KENDIL MICROFINANE INSTITUTION S.C

INDEPENDENT AUDITORS' REPORT AND ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2023

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Tesfaye Teferi Anbessie,
Authorized Audit Firm
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Contents

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

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Accounting and auditing Board of Ethiopia
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1. Management and Registered office

CORPORATE INFORMATION

Company TIN Number

	Name	Position
Management	AtoAbrahamAnbesa	General manager
	AtoKibromKiros	Finance manager
Registered Office	Adress: Shashemene	
	OromiyaKebele 03	
	P O Box 617	
	Shashemene	
	Ethiopia	
	Website:	
	Email: seyamfi@yahoo.com	
Independent Auditor		
	Tesfaye Teferi Anbesse	
	Chartered Certified Auditors	
	P O Box 102297	
	Email: tefayetef@gmail.com	
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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

Abraham Anbesa
General Manager

KENDILMICRO FINANCE SHARE COMPANY HEAD OFFICE

TESFAYE TEFERI ANBESSE CERTIFIED AUDIT FIRM P.O.Box 182287 Addis Ababa, Ethiopia

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Certified Audit Firm

3. Independent Auditors' Report

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

Opinion

We have audited the accompanying financial statements of Kendil Micro Finance Institution S.C ('the Company'), which comprise the statement of financial position as at June 30, 2023, 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, 2023 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.

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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

September 27, 2023
Addis Ababa

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

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, 2023

	Notes	ETB	2022 ETB
INCOME			
From operation			
Interest from loans	14, 33	42,856,865	34,138,109
Service charges on loans	14	7,493,550	7,094,687
Penalty income from clients	14	2,336,969	1,449,271
Interest from bank savings		-	179,813
Other Income	34	3,351,256	1,336,338
TOTAL INCOME		**56,038,640**	**44,198,218**
EXPENSES			
Interest on clients saving	35	5,326,530	3,484,971
Depreciation Expense		682,053	790,175
loan loss provision		11,019	1,598,383
General and administrative	4, 36	21,628,719	15,235,960
Board meeting fees		480,200	84,800
Stamp duty expense		-	140,000
Audit fees		126,500	253,000
TOTAL EXPENSE		**28,255,021**	**21,587,289**
Net profit from operation		**27,783,619**	**22,610,929**
Finance cost	5, 37	(12,025,903)	(6,941,654)
Other Comprehensive income		-	-
Movement in Fair Value of Equity Instrument		-	-
Revaluation Surplus (Deficit)		-	-
Tax on Comprehensive Income		-	
Other Comprehensive Income (Net of Tax)		-	
Total Comprehensive Income for the Year		**15,757,715**	**15,669,275**

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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, 2023

	Notes	ETB	2022 ETB
ASSETS			
Cash and Cash Equivalents	13, 38	31,547,727	28,365,141
Loans and Advances- customers	11, 19, 39	196,800,290	164,509,728
Interest Receivable		2,661,278	2,766,307
Debtors	12, 40	4,936,494	7,270,747
Investment Securities	41	1,968,000	1,968,000
Property and Equipment	7, 42	19,949,808	15,241,239
Building in Progress – A.A		17,850,000	17,850,000
Total Assets		**275,713,597**	**237,971,162**
Liabilities			
Deposit from customers	43	85,835,242	54,331,586
Accrued Interest payable		2,481,496	4,453,383
Creditors	44	6,544,136	10,389,212
Current maturity of long term loan	45	26,175,141	11,196,785
Long term borrowing	45	80,391,899	99,072,231
Total Liabilities		**201,427,914**	**179,443,197**
Capital and Reserves			
Paid up Capital	1, 22,46	45,906,000	30,604,000
Treasury Stock	47	(888,864)	(888,864)
Retained Earning	48	17,964,366	18,296,536
IFRS revaluation Reserve	49	5,561,817	5,561,817
Legal Reserve	50	3,101,042	2,313,156
Donated capital	51	2,641,320	2,641,320
Total Capital and Reserves		**74,285,681**	**58,527,965**
Total Liabilities and Capital		**275,713,595**	**237,971,162**

Abraham Anbesa
General Manager

Kibrom Kiros
Finance Manager

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

6. Statement of Changes in Equity

KENDIL MICRO FINANCE INSTITUTION S.C
STATEMENT OF CHANGES IN EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	Paid Up Capital Birr	Treasury Stock Birr	Retained Earnings Birr	Revaluation Reserve Birr	Legal Reserve Birr	Donation capital Birr	Total Birr
Balance at 30, June 2021	**12,241,600**	**(888,864)**	**33,175,312**	**5,561,817**	**1,529,692**	**2,705,570**	**54,325,127**
Increase/ decrease in donated Capital	-	-	-	-	-	(64,250)	(64,250)
Transfer to capital	18,362,400	-	(18,362,400)	-	-	-	-
Distributed Profit	-	-	(11,460,987)	-	-	-	(11,460,987)
Profit for the year	-	-	15,669,275	-	-	-	15,669,275
Legal Reserve	-	-	(783,464)	-	783,464	-	-
Dividend Obtained from ET-inclusive	-	-	57,380	-	-	-	57,380
Adjustments	-	-	1,420	-	-	-	1,420
Balance at 30, June 2022	**30,604,000**	**(888,864)**	**18,296,536**	**5,561,817**	**2,313,156**	**2,641,320**	**58,527,965**
Balance at 30, June 2022	30,604,000	(888,864)	18,296,536	5,561,817	2,313,156	2,641,320	58,527,965
Transfer to capital	15,302,000	-	(15,302,000)	-	-	-	-
Transfer to legal Reserve	-	-	(787,886)	-	787,886	-	-
Profit for the year	-	-	15,757,715	-	-	-	15.757,715
Balance at 30, June 2023	**45,906,000**	**(888,864)**	**17,964,364**	**5,561,817**	**3,101,042**	**2,641,320**	**74,285,68**





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

7. Statement of Cash Flow

KENDIL MICROFINANCING INSTITUTION
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 JUNE 2023

	Birr	30 June 2022 Birr
Cash flows from operating activities		
Net profit	15,757,715	15,669,275
Adjustments for non- cash items:		
Depreciation of property, plant and equipment	682,053	790,175
Current Year Adjustment	-	58,800
Changes in working capital:		
Change in Loans and Advances- customers	(32,290,561)	(49,887,747)
Change in Interest Receivable	105,029	(1,771,078)
Change in Debtors	2,334,253	(4,723,536)
Change in Deposit from customers	31,503,656	15,534,800
Change in creditors	(3,845,075)	3,655,563
Change in accrued interest payable	(1,971,886)	2,234,926
Dividend declared and tax paid	-	(11,460,987)
Net cash inflow from operating activities	12,275,184	(29,899,809)
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,390,622)	-707,097
Adjustment to PPE	-	480,845
Purchase of Shares (ETIFT)	-	(1,058,000)
Building in process	-	(17,850,000)
Net cash outflow from investing activities	(5,390,622)	(19,154,252)
Cash flows from financing activities		
Loan (repaid)/Acquired during the year	(3,701,976)	65,486,814
Increase /decrease in Donation capital	-	(64,250)
Net cash outflow from financing activities	(3,701,976)	65,422,564
Net increase (decrease) in cash and cash equivalents	3,182,586	16,388,503
Cash and cash equivalents as at 1 July	28,365,141	11,976,638
Cash and cash equivalents at 30 June 2021	31,547,727	28,365,141

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Accounting and auditing Board of Ethiopia
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8. Notes to the Financial Statements

KENDIL MICROFINANCING INSTITUTION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

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 2023.

Kendil Microfinance Institution S.C is a microfinance institution domiciled in Shashemene, Oromiya Regional State, Ethiopia. The Company was Established on Tir 7, 1993 (January 15, 2001) in accordance with Proclamation No. 40/96.it has been issued With Business License No. MFI 019/01 by the national Company of Ethiopia on February 7, 2001 and renewed up to February 6, 2022. Capital was Increased to birr 1,524,500 divided into 30,718 shares of birr 50 per value each. Furthermore, the capital of the company was raised to Birr 3,060,400 divided into 61,208 shares of birr 50 per value each. On Tahsas 2009 the capital of the company was raised to birr 12,241,600 divided into 244,832 shares of Birr 50 par value each. On February 07, 2022 the capital of the Company was raised to Birr 30,604,000 divided into 612,080 shares of Birr 50 par value each. On February 2023 the shareholders decided to increase the par value of the share to Birr 150; the capital was raised to 45,906,000.

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

Vision, Mission and Governance

Vision

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

Mission

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

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

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

2. Accounting policies & Basis of Preparation

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

The 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 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.

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.

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.

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

2.1. 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:

2.1.1. New or revised standards

IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2023.

It requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. As the company has no insurance contracts, this standard is not applicable.

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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 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 and that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.

IFRS S1 was issued in June 2023 and applies to annual reporting periods beginning on or after 1 January 2024. The Company will make the necessary disclosure in the following accounting period.

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. IFRS S2 applies to: climate-related risks to which the entity is exposed, such as climate-related physical risks and climate-related transition risks; and climate-related opportunities available to the entity.

IFRS S2 was issued in June 2023 and applies to annual reporting periods beginning on or after 1 January 2024. The Company will make the necessary disclosure in the following accounting period, after making assessment of climate related risks and opportunities.

2.1.2. Amendments

Reference to the Conceptual Framework (Amendments to IFRS 3)

The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards, but it does not have a material impact on the company's financial statements. The amendment is effective for annual reporting periods beginning on or after 1 January 2022. The company is applying the amendments already.

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. This will be effective for annual reporting periods beginning on or after 1 January 2024. The Company will adopt the amendment on effective date.

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The notes to the accompanying financial statements and should be read in conjunction

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

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022. The company has adopted the amendment as applicable.

Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). This amendment takes effect on annual reporting periods beginning on or after 1 January 2022. The Company has adopted it from the indicated date as applicable.

AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. The company will assess the impact and implement accordingly.

Definition of Accounting Estimates - Amendments to IAS 8

The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors. This aspect of the definition was retained by the Board. The amendments apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of the effective date. The amendment is effective for annual periods beginning on or after 1 January 2023, earlier application is permitted. The amendments are intended to provide preparers of financial statements with greater clarity as to the definition of accounting estimates, particularly in terms of the difference between accounting estimates and accounting policies. Although the amendments are not expected to have a material impact on entities' financial statements, they should provide helpful guidance for entities in determining whether changes are to be treated as changes in estimates, changes in policies, or errors. The company shall consider the impact of the amendment and implement it.

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Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The amendments aim to help entities provide accounting policy disclosures that are more useful by: Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. In the absence of a definition of the term 'significant' in IFRS, the Board decided to replace it with 'material' in the context of disclosing accounting policy information. 'Material' is a defined term in IFRS and is widely understood by the users of financial statements. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them. The amendments may impact the accounting policy disclosures of entities. Determining whether accounting policies are material or not requires use of judgement. Therefore, entities are encouraged to revisit their accounting policy information disclosures to ensure consistency with the amended standard. Entities should carefully consider whether 'standardized information, or information that only duplicates or summarizes the requirements of the IFRSs' is material information and, if not, whether it should be removed from the accounting policy disclosures to enhance the usefulness of the financial statements. The amendment is effective for annual periods beginning on or after 1 January 2023. The company will check its account policy disclosures to be compliant to the amendment.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability. Changes to the initial recognition exception under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. Nevertheless, it is possible that the resulting deferred tax assets and liabilities are not equal (e.g., if the entity is unable to benefit from the tax deductions or if different tax rates apply to the taxable and deductible temporary differences). In such cases, which the Board expects to occur infrequently, an entity would need to account for the difference between the deferred tax asset and liability in profit or loss. The amendment is effective for annual periods beginning on or after 1 January 2023. The Company will implement the amendment from the effective date.

3. Summary of Significant Accounting Policies

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

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

3.1. Foreign Currency Translation

a. Functional and presentation currency

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

b. Transactions and balances

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

4. Operating Expenses

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

5. Borrowing Costs

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

6. Income (Profit) & sales taxes

As per Article 23 of Proclamation No. 626 /2009, Micro-Financing Business Proclamation, any micro-financing institution that makes profit from its business and distributes to shareholders shall pay profit tax as any business entity. However, if it fully ploughs back the profit, 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.

7. Property, Plant and Equipment

a) Right of Use Land

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

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

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

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

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

Asset class	Depreciation rate (%)
Building	Up to 50 years
Motor vehicle	Up to 20 years
Furniture & fittings	Up to 10 years
Computer and Accessories	Up to 5 years
Office equipment	Up to 10 years
Land improvement	Up to 20 years

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.

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.

c) 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.

8. Impairment testing of intangible assets and 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.

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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.

9. Investment property

Investment properties are properties held to earn rentals or for capital appreciation, or both, and are accounted for using either the cost model or the fair value model.

The Institution do not have investment properties but if there is any it should be accounted for using the cost model where the resulting depreciation and impairment losses recognized in profit or loss, and are included in the statement of financial position at their original cost.

10. Financial instruments

Financial assets and financial liabilities are recognized when the company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs, 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.

Write-off

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.

11. 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.

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12. 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.

13. Cash and cash equivalents

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

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

i. Readily convertible to known amounts of cash; and

ii. So near their maturity date (3 month or less from the date of acquisition), that they present insignificant risk of changes in value because of changes in interest rates.

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

14. Revenue recognition

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

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

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

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

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

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

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

15. Employee Benefits

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

a) Post-employment Benefit

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

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

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

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

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

16. Fair Value Measurement

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

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

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

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





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

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

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

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

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

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

17. Significant accounting judgments, estimates and assumptions

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

a) Judgments

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

b) Estimates and Assumptions

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

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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.

18. Fair value measurement of financial instruments

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

19. Impairment Losses on Loan Receivables

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

Kendil Calculates Expected Credit Losses (ECL) by:

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

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

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

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

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

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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 & 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 that the requirement of IFRS 9, which requires that if the credit risk of a financial asset increases to the point that it is considered credit-impaired (stage 3), interest revenue is calculated based on the amortized cost (i.e. the gross carrying amount less the loss allowance).

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

20. Severance Pay

The cost of severance pay obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and mortality rates.

Due to the complexities involved in the valuation and its long-term nature, a severance pay obligation is highly sensitive to changes in these assumptions. Due to the difficulties in getting basic data at the end of each reporting period for actuarial assumptions including mortality rate, rate of employee turnover, discount rate and future salary increment rates, KMFI apply a simplified approach. Accordingly, the severance pay is computed at the end of the reporting period to the extent of employees' service year, taking into account the employee turnover to determine likelihood of payment (based on employees' retention rate) of severance pays.

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

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

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22. Equity, reserves and dividend payments

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

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

Other components of equity include the following:

- Revaluation reserve - comprises gains and losses from the revaluation of assets at the time of transition to IFRS.

Retained earnings include all current and prior period retained profits.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

23. Provisions, contingent assets and contingent liabilities

Provisions for product warranties, legal disputes, onerous contracts or other 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 from the corporation and amounts can be estimated reliably. The timing or amount of the outflow may still be uncertain.

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.

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.

24. Significant management judgments

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.

a) 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 valuators; 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.

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b) 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.

25. Credit risk management

Credit risk is the risk of financial loss to the Company if a customer of counterpart 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.

25.1. 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.

25.2. 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.

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(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.

25.3. 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.

25.4. 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 2022, and 30 June 2023.

As at 30 June 2022						
	Maximum Exposure to Credit risk	Secured Against real estate	Motor vehicles	Others	Total	Remaining Risk
	Birr	Birr	Birr	Birr	Birr	Birr
Cash and bank balances	28,365,141	-	-	28,365,141	28,365,141	-
Customer & staffs						
Group loan	9,960,771	-	-	5,633,256	5,633,256	4,327,515
Construction/consumption	12,384,806	-	-	2,666,163	2,666,163	9,718,643
Transportation	51,980,872	-	1,299,522	-	1,299,522	50,681,350
Individual loans	92,688,050	81,825,625	-	10,862,425	92,688,050	-
Staff loans & advances	3,986,643	-	-	3,947,011	3,947,011	39,632
	199,366,284	81,825,625	1,299,522	51,473,996	134,599,143	64,767,140

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30 June 2023

	Maximum Exposure to Credit risk	Secured Against real estate	Motor vehicles	Others	Total	Remaining Risk
	Birr	Birr	Birr	Birr	Birr	Birr
Cash and bank balances	31,574,727	-	-	31,574,727	31,574,727	-
Customer & staffs						
Group loan	10,568,726	-	-	3,170,618	3,170,618	7,398,108
Construction/consumption	8,449,496	-	-	2,112,374	2,112,374	6,337,122
Transportation	64,149,618	-	64,149,618	0	64,149,618	-
Individual loans	115,616,661	114,460,495	-	1,156,166	115,616,661	-
Staff loans & advances	2,358,970	-	-	2,358,970	2,358,970	-
	232,718,198	114,460,495	64,149,618	40,372,855	218,982,968	13,735,230

26. Collateral Held And Their Financial Effect

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

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

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

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

27. Liquidity risk

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

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

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28. Market risk

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

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

Interest rate risk

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

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

30 June 2022

	Fixed Birr	Non-interest bearing Birr	total Birr
Interest on saving accounts	179,813	-	179,813
Loan & advances to customers	34,138,109	-	34,138,109
	34,317,922	-	34,317,922
Liabilities			
Deposits from customers	3,246,417	-	3,246,417
Interest on Borrowings	6,941,654	-	6,941,654
	10,188,071	-	10,188,071

30 June 2023

	Fixed Birr	Non-interest bearing Birr	total Birr
Interest on saving accounts	5,036	-	5,036
Loan & advances to customers	42,856,865	-	42,856,865
	42,861,901	-	42,861,901
Liabilities			
Deposits from customers	5,256,642	-	5,256,642
Interest on Borrowings	12,025,903	-	12,025,903
	17,282,545	-	17,282,545

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(i) Foreign exchange risk

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

(ii) Capital management

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

(iii) Capital Adequacy Ratio

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

29. Acquisitions and Disposals

There were no acquisitions and disposals during the reporting period

30. Interests in Subsidiaries

There was no interest in subsidiaries during the reporting period

31. Investments accounted for at cost

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 & loss when received.

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32. Related party disclosure

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

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

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

33. REVENUE FROM OPERATION

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

	ETB	2022 ETB
Interest – Individual loan	25,237,119	24,309,066
Interest – Vehicle loan	11,730,975	3,454,669
Interest – Consumption loan	2,644,787	2,945,752
Interest – Shareholder loan	1,804,075	488,185
Interest – Vehicle Purchase loan	908,024	2,680,552
Interest – Personal Guarantee loan	470,350	193,035
Interest – Group loan	61,535	66,850
	42,856,865	34,138,109

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34. OTHER INCOME

	ETB	2022 ETB
Income from insurance premium	1,361,208	527,927
House Rent income	617,206	583,594
Gain from release of PPE	531,578	64,250
Gain from sales of PPE	-	119,155
Interest from saving and Fixed deposit	841,264	41,412
	3,351,256	1,336,338

35. INTEREST ON CLIENTS SAVINGS

	ETB	2022 ETB
Interest Expense On Saving	5,256,642	3,246,417
Interest Expense on PF	69,888	238,554
	5,326,530	3,484,971

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36. GENERAL AND ADMINISTRATION EXPENSES

	ETB	2022 ETB
Salary and benefits	12,504,241	9,248,244
Pension contribution and provident fund	1,120,823	781,878
Insurance expense	77,380	60,606
Office supplies	1,327,524	865,469
Training and tuition fees	464,656	370,233
cleaning and sanitation	125,485	61,430
Hospitality	374,841	272,522
Inland revenue expense	108,950	71,481
Board Per dime expense	32,500	43,500
General assembly	84,418	85,736
Board and Management Meetings	181,119	95,570
Membership fee	-	10,000
social contribution	256,000	119,956
Accrued Annual leave expense	628,989	468,306
Accrued Severance pay expense	180,724	128,871
Advertisement expense	159,518	146,576
Professional fee	-	118,750
General Ass. Delegation Exp.	-	147,935
Rent	1,861,424	642,750
Utilities and communication expense	353,949	276,550
Repair and maintenance expense	139,760	302,105
Fuel & lubricant	260,062	199,016
Transportation expense	248,667	151,398
other costs	647,776	116,155
Travel and perdiem	329,131	398,355
System annual maintenance	149,499	-
Miscellaneous expense	11,283	52,568
	21,628,719	15,235,960

37. FINANCIAL COST

	ETB	2022 ETB
Interest Expense on commercial	9,919,391	5,490,211
Interest Expense on Loan cessionary	2,106,512	1,451,443
	12,025,903	6,941,654

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38. CASH AND CASH EQUIVALENTS

	ETB	2022 ETB
Cash on hand	-	-
Cash at banks	31,547,727	28,365,141
	31,547,727	28,365,141

39. LOANS AND ADVANCES - CUSTOMERS

	ETB	2022 ETB
Loan receivable – trade	122,562,657	100,556,954
Loan receivable – vehicle	64,149,617	51,980,872
Loan receivable – consumption	8,449,496	12,384,806
Loan receivable – center	3,622,731	2,091,867
	198,784,501	167,014,499
Less: Impairment allowance (see Note 39.1 below	(1,984,211)	(2,504,771)
	196,800,290	164,509,728

39.1. MOVEMENT OF IMPAIRMENT ON LOAN

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

	ETB	2022 ETB
Balance at the beginning of year	2,504,771	906,388
Impairment loss recognized on receivables	11,018	1,598,383
Amount written off as uncollectable	-	-
Amount recovered during the year	-	-
Impairment loss reversed	(531,578)	-
Balance at end of the year	1,984,211	2,504,771

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40. DEBTORS

	ETB	2022 ETB
Staff debtors	2,358,970	2,642,093
Prepayment	2,384,454	4,471,501
Refund Account	371	371
Advance	51	51
Court receivables	192,648	156,731
	4,936,494	**7,270,747**

41. INVESTMENT

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

42. PROPERTY, PLANT AND EQUIPMENT

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

	Building	Motor Vehicles	Office Equipment	Computer & Accessories	Office Furniture	Total
	ETB	ETB	ETB	ETB	ETB	ETB
COST						
As at 30 June 2022	**13,592,004**	**2,510,097**	**417,423**	**844,684**	**943,519**	**18,307,727**
Additions	5,078,500	-	14,000	60,800	237,321	5,390,621
As at 30 June 2022	**18,670,504**	**2,510,097**	**431,423**	**905,484**	**1,180,840**	**23,698,348**
DEPRECIATION						
As at 30 June 2022	**1,345,608**	**622,805**	**114,263**	**605,022**	**378,790**	**3,066,488**
Charge for the year	355,452	124,561	32,434	84,498	85,107	682,054
As at 30 June 2023	**1,701,060**	**747,366**	**146,697**	**689,520**	**463,897**	**3,748,540**
NET BOOK VALUE						
As at 7 July 2022	**12,246,396**	**1,887,292**	**303,160**	**239,662**	**564,729**	**15,241,239**
As at 7 July 2023	**16,969,444**	**1,762,731**	**284,726**	**215,964**	**716,943**	**19,949,808**

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The accompanying notes 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 Arsi Negele 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 500 m² land in Shashemene town Kuyera area from Oromia Regional State, Oromia Urban Land Development and Management Agency for a period of 70 years on Nehasse 27, 2011 (actually the land was used prior to this year, only the certificate was obtained on this date). The cost of the lease is Birr 505,750 to be paid over a period of 40 years with equal annual payments of Birr 12,644.

iv. The company has sold-out the building owned in Shashemene town Kuyera area to ETB 600,000.

c) The two leaseholds are obtained free of interest. Present value was calculated using the borrowing rate of the company (24%) 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 area almost equivalent to the interest charge, are directly charged to profit and loss account upon payment.

43. DEPOSIT FROM CUSTOMERS

	Compulsory ETB	Voluntary ETB	Total ETB
Compulsory Savings	21,482,195	-	21,482,195
Time Deposit	-	23,477,775	23,477,775
Voluntary Individual	-	11,429,069	11,429,069
Non-client savings	-	28,216,560	28,216,560
Institutional saving	-	1,229,643	1,229,643
As at June 30, 2023	**21,482,195**	**64,353,047**	**85,835,242**
As at June 30, 2022	**19,161,844**	**35,169,742**	**54,331,586**

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44. CREDITORS AND ACCRUALS

(a) The balance is composed of the following:

	Note	ETB	2022 ETB
Provident Fund payable	(b)	3,947,011	3,947,011
Accruals	(c)	2,733,308	3,367,537
Premium Collection		2,257,231	1,750,919
Commission payable		352,760	396,326
Income tax payable		250,487	208,527
Tax payable 5% from Acc Interest (tax)		239,931	185,003
Reserved balance		29,559	29,559
Audit fee payable		126,500	379,500
Pension contribution		178,186	82,315
Withholding tax payable		1,458	2,254
Staff Social contribution		1,085	1,085
Staff loan payable		(780)	(624)
Managing Fund payable		38,471	-
Unearned rent		181,340	-
Rent payable		102,000	-
Cash indemnity payable		52,600	39,800
		6,544,136	10,389,212

(b) Some of the employees of the Company are not covered by Private Organization's pension scheme. Instead Provident fund of 10% of basic salary is contributed by the employer, and deposited in a separate account in within the Company. The amount above shows the balance due to each staff member in the scheme.

(c) Accruals included provision for severance pay, calculated as per the provisions of the Ethiopian Labor Law; and liability for unused leave balance.

45. BORROWINGS

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

	Notes	ETB	2022 ETB
Loan from OIB	i	30,818,789	34,926,365
Loan from RUFIB	ii	40,327,263	25,342,651
Loan from AIB	iii	35,420,988	50,000,000
		106,567,040	110,269,016
Less: Current maturity of loan		(26,175,141)	(11,196,785)
		80,391,899	99,072,231

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

	ETB	2022 ETB
Balance at beginning of year	34,926,365	24,490,049
Additional loan received during the year	-	14,000,000
Adjustment	1,160,660	-
Settlement made during the year	(5,268,236)	(3,563,684)
Balance at the end of the year	30,818,789	34,926,365

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

	ETB	2022 ETB
Balance at beginning of year	25,342,651	20,292,153
Additional loan during the year	21,312,505	12,683,600
Settlement made during the year	(6,327,893)	(7,633,102)
Balance at the end of the year	40,327,263	25,342,651

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

	ETB	2022 ETB
Balance at beginning of year	50,000,000	-
Additional loan during the year	(14,579,012)	50,000,000
Balance at the end of the year	35,420,988	50,000,000

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46. PAID UP CAPITAL

Initially the Company has 244,832 shares in issue at Birr 50 par value each. The total paid up capital of the MFI was Birr 12,241,600. Following the General assembly decision made on Tikimt 07/2014 E.C, the paid up capital is raised to ETB 30,604,000 divided into 612,080 shares of ETB 50 par value each. In the current year, the capital is increased to ETB 45,906,000.

47. TREASURY STOCK

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

48. RETAINED EARNINGS

	ETB	30-Jun-22 ETB
Retaining earnings per IFRS on 1/7/2019	18,296,536	33,175,312
Profit tax paid on total comprehensive income of 2021	-	(3,438,296)
Dividend Declared and paid to shareholders	-	(8,022,691)
	18,296,536	21,714,325
Transfer to capital	(15,302,000)	(18,362,400)
Transfer to legal reserve	(787,885)	(783,464)
	2,206,651	2,568,461
Comprehensive income for the year	15,757,715	15,669,275
Dividend from ET-Inclusive	-	57,380
Current year adjustment	-	1,420
Retaining earnings per IFRS	17,964,366	18,296,536

49. 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 & 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.

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50. 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.

	ETB	2022 ETB
Balance at the beginning of the year	2,313,156	1,529,692
Transferred during the year	787,886	783,464
	3,101,042	2,313,156

51. DONATION CAPITAL

	ETB	2022 ETB
Terrafina	1,837,310	1,837,310
Accord	804,010	804,010
Balance at the end of the year	2,641,320	2,641,320

52. RELATED PARTIES

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

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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	2022 ETB
Loan to shareholders	6,945,996	7,868,905
Savings of shareholders	3,722,342	2,341,528
	10,668,338	10,210,433

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	2022 ETB
Short term benefit (Salary)	1,764,048	1,375,404
Post-employment benefit (Provident Fund 10%)	120,154	137,540
Incentive payment (Bonus)	333,760	286,542
Board fee	401,000	84,800
	2,618,962	1,884,286

53. ANNUAL LOAN RECOVERY PERFORMANCE

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

Annual Loan Recovery Rate	Annual Financial Loan Collected + Unscheduled Loan Collected / Amount due of collection during the year + outstanding arrears at the beginning of the year	
	Value	
	97.28%=	(120,258,168 – 33,353,857) / (86,904,310 + 2,425,724)

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54. EVENTS AFTER THE REPORTING DATE

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

55. AUTHORIZATION OF FINANCIAL STATEMENTS

The financial statements for the year ended 30 June 2023 (including comparatives) are awaiting approval by the board of directors.



