

KENDIL MICROFINANCE INSTITUTION S.C

INDEPENDENT AUDITORS' REPORT AND ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2022

ተስፋዬ ተፈሪ አንበሴ
የተመሰከረለት አዲት ድርጅት
Tesfaye Teferi Anbessie,
Authorized Audit Firm
ቻርተርድ ሠርተፋይድ አካውንታንታስ

Chartered Certified Accountants

P O Box 102297

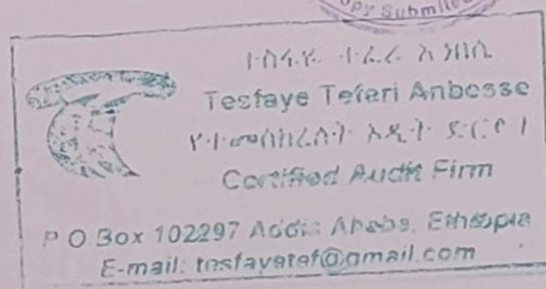
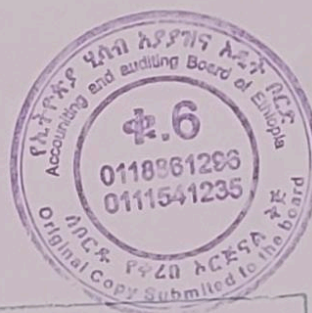
E-mail: tesfayetef@gmail.com or teferi@ethionet.et

Tele: 0114700280; Mobile: 0911219104

4ኛ ፎቅ ፣ ጥበቡ ሕንጻ፣ ድሪም ላይነር ሆቴል ፊት ለፊት፣ መስቀል ፍላጎር፣ አዲስአበባ፣ ኢትዮጵያ
4th Floor, Tibebu Building in front of Dream liner Hotel, Mesquel Flower, Addis Ababa, Ethiopia

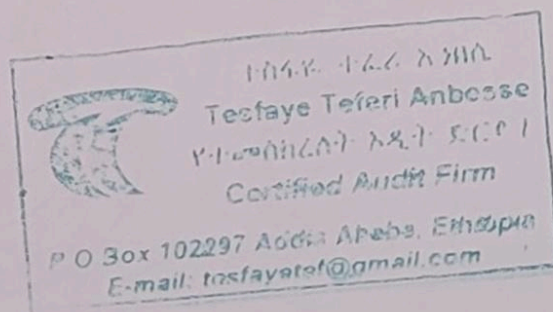
Contents

1. Management and Registered office	2
2. Statement of Management Responsibility	3
3. Independent Auditors' Report	4
4. Statement of Profit or Loss and Other Comprehensive Income	6
5. Statement of Financial Position	7
6. Statement of Changes in Equity	8
7. Statement of Cash Flow	9
8. Notes to the Financial Statements	10



1. Management and Registered office

CORPORATE INFORMATION		
Company TIN Number		
Management	Name	Position
	Ato Abraham Anbesa	General manager
	Ato Kibrom Kiros	Finance manager
Registered Office	Address: Shashemene, Oromiya Kebele 03 P O Box 617 Shashemene Ethiopia	
	Website: Email: seyamfi@yahoo.com	
Independent Auditor	Tesfaye Teferi Anbesse Chartered Certified Auditors P O Box 102297 Email: tefayetef@gmail.com Address: Tibebeu Building in front of Dreamliner Hotel, Meskel Flower, Addis Ababa Ethiopia	





የተመሰከረለት ኦዲት ድርጅት

ተስፋዬ ተፈሪ አንበሴ

Tesfaye Teferi Anbesse

ቻርተርድ ሰርቲፊይድ አካውንታንታንትስ

Chartered Certified Accountants (UK)

Mob. 251-091-121 91 04 Tel. 011-467 20 30/18 99 Fax, 011-467 19 62

102297 Addis Ababa, Ethiopia

E-mail: teferi@ethionet.et/ tesfayetef@gmail.com

Certified Audit Firm

3. Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KENDIL MICRO FINANCE INSTITUTION S.C

Opinion

We have audited the accompanying financial statements of Kendil Micro Finance Institution S.C ('the Company'), which comprise the statement of financial position as at June 30, 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements presents fairly, in all material respects, the financial position as at June 30, 2022 and the income and expenses of the Company for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and applied consistently.

Basis of opinion

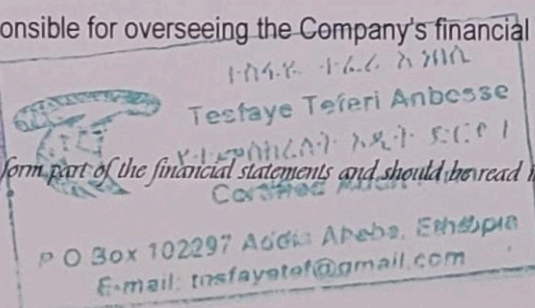
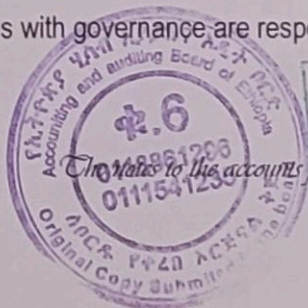
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with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

Responsibilities of Directors and those charged with governance for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting policies adopted by the Company, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charges with governance are responsible for overseeing the Company's financial reporting process.



The notes to the accounts form part of the financial statements and should be read in conjunction.



ተስፋይ ተፈሪ አንበሴ

Tesfaye Teferi Anbesse

ቻርተርድ ሠርተፋይድ አካውንታንትስ

Chartered Certified Accountants (UK)

Mob. 251-091-121 91 04 Tel. 011-467 20 30/18 99 Fax 011-467 19 62

102297 Addis Ababa, Ethiopia

E-mail: teferi@ethionet.et/ tesfayetef@gmail.com

Certified Audit Firm

የተመሰከረለት አዲት ድርጅት

Auditor's Responsibilities for the Audit of the Financial Statements

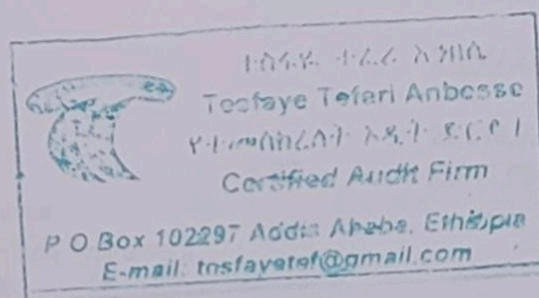
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is high level of assurance, but is not a guarantee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

Report on the Other Legal Requirements

Pursuant to the legal requirement under of the Commercial Code of Ethiopia 2021, we have no deficiencies to report as a result of our examination whether the report of the Directors, to the extent we can assess, is consistent with the financial statements we audited. We therefore recommend approval of the accounts.

Tesfaye Teferi Anbesse
Certified Audit Firm

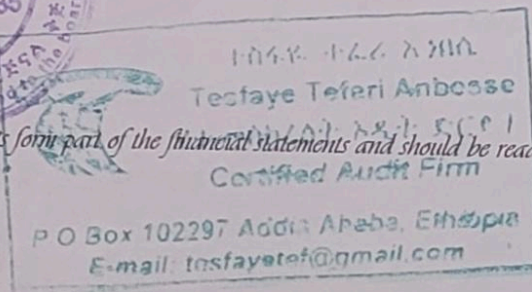
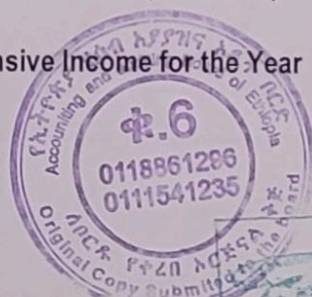
September 6, 2022
Addis Ababa



4. Statement of Profit or Loss and Other Comprehensive Income

KENDIL MICROFINANCE INSTITUTION S.C
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	<u>Notes</u>	<u>ETB</u>	<u>2021</u> <u>ETB</u>
INCOME			
From operation			
Interest from loans	14, 33	34,138,109	23,404,124
Service charges on loans	14	7,094,687	4,617,595
Penalty income from clients	14	1,449,271	779,193
Interest from bank savings		179,813	-
Other Income	34	<u>1,336,338</u>	<u>502,404</u>
TOTAL INCOME		<u>44,198,218</u>	<u>29,303,316</u>
EXPENSES			
Interest on clients saving	35	3,484,971	2,236,492
Depreciation Expense		790,175	619,379
loan loss provision		1,598,383	495,219
General and administrative	4, 36	15,235,960	10,547,325
Board meeting fees		84,800	70,100
Stamp duty expense		140,000	-
Audit fees		<u>253,000</u>	<u>93,000</u>
TOTAL EXPENSE		<u>21,587,289</u>	<u>14,061,515</u>
Net profit from operation		22,610,929	15,241,800
Finance cost	5, 37	(6,941,654)	(3,780,813)
Other Comprehensive income		-	-
Movement in Fair Value of Equity Instrument		-	-
Revaluation Surplus (Deficit)		-	-
Tax on Comprehensive Income		-	-
Other Comprehensive Income (Net of Tax)		-	-
Total Comprehensive Income for the Year		<u>15,669,275</u>	<u>11,460,987</u>



The notes to the accounts form part of the financial statements and should be read in conjunction.

5. Statement of Financial Position

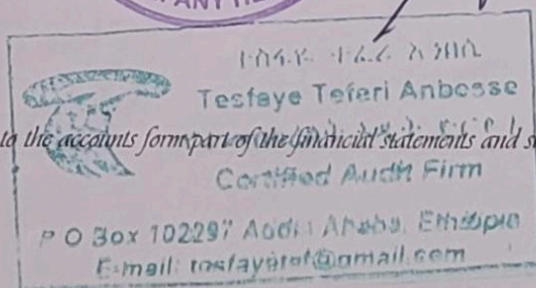
KENDIL MICROFINANCE INSTITUTION S.C
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2022

	Notes	ETB	2021 ETB
ASSETS			
Cash and Cash Equivalents	13, 38	28,365,141	11,976,638
Loans and Advances- customers	11, 19, 39	164,509,728	114,621,981
Interest Receivable		2,766,307	995,229
Debtors	12, 40	7,270,747	2,547,211
Investment Securities	41	1,968,000	910,000
Building in Progress – A.A		17,850,000	
Property and Equipment	7, 42	15,241,239	15,805,162
Total Assets		237,971,162	146,856,221
Liabilities			
Deposit from customers	43	54,331,586	38,796,786
Accrued Interest payable		4,453,383	2,218,457
Creditors	44	10,389,212	6,733,649
Current maturity of long term loan	45	11,196,785	8,111,247
Long term borrowing	45	99,072,231	36,670,955
Total Liabilities		179,443,197	92,531,094
Capital and Reserves			
Paid up Capital	22,46	30,604,000	12,241,600
Treasury Stock	47	(888,864)	(888,864)
Retained Earning	48	18,296,536	33,175,312
IFRS revaluation Reserve	49	5,561,817	5,561,817
Legal Reserve	50	2,313,156	1,529,692
Donation capital	51	2,641,320	2,705,570
Total Capital and Reserves		58,527,965	54,325,127
Total Liabilities and Capital		237,971,162	146,856,221



Abraham Anbesa
General Manager

Kibrom Kiros
Finance Manager

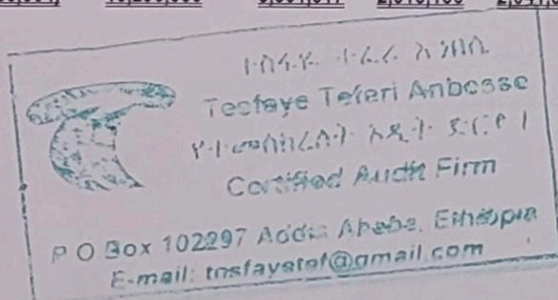


The notes to the accounts form part of the financial statements and should be read in conjunction.

6. Statement of Changes in Equity

KENDIL MICRO FINANCE INSTITUTION S.C
STATEMENT OF CHANGES IN EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Paid Up Capital Birr	Treasury Stock Birr	Retained Earnings Birr	Revaluation Reserve Birr	Legal Reserve Birr	Donation capital Birr	Total Birr
Balance at 30, June 2020	12,241,600	(888,864)	22,461,461	5,561,817	956,643	2,776,375	43,109,032
Increase/ decrease in donated Capital	=	=	=	=	=	(70,806)	(70,806)
Profit for the year	-	-	11,460,987	-	-	-	11,460,987
Distributed profit	-	-	(573,049)	-	573,049	-	-
Adjustments	-	-	(174,086)	-	-	-	(174,086)
Balance at 30, June 2021	12,241,600	(888,864)	33,175,312	5,561,817	1,529,692	2,705,570	54,325,127
Balance at 30, June 2021	12,241,600	(888,864)	33,175,312	5,561,817	1,529,692	2,705,570	54,325,127
Increase/ decrease in donated Capital	-	-	-	-	-	(64,250)	(64,250)
Transfer to capital	18,362,400	-	(18,362,400)	-	-	-	-
Distributed Profit	-	-	(11,460,987)	-	-	-	(11,460,987)
Profit for the year	-	-	15,669,275	-	-	-	15,669,275
Legal Reserve	-	-	(783,464)	-	783,464	-	-
Dividend Obtained from ET- inclusive	-	-	57,380	-	-	-	57,380
Adjustments	-	-	1,420	-	-	-	1,420
Balance at 30, June 2022	30,604,000	(888,864)	18,296,536	5,561,817	2,313,156	2,641,320	58,527,965

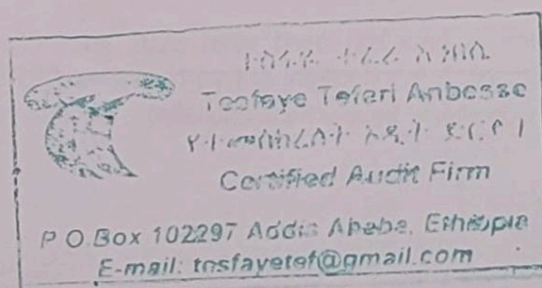
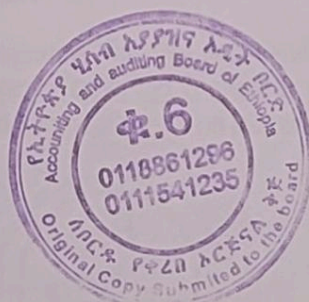


The notes to the accounts form part of the financial statements and should be read in conjunction.

7. Statement of Cash Flow

KENDIL MICROFINANCING INSTITUTION
STATEMENT OF CASH FLOW
AT 30 JUNE 2021

	<u>Birr</u>	<u>30 June 2020</u>
	<u>Birr</u>	<u>Birr</u>
Cash flows from operating activities		
Net profit	15,669,275	11,460,987
Adjustments for non- cash items:		
Depreciation of property, plant and equipment	790,175	619,379
Current Year Adjustment	58,800	(174,086)
Changes in working capital:		
Change in Loans and Advances- customers	(49,887,747)	(47,611,362)
Change in Interest Receivable	(1,771,078)	1,007,730
Change in Debtors	(4,723,536)	(1,065,118)
Change in Deposit from customers	15,534,800	13,794,098
Change in creditors	3,655,563	2,532,444
Change in accrued interest payable	2,234,926	1,145,412
Dividend declared and tax paid	<u>(11,460,987)</u>	=
Net cash inflow from operating activities	<u>(29,899,809)</u>	<u>(18,290,114)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	-707,097	(294,114)
Adjustment to PPE	480,845	-
Purchase of Shares (ETIFT)	(1,058,000)	-
Building in process	<u>(17,850,000)</u>	=
Net cash outflow from investing activities	<u>(19,154,252)</u>	<u>(294,114)</u>
Cash flows from financing activities		
Loan Acquired during the year	65,486,814	(24,457,153)
Increase /decrease in Donation capital	<u>(64,250)</u>	<u>(70,806)</u>
Net cash outflow from financing activities	<u>65,422,564</u>	<u>24,386,347</u>
Net increase (decrease) in cash and cash equivalents	16,388,503	5,801,488
Cash and cash equivalents as at 1 July	<u>11,976,638</u>	<u>6,175,150</u>
Cash and cash equivalents at 30 June 2021	<u>28,365,141</u>	<u>11,976,638</u>



8. Notes to the Financial Statements

KENDIL MICROFINANCING INSTITUTION NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2021

1. General Information

This report contains a set of financial statements for Kendil Microfinance Institution S.C. Company as of and for the year ended 30 June 2022.

Kendil Microfinance Institution S.C is a microfinance institution domiciled in Shashemene, Oromiya Regional State, Ethiopia. The Company was Established on Tir 7, 1993 (January 15, 2001) in accordance with Proclamation No. 40/96.it has been issued With Business License No. MFI 019/01 by the national Company of Ethiopia on February 7, 2001 and renewed up to February 6, 2022. Capital was Increased to birr 1,524,500 divided into 30,718 shares of birr 50 per value each. Furthermore, the capital of the company was raised to Birr 3,060,400 divided into 61,208 shares of birr 50 per value each. On Tahsas 2009 the capital of the company was raised to birr 12,241,600 divided into 244,832 shares of birr 50 par value each. On February 07, 2022 the capital of the Company was raised to Birr 30,604,000 divided into 612,080 shares of Birr 50 par value each.

The objective of the company include receiving, managing, saving and time deposits and provision of credit both in kind and in cash; and other such activities as listed down under article 2 of the Memorandum of Associations.

Vision, Mission and Governance

Vision

The vision of KMFI is to see poverty-eradicated, self-confidential and free from servitude citizen of Ethiopia by responding to the financial needs of economically active poor people through an autonomous micro-finance institution'.

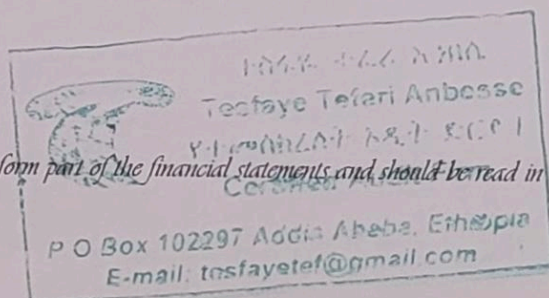
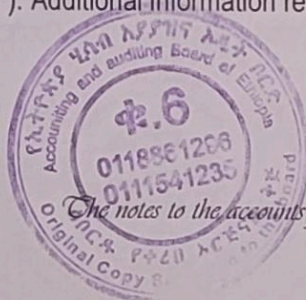
Mission

The mission of KMFI is " Strive to bring positive change in respect of well-being of productive poor and less privileged category of the society specially women who do not have the chance to get access to the provision of appropriate and sustainable financial services and towards this end building a long term sustainable micro financial institution".

Moto of KMFI «Borrow wisely, Pay promptly, save regularly»

2. Basis of Preparation

The financial statements for the year ended 30 June 2022 have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information required by national regulations are included where appropriate.



The notes to the accounts form part of the financial statements and should be read in conjunction.

The financial statements comprise the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

The financial statements are therefore prepared on a going concern basis with the assumption that the Company will operate for at least 12 months from the end of the reporting period. The financial statements have been prepared in accordance with the Accrual Basis of accounting under the historical cost concept. However, property have been revalued for the purpose of obtaining a deemed cost in its opening IFRS statement of Financial position dated 1 July 2017.

The preparation of financial statements in conformity with IFRS requires the application of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Company's accounting policies.

The financial statements are prepared in reference to the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors to enhance the relevance and reliability of the financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note.

While preparing these financial statements, the Management has made an assessment of Company's ability to continue as a going concern. The management is aware of the inexistence any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

3. Summary of Significant Accounting Policies

Below are the significant accounting policies applied by the Company in preparing its first IFRS complied financial statements. The policies have been consistently applied to all the years presented.

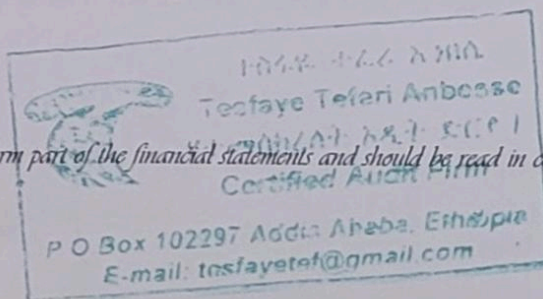
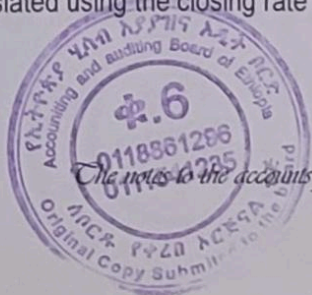
3.1. Foreign Currency Translation

a. Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The functional currency and presentation currency of the Company is the Ethiopian Birr (ETB).

b. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than the Company's functional currency are recognized in profit or loss within other (loss)/income. Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date.



The notes to the accounts form part of the financial statements and should be read in conjunction.

4. Operating Expenses

Operating expenses are recognized in profit or loss upon utilization of the service or as incurred.

5. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

6. Income (Profit) & sales taxes

As per Article 23 of Proclamation No. 626 /2009, Micro-Financing Business Proclamation, any micro-financing institution that makes profit from its business and distributes to shareholders shall pay profit tax as any business entity. However, if it fully ploughs back the profit, it shall not pay profit tax. The Company has distributed profit of 30 June 2021 and hence, profit tax was calculated and paid to the tax office. Likewise, differed tax on timing differences is not also calculated and accounted as the possibility of distributing profit and being subject to profit tax is remote.

As per the Council of Ministers Regulations No. 791/2002, Financial services as defined in the regulations are exempt from tax under Article 8, Sub-Article (2)(b) of the Proclamation, whether provided for explicit or implicit fees. Financial services that are listed as exempt under these regulations are exempt, whether rendered by a registered bank or financial institution or by any other person. As a result, no sales tax is charged on services.

7. Property, Plant and Equipment

a) Right of Use Land

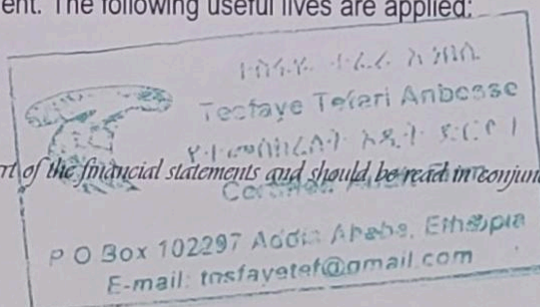
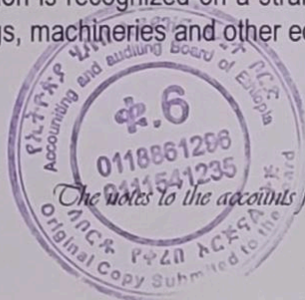
Right of Use Land owned is stated at cost. The cost of the lease is recognized in the cost of the buildings and depreciated at the same rate as the buildings, even if the lease period is greater than the useful life of the buildings.

b) Buildings, Computer and accessories, Vehicles and Others equipment

Buildings, computers and other equipment (comprising fittings and furniture) are initially recognized at acquisition cost or manufacturing cost, including any costs directly attributable to bring the assets to the location and condition necessary for them to be capable of operating in the manner intended by the corporation's management. Buildings and equipment also include leasehold property held under a finance lease.

Buildings, machineries and other equipment are subsequently measured at cost less accumulated depreciation and impairment losses

Depreciation is recognized on a straight-line basis to write down the cost less estimated residual value of buildings, machineries and other equipment. The following useful lives are applied:



b) Other receivables

Other receivables are recognized upon the occurrence of event or transaction as they arise and cancelled when payment is received.

The Company's other receivables are classified as staff debtors and sundry debtors.

13. Cash and cash equivalents

a) Cash comprises cash on hand, petty cash funds, currencies awaiting deposit and local or foreign currency deposits in Company's which can be added to or withdrawn without limitation and are immediately available for use in the current operations.

b) Cash equivalents are short-term, highly liquid investments that are both:

- i. Readily convertible to known amounts of cash; and
- ii. So near their maturity date (3 month or less from the date of acquisition), that they present insignificant risk of changes in value because of changes in interest rates.

Cash is valued at face value. Cash and cash equivalents in currencies other than the Ethiopian Birr (ETB) are recorded at market exchange rates in effect at the time of transaction and restated to the equivalent ETB amount at prevailing market rates as of the date of the statement of financial position.

14. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

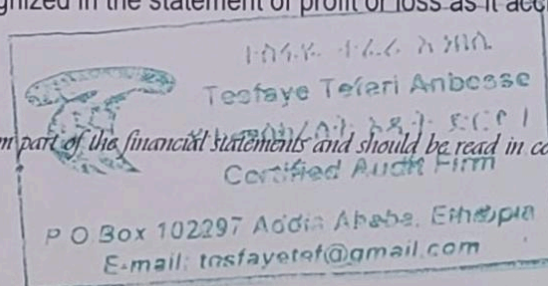
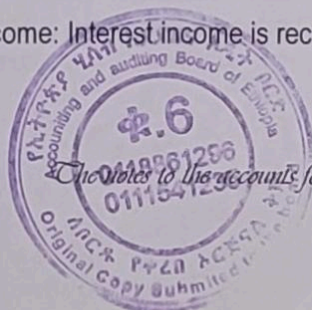
Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer. The Company recognizes revenue when (or as) it satisfies a performance obligation, i.e., when it transfers control of a product or services to customers.

The major source of income of KMFI is interest earned on loans, interest earned on investment, income from financial services, registration fee, passbook sales (lost passbook) etc.

Interest rate to be charged on loans is determined by the Board of Directors and NBE should be notified of the same. The current interest on loans is from 23-25% declining rate based on the duration of loan term and exceptional loan to shareholders that is available with 2% interest rate discount.

Interest on loans is accrued quarterly. Accruing interest on loans that are past due for over 90 day is against the provision of NBE's directive No.MFI/28/2016. Service charge of, 5% (Group, Individual Business, consumption and Bajaj purchase loan) is deducted from the approved loan.

Investment Income: Interest income is recognized in the statement of profit or loss as it accrues.



The notes to the accounts form part of the financial statements and should be read in conjunction.

Investment income also includes dividends when the right to receive payment is established and gain/loss on disposal of fixed assets.

15. Employee Benefits

The Company has provided short-term, long-term and post-employment employee benefits.

a) Post-employment Benefit

The Company's post-employment employee benefit is a defined contribution plan where it pays fixed monthly contributions into a government managed pension plan and will have no legal or constructive obligation to pay further contributions if the pension plan does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Provident fund contribution, funding under this scheme is 7% and 11% by employees and the Company respectively.

b) Short term employee benefit and other long term employee benefit

When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

Short-term employee benefits: are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service.

The company accrues severance pay using the projected unit credit method. Management estimates the obligation annually with the assistance of actuarial estimates.

16. Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

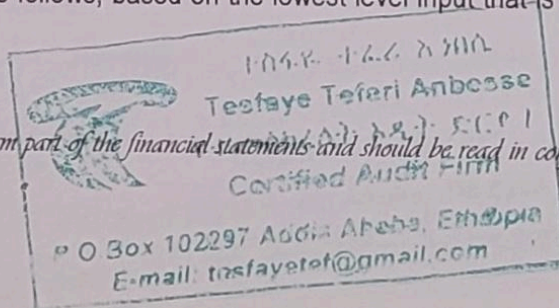
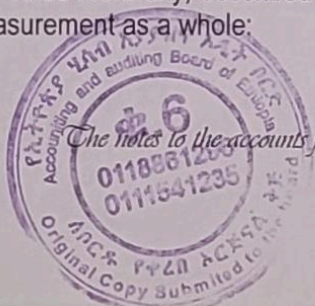
- In the principal market for the asset or liability, or
- In the absence of a principal market in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:



- Level 1 — Quoted (unadjusted) market prices in active markets for the identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company's Management determines the policies and procedures for both recurring fair value measurement, such as available-for-sale financial assets.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

17. Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires the Management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

a) Judgments

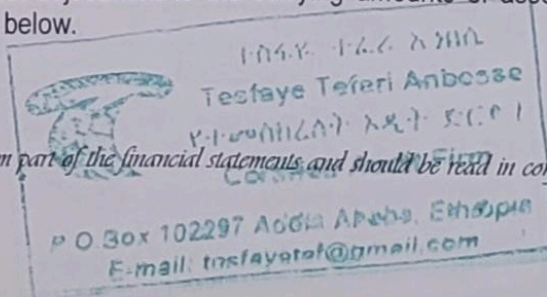
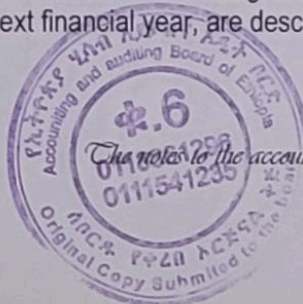
In the process of applying the Company's accounting policies, Management has made judgments in the determination of the appropriateness of going concern, assessment of the existence of impairment indicators and classification of events after the reporting period.

b) Estimates and Assumptions

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

The key assumptions concerning the future and other key sources of estimation at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.



The notes to the accounts form part of the financial statements and should be read in conjunction.

18. Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques using inputs from unobservable sources. A degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

19. Impairment Losses on Loan Receivables

Impairment of financial asset shall be based on expected credit losses, resulting in the recognition of a loss allowance before the credit loss is incurred. Under this approach, entities need to consider current conditions and reasonable and supportable forward-looking information that is available without undue cost or effort when estimating expected credit losses.

Kendil Calculates Expected Credit Losses (ECL) by:

- a. Identifying scenarios in which a loan or receivable defaults;
- b. Estimating the cash shortfall that would be incurred in each scenario if a default were to happen;
- c. Multiplying that loss by the probability of the default happening; and
- d. Summing the results of all such possible default events.

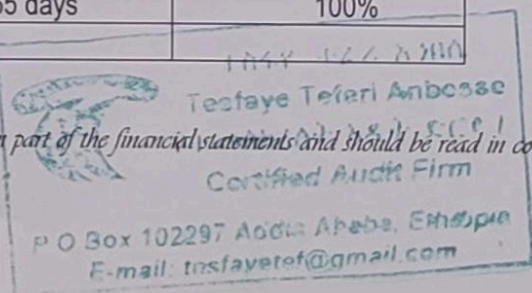
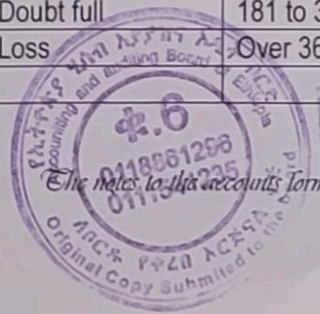
Because every loan and receivable has at least some probability of defaulting in the future, every loan or receivable has an Expected Credit Loss associated with it—from the moment of its origination or acquisition.

At every reporting date, the Company analyses its trade and other receivables for impairment. The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Impairment provisions are also recognized for losses not specifically identified but which, experience and observable data indicate, are present at the date of assessment. Management uses estimates based on historical loss experience for trade receivables.

The Company is required to recognize Expected Credit Losses (ECLs) based on unbiased forward-looking information. At the reporting date, an allowance is required for the 12 month (Stage 1) ECLs. If the credit risk has significantly increased since initial recognition (Stage 2), or if the financial instrument is credit impaired (Stage 3), an allowance (or provision) should be recognized for the lifetime ECLs.

Provisions under prudential guidelines are determined using the time based provisioning prescribed by the National Bank of Ethiopia (NBE) Directive No 28/2016, Loan Classification and Minimum Provisioning Requirement. As per the directive, loans are classified and provision is made as follows:

Loan classification	No of days past due	Minimum provision outstanding loan
Sub-standard	91 to 180 days	25%
Doubt full	181 to 365 days	50%
Loss	Over 365 days	100%



The notes to the accounts form part of the financial statements and should be read in conjunction.

This is in line with the Expected Credit Loss model of IFRS 9 as explained above except that credit loss provision starts when loan is overdue for at least 91 days, instead of recognizing provision as soon as a financial instrument is originated or purchased. Loan is assumed by the directive as having zero credit loss until it is overdue by 91 days, after which date 12-month expected credit losses & life time credit loss is recognized.

The directive also provides that interest income on loans classified as non-performing shall not be recognized as income in the statement of profit or loss, unless it is collected in cash. This also is more prudent than the requirement of IFRS 9, which requires that if the credit risk of a financial asset increases to the point that it is considered credit-impaired (stage 3), interest revenue is calculated based on the amortized cost (i.e. the gross carrying amount less the loss allowance).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of profit or loss. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in profit or loss.

20. Severance Pay

The cost of severance pay obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and mortality rates. Due to the complexities involved in the valuation and its long-term nature, a severance pay obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

21. Depreciation and carrying value of property, plant and equipment

The estimation of the useful lives of assets is based on management's judgment. Any material adjustment to the estimated useful lives of items of property, plant and equipment will have an impact on the carrying value of these items.

22. Equity, reserves and dividend payments

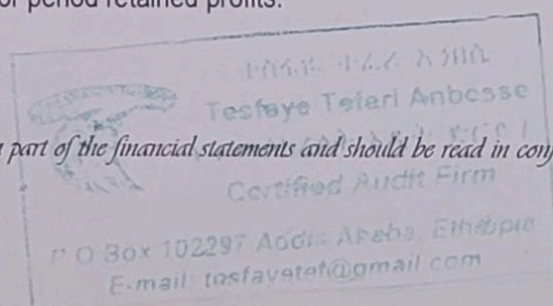
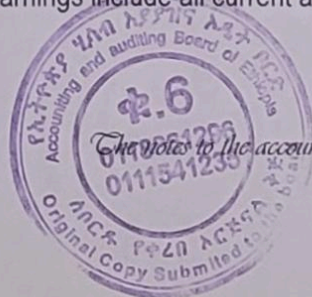
Share capital represents the nominal (par) value of shares that have been issued.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Other components of equity include the following:

- Revaluation reserve - comprises gains and losses from the revaluation of land.
- Translation reserve - Comprises foreign currency translation differences arising from the translation of financial statements.

Retained earnings include all current and prior period retained profits.



26. Collateral Held And Their Financial Effect

The general credit worthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Company generally requests that corporate borrowers provide it. Staff loans are secured to the extent of the employee's continued employment in the Company.

The Company may take collateral in the form of fixed assets, like house (including condos), vehicle including Bajaj can be used as collateral by properly registering with appropriate authorities. In addition to the Company's focus on creditworthiness, the Company aligns with its credit policy guide to periodically update the validation of collaterals held against all loans to customers.

For impaired loans, the Company obtains appraisals of collateral because the fair value of the collateral is an input to the impairment measurement.

The fair value of the collaterals is based on the last revaluations carried out. The valuation technique adopted for properties is in line with the Company's valuation manual and the revalued amount is similar to fair values of properties with similar size and location.

27. Liquidity risk

Liquidity Risk is a risk that the Company will encounter difficulty in meeting obligations from its financial liabilities. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Compliance with the regulatory framework is monitored consistently. The Licensing & Supervision of Companying Business proclamation No./626/09 of the National Company of Ethiopia provides that any Micro financing institution total loan extended to any single borrower shall not exceed 1% of the total capital. And loan extended to group of borrowers not more than 4% of the total capital.

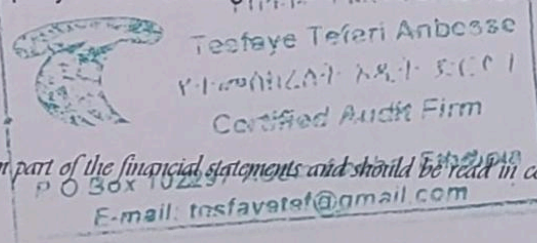
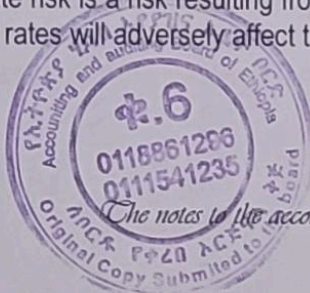
28. Market risk

Market risk is the risk that changes in the market prices, such as interest rate, equity prices, and foreign exchange rates will affect the future cash flows of the Company's financial instruments. The objectives of market risk management are to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The main objective of Market Risk Management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Interest rate risk

Interest rate risk is a risk resulting from changes in interest rates. It is the probability that the rising and falling of interest rates will adversely affect the Company's interest margin or the value of its net worth.



The table below shows the amount of net worth the Company gain from interest and the amount of interest expense which are originated from liabilities.

30 June 2021

	<u>Fixed</u> <u>Birr</u>	<u>Non-interest</u> <u>bearing</u> <u>Birr</u>	<u>total</u> <u>Birr</u>
Assets			
Interest on saving accounts	22,340	-	22,340
Interest on Loans & advances to customers	18,434,684	-	18,434,684
Total assets	<u>18,457,024</u>	-	<u>18,457,024</u>
Liabilities			
Interest on deposits from customers	1,571,371	-	1,571,371
Interest on Borrowings	2,809,199	-	2,809,199
	<u>4,380,570</u>	-	<u>4,380,570</u>

30 June 2022

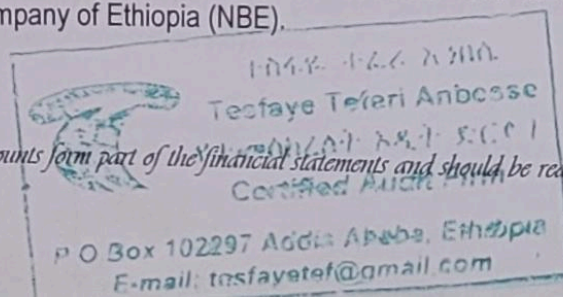
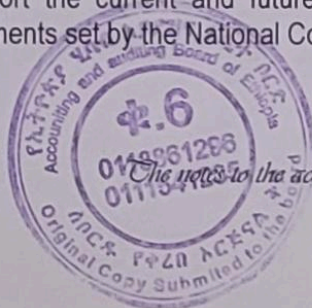
	<u>Fixed</u> <u>Birr</u>	<u>Non-interest</u> <u>bearing</u> <u>Birr</u>	<u>total</u> <u>Birr</u>
Assets			
Interest on saving accounts	7,006	-	7,006
Loan & advances to customers	23,404,124	-	23,404,124
	<u>23,411,130</u>	-	<u>23,411,130</u>
Liabilities			
Deposits from customers	2,236,492	-	2,236,492
Interest on Borrowings	3,780,813	-	3,780,813
	<u>6,017,305</u>	-	<u>6,017,305</u>

(i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to the changes in foreign exchange rates. Foreign exchange risks are controlled by maintaining balances in major currencies whose exchange rates against the reporting currency are expected to appreciate. The National Company controls exchange rates due to which the rates are not fluctuating significantly. The Company is not exposed to exchange rate risks to the extent of balances and transactions denominated in a currency other than the Ethiopian Birr.

(ii) Capital management

The Company's objectives when managing capital are to comply with the capital requirements set by the National Company of Ethiopia, safeguard its ability to continue as a going concern so that it can continue to provide returns for the shareholders and benefits for the other stakeholders, to maintain a strong capital base to support the current and future development needs of the business and to comply with the capital requirements set by the National Company of Ethiopia (NBE).



The notes to the accounts form part of the financial statements and should be read in conjunction.

(iii) Capital Adequacy Ratio

According to the Licensing & Supervision of Companying Business Directive No 626/2009 of the National Bank of Ethiopia, the Company has to maintain capital to risk weighted assets ratio of 12 % at all times.

29. Acquisitions and Disposals

There were no acquisitions and disposals during the reporting period

30. Interests in Subsidiaries

There was no interest in subsidiaries during the reporting period

31. Investments accounted for at cost

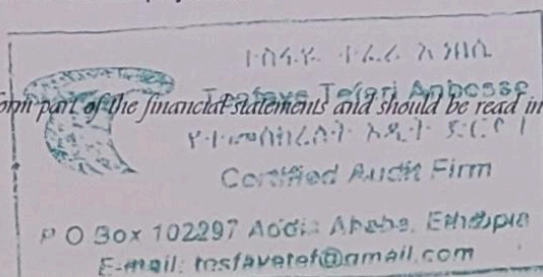
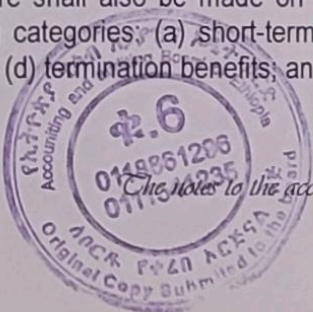
Kendil recognized equities, at initial recognition, at fair value which was the transaction price then. The Kendil makes utmost effort to use all information about the performance and operations of the Companies' that becomes available to it after the date of initial recognition. It is very difficult to obtain sufficient more recent information to enable it to measure equity at fair value subsequently. There is no stock market for such equity instruments in Ethiopia. Moreover, the management assessed that there is no significant change in the performance of the company's invested in compared with budgets, plans or milestones approved for those years; significant change in the market for those companies' equity or their products or potential products; significant change in the performance of comparable entities; internal matters of the investee such as fraud, commercial disputes, litigation, changes in management or strategy that could work against companies' performance. Hence management values the investments at cost. Dividend on those investments is, if any, credited to profit & loss when received.

32. Related party disclosure

If the Company has had related party transactions during the year covered by the financial statements, disclosure shall be made about the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. At a minimum, disclosures shall include:

- a) the amount of the transactions;
- b) the amount of outstanding balances, including commitments, and:
 - i. their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - ii. details of any guarantees given or received;
- c) provisions for doubtful debts related to the amount of outstanding balances; and
- d) The expense recognized during the period in respect of bad or doubtful debts due from related parties.

Disclosure shall also be made on key management personnel compensation in total and for each of the following categories: (a) short-term employee benefits; (b) post-employment benefits; (c) other long-term benefits; (d) termination benefits; and (e) share-based payment.



33. REVENUE FROM OPERATION

As a financing institution, the major source of income is interest charged on loan to borrowers. In addition it charges service charge for the service it renders and penalty when there are delays in payment.

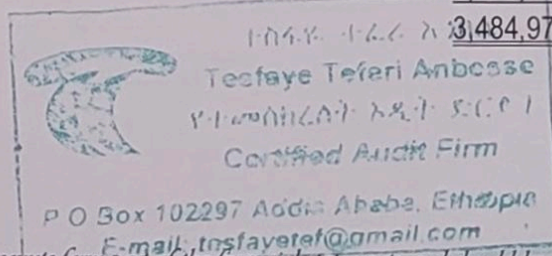
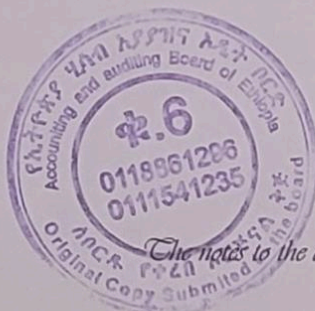
	<u>ETB</u>	<u>2021</u> <u>ETB</u>
Interest – Group loan	66,850	-
Interest – Individual loan	24,309,066	19,244,100
Interest – Personal Guarantee loan	193,035	71,093
Interest – Vehicle loan	3,454,669	2,287,230
Interest – Vehicle Purchase loan	2,680,552	-
Interest – Consumption loan	2,945,752	1,801,701
Interest – Shareholder loan	488,185	-
	<u>34,138,109</u>	<u>23,404,124</u>

34. OTHER INCOME

	<u>ETB</u>	<u>2021</u> <u>ETB</u>
House Rent income	583,594	337,738
Gain from release of PPE	64,250	70,806
Gain from sales of PPE	119,155	-
Income from insurance premium	527,927	86,854
Interest from saving and Fixed deposit	41,412	7,006
	<u>1,336,338</u>	<u>502,404</u>

35. INTEREST ON CLIENTS SAVINGS

	<u>ETB</u>	<u>2021</u> <u>ETB</u>
Interest Expense on PF	238,554	232,045
Interest Expense On Saving	3,246,417	2,004,447
	<u>3,484,971</u>	<u>2,236,492</u>



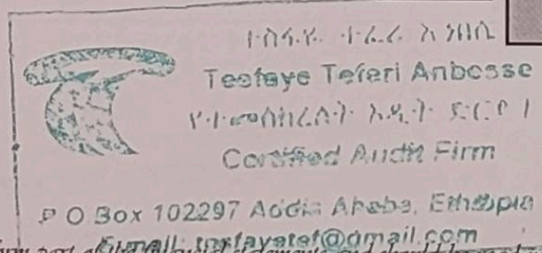
The notes to the accounts form part of the financial statements and should be read in conjunction.

36. GENERAL AND ADMINISTRATION EXPENSES

	<u>ETB</u>	<u>2021</u> <u>ETB</u>
Salary and benefits	9,248,244	6,404,848
Pension contribution and provident fund	781,878	461,824
Insurance expense	60,606	51,742
Office supplies	865,469	589,711
Training and tuition fees	370,233	250,541
cleaning and sanitation	61,430	47,326
Hospitality	272,522	112,644
Inland revenue expense	71,481	58,647
Board Per dime expense	43,500	28,326
General assembly	85,736	48,819
Board and Management Meetings	95,570	-
Membership fee	10,000	10,000
social contribution	119,956	105,000
Accrued Annual leave expense	468,306	262,679
Accrued Severance pay expense	128,871	85,634
Advertisement expense	146,576	40,140
Professional fee	118,750	237,500
General Ass. Delegation Exp.	147,935	114,068
Rent	642,750	378,663
Utilities and communication expense	276,550	112,413
Repair and maintenance expense	302,105	409,676
Fuel & lubricant	199,016	122,693
Transportation expense	151,398	85,952
other costs	116,155	22,448
Travel and per diem	398,355	276,095
Miscellaneous expense	<u>52,568</u>	<u>229,936</u>
	<u>15,235,960</u>	<u>10,547,325</u>

37. FINANCIAL COST

	<u>ETB</u>	<u>2021</u> <u>ETB</u>
Interest Expense on commercial	5,490,211	2,672,111
Interest Expense on Loan cessionary	<u>1,451,443</u>	<u>1,108,702</u>
	<u>6,941,654</u>	<u>3,780,813</u>



The notes to the accounts form part of the financial statements and should be read in conjunction.

40. DEBTORS

	<u>ETB</u>	<u>2021</u> <u>ETB</u>
Refund Account	371	371
Staff debtors	2,642,093	1,855,938
Advance	51	51
Court receivables	156,731	-
Prepayment	4,471,501	690,851
	<u>7,270,747</u>	<u>2,547,211</u>

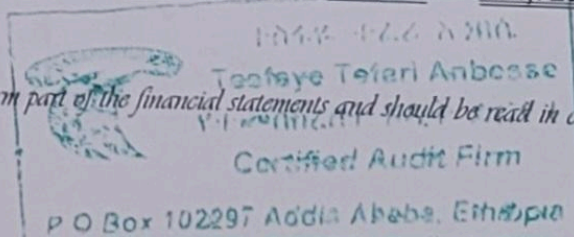
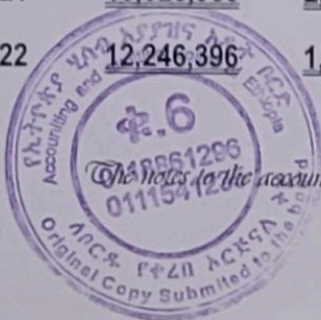
41. INVESTMENT

The Company has purchased shares with a total value of birr 900,000 from Association of Ethiopian Microfinance Institution (AEMFI)-ET-Inclusive Finance Technology S.C and Birr 10,000 from AEMFI itself. The company has purchased additional shares with a total value of Birr 1,000,000 from Association of Ethiopian Microfinance Institution (AEMFI)-ET-Inclusive Finance Technology S.C and capitalized the dividend earned from the previous shares Birr 58,000 to make the total investment balance Birr 1,968,000. ET Inclusive Finance Technology Share Company (ETIFT) was established in 2014 to provide ICT and related technological services to microfinance institutions. The company was initiated by the Association of Ethiopian Microfinance Institutions (AEMFI) and five big microfinance institutions. Currently, about twenty seven microfinance institutions in the country are its member shareholders. It has been helping microfinance institutions to get financial technologies such as mobile and agent banking technology and shared core banking system.

42. PROPERTY, PLANT AND EQUIPMENT

a) The detail of property plant and equipment is provided below.

	<u>Building</u>	<u>Motor</u> <u>Vehicles</u>	<u>Office</u> <u>Equipment</u>	<u>Computer &</u> <u>Accessories</u>	<u>Office</u> <u>Furniture</u>	<u>Total</u>
	ETB	ETB	ETB	ETB	ETB	ETB
COST						
As at 30 June 2021	14,112,625	2,510,097	127,623	617,684	753,222	18,121,251
Disposal	(520,621)	-	-	-	-	(520,621)
Additions	-	-	<u>289,800</u>	<u>227,000</u>	<u>190,297</u>	<u>707,097</u>
As at 30 June 2022	<u>13,592,004</u>	<u>2,510,097</u>	<u>417,423</u>	<u>844,684</u>	<u>943,519</u>	<u>18,307,727</u>
DEPRECIATION						
As at 30 June 2021	1,083,645	434,609	83,924	375,634	338,277	2,316,089
Disposal	(39,776)	-	-	-	-	(39,776)
Charge for the year	<u>301,739</u>	<u>188,196</u>	<u>30,339</u>	<u>229,388</u>	<u>40,513</u>	<u>790,175</u>
As at 30 June 2022	<u>1,345,608</u>	<u>622,805</u>	<u>114,263</u>	<u>605,022</u>	<u>378,790</u>	<u>3,066,488</u>
NET BOOK VALUE						
As at 7 July 2021	<u>13,028,980</u>	<u>2,075,488</u>	<u>43,699</u>	<u>242,050</u>	<u>414,945</u>	<u>15,805,162</u>
As at 7 July 2022	<u>12,246,396</u>	<u>1,887,292</u>	<u>303,160</u>	<u>239,662</u>	<u>564,729</u>	<u>15,241,239</u>



The notes to the accounts form part of the financial statements and should be read in conjunction.

44. CREDITORS AND ACCRUALS

(a) The balance is composed of the following:

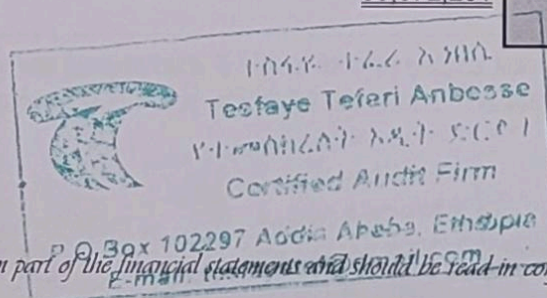
	Note	ETB	2021 ETB
Reserved balance		29,559	5,903
Accruals	(b)	3,367,537	2,180,146
Tax payable 5% from Acc Interest (tax)		185,003	111,891
Audit fee payable		379,500	126,500
Pension contribution		82,315	40,937
Commission payable		396,326	301,221
Income tax payable		208,527	117,341
Withholding tax payable		2,254	4,366
Premium Collection		1,750,919	761,646
Staff Social contribution		1,085	1,085
Staff loan payable		(624)	-
Cash indemnity payable		39,800	24,200
Provident Fund payable	(c)	3,947,011	3,058,413
		<u>10,389,212</u>	<u>6,733,649</u>

- (b) Accruals included provision for severance pay, calculated as per the provisions of the Ethiopian Labor Law; and liability for unused leave balance.
- (c) Some of the employees of the Company are not covered by Private Organization's pension scheme. Instead Provident fund of 10% of basic salary is contributed by the employer, and deposited in a separate account in within the Company. The amount above shows the balance due to each staff member in the scheme.

45. BORROWINGS

The Company has obtained a long-term loan from Oromia International Bank S.C and Rural Financial Intermediary Program (RUIFP) of Development Bank of Ethiopia.

	Notes	ETB	2021 ETB
Loan from OIB	i	34,926,365	24,490,049
Loan from RUFIB	ii	25,342,651	20,292,153
Loan from AIB	iii	50,000,000	-
		110,269,016	44,782,202
Less: Current maturity of loan		(11,196,785)	(8,111,247)
		<u>99,072,231</u>	<u>36,670,955</u>



The notes to the accounts form part of the financial statements and should be read in conjunction.

- i. The Company has Borrowed new loan during 2019 from OIB with interest rate of 18.55% but starting from March 1/2019 interest rate is reduced to 15.25%.

	<u>ETB</u>	<u>2021</u> <u>ETB</u>
Balance at beginning of year	24,490,049	11,002,630
Additional loan received during the year	14,000,000	15,000,000
Settlement made during the year	<u>(3,563,684)</u>	<u>(1,512,581)</u>
Balance at the end of the year	<u>34,926,365</u>	<u>24,490,049</u>

- ii. The company has obtained loan from DBE which is called RUFIP with interest rate of 6% and additional loan during April 9, 2019, July 29, 2019, February 10, 2022 and March 04, 2022.

	<u>ETB</u>	<u>2021</u> <u>ETB</u>
Balance at beginning of year	20,292,153	9,322,419
Additional loan during the year	12,683,600	17,568,400
Settlement made during the year	<u>(7,633,102)</u>	<u>(6,598,666)</u>
Balance at the end of the year	<u>25,342,651</u>	<u>20,292,153</u>

- iii. The Company has obtained loan from AIB with interest rate of 18.55% on March 18, 2022.

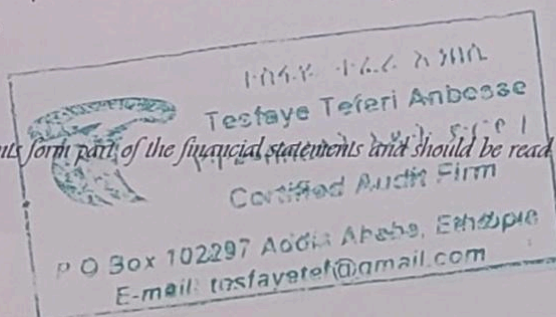
	<u>ETB</u>	<u>2021</u> <u>ETB</u>
Balance at beginning of year	-	-
Additional loan during the year	<u>50,000,000</u>	-
Balance at the end of the year	<u>50,000,000</u>	-

46. PAID UP CAPITAL

Initially the Company has 244,832 shares in issue at Birr 50 par value each. The total paid up capital of the MFI was Birr 12,241,600. Following the General assembly decision made on Tikimt 07/2014 E.C, the paid up capital is raised to ETB 30,604,000 divided into 612,080 shares of ETB 50 par value each.

47. TREASURY STOCK

As per the Boards decision, the Company has bought back 9,456 of its own shares from shareholders who agreed to sale their shares. The purchase was made at Birr 94 per share. The total worth of the shares bought back is Birr 888,864.



51. DONATION CAPITAL

	30 June 2021	
	<u>ETB</u>	<u>ETB</u>
RUFIP	64,249	135,055
Less: Release of donation to profit	(64,250)	(70,806)
	(1)	64,249
Terrafina	1,837,310	1,837,310
Accord	804,011	804,011
Balance at the end of the year	<u>2,641,320</u>	<u>2,705,570</u>

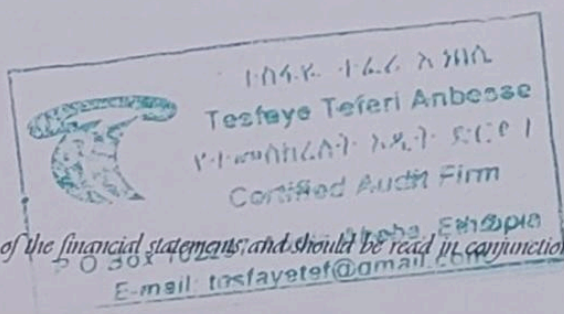
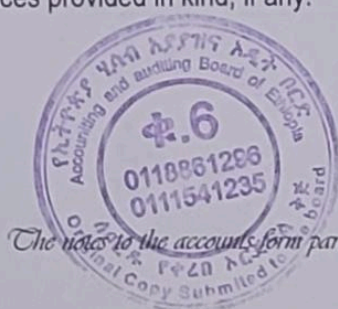
52. RELATED PARTIES

A related party is a person or entity that is related to the Company. A person or a close member of that person's family, family members who may be expected to influence, or be influenced by, that person in their dealings with the Company and include that person's children and spouse, is related to the Company if that person: has control or joint control of the reporting entity; has significant influence over the reporting entity; or is a member of the key management personnel of the Company. The substance of the relationship is important than the legal form. A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Due to the nature of the company, shareholders of the company are also clients who take loan like other clients of the company. In the current year transactions with shareholders were as follows:

	2021	
	<u>ETB</u>	<u>ETB</u>
Loan to shareholders	7,868,905	8,841,170
Savings of shareholders	<u>2,341,528</u>	<u>884,117</u>
	<u>10,210,433</u>	<u>9,725,287</u>

The following is the total amount of compensation paid or payable to Key Management Personnel of the Company who have authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. The amount includes all employee benefits in the form of consideration paid, payable or provided by the Company or on behalf of the Company by any shareholder of the Company, in exchange for services rendered to the Company. It also includes value of goods and services provided in kind, if any:



The notes to the accounts form part of the financial statements and should be read in conjunction.

		2021 ETB
Short term benefit (Salary)	1,375,404	749,024
Post-employment benefit (Provident Fund 10%)	137,540	74,902
Incentive payment (Bonus)	286,542	235,005
Board fee	84,800	70,100
	<u>1,884,286</u>	<u>1,129,031</u>

53. ANNUAL LOAN RECOVERY PERFORMANCE

Based on the formula provided by RUFIP-Development Bank of Ethiopia, the annual loan recovery performance rate is 97.22%. Annual loan recovery rate is high compared to previous year due to slow down of COVID-19 impact on customers' business and commitment from the staff.

Annual Loan Recovery Rate	Annual Financial Loan Collected + Unscheduled Loan Collected	
	Amount due of collection during the year + outstanding arrears at the beginning of the year	
	Value	
	97.22%=	$\frac{(82,552,395 - 6,925,647)}{(71,250,665 + 6,538,505)}$

54. EVENTS AFTER THE REPORTING DATE

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization of financial statement for issuance.

55. AUTHORIZATION OF FINANCIAL STATEMENTS

The financial statements for the year ended 30 June 2022 (including comparatives) are awaiting approval by the board of directors.

