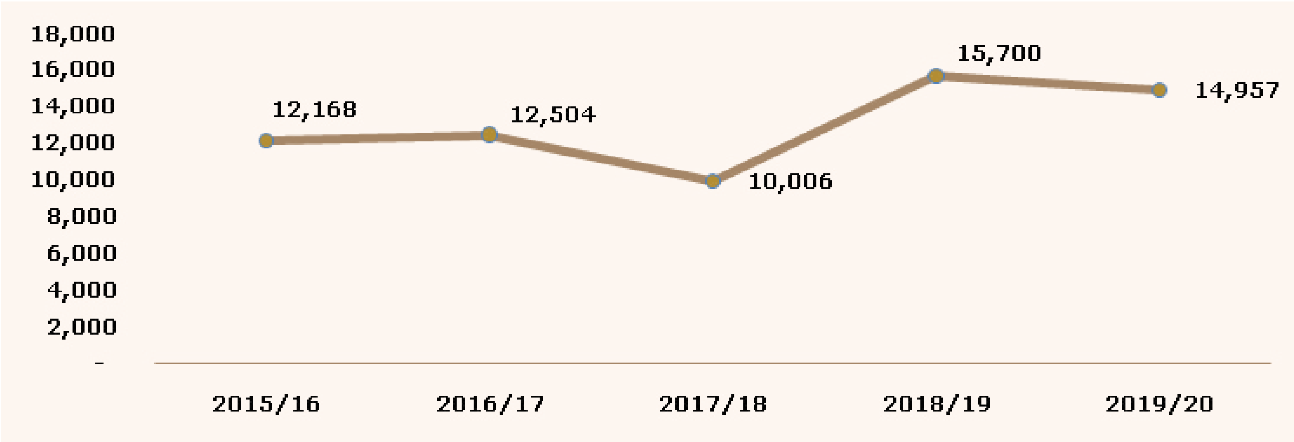
2.1.3 Profit

CBE registered a fall in profit during the 2019/20 FY from the all-time high profit in 2018/19 that was driven by the rise in expense (mainly in non-interest expense). It earned a profit of Birr 14.96 billion as of 30 June 2020, recording a 4.7% decline from that of the previous year.

Profit Comparison with 2018/19 FY			
Particular	**2018/19 FY (Mn. Birr)**	**2019/20 FY (Mn. Birr)**	**Growth (%)**
Total income	54,301	68,623.4	26.4
Total expense	38,602	53,666.7	30.26
Profit before tax	**15,699.50**	**14,956.7**	**-4.7**

The profit trend of the bank shows a fall during the 2017/18 FY and 2019/20 FY, but a peak in the 2018/19 FY as indicated in the following graph.

Trends in Profit Before Tax (Mn. Birr)



CBE's Return on Assets (RoA) stood at 0.96%, and its Return on Equity (RoE) at 14.65%, both dropping from the previous year. The Net Interest Margin (NRM) stood at 4.48%, slightly falling by 3%.

Profitability Indicators Comparison with 2018/19 FY			
Particulars	**2018/19 FY(%)**	**2019/20 FY(%)**	**Growth(%)**
RoA	1.76	0.96	-45.5
RoE	23.23	14.65	-36.9
NIM	4.62	4.48	-3.0

2.2 Balance Sheet

2.2.1 Assets

CBE's total asset reached Birr 819.3 billion as of 30 June 2020, registering a 14.9% growth when compared with the previous year balance of Birr 712.9 billion.

The total outstanding balance of loans and securities reached Birr 678.2 billion, with 14.4% annual expansion. The outstanding balance of securities, both debt and equity, grew by 12.6% and reached Birr 445.1 billion, largely (82.7%) held in the form of corporate bonds. The total outstanding loans of the bank to customers reached Birr 232.5 billion, showing a 17.8% increase on the balance of the previous year.

From the total outstanding loans provided for customers, the highest share (60.2%) went to the manufacturing sector, followed by personal/consumer borrowers (11.4%) and international trade customers (8.2%).

Comparison of Outstanding Loans & Advances and Securities			
Particulars	2018/19 FY (Mn. Birr)	2019/20 FY (Mn. Birr)	Growth (%)
Debt & equity securities	**395,196.9**	**445,140.4**	**12.6**
Loans to customers (Net of impairment losses)	**197,364.8**	**232,510.8**	**17.8**
Agriculture	10,179.9	10,631.1	4.4
Manufacturing	113,968.7	139,988.3	22.8
Domestic trade and services	12,947.5	15,566.3	20.2
Foreign trade	16,912.9	19,034.7	12.6
Building and construction	12,350.8	17,646.0	42.9
Personal loan/Consumer loan	19,809.5	26,483.9	33.7
Interest receivable from loans	10,942.4		-
Interest Free Banking FinanceMurabaha Finance	253.2	3,160.4	1,148.0
Loans to financial institutions	**506.5**	**576.6**	**13.8**
Total outstanding loans & advances and securities	**593,068.2**	**678,227.8**	**14.4**

During the 2019/20 FY, the amount of loan disbursement and CBE NOOR financing to the various economic sectors was Birr 147 billion, a growth of 14.1%. Moreover, the overall loan collection of the bank stood at Birr 109 billion, rising significantly by 58.5% per annum.

2.2.2 Liabilities

The total liabilities of the bank reached Birr 769 billion at the end of the 2019/20 FY. When compared to the previous year, liabilities grew by 16.1% due to increase in deposit, state dividend payable, and other payable accounts.

Comparison of Year-End Deposits with 2018/19 FY			
Particulars	2018/19 FY (Mn. Birr)	2019/20 FY (Mn. Birr)	Growth(%)
Customer deposit	**540,941**	**593,041**	**9.6**
Demand deposit	222,697	243,198	9.2
Saving deposit	270,216	302,481	11.9
Fixed time deposit	23,580	14,499	-38.5
IFB deposit	23,972	32,517	35.6
Blocked account deposit	**476**	**346**	**-27.3**
Deposit due to other banks	519	1,109	113.7
Total deposit	**541,460**	**594,150**	**9.7**

2.2.3 Capital and Reserves

At the end of the 2019/20 FY, the total capital and reserves of the bank reached Birr 49.8 billion, showing a slight fall from the Birr 50.2 billion balance of the previous year. The cause for this was a lower-than-stipulated amount of profit. The capital adequacy ratio stood at 22.4%, which is far higher than the minimum regulatory standard (8%), but lower than the previous year's ratio (27.4%).

3. Highlights of Non-Financial Development

3.1 Human Resource Development

Despite the challenges of COVID-19 pandemic, CBE continued enhancing the size and quality of its workforce during the 2019/20 FY in order to better meet the needs of stakeholders and achieve its vision. Some 359 permanent employees joined the bank, making the total number 37,552. As usual, the bank organized and conducted various training programs to develop the capacity of its staff. Consequently, 35,746 employees attended technical training programs, and 4,242 received developmental training, while 596 employees attended ethics training programs. Like the number of new employees, the number of trainees was a bit below target due to the pandemic prevention measures taken by the bank.

3.2 Technology Deployment

Continuing its digitalization endeavors during the 2019/20 FY, CBE increased its accessibility through newly deployed 567 ATMs and 182 POS machines that made the total number of the machines 3,072 and 3,581, respectively. The bank distributed about 2.7 million new cards to customers and raised the total number of active cardholders to 5.6 million. It also managed to increase the number of mobile banking users to about 4.6 million.

As a result, transactions carried out through digital channels (except POS transactions) expanded significantly during the FY considered. About 163 million transactions worth Birr 198.5 billion were carried out through digital channels, mainly ATMs. This represented 37% of the bank's total transaction volume that could have been mediated with teller services. The number of transactions via digital channels grew significantly as customers happened to prefer contactless services to prevent infection with the COVID-19 virus.

3.3 Branch and Customer Base Expansion

In the 2019/20 FY, the total number of CBE branches reached 1,604 as 160 new branches, including 56 dedicated to CBE NOOR services and one to diaspora services, were opened. This enhanced the accessibility of the bank and contributed significantly to the financial inclusion endeavor of the country. Besides, its number of customers increased by 3.4 million, partly due to newly opened branches. Thus the total number of CBE's customers rose to 25 million.

The wide branch network and customer base continued to help CBE maintain its all-round leadership position in the banking industry. The bank had market shares of 27%, 57%, and 59% in branch network, deposit, and asset parameters, respectively. CBE has continued striving to maintain and even strengthen this position.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Auditor's Report

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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 2020

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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 2019, and the consolidated and the Bank's statements of profit or loss and other comprehensive income, consolidated and Bank's statements of changes in equity and consolidated and the Bank's statements of cash flows for the year then ended, and notes to the consolidated and the Bank's financial statements, including consolidated and the Bank's summaries of significant accounting policies.

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

Basis for Opinion

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

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

Report on the Audit of the Consolidated Financial Statements (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.

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

Report on the Audit of the Consolidated Financial Statements (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)

Report on the Audit of the Consolidated Financial Statements (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

24 March 2021

Statement of Director's Responsibility

The Directors are responsible for the preparation and fair presentation of the consolidated financial statement of Commercial Bank of Ethiopia ("The Group"), comprising the statement of financial position as at 30 June 2020, statement of comprehensive income, changes in equity and cash flows for the year then ended and the notes to the financial statement, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRS).

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

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

Approval of the annual financial statement

The financial statement is approved by the Board of Directors on 24 March 2021 in accordance with Bank Corporate Governance Directive No. SBB/62/2015 of National Bank of Ethiopia.

Signed on behalf of the Directors by:

....	....
Ato Teklewold Atinafu	**Ato Abie Sano**
Board Chairperson	**President**

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020
(IN ETHIOPIAN BIRR)

		For the year ended June 30	
		2020	**2019**
	Note		
Interest Income	7	53,769,762,801	45,675,245,455
Interest Expense	7	(24,680,084,808)	(20,056,803,363)
Net interest income		**29,089,677,993**	**25,618,442,092**
Impairment losses on loans and advances		(939,729,001)	(3,267,965,350)
Net interest income after provisions		**28,149,948,992**	**22,350,476,742**
Gain on foreign currency transactions		(3,384,126,273)	479,230,584
Equity investments in associates		31,417,582	26,766,205
Non-interest income	8	14,822,203,661	8,120,063,274
Non-interest expense	8	(24,662,786,527)	(15,276,994,392)
Profit before tax		**14,956,657,435**	**15,699,542,413**
Income tax		(5,422,978,597)	(4,212,497,802)
Profit for the year		**9,533,678,838**	**11,487,044,611**
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability	24	(3,187,929,983)	(278,877,817)
Related tax		956,378,995	83,889,676
		(2,231,550,988)	**(194,988,141)**
Items that are or may be reclassified to profit or loss: Financial assets:			
- Unrealized (loss)/gain arising from measurement at fair value		36,258,914	39,446,716
Related tax		(10,877,674)	(11,834,015)
Foreign currency translation differences for foreign operations		3,843,930	11,712,583
		29,225,170	**39,325,284**
Other comprehensive income, net of tax		**(2,202,325,818)**	**(155,662,857)**
Total comprehensive income		**7,331,353,020**	**11,331,381,754**

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

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020
(IN ETHIOPIAN BIRR)

	Note	30 June 2020	30 June 2019
		As Restated	
Assets			
Cash and cash equivalents	9	97,524,063,189	85,473,472,580
Debt & Equity securities	10	445,140,387,326	395,196,878,559
Loans and advances to customers, net	11	232,510,755,443	197,364,804,056
Loans to micro-finance institutions, net	12	576,608,467	506,532,587
Receivables	13	8,904,265,586	8,071,372,366
Investments in associates	14	211,041,876	140,067,243
Non-current assets held for sale	15	1,030,518,314	1,007,145,000
Investment property	16	186,977	22,099,692
Property, plant and equipment, net	17	13,497,757,373	11,207,837,514
Intangible assets	18	219,179,194	179,865,829
Other assets	19	11,679,397,631	8,175,926,543
Right of use asset	20	3,929,727,524	2,958,241,804
Deferred tax assets	25	4,054,933,886	2,577,975,411
Total assets		**819,278,822,786**	**712,882,219,184**
Liabilities			
Deposits due to other banks		1,109,055,430	518,988,994
Customers' deposits	21	593,041,145,062	540,940,798,427
Current tax liabilities	25	5,954,265,633	5,992,447,406
Provisions	22	1,389,959,157	662,030,142
Finance lease obligations	20	249,694,124	301,128,800
Dividends		7,771,189,170	8,683,368,689
Employee benefits	23	6,614,840,691	2,766,551,435
Other liabilities	24	153,326,630,375	102,768,223,015
Total Liabilities		**769,456,779,642**	**662,633,536,908**
Equity			
Capital	26	40,000,000,000	40,000,000,000
Legal reserve		12,050,767,160	9,678,098,118
Capital reserve		173,439,202	143,256,736
Statutory Reserve		241,925,670	886,658,841
IFB reserve		1,706,854	1,057,658
Fair value reserve		150,805,429	125,424,189
Foreign Currency Translation Reserve		(300,587,409)	32,559,741
Accumulated Profit or Loss		146,480,467	(207,429,766)
Remeasurement of defined benefit liability		(2,642,494,229)	(410,943,241)
Total equity		**49,822,043,144**	**50,248,682,276**
Total liabilities and equity		**819,278,822,786**	**712,882,219,184**

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

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020
(IN ETHIOPIAN BIRR)

	Capital	Legal reserve	Capital reserve	Statutory reserve	CBE NOOR reserve	Fair value reserve	Foreign currency translation reserve	Accumulated Profit or Loss	Remeasurement of defined benefit liability	Total Equity
Balance as of June 30, 2019	**40,000,000,000**	**9,678,098,118**	**143,256,736**	**886,658,841**	**1,057,658**	**125,424,189**	**32,559,741**	**(207,429,766)**	**(410,943,241)**	**50,248,682,276**
Opening Adjustment								53,876,933		**53,876,933**
Profit for the year								9,533,678,839		**9,533,678,839**
Other comprehensive income						25,381,240			(2,231,550,988)	**(2,206,169,748)**
Transfer to capital reserve			30,182,466					(30,182,466)		
Transfer to/(from) CBE NOOR reserve					649,196					**649,195**
Transfer to/(from) legal reserve		2,372,669,042						(2,391,699,217)		**(19,030,175)**
Transfer to/(from) Statutory reserve				(644,733,171)						**(644,733,171)**
Loss on foreign exchange							(333,147,150)	333,147,150		
Dividends								(7,144,911,006)		**(7,144,911,006)**
Balance as of June 30, 2020	**40,000,000,000**	**12,050,767,160**	**173,439,202**	**241,925,670**	**1,706,854**	**150,805,429**	**(300,587,409)**	**146,480,467**	**(2,642,494,229)**	**49,822,043,144**

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020
(IN ETHIOPIAN BIRR)

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

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020
(IN ETHIOPIAN BIRR)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**14,956,657,435**	**15,699,542,413**
Adjustment		
Provisions /Impairment	1,015,527,419	3,582,368,494
Reduction of Allowance for Placement with other Banks	(29,698,743)	-
Provision against Non current asset held for sale	(507,834)	-
Depreciation and amortization	2,428,086,305	2,001,714,562
Income from associate recognized in profit or loss	(31,417,582)	(26,766,205)
Loss (Gain) on Disposal of Property, Plant and Equipment	(9,914,174)	1,163,095
Loss (Gain) on Disposal of NCA heald for sale	(16,338,397)	
Finance lease charge	8,829,081	7,340,261
	18,321,223,510	**21,265,362,620**
Movement in working capital		
Change In Debt and Equity Securities	(49,943,508,767)	(76,127,571,545)
Change in Loans and advances	(36,155,756,269)	(28,144,641,745)
Change in receivables	(1,477,626,391)	329,193,382
Change in Non Current Asset Held for Sale	-	25,626,948
Change in other assets	(3,467,212,173)	(736,482,645)
Change in Restricted fund	(10,378,472,526)	(3,956,502,340)
Change in customers' deposits	52,100,995,830	90,260,329,873
Change in provisions	727,929,013	20,238,994
Change in employee benefits	660,359,273	546,162,193
Change in other liabilities	50,588,589,827	41,007,228,097
	20,976,521,327	**44,488,943,832**
Cash generated from operations		
Income taxes paid	(5,992,447,406)	(2,761,831,547)
Net cash generated by operating activities	**14,984,073,921**	**41,727,112,284**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property ,plant and equipment	(3,448,676,289)	(2,865,926,533)
Proceeds from disposal of property, plant and equipment	26,076,010	-
Proceeds from disposal of NCA held for sale	(36,465,347)	-
Payments for Investments	(39,557,051)	-
Payment for intangibles	(138,373,520)	-
Payment right of use assets	2,143,972,742	(1,167,314,452)
Net cash used in investing activities	**(1,493,023,455)**	**(4,033,240,985)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash included in assets acquired		
Dividend paid	(8,000,000,000)	(7,350,000,000)
Finance lease obligation paid	**(126,716,277)**	**(55,522,362)**
Net cash outflow from financing activities	**(8,126,716,277)**	**(7,405,522,362)**
Increased (decrease) in cash and cash equivalents	**5,364,334,189**	**30,288,348,937**
Unrealized gain (losses) arising from change in foreign currency exchange rates	**(174,183,370)**	**(117,461,788)**
Cash and cash equivalents at the beginning of the year	**49,562,985,662**	**19,392,098,513**
Cash and cash equivalents at the end of the year	**54,753,136,481**	**49,562,985,662**

COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020
(IN ETHIOPIAN BIRR)- (continued)

	2020	2019
Cash on hand	8,140,326,974	7,854,724,368
Balance with National Bank of Ethiopia	39,681,755,522	37,879,794,339
Balance with Bank of South Sudan	-	102,333,633
Balance with Bank of Djibouti	-	154,423,967
Placement with other banks	8,040,109,416	4,048,187,039
Deposit due to other banks	(1,109,055,431)	(518,988,994)
Cash In transit	-	42,511,309
Cash and cash equivalents	**54,753,136,481**	**49,562,985,661**

(1) REPORTING ENTITY

Commercial Bank of Ethiopia (the Bank) is a financial institution established in 1942 as State Bank of Ethiopia and later incorporated as a limited liability public enterprise pursuant to the laws of the Governement of Ethiopia on 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 1,604 branches.

(2) BASIS OF CONSOLIDATION

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

(3) BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

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

(c) Use of judgments and estimates

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

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

Judgments

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

(3) Basis of preparation - Continued

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

Assumptions and estimation uncertainties

Note 4((c) and (l)) – identification and measurement of impairment for financial instruments;
Note4 (g) and note 4 (k) – useful lives of tangible and intangible assets;
Note 4(o) – measurement of defined benefits obligations: key actuarial assumptions;
Note 4(n) and note 4(u) – recognition and measurement of provisions and contingencies;
Note 4(t) – recognition of deferred taxes;
Note 4(c) vii) Fair value measurement of financial instruments.

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

d) Classification and Impairment of financial assets

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

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

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

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

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

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

e) Deferred tax

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

(4) SIGNIFICANT ACCOUNTING POLICIES

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

(a) Details of Consolidation

i. Subsidiaries

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

The Bank's subsidiaries are as follows:

Name	Principal place of business	30 June 2020	30 June,2019
Commercial Nominees PLC	Federal Democratic Republic of Ethiopia	100%	100%
Commercial Bank of Ethiopia-South Sudan Limited	The Republic of South Sudan	100%	100%
Commercial Bank of Ethiopia-Djibouti Limited	The Republic of Djibouti	100%	100%

ii. Associates

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

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

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

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

iii. Transactions eliminated on consolidation

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

(4) Significant accounting policies - Continued

(b) Foreign currency

(i) Foreign currency transactions

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

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

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

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

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

(ii) Foreign operations

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

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

(c) Financial assets and financial liabilities

(i) Recognition and initial measurement

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

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.

(4) Significant accounting policies - Continued

(c) Financial assets and financial liabilities - Continued

(ii) Classification and measurement

Classification and measurement of financial assets

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

- Amortised cost;
- Fair value through other comprehensive income (FVOCI);
- Fair value through profit or loss (FVTPL);
- Elected at fair value through other comprehensive income (equities only); or
- Designated at FVTPL.

Financial assets include both debt and equity instruments.

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

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

- 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 is solely payments of principal and interest

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial

(4) Significant accounting policies - Continued

(c) Financial assets and financial liabilities - Continued

(ii)Classification and measurement- continued

asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

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

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

Debt instruments measured at amortized cost

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

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 in the statement of financial position.

Debt instruments measured at FVOCI

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

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

(4) Significant accounting policies - Continued

(c) Financial assets and financial liabilities - Continued

(ii) Classification and measurement- continued

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

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

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

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:

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

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

Debt instruments designated at FVTPL

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

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

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

Equity instruments

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

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

(4) Significant accounting policies - Continued

(c) Financial assets and financial liabilities - Continued

(ii)Classification and measurement- continued

Equity instruments measured at FVTPL

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

Equity instruments measured at FVOCI

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

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

Reclassifications

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

Classification and measurement of financial liabilities

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

(iii) Derecognition

Financial assets:

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

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

(4) Significant accounting policies - Continued

(c) Financial assets and financial liabilities - Continued

(iii) Derecognition-Continued

Financial assets-Continued

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

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

Financial liabilities:

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

(iv) Modifications of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

(v) Offsetting

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

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

(4) Significant accounting policies - Continued

(c) Financial assets and financial liabilities - Continued

(vi) Amortized cost measurement

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

(vii) Fair value measurement

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

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

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

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

(viii) Impairment

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

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

No impairment loss is recognised on equity investments.

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

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

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

(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. See also Note 4(a).

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

- the disappearance of an active market for a security because of financial difficulties.

(4) Significant accounting policies - Continued

(c) Financial assets and financial liabilities - Continued

(viii) Impairment - Continued

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

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

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

Write-off

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

(d) Cash and cash equivalents

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

(4) Significant accounting policies - Continued

amounts of cash and which are subject to an insignificant risk of changes in values.

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

(e) Loans and advances

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

(f) Debt Securities

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

(g) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

Minor repairs and maintenance costs are expense as incurred.

(4) Significant accounting policies -Continued

(h) Leases

(i) Group acting as a lessee

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

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

(ii) Bank acting as a lessor – Finance leases

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

Finance lease

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

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

Operating lease

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

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

(i) Investment property

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

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

(4) Significant accounting policies - Continued

(j) Non-current assets held for sale

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

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

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 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

i. Defined benefit plans - 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.

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

iii. Termination benefits

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

(p) Legal reserve

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

(q) Revenue and expense recognition

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

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

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

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

(4) Significant accounting policies - Continued

(q) Revenue and expense recognition -continued

Gross carrying amount

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

Calculation of interest income and expenses

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

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

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

Presentation of interest income and expenses

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

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

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

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

(r) Fees and commissions

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

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

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

(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 SEPARATE 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

A number of new standards, amendments to standard and interpretations are not yet effective for the period ended 30 June 2020 and have not been applied in preparing these financial statements. These are summarized as follows:

New standards or amendments	Effective for annual periods beginning on or after
Amendments to references to the Conceptual Framework in IFRS Standards	1 July 2020
Definition of a Business (Amendments to IFRS 3)	1 July 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	1 July 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 July 2020
COVID-19 Related Rent Concessions (Amendments to IFRS 16)	1 July 2020
Onerous Contracts: Costs of Fulfilling a Contract (Amendments to IAS 37)	1 July 2022
Annual Improvements to IFRS Standards 2018 – 2020	1 July 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 July 2022
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 July 2022
IFRS 17 – Insurance Contracts	1 July 2023
Classification of liabilities as current or non-current (Amendments to IAS 1)	1 July 2023
Amendments to IFRS 17	1 July 2023
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	To be deferred indefinitely

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

Amendments to References to the Conceptual Framework in IFRS Standards

This amendment sets out amendments to IFRS Standards (Standards), their accompanying documents and IFRS practice statements to reflect the issue of the International Accounting Standards Board (IASB) revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The revised Conceptual Framework, issued by the IASB in March 2018, includes: a new chapter on measurement; guidance on reporting financial performance; improved definitions of an asset and a liability, and guidance supporting these definitions; updated recognition criteria for assets and liabilities; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The IASB also updated references to the Conceptual Framework in IFRS by issuing a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS, which outlines the consequential amendments made to affected standards. This was done to support transition to the revised Conceptual Framework for companies that develop and apply accounting policies using

(4) Significant accounting policies - Continued

(v) New standards, amendments and interpretations - Continued

Amendments to References to the Conceptual Framework in IFRS Standards -continued

the Conceptual Framework when no IFRS standard or interpretation applies to a particular transaction.

The revised Conceptual Framework will form the basis of new IFRS standards set by the IASB as well as future amendments to existing IFRS standards.

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

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

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

Definition of a Business (Amendments to IFRS 3)

Defining a business is important because the financial reporting requirements for the acquisition of a business are different from the requirements for the purchase of a group of assets that does not constitute a business. The proposed amendments are intended to provide entities with clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3.

In October 2018 the IASB issued this amendment to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. The amendments:

- Confirm that a business must include inputs and a process and clarified that: (i) the process must be substantive and (ii) the inputs and process must together significantly contribute to creating outputs.

- Narrow the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and

- Add a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted.

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

(4) Significant accounting policies - Continued

(v) New standards, amendments and interpretations - continued

The amendment refines the definition of Material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework.

The changes in Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of 'material' which is quoted herein from the final amendments: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

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

The amendments are effective from 1 July 2020 but may be applied earlier. However, the Board does not expect significant changes – the refinements are not intended to alter the concept of materiality.

This amendment provides additional guidance on assessing materiality for the Bank.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Amendments to IFRS 9, IAS 39 and IFRS 7 have now been issued to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform.

The amendments address issues affecting financial reporting in the period leading up to IBOR reform, are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform.

The amendments are effective from 1 July 2020. Early application is permitted.

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

COVID-19 Related Rent Concessions (Amendments to IFRS 16)

The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession.

The practical expedient will only apply if: the revised consideration is substantially the same or less than the original consideration; the reduction in lease payments relates to payments due on or before 30 June 2021; and no other substantive changes have been made to the terms of the lease.

(4) Significant accounting policies - Continued

(v) New standards, amendments and interpretations - continued

COVID-19 Related Rent Concessions (Amendments to IFRS 16)- continued

Lessees applying the practical expedient are required to disclose: that fact, if they applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and the amount recognised in profit or loss for the reporting period arising from application of the practical expedient.

The amendments are effective for periods beginning on or after 1 June 2020, with earlier application permitted. A lessee applies the amendments retrospectively and recognises the cumulative effect of initially applying them in the opening retained earnings of the reporting period in which they are first applied.

Onerous Contracts: Cost of Fulfilling a Contract (Amendments to IAS 7)

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

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

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

Annual Improvement Cycle (2018-2020) – Various Standards

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

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

(4) Significant accounting policies - Continued

(v) New standards, amendments and interpretations - continued

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

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

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

Companies will therefore need to distinguish between: the costs associated with producing and selling items before the item of property, plant and equipment is available for use; and costs associates with making the item of property, plant and equipment available for intended use.

Making this allocation of costs may require significant estimation and judgement.
The amendments apply for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments.

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

Reference to the Conceptual Framework (Amendments to IFRS 3)

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

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

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

Classification of liabilities as current or non-current (Amendments to IAS 1)

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

(4) Significant accounting policies - Continued

(v) New standards, amendments and interpretations - continued

Classification of liabilities as current or non-current (Amendments to IAS 1)-continued

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

The existing requirement to ignore management's intentions or expectations for settling a liability when determining its classification is unchanged. The amendments are to be applied retrospectively from the effective date.

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

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

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

The IASB has decided to defer the effective date for these amendments indefinitely. Adoption is still permitted.

When a parent loses control of a subsidiary in a transaction with an associate or joint venture (JV), there is a conflict between the existing guidance on consolidation and equity accounting.Under the consolidation standard, the parent recognises the full gain on the loss of control. But under the standard on associates and JVs, the parent recognises the gain only to the extent of unrelated investors' interests in the associate or JV.

In either case, the loss is recognised in full if the underlying assets are impaired.

In response to this conflict and the resulting diversity in practice, on 11 September 2014 the IASB issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

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

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

(5) FINANCIAL RISK REVIEW

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

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

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

Risk management framework

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

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

(a) Credit Risk

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

(5) Financial Risk Review - Continued
(a) Credit risk - continued

Risk classification Amounts in ETB	12 month ECL Stage 1	Lifetime ECL not credit impaired Stage 2	Lifetime ECL credit impaired Stage 3	Total 30 June 2020	Total 01 July 2019
Loans and advances to Customers and microfinance institutions (at amortised cost)					
Stage 1	164,831,817,741			164,831,817,741	173,461,851,995
Stage 2		51,020,528,148		51,020,528,148	3,840,237,285
Stage 3			27,238,170,860	27,238,170,860	29,706,013,693
Gross carrying amount	**164,831,817,741**	**51,020,528,148**	**27,238,170,860**	**243,090,516,750**	**207,008,102,974**
Expected Credit Loss allowance (excluding off balance sheet)	(2,284,235,366)	(284,095,018)	(7,434,822,455)	(10,003,152,839)	(9,136,766,332)
Carrying amount	**162,547,582,375**	**50,736,433,130**	**19,803,348,406**	**233,087,363,911**	**197,871,336,642**
Investment securities - debt instruments (at amortised cost)					
Stage 1	445,519,587,011			445,519,587,011	395,557,276,584
Stage 2					-
Stage 3					-
Gross carrying amount	**445,519,587,011**				**395,557,276,584**
Expected Credit Loss allowance	(660,115,518)			(660,115,518)	(586,925,193)
Carrying amount	**444,859,471,493**			**444,859,471,493**	**394,970,351,391**
Other financial assets (at amortised cost)					
Stage 1	100,565,397,990			100,565,397,990	9,385,581,580
Stage 2					-
Stage 3					-
Gross carrying amount	**100,565,397,990**			**100,565,397,990**	**9,385,581,580**
Expected Credit Loss allowance	(1,763,374,794)			(1,763,374,794)	200,184,122
Carrying amount	**98,802,023,196**			**98,802,023,196**	**9,185,397,458**

(5) Financial Risk Review - Continued

(a) Credit risk - continued

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

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

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

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

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

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

(5) Financial Risk Review - Continued

(a) Credit risk - continued

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

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

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

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

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

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

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

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

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

- Lower than grade 4 in terms of credit risk parameters.
- The borrower has potential weaknesses that deserve CBE's close attention. If left uncorrected, these weaknesses may result in a deterioration of the repayment prospects of the borrower.
- The loans and advance show extended irregularities, or have the arrears (the credit facilities have been inactive).

(5) Financial Risk Review - Continued

(a) Credit risk - continued

- Severe management problem exists
- Credit facilities should be downgraded to this grade if sustained deterioration in financial condition is noted (consecutive losses, negative net worth and excessive leverage).

Grade 6: These are "High risk" borrowers

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

Grade 7: "Very High" risk borrowers

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

Grade 8: "Default Risk"

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

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

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

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

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

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

(5) Financial Risk Review - Continued

(a) Credit risk - Continued

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

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

30 June 2020				
Risk Grade	Classification	Individually Significant Loans	Other Loans	Gross Amount
1	Exceptionally low risk	13,503,622,921	16,504,984,230	30,008,607,151
2	Very low risk	57,605,645,485	41,352,660,113	98,958,305,598
3	Low risk	53,320,094,001	17,219,645,086	70,539,739,087
4	Moderate Risk		19,251,877,497	19,251,877,497
5	Potential Risk		5,589,363,821	5,589,363,821
6	High Risk		181,999,015	181,999,015
7	Very High Risk		2,651,742,313	2,651,742,313
8	Default Risk		18,182,004	18,182,004
Total principal		**124,429,362,407**	**102,770,454,079**	**227,199,816,486**
Interest receivable from loans				**15,890,700,263**
Provision for loan losses				**(10,003,152,839)**
Net Loan				**233,087,363,910**

30 June 2019				
Risk Grade	Classification	Individually Significant Loans	Other Loans	Gross Amount
1	Exceptionally low risk	57,504,865,519	23,227,021,560.80	80,731,887,080.00
2	Very low risk	29,444,402,305	36,654,098,948	66,098,501,253
3	Low risk		23,787,746,174	23,787,746,174
4	Moderate Risk	8,000,000,000	6,410,356,430	14,410,356,430
5	Potential Risk		1,710,695,597	1,710,695,597
6	High Risk	4,291,684,499	691,989,571	4,983,674,070
7	Very High Risk		4,334,083,141	4,334,083,141
8	Default Risk		1,833,425	1,833,425
Total principal		**88,539,473,929**	**99,240,952,322**	**96,817,824,848**
Interest receivable from loans				**10,949,325,804**
Provision for loan losses				**(9,136,766,332)**
Net Loan				**197,871,336,642**

(5) Financial Risk Review - Ccontinued

(a) Credit risk - continued

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment
See accounting policy in Note 4(c)(viii).

Significant increase in credit risk

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

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

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

Credit risk grading

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

Generating the term structure of PD

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

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

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

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

(5) Financial Risk Review - Continued

(a) Credit risk - continued

Determining whether credit risk has increased significantly

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

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

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

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

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

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

Modified financial assets

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

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

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

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

(5) Financial Risk Review -Continued

(a) Credit risk - continued

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

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

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

Definition of default

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

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

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

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

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

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

Incorporation of forward-looking information

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

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

(5) Financial Risk Review - Continued

(a) Credit risk - continued

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

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

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

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 30 June 2020 included the following key indicators:

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

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

Measurement of ECL

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

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

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

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

(5) Financial Risk Review - Continued

(a) Credit risk - continued

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

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

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

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

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

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

Loss allowance

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

(5) Financial Risk Review - Continued
(a) Credit risk - continued

	30 June 2020				30 June 2019			
Amounts in ETB	12 month ECL Stage 1	Lifetime ECL not credit impaired Stage 2	Lifetime ECL credit impaired Stage 3	Total	12 month ECL Stage 2	Lifetime ECL not credit impaired Stage2	Lifetime ECL credit impaired Stage 3	Total
Loans and advances at amortised cost								
Balance at 1 July 2019/1 July2018	**(1,639,537,381)**	**(192,298,446)**	**(7,304,930,504)**	**(9,136,766,331)**	**(969,007,487)**	**(174,343,126)**	**(4,865,652,882)**	**(6,009,003,495)**
Transfer to 12 months ECL	3,923,772,747	-	-	3,923,772,747	(670,529,894)			(670,529,894)
Transfer to Lifetime ECL not credit impaired	-	476,393,464	-	476,393,464		(17,955,320)		(17,955,320)
Transfer to Lifetime ECL credit impaired	-	-	14,739,752,960	14,739,752,960			(2,439,277,623)	(2,439,277,623)
Net remeasurement of loss allowance								
Balance at 30 June 2020/30 June 2019	**2,284,235,366**	**284,095,018**	**7,434,822,455**	**10,003,152,839**	**(1,639,537,381)**	**(192,298,446)**	**(7,304,930,505)**	**(9,136,766,332)**
Investment securities - debt instruments (at amortised cost)								
Balance at 1 July 2019/1 July2018	**586,925,193**			**586,925,193**	**14,623,090**	**-**	**-**	**14,623,090**
Transfer to 12 months ECL	73,190,325			73,190,325	572,302,103	-	-	572,302,103
Net remeasurement of loss allowance					-	-	-	
Balance at 30 June 2020/30 June 2019	**660,115,518**			**660,115,518**	**586,925,193**	**-**	**-**	**586,925,193**
Other financial assets (at amortised cost)								
Balance at 1 July 2019/30 June 2018	**200,184,122**			**200,184,122**	**1,567,033**	**612,994**	**1,230,978,839**	**1,233,158,866**
Transfer to 12 month ECL	(1,963,558,916)			(1,963,558,916)				
Net remeasurement of loss allowance					198,617,089	(612,994)	(1,230,978,839)	(1,032,974,744)
Balance at 30 June 2020/30 June 2019	**(1,763,374,794)**			**(1,763,374,794)**	**200,184,122**			**200,184,122**

(5) Financial risk review - Continued

(a) Credit risk - continued

• Default but not impaired loans:

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

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

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

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

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

• Restructured/Renegotiated loans:

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

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

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

(5) Financial risk review - Continued

(a) Credit risk - continued

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

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

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

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

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

- Write-off policy:

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

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

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

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

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

(5) Financial risk review - Continued

(a) Credit risk - continued

- Defects in Documentation – if the Bank has no legal ground to sue the borrower because of defects in the contract;
- Court decision;
- Statute limitation.

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

Range	Loan Status	30 June 2020	30 June 2019
From 1 to 29 days	Pass	162,605,341,701	187,979,169,164
From 30 to 89 days	Special Mention	47,775,257,755	4,570,345,418
From 90 to 179 days	Sub-standard	7,055,830,026	838,420,644
From 180 to 360 days	Doubtful	4,898,472,441	320,215,947
Over 360 days	Loss	4,864,914,564	2,350,625,998
Total Principal		**227,199,816,487**	**196,058,777,170**
Interest Receivable		**15,890,700,263**	**10,949,325,804**
Allowance for Impairment		**(10,003,152,839)**	**(9,136,766,332)**
Net Loan		**233,087,363,911**	**197,871,336,642**

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

	30 June 2020	30 June 2019
Rating		
Between AA+ and AA-	17,597,016	3,394,827
Between A+ and A-	7,418,841,499	11,101,479,310
Between BBB+ and BBB-	45,240,443	749,638,832
Other (including unrated)	10,830,094,181	79,051,044
Total	**18,311,773,140**	**11,933,564,013**
Provision for loss	**1,774,374**	**1,436,606**
	18,309,998,766	**11,932,127,407**
Domestic Bank Account Balances		
Soverign Counterparty (NBE)	70,119,007,141	64,355,453,120
Between A+ and A-	196,268,449	833,815,544
Between BBB+ and BBB-	70,315,275,590	65,189,268,663
Other (including unrated)	74,024,044	103,906,387
Total	**70,241,251,546**	**65,085,362,277**

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

(5) Financial risk review - Continued

(a) Credit risk - continued

Collateral

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

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

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

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

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

The table below shows the value of collateral held by CBE as a security for loans granted as at 30 June 2020 and 30 June 2019.

Fair value of collaterals and guarantees		
	30 June 2020	**30 June 2019**
Blocked Account	170,413,375	586,506,475
Building	38,796,268,310	87,256,973,860
Bank Guarantee	24,247,768	152,861,449
Business Mortgage	181,472,557,052	191,417,146,081
Ministry of Finance and Economic Development	108,672,078,555	
Documentary Credit	-	3,000,000
Government Bond	35,074,690,218	82,191,416,389.44
Lease Right	8,509,479	122,084,991
Machinery	12,637,906,757	40,556,914,101
Others	212,609,910	390,570,181
Personal Guarantee	6,138,465,284	16,502,366,652
Vehicle	5,340,917,106	15,160,328,376
Corporate Guarantee	906,358,834	1,189,321,711
Total Collateral Value	**389,455,022,647**	**435,529,490,267**
Total Outstanding Loan	**233,087,363,911**	**197,871,336,642**
Collateral Coverage ratio	**167%**	**220%**

(5) Financial risk review - Continued

(a) Credit risk - Continued

As can be seen from the above table, the value of collateral held by CBE as a security for loan granted are measured when the loans are initially granted. The overall collateral coverage ratio to the outstanding principal loan is estimated about 167 %,(2019: 220%).

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

Concentration of Credit Risk

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

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

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

i. Concentration by sector

Sector	30 June 2020	30 June 2019
Agriculture	11,175,546,212	11,316,050,059
Manufacturing	130,844,579,243	117,295,712,185
Domestic Trade and Services	15,715,634,442	14,355,750,013
International Trade	21,759,995,100	19,822,890,912
Building and Construction	17,704,221,748	12,756,420,747
Consumer Loan	26,113,082,125	20,012,259,571
Financial Institutions	567,254,984	499,693,683
Murabaha Finance	3,319,502,633	-
Total Principal	**227,199,816,487**	**196,058,777,170**
Interest Receivable from Loan	**15,890,700,263**	**10,949,325,804**
Provision for Loan Loss	**(10,003,152,839)**	**(9,136,766,332)**
Net Loan	**233,087,363,911**	**197,871,336,642**

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

ii. Concentration by Product line

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

(5) Financial risk review - Continued

(a) Credit risk - Continued

Product type	Outstanding loan balances	
	30 June 2020	30 June 2019
Term loan	200,925,451,939	175,430,349,129
Overdraft	5,578,941,640	4,554,164,208
Advance loan	17,375,920,275	15,490,845,523
Merchandise loan	-	9,303,799
CBE NOOR	3,319,502,633	-
Total Principal	**227,199,816,487**	**196,058,777,170**
Interest receivable from Loan	**15,890,700,263**	**10,949,325,804**
Provision for Loan Loss	**(10,003,152,838)**	**(9,136,766,332)**
Net Loan	**233,087,363,911**	**197,871,336,642**

(iii) Loan Concentration by Jurisdiction

Jurisdiction	30 June 2020	30 June 2019
Ethiopia	233,087,363,911	197,871,336,642

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 2020	30 June 2019
Concentration by Commitment type		
Term Loan and Bond Commitment	57,239,947,360	15,892,796,891
Letter of Credit	57,988,745,206	30,385,893,175
Letter of Guarantee	63,269,565,535	37,055,905,994
Total	**178,498,258,101**	**83,334,596,059**
Provision for Loan Loss	(54,209,035)	(48,772,032)
	178,552,467,136	**83,285,824,027**

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

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

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

(5) Financial risk review - Continued

(b) Liquidity risk

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

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

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

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

TheGroup 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.

	30June 2020	30June 2019
Loans and advances to customers	233,087,363,911	197,364,804,056
Deposits from customers	593,041,145,062	540,962,651,409
Advances to deposits ratio	**39.30%**	**36.49%**

(5) Financial risk review - Continued

(b)Liquidity risk - Continued

The table below summarizes theGroup's liquidity risk as at 30 June 2020 and 30 June 2019, 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 2020	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	2,294	444	181	3	46,429	29,685	79,036
Placements with other banks					18,564		18,564
Loans and advances to banks	20	20	301	190	46		577
Loans and advances to customers	7,447	21,026	14,448	44,513	145,078		232,512
Receivables			8,904				8,904
Investment in associates						211	211
Equity Securities						281	281
Debt Securities	28,497	4,726	22,769	84,013	304,854		444,859
A. Total Assets	**38,258**	**26,216**	**46,603**	**128,719**	**514,971**	**30,177**	**784,944**
II. Liabilities							
On balance sheet							
Deposits due to other banks	147				914		1,061
Customers' deposits	45,737	8,873	3,624	65	534,338		592,638
Current Tax Liability		5,954					5,954
Other liabilities	691	18,247	5,616		116,266	12,507	153,327
B. Total libilities	**46,575**	**33,074**	**9,240**	**65**	**651,518**	**12,507**	**752,979**
C. Net liquidity Gap (A-B) as at 30 June 2020	**(8,317)**	**(6,858)**	**37,363**	**128,654**	**(136,547)**	**17,670**	**31,965**
Cumulative Gap as at 30 June 2020	**(8,317)**	**(15,175)**	**22,188**	**150,842**	**14,295**	**31,965**	

(5) Financial risk review - Continued

(b)Liquidity risk - Continued

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

(5) Financial risk review - Continued

(b) Liquidity risk - Continued

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

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

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

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

(c) Market risk

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

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

(a) Interest rate risk:

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

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

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

(5) Financial risk review - Continued)

c. Market risk – Continued

Exposure to interest rate risk
(Amounts in Millions Birr)

30 June 2020	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		2,294	444	181	3	46,429	29,685	79,036
Placements with other Banks						18,564		18,564
Loans and Advances to Banks		20	20	301	190	46		577
Loans and Advances to Customers		7,447	21,026	14,448	44,513	145,078		232,511
Debt Securities		28,497	4,726	22,769	84,013	304,854		444,859
Total Rate Sensitive Assets		**38,258**	**26,215**	**37,699**	**128,719**	**514,970**	**29,685**	**775,547**
II. Liabilities								
B. Rate Sensitive Liabilities								
Deposits Due to other Banks		147				914		1,061
Customers' Deposits		45,737	8,873	3,624	65	534,338		592,638
Total Rate sensitive liabilities		**45,884**	**8,873**	**3,624**	**65**	**535,252**		**593,699**
C. Rate Sensitive Gap		**(7,626)**	**17,342**	**34,075**	**128,654**	**(20,282)**		**181,848**
Cumulative Rate Sensitive Gap		**(7,626)**	**9,716**	**43,791**	**172,445**	**152,163**		**151,848**
Adjusted Interest Rate Change		**0.14**	**0.25**	**1.5**	**1**	**1**		
Relative Gap Ratio (RSG to Total Asset)		**(0.20)**	**0.66**	**0.90**	**1.00**	**(0.04)**		
Total Asset		**38,972**	**26,215**	**37,699**	**128,719**	**513,185**		

(5) Financial risk review - Continued

c. Market risk - Continued

Exposure to interest rate risk
(Amounts in Millions Birr)

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

(5) Financial risk review - Continued

(c) Market risk - Continued

(b) Exchange rate risk:

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

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

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

Currency Type	30-Jun-19	30-Jun-20
	Amount	Amount
1. On B/S FCY Assets		
AED	1,467	1,641
CAD	1,016	339
CHF	1,158	1,315
DJF	145,490	65
DKK	3,138	3,793
EUR	2,749	6,150
GBP	9,032	1,355
INR	54,542	63,974
JPY	36,811	895,384
KES	5,547	4,117
KWD	-	4
SAR	2,164	2,022
SEK	4,954	6,758
USD	395,383	513,159
NOK	2,285	3,420
XAF	66	66
2. On B/S FCY Liabilities		
DJF	4,035	373
EUR	44,201	73,710
GBP	2,136	1,921
USD	920,170	679,495

Sensitivity analysis

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

(5) Financial risk review - Continued

(c) Market risk - Continued

Sensitivity analysis - continued

S.No.	Descriptions	Multiplying Factor	Actual Position	Stressed by 15% Birr Devaluation	Change
1	**Overall Open Position**		**(88,429.57)**	**(101,599.60)**	**(13,170.03)**
1.1	*Net Short Open Position - USD*		*(78,002.50)*	*(89,702.88)*	*(11,700.38)*
1.2	*Net Short Open Position - EUR*		*(9,797.69)*	*(11,267.34)*	*(1,469.65)*
1.3	*Net Short Open Position - Other Currencies*		*(629.38)*	*(629.38)*	-
2	**Total Capital**		**49,824.76**	**47,693.51**	**(2,131.25)**
2.1	*Capital Charge (8%)*	*0.08*1*	*7,074.37*	*8,127.97*	*1,053.60*
2.2	*Forex risk Capital Charge to total Capital Ratio*	*2.1/2*	*14.20%*	*16.31%*	*2.11%*
3	**Overall Open Position to Capital Ratio**		**-177%**	**-204%**	**-26%**
4	**Profit before tax Projection**				**4,085.00**
5	**Total Gain/Loss due to depreciation of Birr against USD and EUR (6+7)**				**(6,216.25)**
6	**Total Gain/Loss due to depreciation of Birr against USD**				**(5,522.58)**
6.1	*Gain/Loss from FCY denominated On Balance Sheet*				*(3,978.13)*
6.2	*Gain/Loss from FCY denominated Off Balance Sheet (20%)*				*(1,544.45)*
7	**Total Gain/Loss due to depreciation of Birr against EUR**				**(693.68)**
7.1	*Gain/Loss from FCY denominated On Balance Sheet*				*(499.68)*
7.2	*Gain/Loss from FCY denominated Off Balance Sheet (20%)*				*(193.99)*
8	**Post Shock Profit/Loss**				**(2,131.25)**
9	**Impact on capital**				**(2,131.25)**
10	**Post-shock capital**				**47,693.51**

d. Operational Risk Management

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

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

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

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

- The level of perceived risks;
- Previous operational risk assessment risks;

(5) Financial Risk Review - Continued

d. Operational Risk Management - continued

- 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 amountof additional capital to the Ministry of Economic Cooperation and upon approval by the house of peoples' representatives of the Federal Democratic Republic of Ethiopia.

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

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

The Bank and its individually regulated subsidiaries have met with all of the external capital requirements to which they are subject. As of 30 June 2020, and 30 June 2019respectively, the Bank's regulatory capital position was as follows:

(5) Financial risk review - Continued

(e) Capital management - continued

	30 June 2020	30 June 2019
Capital - Level 1		
State Capital	40,000,000,000	40,000,000,000
Legal Reserves	12,050,767,160	9,678,098,118
Capital Reserve	173,439,202	143,256,736
CBE NOOR Reserve	1,706,854	1,057,658
Statutory Reserve	241,925,670	886,658,841
Total	**52,467,838,886**	**50,709,071,353**
Capital - Level 2		
Fair Value Reserve	150,805,429	125,424,189
Foreign Currency Translation Reserve	(300,587,409)	32,559,741
Accumulated profit or loss	146,480,466	(207,429,766)
Remeasurement of Defined Benefit BS	(2,642,494,228)	(410,943,241)
Subordinated liabilities	-	-
Debt securities issued	-	-
Total	**(2,645,795,742)**	**(460,389,077)**
Total Regulatory Capital	**49,822,043,144**	**50,248,682,276**
Total assets and weighted contingencies	**222,136,595,721**	**183,335,079,949**
Total regulatory capital / risk weighted assets	**22%**	**27.40%**

(6) FAIR VALUE OF FINANCIAL INSTRUMENTS

a. Accounting classifications

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

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

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

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

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

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

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

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

(6) Fair value of financial instruments - Continued

a. Accounting classifications - continued)

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

					Fair value			
	Amortized Cost	FVOCI	FVTPL	Total carrying amounts	Level 1	Level 2	Level 3	Fair value
30 June 2020	**ETB**	**ETB**	**ETB**	**ETB**	**ETB**	**ETB**	**ETB**	**ETB**
Financial Instruments								
Financial Assets:								
Cash and Balances with NBE	78,960,152,191			78,960,152,191				
Placement with other Banks	18,563,910,998			18,563,910,998				
Loans and advances to customers	232,510,755,442			232,510,755,442				
Loans to micro-finance institutions	576,608,468			576,608,468				
Debt Securities	444,859,529,326			444,859,529,326				
Equity Securities		280,858,000		280,858,000		280,858,000		280,858,000
Receivables	8,904,265,586			8,904,265,586				
Total financial assets	**784,375,222,011**	**280,858,000**		**784,656,080,011**		**280,858,000**		**280,858,000**
Financial liabilities:								
Deposits due to other banks	1,109,055,431			1,109,055,431				
Customers' deposits	593,041,145,062			593,041,145,062				
Current tax liability	5,954,265,633			5,954,265,633				
Other liabilities	153,326,630,376			153,326,630,376				
Total financial liabilities	**753,431,096,502**			**753,431,096,502**				

(6) Fair value of financial instruments - Continued

a. Accounting classifications - Continued

					Fair value			
	Amortized Cost	FVOCI	FVTPL	Total carrying amounts	Level 1	Level 2	Level 3	Fair value
30 June 2019	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB
Financial Instruments								
Financial Assets:								
Cash and Balances with NBE	72,665,285,542			72,665,285,542				72,665,285,542
Placement with other Banks	12,808,187,039			12,808,187,039				12,808,187,039
Loans and advances to customers	197,364,804,056			197,364,804,056				197,364,804,056
Loans to micro-finance institutions	506,532,587			506,532,587				506,532,587
Debt and equity Securities	394,972,005,559	224,873,000		395,196,878,559		224,873,000		395,196,878,559
Receivables	8,071,372,366			8,071,372,366				8,071,372,366
Total financial assets	**686,613,060,149**	**224,873,000**		**686,613,060,149**		**224,873,000**		**686,613,060,149**
Financial liabilities:								
Deposits due to other banks	518,988,994			518,988,994				518,988,994
Customers' deposits	540,940,798,427			540,940,798,427				540,940,798,427
Current tax liability	5,992,447,406			5,992,447,406				5,992,447,406
Other liabilities	102,768,223,014			102,768,223,014				102,768,223,014
Total financial liabilities	**650,220,457,841**	**-**		**650,220,457,841**				**650,220,457,841**

(6) Fair value of financial instruments - Continued

b. Valuation hierarchy

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

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

(7) INTEREST INCOME AND EXPENSE

Interest income and expense are analyzed as follows:

Interest Income	**30 June 2020**	**30 June 2019**
Loans and advances to customers	23,508,064,608	20,488,378,485
Debt securities	30,261,698,193	25,186,866,970
Total interest income	**53,769,762,801**	**45,675,245,455**

Interest expense	**30 June 2020**	**30 June 2019**
Depositary obligations	24,680,084,808	20,056,803,363
Total interest expense	**24,680,084,808**	**20,056,803,363**

(8) NON-INTEREST INCOME AND EXPENSES

NON-INTEREST INCOME	**30 June 2020**	**30 June 2019**
Commissions	11,948,893,055	5,573,994,427
Bank services and transaction fees	1,617,823,052	1,301,338,447
Discount Earned on Securities	457,590,351	448,617,995
Other income	797,897,203	796,112,405
Total Non-Interest Income	**14,822,203,661**	**8,120,063,274**

NON-INTEREST EXPENSE	**30 June 2020**	**30 June 2019**
Salaries and Employee Benefits	16,747,591,010	9,672,644,428
Impairment loss as per regulatory	-	220,226,791
Depreciation and Amortization	1,350,968,950	1,270,102,746
Deprecation Right of Use Asset	1,167,574,782	779,874,642
Advertising and publicity	230,199,734	86,650,628
Repairs and maintenance	287,614,968	171,970,306
Electronic data process	230,151,220	261,142,673
Stationery and office supplies	269,694,932	215,675,364
Discount Loss	457,590,291	448,617,991
Other expenses	3,921,400,640	2,150,088,825
Total non- interest expenses	**24,662,786,527**	**15,276,994,392**

(9) CASH AND CASH EQUIVALENTS

	30 June 2020	30 June 2019
Cash on hand	8,140,326,975	7,897,235,677
Cash reserve with National Bank of Ethiopia	30,437,251,619	26,370,161,619
Cash reserve with Central Bank of South Sudan	305,891,773	146,000,000
Cash reserve with Central Bank of Djibouti	470,724,720	115,336,307
Placements with other banks	18,563,910,998	12,808,187,039
Payment and settlement accounts:		
- with National Bank of Ethiopia	39,681,755,522	37,985,291,500
- with Central Bank of South Sudan	-	102,333,633
- with Central Bank of Djibouti	-	154,423,967
	97,599,861,607	**85,578,969,742**
Allowance for Impairement Losses	**(75,798,418)**	**(105,497,162)**
	97,524,063,189	**85,473,472,580**

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 2020 and 30 June 2019, 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.

(10) DEBT AND EQUITY SECURITIES

		30 June 2020	30 June 2019
Debt and Equity Securities	**ETB**	**445,140,387,326**	**395,196,878,559**

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 2020	30 June 2019
Debt Securities	**ETB**	445,519,644,844	395,558,776,584
Allowance for Impairment Losses		(660,115,518)	(586,771,025)
		444,859,529,326	**394,972,005,559**

		30 June 2020	30 June 2019
Coupon bonds	**ETB**	53,814,665,327	59,089,939,870
Corporate bonds		368,316,774,426	313,493,304,392
Government securities		23,388,205,091	22,975,532,322
		445,519,644,844	**395,558,776,584**

(10) Debt and Equity securities - Continued

(i) Debt securities - Continued

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

Interest receivable	30 June 2020	30 June 2019
Coupon bonds	7,622,316,933	6,832,549,762
Corporate bonds	9,284,068,573	10,642,104,705
Government securities	1,838,094	3,686,183
Total	**16,908,223,599**	**17,478,340,649**

ii. Equity securities

	30 June 2020	30 June 2019
Ethswitch Share Company	77,625,000	26,802,000
African Export Import Bank	198,063,000	193,948,000
S.W.I.F.T. SCRL	5,170,000	4,123,000
	280,858,000	**224,873,000**

The change in the carrying amount of equity securities comprises:

Ethswitch Share Company	30 June 2020	30 June 2019
At 1 July at cost	26,802,000	11,326,000
Additions	16,552,000	
Changes in fair value	34,271,000	15,476,000
	77,625,000	**26,802,000**

African Export Import Bank	30 June 2020	30 June 2019
At 1 July at cost	193,948,000	162,804,000
Additions	3,174,086	2,489,284
Changes in fair value	940,914	28,654,716
	198,063,000	**193,948,000**

S.W.I.F.T. SCRL	30 June 2020	30 June 2019
At 1 July at cost	4,123,000	8,807,000
Additions		
Changes in fair value	1,047,000	(4,684,000)
	5,170,000	**4,123,000**

(11) LOANS AND ADVANCES TO CUSTOMERS

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

30 June 2020			
	Gross Amount	Allowance for loan losses	Book value
Agriculture			
Term loan	11,538,555,729	920,779,375	10,617,776,354
Overdraft	14,184,179	896,705	13,287,474
	11,552,739,908	**921,676,080**	**10,631,063,828**
Manufacturing			
Term loan	139,747,752,716	1,694,353,646	138,053,399,070
Overdraft	2,077,007,140	142,113,607	1,934,893,533
	141,824,759,856	**1,836,467,253**	**139,988,292,603**
Domestic & Trade services			
Term loan	16,004,132,359	1,362,757,035	14,641,375,324
Overdraft	962,899,750	37,926,166	924,973,584
	16,967,032,109	**1,400,683,201**	**15,566,348,908**
International trade			
Term loan	4,254,597,819	462,206,799	3,792,391,020
Overdraft	2,194,694,225	64,227,870	2,130,466,355
Advance loan	17,375,920,275	4,264,097,929	13,111,822,346
	23,825,212,319	**4,790,532,598**	**19,034,679,721**
Building and construction			
Term loan	17,946,622,468	600,274,548	17,346,347,920
Overdraft	330,156,346	30,507,317	299,649,029
	18,276,778,815	**630,781,865**	**17,645,996,950**
Consumer Loan			
Term loan	26,747,665,550	263,741,355	26,483,924,195
	26,747,665,550	**263,741,355**	**26,483,924,195**
Interest free banking finance			
Murabaha finance	3,319,502,633	159,053,394	3,160,449,239
	3,319,502,633	**159,053,394**	**3,160,449,239**
Total	**242,513,691,189**	**10,002,935,746**	**232,510,755,443**

(11) Loans and advances to customers - Continued

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

(11) Loans and advances to customers - Continued

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

	Allowance for loan losses
At 30 June 2018	**6,493,294,336**
Impairment recognized during the year	2,647,339,116
Written off during the year	(3,959,261)
At 30 June 2019	**9,136,674,191**
Impairment recognized during the year	866,261,555
Written off during the year	-
At 30 June 2020	**10,002,935,746**

(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 2020	30 June 2019
	ETB		
Terms loans		567,254,984	499,693,683
Less: Allowance for loan losses		(217,093)	(92,140)
		567,0377,891	499,601,543
Interest receivable on loan		9,570,576	6,931,044
		576,608,467	**506,532,587**

(b) Impairment losses on loans and advances

		2019/20	2018/19
At 1 July	ETB	92,140	27,420
IFRS 9 Adjustment			
Amounts recognized during the year			
Addition		124,953	64,720
As at 30 June		**217,093**	**92,140**

(13) RECEIVABLES

		30 June 2020	30 June 2019
Government receivables	ETB	1,230,978,839	1,639,240,381
Foreign receivables		476,121,902	643,084,754
Other receivables		3,920,810,020	3,034,626,352
Other advances		5,057,149,972	2,390,397,031
Staff loans – prepayments		1,407,453,831	806,228,080
Tax Receivable		31,989,107	872,004,980
		12,124,503,671	**9,385,581,578**
Less: Allowance for doubtful debts		(1,839,173,212)	(1,314,209,212)
Less: Staff loan contra account		(1,381,064,873)	-
		8,904,265,586	**8,071,372,366**

Allowance for doubtful debts:

	2020/19
Balance as at 30 June 2018	**(1,268,532,995)**
Doubtful debts written off during the year	7,608,768
Reduction (Addition) during the year	(53,284,985)
Balance as at 30 June 2019	**(1,314,209,212)**
Reduction (Addition) during the year	(524,964,000)
Balance as at 30 June 2020	**(1,839,173,212)**

(14) INVESTMENT IN ASSOCIATES

Investments in associates as of 30 June, 2020 and 2019are as follows:

Ethiopia Re-insurance Company

	30 June 2020	30 June 2019
Opening balance	140,067,243	113,301,038
Group's share of total comprehensive income	31,417,582	26,766,205
Additional investment during the year	39,557,051	
Group's investment in associate as at June 30	**211,041,876**	**140,067,243**

	30 June 2020	30 June 2019
Percentage ownership interest	20%	20%
Revenue (100%)	906,831,257	720,161,899
Total comprehensive income (100%)	157,087,908	133,831,025
Group's share of total comprehensive income (20%)	**31,417,582**	**26,766,205**

(15) NON CURRENT ASSETS HELD FOR SALE

		2019/20		
Costs:		**Building**	**Movable property**	**Total**
At 1 July 2019	ETB	801,732,580	208,558,658	1,010,291,238
Acquisition		69,989	44,622,442	44,692,431
Transfer to property, plant and equipment		(1,700,000)		(1,700,000)
Sale/Disposal		(13,958,739)	(6,168,211)	(20,126,950)
Total		**786,143,830**	**247,012,889**	**1,033,156,719**
Less Provisions:				
As at 1 July		(421,922)	(2,724,316)	(3,146,238)
Movement for the year		135,366	372,467	507,833
Closing balance		**(286,556)**	**(2,351,849)**	**(2,638,405)**
Non-current assets held for sale As at 30 June 2020		**785,857,274**	**244,661,040**	**1,030,518,314**

		2018/19		
Costs:		**Building**	**Movable property**	**Total**
At 1 July 2018	ETB	810,924,906	280,268,704	1,091,193,611
Sale/Disposal		(9,192,326)	(71,710,046)	(80,902,372)
Total		**801,732,580**	**208,558,658**	**1,010,291,238**
Less Provisions:				
At 1 July 2018		(3,780,930)	(10,686,116)	(14,467,046)
Closing balance		3,359,008	7,961,800	11,320,809
Closing balance		**(421,922)**	**(2,724,316)**	**(3,146,238)**
Non-current assets held for sale As at 30 June 2019		**801,310,659**	**205,834,342**	**1,007,145,001**

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

(16) INVESTMENT PROPERTY

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

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

	2020	2019
Balance as at 1 July	22,099,692	23,135,132
Addition		
Reclassification	(21,912,715)	-
Accumulated Depreciation	-	(1,035,440)
Balance as at June 30	**186,977**	**22,099,692**

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

(17) PROPERTY, PLANT AND EQUIPMENT

	Balance at July 1, 2019	Additions	Disposals	Reclassifications	Translation differences	Balance at June 30, 2020
Cost						
Building	2,480,707,570	171,654,071	-	52,977,074	7,381,832	2,712,720,547
Computer and software	2,480,478,585	72,071,381	(38,624)	(404,370)	410,572	2,552,517,544
Fixtures, fittings and equipment	3,613,651,265	643,972,409	(2,118,116)	28,784,542	1,201,826	4,285,491,926
Motor vehicles	1,686,425,943	192,647,003	(6,822,561)	-	(921,588)	1,871,328,797
Work in progress	5,479,586,075	2,459,720,853		(57,588,745)		7,881,718,183
	15,740,849,438	**3,540,065,717**	**(8,979,301)**	**23,768,501**	**8,072,642**	**19,303,776,997**
Depreciation						
Building	(388,532,398)	(104,222,918)	-	(1,005,427)	(3,550,648)	(497,311,391)
Computer and software	(1,690,976,047)	(368,688,424)	38,050	5,612	(37,754)	(2,059,658,563)
Fixtures, fittings and equipment	(1,813,322,922)	(593,411,382)	2,027,562.81	(5,612.00)	(1,265,298)	(2,405,977,651)
Motor vehicles	(640,180,558)	(208,633,370)	5,116,922	-	624,987	(843,072,019)
	(4,533,011,925)	**(1,274,956,094)**	**7,182,535**	**(1,005,427)**	**(4,228,713)**	**(5,806,019,624)**
Net carrying amount	**11,207,837,513**	**2,265,109,623**	**(1,796,766)**	**22,763,074**	**3,843,929**	**13,497,757,373**

There were no capitalized borrowing costs related to the acquisition of property, plant and equipment during the year (2019: Nil).

(17) Property, plant and equipment - Continued

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

There were no capitalized borrowing costs related to the acquisition of property, plant and equipment during the year (2019: Nil).

(18) INTANGIBLE ASSETS

2020		Software
Cost	ETB	
Balance at 1 July 2019		442,379,327
Additions		138,373,520
Balance at 30 June 2020		**580,752,847**
Amortization and impairment		
Balance at 1 July 2019		(262,513,499)
Additions		(99,060,154)
Balance at 30 June 2020		**(361,573,653)**
Net carrying value		**219,179,194**

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

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 2020 was ETB 99,060,154 (**2019**: ETB 62,346,971).

(19) OTHER ASSETS

		30 June 2020	30 June 2019
Purchase in progress	ETB	1,328,281,933	643,798,322
Stationary and other supplies		525,020,721	487,153,632
IT expansion project		881,536,893	762,529,597
Prepaid		5,566,715,169	5,281,833,843
Others		3,377,842,915	1,000,611,149
		11,679,397,631	**8,175,926,543**

(20) RIGHT OF USE ASSETS AND FINANCE LEASE OBLIGATIONS

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

a. Right-of-use assets:

2019/20	Land	Building	Total
Cost			
Balance at 01 July 2019	87,741,603	5,202,011,704	5,289,753,307
Adjustment	1,141,598	464,007,085	465,148,683
Additions	4,937,988	1,673,886,072	1,678,824,060
Balance at 30 June 2020	**93,821,189**	**7,339,904,861**	**7,433,726,050**
Depreciation			
Balance at 01 July 2019	(8,622,453)	(2,322,889,050)	(2,331,511,503)
Adjustment	(7,508)	(118,243,407)	(118,250,915)
Additions	(1,872,194)	(1,052,363,914)	(1,054,236,108)
Balance at 30 June 2020	**(10,502,155)**	**(3,493,496,371)**	**(3,503,998,526)**
Net carrying value	**83,319,034**	**3,846,408,490**	**3,929,727,524**
Balance at 01 July 2018	84,930,076	3,992,538,519	4,077,468,595
Adjustment	-	(189,161,338)	(189,161,338)
Additions	2,811,527	1,398,634,523	1,401,446,050
Balance at 30 June 2019	**87,741,603**	**5,202,011,704**	**5,289,753,307**
Depreciation			
Balance at 01 July 2018	(6,824,756)	(1,566,170,956)	(1,572,995,712)
Adjustment	-	26,783,127	26,783,127
Additions	**(1,797,697)**	**(783,501,221)**	**(785,298,918)**
Balance at 30 June 2019	**(8,622,453)**	**(2,322,889,050)**	**(2,331,511,503)**
Net carrying value	**79,119,150**	**2,879,122,654**	**2,958,241,804**

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

a. Finance Lease Obligation

	Land	Building	Total
Cost			
Balance at 1 July 2019	14,037,137	250,770,615	264,807,752
Adjustment	1,141,598	(14,487,293)	(13,345,695)
Addition		79,798,213	79,798,213
Payment	(9,540,146)	(117,176,129)	(126,716,275)
Balance at 30 June 2020	5,638,589	198,905,406	204,543,995
Interest expense			
Balance at 1 July 2019	11,380,296	24,940,752	36,321,048
Adjustment	84,662	(1,203,550)	(1,118,888)
Additions	1,656,010	8,291,959	9,947,969
Balance at 30 June 2020	13,120,968	32,029,161	45,150,129
Net carrying value	**18,759,557**	**230,934,567**	**249,694,124**
Cost			
Balance at 1 July 2018	16,618,255	258,741,599	275,359,854
Adjustment	-	(31,447,231)	(31,447,231)
Addition	685,227	75,732,263	76,417,490
Payment	(3,266,345)	(52,256,016)	(55,522,361)
Balance at 30 June 2019	14,037,137	250,770,615	264,807,752
Interest expense			
Balance at 1 July 2018	9,225,306	19,755,483	28,980,789
Adjustment		(2,555,307)	(2,555,307)
Additions	2,154,990	7,740,576	9,895,566
Balance at 30 June 2019	11,380,296	24,940,752	36,321,048
Net carrying value	**25,417,433**	**275,711,367**	**301,128,800**

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 2020 was 4.13%. The rates used to compute the land lease liabilities as at 30 June 2020 was 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 2020	30 June 2019
Payable on demand		
Local and Central Government	75,916,850,629	76,480,169,354
Private sector and retail customers	83,054,840,010	74,059,097,894
Public enterprises and agencies	84,226,683,568	72,157,880,000
	243,198,374,207	**222,697,147,248**
Savings deposits		
Private sector and retail customers	284,316,050,920	261,978,587,511
Public enterprises and agencies	18,164,981,220	8,237,191,641
	302,481,032,140	**270,215,779,152**
Term deposits		
Public enterprises and agencies	5,344,429,376	15,415,213,397
Private sector and retail customers	2,854,599,953	2,164,339,605
Local and Central Government	6,300,000,000	6,000,000,000
	14,499,029,329	**23,579,553,002**
Blocked accounts	346,110,967	476,017,937
Interest free banking	32,516,598,419	23,972,301,088
All sectors	**593,041,145,062**	**540,940,798,427**

Payable on demand accounts represents deposits that are non-interest bearing. The weighted average effective interest rate on Savings deposits as at 30 June 2020 was 7%. The weighted average effective interest rate on Term deposits as at 30 June 2020 was 7.2%. Blocked accounts represent blocked current accounts and blocked savings accounts whose average effective interest rates as at 30 June 2020 were 0% and 7% respectively. Interest free banking represents deposits that are non-interest bearing.

(22) PROVISIONS

	Bonuses	Cash prize award	Legal	Unutilized O/D,LC and Guarantee	Total
Balances at 30 June 2018	**537,834,088**	**-**	**33,100,176**	**70,856,885**	**641,791,149**
Increases (decrease) recorded in income	22,943,385	-	31,816,102	(22,028,040)	32,731,447
Provision used during the year	(12,492,452)	-	-	-	(12,492,452)
Balances at 30 June 2019	**548,285,021**	**-**	**64,916,278**	**48,828,845**	**662,030,144**
Increases (decrease) recorded in income	525,035,191	116,563,214	80,950,417	5,380,191	727,929,013
Balances at 30 June 2020	**1,073,320,212**	**116,563,214**	**145,866,695**	**54,209,036**	**1,389,959,157**

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

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

(23) EMPLOYEE BENEFITS

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

	2019/20	2018/19
DBO at 01 July	2,766,551,435	1,943,328,149
Current service costs	1,583,636,237	417,673,396
Interest cost	356,843,857	256,515,220
Past service cost for seniority recognition	-	43,214,562
Past Service due to Plan Amendment	-	-
Payments for the year	(1,280,120,821)	(173,057,709)
Inflation adjustment	-	-
Expense charged to income	3,426,910,708	2,487,673,618
Actuarial gains (losses) recognized in other comprehensive income	3,187,929,983	278,877,817
DBO at 30 June	**6,614,840,691**	**2,766,551,435**

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

	2019/20	2018/19
Cumulative amount at 1 July	**(410,724,000)**	**(215,735,859)**
Recognized during the year	(3,187,929,983)	(278,877,817)
Deferred income taxes	956,378,995	83,889,676
Actuarial losses, net of taxes at June 30	**(2,642,274,988)**	**(410,724,000)**

iii. Actuarial assumptions

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

	30 June 2020	30 June 2019
Discount rate	2.95-13.10%	5-13.20%
Salary increase rate	4.95-16.00%	1-14.00%
Gold increase rate	15.00%	4.00%
Long term inflation rate	2.00-12.50%	3-20.6%

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 2019 by the amounts shown below:

	2020		2019	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5% variance)	(445,818,072)	498,075,852	(157,610,820)	175,312,610
Salary increase rate (1.00% variance)	858,300,592	(711,386,499)	288,870,595	(240,686,584)

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 2020	30 June 2019
National Bank of Ethiopia	ETB	114,700,803,622	74,752,034,764
Margin accounts and deposits for guarantees		18,250,986,306	14,878,151,338
Certified Payment Order´s and Fund transfers		2,289,319,078	-
Payable to other banks		8,242,471,943	8,504,190,257
Blocked amounts		342,631,061	2,230,997,378
Other taxes		681,705,119	278,669,657
Unearned income		926,560,532	265,220,258
Pension contributions		136,157,676	274,792,463
Miscellaneous		7,755,995,038	1,584,166,899
Total		**153,326,630,375**	**102,768,223,014**

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

Dividends

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

— During 2019, dividend payable was ETB 8,683,368,689

— During 2020, dividend payable was ETB 7,771,189,170

(25) INCOME TAXES

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

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

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

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

a) Reconciliation of effective tax rate

	30 June 2020	30 June 2019
Profit before tax	14,956,657,436	15,699,542,413
Blended statutory tax rate	30%	30%
"Expected" tax expense	4,486,997,231	4,709,862,724
Non-deductible expenses	2,667,192,058	1,554,806,516
Allowed expenses	(898,705,595)	(246,134,866)
Tax-exempt income	(350,874,436)	(59,135,533)
Tax effect of Consolidation	49,656,375	33,048,564
Income tax Payable	**5,954,265,632**	**5,992,447,406**

For the year ended 30 June 2020 the Group had an effective income tax rate of 39.31% (38.17% in 2019).

b) Income tax recognized directly in other comprehensive income

	30 June 2020			30 June 2019		
	Income tax	Before taxes	Net of taxes	Income tax	Before taxes	Net of taxes
Remeasurement of defined benefit liability	956,378,995	(3,187,929,983)	**(2,231,550,998)**	83,889,676	(278,877,817)	**(194,988,141)**
financial assets – fair valuation	(10,877,674)	36,258,914	**25,381,240**	(11,834,015)	39,446,716	**27,612,701**

(25) INCOME TAXES - Continued

c) Recognized deferred tax assets

At 30 June 2020 and 2019, 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 2019	**2,577,975,411**
Recognized in Profit & Loss	531,457,155
Recognized in Other Comprehensive Income	945,501,320
Balance as of June 2020	**4,054,933,886**
Balance as of June 2018	**739,643,477**
Recognized in Profit & Loss	1,766,276,272
Recognized in Other Comprehensive Income	72,055,662
Balance as of June 2019	**2,577,975,411**

(26) EQUITY

(a) Capital

Commercial Bank of Ethiopia is owned by the government of the Federal Democratic Republic of Ethiopia, there are no shares. As of 30 June 2020, the Bank's capital was ETB 40,000,000,000 (2019: ETB 40,000,000,000).

(b) Legal reserve account

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

(c) Statutory Reserve

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

(d) CBE NOOR reserve

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

(26) EQUITY - Continued

(e) Accumulated Profit/Loss

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

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

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

(27) COMMITMENTS AND CONTINGENT LIABILITIES

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

Commitments-

	30 June 2020	30 June 2019
Loans committed but not disbursed at year end	48,966,353,062	29,222,364,030
Bond commitment	6,079,256,744	751,094,580
Construction Commitment	7,938,596,024	7,938,596,024
	62,984,205,830	**37,912,054,634**

Contingent liabilities-

	30 June 2020	30 June 2019
Letter of credit	76,235,992,649	45,264,044,513
Guarantees	26,986,521,888	23,005,986,916
	103,222,514,537	**68,270,031,429**

Nature of contingent liabilities

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

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

(28) RELATED PARTIES

(a) Remuneration of key management personnel-

Key management members received the following remuneration during the years ended 30 June 2020 and 2019:

	30 June 2020	30 June 2019
Short-term benefits	43,773,505.16	10,813,029
Post-employment benefits	5,881,417.44	843,751

(28) Related Parties - Continued

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 2020	30 June 2019
Loans granted	21,382,573	18,741,814

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 2020 (2019: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 2020	30 June 2019
a. *Expense:*		
Interest expense paid to associates	2,749,519.44	5,160,317
b. *Balances due to group companies:*		
Associate entity	70,630,066	83,351,690

COMMERCIAL BANK OF ETHIOPIA
SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020
(IN ETHIOPIAN BIRR)

	Note	30 June 2020	30 June 2019
Interest Income	31	53,763,798,858	45,675,248,719
Interest Expense	31	(24,685,874,588)	(20,056,806,627)
Net interest income		**29,077,924,270**	**25,618,442,092**
Impairment losses on financial instruments		(939,729,001)	(3,267,965,350)
Net interest income after provisions		**28,138,195,269**	**22,350,476,742**
Gain/loss on foreign currency transactions		(3,400,828,679)	475,260,518
Gain (loss) on Equity inv in subsidiaries and associates	38	220,594,850	87,619,438
Non-interest income	32	14,422,128,816	7,631,373,237
Non-interest expense	32	(24,519,919,607)	(14,902,437,794)
Profit before tax		**14,860,170,649**	**15,642,292,141**
Income tax	49	(5,333,622,641)	(4,155,991,695)
Profit for the year		**9,526,548,008**	**11,486,300,446**
Items that will never be reclassified to profit or loss:			
Remeasurement of defined benefit liability	47	(3,172,251,753)	(281,396,652)
Related tax	47	951,675,526	84,418,995
		(2,220,576,227)	(196,977,657)
Items that are or may be reclassified subsequently to profit or loss:			
Unrealized (loss)/gain arising from measurement at fair value		36,258,914	39,446,716
Related tax		(10,877,674)	(11,834,015)
		25,381,240	27,612,701
Other comprehensive income(Loss), net of tax		**(2,195,194,987)**	**(169,364,956)**
Total comprehensive income		**7,331,353,021**	**11,316,935,490**

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

COMMERCIAL BANK OF ETHIOPIA
SEPARATE STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020
(IN ETHIOPIAN BIRR)

	Note	30 June 2020	30 June 2019
Assets			
Cash and cash equivalent	33	96,529,533,229	84,879,801,308
Debt & Equity securities	34	445,139,387,326	395,195,378,559
Loans and advances to customers, net	35	232,441,331,288	197,364,804,056
Loans to micro-finance institutions, net	36	576,608,468	506,532,587
Receivables	37	8,718,111,176	7,674,366,152
Investments in subsidiaries and associates	38	2,333,144,150	2,072,992,252
Non-current assets held for sale	39	1,030,518,315	1,007,145,000
Investment property	40	186,977	22,099,692
Property, plant and equipment, net	41	13,166,168,168	11,044,886,245
Intangible assets, net	42	218,447,054	179,150,155
Other assets	43	10,654,956,292	7,165,225,093
Right of use asset	44	3,918,798,283	2,943,552,721
Deferred tax asset	49	4,066,254,813	2,600,565,454
Total assets		**818,793,445,539**	**712,656,499,274**
Liabilities			
Deposits due to other banks		1,061,133,229	532,015,977
Customers' deposits	45	592,983,941,037	540,962,651,409
Current tax liabilities	49	5,858,512,120	5,940,230,745
Provisions	46	1,381,842,378	653,913,365
Finance lease obligations	45	244,470,403	293,912,339
Dividend		7,771,189,170	8,683,368,689
Employee benefits	47	6,584,857,408	2,755,948,146
Other liabilities	48	153,139,799,080	102,590,085,755
Total Liabilities		**769,025,744,825**	**662,412,126,425**
Equity			
Capital	50	40,000,000,000	40,000,000,000
Legal reserve		12,008,588,469	9,645,981,642
Statutory Reserve		241,925,670	886,658,840
CBE NOOR reserve		1,706,854	1,057,658
Fair value reserve		150,805,429	125,424,189
Remeasurement of defined benefit liability		(2,635,325,708)	(414,749,480)
Total equity		**49,767,700,714**	**50,244,372,849**
Total liabilities and equity		**818,793,445,539**	**712,656,499,274**

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

COMMERCIAL BANK OF ETHIOPIA
SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020
(IN ETHIOPIAN BIRR)

	Capital	Legal reserve	Statutory Reserve	CBE NOOR reserve	Accumulated profit or loss	Fair value reserve	Remeasurement of defined benefit liability	Total Equity
Balance as of 30 June 2018	**40,000,000,000**	**6,774,406,532**	**666,432,050**	**608,463**	**-**	**97,811,488**	**(217,771,824)**	**47,321,486,709**
Opening Adjustment								
Total comprehensive income								-
Profit for the year					11,486,300,445			**11,486,300,446**
Other comprehensive income						27,612,701	(196,977,656)	**(169,364,956)**
Transfer to/(from) CBE NOOR reserve				449,195				**449,195**
Transfer to/(from) Statutory reserve			220,226,790					**220,226,790**
Transfer to/(from) legal reserve		2,871,575,111			(2,871,575,111)			-
Dividends					(8,614,725,334)			**(8,614,725,334)**
Balance as of 30 June 2019	**40,000,000,000**	**9,645,981,643**	**886,658,840**	**1,057,658**	**-**	**125,424,189**	**(414,749,480)**	**50,244,372,850**
Opening Adjustment								
Total comprehensive income								
Profit for the year					9,526,548,007			**9,526,548,007**
Other comprehensive income						25,381,240	(2,220,576,227)	**(2,195,194,988)**
Transfer to/(from) CBE NOOR reserve				649,195				**649,195**
Transfer to/(from) Statutory reserve			(644,733,171)					**(644,733,171)**
Transfer to/(from) legal reserve		2,362,606,827			(2,381,637,002)			**(19,030,174)**
Dividends					(7,144,911,006)			**(7,144,911,006)**
Balance as of 30 June 2020	**40,000,000,000**	**12,008,588,470**	**241,925,669**	**1,706,853**	**-**	**150,805,429**	**(2,635,325,707)**	**49,767,700,714**

COMMERCIAL BANK OF ETHIOPIA
SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020
(IN ETHIOPIAN BIRR)

	30 June 2020	30 June 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	14,860,170,649	15,642,292,141
Adjustment		
Impairment of loans and advance and suspense account	1,015,527,419	3,267,965,350
Allowance for Placement with other Banks		105,497,161
Reduction of Allowance for Placement with other Banks	(29,698,743)	-
Provision against Non current asset held for sale	(507,834)	11,320,808
Depreciation and amortization	2,397,802,288	2,058,223,984
Income from subsidiary and associate recognized in profit or loss	(220,594,850)	(118,158,100)
Loss (Gain) on Disposal of Property, Plant and Equipment	(9,914,174)	144,382
Loss (Gain) on Disposal of NCA heald for sale	(16,338,397)	
Finance lease charge	8,455,819	9,646,840
	18,004,902,177	20,954,290,949
Movement in working capital		
Change in debt and equity security	(49,907,749,854)	(76,088,124,830)
Change in Loans and advances	(36,086,332,113)	(28,143,699,864)
Change in receivables	(1,688,478,195)	(206,508,168)
Change in Non Current Asset Held for Sale	(44,692,431)	80,902,372
Change in other assets	(3,489,733,227)	(19,194,550)
Change in Restricted cash	(5,906,690,000)	(3,849,590,000)
Change in customers' deposits	52,021,938,822	90,211,100,111
Change in provisions	727,929,013	24,614,669
Change in employee benefits	656,657,510	540,618,352
Change in other liabilities	50,549,713,323	41,003,355,426
	24,837,465,025	**44,507,764,467**
Cash generated from operations		
Income taxes paid	(5,940,230,746)	(2,691,985,867)
Net cash generated by operating activities	**18,897,234,279**	**41,815,778,600**

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

CASH FLOWS FROM INVESTING ACTIVITIES	30 June 2020	30 June 2019
Payments for property ,plant and equipment	(3,241,615,336)	(2,823,612,122)
Proceeds from disposal of property, plant and equipment	11,710,941	-
Proceeds from disposal of NCA held for sale	36,465,347	
Payments for Investments	(39,557,051)	30,538,663
Payment for intangibles	(138,174,020)	(201,834,307)
Payment right of use assets	(2,142,831,144)	(1,206,267,333)
Net cash used in investing activities	**(5,514,001,263)**	**(4,201,175,100)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash included in assets acquired		
Dividend paid	(8,000,000,000)	(7,350,000,000)
Finance lease obligation paid	(123,208,676)	(52,818,871)
Net cash outflow from financing activities	**(8,123,208,676)**	**(7,402,818,871)**
Increased (decrease) in cash and cash equivalents	**5,260,024,340**	**30,211,784,629**
Cash and cash equivalents at the beginning of the year	49,323,120,874	19,111,336,246
Cash and cash equivalents at the end of the year	**54,583,145,214**	**49,323,120,875**
Cash and cash equivalents comprise		
Cash on hand	7,979,185,155	7,819,954,484
Balance with National Bank of Ethiopia	39,681,755,522	37,985,291,500
Placement with other banks	7,983,337,767	4,007,379,557
Deposit due to other banks	(1,061,133,230)	(532,015,976)
Cash In transit	-	42,511,309
Cash and cash equivalents	**54,583,145,214**	**49,323,120,874**

(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 the Bank's objectives, policies and processes for measuring and managing risks. Further quantitative disclosures are included throughout separate financial statement.

Risk management framework

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

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

a. Credit Risk

Refer page number (50-67)

(29) Financial Risk Review - Continued

b. Liquidity risk

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

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

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

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

TheBank 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 2020	30 June 2019
Loans and advances	233,017,939,755	197,364,804,056
Deposits from customers	592,983,941,036	540,962,651,409
Advances to deposits ratio	**39.20%**	**36.49%**

(29) Financial Risk Review - Continued

b. Liquidity risk - Continued

The table below summarizes theBank's liquidity risk as at 30 June 2020 and 30 June 2019, 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 2020	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	2,294	444	181	3	45,491	29,685	78,098
Placements with other banks					18,507		18,507
Loans and advances to banks	20	20	301	190	46		577
Loans and advances to customers	7,447	21,026	14,448	44,513	145,008		232,441
Receivables			8,718				8,718
Equity Securities						281	281
Debt Securities	28,497	4,726	22,769	84,013	304,854		444,859
A. Total Assets	**38,258**	**26,216**	**46,417**	**128,719**	**513,906**	**29,966**	**783,482**
II. Liabilities							
On balance sheet							
Deposits due to other banks	147				914		1,061
Customers' deposits	45,737	8,873	3,624	65	534,338		592,637
Current Tax Liability		5,859					5,859
Other liabilities	691	18,247	5,616	-	116,079	12,507	153,140
B. Total libilities	46,575	32,979	9,240	65	651,331	12,507	752,697
C. Net liquidity Gap (A-B) as at 30 June 2020	**(8,317)**	**(6,763)**	**37,177**	**128,654**	**(137,425)**	**17,459**	**30,785**
Cumulative Gap as at 30 June 2020	**(8,317)**	**(15,080)**	**22,097**	**150,751**	**13,326**	**30,785**	

(29) Financial Risk Review - Continued

b. Liquidity risk - Continued

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

(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 Million Birr)

30 June 2020	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		2,294	444	181	3	45,491	29,685	78,098
Placements with other Banks		-	-	-	-	18,507	-	18,507
Loans and Advances to Banks		20	20	301	190	46	-	577
Loans and Advances to Customers		7,447	21,026	14,448	44,513	145,008	-	232,441
Debt and equity Securities		28,497	4,726	22,769	84,013	304,854	-	444,859
Total Rate Sensitive Assets		**38,258**	**26,215**	**37,699**	**128,719**	**513,906**	**29,685**	**774,483**
II. Liabilities								
B. Rate Sensitive Liabilities								
Deposits Due to other Banks		147	-	-	-	914	-	1,061
Customers' Deposits		45,737	8,873	3,624	65	534,338	-	592,638
Total Rate sensitive liabilities		**45,884**	**8,873**	**3,624**	**65**	**535,252**	**-**	**593,699**
C. Rate Sensitive Gap		(7,626)	17,342	34,075	128,654	(21,346)		180,784
Cumulative Rate Sensitive Gap		(7,626)	9,716	43,791	172,445	151,099		180,784
Adjusted Interest Rate Change		0.14	0.25	1.5	1	1		
Relative Gap Ratio (RSG to Total Asset)		-0.20	0.66	0.90	1.00	-0.04		
Total Asset		**38,971.95**	**26,215.33**	**37,699.19**	**128,719.12**	**513,184.90**	**69,050.85**	

(29) Financial Risk Review - Continued

c. Market risk - Continued

Exposure to interest rate risk **Amounts in Million Birr**

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

(29) FINANCIAL RISK REVIEW - Continued

(c.) Market risk – Continued

(b) Exchange rate risk:

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

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

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

Currency Type	30-Jun-19	30-Jun-20
	Amount	Amount
1. On B/S FCY Assets		
AED	1,467	1,641
CAD	1,016	339
CHF	1,158	1,315
DJF	145,490	65
DKK	3,138	3,793
EUR	2,749	6,150
GBP	9,032	1,355
INR	54,542	63,974
JPY	36,811	895,384
KES	5,547	4,117
KWD	-	4
SAR	2,164	2,022
SEK	4,954	6,758
USD	395,383	513,159
NOK	2,285	3,420
XAF	66	66
2. On B/S FCY Liabilities		
DJF	4,035	373
EUR	44,201	73,710
GBP	2,136	1,921
USD	920,170	679,495

(29) Financial Risk Review - Continued

(c.) Market risk – Continued

Sensitivity analysis

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

S.No.	Descriptions	Multiplying Factor	Actual Position	Stressed by 15% Birr Devaluation	Change
1	**Overall Open Position**		**(88,429.57)**	**(101,599.60)**	**(13,170.03)**
1.1	Net Short Open Position - USD		(78,002.50)	(89,702.88)	(11,700.38)
1.2	Net Short Open Position - EUR		(9,797.69)	(11,267.34)	(1,469.65)
1.3	Net Short Open Position - Other Currencies		(629.38)	(629.38)	-
2	**Total Capital**		**49,824.76**	**47,693.51**	**(2,131.25)**
2.1	Capital Charge (8%)	0.08*1	7,074.37	8,127.97	1,053.60
2.2	Forex risk Capital Charge to total Capital Ratio	2.1/2	14.20%	16.31%	2.11%
3	**Overall Open Position to Capital Ratio**		**-177%**	**-204%**	**-26%**
4	**Profit before tax Projection**				**4,085.00**
5	**Total Gain/Loss due to depreciation of Birr against USD and EUR (6+7)**				**(6,216.25)**
6	**Total Gain/Loss due to depreciation of Birr against USD**				**(5,522.58)**
6.1	Gain/Loss from FCY denominated On Balance Sheet				(3,978.13)
6.2	Gain/Loss from FCY denominated Off Balance Sheet (20%)				(1,544.45)
7	**Total Gain/Loss due to depreciation of Birr against EUR**				**(693.68)**
7.1	Gain/Loss from FCY denominated On Balance Sheet				(499.68)
7.2	Gain/Loss from FCY denominated Off Balance Sheet (20%)				(193.99)
8	**Post Shock Profit/Loss**				**(2,131.25)**
9	**Impact on capital**				**(2,131.25)**
10	**Post-shock capital**				**47,693.51**

(29) Financial Risk Review - Continued

(c) Market risk – Continued

S.No.	Descriptions	Multiplying Factor	Actual Position	Stressed by 20% Birr Devaluation	Change
1	**Overall Open Position**		**(88,429.57)**	**(105,989.61)**	**(17,560.04)**
1.1	Net Short Open Position - USD		(78,002.50)	(93,603.00)	(15,600.50)
1.2	Net Short Open Position - EUR		(9,797.69)	(11,757.23)	(1,959.54)
1.3	Net Short Open Position - Other Currencies		(629.38)	(629.38)	-
2	**Total Capital**		**49,824.76**	**45,621.43**	**(4,203.34)**
2.1	Capital Charge (8%)	0.08*1	7,074.37	8,479.17	1,404.80
2.2	Forex risk Capital Charge to total Capital Ratio	2.1/2	14.20%	17.02%	2.82%
3	**Overall Open Position to Capital Ratio**		**-177%**	**-213%**	**-35%**
4	**Profit before tax Projection**				**4,085.00**
5	**Total Gain/Loss due to depreciation of Birr against USD and EUR (6+7)**				**(8,288.34)**
6	**Total Gain/Loss due to depreciation of Birr against USD**				**(7,363.44)**
6.1	Gain/Loss from FCY denominated On Balance Sheet				(5,304.17)
6.2	Gain/Loss from FCY denominated Off Balance Sheet (20%)				(2,059.27)
7	**Total Gain/Loss due to depreciation of Birr against EUR**				**(924.90)**
7.1	Gain/Loss from FCY denominated On Balance Sheet				(666.24)
7.2	Gain/Loss from FCY denominated Off Balance Sheet (20%)				(258.66)
8	**Post Shock Profit/Loss**				**(4,203.34)**
9	**Impact on capital**				**(4,203.34)**
10	**Post-shock capital**				**45,621.43**

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).

(29) Financial Risk Review - Continued

d. Operational risk management - continued

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

e. Capital management

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

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

In addition to regulatory requirements, CBE conducts objective analysis on the adequacy of its capitalization on a regular basis. Based on the result of rigorous analysis made on capital management and adequacy, CBE injects additional capital after proposing the required amountof 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 2020, and 30 June 2019 respectively, the Bank's regulatory capital position was as follows:

	30 June 2020	30 June 2019
Capital - Level 1		
State Capital	40,000,000,000	40,000,000,000
Legal Reserves	12,008,588,469	9,645,981,642
CBE NOOR Reserve	1,706,854	1,057,658
Statutory Reserve	241,925,670	886,658,840
Total	**52,252,220,993**	**50,533,698,141**
Capital- Level 2		
Fair value reserve	150,805,429	125,424,189
Re-measurement of Defined benefit liability	(2,635,325,708)	(414,749,481)
Total	**(2,484,520,279)**	**(289,325,292)**
Total regulatory capital	**49,767,700,714**	**50,244,372,849**
Total assets and weighted contingencies	**222,136,595,721**	**183,360,128,864**
Total regulatory capital / risk weighted assets	**22.40%**	**27.40%**

(30) FAIR VALUE OF FINANCIAL INSTRUMENTS

a. Accounting classifications

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

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

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

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.

(30) Fair Value Of Financial Instruments - Continued

a. Accounting classifications - continued

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

					Fair value			
	Amortized Cost	FVOCI	FVTPL	Total carrying amounts	Level 1	Level 2	Level 3	Fair value
30 June 2020	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB
Financial Instruments								
Financial Assets:								
Cash and Balances with NBE	78,022,393,880			78,022,393,880				
Placement with other Banks	18,507,139,349			18,507,139,349				
Loans and advances to customers	232,441,331,286			232,441,331,286				
Loans to micro-finance institutions	576,608,468			576,608,468				
Debt Securities	444,858,529,326			444,858,529,326				
Equity Securities		280,858,000		280,858,000		280,858,000		280,858,000
Receivables	8,718,111,175			8,718,111,175				
Total financial assets	**783,124,113,484**	**280,858,000**		**783,404,971,484**		**280,858,000**		**280,858,000**
Financial liabilities:								
Deposits due to other banks	1,061,133,230			1,061,133,230				
Customers' deposits	592,983,941,036			592,983,941,036				
Current tax liability	5,858,512,120			5,858,512,120				
Other liabilities	153,139,799,080			153,139,799,080				
Total financial liabilities	**753,043,385,465**			**753,043,385,465**				

(30) Fair value of financial instruments - Continued

a. Accounting classifications - continued

					Fair value			
	Amortized Cost	FVOCI	FVTPL	Total carrying amounts	Level 1	Level 2	Level 3	Fair value
30 June 2019	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB
Financial Instruments								
Financial Assets:								
Cash and Balances with NBE	72,112,421,751			72,112,421,751				
Placement with other Banks	12,767,379,557			12,767,379,557				
Loans and advances to customers	197,364,804,056			197,364,804,056				
Loans to micro-finance institutions	506,532,587			506,532,587				
Debt Securities	394,970,505,559			394,970,505,559				
Equity Securities		224,873,000		224,873,000		224,873,000		224,873,000
Receivables	7,674,366,152			7,674,366,152				
Total financial assets	**685,396,009,662**	**224,873,000**	**-**	**685,396,009,662**		**224,873,000**		**224,873,000**
Financial liabilities:								
Deposits due to other banks	532,015,976			532,015,976				
Customers' deposits	540,962,651,409			540,962,651,409				
Current tax liability	5,940,230,745			5,940,230,745				
Other liabilities	102,590,085,757			102,590,085,757				
Total financial liabilities	**650,024,983,886**	**-**		**650,024,983,886**				

(30) Fair value of financial instruments - Continued

b. Valuation hierarchy:

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

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

(31) INTEREST INCOME AND EXPENSE

Interest income and expense are analyzed as follows:

Interest Income	30 June 2020	30 June 2019
Loans and advances to customers	23,502,100,665	20,488,381,750
Debt securities	30,261,698,193	25,186,866,970
Total interest income	**53,763,798,858**	**45,675,248,720**

Interest expense	30 June 2020	30 June 2019
Depositary obligations	24,685,874,588	20,056,806,627
Total interest expense	**24,685,874,588**	**20,056,806,627**

(32) NON-INTEREST INCOME AND EXPENSES

NON-INTEREST INCOME	30 June 2020	30 June 2019
Commissions	11,943,929,392	5,572,866,866
Bank services and transaction fees	1,281,077,597	1,010,027,907
Discount Earned on Securities	457,590,351	448,617,995
Other income	739,531,476	599,860,469
Total Non-Interest Income	**14,422,128,816**	**7,631,373,237**

NON-INTEREST EXPENSE	30 June 2020	30 June 2019
Salaries and Employee Benefits	16,870,356,737	9,484,749,689
Impairment loss as per regulatory	-	220,226,791
Depreciation and Amortization	1,342,007,136	1,262,477,129
Deprecation Right of Use Asset	1,167,585,584	779,874,642
Advertising and publicity	230,199,734	86,650,628
Repairs and maintenance	287,408,587	171,970,306
Electronic data process	230,151,220	257,529,623
Stationery and office supplies	269,651,186	215,675,364
Training and Education	212,236,716	278,644,951
Discount Loss	457,590,291	448,617,991
Donation and Contribution expense	471,893,086	183,458,779
Other expenses	2,980,839,330	1,512,561,902
Total non- interest expenses	**24,519,919,607**	**14,902,437,795**

(33) CASH AND CASH EQUIVALENTS

		30 June 2020	30 June 2019
Cash on hand	ETB	7,979,185,157	7,862,465,793
Cash reserve with National Bank of Ethiopia		30,437,251,619	26,370,161,619
Placements with other banks		18,507,139,349	12,767,379,557
Payment and settlement accounts:			
- with National Bank of Ethiopia		39,681,755,522	37,985,291,500
		96,605,331,647	**84,985,298,469**
Allowance for impairement losses		(75,798,418)	(105,497,161)
		96,529,533,229	**84,879,801,308**

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 2020 and 30 June 2019, 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.

(34) DEBT AND EQUITY SECURITIES

		30 June 2020	30 June 2019
Debt Securities	ETB	444,858,529,326	394,970,505,559
Equity Securities		280,858,000	224,873,000
Debt and Equity Securities		**445,139,387,326**	**395,195,378,559**

i.Debt Securities

This account is comprised as follows:

		30 June 2020	30 June 2019
Debt securities	ETB	445,518,644,844	395,557,276,584
Allowance for Impairment Losses		(660,115,518)	(586,771,025)
		444,858,529,326	**394,970,505,559**

		30 June 2020	30 June 2019
Coupon bonds	ETB	53,814,665,327	59,089,939,870
Corporate bonds		368,316,774,426	313,493,304,392
Government securities		23,387,205,091	22,974,032,322
		445,518,644,844	**395,557,276,584**

(34) Debt and equity securities - Continued

i. Debt securities – continued

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

Interest receivable	30 June 2020	30 June 2019
Coupon bonds	7,622,316,933	6,832,549,762
Corporate bonds	9,284,068,573	10,642,104,705
Government securities	1,838,094	3,686,183
Total	**16,908,223,599**	**17,478,340,649**

ii. Equity securities

	30 June 2020	30 June 2019
Ethswitch Share Company	77,625,000	26,802,000
African Export Import Bank	198,063,000	193,948,000
S.W.I.F.T. SCRL	5,170,000	4,123,000
	280,858,000	**224,873,000**

The change in the carrying amount of equity securities comprises:

	30 June 2020	30 June 2019
Ethswitch Share Company		
At 1 July at cost	26,802,000	11,326,000
Additions	16,552,000	
Changes in fair value	34,271,000	15,476,000
	77,625,000	**26,802,000**

African Export Import Bank	30 June 2020	30 June 2019
At 1 July at cost	193,948,000	162,804,000
Additions	3,174,086	2,489,284
Changes in fair value	940,914	28,654,716
	198,063,000	**193,948,000**

S.W.I.F.T. SCRL	30 June 2020	30 June 2019
At 1 July at cost	4,123,000	8,807,000
Additions		
Changes in fair value	1,047,000	(4,684,000)
	5,170,000	**4,123,000**

(35) LOANS AND ADVANCES TO CUSTOMERS

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

	30 June 2020	30 June 2020	30 June 2020
	Gross Amount	Allowance for loan losses	Book value
Agriculture			
Term loan	11,538,555,729	920,779,375	10,617,776,354
Overdraft	14,184,179	896,705	13,287,474
	11,552,739,908	**921,676,080**	**10,631,063,828**
Manufacturing			
Term loan	139,747,752,716	1,694,353,646	138,053,399,070
Overdraft	2,077,007,140	142,113,607	1,934,893,533
	141,824,759,856	**1,836,467,253**	**139,988,292,603**
Domestic & Trade services			
Term loan	15,934,850,399	1,362,757,035	14,572,093,364
Overdraft	962,899,750	37,926,166	924,973,584
Interest receivable			-
	16,897,750,149	**1,400,683,201**	**15,497,066,948**
International trade			
Term loan	4,254,597,819	462,206,799	3,792,391,020
Overdraft	2,194,694,225	64,227,870	2,130,466,355
Advance loan	17,375,920,275	4,264,097,929	13,111,822,346
	23,825,212,319	**4,790,532,598**	**19,034,679,721**
Building and construction			
Term loan	17,946,622,468	600,274,548	17,346,347,920
Overdraft	330,156,346	30,507,317	299,649,029
	18,276,778,814	**630,781,865**	**17,645,996,949**
Consumer Loan			
Term loan	26,747,523,355	263,741,355	26,483,782,000
	26,747,523,355	**263,741,355**	**26,483,782,000**
Interest free banking finance			
Murabaha finance	3,319,502,633	159,053,394	3,160,449,239
	3,319,502,633	**159,053,394**	**3,160,449,239**
Total	**242,444,267,034**	**10,002,935,746**	**232,441,331,288**

(35) Loans and advances to customers - Continued

	30-Jun-2019		
	Gross Amount	Allowance for loan losses	Total
Agriculture			
Term loan	11,279,617,574	(1,135,834,204)	10,143,783,370
Overdraft	25,642,735	(280,091)	25,362,644
Merchandise loan	10,789,750	(65,800)	10,723,950
	11,316,050,059	**(1,136,180,095)**	**10,179,869,964**
Manufacturing			
Term loan	113,761,673,521	(3,190,333,407)	110,571,340,114
Overdraft	2,480,859,693	(59,970,607)	2,420,889,086
Advance loan	1,043,878,971	(76,656,356)	967,222,615
Merchandise loan	9,300,000	(57,410)	9,242,590
	117,295,712,185	**(3,327,017,781)**	**113,968,694,406**
Domestic & Trade services			
Term loan	13,628,631,332	(1,373,140,800)	12,255,490,532
Overdraft	713,115,882	(33,321,485)	679,794,397
Advance loan	14,000,000	(97,265)	13,902,735
Merchandise loan	2,799	(1,719,175)	(1,716,3760
	14,355,750,013	**(1,408,278,725)**	**12,947,471,288**
International trade			
Term loan	3,675,267,025	(445,169,450)	3,230,097,575
Overdraft	1,151,331,575	(35,170,088)	1,116,161,487
Advance loan	14,422,176,802	(1,855,545,420)	12,566,631,382
Merchandise loan	1,000	(1,970)	(970)
CBE NOOR	574,114,510	(320,878,298)	253,236,212
	19,822,890,912	**(2,656,765,225)**	**17,166,125,686**
Building and construction			
Term loan	12,573,206,424	(399,974,049)	12,173,232,375
Overdraft	183,214,323	(5,696,631)	177,517,692
	12,756,420,747	**(405,670,680)**	**12,350,750,067**
Consumer Loan			
Term loan	20,012,259,571	(202,761,685)	19,809,497,886
	20,012,259,571	(202,761,685)	19,809,497,886
Total	**195,559,083,487**	**(9,136,674,051)**	**186,422,501,436**
Interest receivable on loan	10,942,394,760	-	10,942,394,760
Total	**206,501,478,247**	**(9,136,674,191)**	**197,364,804,056**

(35) Loans and advances to customers - Continued

Allowance for loan losses is as shown below:

	Allowance for loan losses
At 30 June 2018	**6,493,294,336**
Impairment recognized during the year	2,647,339,116
Written off during the year	(3,959,261)
At 30 June 2019	**9,136,674,191**
Impairment recognized during the year	866,261,555
At 30 June 2020	**10,002,935,746**

(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 2020	30 June 2019
	ETB		
Terms loans		567,254,984	499,693,683
Less: Allowance for loan losses		(217,093)	(92,140)
		567,037,891	499,601,543
Interest receivable on loan		9,570,576	6,931,044
Less: Allowance for loan losses			-
		9,570,576	6,931,044
		576,608,467	**506,532,587**

(b) Impairment losses on loans and advances

		2019/20	2018/19
At 1 July	ETB	92,140	27,420
Amounts recognized during the year		124,953	64,720
As at 30 June		**217,093**	**92,140**

(37) RECEIVABLES

		30 June 2020	30 June 2019
Government receivables	ETB	1,230,978,839	1,639,240,381
Foreign receivables		476,121,902	653,596,351
Other receivables		3,734,655,610	2,627,108,541
Tax Receivable		31,989,107	872,004,980
Other advances		5,057,149,972	2,390,397,031
Staff loans – prepayments		1,407,453,831	806,228,080
		11,938,349,261	**8,988,575,364**
Less:-Staff loan contra account		(1,381,064,873)	-
Less: Allowance for doubtful debts		(1,839,173,212)	(1,314,209,212)
		8,718,111,176	**7,674,366,152**

Allowance for doubtful debts:

	30 June 2020	30 June 2019
Balance as at 1 July	(1,314,209,212)	(1,268,532,995)
Doubtful debts written off during the year	-	7,608,768
Reduction (Addition) during the year	(524,964,000)	(53,284,986)
Balance as at 30 June	**(1,839,173,212)**	**(1,314,209,212)**

(38) INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries and associates as of 30 June 2020 and 2019 are as follows:

Subsidiaries:

		30 June 2020	30 June 2019
Commercial Nominees PLC (100% participation)	ETB	1,763,170,101	1,572,696,406
Commercial Bank of Ethiopia(CBE) South Sudan Limited (100% ownership)		269,585,321	247,095,507
Commercial Bank of Ethiopia (CBE) Djibouti Limited (100% ownership)		89,346,852	113,133,096
		2,122,102,274	**1,932,925,009**
Associates:			
Ethiopian Reinsurance share co (20%)		211,041,876	140,067,243
		211,041,876	**140,067,243**
Total investments in subsidiaries and associates		**2,333,144,150**	**2,072,992,252**

(38) Investments in subsidiaries and associates – Continued

(a) Commercial Nominees plc

	30 June 2020	30 June 2019
Percentage ownership interest	100%	100%
Revenue (100%)	1,954,102,224	1,381,085,275
Total comprehensive income (100%)	190,473,698	99,487,233
CBE's share of total comprehensive income (100%)	**190,473,698**	**99,487,233**

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

	30 June 2020	30 June 2019
Percentage ownership interest	100%	100%
Revenue (100%)	39,164,887	10,080,115
Total comprehensive income (100%)	22,489,814	(5,576,769)
CBE's share of total comprehensive income (100%)	**22,489,814**	**(5,576,769)**

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

	30 June 2020	30 June 2019
Percentage ownership interest	100%	100%
Revenue (100%)	3,581,697	845,515
Total comprehensive income (100%)	(23,786,244)	(18,024,623)
CBE's share of total comprehensive income (100%)	**(23,786,244)**	**(18,024,623)**

Investments in associates as of 30 June, 2020 and 2019 are as follows:

(d) Ethiopian Re-insurance Share Company

	30 June 2020	30 June 2019
Percentage ownership interest	20%	20%
Revenue (100%)	906,831,257	720,161,899
Total comprehensive income (100%)	157,087,908	133,831,025
CBE's share of total comprehensive income (20%)	**31,417,582**	**26,766,205**

(39) NON CURRENT ASSETS HELD FOR SALE

		2019/20		
Costs:		**Building**	**Movable property**	**Total**
At 1 July 2019	ETB	801,732,581	208,558,658	1,010,291,239
Acquisition		69,989	44,622,442	44,692,431
Transfer to property, plant and equipment		(1,700,000)	-	(1,700,000)
Sale/Disposal		(13,958,739)	(6,168,211)	(20,126,950)
Adjustment				
Total		**786,143,831**	**247,012,889**	**1,033,156,720**
Less Provisions:				
Impairment loss on acquired assets		(421,922)	(2,724,316)	(3,146,238)
Movement for the year		135,366	372,467	507,833
Closing balance		**(286,556)**	**(2,351,849)**	**(2,638,405)**
Non-current assets held for sale As at 30 June 2020		**785,857,275**	**244,661,040**	**1,030,518,315**

		2018/19		
Costs:		**Building**	**Movable property**	**Total**
At 1 July 2018	ETB	810,924,907	280,268,704	1,091,193,611
Acquisition				
Transfer to property, plant and equipment				
Sale/Disposal		(9,192,326)	(71,710,046)	(80,902,372)
Adjustment				
Total		**801,732,581**	**208,558,658**	**1,010,291,239**
Less Provisions:				
Impairment loss on acquired assets		(3,780,930)	(10,686,116)	(14,467,046)
Movement for the year		3,359,008	7,961,800	11,320,808
Closing balance		**(421,922)**	**(2,724,316)**	**(3,146,238)**
Non-current assets held for sale As at 30 June 2019		**801,310,659**	**205,834,342**	**1,007,145,001**

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

(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.

	2020	2019
Balance as at 1 July	22,099,692	23,135,132
Addition		
Reclassification	(21,912,715)	
Accumulated Depreciation		(1,035,440)
Balance as at June 30	**186,977**	**22,099,692**

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 2019	Additions	Disposal	Transfer/ Reclassification	Balance at 30 June 2020
Cost						
Building	ETB	2,334,486,664	1,700,000	-	49,462,994	2,385,649,658
Computer and software		2,468,053,274	68,073,166	(38,624)	(404,370)	2,535,683,446
Fixtures, fittings and equipment		3,535,936,009	643,077,081	(2,118,116)	28,784,542	4,205,679,516
otor vehicles		1,637,072,501	176,298,749	(6,822,561)	-	1,806,548,689
Work in progress		5,479,586,075	2,459,720,853	-	(57,588,745)	7,881,718,183
		15,455,134,523	**3,348,869,849**	**(8,979,301)**	**20,254,421**	**18,815,279,492**
			0			
Depreciation			0			
Building		(361,702,527)	(93,280,268)		(1,005,427)	(455,988,222)
Computer and software		(1,657,858,399)	(367,843,030)	38,050	5,612	(2,025,657,767)
Fixtures, fittings and equipment		(1,777,574,186)	(581,194,187)	2,027,563	(5,612)	(2,356,746,422)
Motor vehicles		(613,113,165)	(202,722,670)	5,116,922	-	(810,718,913)
		(4,410,248,277)	**(1,245,040,155)**	**7,182,535**	**(1,005,427)**	**(5,649,111,324)**
Net carrying amount		**11,044,886,246**	**2,103,829,694**	**(1,796,766)**	**19,248,994**	**13,166,168,168**

(41) Property, plant and equipment - Continued

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

There were no capitalized borrowing costs related to the acquisition of property, plant and equipment during the year (2019: Nil).

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

(42) INTANGIBLE ASSETS

2019		Software
Cost	*ETB*	
Balance at 1 July 2019		441,663,653
Additions		138,174,020
Balance at 30 June 2020		**579,837,673**
Amortization and impairment		
Balance at 1 July 2019		(262,513,499)
Additions		(98,877,120)
Balance at 30 June 2020		**(361,390,618)**
Net carrying value		**218,447,054**

2018		Software
Cost	*ETB*	
Balance at 1 July 2018		239,829,346
Additions		201,834,307
Balance at 30 June 2019		**441,663,653**
Amortization and impairment		
Balance at 1 July 2018		(200,166,528)
Additions		(62,346,971)
Balance at 30 June 2019		**(262,513,499)**
Net carrying value		**179,150,154**

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 2020 was ETB 98,877,120 (2019: ETB 62,346,971).

(43) OTHER ASSETS

		30 June 2020	30 June 2019
Purchase in progress	ETB	1,328,281,933	643,798,322
Stationery and other supplies		419,915,053	487,153,632
IT expansion project		881,536,893	762,529,597
Prepaid		4,712,494,720	5,155,105,381
Others		3,312,727,693	116,638,161
		10,654,956,292	**7,165,225,093**

(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:

2019/20	Land	Building	Total
Cost			
Balance at 01 July 2019	84,930,076	5,179,773,305	5,264,703,381
Adjustment	-	464,007,085	464,007,085
Additions	4,937,988	1,673,886,072	1,678,824,060
Balance at 30 June 2020	89,868,064	7,317,666,462	7,407,534,526
Depreciation			
Balance at 01 July 2019	(8,578,732)	(2,312,571,927)	(2,321,150,659)
Adjustment	-	(118,243,407)	(118,243,407)
Additions	(1,806,354)	(1,047,535,823)	(1,049,342,177)
Balance at 30 June 2020	(10,385,086)	(3,478,351,157)	(3,488,736,243)
Net carrying value	**79,482,978**	**3,839,315,305**	**3,918,798,283**

2018/19	Land	Building	Total
Cost			
Balance at 01 July 2018	84,930,076	3,973,505,972	4,058,436,048
Adjustment	-	(189,173,821)	(189,173,821)
Additions	-	1,395,441,154	1,395,441,154
Balance at 30 June 2019	84,930,076	5,179,773,305	5,264,703,381
Depreciation			
Balance at 01 July 2018	(6,824,756)	(1,561,234,388)	(1,568,059,144)
Adjustment	-	26,795,609	26,795,609
Additions	(1,753,976)	(778,120,666)	(779,874,642)
Balance at 30 June 2019	(8,578,732)	(2,312,571,927)	(2,321,150,659)
Net carrying value	**76,351,343**	**2,867,201,378**	**2,943,552,721**

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

b. Finance Lease Obligation

	Land	Building	Total
Cost			
Balance at 1 July 2019	13,351,910	244,561,451	257,913,361
Adjustment	-	(14,487,292)	(14,487,292)
Addition	-	79,798,213	79,798,213
Payment	(9,327,516)	(113,881,160)	(123,208,676)
Balance at 30 June 2020	4,024,394	195,991,212	200,015,606
Interest expense			
Balance at 1 July 2019	11,301,494	24,697,484	35,998,978
Adjustment	-	(1,203,551)	(1,203,551)
Additions	1,451,579	8,207,791	9,659,370
Balance at 30 June 2020	12,753,074	31,701,723	44,454,797
Net carrying value	**16,777,467**	**227,692,936**	**244,470,403**
Cost			
Balance at 1 July 2018	16,618,255	249,319,476	265,937,730
Adjustment	-	(31,447,231)	(31,447,231)
Addition	-	76,241,732	76,241,732
Payment	(3,266,345)	(49,552,526)	(52,818,871)
Balance at 30 June 2019	13,351,910	244,561,451	257,913,361
Interest expense			
Balance at 1 July 2018	9,225,306	19,682,138	28,907,443
Adjustment	-	(2,555,306)	(2,555,306)
Additions	2,076,189	7,570,652	9,646,840
Balance at 30 June 2019	11,301,495	24,697,484	35,998,979
Net carrying value	**24,653,405**	**269,258,935**	**293,912,340**

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 2020 was 4.13%. The rates used to compute the land lease liabilities as at 30 June 2020 was 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:

Payable on demand	**30 June 2020**	**30 June 2019**
Local and Central Government	75,916,850,629	76,480,169,354
Private sector and retail customers	82,896,379,331	74,155,301,120
Public enterprises and agencies	84,496,940,032	72,157,880,000
	243,310,169,992	**222,793,350,474**
Savings deposits		
Private sector and retail customers	284,226,566,544	261,904,237,267
Public enterprises and agencies	18,431,576,753	8,237,191,641
	302,658,143,297	**270,141,428,908**
Term deposits		
Public enterprises and agencies	5,344,429,376	15,415,213,397
Private sector and retail customers	2,854,599,953	2,164,339,605
Local and Central Government	6,300,000,000	6,000,000,000
	14,499,029,329	**23,579,553,002**
Blocked accounts	**-**	**476,017,937**
Interest free banking	**32,516,598,419**	**23,972,301,088**
All sectors	**592,983,941,037**	**540,962,651,409**

Payable on demand accounts represents deposits that are non-interest bearing. The weighted average effective interest rate on Savings deposits as at 30 June 2020 was 7% (2019: 7%). The weighted average effective interest rate on Term deposits as at 30 June 2020 was 7.2% (2019: 7.2%). Blocked accounts represent blocked current accounts and blocked savings accounts whose average effective interest rates as at 30 June 2020 were 0% and 7% respectively (2019: 0% and 7% respectively). Interest free banking represents deposits that are non-interest bearing.

(46) PROVISIONS

	Bonuses	Cash Prize Award	Legal	Unutilized O/D,LC and Guarantee	Total
Balances as at 30 June 2018	**525,341,636**	**-**	**33,100,176**	**70,856,884**	**629,298,696**
Increases (decrease) recorded in income	14,826,607	-	31,816,102	(22,028,040)	24,614,669
Provision used during the year	-	-	-	-	-
Balances as at 30 June 2019	**540,168,243**		**64,916,278**	**48,828,844**	**653,913,365**
Increases/(decrease) recorded in income	525,035,191	116,563,214	80,950,417	5,380,191	727,929,013
Provisions used during the year	-	-	-	-	-
Balance as at 30 June 2020	**1,065,203,434**	**116,563,214**	**145,866,695**	**54,209,035**	**1,381,842,378**

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)

	2019/20	2018/19
DBO at 01 July	2,755,948,146	1,933,933,141
Current service costs	1,580,192,453	414,437,622
Interest cost	355,517,311	255,279,175
Past service cost for seniority recognition	-	43,214,562
Past service due to Plan Amendments	-	-
Payments for the year	(1,279,746,470)	(172,313,007)
Expense charged to income	-	2,474,551,493
Actuarial gains (losses) recognized in other comprehensive income	3,172,945,969	281,396,653
DBO at 30 June	**6,584,857,409**	**2,755,948,146**

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

	2019/20	2018/19
Cumulative amount at 1 July	**(414,749,480)**	**(217,771,824)**
Recognized during the year	(3,172,251,753)	(281,396,652)
Deferred income taxes	951,675,526	84,418,996
Actuarial gains, net of taxes at June 30	**(2,635,325,708)**	**(414,749,480)**

iii. Actuarial assumptions

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

	30 June 2020	30 June 2019
Discount rate	12.90%	13.20%
Salary increase rate	16.00%	14.00%
Gold increase rate	15.00%	4.00%
Long term medical inflation rate	12.50%	10.70%
Long term inflation rate	10.00%	8.70%

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

iv. Sensitivity analysis

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

	2020		2019	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5% variance)	(444,386,578)	496,511,852	(202,514,300)	105,897,435
Salary increase rate (1.00% variance)	855,327,245	(708,832,689)	205,579,880	(274,246,244)

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 2020	30 June 2019
Other Liabilities			
National Bank of Ethiopia	ETB	114,700,803,622	74,752,034,764
Margin accounts and deposits for guarantees		18,247,247,443	14,878,151,338
Payable to other banks		8,242,471,943	8,504,190,257
CPO's, telegraphic transfers and money transfers		2,289,319,078	2,230,997,378
Blocked accounts		342,631,061	278,669,657
Other taxes		680,996,035	265,220,258
Unearned income		926,560,532	274,792,463
Miscellaneous		7,709,769,366	1,406,029,642
Total		**153,139,799,080**	**102,590,085,757**

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

(49) INCOME TAXES

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

a) Reconciliation of effective tax rate

	30 June 2020	30 June 2019
Profit before tax	14,860,170,648	15,642,292,141
Blended statutory tax rate*	30%	30%
"Expected" tax expense	4,458,051,195	4,692,687,642
Non-deductible expenses	2,634,567,321	1,552,813,176
Allowed expenses	(887,391,229)	(246,134,866)
Tax-exempt income	(346,715,167)	(59,135,208)
Income tax Payable	**5,858,512,120**	**5,940,230,745**

For the year ended 30 June 2020 the Bank had an effective income tax rate of 39.42% (2019: 37.98%).

b) Income tax expense

	30 June 2020	30 June 2019
Current Tax Payable	5,858,512,120	5,940,230,745
Deferred Tax Expense	(1,465,687,331)	(1,856,824,031)
withholding tax Receivable	-	-
Related Tax -OCI	940,797,852	72,584,981
Tax Expense for prior periods salary & Benefit	-	-
	5,333,622,641	**4,155,991,695**

(49) Income Taxes - Continued

c) Income tax recognized directly in other comprehensive income

	30 June 2020			30 June 2019		
	Income tax	Before taxes	Net of taxes	Income tax	Before taxes	Net of taxes
Remeasurement of defined benefit liability	951,675,526	(3,172,251,753)	(2,220,576,227)	84,418,996	(281,396,653)	(196,977,657)
Unrealized (loss) gain arising from measurement at fair value	(10,877,674)	36,258,914	25,381,240	(11,834,015)	39,446,716	27,612,701

d) Recognized deferred tax assets and liabilities

At 30 June 2020 and 2019, 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 2019	**2,600,565,455**
Recognized in Profit & Loss	524,891,506
Recognized in Other Comprehensive Income	940,797,852
Balance as of June 2020	**4,066,254,813**
Balance as of June 2018	**743,741,424**
Recognized in Profit & Loss	1,784,239,050
Recognized in Other Comprehensive Income	72,584,981
Balance as of June 2019	**2,600,565,455**

(50) EQUITY

a) Capital

The Bank is owned by the government of the Federal Democratic Republic of Ethiopia, there are no shares. As of 30 June 2020, the Bank's capital was ETB 40,000,000,000 (2019: ETB 40,000,000,000).

b) Legal reserve account

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

c) Statutory Reserve

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

(50) Equity - Continued

d) CBE NOOR reserve

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

e) Accumulated Profit/Loss

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

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

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

(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 2020	30 June 2019
Loans committed but not disbursed at year end	48,966,353,062	29,222,364,030
Bond commitment	6,079,256,744	751,094,580
Construction Commitment	7,938,596,024	7,938,596,024
	62,984,205,830	**37,912,054,634**

Contingent liabilities-

	30 June 2020	30 June 2019
Letter of credit	76,235,992,649	45,264,044,513
Guarantees	26,986,521,888	23,005,986,916
	103,222,514,537	**68,270,031,429**

(51) Commitments And Contingent Liabilities - Continued

Nature of contingent liabilities

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

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

(52) RELATED PARTIES

a) Remuneration of key management personnel

Key management members received the following remuneration during the year ended 30 June 2020 and 2019:

		30 June 2020	30 June 2019
Short-term benefits	ETB	43,773,505.16	12,091,439
Post-employment benefits		5,881,417.44	843,751
		49,654,922.60	13,638,666

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

b) Transactions with key management personnel

Key management members entered into the following transactions:

		30 June 2020	30 June 2019
Loans granted	ETB	21,382,573	18,741,814

The loans to process council members are at a lower rate compared to the prevailing market rates and bear annual interest of 7%.

The loans issued to process council members granted are secured against the property being acquired by the borrower. Normal impairment losses have been recorded against balances outstanding during the period with key management personnel and specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the reporting date.

(53) EVENTS AFTER THE REPORTING PERIOD

There were no material facts or circumstances that have occurred between the accounting date and the date of this financial statement that require disclosure in or adjustment to the financial statement.

(54) DATE OF AUTHORIZATION

These financial statements were authorized for issue by the President of the Bank on 24 March 2021.

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COMMERCIAL BANK OF ETHIOPIA

Consolidated Financial Statement

For the year ended 30 June 2020

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