

KENDIL MICROFINANCE INSTITUTION S.C

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025

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Tesfaye Teferi Anbessie,
Authorized Audit Firm
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4th Floor, Tibebe Building in front of Dream liner Hotel, Mesquel Flower, Addis Ababa, Ethiopia

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REPORT NO _____ 107



1. Management and Registered office

CORPORATE INFORMATION

Company TIN Number

	Name	Position
Management	Ato Abraham Anbesa	General manager
	Ato Kibrom Kiros	Finance manager

Registered Office
 Address: Addis Ababa, Lemi Kura Sub City,
 Woreda 11
 P O Box 262
 Addis Ababa
 Ethiopia

Website: kendilmicrofinance.com
 Email: seyamfi@yahoo.com

Independent Auditor

TesfayeTeferi Anbesse
 Chartered Certified Auditors
 P O Box 102297
 Email: tefayotef@gmail.com
 Address: Tibebeu Building in front of Dreamliner Hotel, Meskel
 Flower, Addis Ababa Ethiopia





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Kendil Micro Finance Share Company

2. Statement of Management Responsibility

In accordance with the Proclamation No. 847/2014, 'Financial Reporting Proclamation', the Accounting and Auditing Board of Ethiopia (AABE) has made a mandatory requirement for Public Interest Entities to prepare their financial statements in compliance with International Financial Reporting Standards (IFRS). The Management is responsible for the preparation and fair presentation of the Company's financial reports in full conformity with the requirements of the International Financial Reporting Standard issued by the International Accounting Standards Board (IASB) which provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.

The Commercial Code of Ethiopia 2021 also requires the Management to prepare financial statements that represent the state of affairs of the Company at the end of the financial year and the operating results of the Company for that year. The Commercial Code of Ethiopia 2021 also requires the Management to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

Thus, the management is responsible to keep records that may be relied upon and to design, implement and maintain such internal control to enable the preparation of financial statements that are free from material omissions or misstatement, whether due to fraud or error.

The management is also responsibilities to:

- i. select and apply accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- ii. present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- iii. Provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Management certify that, to the best of their knowledge, the financial report comply with IFRS in that it involves a fair presentation of the effects of transactions, other events and conditions in accordance with the definitions, recognition, presentation and disclosure requirements.

Nothing has come to the attention of the Management to indicate that the Company will not remain a going concern for at least twelve months from the date of this statement. At the end of reporting period, the Management has assessed whether there is any indication that an asset may be impaired and confirmed that no any such indication exists.

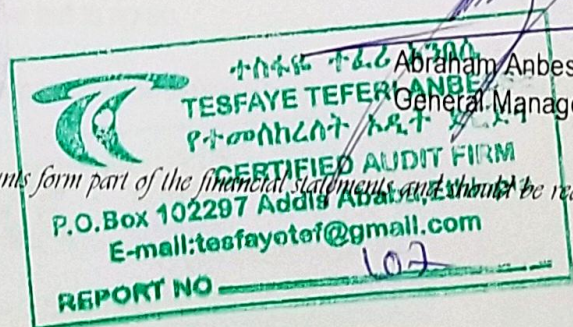
Signed on behalf of the Management by:

Mekonnen Belete
Board Chairperson



(Handwritten signature)

Abraham Anbesa
General Manager



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



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Tesfaye Teferi Anbesse
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Chartered Certified Accountants (TCA)
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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, 2025, 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, 2025 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.

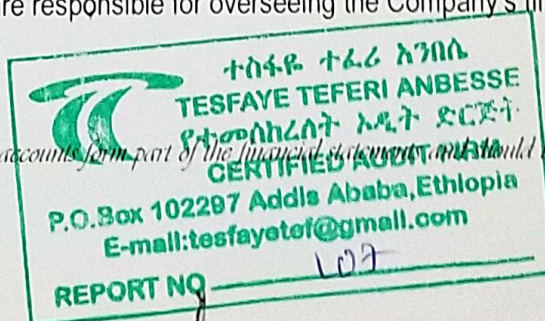
Responsibilities of Directors and those charged with governance for the Financial Statement

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.





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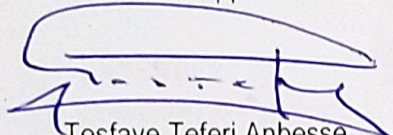
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Tesfaye Teferi Anbesse
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Auditor's Responsibilities for the Audit of the Financial Statements

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 Section 375, Sub Article 2 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

November 28, 2025
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, 2025

	Notes	ETB	2024 ETB
INCOME			
Interest from loans	2.15, 13	57,578,671	60,938,816
Interest expenses			
Interest expense on clients saving	17	12,379,331	8,187,573
Interest expense on borrowing	2.14, 19	14,416,404	17,958,129
		26,795,735	26,145,702
Gross operating profit		30,782,936	34,793,114
Service charges on loans	2.15(b),14	9,670,200	8,825,425
Penalty income from clients	2.15(c),15	4,713,328	3,297,656
Other Income	2.15(d),16	6,454,972	6,112,179
		51,621,436	53,028,374
EXPENSES			
Depreciation Expense	25	828,899	823,004
Loan loss provision	21(1)	-	1,883,317
General and administrative	2.13, 18	33,809,601	32,892,283
TOTAL EXPENSE		34,638,500	35,598,604
Net profit from operation		16,982,936	17,429,770
Other Comprehensive income			
Movement in Fair Value of Equity Instrument		-	-
Revaluation Surplus (Deficit)		-	-
Tax on Comprehensive Income		-	-
Other Comprehensive Income (Net of Tax)		-	-
Total other comprehensive income		-	-
Comprehensive Income for the Year		16,982,936	17,429,770



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, 2025

	Notes	ETB	2024 ETB
ASSETS			
Cash and Cash Equivalents	2.12, 20	80,905,880	107,872,318
Loans and Advances- customers	2.10, 21	241,890,344	216,482,570
Interest Receivable	22	3,562,399	3,836,713
Debtors	2.11, 23	6,621,344	5,867,882
Related party receivable	35	8,491,376	7,728,044
Investment Securities	2.7, 24	2,578,000	2,014,000
Property and Equipment	2.6, 25	67,035,787	50,282,496
Total Assets		411,085,130	394,084,023
Liabilities			
Deposit from customers	26	151,003,424	119,953,486
Accrued Interest payable	27	2,807,920	5,667,416
Creditors	28	10,988,402	8,952,108
Related part payable	35	16,466,251	4,250,424
Current maturity of long term loan	29	45,605,227	52,639,776
Long term borrowing	29	75,515,518	110,905,361
Total Liabilities		302,386,742	302,368,571
Capital and Reserves			
Paid up Capital	1, 22,30	77,734,160	62,432,160
Treasury Stock	31	(888,864)	(888,864)
Retained Earning	32	21,469,597	20,637,808
IFRS revaluation Reserve	33	5,561,817	5,561,817
Legal Reserve	34	4,821,678	3,972,531
Total Capital and Reserves		108,698,388	91,715,452
Total Liabilities and Capital		411,085,130	394,084,023

(Signature)
Abraham Anbesa
 General Manager



(Signature)
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, 2025

	<u>Paid Up</u> <u>Capital</u> <u>Birr</u>	<u>Treasury</u> <u>Stock</u> <u>Birr</u>	<u>Retained</u> <u>Earnings</u> <u>Birr</u>	<u>Revaluation</u> <u>Reserve</u> <u>Birr</u>	<u>Legal</u> <u>Reserve</u> <u>Birr</u>	<u>Donation</u> <u>capital</u> <u>Birr</u>	<u>Total</u> <u>Birr</u>
Balance at 30, June 2023	45,906,000	(888,864)	17,964,366	5,561,817	3,101,042	2,641,321	74,285,682
Transfer to capital	16,526,160	-	(16,526,160)	-	-	-	-
Distributed Profit	-	-	-	-	-	-	-
Profit for the year	-	-	17,429,770	-	-	-	17,429,770
Legal Reserve	-	-	(871,489)	-	871,489	-	-
Dividend Obtained from ET-inclusive	-	-	-	-	-	-	-
Adjustments	-	-	2,641,321	-	-	(2,642,321)	-
Balance at 30, June 2024	62,432,160	(888,864)	20,637,808	5,561,817	3,972,531	-	91,715,452
Transfer to capital	15,302,000	-	(15,302,000)	-	-	-	-
Transfer to legal Reserve	-	-	(849,147)	-	849,147	-	-
Profit for the year	-	-	16,982,936	-	-	-	16,982,936
Balance at 30, June 2025	77,734,160	(888,864)	21,469,597	5,561,817	4,821,678	-	108,698,388


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 REPORT NO _____



7. **Statement of Cash Flow**
KENDIL MICROFINANCING INSTITUTION
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 JUNE 2025

	Birr	30 JUNE, 2024 Birr
Cash flows from operating activities		
Cash generated from operations		
Profit before income tax	16,982,936	17,429,770
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	828,899	823,004
Loan loss provision net of net of impairment loss reversed	(364,242)	1,415,052
Changes in working capital:		
Change in Loans and Advances- customers	(25,043,532)	(28,043,328)
Related Party Receivable	(763,332)	(782,048)
Change in Interest Receivable	274,314	(1,175,435)
Change in Debtors	(753,462)	(931,388)
Change in Deposit from customers	31,049,938	37,840,586
Related party payable	12,215,827	528,082
Change in creditors	2,036,294	2,407,972
Change in accrued interest payable	(2,859,496)	3,185,919
Gain from sale of fixed Assets		
Net cash inflow from operating activities	33,604,144	32,698,186
Cash flows from investing activities		
Purchase of property, plant and equipment	(17,582,190)	(13,305,692)
Purchase of free hold land	(564,000)	(46,000)
Proceeds from sale of fixed asset		
Net cash outflow from investing activities	(18,146,190)	(13,351,692)
Cash flows from financing activities		
Loan Acquired during the year	60,980,835	105,136,860
Loan repaid during the year	(103,405,227)	(48,158,763)
Net cash outflow from financing activities	(42,424,392)	56,978,097
Net increase (decrease) in cash and cash equivalents	(26,966,438)	76,324,591
Cash and cash equivalents as at 1 July	107,872,318	31,547,727
Cash and cash equivalents at 30 June	80,905,880	107,872,318




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

8. Notes to the Financial Statements

KENDIL MICROFINANCING INSTITUTION NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2025

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 2025.

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 Bank of Ethiopia on February 7, 2001 and renewed up to October 2025.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. Following the shareholders decision made on February 2023 the par value of the share raised to Birr 150. Accordingly, the Company has 612,080 shares in issue at Birr 150 par value each and the subscribed capital of the Company reached Birr 91,812,000. As at June 30, 2025, out of this subscribed capital, the paid up capital increased to Birr 77,734,160.

The objective of the Company includes 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

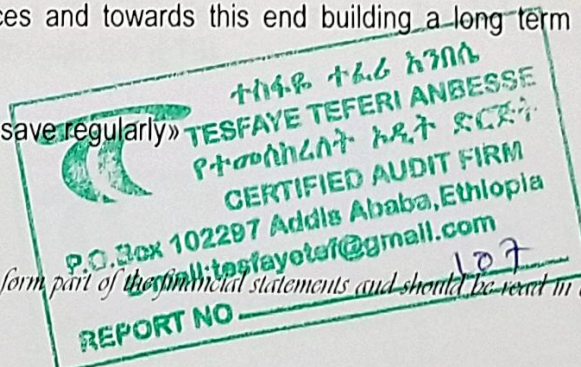
Vision

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»



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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied.

2.1. Basis of preparation

The financial statements 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 is included where appropriate.

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 have been prepared in accordance with the Accrual Basis of accounting under the historical cost concept.

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 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 3.

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.

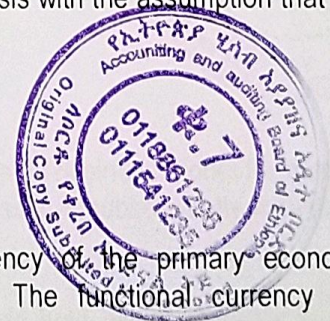
2.2. Going concern

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 of any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. 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.

2.3. 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).



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

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.

2.4. Financial instruments

IFRS 9 sets out for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Financial assets and financial liabilities are recognized on the statement of financial position when the Company becomes a party to the contractual provisions of the financial instruments.

Financial assets and financial liabilities are initially measured at fair value. The transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, except for those carried at fair value through profit or loss which are measured initially at fair value.

Financial assets and financial liabilities are de-recognized when the contractual rights to the cash flows from the financial asset expire, or it transfers the financial asset and the transfer qualifies for de-recognition. In addition de-recognition of a financial asset in its entirety made at the difference between the carrying amount (measured at the date of de-recognition) and the consideration received (including any new asset obtained less any new liability assumed) is recognized in profit or loss.

(i) Financial assets

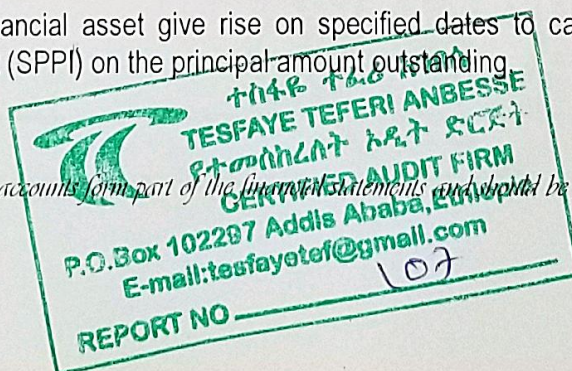
All financial assets are recognized and de-recognized on a trade date basis where the purchase or sale of financial assets is under a contract whose terms require delivery of assets within the time established by the market concerned.

All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

a) Classification of financial assets

The Company classifies financial asset when it first recognizes them, based on its business model for managing the asset and the asset's contractual cash flow characteristics. A financial asset is subsequently measured at amortized cost if it meets both of the following conditions:

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



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

A financial asset is subsequently measured at fair value if it meets the following conditions.

- Fair value through other comprehensive income (FVOCI) - financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on principal amount outstanding.

The Company may make the following irrevocable election at initial recognition of a financial asset:

- The Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- The Company may irrevocably designate a debt investment that meets the amortized cost or fair value through other comprehensive income (FVOCI) criteria as measured at FVOCI.

Debt instruments at amortized cost or at FVOCI

The Company assesses the classification and measurement of a financial based on the contractual cash flow characteristics of the asset and the Company's business model for managing the asset.

For an asset to be classified and measured at amortized cost or at FVOCI, its contractual terms should give rise to cash flows that are SPPI.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset.

If the business model under which the Company holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that result in reclassifying the Company's financial assets. During the current financial and previous accounting period there was no change in the business model under which the Company holds financial assets and therefore no reclassifications were made

Loans and advances to customers are classified at amortized cost.

The financial assets at amortized cost consist of loans and advances to customers, cash and cash equivalents, short term deposits and other receivables.

The following tables summarize the carrying amounts and accounting classifications of the Company's financial instruments at the reporting date:

	At cost	Loans & Receivables	Amortized cost	Total
As at June 30, 2025				
Financial Assets				
Cash and cash equivalents	-	80,905,880	-	80,905,880
Loans and advances to customers	-	241,890,344	-	241,890,344
Other Receivables	-	3,562,399	-	3,562,399
Prepayment and advances	-	6,621,344	-	6,621,344
Related party receivable	-	8,491,376	-	8,491,376



	At cost	Loans & Receivables	Amortized cost	Total
	-	341,471,343	-	341,471,343
Financial Liabilities				
Deposit from customers	-	-	167,469,675	167,469,675
Other payables	-	-	13,796,322	13,796,322
Long term bank loan	-	-	121,120,745	121,120,745
	-	-	302,386,742	302,386,742
NET	-	341,471,343	(302,386,742)	39,084,601

As at June 30, 2024

	At cost			
Financial Assets				
Cash and cash equivalents	-	107,872,318	-	107,872,318
Loan & advances to customers	-	224,210,613	-	224,210,613
Trade and other receivables	-	9,704,595	-	9,704,595
Prepayment and advances	-	-	-	-
Related party receivable	-	-	-	-
	-	341,787,526	-	341,787,526
Financial Liabilities				
Deposit from customers	-	-	124,203,910	124,203,910
Trade and other payable	-	-	14,619,524	14,619,524
Long term bank borrowings	-	-	163,545,137	163,545,137
	-	-	302,368,571	302,368,571
NET	-	341,787,526	(302,368,571)	39,418,955

b) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses (ECLs) on the following financial instruments that are not measured at fair value through profit or loss (FVTPL):

- Loans to customers; and
- Balances with banks

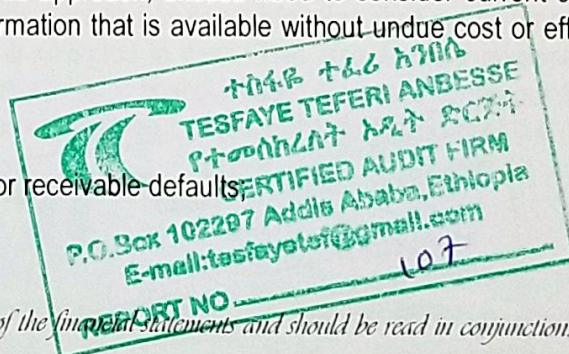
With the exception of purchased or originated credit-impaired (POCI) financial assets, ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-months Expected Credit Losses (ECLs): these ECLs that result from possible default events within the 12 months after the reporting date, and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

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:

- 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.

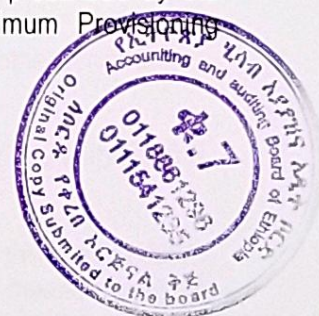
At every reporting date, the Company analyses its loan and other receivables for impairment. The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not 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 National bank of Ethiopia directive No. 28/2016 for loan loss provision calculation.

When estimating credit losses, the Company evaluates a range of possible outcomes attaching to them an unbiased probability-weighting; considers time value of money; and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that is available without undue cost or effort at the reporting date. In the process, the Company need not necessarily identify every possible forward looking scenario, but shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

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%



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

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.

Write - off

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.

According to IFRS 9.5.4.4, the Company shall directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a de-recognition event.

(ii) Financial liabilities and equity

Liability and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets of financial liabilities with another entity under conditions that are potentially unfavorable to the Company or a contract that may be settled in the Company's own equity instruments and is a non-derivative contract for which the Company may be obliged to deliver a number of its own equity instruments.

All financial liabilities are measured subsequently at amortized cost using the effective interest method. For all financial liabilities, the amounts presented on the statement of financial position represent all amounts payable including interest element.

Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, loan and other receivables, trade and other payables, and loans and borrowings.

Due to their short-term nature, the carrying value of cash and cash equivalents, loan and other receivables, and saving and other payables approximates their fair value.

Fair value of a financial instrument at initial recognition is the transaction price/the fair value of the consideration given. When it is very difficult to obtain sufficient, more recent information to enable measurement of investments in equity at fair value, cost is used.

Derecognition

The Company derecognizes a financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) when:

- The rights to receive cash flows from the asset have expired; or
- The Company transfers the contractual rights to receive the cash flows of the financial asset, or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.



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The Company shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expired.

2.5. Leases

i. The Company as a lessee

The Company assesses whether a contract contains a lease, at inception of the contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lease, except for short-term leases (defined as lease term of 12 months or less).

Leases that do not transfer to the Company substantially the entire risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which it is incurred.

ii. Leased assets

All leased assets are treated as finance lease except short-term and small value leases. The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.

All other leases are treated as operating leases. Where the Company is a lessee, payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

iii. Right of Use Land

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

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.

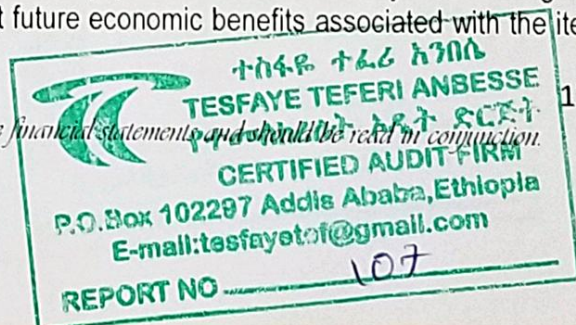
In the case of leased assets, expected useful lives are determined by reference to comparable owned assets or the term of the lease, if shorter. Material residual value estimates and estimates of useful life are updated as required, but at least annually.

The right-of-use-assets are presented as a separate line on the statement of financial position.

2.6. Property, Plant and Equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Buildings, computers and other equipment (comprising fittings and furniture) are initially recognized at acquisition cost and any directly attributable costs of bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by the Company's management.

Subsequent expenditure relating to an item of property and equipment that has already been recognized is added to the amount of the asset when it is probable that future economic benefits associated with the item will



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

flow to the Company and the cost of the item can be measured reliably. All other subsequent expenditure is recognized as an expense in the period in which it is incurred.

Depreciation is allocated on a systematic basis over its useful life. The Company assigns a residual value of ETB 10 to each individual asset that is subject to depreciation. The residual value is deducted from the last year of depreciation, instead of using the residual value in determining the depreciable amount. The depreciable amount remains the cost of the asset.

The Company depreciates all its assets on a straight-line basis over the useful lives of the assets as shown below:

Asset class	Estimated Useful life	Depreciation rate
Building	50 years	2%
Motor vehicle	20 years	5%
Furniture & fittings	10 years	10%
Computer and Accessories	5 years	20%
Office equipment	10 years	10%
Land improvement	20 years	5%

The Company commences depreciation when the asset is available for use.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use disposal.

Any gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss within other income or other expenses on the date of retirement or disposal.

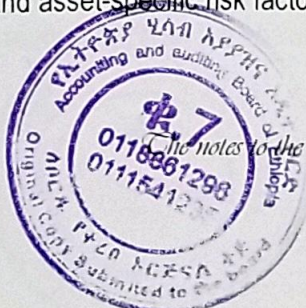
Property, Plant and Equipment (PPE) in the Company are tangible assets that are held for use in service sector, or for administrative purposes; are expected to be used during more than one period; and has a value of ETB 5,000 per item or more.

The useful lives and methods of depreciation of PPE are reviewed at each financial year end and adjusted prospectively, if applicable.

Impairment testing of property, plant and equipment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset's (or cash-generating units) carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the corporation's latest approved budget, adjusted as necessary to exclude the effects of future re-organizations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect current market assessments of the time value of money and asset-specific risk factors.



All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

2.7. Investments in shares

The Company has purchased shares from Association of Ethiopian Microfinance Institution (AEMFI)-ET-Inclusive Finance Technology S.C. The Company has equal power with other Microfinance Institutions those who have shares with Investee to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Currently, the investee has about forty plus 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.

2.8. 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. Pension 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 recognizes the expected cost of short-term employee benefits where it is contractually obliged or where there is a past practice that has created a constructive obligation. Salary and wages, annual leave, bonuses and incentives are recognized in the year in which the services are rendered by employees, and the Company measures the expected liability related to the short-term employee benefits at the reporting period.

Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

c) Severance pay

The severance benefits plan is an unfunded defined benefit that is based on the statutory severance benefit as set out in Labor Proclamation No. 377/2003 and its subsequent Amendment, Proclamation No. 494/2006. The vesting condition for the benefit is for employees to serve the Company for 5 years and above and who are below the retirement age (i.e. have not met the requirement to access the pension fund). The eventual



settlement of the severance is determined by reference to years of service to the company and based on the final monthly salary of the employee (30 days salary for the first year of service and one-third of the final salary for the remaining period the employee is entitled the benefit- to a maximum of twelve months salary).

The income statement charge included within personnel expenses includes current service cost, interest cost, past service costs on the defined benefit schemes. The key financial assumptions are the discount rate and the rate of salary increases. The provision was based on the projected unit credit method as prescribed by IAS 19.

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

2.9. Income (Profit) and 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, is shall not pay profit tax. 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.

2.10. Loan Receivables

- a) All receivable balances should be measured at their net realizable value, calculated as the gross amount of receivable minus any allowances provided for doubtful Loans.
- b) Allowance for doubtful Loans should be provided in an amount equal to the total receivables shown or reasonably estimated to be doubtful of collection.

2.11. Other assets

a) Prepayments

Prepayments are payments made in advance for services to be enjoyed in future. The amount is initially capitalized in the reporting period in which the payment is made and subsequently amortized over the period in which the service is to be enjoyed.

b) Other receivables

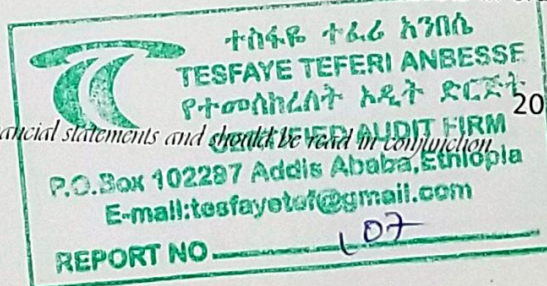
Other receivables are recognized upon the occurrence of event or transaction as they arise and cancelled when payment is received.

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

Staff debtors

In accordance with IFRS 9 Para 4.1.2 the entity shall recognize a loss allowance for expected credit losses (ECL's) on a financial asset that is measured at amortized cost if both of the following conditions are met:

- i) The financial asset held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and



a. Interest income and interest expense

Interest income and expense for all financial instruments except for those classified as held for trading or those measured as at FVTPL are recognized in net interest income as interest income and interest expense in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is indicated within the fair value movement during the period.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, when appropriate, a shorter period, to the gross carrying amount of the financial asset or financial liability. The calculation of the EIR includes all fees paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognized in profit or loss at initial recognition.

Income is measured based on the consideration to which the Company expects to be entitled in a contract with a customer. The Company recognizes income 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 the Company is interest earned on loans. Interest income is calculated by the interest rate indicated in the loan agreements signed with the customers. The interest rate is stated in the loan contract agreements determined by the Board of Directors and NBE should be notified of the same. The current interest on loans is from 24-28% 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.

b. Service fees on loans

The Company earns Service fees of 5% on Group, Individual Business, consumption and Bajaj purchase loans disbursed during the reporting period and the amount is deducted from the approved loan of the period.

c. Penalty income

Penalty income represents amount collected from those customers who were not settled the loan repayments on time as indicated on the loan agreements.

d. Other income

Other income include fees other than the income indicated under 'a', those indicated above (see 'a, b & c'). the fees include income from insurance premium, house rent, gain from release of PPE, gain from sales of PPE and interest from saving and fixed deposit. Investment income also includes dividends when the right to receive payment is established and gain/loss on disposal of fixed assets.



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2.16. 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.

2.17. 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.



- **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.
- **Revaluation of Property** - The management revalued its property, plant and equipment and applied fair value as deemed cost at the time it prepared its first IFRS compliant financial statements. Despite it uses professional valuers; judgments were used to ascertain fair values as per IFRS 13. From the three approaches of valuation, due to its practicability the cost model were the most frequently used which uses level 3 inputs that involve judgment.
- **Inventories** - Currently there is no inventory recognized in the financial statement. In case it occurs, management estimates the net replacement cost values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future prices.

b) Key sources of Estimation uncertainty

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.

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.

4. Provisions, contingent assets and contingent liabilities

Provisions for legal claims are recognized when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.



These accounts form part of the financial statements and should be read in conjunction with the notes thereto.

Any reimbursement that the Institution is virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset. However, this asset may not exceed the amount of the related provision.

No liability is recognized if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

Significant management judgment in applying accounting policies and estimation uncertainty when preparing the financial statements, management makes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

The following are the judgments made by management in applying the accounting policies of the Company that have the most significant effect on the financial statements.

5. New Standards or Amendments on Standards and Interpretations

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. There are no standards that are not yet effective that would be expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions. The following Accounting Standards and Interpretations are most relevant to the Company:

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

IFRS S1 sets out overall requirements for sustainability-related financial disclosures with the objective to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity. The standard requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. As per the requirement to provide disclosures required by IFRS Sustainability Disclosure Standards, the Company made disclosure as part of its general-purpose financial reports, in the section of Directors' Report.

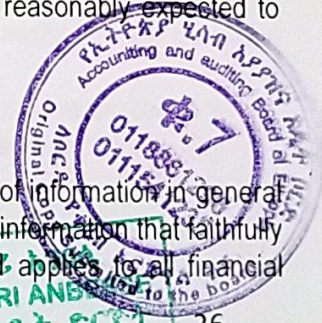
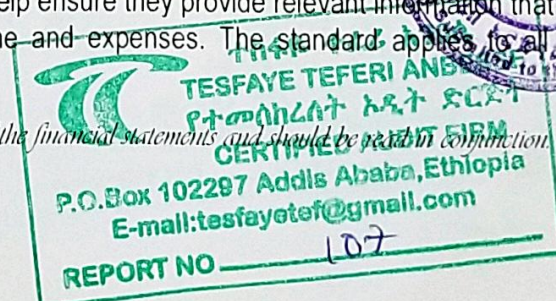
IFRS S2 Climate-related Disclosures

IFRS S2 sets out the requirements for identifying, measuring and disclosing information about climate-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity. These are climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. The company is engaged in micro finance sector and it has no risk associated to climate as it has assets or business activities vulnerable to climate-related transition risks; climate-related physical risks; or climate-related opportunities. These Climate-related risks and opportunities are not reasonably expected to affect the Company's prospects. Hence this standard is not applicable to the Company.

IFRS 18 Presentation and Disclosures in Financial Statements

The objective of IFRS 18 is to set out requirements for the presentation and disclosure of information in general purpose financial statements (financial statements) to help ensure they provide relevant information that faithfully represents an entity's assets, liabilities, equity, income and expenses. The standard applies to all financial

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



statements that are prepared and presented in accordance with International Financial Reporting Standards (IFRSs). The standard requires an entity to clearly identify the financial statements, which must be distinguished from other information in the same published document, as well as each primary financial statement and the notes to the financial statements. An entity is required to retain the presentation, disclosure, and classification of items in the financial statements from one period to the next unless a change is justified either by a change in circumstances or a requirement of a new IFRS. The Company has applied this standard already and will continuously observe compliance to it.

Amendments

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendment affects only the presentation of liabilities in the statement of financial position — not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. Classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability. The company has been classifying liabilities as per the standard.

Lack of Exchangeability (Amendments to IAS 21)

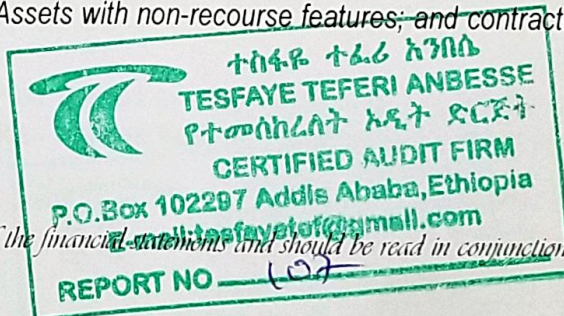
A currency is exchangeable when an entity is able to exchange that currency for the other currency through markets or exchange mechanisms that create enforceable rights and obligations without undue delay at the measurement date and for a specified purpose; a currency is not exchangeable into the other currency if an entity can only obtain an insignificant amount of the other currency. When a currency is not exchangeable at the measurement date, an entity estimates the spot exchange rate as the rate that would have applied to an orderly transaction between market participants at the measurement date and that would faithfully reflect the economic conditions prevailing. The company mainly deals with Ethiopian Birr. In case it deals with other foreign currencies, it has assessed that most of the foreign currencies in the Ethiopian market are readily exchangeable.

Amendments IFRS 9 and IFRS 7 regarding the classification and measurement of financial instruments

The amendments to the classification and measurement requirements of IFRS 9 Financial Instruments are:

Derecognition of a financial liability settled through electronic transfer: The amendments to the application guidance of IFRS 9 permit an entity to deem a financial liability (or part of it) that will be settled in cash using an electronic payment system to be discharged before the settlement date if specified criteria are met. An entity that elects to apply the derecognition option would be required to apply it to all settlements made through the same electronic payment system.

- ✓ **Classification of financial assets:** the amendment also deals with *Contractual terms that are consistent with a basic lending arrangement; Assets with non-recourse features; and contractually linked instruments*



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

- ✓ **Disclosures:** The requirements in IFRS 7 are amended for disclosures that an entity provides in respect of *investments in equity instruments designated at fair value through other comprehensive income*. In particular, an entity would be required to disclose the fair value gain or loss presented in other comprehensive income during the period, showing separately the fair value gain or loss that relates to investments derecognized in the period and the fair value gain or loss that relates to investments held at the end of the period. The amendments require the disclosure of *Contractual terms that could change the timing or amount of contractual cash flows* that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event that does not relate directly to changes in a basic lending risks and costs. The requirements apply to each class of financial asset measured at amortized cost or fair value through other comprehensive income and each class of financial liability measured at amortized cost.

The amendments are effective for annual reporting periods beginning on or after 1 January 2026. The Company shall plan to adopt the standards as applicable from this date on.

6. Credit risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers and other Company and investment securities.

I. Management of Credit Risk

The Company has a loan review committee responsible for reviewing credit risk management policies and the Company's compliance with regulatory directives. Credit Management Department is responsible for implementing the credit risk management policies of the Company. Credit management department and branch units are required to implement the Company's credit policies and procedures, with credit approval authorities' delegated from the Board. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

In the estimation of credit risk, the Company estimates the following parameters:

- **Probability of Default:** This is the probability that an obligor or counterparty will default over a given period, usually one year. This can be calculated on portfolio by portfolio basis or collectively depending on availability of historical data.
- **Loss Given Default:** Loss Given Default is defined as the portion of the loan determined to be irrecoverable at the time of loan default (1 – recovery rate). Our methods for estimating LGD includes both quantitative and qualitative factors.
- **Exposure at Default:** This represents the amount that is outstanding at the point of default. Its estimation includes the drawn amount and expected utilization of the undrawn commitment at default.

II. Impairment Assessment

The Company assesses its impairment for the purpose of IFRS report using a two-way approach which is Individual assessment and portfolio assessment.

- (a) **Specific assessment:** The Company reviewed and revised existing impairment triggers for each loan asset portfolio to ensure that a trigger identifies a loss event as early as possible, which would result in the



earliest possible recognition of losses within the IFRS framework. The Company then estimated the impairment based on the shortfall between the present value of estimated future cash flows and the asset carrying amount.

- (b) **Collective assessment** Loans and receivables that are not specifically impaired are assessed under collective impairment. For the purpose of collective impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to contractual terms. The Company generally bases its analyses on historical experience. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry-specific problems). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. The impairment allowance is reviewed by credit management to ensure alignment with the Company's overall policy.

III. Credit Related Commitments Risks

The Company holds collateral against loans and receivables to customers in the form of Company guarantees and property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing.

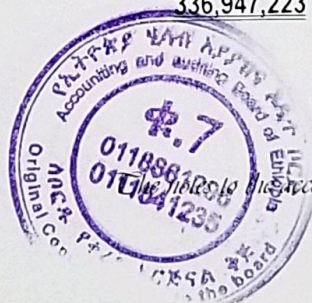
IV. Maximum Exposure to Credit Risk

Types of collateral or credit enhancement

KMFI loans that are channeled through groups shall jointly and severally be guaranteed by the group members. Furthermore, compulsory savings of individual group members will also be used as additional security for the loan. Third party guarantee in case of group loan may be required by the group members themselves for a member in a group whom they think is more risky in various ways.

The table below shows the Company's maximum exposure to credit risk which is represented by the net carrying amounts in the statement of financial position and the fair value of collaterals and credit enhancements held at 30 June 2024, and 30 June 2025.

As at June 30/2025	Maximum Exposure to Credit risk Birr	Secured Against				Remaining Risk Birr
		real estate Birr	Motor Vehicles Birr	Others Birr	Total Birr	
Cash and bank balances	80,905,880	-	-	80,905,880	80,905,880	-
Group loan	11,805,967	-	-	2,361,193	2,361,193	9,444,774
Construction/consumption	1,973,295	-	-	197,330	197,330	1,775,965
Transportation	61,933,531	-	55,740,178	6,193,353	61,933,531	-
Individual loans	177,703,948	168,818,751	-	8,885,197	177,703,948	-
Staff loans & advances	2,624,602	-	-	2,624,602	2,624,602	-
	<u>336,947,223</u>	<u>168,818,751</u>	<u>55,740,178</u>	<u>101,167,555</u>	<u>325,726,484</u>	<u>11,220,739</u>



As at 30 June 2024

	Maximum Exposure to Credit risk Birr	Secured Against			Total Birr	Remaining Risk Birr
		real estate Birr	Motor Vehicles Birr	Others Birr		
Cash and bank balances	107,872,318	-	-	107,872,318	107,872,318	-
Customer & staffs						
Group loan	8,581,728	-	-	1,716,346	1,716,346	6,865,382
Construction/consumption	5,035,884	-	-	1,007,177	1,007,177	4,028,707
Transportation	65,127,186	-	58,568,224	6,558,962	65,127,186	-
Individual loans	146,957,668	139,609,785	-	7,347,883	146,957,668	-
Staff loans & advances	2,289,197	-	-	2,289,197	2,289,197	-
	<u>335,863,981</u>	<u>139,609,785</u>	<u>58,568,224</u>	<u>126,791,883</u>	<u>217,097,574</u>	<u>10,894,089</u>

V. 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.

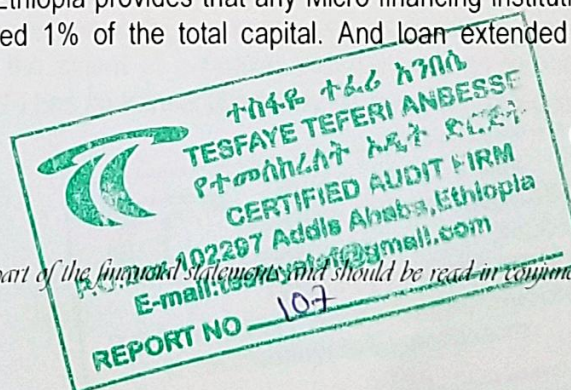
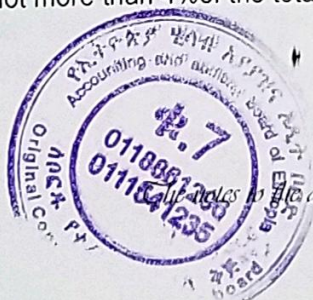
For impaired loans, the Company obtains appraisals of collateral because the fair value of the collateral is an input to the impairment measurement.

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.

7. 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 and Supervision of Business proclamation No./626/09 of the National Bank 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.



8. 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 2025

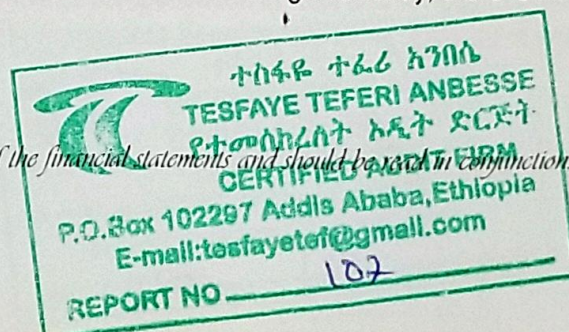
	Fixed Birr	Non-interest bearing Birr	total Birr
Interest on saving accounts	758,079	-	758,079
Interest from Loan & advances to customers	<u>57,578,672</u>	-	<u>57,578,672</u>
	<u>58,336,751</u>	-	<u>58,336,751</u>
Liabilities			
Deposits from customers	12,379,331	-	12,379,331
Interest on Borrowings	<u>14,416,404</u>	-	<u>14,416,404</u>
	<u>26,795,735</u>	-	<u>26,795,735</u>

30 June 2024

	Fixed Birr	Non-interest bearing Birr	Total Birr
Interest on saving accounts	936,180	-	936,180
Loan & advances to customers	<u>60,938,816</u>	-	<u>60,938,816</u>
	<u>61,874,996</u>	-	<u>61,874,996</u>
Liabilities			
Deposits from customers	8,187,573	-	8,187,573
Interest on Borrowings	<u>17,958,129</u>	-	<u>17,958,129</u>
	<u>26,145,702</u>	-	<u>26,145,702</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 Company is exposed to exchange rate risks to the extent of balances and transactions denominated in a currency other than the Ethiopian Birr. Since the MFI has no transaction in foreign currency, there is no risk from foreign exchange risk.



(ii) Capital management

The Company's objectives when managing capital are to comply with the capital requirements set by the National Bank 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 Bank of Ethiopia (NBE).

(iii) Capital Adequacy Ratio

According to the Licensing and Supervision of 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.

9. Acquisitions and Disposals

There were no acquisitions and disposals during the reporting period.

10. Interests in Subsidiaries

There was no interest in subsidiaries during the reporting period.

11. Investments accounted for at cost

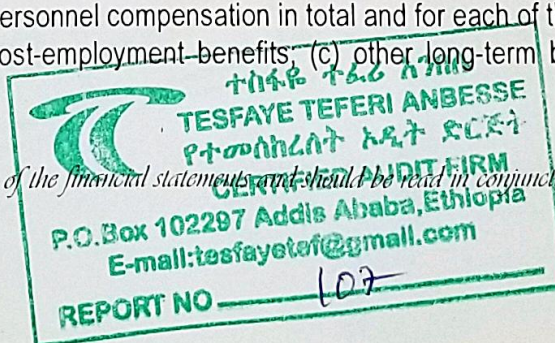
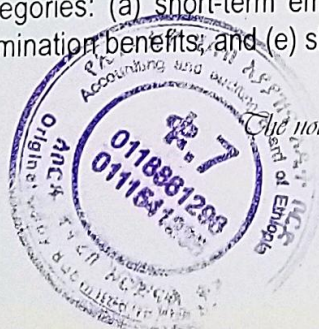
KMFI recognized equities, at initial recognition, at fair value which was the transaction price then. The Kendil makes utmost effort to use all information about the performance and operations of the Companies' that becomes available to it after the date of initial recognition. It is very difficult to 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 and loss when received.

12. 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



13. 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>2024</u> <u>ETB</u>
Interest – Individual loan	39,419,617	38,268,459
Interest – Vehicle loan	14,799,283	17,762,975
Interest – Consumption loan	798,763	1,667,150
Interest – Shareholder loan	1,819,487	1,990,535
Interest – Vehicle Purchase loan	104,493	421,817
Interest – Personal Guarantee loan	432,653	613,961
Interest – Group loan	<u>204,375</u>	<u>213,917</u>
	<u>57,578,671</u>	<u>60,938,814</u>

14. SERVICE CHARGES ON LOANS

As indicated in the operational manual of the Company, service fee of 5% on fresh/new loans allowed and disbursed during the year are collected from all customers with the exception of personal guarantee/staff loan. Accordingly, service charges on loans balance of Birr 9,670,200 represent amount collected during the year on new loans totaling Birr 193,404,000.00 that are disbursed to customers.

15. PENALTY INCOME FROM LOANS TO CUSTOMERS

	<u>ETB</u>	<u>2024</u> <u>ETB</u>
Interest – Individual loan	3,194,396	2,047,658
Interest – Vehicle loan	1,162,545	797,919
Interest – Consumption loan	155,912	165,612
Interest – Shareholder loan	102,602	89,498
Interest – Vehicle Purchase loan	37,069	126,286
Interest – Personal Guarantee loan	58,150	69,629
Interest – Group loan	<u>2,654</u>	<u>1,054</u>
	<u>4,713,328</u>	<u>3,297,656</u>



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

16. OTHER INCOME

	<u>ETB</u>	<u>2024</u> <u>ETB</u>
Income from insurance premium	2,299,116	1,900,615
Other non-financial income	2,408,607	2,061,221
House Rent income	534,953	670,480
Gain from release of PPE	-0	468,265
Income from investment	63,485	45,318
Pass book fee income	26,490	30,100
Interest from saving and Fixed deposit	758,079	936,180
Income from loan loss reverse	<u>364,242</u>	-
	<u>6,454,972</u>	<u>6,112,179</u>

17. INTEREST ON CLIENTS SAVINGS

	<u>ETB</u>	<u>2024</u> <u>ETB</u>
Interest Expense On Saving	12,379,331	8,187,573
Interest Expense on PF	-	-
	<u>12,379,331</u>	<u>8,187,573</u>



18. GENERAL AND ADMINISTRATION EXPENSES

	<u>ETB</u>	<u>2024</u> <u>ETB</u>
Salary and benefits	20,882,819	18,459,337
Rent	3,157,847	2,273,734
Pension contribution and provident fund	1,822,096	1,632,374
Office supplies	1,527,076	1,806,337
Insurance expense	428,143	335,128
Training and tuition fees	-	704,046
cleaning and sanitation	224,314	185,841
Hospitality	519,104	455,936
Inland revenue expense	194,697	1,345,579
Board Per dime expense	63,250	101,650
General assembly	301,856	317,742
Board and Management Meetings	300,851	247,241
Membership fee	75,000	25,000
Accrued Annual leave expense	159,636	269,325
Accrued Severance pay expense	293,288	266,613
Advertisement expense	123,442	286,095
Audit fee	230,000	230,000
Board fees	566,000	545,600
Utilities and communication expense	485,764	401,658
Repair and maintenance expense	473,702	671,524
Fuel & lubricant	284,765	277,641
Transportation expense	411,418	353,737
Other costs	553,500	814,667
Travel and per diem	318,549	417,365
System annual maintenance	394,766	288,488
Miscellaneous expense	<u>17,718</u>	<u>179,625</u>
	<u>33,809,601</u>	<u>32,892,283</u>

19. FINANCIAL COST

	<u>ETB</u>	<u>2024</u> <u>ETB</u>
Interest Expense on commercial	11,455,036	14,829,773
Interest Expense on Loan RUFIP	<u>2,961,368</u>	<u>3,128,356</u>
	<u>14,416,404</u>	<u>17,958,129</u>



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

20. CASH AND CASH EQUIVALENTS

	<u>ETB</u>	<u>2024</u> <u>ETB</u>
Cash on hand	-	-
Cash at banks	<u>80,905,880</u>	<u>107,872,318</u>
	<u>80,905,880</u>	<u>107,872,318</u>

• No impairment loss allowance is recognized against the balances with other banks as management believes that the liquidity risk on these is minimal.

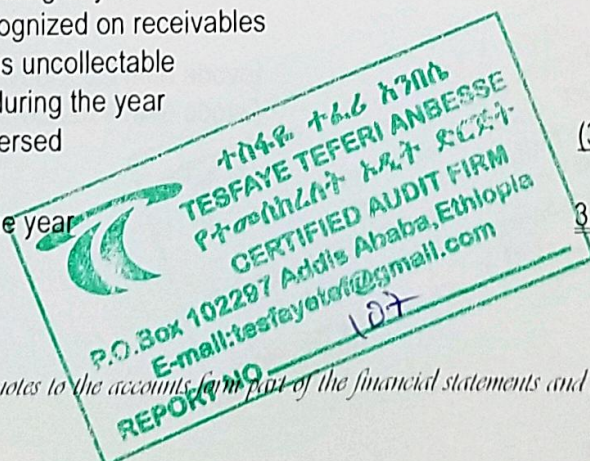
21. LOANS AND ADVANCES - CUSTOMERS

	<u>ETB</u>	<u>2024</u> <u>ETB</u>
Loan receivable – trade	177,703,948	146,957,668
Loan receivable – vehicle	61,933,531	65,127,186
Loan receivable – consumption	1,973,295	5,035,884
Loan receivable – center	<u>3,314,591</u>	<u>2,761,095</u>
	244,925,365	219,881,833
Less: Impairment allowance (see Note 1 below)	<u>(3,035,021)</u>	<u>(3,399,263)</u>
	<u>241,890,344</u>	<u>216,482,570</u>

1. MOVEMENT OF IMPAIRMENT ON LOAN

The movements in impairment allowance for Loan receivable is analyzed below:

	<u>ETB</u>	<u>2024</u> <u>ETB</u>
Balance at the beginning of year	3,399,263	1,984,211
Impairment loss recognized on receivables	-	1,883,317
Amount written off as uncollectable	-	-
Amount recovered during the year	-	-
Impairment loss reversed	<u>(364,242)</u>	<u>(468,265)</u>
Balance at end of the year	<u>3,035,021</u>	<u>3,399,263</u>



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

2. LOAN AND ADVANCES - CUSTOMERS FOR CASH FLOW PURPOSE

	<u>ETB</u>
Total balance as at 30/06/2025 (see note 21 above)	244,925,365
Total balance as at 30/06/2024 (see note 21 above)	<u>219,881,833</u>
Change in loan and advances	<u>(25,043,532)</u>

22. INTEREST RECEIVABLE

	<u>ETB</u>
Beginning balance	3,836,713
Current year interest receivable	<u>57,578,672</u>
Interest amount collected	61,415,385 <u>(57,852,986)</u>
	<u>3,562,399</u>

23. DEBTORS

	<u>ETB</u>	<u>2024</u> <u>ETB</u>
Staff debtors	2,624,602	2,289,197
Prepayment	3,609,979	3,578,263
Refund Account	371	371
Advance	51	51
Court receivables	<u>386,341</u>	<u>-</u>
	<u>6,621,344</u>	<u>5,867,882</u>



Debtors for cash flow purpose

	<u>ETB</u>
Total balance as at 30/06/2025 (see above)	6,621,344
Total balance as at 30/06/2024 (see above)	<u>5,867,882</u>
Change in debtors	<u>753,462</u>



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

24. INVESTMENT

		2024
	ETB	ETB
Association of Ethiopian Microfinance Institution (AEMFI)-ET-Inclusive Finance Technology S.C		ETB
Opening balance	2,014,000	<u>2,014,000</u>
Add: Dividend capitalized	63,485	-
Paid in cash	<u>500,515</u>	-
	564,000	-
	<u>2,578,000</u>	<u>2,014,000</u>

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, more than thirty 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.

25. PROPERTY, PLANT AND EQUIPMENT

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

	Building	Motor Vehicles	Office Equipment	Computer & Accessories	Office Furniture	Blg under construction	Total
	ETB	ETB	ETB	ETB	ETB	ETB	ETB
COST							
As at 30 June 2023	18,670,504	2,510,097	431,423	905,484	1,180,840	17,850,000	41,548,348
Additions	-	-	<u>82,000</u>	<u>312,000</u>	<u>474,428</u>	<u>12,437,264</u>	<u>13,305,692</u>
As at 30 June 2024	18,670,504	2,510,097	513,423	1,217,484	1,655,268	30,287,264	54,854,040
Additions	-	-	-	-	-	<u>17,582,190</u>	<u>17,582,190</u>
As at 30 June 2025	18,670,504	2,510,097	513,423	1,217,484	1,655,268	47,869,454	72,436,23
DEPRECIATION							
As at 30 June 2023	1701,060	747,366	146,697	689,520	463,897	-	3,748,540
Charge for the year	<u>355,452</u>	<u>124,561</u>	<u>49,333</u>	<u>135,703</u>	<u>157,955</u>	-	<u>823,004</u>
As at 30 June 2024	2,056,512	871,927	196,030	825,223	621,852	-	4,571,544
Additions	<u>355,452</u>	<u>124,561</u>	<u>49,357</u>	<u>135,032</u>	<u>164,497</u>	-	<u>828,899</u>
	<u>2,411,964</u>	<u>996,488</u>	<u>245,387</u>	<u>960,255</u>	<u>786,349</u>	-	<u>5,400,443</u>
NET BOOK VALUE							
As at 7 July 2024	<u>16,613,992</u>	<u>1,638,170</u>	<u>317,393</u>	<u>392,261</u>	<u>1,033,416</u>	<u>30,287,264</u>	<u>50,282,496</u>
As at 7 July 2025	<u>16,258,540</u>	<u>1,513,609</u>	<u>268,036</u>	<u>257,229</u>	<u>868,919</u>	<u>47,869,454</u>	<u>67,035,787</u>



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

- b) The cost of building included the lease cost of three plots of land as described below. at the time of transition to IFRS, the Company opted to assess the fair value of buildings including the plots of land in which they are situated, and use that value as deemed cost.
- i. The company obtained 395.91 m² land in ArsiNegele town Q/Dama area from Oromia Regional State, Oromia Industry and Urban Development Bureau for a period of 99 years on Sene 10, 2007. The cost of the lease is Birr 288,218 to be paid over a period of 40 years with equal annual payments of Birr 7,205.
 - ii. The company obtained 411 m² land in Shashemene town Abbosto area from Oromia Regional State, Oromia Urban Land Development and Management Agency for a period of 70 years on Nehasse 16, 2009. The cost of the lease is Birr 220,160 to be paid over a period of 40 years with equal annual payments of Birr 5,504.
 - iii. The Company obtained 500m² land in Addis Ababa City Administration, Lemi Kura sub city of Woreda 03. The construction work on the land is undergoing since 2016 E.C.
- c) The two leaseholds are obtained free of interest. Present value was calculated using the borrowing rate of the company (28%) over forty years, the lease liability payment period. The present value and the subsequent principal payments are not material. Hence, no lease liability is recognized. Annual payments, which are almost equivalent to the interest charge, are directly charged to profit and loss account upon payment.

26. DEPOSIT FROM CUSTOMERS

	<u>Compulsory</u> ETB	<u>Voluntary</u> ETB	<u>Total</u> ETB
Compulsory Savings	23,335,515	-	23,135,515
Time Deposit	-	58,081,745	58,081,745
Voluntary Individual	-	18,125,973	18,125,973
Non-client savings	-	51,003,317	51,003,317
Institutional saving	-	656,876	656,876
As at June 30, 2025	23,135,514	127,867,910	151,003,424
As at June 30, 2024	17,993,827	101,959,659	119,953,486

Deposit from customers for cash flow purpose

	ETB
Total balance as at 30/06/2024 (see above)	151,003,424
Total balance as at 30/06/2023 (see above)	119,953,486
Change in deposit from customers	31,049,938



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

29. BORROWINGS

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

	Notes	ETB	<u>2024</u> ETB
Loan from Oromia Bank	i	18,160,328	24,810,434
Loan from RUFIP	ii	35,795,293	35,718,382
Loan from Awash Bank	iii	67,165,124	45,216,321
Commercial Bank of Ethiopia	iv	-	57,800,000
		121,120,745	163,545,137
Less: Current maturity of loan		(45,605,227)	(52,639,776)
		<u>75,515,518</u>	<u>110,905,361</u>

- i. The Company has Borrowed term loan from Oromia Bank S.C. As indicated on the loan agreement signed on Miazia 10, 2014 (April 18, 2022) the previous outstanding balance loan amounting to Birr 21,903,073 rescheduled and additional new loan of Birr 14,000,000 was allowed to the Company. So the total of the loan indicated under this agreement was Birr 35,903,073.the loan bears interest of 15.25% per annum. The loan is repaid on semi-annual basis starting from Miazia 10, 2014 (April 18, 2022) and fully settled before or on Miazia 10, 2019 (April 18, 2027). In case of default or failure to repay amount of the loan the Company agreed to pay 3% of penalty from the date of such default. The movement of the loan are detailed as follows:

	ETB	<u>2024</u> ETB
Balance at beginning of year	24,810,434	<u>30,818,789</u>
Additional loan received during the year	-	-
Adjustment	-	-
Settlement made during the year	(6,650,106)	<u>(6,008,355)</u>
Balance at the end of the year	<u>18,160,328</u>	<u>24,810,434</u>



- ii. The Company has obtained loan from DBE – RUFIP with interest rate of 11% per annum. The Company has signed loan agreement with the lender at different period and the loan shall be disbursed on the installment basis as described under each loan agreement. Currently, the Company has signed loan contract with DBE – RUFIP on April 01, 2025 for the loan amount of Birr 10,980,835.

	ETB	2024 ETB
Balance at beginning of year	35,718,382	40,327,263
Additional loan during the year	10,980,835	17,336,860
Settlement made during the year	(10,903,924)	(21,945,741)
Balance at the end of the year	<u>35,795,293</u>	<u>35,718,382</u>

iii. The Company has obtained term loans from Awash Bank S.C. These are :

- 1) As per the loan agreement signed on Megabit 2, 2014, the Company obtained a term loan of Birr 50,000,000. The loan bears interest at the rate of 13% per annum and the loan is repaid starting from Sene 2, 2014 and fully repaid before or on Megabit 2, 2017. As per the Directive No. MCR/01/2020, the purpose of the loan should be lent to individuals, Cooperatives, Unions and other small and medium Agencies those who are engaged in agricultural sector and moveable assets of the beneficiaries will be held as collateral; and currently the loan is fully repaid, and
- 2) As per the loan agreement signed on Hidar 14, 2015, the Company obtained a term loan of Birr 30,000,000. The loan bears interest at the rate of 11.5% per annum and the loan is repaid starting from Ginbot 14, 2015 and fully repaid before or on Hidar 14, 2018. As per the Directive No. MCR/01/2020, the purpose of the loan should be lent to individuals, Cooperatives, Unions and other small and medium Agencies those who are engaged in agricultural sector and moveable assets of the beneficiaries will be held as collateral.
- 3) As per the loan agreement signed on Meazya 01, 2017, the Company obtained a term loan of Birr 50,000,000. The loan bears interest at the rate of 13% per annum and the loan is repaid starting from Tikimt 14, 2018 and fully repaid before or on Magabit 30, 2022. As per the Directive No. MCR/01/2020, the purpose of the loan should be lent to individuals, Cooperatives, Unions and other small and medium Agencies those who are engaged in agricultural sector and moveable assets of the beneficiaries will be held as collateral.

The loans are detailed as follows

	ETB	2024 ETB
Balance at beginning of year	45,216,321	35,420,988
Additional loan during the year	50,000,000	30,000,000
Settlement made during the year	(28,051,197)	(20,204,667)
Balance at the end of the year	<u>67,165,124</u>	<u>45,216,321</u>



- iv. The Company has obtained term loan of Birr 57,800,000 from Commercial Bank of Ethiopia with interest rate of 11.5% per annum on Tir 21, 2016 for the purpose of relend to its customers. 50% of the loan to be deposited in the blocked account opened for collateral purpose with the Bank and it is released when the borrower make settlements in accordance with the loan agreement Article 3.



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

The loan is repaid on semi-annual basis starting from Hamle 20, 2016 and finally settled before or on Tir 20, 2017. It is fully repaid. This was detailed as follows.

	<u>ETB</u>	<u>2024</u> <u>ETB</u>
Balance at beginning of year	57,800,000	-
Additional loan during the year	-	57,800,000
Settlement made during the year	<u>57,800,000</u>	<u>-</u>
Balance at the end of the year	<u>-</u>	<u>57,800,000</u>

v. Movement of the term loan for cash flow purpose

	<u>Amount received</u> <u>ETB</u>	<u>Amount paid</u> <u>ETB</u>
June 30, 2024		
Oromia Bank	-	6,650,106
DBE-RUFIP	10,980,835	10,903,924
Awash Bank	50,000,000	28,051,197
Commercial Bank of Ethiopia	-	57,800,000
	<u>60,980,835</u>	<u>103,405,227</u>
June 30, 2024		
Oromia Bank	-	6,008,355
DBE-RUFIP	17,336,860	21,945,741
Awash Bank	30,000,000	20,204,667
Commercial Bank of Ethiopia	57,800,000	-
	<u>105,136,860</u>	<u>48,158,763</u>



30. 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. Up on 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. Following the shareholders decision made on February 2023 the par value of the share rose to Birr 150. Accordingly, the Company has 612,080 shares in issue at Birr 150 par value each and the subscribed capital of the Company reached Birr 91,812,000. As at June 30, 2025, out of the above subscribed capital, the paid up capital reached to Birr 77,734,160.

31. TREASURY STOCK

As per the Board's 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.

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



32. RETAINED EARNINGS

	<u>ETB</u>	<u>30-Jun-24</u> <u>ETB</u>
Retaining earnings opening balance	20,637,808	17,964,366
Donated capital write off	-	2,641,320
Comprehensive income for the year	16,982,936	17,429,770
Transfer to capital	(15,302,000)	(16,526,160)
Transfer to legal reserve	(849,147)	(871,489)
Retaining earnings per IFRS	<u>21,469,597</u>	<u>20,637,807</u>

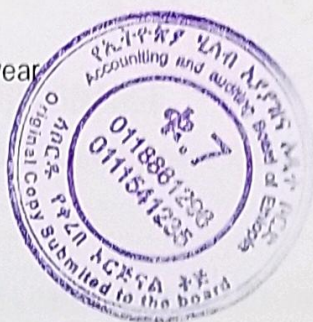
33. IFRS REVALUATION RESERVE

Valuation of Plants, Property and Equipment were performed as at 1st July 2017 to determine the fair value, which was treated as a deemed cost at the date of the translation to IFRS. The balance included in First time IFRS adoption revaluation reserve, Birr 5,561,817 is the surplus of the revaluated amount over the carrying amount and was directly credited to this surplus account. It is released to the retained earnings by the excess of depreciation expense over the amount that would have been had the revaluation not been performed. The Accounting and Auditing Board of Ethiopia, through a letter has instructed such revaluation not to be treated as part of retained earnings. It is therefore separately reported.

34. LEGAL RESERVE

In accordance with the 14th regular general assembly meeting of the shareholders held on February 10, 2019, 5% of the net profit shall be transferred to legal reserve starting from the year ended 30 June 2018.

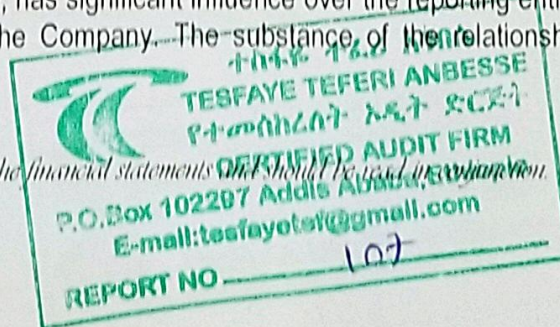
	<u>ETB</u>	<u>2024</u> <u>ETB</u>
Balance at the beginning of the year	3,972,531	3,101,042
Transferred during the year	849,147	871,489
	<u>4,821,678</u>	<u>3,972,531</u>



35. 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

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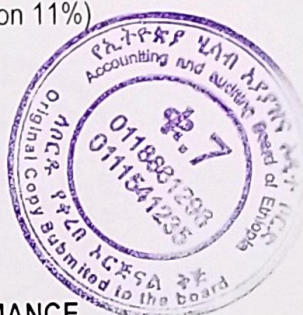
important than the legal form. A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

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:

	ETB	2024 ETB
Loan to shareholders – receivable	8,491,376	7,728,044
Savings of shareholders – payable	16,466,251	4,250,424

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:

	ETB	2024 ETB
Short term benefit (Salary)	2,844,348	2,698,752
Post-employment benefit (Pension contribution 11%)	312,878	269,143
Incentive payment (Bonus)	592,572	509,740
Board fee	566,000	545,600
Allowances	536,435	—
	<u>4,852,233</u>	<u>4,023,235</u>



36. ANNUAL LOAN RECOVERY PERFORMANCE

Based on the formula provided by RUFIP-Development Bank of Ethiopia, the annual loan recovery performance rate is 97.28%.

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	
	<u>Value</u>	
	97.61%=	<u>(167,597,136 – 4,156,300)</u>
		<u>(163,440,836 + 3,989,768)</u>

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



37. CONTINGENCIES

There were no contingent assets or liabilities at June 30, 2025.

38. CAPITAL COMMITMENTS

The company had no Capital commitment in respect of the construction work going on and its constructed by their own labor.

39. EVENTS AFTER THE REPORTING DATE

Events subsequent to the date of statement of financial position are reflected only to the extent they relate directly to the financial statements and their effect is material. There were no such events as at the date these financial statements were signed.

40. AUTHORIZATION OF FINANCIAL STATEMENTS

The financial statements for the year ended 30 June 2025 (including comparatives) are approved by the board of directors.

