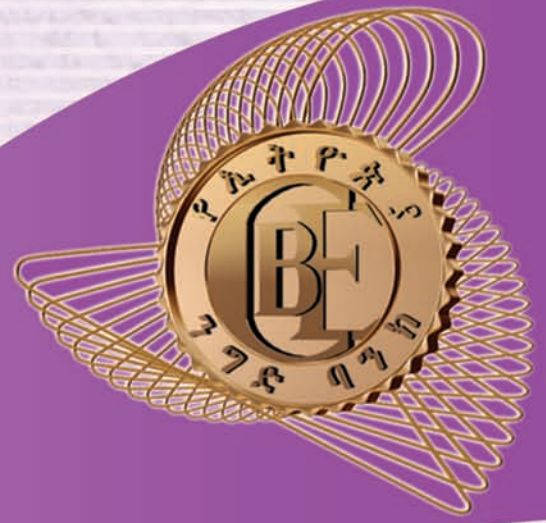


2005-06



Commercial Bank of Ethiopia

Annual Report 2005-06



VISION

To become a world-class commercial bank.

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.



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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;

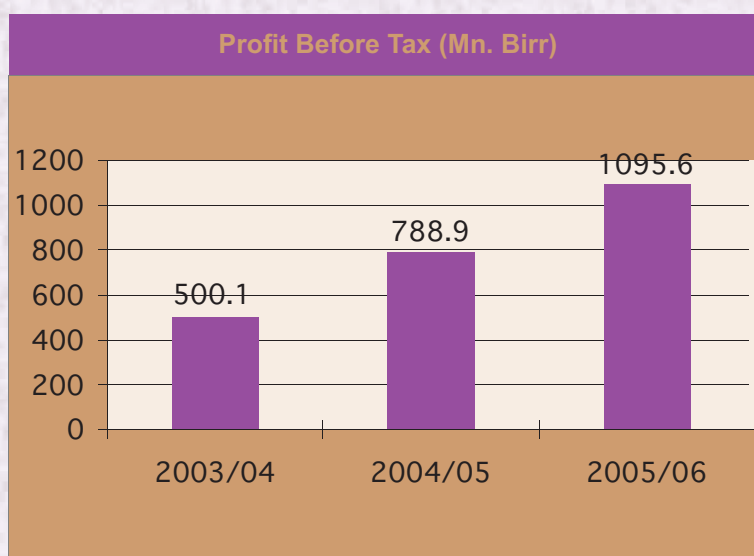
We are an equal-opportunity employer; and

We are corporate citizens.



Key Figures

As at 30 June (Mn Birr)	2006	2005	% age Change
Total income	1,796.2	1,389.5	29.3
Interest income	826.8	645.8	28.0
Non-interest income	969.4	743.7	30.4
Total expense	674.9	598.1	12.8
Interest expense	329.8	291.3	13.2
Non-interest expense	345.1	306.8	12.5
Profit before tax	1,095.6	788.9	38.9
Net profit for the year	792.5	579.2	36.8
Total Assets	35,827	33,172	8.0
Outstanding loans and advances	9,301.5	9,755.9	(4.7)
Liabilities	34,317	31,743	8.1
Total deposits	28,149	25,385	10.9
Capital and reserve	1,510	1,429	5.7
Number of branches	176	173	1.7
Number of employees	7,374	7,138	3.3





BOARD OF MANAGEMENT



H.E. Ato Mekonnen Manyazewal

State Minister, Ministry of Finance
and Economic Development
Board Chairman



H.E. Ato Assefa Kesito

Minister, Ministry of Justice
Board Member



H.E. Ato Fikru Dessalegn

State Minister, Ministry of Capacity Building
Board Member



H.E. Ato Tezera Wodajo

State Minister, Ministry of Revenue
Board Member



Ato Tsegaye Abebe

Chairman, Ethiopian Horticulture
Producers and Exporters Association
Board Member



Dr. Wolday Amha

Executive Director, Association of
Ethiopian Micro Finance Institutions
Board Member



W/rt Rani Ahmed

Managing Director,
Baker General Business Plc.
Board Member



W/ro Yemenashu Kassahun

Board Member



Ato Getachew Wassie

Board Member



Ato Taffesse G/Tsadik

Board Secretary



MEMBERS OF CBE'S TOP-LEVEL MANAGEMENT



First row (from left to right)

Ato Belachew Bogale
Vice-President, Corporate Banking

W/ro Melika Bedri
Vice-President, IT and Marketing

Ato Abie Sano
President

Ato Bekalu Zeleke
Vice-President, Finance and Accounting

Second row (from left to right)

Ato Esayas Bahre
Vice-President, Branch Banking

Ato Demelash Demissie
Vice-President, Human Resources and Central Services

Ato Worku Lemma
Vice-President, Internal Audit

“Talent wins games, but teamwork and intelligence win championships” Michael Jordan



The President's Message

I feel honored to announce to all stakeholders the historic achievement of the Commercial Bank of Ethiopia (CBE) in the year 2005/06. The operating profit of the Bank reached an all-time high of 1.1 billion, crossing the one billion Birr threshold for the first time in its 65-year history.

The Ethiopian economy continued to perform strongly for the third successive year. In 2005/06, the economy was estimated to have grown by 9.9%, slightly lower than the previous year's growth estimate. The agricultural sector continued to be the bedrock of the economy, accounting for almost three-fourths of the overall GDP growth. In



particular, the abundant rainfall, along with the favorable macroeconomic policies and development strategies, helped the agricultural sector to grow by 11.2% during the period being reviewed. The inflation rate of the country, however, soared to 12.3%, compared with its 6.8% rate in 2004/05. The year also witnessed significant developments in investment activities, which strengthened industrial performance and reinforced growth prospects for the current year. The sustained growth in industry, propelled mainly by robust activities in the construction sub-sector and real estate development, could be noted as a case in point. Furthermore, the total export earnings of the country reached over one billion USD in the Ethiopian fiscal year ended June 2006, whereas its import bills surged by over 21 %, following the large investment in infrastructure.

As the leading player in the domestic banking industry, the CBE has properly seized the opportunities presented by the favorable business activities and the stable macro-economic environment. Accordingly, the total income of the Bank augmented to Birr 1.8 billion in 2005/06, which is higher than the previous year's total income of about Birr 1.4 billion. The operating income from international banking activities went up by 27%, compared with the income in fiscal year 2004/05, and stood at Birr 750.2 million, or 41.7 % of the total income of the Bank for the year. On the other hand, the overall expense of the Bank was up by 12.8% (Birr 76.8 million), compared with its previous year's level.



The total assets of the CBE amounted to Birr 35.8 billion at the end of June 2006, registering an 8% growth over the previous year, while the overall liabilities of the Bank stood at Birr 34.3 billion, or 8.1 % higher than the previous year's figure.

During the year under review, the overall deposits of the Bank reached Birr 28.2 billion, which exceeded the level recorded a year ago by Birr 2.8 billion. Similarly, its total outstanding loans and advances stood at Birr 9.3 billion. Of this, the total loans disbursed to the various sectors of the economy accounted for Birr 4.1 billion, depicting a 3.6% growth over the previous year, following the growth momentum in the various business activities undertaken in the country. Furthermore, the Bank's loan collection reached Birr 4.4 billion, exceeding last year's total of Birr 3.1 billion. The Bank's stock of non-performing loans (NPLs) was further reduced during the reporting period, resulting in a marked improvement of the asset quality of the Bank. That was attributed largely to the unprecedented efforts exerted by all stakeholders. The CBE invested large amount of funds in government securities (Treasury bills and government bonds). In fiscal year 2005/06, the Bank's investment in Treasury bills and government bonds rose to Birr 12.6 billion, from Birr 6.9 billion in fiscal year 2004/05.

CBE's Management is convinced that the Bank's success depends mainly on the strength of its human capital. Based on this conviction, it saw to it that the Bank's total human strength reached 7,374 during the reference period and to providing 1,617 employees with skills-upgrading training programs. Besides, the Executive Management and the representatives of the Labor Union of the Bank agreed to further strengthen their working relations by signing the Tenth Collective Agreement.

CBE's Management also believes that information technology plays a crucial role in helping the CBE maintain its preeminent position. Accordingly, the Bank has expended a large amount of money to develop its IT infrastructure, in addition to executing the Central Data Store changeover, which is noted as a milestone in the effort to remove its IT bottlenecks. Several in-house applications were also developed and implemented in various areas of the Bank.

In order to effectively respond to the ever-growing customers' needs, emphasis will be made on broadening the range of products, especially loans both in the retail and corporate banking categories, in the years to come. The Bank is determined to reach out to potential customers by further extending its branch network to sites with significant business potential.

As a continuation of the Financial Sector Reform Program (FSRP), the CBE has exerted an unre-served effort to enhance institutional efficiency and productivity in general and service delivery in particular.



Business process reengineering (BPR) studies were carried out in both the functional and support areas, and a step-by-step implementation thereof is underway. To ensure the realization of the desired institutional transformation and bring about the anticipated results, a change of management, too, was made at all levels. The improvements in the quality of the services due to the changes underway have shown a promising start, though the results achieved so far still signify that the Bank needs to scrutinize and upgrade its institutional transformation in an integrated manner so that it will help the CBE attain world-class status. To make such changes possible, we must determine how best to allocate and utilize the available resources more than we ever did before. In this connection, the Management is committed to bringing about a successful institutional transformation that entails a dramatically transformed customer service with minimum cost and service-delivery time.

Finally, I would like to thank the Board of Management for its visionary leadership and CBE's employees for their commitment to achieving such an outstanding result during the period under review. I would also like to express my appreciation to the Bank's customers in particular and the public in general for their priceless contribution to the operational success achieved by the CBE during fiscal year 2005/06.

With the continued support of CBE's esteemed customers and the commitment of its staffs, I am confident that we will have no difficulty in rising to the forthcoming challenges and thereby achieving our vision of becoming a world-class commercial bank.

Abie Sano,
President



1. Macroeconomic Developments

The Ethiopian economy has grown at a robust pace for the third year in a row. In 2005/06, the overall GDP registered a growth estimate of 9.9%, and is projected to manifest a double-digit growth next year. When viewed against the milieu of the high oil price on the world market and certain adverse domestic developments, the country's GDP growth is remarkable. Significant in this regard, in particular, is the performance recorded in the agricultural sector, whose contribution to the overall economic growth during the reference period was unparalleled by any other sector. The total agricultural output registered a growth rate of 11.2%. The industrial sector, on the other hand, grew by 7.4%, slightly lower than the growth rate registered during the previous year. The growth is believed to stem from the increased construction activities—forcing the prices of construction materials, particularly those of cement and steel, to soar. The services and distributive sectors also grew by 9% and 7.4%, respectively.

The external sector as well witnessed a robust growth. The value of export grew by 23% as against the preceding year's total export revenue and crossed the one billion USD level for the first time in the history of the country. What really helped the sector perform so notably were the favorable trade and good government investment policies, the aggressive export-related promotional activities, the good performance of the agricultural sector and the diversification of exportable commodities. The country's

total imports, too, grew by 21.1%, compared with the previous year's performance, following the growth in the importation of chemicals (74%), raw materials (57%), consumer goods (21%) and capital goods (30.4%), respectively. The marked economic growth and the good performance of the external sector, of course, created a business environment conducive for the banking industry, for a substantial growth was observed in both the amount of the new loans injected into the economy and in the non-interest income earned by banks during the reference period.

Ethiopia's overall investment for the reporting period stood at 26% of the GDP, higher than the previous year's level (20% of the GDP), mainly due to the increased credit supply by banks and the flexible and favorable investment climate, including access to land, improvements in infrastructure development, the investor-friendly licensing procedure and the removal of certain bureaucratic bottlenecks.

On the other hand, the country experienced a very high level of inflation. Inflation surged from 6.8% during the preceding fiscal year to 12.3% in fiscal year 2005/06. The key factors that contributed to the increase in the general inflation index, among others, were the high price of oil on the world market and the sudden increase in domestic demand (regarded as demand pull-inflation) for cereal crops, construction materials, especially cement and metals.



With regard to monetary developments, the performance of the overall money supply was good. Sources from the National Bank of Ethiopia (NBE) have revealed that the stock of broad money reached 46.4 billion Birr, suggesting a 15.3% increase, compared with the previous year's status, mainly due to the increase in domestic credit. The narrow money also registered a 12% increase over the previous period as a result of the increased volume of currency outside banks and demand deposits by 14% and 10%, respectively.

With regard to developments on the exchange rate market, the Birr traded at an average of 8.7243 to USD as against 8.6950 during the previous year, indicating a depreciation of 0.0293 cents, despite the increase in the volume of imported commodities and in the price of petroleum on the international market. Furthermore, the Birr gained on the pound sterling and the euro by 0.63 and 0.44 cents, respectively. It also recorded marginal gains against the yen (0.036 cents) and the SDR (0.35 cents).

Total federal government revenue, including protecting basic services, reached Birr 19.8 billion in the reference period, indicating a 19.2% growth over the previous year. Of the total amount of government revenue, domestic revenue constituted 80% and grew by 17% as against the previous year's figure. The improved tax administration, wider tax-payers' base, and increase in the VAT registration rate were the contributing factors to this growth. Furthermore, total government expenditure

reached a record high of 35.4 billion Birr, demonstrating an 18% increase over the previous year, due to the increased capital expenditure mainly on agriculture, higher education and infrastructure.

In general, the good performance observed in the overall fiscal and monetary developments during the reporting period resulted in an improvement in the economy and created a business environment conducive for the banking industry.

The world economy was strong and widely spread, geographically, in fiscal year 2005/06, with an estimated GDP growth of 4.8%, which is forecasted to grow to 4.9% in 2007. The US economy continued to increase by nearly 3%. Economic growth showed signs of recovery in Japan and Europe as well. In China and India, GDP growth was estimated to stand at 9.5% and 7.3%, respectively. The economic growth in sub-Saharan Africa also remained positive, with a projected growth of 5.8%.

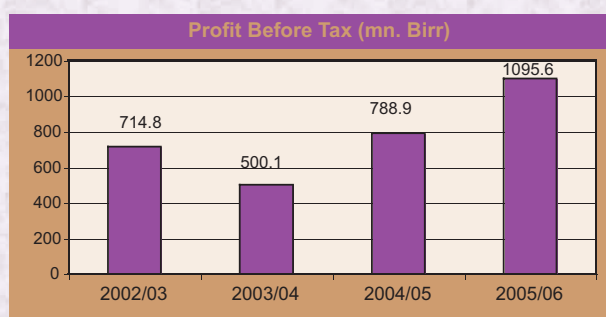
The vigorous pace of the recent economic growth has boosted demand for commodities, particularly in China and in the other emerging economies. This in turn has contributed to the continuous rise in the price of crude oil on the world market. However, the continued political unrest in the Middle East is also responsible for the increase in the price of oil, which, of course, will adversely affect economies such as Ethiopia that fully depend on imported oil, if it continues unabated.



2. Operational Performance Highlights

2.1. Profit

During fiscal year 2005/06, CBE's performance was commendable, regardless of the oil-price hike, the stiff competition on the domestic market, and other local as well as global economic and political adverse developments. The Bank's pre-tax profit stood at Birr 1.1 billion, showing a growth of 38.9%, compared with the preceding year, which was an all-time high.

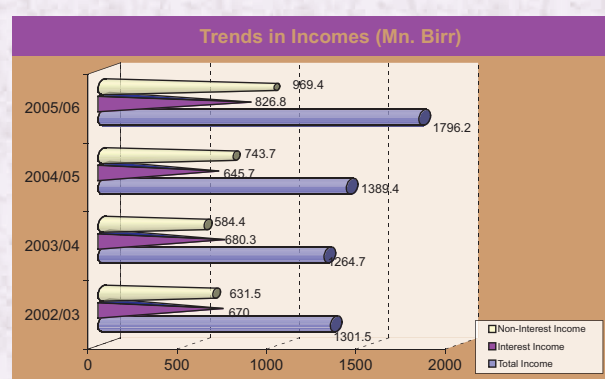


* Profit before tax defined as total income less expense, including provision for doubtful accounts.

2.2. Income

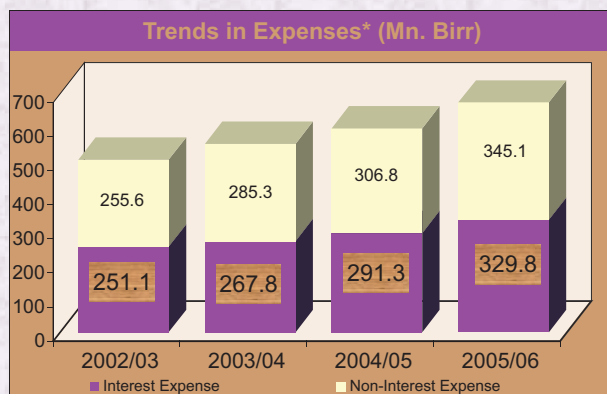
In fiscal year 2005/06, the aggregate income of the Bank grew to Birr 1.8 billion, from Birr 1.4 billion in 2004/05, or by 29.3%, due to an increase in both interest and non-interest income. Overall interest income grew from Birr 645.8 million in 2004/05 to Birr 826.8 million in the reference year, partly because of the sharp rise in earnings from deposits with correspondent banks (44.5%) and partly due to the growth in the interest income earned from

government bonds and coupons and term bonds that have already matured. Interest income collected from loans and advances, on the other hand, increased by 15.6%. Likewise, non-interest income surged from Birr 743.7 million in 2004/05 to Birr 969.4 million during the period under review.



2.3. Expense

The overall operating expense of the Bank, for the fiscal year ended June 2006, reached Birr 674.9 million, exceeding the level recorded in the preceding year by Birr 76.8 million (or 12.8%), owing to the rise in interest and non-interest expenses by 13.2% and 12.5%, respectively, compared with the previous year's status. General expenses grew by 29.1% and accounted for 39.9% of the total non-interest expenses, whereas salaries and benefits took the lion's share (55.7%).

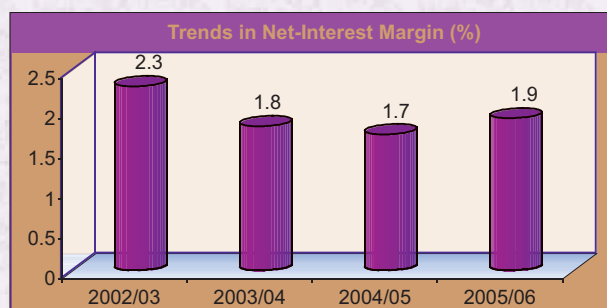


* Excluding impairment losses

Interest expenses on customers' deposits grew by 13.3%, mainly as a result of the increased volume of saving deposits. On the other hand, the controllable expenses dwindled from Birr 38.3 million in 2004/05 to Birr 35.8 million during the reference period, showing a 6.5% decline, mainly as a result of the decline in sundries by 43.4%. This, of course, bears testimony to the fact that CBE's Management and all staffs have exerted much effort toward reducing the Bank's costs.

2.4. Net-Interest Margin

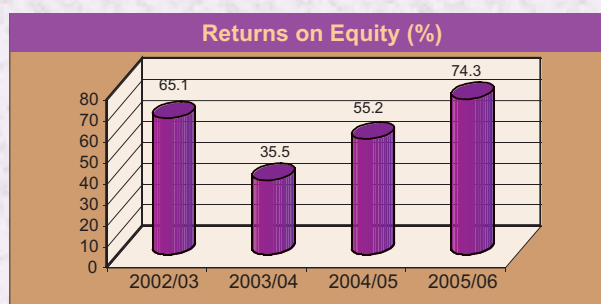
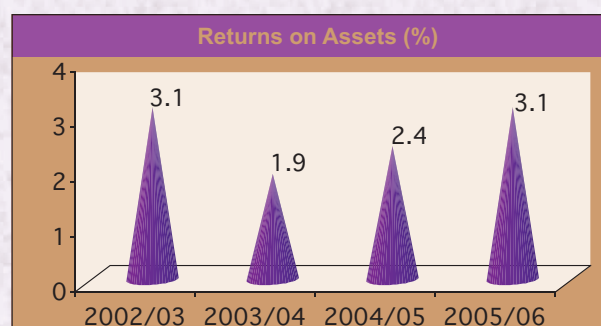
The net-interest margin for the year considered was slightly higher (1.9%) than the previous fiscal year's (1.7%), indicating that the Bank deployed more funds toward earning assets.



2.5. Returns on Assets and Equity

Both returns on assets (ROA) and returns on equity (ROE) went up in the reporting period. ROA stood at 3.1%, indicating the Bank's commendable improvement in directing its assets toward high-income-generating activities.

The ROE, on the other hand, increased to 74.3%, from its level of 53.6% in the preceding year.

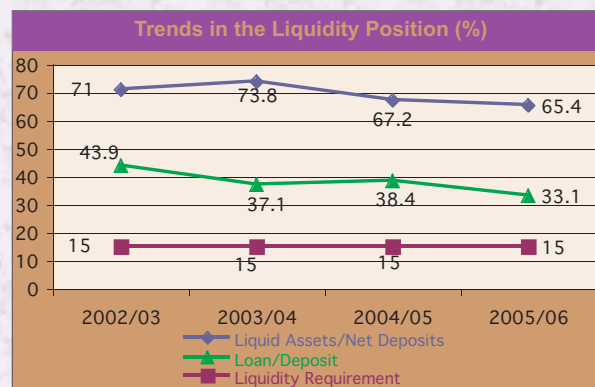


2.6. Liquidity Position

The liquid-assets-to-the-net-deposits ratio for the reporting period dropped to 65.4%, from 68.8% in fiscal year 2004/05. Despite this decline, the level of the liquid funds of the Bank is, nevertheless, still higher than the required



standard, mainly owing to the growing magnitude of deposits and the relatively unmatched loans-absorptive capacity of the economy. The fact that the CBE has a high level of liquid funds indicates its ability to meet customers' demand for credit services. That in turn inspires confidence in all those who want to do business with the CBE.



3. Balance Sheet Status

The balance sheet components continued to grow during fiscal year 2005/06. The total asset of the Bank went up to Birr 35.8 billion, from Birr 33.2 billion a year ago, indicating an 8.0% growth. The significant growth of investment in government securities (Treasury bills and government bonds) and deposits with other banks were the major contributors to this modest growth. Investment in government securities rose from Birr 6.9 billion in 2004/05 to Birr 12.6 billion in 2005/06. Similarly, deposits with other banks went up from Birr 847 million in 2004/05 to Birr 1.4 Billion in 2005/06.

The overall liabilities of the Bank stood at Birr 34.3 billion at the end of the reporting period,

showing an 8.1% growth as against the preceding year. This essentially stemmed from the continued growth in customers' deposits, despite the prevailing competition and the decline in the demand deposits placed by foreign banks and the increase in investment in government securities.

The capital and reserve position of the Bank stood at Birr 1.5 billion, which is higher than the preceding year's level by Birr 81 million. Accordingly, the risk-weighted capital adequacy ratio of the Bank for the reference year stood at 10.6%, which is higher than both the international standard rate and the level recorded during the previous year.



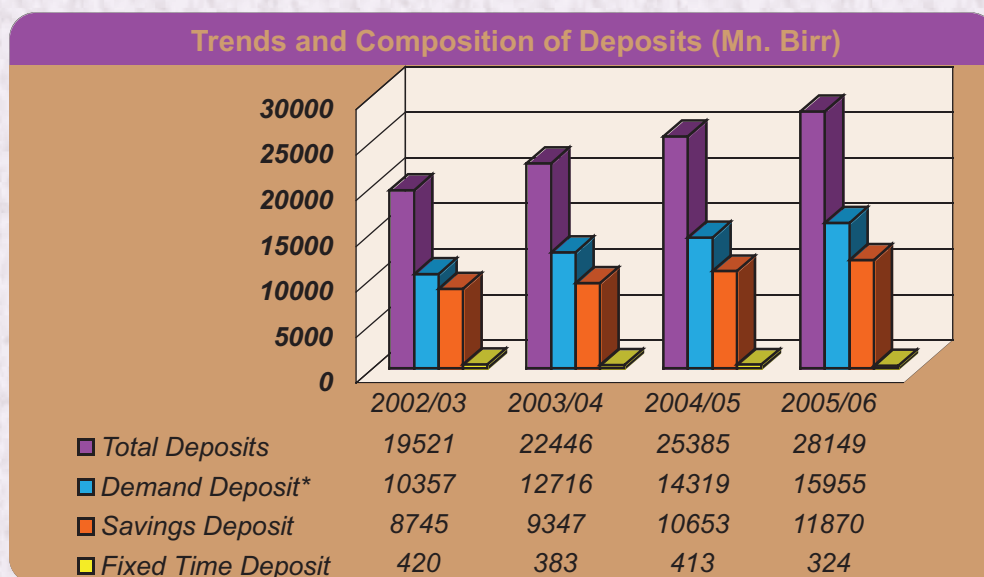
4. Mobilization of Resources

4.1. Deposits

The deposit balance of the Bank has been steadily growing. During the Ethiopian fiscal year ended June 2006, the total deposits of the Bank reached Birr 28.2 billion, suggesting a 10.9% growth over the level recorded a year ago, despite the stiff competition within the Banking industry in this regard. The growth was assumed to take place following the high level of public confidence placed on the Bank, its large branch network and rich experience in the banking industry.

Demand deposit continued to be the most dominant in the structure of the total deposits of the Bank, as its share consisted of 56.7% of total deposits, whereas the remaining balance was accounted by savings and fixed-time deposits. Furthermore, savings and demand deposits rose by 11.4% each, compared with the preceding year. On the contrary, fixed-time deposits dropped down to Birr 324 million, from Birr 413 million in the preceding year.

Of the total deposits, the share of central and local government accounts was 42%.



* Includes deposits due to other banks

4.2. Loans and Advances

The total outstanding loans and advances of the Bank for the period stood at Birr 9.3 bil-

lion, which is slightly lower than the preceding year's balance, mainly because of the effort exerted toward loans collection and the Management's decision to write off loans



amounting to a total of Birr 379 million. The Bank has been rendering tailor-made services to its 280 corporate credit customers. This, we believe, indisputably bears testimony to the fact that the CBE is determined to exceed the ever-growing expectations of its prominent customers.

The overall loan disbursement of the Bank stood at Birr 4.1 billion, showing a 3.6% growth over the previous year. Loans disbursed to the import and export sub-sectors grew by 11.9% and 29.7%, respectively, proportionate to their preceding year's status. Likewise, loans disbursed to the agricultural, manufacturing and

Outstanding Loans by Type (Mn. Birr)

	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>
Agriculture	490	482	1023	1586
Manufacturing	1093	1104	1233	1330
Foreign Trade	1924	2342	2892	2444
Domestic Trade and Services	2795	3251	3665	3164
Building and Construction	734	689	551	449
Others*	1530	469	392	328
Total	8566	8337	9756	9301

* Personal loans and co-financed loans and loans and advances to banks



Courtesy of Ghion Industrial Business Group

The CBE extends financial assistance to various

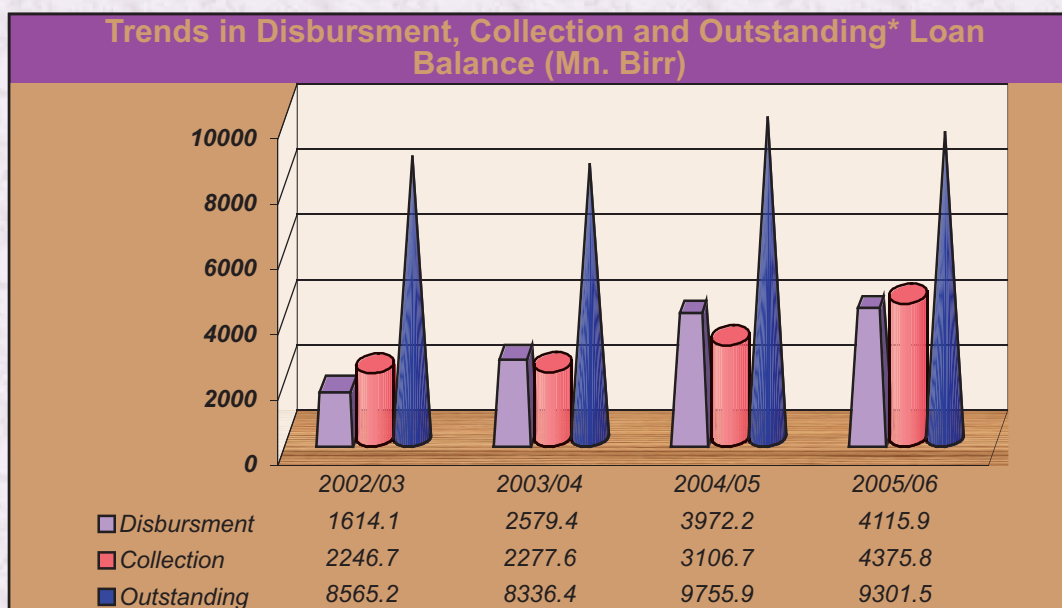


construction sectors exhibited a momentous growth of 37.5%, 49.6% and 33.4%, respectively, relative to their previous year's respective figures.

In terms of composition, loans extended to the private sector and the cooperatives were Birr 2.1 billion and Birr 1.7 billion, respectively, showing a growth of 40.9% and 46.2%, compared with their status in fiscal year 2004/05. On the other hand, loans disbursed to the public sector dwindled by 76.6%, suggesting a

steady increase of the involvement of the private sector in the various investment activities undertaken in the country.

The unreserved efforts exerted by the Bank resulted in a 40.8% growth in loans collection against the previous year's performance in this regard. More specifically, loans collection from the import sub-sector rose by 410.7%. The loans-collection-to-loan-disbursement ratio also increased from 78.2% in 2004/05 to 106.3% in 2005/06.



* Includes loans and advances to banks



Courtesy of VARNERO Construction

sectors to help them achieve their business objectives.



5. International Banking Activities

The Commercial Bank of Ethiopia obtains a great deal of its revenue from its international banking business. Its more than six decades' experience in the financial market has enabled it to sustain a win-win liaison with world-class banks throughout the world. This, together with its good resource base and trustworthiness, has helped the Bank to maintain a preeminent position in this business outlet. Hence, in fiscal year 2005/06, the aggregate income earned from the foreign-banking operations stood at Birr 750.2 million, which surpassed the level recorded in the preceding year by 27%. Accordingly, the foreign banking activities accounted for 41.7% of the total income of the Bank in the reference period.

The value of foreign guarantees issued in 2005/06 amounted to Birr 4.1 billion, which exceeded the preceding year's level by Birr 2.7 billion (50.1%). Similarly, the value of the letters of guarantee settled rose by 45.7%. Accordingly, the commission income obtained from letters of guarantee surged by 39.4%, compared with the previous year. The import letters of credit settled during the reporting period went up both in value and volume by 47% and 18%, respectively, compared with the previous year, whereas the value and number of export documents negotiated on a collection basis recorded a percentage growth of 9 and 15, respectively. The number of the import letters of credit opened and of the export letters of



Courtesy of Mullege Coffee Exporter

The CBE gives due priority to supporting Ethiopia's coffee export as it is our major foreign-currency earner



credit received, however, went down, perhaps owing to the prevailing stiff competition.

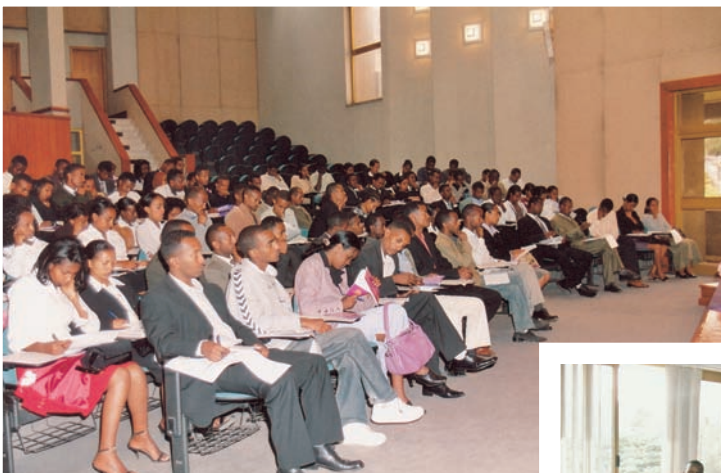
Foreign incoming clean transfers as well as outgoing transfers and inward bills collection received during fiscal year 2005/06 registered a modest growth, compared with their levels of the preceding year. On the other hand, the

commission income generated from the Western Union Money transfer business slightly dropped to Birr 13.8 million, from Birr 14.1 million in 2004/05, because of the decision of the Western Union Money Transfer International to reduce the service charge, for transfers made from the Middle Eastern countries.

6. Human Resources Development

The CBE believes that its success depends mainly on the quality and number of its employees. Accordingly, it exerted an unreserved effort to enhance its human and institutional capacity during the year under review. By continuing to recruit both professional and non-

professional employees from different levels of institutions of learning, it managed to raise its total staff strength to 7,374 in 2005/06, from 7,138 during the previous year, suggesting a 3.3% growth.



Maximum effort was also made to upgrade the skills of its employees and to thereby enable them to effectively respond to the ever-changing business environment in the banking industry. As a result, the Bank continued to in-



CBE's employees during a training session



vest a great deal of money in skill-upgrading training for its 1,617 employees.

Being a corporate citizen, the Bank also has certain corporate social responsibilities that it is expected to discharge. Among others, it has

designed apprenticeship-training programs for students from institutions of higher learning, including various vocational schools. During the year under review, a total of 237 such apprentices were accommodated by several organs of the Bank.

7. Market and Business Development

The CBE has managed to maintain its leadership position, despite the prevailing stiff competition within the banking industry. Its overall magnitude of business has continued to grow. The CBE is also the biggest employer within the industry. As such, it has acquired modern banking practices with competent personnel, as well as wide branch network. This unparalleled strength in its workforce has also enabled it to forge good working relations with internationally renowned correspondent banks.

During the period under review, the Bank's total number of depositors reached 1,343,732, which is lower by 14.7%, as against the preceding year, though its deposit balance increased from Birr 25.4 billion in 2004/05 to Birr 28.2 billion in 2005/06.

Similarly, the number of the Bank's loan customers has slightly declined, compared with the previous year's status, mainly due to competitors' efforts to woo CBE's corporate customers.

Currently, CBE owns 176 branches throughout the country, with a 45% market share. During the same reference period, the Bank opened new branches, and branch-opening feasibility studies for selected sites have been finalized.

In line with the service quality improvement program, which is part of CBE's strategy, certain efforts were made during fiscal year 2005/06. Among others, a team, including the President and other high-ranking bank officials, paid visits to 33 branches with the objectives of encouraging the employees to discharge their responsibilities more efficiently and discussing with branch managers the problems they encountered.

As a result, various problems were pointed out and remedial actions were taken. The Bank's services and/or products were also promoted via various domestic and international media outlets. The use of the Ethiopian Worldwide Television located in London for promotional activities is a case in point.



The CBE strongly believes that information technology plays a decisive role in the effort to upgrade the quality of the services it renders to its customers and to thereby have a better competitive edge. In fiscal year 2005/06, a number of IT development projects were implemented in line with the Bank's IT Strategy. The Central Data Store change-over project was finalized, and a new, high-capacity server was successfully put in place. The rollout project has been fully implemented at the Bole branch. And network design and installation tasks have been successfully undertaken in nine of the branches in Addis Ababa. Furthermore, a signature-processing system has been put in place at the Goffa Sefer branch, and a pension payment system at the Meskel Square branch, which is also ready to be rolled out into the other branches.

Institutional transformation was the key strategy used to enhance the efficiency of the service delivery during the reporting period. In this respect, the BPR studies for nine Departments within the Bank were reviewed and approved by the Board of Management. And implementation of most of them has since kicked off step by step. The Bank's Steering Committee has also drawn up an action plan and is keeping in touch with the various BPR study taskforces to speed up the completion of the remaining studies. With all the policies, procedures and strategies in place, CBE's Management and staffs have no doubt whatsoever that the CBE is, and will remain, the most preferable Bank in the country to do business with.



The CBE considers its customers as Kings and Queens



Courtesy of Haji Kemal Coffee Exporter



Courtesy of Kegnazmatch Teka Egano Manufacturing Industry



The Bank is committed to financing the manufacturing industry



Auditors' Report



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AUDIT SERVICES CORPORATION

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አዲስ አበባ ADDIS ABABA

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 32 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 positions of Commercial Bank of Ethiopia and of the Group at 30 June 2006 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 March 2007


COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2006

	<u>Notes</u>	<u>Birr</u>	<u>2005</u> <u>Birr</u>
<u>ASSETS</u>			
Cash and balances with National Bank of Ethiopia	2	7,229,472,006	11,969,400,237
Investments in Government securities	3	12,588,996,938	6,867,813,541
Coupon bonds with Development Bank of Ethiopia	4	932,590,685	625,119,497
Term bonds	5	3,600,000,000	2,600,000,000
Placements with other banks	6	1,395,227,156	847,134,386
Loans and advances to banks	7	280,993,697	347,751,997
Loans and advances to customers	8(a)	7,376,796,650	7,385,095,766
Investment in associates	1b(ii), 10(a)	2,905,058	2,905,058
Other investments	11	2,768,051	2,725,208
Other assets	12	2,190,539,207	2,292,367,024
Property and equipment	1c(iv), 13	228,726,250	232,702,195
		<u>35,829,015,698</u>	<u>33,173,014,909</u>
<u>LIABILITIES</u>			
Deposits due to other banks	14	158,972,432	433,315,004
Customers' deposits	15	27,983,803,502	24,946,304,713
Taxation	16	301,483,664	209,957,959
State dividend payable	17	929,616,528	217,488,471
Other liabilities	18	4,938,711,598	5,931,504,524
		<u>34,312,587,724</u>	<u>31,738,570,671</u>
NET ASSETS		<u>1,516,427,974</u>	<u>1,434,444,238</u>
MINORITY INTEREST		<u>761,127</u>	<u>672,296</u>
<u>CAPITAL AND RESERVES</u>			
Capital	19	619,739,668	619,739,668
Legal reserve	20	757,300,922	678,112,472
General reserve		64,545,930	64,545,930
Retained earnings		68,575,149	67,376,055
		<u>1,510,161,669</u>	<u>1,429,774,125</u>
DEFERRED TAX LIABILITY	1f, 21	<u>5,505,178</u>	<u>3,997,817</u>
		<u>1,516,427,974</u>	<u>1,434,444,238</u>


Vice President Finance

Addis Ababa, 26 March 2007




President



COMMERCIAL BANK OF ETHIOPIA

BANK BALANCE SHEET

AT 30 JUNE 2006

	<u>Notes</u>	<u>Birr</u>	<u>2005</u> <u>Birr</u>
<u>ASSETS</u>			
Cash and balances with National Bank of Ethiopia	2	7,229,469,306	11,969,399,637
Investments in Government securities	3	12,588,996,938	6,867,813,541
Coupon bonds with Development Bank of Ethiopia	4	932,590,685	625,119,497
Term bonds	5	3,600,000,000	2,600,000,000
Placements with other banks	6	1,395,227,156	847,134,386
Loans and advances to banks	7	280,993,697	347,751,997
Loans and advances to customers	8(a)	7,376,796,650	7,385,095,766
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	2,725,208
Other assets	12	2,186,396,077	2,289,285,261
Property and equipment	1c(iv),13	227,996,883	231,923,466
		<u>35,826,505,443</u>	<u>33,171,518,759</u>
<u>LIABILITIES</u>			
Deposits due to other banks	14	158,972,432	433,315,004
Customers' deposits	15	27,989,479,196	24,951,254,982
Taxation	16	300,931,207	209,480,264
State dividend payable	17	929,616,528	217,488,471
Other liabilities	18	4,937,815,972	5,930,917,591
		<u>34,316,815,335</u>	<u>31,742,456,312</u>
NET ASSETS		<u>1,509,690,108</u>	<u>1,429,062,447</u>
<u>CAPITAL AND RESERVES</u>			
Capital	19	619,739,668	619,739,668
Legal reserve	20	756,628,299	677,502,959
General reserve		64,545,930	64,545,930
Retained earnings		63,327,930	63,327,930
		<u>1,504,241,827</u>	<u>1,425,116,487</u>
DEFERRED TAX LIABILITY	1f,21	5,448,281	3,945,960
		<u>1,509,690,108</u>	<u>1,429,062,447</u>

The notes on pages 29 to 58 form an integral part of these financial statements.



COMMERCIAL BANK OF ETHIOPIA **CONSOLIDATED PROFIT AND LOSS ACCOUNT** **FOR THE YEAR ENDED 30 JUNE 2006**

	Notes	Birr	2005 Birr
INTEREST INCOME	1e,22	826,764,128	645,754,976
INTEREST EXPENSE	23	<u>(329,781,744)</u>	<u>(291,303,402)</u>
NET INTEREST INCOME		<u>496,982,384</u>	<u>354,451,574</u>
IMPAIRMENT LOSSES ON:-			
SUNDRY DEBTORS		(22,415,338)	(2,460,230)
ACQUIRED PROPERTY		<u>(3,222,724)</u>	<u>-</u>
		<u>(25,638,062)</u>	<u>(2,460,230)</u>
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES ON SUNDRY DEBTORS AND ACQUIRED PROPERTY		471,344,322	351,991,344
NON INTEREST INCOME	1e, 24	969,388,678	743,702,746
NON INTEREST EXPENSES	25	<u>(345,127,135)</u>	<u>(306,760,210)</u>
PROFIT BEFORE TAXATION		1,095,605,865	788,933,880
INCOME TAX EXPENSE	26	<u>(303,,001,433)</u>	<u>(209,675,572)</u>
PROFIT AFTER TAXATION		792,604,432	579,258,308
MINORITY INTEREST		<u>(88,831)</u>	<u>(84,195)</u>
PROFIT FOR THE YEAR		<u>792,515,601</u>	<u>579,174,113</u>

The notes on pages 29 to 58 form an integral part of these financial statements.



COMMERCIAL BANK OF ETHIOPIA
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

	<u>Capital</u> <u>Birr</u>	<u>Legal</u> <u>reserve</u> <u>Birr</u>	<u>General</u> <u>reserve</u> <u>Birr</u>	<u>Retained</u> <u>earnings</u> <u>Birr</u>	<u>Total</u> <u>equity</u> <u>Birr</u>
Balance at 30 June 2004	619,739,668	619,739,668	64,545,930	143,408,519	1,447,433,785
Net profit for the year	-	-	-	579,174,113	579,174,113
Prior year adjustment	-	515,210	-	309,125	824,335
Transfer to legal reserve	-	57,857,594	-	(57,857,594)	-
Transfer to state dividend	-	-	-	(522,719,172)	(522,719,172)
Clearance of deferred tax asset	-	-	-	(74,938,936)	(74,938,936)
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	<u>619,739,668</u>	<u>757,300,922</u>	<u>64,545,930</u>	<u>68,575,149</u>	<u>1,510,161,669</u>

The notes on pages 29 to 58 form an integral part of these financial statements.



COMMERCIAL BANK OF ETHIOPIA
BANK STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

	<u>Assigned Capital Birr</u>	<u>Legal reserve Birr</u>	<u>General reserve Birr</u>	<u>Retained earnings Birr</u>	<u>Total equity Birr</u>
Balance at 30 June 2004	619,739,668	619,189,972	64,545,930	137,957,740	1,441,433,310
Net profit for the year	-	-	-	577,977,772	577,977,772
Prior year adjustment	-	515,210	-	309,125	824,335
Transfer to legal reserve	-	57,797,777	-	(57,797,777)	-
Transfer to state dividend	-	-	-	(520,179,994)	(520,179,994)
Clearance of deferred tax asset	-	-	-	(74,938,936)	(74,938,936)
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	<u>619,739,668</u>	<u>756,628,299</u>	<u>64,545,930</u>	<u>63,327,930</u>	<u>1,504,241,827</u>

The notes on pages 29 to 58 form an integral part of these financial statements.



COMMERCIAL BANK OF ETHIOPIA

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006

	<u>Notes</u>	<u>Birr</u>	<u>Birr</u>	<u>2005</u> <u>Birr</u>
Cash flow from operating activities	27(a)		1,419,903,141	813,114,641
Cash flow from investing activities				
Purchase of property and equipment		(25,111,958)		(22,496,600)
Adjustment in value of share		(42,843)		(8,000)
Proceeds on disposal of property and equipment		-		6,886,000
Dividends received		<u>229,589</u>		<u>2,135,001</u>
Net cash outflow from investing activities			(24,925,212)	(13,483,599)
Cash flow from financing activities				
Dividends paid			<u>-</u>	<u>(2,539,178)</u>
Net cash outflow from financing activities			<u>-</u>	<u>(2,539,178)</u>
Increase in cash and cash equivalents	27(b)		1,394,977,929	797,091,864
Cash and cash equivalents at 30 June 2005 and 2004	27(b)		<u>14,980,098,246</u>	<u>14,183,006,382</u>
Cash and cash equivalents at 30 June 2006	27(b)		<u>16,375,076,175</u>	<u>14,980,098,246</u>

The notes on pages 29 to 58 form an integral part of these financial statements.



COMMERCIAL BANK OF ETHIOPIA

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2006

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

- i) These financial statements have been prepared in compliance with International Financial Reporting Standards. They are prepared under the historical cost convention.
- ii) 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 2006. 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.



1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

	<u>%</u>
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.



1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.
- The Djibouti Branch has discontinued its operations effective February 2004 and has been closed in September 2005.

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 purposes. 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 ETHIOPIA

	Birr	2005 Birr
Group		
Cash on hand	572,886,785	665,785,089
Balances with National Bank of Ethiopia		
- Cash reserve ratio	2,000,000,000	2,000,000,000
- Payment and settlement account	<u>4,656,585,221</u>	<u>9,303,615,148</u>
	<u>7,229,472,006</u>	<u>11,969,400,237</u>
Company		
Cash on hand	572,884,085	665,784,489
Balances with National Bank of Ethiopia		
- Cash reserve ratio	2,000,000,000	2,000,000,000
- Payment and settlement account	<u>4,656,585,221</u>	<u>9,303,615,148</u>
	<u>7,229,469,306</u>	<u>11,969,399,637</u>



2. CASH AND BALANCES WITH NATIONAL BANK OF ETHIOPIA (continued)

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 2006, the cash reserve requirement was 5% of the eligible deposits (2005 - 5%). These funds are not available to finance the Bank's day-to-day operations.

3. INVESTMENTS IN GOVERNMENT SECURITIES

	<u>Birr</u>	<u>2005</u> <u>Birr</u>
Group and company		
Treasury bills		
Maturing within 90 days	9,373,409,941	3,938,757,050
Maturing after 90 days	<u>1,040,912,996</u>	<u>670,922,092</u>
	<u>10,414,322,937</u>	<u>4,609,679,142</u>
Government bonds		
Overdue	147,425,176	457,792,651
Maturing within 90 days	22,207,349	-
Maturing after 90 days and within one year	165,205,507	153,086,692
Maturing after one year	<u>1,839,835,969</u>	<u>1,647,255,056</u>
	<u>2,174,674,001</u>	<u>2,258,134,399</u>
	<u>12,588,996,938</u>	<u>6,867,813,541</u>

4. COUPON BONDS WITH DEVELOPMENT BANK OF ETHIOPIA

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 instalments through 31 December 2013.

	<u>Birr</u>	<u>2005</u> <u>Birr</u>
Maturing within 90 days	16,346,849	5,073,401
Maturing after 90 days and within one year	5,886,693	5,046,096
Maturing after one year	<u>910,357,143</u>	<u>615,000,000</u>
	<u>932,590,685</u>	<u>625,119,497</u>



5. TERM BONDS

Group and Company

Represent non-negotiable 4% secured bonds worth Birr 1,800,000,000 and Birr 1,800,000,000 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

Group and company
Due within 90 days

	<u>Birr</u>	<u>2005</u> <u>Birr</u>
	<u>1,395,227,156</u>	<u>847,134,386</u>

7. LOANS AND ADVANCES TO BANKS

Group and company

Construction and Business Bank Share Company
Development Bank of Ethiopia

	<u>Birr</u>	<u>2005</u> <u>Birr</u>
	39,180,883	61,973,217
	<u>241,812,814</u>	<u>285,778,780</u>
	<u>280,993,697</u>	<u>347,751,997</u>



8. LOANS AND ADVANCES TO CUSTOMERS

	Birr	2005 Birr
Group and company		
a) Term and merchandise loans	5,691,411,055	5,190,619,431
Overdrafts	1,906,903,509	1,983,649,247
Advances on import and export bills	66,194,836	283,416,803
Loans and advances in legal	<u>1,356,012,303</u>	<u>1,950,445,748</u>
	9,020,521,703	9,408,131,229
Less: Provision for impairment losses	<u>(1,643,725,053)</u>	<u>(2,023,035,463)</u>
	<u>7,376,796,650</u>	<u>7,385,095,766</u>
Repayable on demand	1,615,518,466	1,618,384,598
Within one year	1,915,754,090	1,917,791,034
One to five years	3,042,190,939	3,045,069,768
Over 5 years	<u>803,333,155</u>	<u>803,850,366</u>
	<u>7,376,796,650</u>	<u>7,385,095,766</u>
b) Movement in provision for impairment losses		
At 30 June 2005	2,023,035,463	2,028,827,818
Adjustment on opening balance due to currency fluctuation	(447,295)	503,963
Amounts written off during the year	<u>(378,863,115)</u>	<u>(6,296,318)</u>
At 30 June 2006	<u>1,643,725,053</u>	<u>2,023,035,463</u>
c) Type of loans and advances		
Agriculture	1,586,404,250	1,023,241,969
Manufacturing	1,329,593,215	1,233,262,574
Domestic trade and services	3,164,123,806	3,664,803,134
Foreign trade	2,444,074,489	2,891,942,818
Building and construction	449,172,956	550,636,432
Personal loans	<u>47,152,987</u>	<u>44,244,302</u>
	<u>9,020,521,703</u>	<u>9,408,131,229</u>



8. LOANS AND ADVANCES TO CUSTOMERS (continued)

d) 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 2006 such interest amounted to Birr 2,011,054,753 (2005 : Birr 2,598,688,234).

9. INVESTMENT IN SUBSIDIARY

		Birr	2005 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

		Birr	2005 Birr
a) Group			
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 undertaking 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.



10. INVESTMENT IN ASSOCIATES (continued)

		<u>Birr</u>	<u>2005 Birr</u>
b) Company			
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 interest in the above undertaking is carried at cost. The associates are incorporated in Ethiopia.

11. INVESTMENTS

	<u>Birr</u>	<u>2005 Birr</u>
Group and Company		
Unquoted equity investments		
African Export Import Bank	2,438,000	2,438,000
Development Bank of Djibouti	-	804,800
Gelately Hankey and Company	85,937	85,937
SWIFT Company	<u>244,114</u>	<u>170,871</u>
	2,768,051	3,499,608
Less: Provision for impairment	<u>-</u>	<u>774,400</u>
	<u>2,768,051</u>	<u>2,725,208</u>



12. OTHER ASSETS

	Birr	2005 Birr
Group		
Balance due from Commercial Bank of Eritrea	1,115,206,073	1,115,206,073
Uncleared effects	620,070,720	435,091,002
Interest receivable	48,958,904	20,115,068
Acquired properties	261,181,899	285,734,772
Stationery and other supplies	20,865,731	21,060,064
Staff imprests and prepayments	11,562,048	7,444,016
Other receivables	<u>155,837,844</u>	<u>434,464,116</u>
	2,233,683,219	2,319,115,111
Less: Provision for doubtful debts	<u>43,144,012</u>	<u>26,748,087</u>
	<u>2,190,539,207</u>	<u>2,292,367,024</u>
Company		
Balance due from Commercial Bank of Eritrea		
Uncleared effects	1,115,206,073	1,115,206,073
Interest receivable	620,070,720	435,091,002
Acquired properties	48,958,904	20,115,068
Stationery and other supplies	261,181,899	285,734,772
Staff imprests and prepayments	20,833,381	21,029,650
Other receivables	<u>11,334,846</u>	<u>7,309,251</u>
	<u>151,954,266</u>	<u>431,547,532</u>
	2,229,540,089	2,316,033,348
Less: Provision for doubtful debts	<u>43,144,012</u>	<u>26,748,087</u>
	<u>2,186,396,077</u>	<u>2,289,285,261</u>

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

	<u>Balance at</u> <u>30 June 2005</u> <u>Birr</u>	<u>Additions</u> <u>Birr</u>	<u>Transfers/</u> <u>Adjustments</u> <u>Birr</u>	<u>Balance at</u> <u>30 June 2006</u> <u>Birr</u>
<u>Group</u>				
COST				
Buildings	249,899,491	17,449	338,029	250,254,969
Motor vehicles	76,915,389	3,398,486	(264,025)	80,049,850
Computers and accessories	67,574,833	5,121,535	(18,827)	72,677,541
Fixtures, fittings & equipment	108,323,230	6,718,909	(3,662,501)	111,379,638
Work in progress	<u>16,993,750</u>	<u>9,855,579</u>	<u>(425,436)</u>	<u>26,423,893</u>
	<u>519,706,693</u>	<u>25,111,958</u>	<u>(4,032,760)</u>	<u>540,785,891</u>
DEPRECIATION				
Buildings	121,046,550	10,707,030	-	131,753,580
Motor vehicles	65,606,006	3,842,914	(264,020)	69,184,900
Computers and accessories	33,975,471	1,724,664	(2,713)	35,697,422
Fixtures, fittings & equipment	<u>66,376,471</u>	<u>12,409,255</u>	<u>(3,361,987)</u>	<u>75,423,739</u>
	<u>287,004,498</u>	<u>28,683,863</u>	<u>(3,628,720)</u>	<u>312,059,641</u>
NET BOOK VALUE	<u>232,702,195</u>			<u>228,726,250</u>
<u>Company</u>				
COST				
Buildings	249,899,491	17,449	338,029	250,254,969
Motor vehicles	76,486,457	3,398,486	(264,025)	79,620,918
Computers and accessories	66,956,020	5,085,186	(18,827)	72,022,379
Fixtures, fittings & equipment	107,752,929	6,671,098	(3,662,501)	110,761,526
Work in progress	<u>16,993,750</u>	<u>9,855,579</u>	<u>(425,436)</u>	<u>26,423,893</u>
	<u>518,088,647</u>	<u>25,027,798</u>	<u>(4,032,760)</u>	<u>539,083,685</u>
DEPRECIATION				
Buildings	121,046,550	10,707,030	-	131,753,580
Motor vehicles	65,316,571	3,815,600	(264,020)	68,868,151
Computers and accessories	33,702,118	1,667,157	(2,713)	35,366,562
Fixtures, fittings & equipment	<u>66,099,942</u>	<u>12,360,554</u>	<u>(3,361,987)</u>	<u>75,098,509</u>
	<u>286,165,181</u>	<u>28,550,341</u>	<u>(3,628,720)</u>	<u>311,086,802</u>
NET BOOK VALUE	<u>231,923,466</u>			<u>227,996,883</u>



14. DEPOSITS DUE TO OTHER BANKS

	<u>Birr</u>	<u>2005</u> <u>Birr</u>
Group and Company		
Payable within 90 days	<u>158,972,432</u>	<u>433,315,004</u>

15. CUSTOMERS' DEPOSITS

	<u>Birr</u>	<u>2005</u> <u>Birr</u>
Group		
Payable on demand		
Private sector and retail customers	4,969,095,551	4,607,938,515
Local and central Government	6,403,764,807	4,928,046,504
Public enterprises and agencies	<u>4,417,301,420</u>	<u>4,344,882,291</u>
	<u>15,790,161,778</u>	<u>13,880,867,310</u>
Savings deposits		
Private sector and retail customers	11,519,850,406	10,343,505,097
Public enterprises and agencies	<u>350,220,802</u>	<u>309,432,897</u>
	<u>11,870,071,208</u>	<u>10,652,937,994</u>
Term deposits		
Private sector and retail customers	154,216,236	203,323,578
Public enterprises and agencies	<u>169,354,280</u>	<u>209,175,831</u>
	<u>323,570,516</u>	<u>412,499,409</u>
	<u>27,983,803,502</u>	<u>24,946,304,713</u>



15. CUSTOMERS' DEPOSITS (continued)

	<u>Birr</u>	<u>2005</u> <u>Birr</u>
Company		
Payable on demand		
Private sector and retail customers	4,969,095,551	4,607,938,514
Local and central Government	6,403,764,807	4,928,046,504
Public enterprises and agencies	<u>4,422,977,114</u>	<u>4,349,832,561</u>
	<u>15,795,837,472</u>	<u>13,885,817,579</u>
Savings deposits		
Private sector and retail customers	11,519,850,406	10,343,505,097
Public enterprises and agencies	<u>350,220,802</u>	<u>309,432,897</u>
	<u>11,870,071,208</u>	<u>10,652,937,994</u>
Term deposits		
Private sector and retail customers	154,216,236	203,323,578
Public enterprises and agencies	<u>169,354,280</u>	<u>209,175,831</u>
	<u>323,570,516</u>	<u>412,499,409</u>
	<u>27,989,479,196</u>	<u>24,951,254,982</u>



16. INCOME TAX

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

	<u>Tax on rental income Birr</u>	<u>Tax on Other operations Birr</u>	<u>Total Birr</u>
Group			
Balance as at 30 June 2005	-	209,957,959	209,957,959
Add: Tax expense of current year	<u>474,186</u>	<u>301,019,886</u>	<u>301,494,072</u>
	<u>474,186</u>	<u>510,977,845</u>	<u>511,452,031</u>
Less: Payments made during the year:			
- Direct payments	-	209,966,066	209,966,066
- Withholding tax	<u>-</u>	<u>2,301</u>	<u>2,301</u>
	<u>-</u>	<u>209,968,367</u>	<u>209,968,367</u>
	<u>474,186</u>	<u>301,009,478</u>	<u>301,483,664</u>
Company			
Balance at 30 June 2005	-	209,480,264	209,480,264
Add: Tax expense of current year (note 16(iii))	<u>474,186</u>	<u>300,457,021</u>	<u>300,931,207</u>
	<u>474,186</u>	<u>509,937,285</u>	<u>510,411,471</u>
Less: Payments made during the year:			
- Direct payments	<u>-</u>	<u>209,480,264</u>	<u>209,480,264</u>
	<u>474,186</u>	<u>300,457,021</u>	<u>300,931,207</u>

- ii) In determining the taxable profit for the year, the provisions for impairment losses on sundry debtors and acquired properties amounting to Birr 22,415,338 and Birr 3,222,724 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.



16. INCOME TAX (continued)

	<u>Birr</u>	<u>Birr</u>
Rental income		2,081,116
Expenses		
Depreciation	467,355	
Insurance	21,176	
Land and building tax	<u>11,965</u>	
		<u>500,496</u>
		1,580,620
		<u>x30%</u>
Tax expense (note 16(i))		<u>474,186</u>

17. STATE DIVIDEND PAYABLE

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

	<u>Birr</u>	<u>2005 Birr</u>
Balance as at 30 June 2005	217,488,471	-
Current year appropriation	712,128,057	520,179,994
Less: Recoup of bond receivable (50% of Birr 392,000,000)	<u>-</u>	<u>(196,000,000)</u>
	929,616,528	324,179,994
Offset against state dividend receivable	<u>-</u>	<u>(106,691,523)</u>
	<u>929,616,528</u>	<u>217,488,471</u>

- b) The appropriation for the year represents the whole of the net profit after taxation and transfer to legal reserve. There is uncertainty as to whether or not the Bank is liable to pay state dividend to the extent of the above amount and the matter is yet to be resolved with the Financial Public Enterprises Agency. Nevertheless, Management opted to book the year's appropriation as a current liability.



18. OTHER LIABILITIES

	Birr	2005 Birr
Group		
Margin accounts and deposits for guarantees	1,742,992,580	2,465,255,657
Interbranch clearing	2,220,427,095	2,013,771,986
Bills payable	196,068,912	230,037,518
Blocked accounts	112,594,775	37,074,639
Exchange commission payable to National Bank of Ethiopia	134,213,244	74,914,802
Accrued leave pay	21,692,601	19,760,864
IFAD Loan	189,729	189,729
Foreign borrowing	43,908,999	218,820,000
Provision for Djibouti branch	57,393,338	57,393,338
Taxes payable	7,590,005	3,951,409
Pension contribution payable	2,127,950	778,655
Miscellaneous payables and accruals	<u>399,512,370</u>	<u>809,555,927</u>
	<u>4,938,711,598</u>	<u>5,931,504,524</u>
Company		
Margin accounts and deposits for guarantees	1,742,992,580	2,465,255,657
Interbranch accounts	2,220,427,095	2,013,771,986
Bills payable	196,068,912	230,037,518
Blocked accounts	112,594,775	37,074,639
Exchange commission payable to National Bank of Ethiopia	134,213,244	74,914,802
Accrued leave pay	21,692,601	19,760,864
IFAD Loan	189,729	189,729
Foreign borrowing	43,908,999	218,820,000
Provision for Djibouti branch	57,393,338	57,393,338
Taxes payable	7,521,238	3,897,436
Pension contribution payable	2,127,950	773,611
Miscellaneous payables and accruals	<u>398,685,511</u>	<u>809,028,011</u>
	<u>4,937,815,972</u>	<u>5,930,917,591</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 specified projects. The balance above represents amounts due to the government under this sub-agreement.



19. CAPITAL

	<u>Birr</u>	<u>2005</u> <u>Birr</u>
Group and company		
Assigned capital	<u>619,739,668</u>	<u>619,739,668</u>

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

	<u>Group</u> <u>Birr</u>	<u>Company</u> <u>Birr</u>
Balance at 30 June 2005	678,112,472	677,502,959
Appropriation for the year	<u>79,188,450</u>	<u>79,125,340</u>
	<u>757,300,922</u>	<u>756,628,299</u>

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

	<u>Birr</u>	<u>2005</u> <u>Birr</u>
Difference in tax base of property and equipment and their value for accounting purposes:-		
Group	<u>5,505,178</u>	<u>3,997,817</u>
Company	<u>5,448,281</u>	<u>3,945,960</u>



22. INTEREST INCOME

	<u>Birr</u>	<u>2005 Birr</u>
Loans and advances	577,134,848	499,338,429
Government bonds	56,060,642	31,563,864
Treasury bills	2,432,475	36,219,248
Placements with other banks	30,696,660	21,251,135
Coupon and term bonds	<u>160,439,503</u>	<u>57,382,300</u>
	<u>826,764,128</u>	<u>645,754,976</u>

23. INTEREST EXPENSE

	<u>Birr</u>	<u>2005 Birr</u>
Customers' deposits	329,771,546	291,142,680
Deposits from other banks	965	1,215
Other	<u>9,233</u>	<u>159,507</u>
	<u>329,781,744</u>	<u>291,303,402</u>

24. NON INTEREST INCOME

	<u>Birr</u>	<u>2005 Birr</u>
Write back of creditors accounts	153,756,701	8,285,904
Commission income	180,859,077	171,855,812
Service and transaction fees	245,810,387	211,490,203
Gains less losses arising from dealing in foreign currencies	329,358,687	310,775,003
Rental income	8,729,337	9,040,061
Dividend income	229,589	2,135,001
Collection from provision held	1,130,241	2,686,352
Gain on disposal of property and equipment	-	4,611,420
Other income	<u>49,514,659</u>	<u>22,822,990</u>
	<u>969,388,678</u>	<u>743,702,746</u>



25. NON INTEREST EXPENSES

	<u>Birr</u>	<u>2005</u> <u>Birr</u>
Salaries and employee benefits	192,137,187	185,722,120
Depreciation	28,683,863	31,207,122
Postage and telecommunication	14,604,456	14,381,496
Occupancy expenses	10,723,804	11,296,885
Stationery and office supplies	9,011,341	8,586,320
Travel costs	4,993,731	4,435,668
Service charge	3,913,418	3,396,959
Advertising and publicity	3,149,293	2,807,114
Motor vehicle running costs	6,032,254	5,465,591
Legal and consultancy fees	15,007,426	15,481,084
Repairs and maintenance	2,154,502	2,149,866
Insurance	3,505,525	1,697,405
Water and electricity	2,163,471	1,961,941
Board fees	88,000	93,015
Audit fee	6,000	6,000
Direct write off of sundry debtors	2,506,056	-
Land and building tax	829,773	861,764
Electronic data processing	156,520	291,763
Impairment loss on government bond	26,560,363	-
Service charge for bank guarantee	332,431	-
Other expenses	<u>18,567,721</u>	<u>16,918,097</u>
	<u>345,127,135</u>	<u>306,760,210</u>

The average number of employees during the year was:

	<u>Birr</u>	<u>2005</u> <u>Birr</u>
Management	747	351
Unionisable	<u>6,627</u>	<u>6,787</u>
	<u>7,374</u>	<u>7,138</u>

Included in other expenses are contributions to the provident fund for employees. During the year, the Group and Company expensed Birr 7,610,601 in contributions payable (2005 - Birr 7,218,265).



26. TAX EXPENSE

a) MAJOR COMPONENTS OF TAX EXPENSE

	Birr	2005 Birr
Current tax expense	301,494,072	209,092,167
Deferred tax expense relating to the origination and reversal of temporary differences	<u>1,507,361</u>	<u>583,405</u>
Tax expense	<u>303,001,433</u>	<u>209,675,572</u>

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

	Birr	2005 Birr
Accounting profit	<u>1,095,605,865</u>	<u>788,933,880</u>
Tax at the applicable rate of 30%	328,681,759	236,680,164
Add: Tax effect of tax disallowed expense		
- Entertainment	<u>135,819</u>	<u>136,070</u>
	328,817,578	<u>236,816,234</u>
Less: Tax effect of tax exempted income:		
- Interest income	26,756,933	26,710,274
- Dividend income	68,877	640,500
- Collection from provision held	<u>339,072</u>	<u>805,906</u>
	<u>27,164,882</u>	<u>28,156,680</u>
	301,652,696	208,659,554
Add: 5% tax on interest income of foreign deposits	<u>1,348,737</u>	<u>1,016,018</u>
	<u>303,001,433</u>	<u>209,675,572</u>



27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	<u>Birr</u>	<u>Birr</u>	<u>2005</u> <u>Birr</u>
Profit before taxation	1,095,605,865		788,933,880
Prior year adjustment	-		2,944,054
Dividend received	(229,589)		(2,135,001)
Gain on disposal of property and equipment	-		(4,611,420)
Depreciation	28,683,863		31,207,122
Adjustment to fixed assets	<u>404,040</u>		<u>456,226</u>
		1,124,464,179	<u>816,794,861</u>
Decrease/(Increase) in operating assets			
Treasury bills more than 90 days	(369,990,904)		(13,950,874)
Government bonds	83,460,398		144,507,703
Coupon bonds with DBE	(307,471,188)		(460,119,497)
Term bonds with EEPCO and ETC	(1,000,000,000)		77,299,955
Loans and advances to banks	66,758,300		(2,600,000,000)
Loans and advances to customers	8,299,116		(1,502,591,855)
Other assets	101,827,817		(540,800,786)
Cash held with NBE - cash reserve	<u>(122,182,073)</u>		<u>(129,553,619)</u>
		(1,539,298,534)	<u>(5,025,208,973)</u>
Increase (decrease) in operating liabilities			
Customers' deposits	3,037,498,789		3,073,277,404
Other liabilities	<u>(992,792,926)</u>		<u>2,033,409,205</u>
		2,044,705,863	<u>5,106,686,609</u>
Taxation paid		<u>(209,968,367)</u>	<u>(85,157,856)</u>
Cash flow from operating activities		<u>1,419,903,141</u>	<u>813,114,641</u>



27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

b) Analysis of cash and cash equivalents

	<u>2006</u> <u>Birr</u>	<u>2005</u> <u>Birr</u>	<u>Change</u> <u>Birr</u>	<u>2005</u> <u>Change</u> <u>Birr</u>
Cash in hand	572,886,785	665,785,089	(92,898,304)	259,646,765
Investment in treasury bills	9,373,409,941	3,938,757,050	5,434,652,891	(5,592,893,316)
Balances with National Bank of Ethiopia	5,192,524,725	9,961,736,725	(4,769,212,000)	7,240,212,427
Placements with other banks	1,395,227,156	847,134,386	548,092,770	(1,242,664,407)
Deposits due to other banks	<u>(158,972,432)</u>	<u>433,315,004</u>	<u>274,342,572</u>	<u>132,790,395</u>
	<u>16,375,076,175</u>	<u>14,980,098,246</u>	<u>1,394,977,929</u>	<u>797,091,864</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>2005</u> <u>Birr</u>
Letters of credit and acceptances	2,779,968,981	3,362,958,033
Guarantees and performance bonds	<u>5,041,985,185</u>	<u>3,507,850,241</u>
	<u>7,821,954,166</u>	<u>6,870,808,274</u>



28. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS (continued)

Nature of contingent liabilities

Letters of credit commit the Bank to make payment to third parties, on production of documents, which are subsequently reimbursed by 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 2006 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:

Group

Cash held on behalf of National Bank of Ethiopia	2,063,600,737	3,180,238,468
Trust Funds	<u>58,121,164</u>	<u>111,289,946</u>

	<u>2,121,721,901</u>	<u>3,291,528,414</u>
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Company

Cash held on behalf of National Bank of Ethiopia	2,063,600,737	3,180,238,468
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Trust Funds	<u>17,388,845</u>	<u>22,462,793</u>
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	<u>2,080,989,582</u>	<u>3,202,701,261</u>
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30. TRUST FUNDS (continued)

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 47,152,987 (2005 - Birr 43,974,252) 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 34,833 (2005 - Birr 102,545). All transactions with related parties are at arm's length.
- iii) Dividend income received from a Company through shareholding during the year is Birr 229,589.

32. STAFF COSTS

During the year, staff costs for the group and company amounted to Birr 202,848,808 (2005 - Birr 194,160,448) and are included in the various major expense categories.

33. PERFORMANCE INDICATORS

The capital adequacy ratio as at 30 June 2006 revealed a percentage of 10.63% 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 28% in the preceding year to 22.5% in the current year.



34. MATURITIES OF ASSETS AND LIABILITIES - LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 30 June 2006 to the contractual maturity date:

	<u>On demand</u> <u>Birr</u>	<u>Due within 3 months</u> <u>Birr</u>	<u>Due between 3 and 12 months</u> <u>Birr</u>	<u>Due between 1 and 5 years</u> <u>Birr</u>	<u>Due after 5 years</u> <u>Birr</u>	<u>Total</u> <u>Birr</u>
Assets						
Cash and balances with NBE	5,765,411,510	-	-	-	1,464,060,496	7,229,472,006
Investment in Government securities	147,425,176	8,685,584,941	1,768,725,676	721,630,008	1,265,631,137	12,588,996,938
Coupon bonds with DBE	-	16,346,849	5,886,693	-	910,357,143	932,590,685
Term bonds with EEPKO and ETC	-	-	-	3,600,000,000	-	3,600,000,000
Placements with other banks	-	1,395,227,156	-	-	-	1,395,227,156
Loans and advances to banks	-	-	55,965,014	218,442,551	6,586,132	280,993,697
Loans and advances to customers	1,675,410,090	842,902,816	1,529,521,849	2,353,661,695	975,300,200	7,376,796,650
Investment in associates	-	-	-	-	2,905,058	2,905,058
Other investments	-	-	-	-	2,768,051	2,768,051
Other assets	-	620,070,720	20,865,731	1,549,602,756	-	2,190,539,207
Property and equipment	-	-	-	-	228,726,250	228,726,250
Total assets	7,588,246,776	11,560,132,482	3,380,964,963	8,443,337,010	4,856,334,467	35,829,015,698
Liabilities						
Deposits due to other banks	-	158,972,432	-	-	-	158,972,432
Customers' deposits	15,790,161,778	11,870,071,208	323,570,516	-	-	27,983,803,502
Taxation	-	301,483,664	-	-	-	301,483,664
State dividend payable	-	929,616,528	-	-	-	929,616,528
Other liabilities	-	2,504,197,660	2,333,147,273	57,393,338	43,973,327	4,938,711,598
Total liabilities	15,790,161,778	15,764,341,492	2,656,717,789	57,393,338	43,973,327	34,312,587,724
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
Net liquidity gap as at 30 June 2005	(863,960,401)	(10,454,942,519)	884,722,982	8,085,765,049	3,782,859,127	1,434,444,238

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 between					Non interest bearing	Total	
			Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years				
Assets										
Cash and balances with NBE	-	-	-	-	-	-	-	7,229,472,006	-	7,229,472,006
Investments in Government securities	1%	147,425,176	8,685,584,941	1,768,725,676	721,630,008	1,265,631,137	-	-	-	12,588,996,938
Coupon bonds with DBE	4%	-	16,346,849	5,886,693	-	910,357,143	-	-	-	932,590,685
Term bonds with EEPCO and ETC	4%	-	-	-	3,600,000,000	-	-	-	-	3,600,000,000
Placements with other banks	2.5%	-	1,395,227,156	-	-	-	-	-	-	1,395,227,156
Loans and advances to banks	4.9%	-	-	55,965,014	218,442,551	6,586,132	-	-	-	280,993,697
Loans and advances to customers	6.5%	1,675,410,090	842,902,816	1,529,521,849	2,353,661,695	975,300,200	-	-	-	7,376,796,650
Investment in associates	-	-	-	-	-	-	-	2,905,058	-	2,905,058
Other investments	1.8%	-	-	-	-	-	-	2,768,051	-	2,768,051
Other assets	-	-	-	-	-	-	-	2,190,539,207	-	2,190,539,207
Property and equipment	-	-	-	-	-	-	-	228,726,250	-	228,726,250
Total assets			1,822,835,266	10,940,061,762	3,360,099,232	6,893,734,254	3,157,874,612	9,654,410,572	-	35,829,015,698
Liabilities										
Deposits due to other banks	-	-	158,972,432	-	-	-	-	-	-	158,972,432
Customers' deposits	1.2%	27,660,232,986	-	323,570,516	-	-	-	-	-	27,983,803,502
Taxation	-	-	-	-	-	-	-	301,483,664	-	301,483,664
State dividend payable	-	-	-	-	-	-	-	929,616,528	-	929,616,528
Other liabilities	-	-	-	-	-	-	-	4,938,711,598	-	4,938,711,598
Total liabilities			27,660,232,986	158,972,432	323,570,516	-	-	6,169,811,790	-	34,312,587,724
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
On balance sheet interest sensitivity gap at 30 June 2005			(22,216,904,151)	3,580,790,340	3,130,760,300	6,283,009,439	2,515,639,542	8,141,148,768	-	1,434,444,238



36. FOREIGN CURRENCY RISK

The table below analyses the currencies to which the group is exposed at 30 June 2006.

At 30 June 2006	<u>USD</u> Birr	<u>GBP</u> Birr	<u>EURO</u> Birr	<u>OTHER</u> Birr	<u>TOTAL</u> Birr
Assets					
Cash and balances with					
National Bank of Ethiopia	47,321,197	4,158,903	20,213,970	1,129,006	72,823,076
Investment in Government securities	-	-	-	-	-
Coupon bonds with DBE	-	-	-	-	-
Term bonds with EEPKO and ETC	-	-	-	-	-
Placements with other banks	959,673,561	11,437,617	89,001,346	99,049,580	1,159,162,104
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers (net)	-	-	-	-	-
Investment in associates	-	-	-	-	-
Other investments	-	-	-	-	-
Other assets	291,035,530	124,211	120,930	61,600	291,342,271
Property and equipment	-	-	-	-	-
Total foreign currency assets	1,298,030,288	15,720,731	109,336,246	100,240,186	1,523,327,451
Liabilities					
Deposits due to other banks	52,988,835	47,921	351,817	-	53,388,573
Customers' deposits	896,356,206	3,793,085	86,824,784	30,835	987,004,910
Taxation	-	-	-	-	-
State dividend payments	-	-	-	-	-
Other liabilities	134,556,792	-	-	-	134,556,792

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)
As at 30 June 2005					
Total foreign currency assets	722,328,601	66,377,481	267,217,475	119,018,604	1,174,942,161
Total foreign currency liabilities	447,282,837	5,035,909	151,875,528	28,838	604,223,112
Off balance sheet net notional position	1,323,875,199	30,542,872	915,103,591	103,093,502	2,372,615,164
Foreign currency exposure at 30 June 2005	(1,048,829,435)	30,798,700	(799,761,644)	15,896,264	(1,801,896,115)



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 the 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 reprice 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 Group's 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 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 non-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 2006.
- b) The Bank is defendant for a total amount of about Birr 13.7 million in respect of legal actions brought by different organizations and individuals which are contested by the Bank.
- c) The Bank is also co-defendant in a legal case in which some Eritrean nationals have instituted a class action in the US Court against the Federal Government of Ethiopia and the Bank for damages arising from alleged confiscation of private property following the Ethio - Eritrean conflict.



39. CAPITAL COMMITMENTS

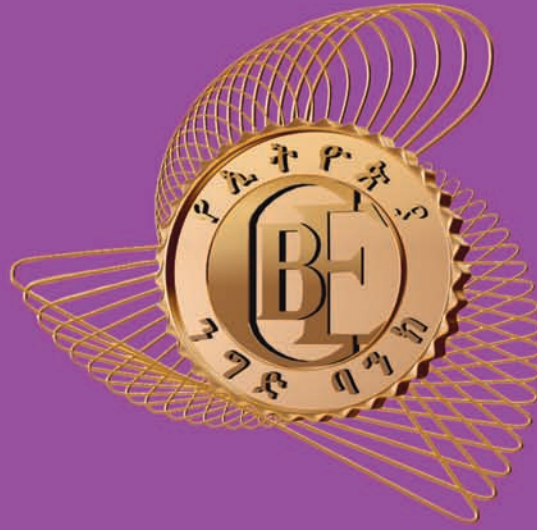
	<u>Birr</u>	<u>2005</u> <u>Birr</u>
Group and company		
Authorised and contracted for	<u>31,415,762</u>	<u>38,062,067</u>

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 184 branches in various parts of the country.

41. AUTHORIZATION

The President of the Bank authorized the issue of these financial statements on 26 March 2007.



Commercial Bank of Ethiopia

***RELIABLE AND
COMMITTED TO
MEETING YOUR NEEDS***



Commercial Bank of Ethiopia

*RAIN OR SHINE,
THE CBE IS THE BANK
TO DO BUSINESS WITH*

Commercial Bank of Ethiopia Branch Network Distribution

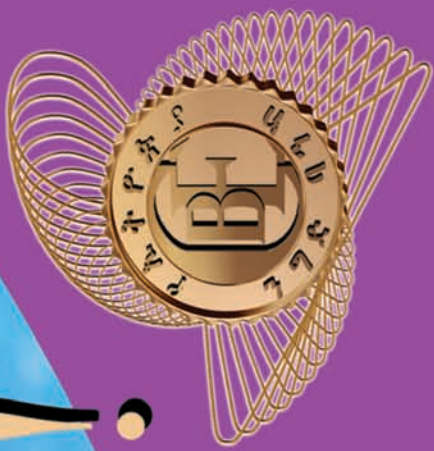


Branches to be opened in fiscal year 2006/07

Gerji	Lafto
Gurd Shola	Sheger
Gotera	China-Africa Square
Cargo Terminal	Seqota
Worabie	Dukem
Romanat	Sofoumer
Lalibela	Urael
Dawro	Kemisie
Kotebie	Habte Giorgis
Ginchi	Reppi



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