

Annual Report 2006-07

Commercial Bank *of* Ethiopia

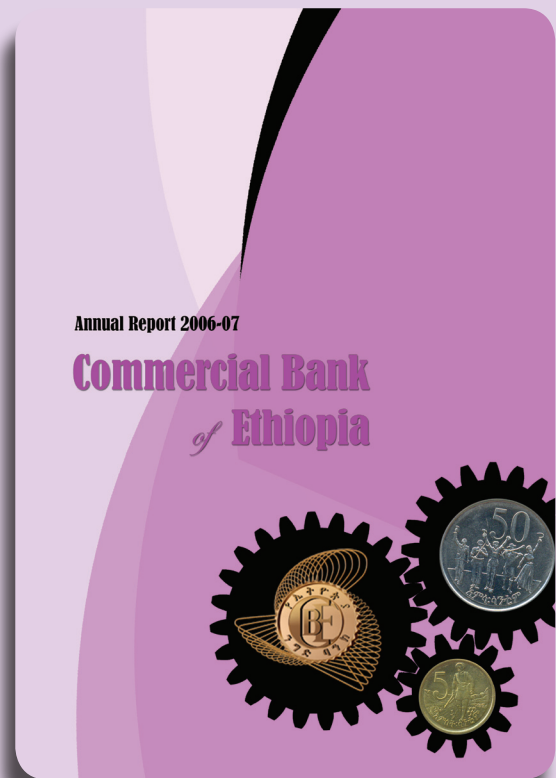




Commercial Bank of Ethiopia

Your unswerving Investment Partner for Ethiopia!





Commercial Bank *of* Ethiopia

Annual Report 2006-07



Table of content

1	Profile	
5	The President's Message	
7	Macroeconomic Highlights	
9	Financial Position	
	Net Interest Income	9
	Net-Interest margin	9
	Non-Interest Income.....	9
	Operating Expenses	10
	Operating Profit	10
	Earning capability	10
	Liquidity	11
12	Balance Sheet Analysis	
	Assets' Structure	12
	Loan Portfolio	12
	Liabilities	14
	Capital adequacy	15
16	Foreign Banking Operations	
18	Human Resources Activities	
19	Business Development Highlights	
	Bank Transformation Efforts	19
	Customer Base and Branch Expansion.....	19
	Service Delivery Improvement	20
	Product/Loan Diversification	20
	Information Technology	20
22	Corporate Social Responsibility	
25	Auditors' Report	



Commercial Bank of Ethiopia

Profile

The State Bank of Ethiopia was founded in 1942 with twin objectives: performing the duties of both commercial and central banking. In 1963, the commercial Bank of Ethiopia (CBE) was legally established as Share Company to take over the commercial banking activities of the state Bank of Ethiopia. In the 1974 revolution, CBE got its strength by merging with the privately owned Addis Ababa Bank. Since then, it has been playing a significant role in the development endeavor of the country.

The CBE, which is striving to embark into a world-class bank, is rendering state-of-the-art and reliable services to its millions of customers both locally and abroad. The business strategies of the Bank focus on the public it serves.

As at the end of fiscal year 2006-07, the Bank had 194 branches stretched across the length and breadth of the country and 7,684 employees, whom it regards as its key assets.

The state owned CBE still dominates the market in terms of assets, deposits, capital, and customer base and branch network, despite the growing competition from private banks over the last 14 years. This makes it one of the most reliable and strong commercial bank, both in the country and in the region.

Its strong capital base, above 65 years of rich experience in the market and large branch network throughout the country enabled the Bank to accommodate large demands for banking services, both from private and public companies, and to increase its overall revenue on a sustainable basis.

OUR VISION

To become a world-class commercial bank

OUR MISSION

We are committed to maximizing shareholder value through enhanced financial intermediation and unparalleled customer satisfaction. We deploy highly motivated, skilled and disciplined employees capable of providing banking products and services that meet international best practices and standards. We strongly believe that reliability and public confidence are the bases of our success.



VALUES

- ☺ We stand for quality;
- ☺ We are a learning organization;
- ☺ We are committed to unparalleled customer satisfaction;
- ☺ Our employees are our valuable assets;
- ☺ We are committed to maximizing shareholder value;
- ☺ We uphold transparency, accountability and professionalism;
- ☺ We are an equal-opportunity employer, and
- ☺ We are corporate citizens.

Key Figures

As at 30 June (in Mn. Birr)	2007	2006	% age Change
Interest income	1,036.5	826.8	25.4
Non-interest income	1,225.3	969.4	26.4
Interest expense	351	329.8	6.4
Non-interest expense	729.2	345.1	111.3
Profit before tax	1,173.2	1,095.6	7.1
Net profit for the year	866.4	792.5	9.3
Total Assets	43,389	35,827	21.1
Outstanding loans and advances	9,763.6	9,301.5	5.0
Liabilities	39,162.2	34,317	14.1
Total deposits	33,000.6	28,148.5	17.2
Capital and reserve	4,226.8	1,510	179.9
Number of branches	194	176	10.2
Number of employees	7,684	7,374	4.2



Commercial Bank of Ethiopia

Board of Directors



H.E. Ato Abay Tsehaye
Chairman, Minister,
National Security Affairs Advisor



H.E. Ato Fikru Dessalegn
Board Member, State Minister,
Ministry of Capacity Building



H.E. Ato Assefa Kesito
Board Member, Special Advisor
to the President of FDRE



Dr. Wolday Amha
Board Member, Executive Director,
Association of Ethiopian Micro
Finance Institution



Dr. Mesfine Belachew
Board Member, Assistant Director,
Ethiopian Information Communication
Technology Agency



Woy. Genet Abera
Board Member, General Manager
GAWT International Business PLC



Ato Tsegaye Abebe
Board Member, Chairman,
Ethiopian Horticulture Producers
and Exporters Association



Ato Belay Gorfu
Board Member, CBE



Ato Wondwessen Assefa
Board Member, CBE



Ato Alemayehu Hunde
Board Secretary





Members of the Process Council



From Left to Right:

Ato Solomon Alula, Chief Internal Auditor; Ato Habtu Dimtsu, Director-Business Development;
Ato Yehuala Gessesse, VP-Credit Appraisal and Portfolio Management; Ato Negussu G/Egziabher, VP-Finance;
Ato Mohamed Nureidin, VP-Trade Services; Ato Bekalu Zeleke, President;
Ato Kefletsion Mamo, Chief Legal and Loan Recovery Officer; Ato Wendemagegnehu Negera, VP-CATS;
Ato Endale Gebru, VP-HRM; Ato Seifu Bogale, VP-Facilities Management; Woy. Melika Bedri, VP-Information Systems;
Ato Mulugeta Alemayehu, Chief Risk and Compliance Management Officer; Ato Abay Mehari, VP-Credit Management



The President's Message

It gives me great pleasure to succinctly present the major achievements of the CBE in fiscal year 2006-07.

During the reviewing year, the Ethiopian economy witnessed a healthy growth trajectory with GDP of about 11.4%, significantly above the average growth realized in sub-Saharan Africa. The good performance of the agricultural sector, due to favorable weather condition, is the hand maiden of this robust and steady growth, despite the relatively significant contribution of other sectors, notably manufacturing, construction and services. This is a testimony of the fact that the expansion strategy of the country has been broad-based, though inflation has been steadily growing and became a challenge to the economy.

Corollary to the robust growth of the economy, the CBE has been outperforming its target in the fiscal year. As at the end of fiscal year 2006-07, the total assets of the Bank stood at Birr 43.4 billion, while total deposits and other liabilities reached Birr 39.2 billion, reflecting a growth of 21.1% and 14.1%, respectively, over the preceding year's level. In the face of competition, as many players have entered the market, this result is meant that the Bank is strong enough to maintain its leadership status in the industry, which in turn is a testimony that the Bank is marching towards accomplishing its vision.

A look into the operating results shows that the Bank has registered commendable performance, mainly due to the growing volume of business in the economy and the unreserved efforts of the staffs towards handling tasks in due diligence. Overall income recorded by the Bank during the reviewing fiscal year reached Birr 2.26 billion, about Birr 465.6 million higher than the previous fiscal year and of course an all time high compared with the preceding years.

Its gross profit as well surged to Birr 1.17 billion, showing a 7.1% rise, compared with the preceding fiscal year, which in actual fact would have stood at Birr 1.42 billion, had Birr 250 million not been deducted to recompense the rise of the paid-up capital of the Bank to Birr 4 billion, suggesting the continued financial robustness of the Bank.

Fiscal year 2006-07 was a period during which the CBE undertook various business development efforts, which aimed at achieving service excellence. In order to respond to the ever growing customers' needs, the Bank has signed agreement with the government to finance housing developments hence diversifying the range of its credit portfolio and moping up unutilized funds.

The CBE has, in the fiscal year, showed its commitment of reaching out potential customers by widening its branch network via opening 18 more branches throughout the country. The opening of these branches not only enables the Bank to widen its customer base but it is also one of the key ways of playing its social responsibility.



The attempt made on developing the Bank's IT infrastructure continued in the reference year, entailing the Management's commitment to achieve the Bank's vision of becoming a "world-class" bank and to enable it stay at the top of the competition. The Management believes that the Bank should walk-off long way to further improve its IT structure so that the customers would be able to get quality service and the Bank would maintain its preeminent position.

The Bank has been exercising a somber and massive transformation effort that is believed to enable it leaps into a better position, and achieve its vision in the dynamic environment. As part of the transformation endeavor, a Business Process Re-Engineering (BPR) study team was formed, where top Management members of the Bank took the leadership, to diagnose the current status and come up with workable solutions for improvement, the central focus being process and customers of the Bank. The project is aimed at redesigning business processes to leverage the core banking platform to improve mainly the Bank's performance in key business areas so as to enhance service excellence. Implementation of the study, planned to kickoff in fiscal year 2007-08, is believed to bring about a difference towards reducing the workload of our branches and thereby realizing the Bank's vision.

The transformation endeavor reflects the Bank's strong commitment not only to efficiently deliver existing products to various market segments but also to explore new and niche businesses that can become growth engines. The Management strongly believes that the transformation effort would help the Bank to realize its core principles of becoming performance oriented, market driven and customer first. To this end, the management will invest all the required efforts towards bringing paradigm shift through implementation of the BPR study.

The astonishing operational results would not have come true without the unstinted efforts of the Board of and Executive Managements and employees of the Bank and the loyalty and confidence on the part of customers. Hence, I would like to take this opportunity to thank all of them for the commitment they demonstrated in achieving such an all-time-high and outstanding results. I fervently hope that this commitment will continue with us all in the years ahead, as it is the only way that enables us maintaining our vision of becoming a "world-class" bank.

Bekalu Zeleke
President



Macroeconomic Highlights

The global economy grew at a rate of 5.4% in 2006, and is projected to have grown by 4.75% in the current year, due to expected slowdown in the US economy, though growth in the Euro zone is expected to pick up, led by strong domestic demand. Advanced and emerging economies should enjoy robust growth, helping to sustain demand for sub-Saharan African exports. Among others, China, India and Russia continued to grow vigorously accounting for one-half of the global growth over the past year. Sub-Saharan Africa has been experiencing robust growth reaching 6% in 2007 and inflationary pressures are expected to stay well contained in the region.

The overall performance of the Ethiopian economy, on the other hand, has witnessed strong and steady growth, over the past four successive years. The outlook for the current fiscal year is also encouraging. On average, real GDP has grown by 11.8%, during the years 2003/04-2006/07, significantly above the average of 5-6% growth realized in sub-Saharan Africa. In fiscal year 2006-07, real GDP grew by 11.4%, compared with the preceding year, largely due to good performance of the agricultural sector. The agriculture sector has still showed dominance, by contributing 46.3% to the GDP in 2006-07, while the share of services sector and that of the industrial sector stood at 41.2% and 13.4%, respectively, during the same reference period.

Following the substantial growth in private and public investments, gross capital formation surged to 33.7% in 2006-07, slightly higher than the preceding year's level of 30.3%. Accordingly, the share of gross capital formation has been marginally increasing and reaching 25% of the GDP, whereas gross domestic saving stood at 5.6% of the GDP. Investment activities continued to widen, reflecting a high degree of business optimism and fortifying the outlook for growth. Overall, the growth momentum is expected to be sustained, with continuing credit and investment demand from the various economic sectors.

Total government revenue, including grants, reached Birr 29.4 billion, showing a growth of Birr 6.1 billion (26%), over the previous year, while general government expenditure stood at Birr 35.6 billion (20.8% of the GDP), which is much higher than the previous year's status of Birr 29.3 billion (22.3% of the GDP). Although the gap between recurrent and capital expenditures has been declining since fiscal year 2002-03, it was only in 2006-07 that the latter surpassed the former by Birr 1.3 billion, presumably due to increased capital expenditure for social developments.

The external sector has also showed a remarkable growth. The total value of exports has increased, from USD 1,000.3 million in 2005-06 to USD 1,128.5 million in the reviewing fiscal year, showing a growth of 12.8%. This is attributable to the improvements in the volume of exported goods, which in turn is assumed to emanate from the good performance of the agriculture sector, sustained demand for the country's major export items from major trading partners, and improved international prices for some of the export products, such as coffee. This growth trend is expected to surge in fiscal year 2007-08, mainly due to the expected increase in the production of agricultural produces for export, following supportive government policies and favorable weather condition. Relatively better and stable international prices and hence increased demand for coffee, flowers and oils seeds are also believed to be other contributing factors.

The annual aggregate value of imports increased, from USD 4,592.7 million in 2005-06 to USD 5,124.4 million in 2006-07, depicting a growth of 11.6%, likely due to increased oil prices. Imports of capital goods and intermediate inputs and food stuffs were robust.

In fiscal year 2006-07, however, Ethiopia has been experiencing high inflation that remains above the threshold level, which if unabated could adversely affect the economy, albeit the relatively good harvest record.

With regards to the exchange rate development, the Ethiopian Birr vis-à-vis the US dollar was, on average, exchanged in the inter-bank market, at 8.9275 Birr, depreciated by 2.7%, compared with the previous year's position of 8.6914 Birr. This slight growth denotes the marginal but continued depreciation of the Birr against the USD in recent times. In the parallel market, the exchange rate of the Birr against the USD has also depreciated to 9.0795, from its corresponding status of 8.9962 in 2005-06. The depreciation stood at 0.9%, much lower than the 2.7% depreciation observed in the inter-bank market, attributable to the fluctuation of the exchange rate in the parallel market, contrary to the persistent depreciation of the exchange rate in the inter-bank market. The spread (premium in %) between the inter-bank market and the parallel market exchange rate has narrowed in the reviewing period,



indicating a slight improvement in the rate difference between the inter-bank market and the parallel market in fiscal year 2006-07 relative to that of last year.

The stock of broad money supply exhibited a 22% growth during the fiscal year under review and reached Birr 56.6 billion relative to the magnitude registered during the preceding year's level of Birr 46.4 billion. Domestic credit extended to the economy increased sharply by 25.5% relative to the status recorded in 2005-06 (i.e. Birr 49.2 billion), mainly due to the persistence increase in both claims to the central government and to other non-public sector. The net foreign asset component of the money supply (external assets) increased to Birr 13.3 billion during 2006-07, from its level of Birr 12.1 billion during the year 2005-06. On the other hand, the narrow money supply grew by 24.4%, compared with the level recorded at the end of the preceding fiscal year, attributable to the rise in demand deposits and currency outside banks by 28.4% and 20 %, respectively.

The strong and steady growth of the economy and the marked performance of the external sector and overall fiscal and monetary developments, during the reporting period, created a favorable business environment for the banking industry hence improvement in overall performance.



*CBE Finances
Condominium Housing
Projects*



Financial Position

Net-Interest Income:

The net-interest income of the Bank rose to Birr 685.5 million in 2006-07, from Birr 497 million in 2005-06 (37.9% rise), mainly on the back of a higher growth in interest income over interest expense.

The aggregate interest income grew by 25.4% year-on-year to Birr 1,036.5 million, from Birr 826.8 million in 2005-06. This was resulted from the sizeable growth of interest income generated from loans and advances (Birr 634.1 million), treasury-bills (Birr 40 million), bonds (Birr 285 million) and placements with other banks (about Birr 76.7 million).

On the other hand, total interest expenses on deposits reached Birr 351 million, slightly up by 6.4%, relative to last year's level of Birr 329.8 million, while the total deposits grew by 17.2%.

(In '000 Birr)

	2006-07	2005-06
Interest Income:	1,036,505.1	826,764.1
Loans and advances	634,186.4	577,134.8
Government bonds	41,993.8	56,060.6
Treasury bills	40,024.2	2,432.5
Placements with other banks	76,653.2	30,696.7
Coupon and term bonds	243,647.5	160,439.5
Interest expense:	350,965.7	329,781.7
Customers' deposits	350,330.1	329,771.6
Deposits from other banks	682.1	0.9
Other	7.5	9.2
Net-interest income	685.5	497
Net-interest margin (%)	2.2	1.9

Net-Interest Margin:

The net-interest margin for the reporting year was 2.2%, only slightly higher than the preceding year's level of 1.9%, suggesting the need for exerting utter efforts in the years to come to convert the swelling liabilities towards earning assets.

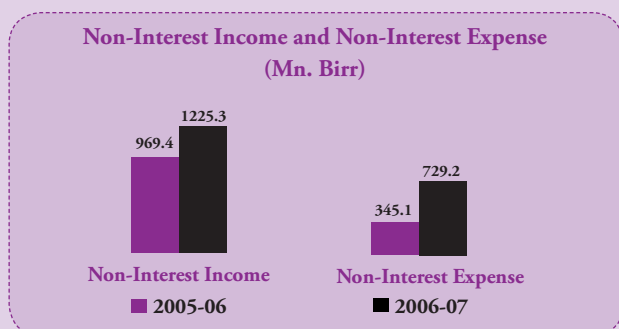
Non-Interest Income:

Non-interest income for the reviewing period totaled Birr 1,225.3 million, up by 26.4%, compared with the preceding year's balance of Birr 969.4 million. Non-interest income still occupies the sheer-weight of the total income of the Bank, maintaining a percentage share of 54.2. The increase in other income, from Birr 49.5 million in 2005-06 to Birr 181.6 million in 2006-07 and the growth realized by gains on dealings in foreign currencies, going from Birr 329.4 million to Birr 454.8 million and that of commission income from Birr 180.9 million to Birr 200.5 million in the same period are major reasons for the impressive growth of non-interest income.



Operating Expenses:

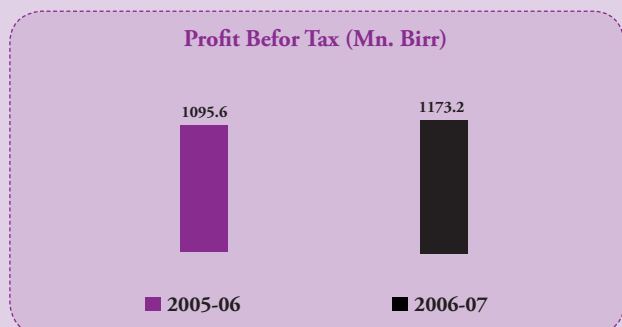
The operating expenses of the Bank stood at Birr 729.2 million at year-end, up by 111.3%, over the preceding year's total of Birr 345.1 million. This growth was attributed mainly to the growth in general expenses by 224.1%. From the category of general expenses, bad debt expenses (impairment loss on government bond and guarantee) accounted to a share of 68%.



Operating Profit:

The total income of the Bank, for fiscal year 2006-07, stood at Birr 2.3 billion, registering a growth of 25.9%, over the corresponding last year's figure of Birr 1.8 billion. This was explained by the remarkable growth in both interest income and non-interest income. The income generated from foreign banking operations was Birr 982.8 million, accounting for 43.6% of the total income. The total expenses of the Bank went up to Birr 1,080.2 million in 2006-07 from Birr 674.9 million in 2005-06, mainly due to the significant increase in non-interest expenses. Accordingly, the operating profit* of the Bank witnessed robust growth for the fourth successive year to reach Birr 1.17 billion, grew by 7.1%, compared with the preceding fiscal year. This figure would have stood at Birr 1.43 billion, had Birr 250 million not been deducted to recompense the rise of the paid-up capital to Birr 4 billion.

The net-profit of the Bank stood at Birr 866.4 million, as against Birr 792.5 million for the previous year, showing a growth of 9.3%. This achievement was possible only due to the commitment of all staffs of the Bank and the confidence and trust that the customers place on the Bank.

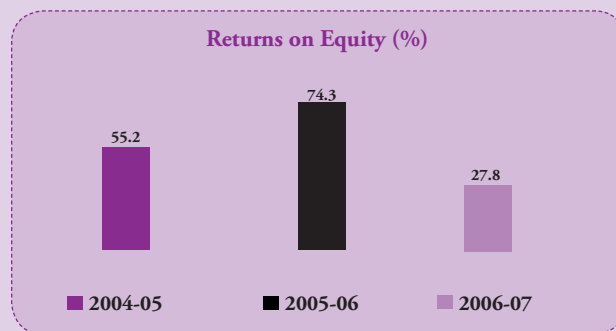
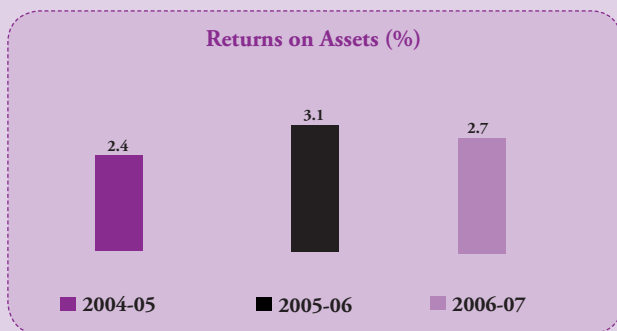


* Operating profit is computed as total income less of expenses including impairment losses on sundry debtors and acquired property

Earning Capability:

Both returns on assets (ROA) and returns on equity (ROE) dwindled to 2.7% and 27.8%, from their previous year's corresponding levels of 3.1% and 74.3%, respectively. The reason for the decline in ROE is the increase in state capital and reserves from Birr 1.5 billion before to Birr 4.2 billion in 2006-07, which makes the denominator much higher than the numerator (i.e. profit before tax).





Liquidity:

The commercial loan-to-deposit ratio, describing the proportion of the total deposits extended to financing loan demands, went down from 33.1% in 2005-06 to 29.6% in 2006-07. With its loan-to-deposit ratio still below the level of international standard, the Bank still has wide room to grow and/or to enhance its income and, hence profit in the future. However, if investment on bonds of various types is considered, the ratio will be significantly higher than this figure.

The liquid-assets-to-the-net-deposits ratio further declined to 75.5% from 77.1% a year ago, may be indicating the fact that the economy's absorptive capacity for credit is still relatively weak, despite the favorable business environment that the economic growth has brought. Of course, the high level of liquid funds is a weapon for the Bank to keep on its path to success in fiscal year 2007-08 and beyond. To this end, the Bank has drawn comprehensive strategies to strengthen the marketing activities, especially to enhancing its loan marketing capacity. In other words, the CBE will exert concerted efforts to rebalance its asset portfolio in favor of relatively higher yielding loan receivables.



The CBE supports the financial needs of the Trade Sector

*Courtesy of
Guna Trading*



Balance sheet Analysis

(In Bn. of Birr)

	2006-07	2005-06	% change
Total assets	43.4	35.8	21.1
Total liabilities	39.2	34.3	14.1
Capital and reserves	4.2	1.5	179.9
Capital adequacy ratio (%)	28	10.6	164.1

Assets' Structure:

The balance sheet for the 2006-07 fiscal year indicates that the total assets of the Bank grew by 21.1% compared with the preceding year and totaled Birr 43.4 billion. This may suggest that the Bank is strengthening its asset base, which will make it one of the biggest banks in sub-Saharan Africa. This was attributable mainly to the growth in cash and balances with the National Bank of Ethiopia by 36.5%, investment in government securities by 3.4%, term bonds by 69.4%, loans and advances to customers by 10.4% and the growth in placement with other banks by 17.5%, over the level posted a year ago. Specifically, investment in term bonds went up to Birr 6.1 billion, from their previous year's level of Birr 3.6 billion. Whereas cash and balances with the National Bank of Ethiopia grew, from Birr 7.2 billion in 2005-06 to Birr 9.9 billion in 2006-07. Similarly, deposit with other banks increased from Birr 1.4 billion to Birr 1.6 billion in the same reference period.

Loan Portfolio:

The Bank's outstanding loans and advances portfolio as at end of the reviewing fiscal year totaled to Birr 9.8 billion, showing a modest increase of 5%, over the preceding year balance of Birr 9.3 billion. Looking into the distribution of loans and advances by major end use shows that domestic trade and services, foreign trade, agriculture, and the manufacturing sectors stood at Birr 2.81 billion, Birr 2.77 billion, Birr 1.84 billion and Birr 1.49 billion, respectively, which in the aggregate amounts to 91.4% of the total outstanding loans balance of the reviewing year. The outstanding loans and advances balance of the domestic trade sector was declined by 11.1%, compared with the preceding year's balance. Similarly, outstanding loans and advances under other banks stood at Birr 230.7 million, decreased by 17.9% as against the previous year's balance of Birr 281 million. Outstanding loans balance under the export sub-sector reached Birr 820.6 million, exhibiting a remarkable growth of 74%, compared with Birr 471.7 million for last year, despite the stiff competition in this regard.

Outstanding Loans and Advances by Sector* (Mn. Birr)

	2006-07		2005-06	Year-on-Year % Change
	Amount	% Composition	Amount	
Loans to customers	9,532.9	97.6	9,020.5	5.7
Agriculture	1,842.1	18.9	1,586.4	16.1
Manufacturing	1,497.4	15.3	1,329.6	12.6
Domestic trade	2,813.1	28.8	3,164.1	-11.1
Foreign trade	2,768.7	28.4	2,444.1	13.3
Building and Construction	550	5.6	449.2	22.4
Personal	61.6	0.6	47.2	30.5
Loans to banks	230.7	2.4	281	-17.9
Total outstanding loans	9,763.6	100.0	9,301.5	5.0

* Excluding investment in government securities and bonds and placement with other banks



The amount of fresh-loans disbursed to the various economic sectors, during the review period was Birr 5.2 billion, up by 27.1%, compared with the preceding year's level of Birr 4.1 billion. Of the total fresh-loans disbursed, the agriculture sector absorbs the highest share of Birr 1.6 billion (30.8%), followed by the domestic trade sector and the export sub sector, claiming Birr 1.4 billion (26.9%) and Birr 0.8 billion (15.1%), respectively. On year-on-year basis, loans extended to the domestic trade services, the export sub- sector and the building and construction activities were up by 52.6%, 125.8% and 495.5%, respectively, compared with the last year's level.

On the other hand, loans disbursed to imports financing dropped to Birr 556.2 million, from Birr 847.4 million in 2005-06, fell by 34.4%. Fresh-loan disbursed to the agriculture sector was surged by merely 2.6%, while that of the manufacturing sector accounts for a 60.2% growth.

Trends in Loans Disbursement, by Sector (Mn. Birr)

	2006-07		2005-06	Year-on-Year % Change
	Amount	Composition (%)	Amount	
Agriculture	1,608.8	30.8	1,567.6	2.6
Manufacturing	545.5	10.4	340.6	60.2
Domestic trade	1,406.4	26.9	921.6	52.6
Export	787.9	15.1	348.9	125.8
Import	556.2	10.6	847.4	(34.4)
Building and Construction	259.6	5.0	43.6	495.4
Personal	67.4	1.3	46.2	45.9
Total loans disbursement	5,231.7	100.0	4,115.9	27.1



CBE Extends significant supports to the Services Sector

***Courtesy of
Ethiopian Tourist
Trading Enterprise***



Total loan collection stood at Birr 5.8 billion in 2006-07, up by 31.8% from Birr 4.4 billion a year ago . Loans collection from the domestic trade services and the agriculture sectors (31.8% and 26.7%, respectively, of the total loans collection) were major contributors to such exciting performance. On the other hand, loans collection from the import sub-sector, the building and construction sector and other projects fell by 1.7%, 2.9% and 19.1%, respectively, compared with their preceding year's corresponding status.

Trends in Loans Collection, by Sector (Mn. Birr)

	2006-07		2005-06	Year-on-Year % Change
	Amount	Composition (%)	Amount	
Collection from Customers	5,694.0	98.9	4,295.8	32.5
Agriculture	1,539.5	26.7	961.9	60.0
Manufacturing	428.6	7.4	330.1	29.8
Domestic trade	1,831.7	31.8	1,075.5	70.3
Export	627.3	10.9	621.5	0.9
Import	874.7	15.2	890.0	(1.7)
Building and Construction	227.6	4.0	234.4	(2.9)
Personal	53.4	0.9	45.3	17.9
Other projects	111.1	1.9	137.3	(19.1)
Collection from banks	61.2	1.1	80.0	(23.5)
Total loans collection	5,755.2	100.0	4,375.8	31.5

As a result, the ratio of loans-collection-to-loans-disbursement slightly increased to 110%, from 106.3% in 2005-06, testifying the fact that all concerned staffs paid the required effort towards the timely collection of loans. Accordingly, the Bank's stock of non-performing loans reduced remarkably during the year, which is one of the major achievements the Bank has to be proud of.

Liabilities:

The total liabilities of the Bank for the reviewing period was Birr 39.2 billion, up by Birr 4.8 billion (a 14.1% growth), from the preceding year. The incessant growth of customers' deposits and deposits due to other banks, heedless of the growth inhibiting conditions, were major contributors to this growth status. Customers' deposits stood at Birr 32.8 billion while deposits due to other banks went up to Birr 190 million in 2006-07, from their last year's levels of Birr 28 billion and Birr 159 million, respectively.

Mobilized deposits remain the Bank's major source of funding. A relatively large branch network and the public confidence it has won over the last 65 years and the favorable business environment are major contributing factors enabling the Bank to command a large deposit base. During the period considered, the Bank posted a total deposit of Birr 33 billion, claiming a growth of 17.2%, compared with that of last year's level. This was attributed, chiefly to the steady growth in demand deposits. Demand deposits increased by 22.7%, compared with the preceding year. Similarly, savings deposits grew by 10.5%, to reach Birr 13.1 billion, whereas fixed time deposits continued to decline in the reporting year and totaled to Birr 305 million. Accordingly, the ratio of demand deposits to total deposit stood at 59.3%, slightly higher than its last year's level of 56.7%, which enabled the Bank to minimize interest expenses hence increased profit.

Deposit status exhibited such growth performance, in spite of the prevailing aggressive branch expansion and customer attraction policy of competitor banks and the galloping inflation (that makes real deposit rate negative). In the coming fiscal year, the Bank will encourage even higher levels of deposits, as it plans to expand its branch networks to above 200 outlets.

Deposit at Year-End (Mn. Birr)

	2006-07	2005-06
Total deposits	33,000.6	28,148.5
Demand deposits	19,584.1	15,954.8
Savings deposits	13,111.9	11,870.1
Fixed time deposits	304.6	323.6



Capital Adequacy:

The capital and reserves of the Bank stood at Birr 4.2 billion in 2006-07, indicating a 179.9% growth, over the preceding year's position of Birr 1.5 billion. This was attributable to owner's decision to increase the Bank's paid up capital, from Birr 619.7 million previously, to Birr 4 billion in 2006-07.

Consequently, the risk-weighted capital adequacy ratio of the Bank reached 27.6%, which exceeded both the Basel Accord's recommended ratio of 8% and the previous year's level of 10.6%. The Bank's capital-asset ratio grew from 4.2% in 2005-06 to 9.7% in 2006-07 further reflecting the Bank's sound financial strength.

The notable rise in the paid-up capital of the Bank will, of course, have wide-ranging effect on its operational performance and international image in the years to come. Primarily, it will enable the Bank to easily absorb unexpected losses and meet its obligations when deemed to do so. Secondly, it will have the effect of bolstering and maintaining the confidence and trust of foreign banks and its customers, for by virtue of being raising its capital, the Bank becomes stronger than ever before to mitigate and bear risks. Finally, the Bank's single borrowing limit will grow. This will have a repercussion on increasing the volume of loans hence mop up the excess liquid funds.

Capital adequacy

	2006-07	2005-06
Capital Adequacy:		
Paid-up capital ('000 Birr)	4,000,000	619,740
Reserves ('000 Birr)	216,139	821,174
Retained earnings('000 Birr)	4,241.8	63,328
Capital adequacy ratio	27.6	10.6
Capital-to-total-assets ratio	9.7	4.2



Foreign Banking Operations

The CBE maintains good business relationships and correspondent account relations with various well-known international banks throughout the globe. It maintains a SWIFT bilateral key exchange arrangement with 520 banks of international renown. Being one of the strengths and core competences of the Bank, this enables it to benefit from global business developments. A good deal of the Bank's revenue and hence profit is generated from the international banking activities. During the reviewing period, the income obtained from foreign banking operations, surged by 31.3% and stood at Birr 982.8 million, accounting for 43.6% of the total income of the Bank. The International Banking Department alone claims 85.1% (i.e. Birr 836.7 million) of the total income generated from foreign banking activities. The component of other income (specifically gains on foreign exchange dealings and service charges) took the lion share, fetching 78% of the total income. However, commission income showed a slight decrease in the review period, relative to the preceding fiscal year.

The overall performance of the foreign banking activities was good in 2006-07, compared with fiscal year 2005-06. During the period in review, the import letters of credit opened and settled reached 5,384 and 6,344 with a corresponding value of Birr 8 billion and Birr 6.3 billion, respectively, showing a remarkable growth, compared with the preceding year. The number of IBC (import documentary collections) documents received during the reporting period stood at 7,481 with the corresponding value of Birr 7.3 billion, reflecting a growth, respectively, of 37.6 % and 11%, over the preceding year. Whereas the number and value of IBC documents settled were 7,103 and Birr 3.1 billion, respectively, suggesting a 108.4% and 76.2% growth, relative to the previous year's level.

Export documents negotiated both at sight and on collection also revealed an appreciable increase during the period considered. Similarly, 3,849 foreign guarantees worth of Birr 4.3 billion were issued in fiscal year 2006-07, while those guarantees settled during the reporting period stood at 3,896 for about Birr 3 billion, showing a steady rise over the previous year's performance in this regard.

Selected Performance indices of the Foreign Banking Operations (value in Mn. Birr)

Particulars	2006-07		2005-06		Year-on-Year % Change	
	No.	value	No.	value	No.	Value
Import L/C opened	5,384	7,955.7	3,993	5,375.5	34.8	48.0
Import L/C settled	6,344	6,324.7	4,624	4,110.6	37.2	53.9
Export L/C received	677	2,923.3	1,596	2,079.5	(141.5)	40.6
Export Doc. negotiated on collection	2,683	482.3	442	310.4	507	55.4
Export L/C negotiated at sight	2,199	2,249.3	1,681	1,349.2	30.8	66.7
IBC-received	7,481	7,282.4	5,437	6,558.6	37.6	11.0
IBC-settled	7,103	3,048.4	3,409	1,730.3	108.4	76.2
Guarantees issued	3,849	4,302.7	2,881	2,722.6	33.6	58.0
Guarantees settled	3,896	2,975.1	2,883	1,930.9	35.1	54.1
Total	39,616	37,544.0	26,946	26,167.6	47.0	43.5





*CBE finances Import
Business*

*Courtesy of
MOENCO*



Human Resources Activities

At the end of fiscal year 2006-07, the Bank's human resource reached 7,684. Compared with last year's figure, this represents an increase of 310 staffs (or 4.2%), which is mainly the result of recruitment of 792 new employees.

Generally, service quality that banks offer depends to a greater extent on their employees. The CBE believes that its success rests not only on the ability to identify opportunities and manage risks, but also on the quality of its staffs. Indeed, the Bank believes that its staffs are committed to helping it maintain its leadership position, and are poised to fully satisfy its highly esteemed customers. Employees are core to the Bank's service commitment hence are valuable assets. Accordingly, the Bank has been trying to equip all staffs with the required skills and competencies, and to motivate them in various ways in such a way that they well understand customers' needs/demands. To this end, 4,082 staffs were participated in various skills upgrading training for 98,674 contact hours. In addition to the in-house skills upgrading training programs, the Bank has sponsored a number of staffs to attend master's courses and relevant short term trainings both locally and abroad.

The Bank is committed to satisfy its employees not only by fostering a pleasant and conducive work place but also egging on them with attaching attractive benefit packages to each post. During the review period, the Bank has arranged mortgage and consumer loans to staffs with lower interest rate than the market rate. Accordingly, 300 employees have got condominium houses.

The Bank has already established an Internal Communications office to promote internal communication and form a common understanding through its staffs' newsletter. This allows employees to have understanding of new adverts, quarter and annual management meeting resolutions, and to share ideas in various issues including financial, economic, social and legal matters.

The newsletter also serves as a conduit in which service delivery improvement and other business issues are discussed, which would ultimately have a positive effect on stirring the dedication of all staffs towards delivering optimum customer satisfaction. Establishing the office entails the Management's commitment to encourage two way communications and employees participation in the decision making process.

The CBE is the right domicile for professionals who look to develop in an environment, in which they will have key responsibilities to play.



Business Development Highlights

Bank Transformation Efforts :

The Bank has been exercising massive transformation effort, which is believed to enable it leap into a better position, in terms of enhancing the efficiency and quality of service delivery, and hence achieving its vision of becoming a “world-class” commercial bank in the fast changing environment. In the era of stiff competition, improving service quality is known to be a prime strategy for winning the competition and retaining customers. In this respect, a Business Process Re-Engineering (BPR) study team was formed, where top Management of the Bank involved in, to undertake studies in a holistic manner; the focus being on core processes and customers of the Bank. The project is aimed at redesigning business processes to leverage the core banking platform to improve the Bank’s performance in key business areas and also of services excellence.

Accordingly, the study team, led by the President has identified the “AS IS” process of the Bank’s core business areas, and will design the “TO BE” one and carryout implementation, which is believed to bring about a difference in terms of reducing the workload of the Bank’s branches and giving efficient services. The team has visited foreign banks selected for benchmarking and implementation of the BPR study is planned to kickoff by next fiscal year.

The transformation endeavor reflects the Bank’s strong commitment not only to efficiently deliver existing products to various market segments but also to explore so called growth engine new and niche businesses. It is a concomitant reflection of the Bank’s vision, which is meant to retain customers and attract potential ones while improving its position in the international financial market. Of course, this goal cannot be attained without bringing the Bank’s day to day operating system, management style, customer handling and achievements up to world-class levels and that is why transformation is required. The transformation initiative is a helping hand for the Management to realize it key principles of becoming performance oriented, market driven and customer first.

As part of the transformation effort, the Bank has already placed a new branch structure, where customer service officials are assigned to handle the day to day complaints of the Bank’s customers, the ultimate aim of which is to improve service quality.

Customer Base and Branch Expansion :

The CBE boasts a solid base of customers and a lion share of the Ethiopian financial market, in terms of assets, capital, deposits and branch networks. Despite the competition and inflationary pressure, the number of customers using CBE branches witnessed an increasing trend during the considered period, suggesting the higher public confidence and trust on the Bank. This may also shed some light that the CBE is not only one of the strong banks in Africa, but also a reliable bank committed to provide optimum satisfaction to its customers through more diverse services. The Bank knows well that its customers are its treasures.

During the reviewing fiscal year, the CBE opened 18 new branches in high growing areas, which would enable it discharge commercial and social responsibilities and maintain its preeminent position in the regions’ financial scene. Accordingly, the Bank has 194 branches as of the end of fiscal year 2006-07, which will make it possible to deliver a wide-range of products and/or services to clients living in all corners of the country. Consistent with the branch expansion policy of the Bank and with the view of expanding the Bank’s service area, additional branches are planned to be opened within the coming fiscal year, for which feasibility studies were conducted on various potential areas.

The remarkable operational performance, the Bank has experienced in recent years, is attributable mainly to its strong network distribution and healthy share of the market, which makes it the largest single source of funding in the country. The fact that the branches are located in breadths and lengths of the country’s territory suggests that the Bank has been playing its corporate social roles and responsibilities and sharing its affluence with the local community.



This is why wherever they are residing, Ethiopians think of CBE as their bank, showing the fact that the CBE is the most preferable and reliable bank to do business with. Correspondence banks and their customers all over the globe also prefer the CBE to transact business in Ethiopia.

The Bank's customer base is wider than other financial institutions operating in the country, contributing to rouse the confidence of customers and corresponding banks that are enjoying business with. Its strong capital base, a solid customer base, an above 65 years of rich experience in the market and wide branch network enable the Bank to accommodate large demands for banking services, both from private and public companies, and to increase its overall performance.

Service Delivery Improvement :

The CBE knows well the importance of building positive business relationships with its esteemed customers. To this end, the Bank regularly assesses the level of its service quality against customers' ever-growing demand and requirements, through a variety of channels and schemes, indicating its due commitment to grow with customers.

First, during the review period, the Executive Management of the Bank paid surprise visits to branches and discusses service delivery impediments with customers and employees and took appropriate and timely corrective actions.

Second, knowing the importance of keeping customers happy via satisfying their needs, the Bank also conducts yearly in-bank customer satisfaction surveys.

Third, the Bank has oriented the Branch Manager at each branch to play the marketing role, i.e. to keep an eye on services delivery in the branch and to ensure that customers receive the best possible service.

Fourth, the Bank introduced Relationship Managers that handle credit requests of prominent customers, whose contribution to the Bank's profit is significant. Giving specialized and tailor-made services to these customers is one of the various core competences that the CBE has established. The Relationship Managers make frequent contact with these customers to ensure that the services being delivered to them are up to their expectations and even they offer advisory services in business matters.

Lastly, the Bank yearly organizes trainings on services marketing and customer handling, along with the required domestic and foreign banking operation skills upgrading trainings. All newly recruited staffs undergo induction programs and get adequate knowledge of the Bank's operation through "on the job training program". Accordingly, all staffs of the Bank understand well that the performance of the Bank is directly linked to customer satisfaction, the leading indicator of which is known to be service quality.

Product/Loan diversification :

The CBE acknowledges the importance of strengthening its marketing capabilities, stirring product development and seeking new business channels and cross-selling that reflects the reality of the business environment. Providing financial support to the SME is a case in point.

The Bank believes that the growth of small and medium enterprises is crucial for sustainable growth and development of the country, and is doing all what it does to serve them. The Bank has thus far extended loans to these enterprises, through each regional state, that may enable them meet their working capital needs. By doing so the Bank proves its concern on poverty reduction and economic growth.

The Bank has signed contractual agreements with the Municipality to extend mortgage loans amounting to Birr 8 billion, commencing 2006-07, at a lower interest rate than the market offers.

Information Technology:

The CBE recognizes that ITC brought major impact on the world's modernization in terms of bolstering the quality of banking services. Accordingly, substantial effort was exerted to use the latest technology hence gaining a continuous improvement in the Bank's performances.



Of the major tasks performed by the IT, during the review period, the following are worth noting:

- ↻ To implement the visa-card banking program, continuous discussions have been made with the winning consulting firm,
- ↻ The conversion of online system was implemented for 30 online system branches and launched to provide online banking services, while trainings have been prepared and given to end users of 32 branches on the online system operations,
- ↻ Signature capture system was implemented for 30 online system branches and the International Banking Department,
- ↻ Twenty four manual operation branches were converted to PC based in-house developed system,
- ↻ Completing all the required preparation for SWIFT system upgrading per the road map set by SWIFT Corporation,
- ↻ Implementation of report segregation to 30 online system user branches and the International Banking Department has been performed and enabled them to generate some 23 report types,
- ↻ Security awareness training program was given for 294 staffs on the mission critical system,
- ↻ Payment was effected for the Ethiopian Telecommunications Corporation to install the Fiber Link from the main datacenter to the recovery site,

Providing online Western Union Services for a total of 18 additional branches were configured.



Corporate Social Responsibility

CBE has been playing a pivotal role in the nation building process. Apart from its wide-ranging banking services, it is actively participating in various social activities and community development, including sponsorship and voluntary services, contributions, community services; takes part in fund soliciting programs, etc. Some of the social endeavors that CBE participated during the review fiscal year include the following:

- ↻ It donated substantial amount of money in support of half a million people affected by flood in Dasnech district, Southern Nations, Nationalities and People's State, and Diredawa town;
- ↻ Extending financial contribution to Patriots Associations in Awassa and Bahirdar towns;
- ↻ Gave financial support to the expansion work of the Assayita secondary school and Bethlehem public school;
- ↻ Made financial contribution to assist 30 individuals living with HIV/AIDS in Water Design and Construction Agency and covered a one-month tuition fee of over 60 orphaned children; and
- ↻ Contributed over half a million Birr for the construction of Ethiopian Cardiac Patients Center.

The Bank also supports the national program of protecting the environment and preserving nature. To this effect, its staffs were participated in the Millennium tree plantation program in June 2007.

To sum up, the CBE is ready and determined to scale up its support to social activities and activities engaged in different public events.





*CBE Supports
the development endeavors of
the country*

*Courtesy of
Salini Construction*



*Courtesy of
Ethiopian Shipping Lines*





Auditors' Report

2006-07





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**INDEPENDENT AUDITORS' REPORT ON THE
FINANCIAL STATEMENTS OF
COMMERCIAL BANK OF ETHIOPIA**

We have audited the financial statements of Commercial Bank of Ethiopia and of the Group set out on pages 2 to 37 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 10. These financial statements are the responsibility of the Bank's directors. Our responsibility is to express an independent opinion on the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. These Standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In forming our opinion, we have considered the matter described in note 16 (ii) to the financial statements concerning the deduction of the provision for old sundry debtors accounts and acquired property when calculating any tax expense for the year. Article 26 of Income Tax Proclamation No. 286/2002 refers specifically to special technical reserves and not to provisions. However, the Ministry of Finance and Economic Development has confirmed in a letter that provisions for doubtful accounts will be accepted as tax-deductible expense for finance institutes. In view of the significance of the matter, we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

In our opinion the financial statements present fairly the financial position of Commercial Bank of Ethiopia and of the Group at 30 June 2007 and the results of its operations and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

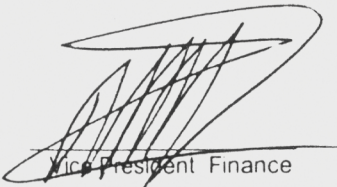
Audit Services Corporation

26 June 2008

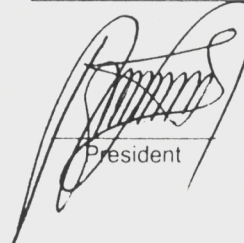


COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2007

	<u>Notes</u>	<u>Birr</u>	<u>2006</u> <u>Birr</u>
ASSETS			
Cash and balances with National Bank of Ethiopia	2	9,869,647,184	7,229,472,006
Investments in Government securities	3	13,013,380,234	12,588,996,938
Coupon bonds with Development Bank of Ethiopia and regional states	4	1,874,831,052	932,590,685
Term bonds	5	6,100,000,000	3,600,000,000
Placements with other banks	6	1,642,643,144	1,395,227,156
Loans and advances to banks	7	230,703,646	280,993,697
Loans and advances to customers	8(a)	8,144,372,423	7,376,796,650
Investment in associates	1b(ii), 10(a)	2,905,058	2,905,058
Other investments	11	2,768,051	2,768,051
Other assets	12	2,269,611,315	2,190,539,207
Property and equipment	1c(iv), 13	241,740,425	228,726,250
		<u>43,392,602,532</u>	<u>35,829,015,698</u>
LIABILITIES			
Deposits due to other banks	14	189,639,718	158,972,432
Customers' deposits	15	32,804,224,956	27,983,803,502
Taxation	16	302,800,977	301,483,664
State dividend payable	17	648,418,071	929,616,528
Other liabilities	18	5,211,996,905	4,938,711,598
		<u>39,157,080,627</u>	<u>34,312,587,724</u>
NET ASSETS		<u>4,235,521,905</u>	<u>1,516,427,974</u>
MINORITY INTEREST		<u>893,145</u>	<u>761,127</u>
CAPITAL AND RESERVES			
Capital	19	4,000,000,000	619,739,668
Legal reserve	20	216,905,772	757,300,922
General reserve		-	64,545,930
Retained earnings		11,271,112	68,575,149
		<u>4,228,176,884</u>	<u>1,510,161,669</u>
DEFERRED TAX LIABILITY	1f, 21	6,451,876	5,505,178
		<u>4,235,521,905</u>	<u>1,516,427,974</u>


Vice President Finance




President

Addis Ababa, 26 June 2008

The notes on pages 8 to 37 form an integral part of these financial statements.



COMMERCIAL BANK OF ETHIOPIA
BANK BALANCE SHEET
AT 30 JUNE 2007

	Notes	2007, Birr	2006, Birr
ASSETS			
Cash and balances with National Bank of Ethiopia	2	9,869,645,784	7,229,469,306
Investments in Government securities	3	13,013,380,234	12,588,996,938
Coupon bonds with Development Bank of Ethiopia and regional states	4	1,874,831,052	932,590,685
Term bonds	5	6,100,000,000	3,600,000,000
Placements with other banks	6	1,642,643,144	1,395,227,156
Loans and advances to banks	7	230,703,646	280,993,697
Loans and advances to customers	8(a)	8,144,372,423	7,376,796,650
Investment in subsidiary	9	4,220,000	4,220,000
Investment in associates	1b(ii), 10(b)	1,050,000	1,050,000
Other investments	11	2,768,051	2,768,051
Other assets	12	2,264,608,674	2,186,396,077
Property and equipment	1c(iv),13	240,700,975	227,996,883
		43,388,923,983	35,826,505,443
LIABILITIES			
Deposits due to other banks	14	189,639,718	158,972,432
Customers' deposits	15	32,810,997,657	27,989,479,196
Taxation	16	302,029,172	300,931,207
State dividend payable	17	648,418,071	929,616,528
Other liabilities	18	5,211,080,966	4,937,815,972
		39,162,165,584	34,316,815,335
NET ASSETS		4,226,758,399	1,509,690,108
CAPITAL AND RESERVES			
Capital	19	4,000,000,000	619,739,668
Legal reserve	20	216,139,356	756,628,299
General Reserve		-	64,545,930
Retained earnings		4,241,827	63,327,930
		4,220,381,183	1,504,241,827
DEFERRED TAX LIABILITY	1f,21	6,377,216	5,448,281
		4,226,758,399	1,509,690,108

The notes on Pages 33 to 54 form an integral part of these financial statements.



**COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2007**

	Notes	2007, Birr	2006, Birr
INTEREST INCOME	1e, 22	1,036,505,089	826,764,128
INTEREST EXPENSE	23	(350,965,733)	(329,781,744)
NET INTEREST INCOME		685,539,356	496,982,384
IMPAIRMENT LOSSES ON:-			
SUNDRY DEBTORS		(2,070,314)	(22,415,338)
ACQUIRED PROPERTY		(6,432,783)	(3,222,724)
		(8,503,097)	(25,638,062)
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES ON SUNDRY DEBTORS AND ACQUIRED PROPERTY		677,036,259	471,344,322
NON INTEREST INCOME	1e, 24	1,225,281,456	969,388,678
NON INTEREST EXPENSES	25	(729,162,418)	(345,127,135)
PROFIT BEFORE TAXATION		1,173,155,297	1,095,605,865
INCOME TAX EXPENSE	26	(306,589,996)	(303,001,433)
PROFIT AFTER TAXATION		866,565,301	792,604,432
MINORITY INTEREST		(132,018)	(88,831)
PROFIT FOR THE YEAR		<u>866,433,283</u>	<u>792,515,601</u>

The notes on pages 33 to 54 form an integral part of these financial statements.



COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2007

	Capital Birr	Legal reserve Birr	General reserve Birr	Retained earnings Birr	Total equity Birr
Balance at 30 June 2005	619,739,668	678,112,472	64,545,930	67,376,055	1,429,774,125
Net profit for the year	-	-	-	792,515,601	792,515,601
Transfer to legal reserve	-	79,188,450	-	(79,188,450)	-
Transfer to state dividend	-	-	-	(712,128,057)	(712,128,057)
Balance at 30 June 2006	619,739,668	757,300,922	64,545,930	68,575,149	1,510,161,669
Net profit for the year	-	-	-	866,433,283	866,433,283
Transfer to legal reserve	-	216,233,149	-	(216,233,149)	-
Transfer to state dividend	-	-	-	(648,418,068)	(648,418,068)
Addition to capital	2,500,000,000	-	-	-	2,500,000,000
Transfer to capital	880,260,332	(756,628,299)	(64,545,930)	(59,086,103)	-
Balance at 30 June 2008	4,000,000,000	216,905,772	-	11,271,112	4,228,176,884

The notes on pages 33 to 54 form an integral part of these financial statements.



COMMERCIAL BANK OF ETHIOPIA
BANK STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2007

	Capital Birr	Legal reserve Birr	General reserve Birr	Retained earnings Birr	Total equity Birr
Balance at 30 June 2005	619,739,668	677,502,959	64,545,930	63,327,930	1,425,116,487
Net profit for the year	-	-	-	791,253,397	791,253,397
Transfer to legal reserve	-	79,125,340	-	(79,125,340)	-
Transfer to state dividend	-	-	-	(712,128,057)	(712,128,057)
Balance at 30 June 2006	619,739,668	756,628,299	64,545,930	63,327,930	1,504,241,827
Net profit for the year	-	-	-	864,557,424	864,557,424
Transfer to legal reserve	-	216,139,365	-	(216,139,365)	-
Transfer to state dividend	-	-	-	648,418,068	(648,418,068)
Addition to capital	2,500,000,000	-	-	-	2,500,000,000
Transfer to capital	880,260,332	(756,628,299)	(64,545,930)	(59,086,103)	-
Balance at 30 June 2008	4,000,000,000	216,139,356	-	4,241,827	4,220,381,183

The notes on pages 33 to 54 form an integral part of these financial statements.



COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Notes	Birr	Birr	2006. Birr
Cash flow from operating activities	27(a)		2,064,513,844	1,419,903,141
Cash flow from investing activities				
Purchase of property and equipment		(42,106,300)		(25,111,958)
Adjustment in value of shares		-		(42,843)
Proceeds on disposal of property and equipment		34,337,865		-
Dividends received		-		229,589
Net cash outflow from investing activities			(7,768,435)	(24,925,212)
Cash flow from financing activities				
Dividends paid to Ministry of Finance and Economic Development			(929,616,525)	-
Increase in cash and cash equivalents	27(b)		1,127,128,884	1,394,977,929
Cash and cash equivalents at 30 June 2006	27(b)		16,375,076,174	14,980,098,245
Cash and cash equivalents at 30 June 2007	27(b)		17,502,205,058	16,375,076,174

The notes on 33 to 54 form an integral part of these financial statements.



COMMERCIAL BANK OF ETHIOPIA

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2007

1. SIGNIFICANT ACCOUNTING POLICIES

The following are the major accounting policies adopted by the Bank. These policies are consistent with those applied in the preceding year.

a) Basis of preparation

These financial statements have been prepared in compliance with International Financial Reporting Standards. They are prepared under the historical cost convention.

All amounts in the financial statements are expressed in Birr.

b) Consolidation principles

i) Subsidiary

Subsidiaries are enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain economic benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

The consolidated financial statements incorporate the financial statements of the Bank and of its subsidiary for the year ended 30 June 2007. The subsidiary is shown in note 9.

All inter-company balances and transactions are eliminated on consolidation.

ii) Associates

Associates are enterprises in which the Bank has significant influence, and are neither subsidiaries nor joint ventures. The Bank's investment in associates is accounted for in the consolidated financial statements using the equity method. The Bank's associates are shown in Note 10.

c) Valuation of assets and liabilities

i) Assets and liabilities denominated in foreign currencies are translated into Birr at the exchange rates ruling at the balance sheet date.

ii) All major financial assets are measured at fair value.

iii) Impairment losses on loans and advances

Loans and advances are shown at the gross amount adjusted for any provision for impairment losses. A provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of the loan. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount.

In addition, a general provision is made based on management's assessment of the inherent risk in the loans and advances portfolio.

When a loan is deemed uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited to the provision for loan losses in the income statement.

iv) Property and equipment

Buildings, fixtures, fittings and office equipment, motor vehicles, computers, accessories and software



are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged on a straight-line basis over the estimated useful lives of the assets.

Buildings, fixtures, fittings and office equipment, motor vehicles, computers, accessories and software are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged on a straight-line basis over the estimated useful lives of the assets.

	%
Buildings	5
Fixtures, fittings and office equipment	10
Motor vehicles	20
Computers and accessories	10
Computer software	20

Gains and losses on disposal of property and equipment are determined by comparing the proceeds on disposal and the carrying amount of the respective item and are taken into account in determining operating profit.

v) Stocks

Stocks are stated at cost less any provision for impairment.

d) Recognition of financial assets and financial liabilities

The Bank recognizes a financial asset or a financial liability on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. A financial asset is derecognized when, and only when, the control over the contractual rights is lost. A financial liability is derecognized when, and only when, it is extinguished.

e) Income recognition

Income is recognized in the period in which it is earned. When a lending account becomes non-performing, interest is suspended and excluded from income until it is received. However, it is computed and shown in the memorandum account.

f) Deferred income tax

Deferred tax is provided, using the balance sheet liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purpose. Currently enacted tax rates are used to determine deferred income tax.

g) Employee benefits

Bank Employees are eligible for retirement benefits under a defined contribution plan. Contributions to the defined contribution plan are charged to the income statement as incurred.

h) Trust funds

The Bank and its subsidiary act as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Assets held in trust are not included in the balance sheet of the Bank and its subsidiary.



2. CASH AND BALANCES WITH NATIONAL BANK OF ETHIOPIAN

	Birr	2006, Birr
Group		
Cash on hand	665,114,647	572,886,785
Balances with National Bank of Ethiopia		
Cash reserve ratio	2,000,000,000	2,000,000,000
Payment and settlement account	7,204,532,537	4,656,585,221
	<u>9,869,647,184</u>	<u>7,229,472,006</u>
Company		
Cash on hand	665,113,247	572,884,085
Balances with National Bank of Ethiopia		
Cash reserve ratio	2,000,000,000	2,000,000,000
Payment and settlement account	7,204,532,537	4,656,585,221
	<u>9,869,645,784</u>	<u>7,229,469,306</u>

The cash reserve ratio is non-interest earning and is based on the value of deposits as adjusted for National Bank of Ethiopia requirements. At 30 June 2007, the cash reserve requirement was 15% of the eligible deposits (2006 – 5%). These funds are not available to finance the Bank's day-to-day operations.

3. INVESTMENTS IN GOVERNMENT SECURITIES

	Birr	2006, Birr
Group and Company		
Treasury Bills		
Maturing within 90 days	7,907,085,975	9,373,409,941
Maturing after 90 days	1,014,890,478	1,040,912,996
	<u>8,921,976,453</u>	<u>10,414,322,937</u>
Government Bonds		
Overdue	-	147,425,176
Maturing within 90 days	24,210,946	22,207,349
Maturing after 90 days and within one year	164,260,494	165,205,507
Maturing after one year	3,902,932,341	1,839,835,969
	<u>4,091,403,781</u>	<u>2,174,674,001</u>
	<u>13,013,380,234</u>	<u>12,588,996,938</u>



4. COUPON BONDS WITH DEVELOPMENT BANK OF ETHIOPIA AND REGIONAL STATES

Group and Company

Represent non-negotiable 4% secured bonds bought from Development Bank of Ethiopia (DBE). Interest is to be repaid by DBE semi-annually while the principal is to be repaid in annual installments through 31 December 2013. The Bank has also bought non-negotiable 4% secured bonds from six regional states. Interest is to be repaid semi-annually while the principal is to be repaid in annual installments for 10 years from date of issuance. Both interest and principal have one year grace period.

	Birr	2006, Birr
Development Bank of Ethiopia		
Overdue	29,859,491	-
Maturing within 90 days	-	16,346,849
Maturing after 90 days and within one year	81,163,602	5,886,693
Maturing after one year	1,174,939,466	910,357,143
	1,285,962,559	932,590,685
Coupon bonds with regional states		
Maturing after one year	588,868,493	-
	1,874,831,052	932,590,685

5. TERM BONDS

Group and Company

Represent non-negotiable 4% secured bonds worth Birr 1,800,000,000 and Birr 4,300,000,000 bought from Ethiopian Telecommunications Corporation and Ethiopian Electric Power Corporation, respectively. Interest is to be repaid semi-annually while the principal is to be repaid in lump sum after five years.

6. PLACEMENTS WITH OTHER BANKS

	Birr	2006, Birr
Group and Company		
Due within 90 days	1,642,643,144	1,395,227,156

7. LOANS AND ADVANCES TO BANKS

	Birr	2006, Birr
Group and Company		
Construction and Business Bank Share company	32,856,798	39,180,883
Development Bank of Ethiopia	197,846,848	241,812,814
	230,703,646	280,993,697



8. LOANS AND ADVANCES TO CUSTOMERS

Group and Company		
	Birr	2006, Birr
a) Term and merchandise loans	5,745,311,388	5,691,411,055
Overdrafts	2,398,091,394	1,906,903,509
Advances on import and export bills	245,743,542	66,194,836
Loans and advances in legal	1,143,779,378	1,356,012,303
	9,532,925,702	9,020,521,703
Less: Provision for impairment losses	(1,388,553,279)	(1,643,725,053)
	<u>8,144,372,423</u>	<u>7,376,796,650</u>
Repayable on demand	2,295,018,105	1,615,518,466
Within one year	2,266,402,672	1,915,754,090
One to five years	2,005,356,927	3,042,190,939
Over five years	1,577,594,719	803,333,155
	<u>8,144,372,423</u>	<u>7,376,796,650</u>
b) Movement in provision for impairment losses		
	Birr	2006, Birr
At 30 June 2006	1,643,725,053	2,023,035,463
Adjustment on opening balance due to currency fluctuation	-	(447,295)
Amounts written off during the year	(255,171,774)	(378,863,115)
At 30 June 2007	<u>1,388,553,279</u>	<u>1,643,725,053</u>
c) Type of loans and advances		
	Birr	2006, Birr
Agriculture	1,842,086,428	1,586,404,250
Manufacturing	1,497,427,022	1,329,593,215
Domestic trade and services	2,813,128,250	3,164,123,806
Foreign trade	2,768,716,859	2,444,074,489
Building and construction	549,974,058	449,172,956
Personal loans	61,593,085	47,152,987
	<u>9,532,925,702</u>	<u>9,020,521,703</u>

Interest on non performing loans and advances

In accordance with guidelines issued by the National Bank of Ethiopia, when an account becomes non-performing, interest is not recognized. Such interest is held in a memorandum account off the balance sheet. As at 30 June 2007 such interest amounted to Birr 1,902,954,270 (2006: Birr 2,011,054,753).



9. INVESTMENT IN SUBSIDIARY

		Birr	2006, Birr
Commercial Nominees Private Limited Company	93.425%	<u>4,220,000</u>	<u>4,220,000</u>

The interest in the above undertaking is carried at cost. The subsidiary company is incorporated in Ethiopia.

10. INVESTMENT IN ASSOCIATES

a) Group			
		Birr	2006, Birr
Specialized Financial and Promotional Institution	49.875%	2,120,021	2,120,021
Universal Investors Company	32.35%	<u>785,037</u>	<u>785,037</u>
		<u>2,905,058</u>	<u>2,905,058</u>

The interest in the above undertakings represents the Group's share of the net assets of the associated companies, under the equity method, in accordance with IAS 28. The associates are incorporated in Ethiopia.

b) Company			
		Birr	2006, Birr
Specialized Financial and Promotional Institution	49.875%	200,000	200,000
Universal Investors Company	32.35%	<u>850,000</u>	<u>850,000</u>
		<u>1,050,000</u>	<u>1,050,000</u>

The interests in the above undertakings are carried at cost. The associates are incorporated in Ethiopia.

11. INVESTMENTS

	Birr	2006, Birr
Group and Company		
Unquoted equity investments:-		
African Export Import Bank	2,438,000	2,438,000
Gelately Hankey and company	85,937	85,937
SWIFT Company	<u>244,114</u>	<u>244,114</u>
	<u>2,768,051</u>	<u>2,768,051</u>



12. OTHER ASSETS

	2007, Birr	2006, Birr
Group		
Balance due from Commercial Bank of Eritrea	1,148,022,450	1,115,206,073
Uncleared effects	496,157,088	620,070,720
Interest receivable	88,531,507	48,958,904
Acquired properties	422,250,313	261,181,899
Stationery and other supplies	28,761,923	20,865,731
Staff imprests and prepayments	19,889,091	11,562,048
Other receivables	97,558,331	155,837,844
	2,301,170,703	2,233,683,219
Less: Provision for doubtful debts	31,559,388	43,144,012
	2,269,611,315	2,190,539,207
Company		
Balance due from Commercial Bank of Eritrea	1,148,022,450	1,115,206,073
Uncleared effects	496,157,088	620,070,720
Interest receivable	88,531,507	48,958,904
Acquired properties	422,250,313	261,181,899
Stationery and other supplies	28,738,931	20,833,381
Staff imprests and prepayments	19,434,703	11,334,846
Other receivables	93,033,070	151,954,266
	2,296,168,062	2,229,540,089
Less: Provision for doubtful debts	31,559,388	43,144,012
	2,264,608,674	2,186,396,077

Acquired properties represent properties that have been pledged as collateral, which have been acquired by the Bank in accordance with Ethiopian Law. Such properties are held with a view to disposal, subject to the set reserve price.

The Government of Ethiopia has guaranteed the repayment of the balance due from Commercial Bank of Eritrea if this amount will not have been settled by 28 June 2006. The guaranteed amount is Birr 1,230,978,839. However, the guarantee period has been extended to June 2008 based on the letter of the Ministry of Finance and Economic Development dated 12 Meskerem 1999 (22 September 2006), ref, 100-02-00/31.



13. PROPERTY AND EQUIPMENT

a) The movements in property and equipment are as follows:-

	Balance at 30 June 2006 Birr	Additions Birr	Transfers/ Adjustments Birr	Balance at 30 June 2007 Birr
Group				
COST				
Buildings	250,254,969	1,565,049	8,387,174	260,207,192
Motor vehicles	80,049,850	3,320,246	(1,651,220)	81,718,876
Computers and accessories	72,677,541	20,631,620	-	93,309,161
Fixtures, fittings & equipment	111,379,638	6,519,739	129,188	118,028,565
Work in progress	26,423,893	10,069,646	(8,652,934)	27,840,605
	<u>540,785,891</u>	<u>42,106,300</u>	<u>(1,787,792)</u>	<u>581,104,399</u>
DEPRECIATION				
Buildings	131,753,580	10,860,576	(248,309)	142,365,847
Motor vehicles	69,184,900	3,954,415	(1,651,213)	71,488,102
Computers and accessories	35,697,422	1,989,507	-	37,686,929
Fixtures, fittings & equipment	75,423,739	12,438,943	(39,586)	87,823,096
	<u>312,059,641</u>	<u>29,243,441</u>	<u>(1,939,108)</u>	<u>339,363,974</u>
NET BOOK VALUE	<u>228,726,250</u>			<u>241,740,425</u>
Company				
COST				
Buildings	250,254,969	1,565,049	8,387,174	260,207,192
Motor vehicles	79,620,918	3,320,246	(1,651,220)	81,289,944
Computers and accessories	72,022,379	20,444,218	-	92,466,597
Fixtures, fittings & equipment	110,761,526	6,235,607	129,188	117,126,321
Work in progress	26,423,893	10,069,646	(8,652,934)	27,840,605
	<u>539,083,685</u>	<u>41,634,766</u>	<u>(1,787,792)</u>	<u>578,930,659</u>
DEPRECIATION				
Buildings	131,753,580	10,860,576	(248,309)	142,365,847
Motor vehicles	68,868,151	3,924,500	(1,651,213)	71,141,438
Computers and accessories	35,366,562	1,925,443	-	37,292,005
Fixtures, fittings & equipment	75,098,509	12,371,471	(39,586)	87,430,394
	<u>311,086,802</u>	<u>29,081,990</u>	<u>(1,939,108)</u>	<u>338,229,684</u>
NET BOOK VALUE	<u>227,996,883</u>			<u>240,700,975</u>

b) The cost and accumulated depreciation of the fully depreciated old tower building which has been sold to the National Bank of Ethiopia during the year under review has not been removed from the property and equipment account due to difficulty in determining the value of the said building separately as it is shown in the accounts in lump sum along with the adjacent circular building. Consequently, the full proceed from the sale of the building amounting to Birr 34,337,465 is shown as gain on disposal of property and equipment (note 24).



14. DEPOSITS DUE TO OTHER BANKS

	Birr	2006, Birr
Group and Company	<u>189,639,718</u>	<u>158,972,432</u>

15. CUSTOMER'S DEPOSITS

	Birr	2006, Birr
Group		
Payable on demand		
Private sector and retail customers	5,854,307,432	4,969,095,551
Local and Central Government	7,474,294,718	6,403,764,807
Public enterprises and agencies	6,059,149,040	4,417,301,420
	<u>19,387,751,190</u>	<u>15,790,161,778</u>
Savings deposits		
Private sector and retail customers	12,608,934,815	11,519,850,406
Public enterprises and agencies	502,979,139	350,220,802
	<u>13,111,913,954</u>	<u>11,870,071,208</u>
Term deposits		
Private sector and retail customers	130,258,178	154,216,236
Public enterprises and agencies	174,301,634	169,354,280
	<u>304,559,812</u>	<u>323,570,516</u>
	<u>32,804,224,956</u>	<u>27,983,803,502</u>

	Birr	2006, Birr
Company		
Payable on demand		
Private sector and retail customers	5,854,307,432	4,969,095,551
Local and Central Government	7,474,294,718	6,403,764,807
Public enterprises and agencies	6,065,921,741	4,422,977,114
	<u>19,394,523,891</u>	<u>15,795,837,472</u>
Savings deposits		
Private sector and retail customers	12,608,934,815	11,519,850,406
Public enterprises and agencies	502,979,139	350,220,802
	<u>13,111,913,954</u>	<u>11,870,071,208</u>
Term deposits		
Private sector and retail customers	130,258,178	154,216,236
Public enterprises and agencies	174,301,634	169,354,280
	<u>304,559,812</u>	<u>323,570,516</u>
	<u>32,810,997,657</u>	<u>27,989,479,196</u>



16. INCOME TAX

i) The movement in the account is as follows:-

	Tax on Rental income Birr	Tax on other operations Birr	Total Birr
Group			
Balance as at 30 June 2006	474,186	301,009,478	301,483,664
Add: Tax expense of current year	454,899	305,188,399	305,643,298
	<u>929,085</u>	<u>606,197,877</u>	<u>607,126,962</u>
Less: Payments made during the year:			
- Direct payments	474,186	303,786,812	304,260,998
- Withholding tax	-	64,987	64,987
	<u>474,186</u>	<u>303,851,799</u>	<u>304,325,985</u>
	<u>454,899</u>	<u>302,346,078</u>	<u>302,800,977</u>

	Tax on Rental income Birr	Tax on other operations Birr	Total Birr
Company			
Balance as at 30 June 2006	474,186	300,457,021	300,931,207
Add: Tax expense of current year (note 16 (iii))	454,899	304,351,608	304,806,507
	<u>929,085</u>	<u>604,808,629</u>	<u>605,737,714</u>
Less: Payments made during the year:			
- Direct payments	474,186	303,234,356	303,708,542
	<u>454,899</u>	<u>301,574,273</u>	<u>302,029,172</u>

ii. In determining the taxable profit for the year, the provisions for impairment losses on sundry debtors and acquired properties amounting to Birr 2,070,314 and Birr 6,432,783, respectively, have been deducted as the management of the Bank is of the opinion that the same are deductible expenses as per Article 26 of Proclamation 286/2002.

iii. The tax for rental income of Addis Ababa City is shown separately as detailed below since same is to be paid to the Addis Ababa City Government as per Article 53(1) of the Revised Charter Proclamation No 311/2003 of the Addis Ababa City Government while the rent tax for all other regions is included in the tax expense for other operations as the regions are not yet authorized to collect rent tax.

	Birr	Birr
Rental income		2,301,423
Expenses		
Depreciation	729,954	
Insurance	36,682	
Land and building tax	18,458	
		<u>785,094</u>
		1,516,329
Tax expense (note 16 (i))		X 30%
		<u>454,899</u>



17. STATE DIVIDEND PAYABLE

	Birr	2006, Birr
Balance as at 30 June 2006	929,616,528	217,488,471
Current year appropriation	648,418,068	712,128,057
	1,578,034,596	929,616,528
Less: payment to Ministry of Finance and Economic Development	929,616,525	-
	648,418,071	929,616,528

18. OTHER LIABILITIES

	Birr	2006, Birr
Group		
Margin accounts and deposits for guarantees	1,435,470,744	1,742,992,580
Inter-branch clearing	2,672,995,361	2,220,427,095
Bills payable	255,068,752	196,068,912
Blocked accounts	150,905,357	112,594,775
Exchange commission payable to National Bank of Ethiopia	68,433,709	134,213,244
Accrued leave pay	29,504,120	21,692,601
IFAD Loan	244,280	189,729
Foreign borrowing	-	43,908,999
Provision for Djibouti branch	-	57,393,338
Taxes payable	6,709,765	7,590,005
Pension contribution payable	1,384,528	2,127,950
Miscellaneous payables and accruals	591,280,289	399,512,370
	<u>5,211,996,905</u>	<u>4,938,711,598</u>

	Birr	2006, Birr
Company		
Margin accounts and deposits for guarantees	1,435,470,744	1,742,992,580
Inter-branch clearing	2,672,995,361	2,220,427,095
Bills payable	255,068,752	196,068,912
Blocked accounts	150,905,357	112,594,775
Exchange commission payable to National Bank of Ethiopia	68,433,709	134,213,244
Accrued leave pay	29,504,120	21,692,601
IFAD Loan	244,280	189,729
Foreign borrowing	-	43,908,999
Provision for Djibouti branch	-	57,393,338
Taxes payable	6,381,171	7,521,238
Pension contribution payable	1,384,528	2,127,950
Miscellaneous payables and accruals	590,692,944	398,685,511
	<u>5,211,080,966</u>	<u>4,937,815,972</u>



Under a loan agreement between the Government of Ethiopia and the International Fund for Agricultural Development (IFAD) dated 5 November 1993, IFAD advanced the government funds to be on lent to Southern Region Cooperatives development and Credit Project. The government under a sub-agreement to the above loan agreement advanced the funds to the Bank for onward lending to the specific projects. The balance above represents amounts due to the government under this sub-agreement.

19. CAPITAL

a) The Capital of the bank has been increased to Birr 4,000,000,000 during the preceding year through a special bond issued by the Ministry of Finance and Economic Development (MoFED) with a value of Birr 2,500,000,000 to be paid to the Bank in ten equal annual installments starting from 1 July 2008 and by transfer from previous appropriations. The movement in the capital account is as follows:-

	Birr	Birr
Balance at 30 June 2006		619,739,668
Add: Special Government Bond No. 11	2,500,000,000	
Transfer from:-	756,628,299	
Legal reserve	64,545,930	
General Reserve	59,086,103	
Retained earnings		3,380,260,332
		4,000,000,000

b) The Bank is wholly owned by the Federal Government of Ethiopia. Assigned capital represents capital allocated to the Bank and is not repayable to the Government in whole or part thereof, as long as the Bank continues trading. There are no shares and no par value.

20. LEGAL RESERVE

	Group Birr	Company Birr
Balance at 30 June 2006	757,300,922	756,628,299
Current year appropriation	216,233,149	216,139,356
	973,534,071	972,767,655
Less: Transfer to capital	756,628,299	756,628,299
	216,905,772	216,139,356

The legal reserve is a statutory reserve to which not less than 25% of the net profit shall be transferred each year until such reserve equals the capital of the Bank and thereafter 10% of the net profit shall be transferred each year.

21. DEFERRED TAX LIABILITY

	Birr	2006, Birr
Difference in tax base of property and equipment and their value for accounting purposes:-		
Group	6,451,876	5,505,178
Company	6,377,216	5,448,281



22. INTEREST INCOME

	Birr	2006, Birr
Loans and advances	634,186,401	577,134,848
Government bonds	41,993,783	56,060,642
Treasury bills	40,024,245	2,432,475
Placements with other banks	76,653,184	30,696,660
Coupon and term bonds	243,647,476	160,439,503
	<u>1,036,505,089</u>	<u>826,764,128</u>

23. INTEREST EXPENSE

	Birr	2006, Birr
Customers' deposits	350,330,111	329,771,546
Deposits from other banks	628,122	965
Other	7,500	9,233
	<u>350,965,733</u>	<u>329,781,744</u>

24. NON INTEREST INCOME

	Birr	2006, Birr
Write back of creditors accounts	37,822,585	153,756,701
Commission income	200,462,943	180,859,077
Service and transaction fees	304,051,579	245,810,387
Gains/ losses arising from dealing in foreign currencies	454,831,763	329,358,687
Rental income	9,227,197	8,729,337
Dividend income	-	229,589
Collection from provision held	2,991,465	1,130,241
Gain on disposal of property and equipment	34,337,865	-
Other income	<u>181,556,059</u>	<u>49,514,659</u>
	<u>1,225,281,456</u>	<u>969,388,678</u>



25. NON INTEREST EXPENSES

	Birr	2006, Birr
Salaries and employee benefits	233,348,872	192,137,187
Depreciation	29,243,441	28,683,863
Postage and telecommunication	19,557,942	14,604,456
Occupancy expenses	11,842,956	10,723,804
Stationery and office supplies	9,908,013	9,011,341
Travel costs	5,880,981	4,993,731
Service charge	3,691,108	3,913,418
Advertising and publicity	4,018,547	3,149,293
Motor vehicle running costs	7,207,044	6,032,254
Legal and consultancy fees	15,641,841	15,007,426
Repairs and maintenance	2,765,603	2,154,502
Insurance	1,907,698	3,505,525
Water and electricity	2,900,354	2,163,471
Board fees	98,379	88,000
Direct write off of sundry debtors	13,805,170	2,506,056
Land and building tax	1,098,886	829,773
Electronic data processing	189,036	156,520
Impairment loss on government bond	254,353,748	26,560,363
Impairment loss on government guarantee	82,956,389	-
Service charge for bank guarantee	218,198	332,431
Grants and contributions	1,360,360	38,360
Other expenses	27,167,852	18,535,361
	729,162,418	345,127,135

The average number of employees during the year was:

	Birr	2006, Birr
Management	1,067	747
Unionisable	6,617	6,627
	7,684	7,374

Included in other expenses are contributions to the provident fund for employees. During the year, the Group and Company expensed Birr 9,000,834 in contributions payable (2006: Birr 7,610,601).

26. TAX EXPENSE

a) MAJOR COMPONENTS OF TAX EXPENSE

	Birr	2006 Birr
Current tax expense	305,643,298	301,494,072
Deferred tax expense relating to the origination and reversal of temporary differences	946,698	1,507,361
Tax expense	306,589,996	303,001,433



b) EXPLANATION OF THE RELATIONSHIP BETWEEN TAX EXPENSE AND ACCOUNTING PROFIT

	Birr	Birr	2006, Birr
Accounting profit		1,173,155,297	1,095,605,865
Tax at the applicable rate of 30%		351,946,589	328,681,759
Add: Tax effect of tax disallowed expenses - Entertainment		295,088	135,819
		352,241,677	328,817,578
Less: Tax effect of tax exempted income:			
- Interest income	47,601,364		26,756,933
- Dividend income	-		68,877
- Collection from provision held	897,439		339,072
		48,498,803	27,164,882
		303,742,874	301,652,696
Add: 5% tax on interest income of foreign deposits		2,847,122	1,348,737
		<u>306,589,996</u>	<u>303,001,433</u>

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

a) Reconciliation of profit before taxation to cash flow from operating activities

	Birr	Birr	2006 Birr
Profit before taxation	1,173,155,297		1,095,605,865
Impairment loss on special government bond	254,353,748		-
Dividend received	-		(229,589)
Gain on disposal of property and equipment	(34,337,865)		-
Depreciation	29,243,441		28,683,863
Adjustment to fixed assets	(151,316)		404,040
		1,422,263,305	1,124,464,179
Decrease/(Increase) in operating assets			
Treasury bills more than 90 days	26,022,518		(369,990,904)
Government bonds	328,916,474		83,460,398
Coupon bonds with DBE and regional bonds	(942,240,367)		(307,471,188)
Term bonds with EEPCCO and ETC	(2,500,000,000)		(1,000,000,000)
Loans and advances to banks	50,290,051		66,758,300
Loans and advances to customers	(767,575,773)		8,299,116
Other assets	(79,072,108)		101,827,817
Cash held with NBE - cash reserve	(263,471,032)		(122,182,073)
		(4,147,130,237)	(1,539,298,534)
Increase (decrease) in operating liabilities			
Customers' deposits	4,820,421,454		3,037,498,789
Other liabilities	273,285,307		(992,792,926)
		5,093,706,761	2,044,705,863
Taxation paid		(304,325,,985)	(209,968,367)
Cash flow from operating activities		<u>2,064,513,844</u>	<u>1,419,903,141</u>



b) Analysis of cash and cash equivalents

	<u>2007 Birr</u>	<u>2006 Birr</u>	<u>Change Birr</u>	<u>2006 Change Birr</u>
Cash in hand	665,114,647	572,886,785	92,227,862	(92,898,304)
Investment in treasury bills	7,907,085,975	9,373,409,940	(1,466,323,965)	5,434,652,891
Balances with National Bank of Ethiopia	7,477,001,010	5,192,524,725	2,284,476,285	(4,769,212,000)
Placements with other banks	1,642,643,144	1,395,227,156	247,415,988	548,092,770
Deposits due to other banks	(189,639,718)	(158,972,432)	(30,667,286)	274,342,572
	<u>17,502,205,058</u>	<u>16,375,076,174</u>	<u>1,127,128,884</u>	<u>1,394,977,929</u>

c) Some balance sheet items that do not involve actual movements in cash have been excluded from the cash flow statement.

28. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

Group and company

In the ordinary course of business, the Group conducts business involving guarantees, acceptances and performance bonds. These facilities are offset by corresponding obligations of third parties. At the year-end the contingencies were as follows:

	<u>Birr</u>	<u>2006 Birr</u>
Letters of credit and acceptances	3,059,498,836	2,779,968,981
Guarantees and performance bonds	6,358,413,541	5,041,985,185
	<u>9,417,912,377</u>	<u>7,821,954,166</u>

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 the customers.

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented and reimbursement by the customer is almost immediate.

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

29. ASSETS PLEDGED AS SECURITY

As at 30 June 2007 there were no assets pledged by the Bank to secure liabilities and there were no secured Bank liabilities.



30. TRUST FUNDS

Assets held in trust by the Bank and its subsidiary are as follows:

	Birr	2006 Birr
Group		
Cash held on behalf of National Bank of Ethiopia	2,305,313,294	2,063,600,737
Trust Funds	79,571,866	58,121,164
	<u>2,384,885,160</u>	<u>2,121,721,901</u>
Company		
Cash held on behalf of National Bank of Ethiopia	2,305,313,294	2,063,600,737
Trust Funds	16,564,671	17,388,845
	<u>2,321,877,965</u>	<u>2,080,989,582</u>

The Bank provides custodial services to the National Bank of Ethiopia (NBE) at various branches across the country, whereby the Bank holds cash on behalf of NBE.

The Bank and its subsidiary are involved in trust activities in which they hold and invest assets on behalf of various institutions, donor-sponsored projects, and pension funds.

31. RELATED PARTY TRANSACTIONS

Related parties are considered to be other entities that exercise significant influence over the Bank's financial and operating decisions or entities over which the Bank is able to exercise significant influence in their financial and operating decisions. However, as per the provisions of IAS 24 related parties do not include the government, government departments or agencies.

- i) Included in loans and advances is Birr 61,593,085 (2006 - Birr 47,152,987) advanced to employees. Loans to employees are non-interest bearing.
- ii) Interest paid during the year on deposit balances from related companies through shareholding is Birr 36,721 (2006 - Birr 34,833). All transactions with related parties are at arm's length.

32. STAFF COSTS

During the year, staff costs for the group and company amounted to Birr 246,065,288 (2006 - Birr 202,848,808) and are included in the various major expense categories.

33. PERFORMANCE INDICATORS

The capital adequacy ratio as at 30 June 2007 revealed a percentage of 28, which is in excess of the required ratio of 8% as per the directives of the National Bank of Ethiopia. The non-performing loans ratio has decreased from 22.5% in the preceding year to 14.5% in the current year.





34. MATURITIES OF ASSETS AND LIABILITIES – LIQUIDITY RISK

The Table below analyses assets and liabilities into relevant maturity grouping based on the remaining period at 30 June 2007 to the contractual maturity date:

	On demand Birr	Due within 3 months Birr	Due between 3 and 12 months Birr	Due between 1 and 5 years Birr	Due after 5 years Birr	Total Birr
Assets						
Cash and balances with NBE	8,142,115,656	-	-	-	1,727,531,528	9,869,647,184
Investment in Government securities	-	7,931,296,920	1,179,150,973	1,714,499,186	2,188,433,155	13,013,380,234
Coupon bonds with DBE and regional states	29,859,491	-	81,163,602	866,665,910	897,142,049	1,874,831,052
Term bonds with EEPKO and ETC	-	-	-	6,100,000,000	-	6,100,000,000
Placements with other banks	1,055,948,943	86,694,201	450,000,000	50,000,000	-	1,642,643,144
Loans and advances to banks	21,451,113	-	54,264,744	148,902,183	6,085,606	230,703,646
Loans and advances to customers	2,282,580,257	853,203,156	1,351,800,939	2,169,408,658	1,487,379,413	8,144,372,423
Investment in associates	-	-	-	-	2,905,058	2,905,058
Other investments	-	-	-	-	2,768,051	2,768,051
Other assets	-	496,157,088	28,761,924	1,744,692,303	-	2,269,611,315
Property and equipment	-	-	-	-	241,740,425	241,740,425
Total assets	11,531,955,460	9,367,351,365	3,145,142,182	12,794,168,240	6,553,985,285	43,392,602,532
Liabilities						
Deposits due to other banks	189,639,718	-	-	-	-	189,639,718
Customers' deposits	19,420,811,012	13,081,378,702	302,035,242	-	-	32,804,224,956
Taxation	-	302,800,977	-	-	-	302,800,977
State dividend payable	-	648,418,071	-	-	-	648,418,071
Other liabilities	-	3,888,861,086	1,323,071,493	-	64,326	5,211,996,905
Total liabilities	19,610,450,730	17,921,458,836	1,625,106,735	-	64,326	39,157,080,627
Net liquidity gap as at 30 June 2007	(8,078,495,270)	(8,554,107,471)	1,520,035,447	12,794,168,240	6,553,920,959	4,235,521,905
Net liquidity gap as at 30 June 2006	(8,201,915,002)	(4,204,209,010)	724,247,174	8,385,943,672	4,812,361,140	1,516,427,974

35. INTEREST RATE RISK ANALYSIS

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 reprising or maturity dates.

	Effective Interest Rate	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Non interest Bearing	Total
		Birr	Birr	Birr	Birr	Birr	Birr	Birr
Assets								
Cash and balances with NBE	-	-	-	-	-	-	9,869,647,184	9,869,647,184
Investment in Government securities	0.62%	-	7,931,296,920	1,179,150,973	1,714,499,186	2,188,433,155	-	13,013,380,234
Coupon bonds with DBE and regional states	4.46%	29,859,491	-	81,163,602	866,665,910	897,142,049	-	1,874,831,052
Term bonds with EEPKO and ETC	4.46%	-	-	-	6,100,000,000	-	-	6,100,000,000
Placements with other banks	6.62%	1,055,948,943	86,694,201	450,000,000	50,000,000	-	-	1,642,643,144
Loans and advances to banks	3.24%	21,451,113	-	54,264,744	148,902,183	6,085,606	-	230,703,646
Loans and advances to customers	8.80%	2,282,580,257	853,203,156	1,351,800,939	2,169,408,658	1,487,379,413	-	8,144,372,423
Investment in associates	-	-	-	-	-	-	2,905,058	2,905,058
Other investments	-	-	-	-	-	-	2,768,051	2,768,051
Other assets	-	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-	2,269,611,315	2,269,611,315
Total assets		3,389,839,804	8,871,194,277	3,116,380,258	11,049,475,937	4,579,040,223	12,386,672,033	43,392,602,532
Liabilities								
Deposits due to other banks	-	189,639,718	-	-	-	-	-	189,639,718
Customers' deposits	3.6%	19,420,811,012	13,081,378,702	-	302,035,242	-	-	32,804,224,956
Taxation	-	-	-	-	-	-	302,800,977	302,800,977
State dividend payable	-	-	-	-	-	-	648,418,071	648,418,071
Other liabilities	-	-	-	-	-	-	5,211,996,905	5,211,996,905
Total liabilities		19,610,450,730	13,081,378,702	-	302,035,242	-	6,163,215,953	39,157,080,627
On balance sheet interest sensitivity gap at 30 June 2007		(16,220,610,926)	(4,210,184,425)	3,116,380,258	10,747,440,695	4,579,040,223	6,223,456,080	4,235,521,905
On balance sheet interest sensitivity gap at 30 June 2006		(25,837,397,720)	(10,781,089,330)	3,036,528,716	6,893,734,254	3,157,874,612	3,484,598,782	1,516,427,974



36. FOREIGN CURRENCY RISK

The Table below analysis the currencies to which the group is exposed at 30 June 2007.

	USD Birr	GBP Birr	EURO Birr	OTHER Birr	TOTAL Birr
At 30 June 2007					
Assets					
Cash and balances with National Bank of Ethiopia	46,887,039	2,072,685	22,680,461	11,968,080	83,602,265
Investment in government securities	-	-	-	-	-
Coupon bonds with DBE and regional states	-	-	-	-	-
Term bonds with EEPKO and ETC	-	-	-	-	-
Placements with other banks	355,763,361	56,624,906	387,039,301	64,696,428	864,123,996
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers (net)	-	-	-	-	-
Investment in associates	-	-	-	-	-
Other investments	-	-	-	-	-
Other assets	225,513,259	169,300	1,140,086	(222,237,777)	4,584,868
Property and equipment	-	-	-	-	-
Total foreign currency assets	628,163,659	58,866,891	410,859,848	(145,579,269)	952,311,129
Liabilities					
Deposits due to other banks	11,699,738	11,388	-	-	11,711,126
Customers' deposits	436,255,145	6,657,304	129,781,489	29,094	572,723,032
Taxation	-	-	-	-	-
State dividend payments	-	-	-	-	-
Other Liabilities	105,659,715	-	2,208,256	-	107,867,971
Total foreign currency Liabilities	553,614,598	6,668,692	131,989,745	29,094	692,302,129
Off balance sheet net notional position	1,418,434,293	113,618,866	853,360,540	96,008,661	2,481,422,360
Foreign currency exposure at 30 June 2007	(1,343,885,232)	(61,420,667)	(574,490,437)	(241,617,024)	(2,221,413,360)
As at 30 June 2006					
Total foreign currency assets	1,298,030,288	15,720,731	109,336,246	100,240,186	1,523,327,451
Total foreign currency Liabilities	1,083,901,833	3,841,006	87,176,601	30,835	1,174,950,275
Off balance sheet net notional position	1,098,509,116	43,026,358	620,577,535	103,644,945	1,865,757,954
Foreign currency exposure at 30 June 2006	(884,380,661)	(31,146,633)	(598,417,890)	(3,435,594)	(1,517,380,778)



37. RISK MANAGEMENT DISCLOSURES

This section provides details of the Group's exposure to risk and describes the methods used by management to control risk. The most important types of financial risks to which the Group is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk and interest rate risk.

A. Risks

i) Credit risk

The Group's credit exposure at the balance sheet date from financial instruments held or issued for trading purposes is represented by fair value of instruments with a positive fair value at that date, as recorded on the balance sheet.

The risk that counter-parties to trading instruments might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments.

To manage the level of credit risk, the Group deals with counter-parties of good credit standing, enters into master agreements whenever possible, and when appropriate, obtains collateral.

The Group also monitors concentrations of credit risk by industry and type of customer in relation to the Group loans and advances to customers by carrying a balanced portfolio. The Group has a significant exposure to individual customers or counter parties.

ii) Liquidity risk

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 mainly from deposits and state capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy.

In addition the Group holds a portfolio of liquid assets as part of its liquidity risk management strategy.

iii) Market Risk

Interest rate risk

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or reprise at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the Group's business strategies. The Group does not have any significant interest rate risk exposures.

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies. The Groups transactional exposures give rise to foreign currency gains and losses that are recognized in the income statement. In respect of monetary assets and liabilities in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.



B. Risk measurement and control

Interest rate, currency, credit, liquidity and other risks are actively managed by independent risk o=control group to ensure compliance with the Group's risk limits. The Group's risk limits are assessed regularly to ensure their appropriateness given the Group's objectives and strategies and current market conditions. A variety of techniques are used by the Group in measuring the risks inherent in its trading and not-trading positions.

38. OTHER CONTINGENT LIABILITIES

- a) The Bank is the subject of an ongoing investigation by the Anti-Corruption Commission on some of the transactions carried out by the Bank in the last few years. To the best of management's knowledge, the outcome of this investigation is not expected to affect the Bank's financial statements for the year ended 30 June 2007.
- b) The Bank is defendant for a total amount of about Birr 15.4 million in respect of legal actions brought by different organizations and individuals which are contested by the Bank. It is difficult to assess the probable outcome of these cases at the moment.

39. CAPITAL COMMITMENTS

	Birr	2006, Birr
Group and company	31,415,762	<u>31,415,765</u>

40. ESTABLISHMENT

The Bank is established as a limited liability public enterprise under the proclamation of the Federal Democratic Republic of Ethiopia. Its principal place of business is in Addis Ababa, Ethiopia and has 205 branches in various parts of the country.

41. AUTHORIZTION

The President of the Bank authorized the issue of these financial statements on 26 January 2008.





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