

ESHET MICROFINANCE INSTITUTION S.C.

AUDITORS' REPORT AND ACCOUNTS

JUNE 30, 2025

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Getachew Wakjira

ቻርተርድ ሠርተፋይድ አካውንታንት (ዩኤ)

Chartered Certified Accountant (U.K.)

ሠርተፋይድ የኦዲት ድርጅት (ኢትዮ)

Certified Audit Firm (Eth.)

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Addis Ababa, Ethiopia

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ESHET MICROFINANCE INSTITUTION S.C.

Company Profile

For the year ended 30 June 2025

Directors (As of 30 June , 2025)

		<u>Appointment Date</u>
Atinafu W/Gebriel	Chairperson, Board Of Directors	16-Dec-23
Birhanu Edati	Director	16-Dec-23
Dejane Biru	Director	16-Dec-23
Deresa Kenea	Director	16-Dec-23
Tamiru Sabsibe	Director	27-Jan-19
Berhanu Mekonin	Director	16-Dec-19
Desalegn Senbeta	Director	16-Dec-19

Senior Management

Furgassa Hirpa	General manager	16-Apr-18
Gelata Dheressa	Operation Manager	1-Sep-24
Bedhasa Umeta	HR& Adminstration Manager	25-Mar-19
Belamo Gonfa	Finance & Account Manager	1-May-23
Zebenu Abera	Internal Adudit Service Head	1-Aug-22
Tsegaye Fufa	Ict Service Head	1-Jul-21

Independent auditor

Getachew Wakjira
Chartred Certified Accountants (U.K) & Autorized Auditors (ETH)
Tel: 251 911 212087
Fax:
PoBox: 55258
Email: getwak611@gmail.com

Registered office

Eshet Microfinance Institution S.C.
Addis Ababa, Ethiopia
Tel +251-11-320- 6451
Tel +251-11-320 -6452
Tel +251-11-320-6453

Principal Bankers

Commercial bank of Ethiopia
Cooperative bank of Oromia
Development bank of Ethiopia
Awash Bank
Sinqee Bank



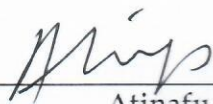
ESHET MICROFINANCE INSTITUTION S.C.
Statement of directors' responsibilities
For the year ended 30 June 2025

The Commercial Code of Ethiopia, 1960 and the Micro Financing Business Proclamation No. 626/2009 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the financial year and of the operating results of the Company for that year. The Directors are also required to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The Company's Chief Executive Officer is responsible for the preparation and fair presentation of these financial statements in conformity with International Financial Reporting Standards (IFRS) adopted by the Government of Ethiopia and in the manner required by the Commercial Code of Ethiopia of 1960, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Company is required to keep such records as are necessary to:

- a) exhibit clearly and correctly the state of its affairs;
- b) explain its transactions and financial position; and
- c) enable the National Bank to determine whether the Company had complied with the provisions of the Companying Business Proclamation and regulations and directives issued for the implementation the aforementioned Proclamation.

The Company's Chief Executive Officer accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards, Companying Business Proclamation, Commercial code of 1960 and the relevant Directives issued by the National Bank of Ethiopia.



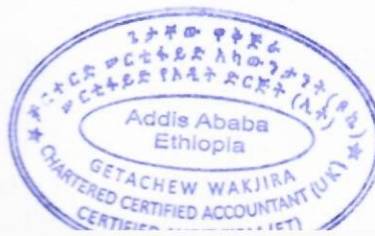
Atinafu W/Gebriel

Chairman, Board of Directors



Furgassa Hirpa

Chief Executive Officer



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ፖርተር ወርተዳይድ አካውንታንት (የኪ)
ወርተዳይድ የአዲት ድርጅት (ኢትዮ)

GETACHEW WAKJIRA
CHARTERED CERTIFIED ACCOUNTANT (UK)
CERTIFIED AUDIT FIRM (ETH)

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P. o. Box 40418

Ref. No. 085/GW/18

Addis Ababa, Ethiopia

**AUDITORS' REPORT TO THE
SHAREHOLDERS OF ESHET MICROFINANCE INSTITUTION S.C.
ON THE ACCOUNTS OF ESHET MICROFINANCE INSTITUTION S.C.**

OPINION

We have audited the accompanying financial statements of Eshet Microfinance Institution S.C. S.C which comprise statement 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 notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

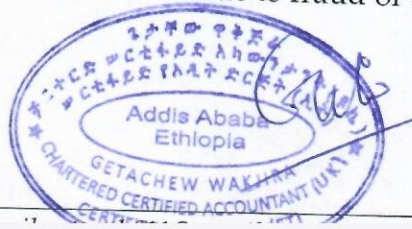
In our opinion, the accompanying financial statements present fairly, in all material terms, the financial position of the Company as of June 30, 2025, and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISA). 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.

**RESPONSIBILITY OF MANAGEMENT'S AND THOSE CHARGED WITH
GOVERNANCE FOR THE FINANCIAL STATEMENTS**

Management of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and for such internal control as management determines 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 charged with governance are responsible for overseeing the Company's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We have no comments to make on the reports of the Board of Directors of the company so far as it related to these financial statements and pursuant to Article 349/2 of the commercial code of Ethiopia 2021 and we recommend pursuant to article 349/2 approval of the financial statements.



Getachew Wakjira
GETACHEW WAKJIRA
CHARTERED CERTIFIED ACCOUNTANT (UK)
CERTIFIED AUDIT FIRM (ETH)

Addis Ababa
October 6, 2025

ESHET MICROFINANCE INSTITUTION S.C.

Statement of Financial Position


As at 30 June 2025

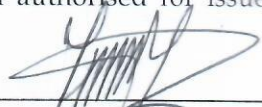
(in Ethiopia Birr)

Assets	Notes	30-Jun-2025	30-Jun-2024
Cash and cash equivalents	5	27,085,260	36,328,739
Other assets and prepayments	8	2,866,329	2,333,773
Loans and advances to customers (Net)	6	136,313,540	119,298,715
Property, plant and equipment	7	10,144,148	10,817,543
Financial assets at fair value through OCI	9(a)	5,983,400	5,377,400
Total assets		182,392,678	174,156,170
Liabilities			
Deposit from customers	10	78,546,670	54,708,479
Borrowings	11	72,458,078	87,847,254
Other liabilities	12	8,173,056	7,360,249
Total liabilities		159,177,804	149,915,982
Equity			
Share capital	13	10,000,000	10,000,000
Donated Equity	13.1	23,255,475	23,255,475
Legal reserve	14	171,523	171,523
Retained earning	15	(10,212,124)	(9,186,811)
Profit for the year			
Regulatory Risk reserve			
Other Reserve			
Share Premium			
Total equity		23,214,874	24,240,187
Total liabilities and equity		182,392,678	174,156,170



The financial statements on pages 7 to 9 were approved and authorised for issue by the board of directors on and were signed on its behalf by:


 Atinafu W/Gebriel
 Chairman, Board of Directors


 Furgassa Hirpa
 Chief Executive Officer



ESHET MICROFINANCE INSTITUTION S.C.
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2025
(in Ethiopia Birr)

	Notes	30-Jun-2025	30-Jun-2025
Interest income	17	32,947,376	39,589,277
Interest expense	17	13,844,888	12,131,213
Net interest income before impairment		19,102,487	27,458,064
Loan impairment charge		(762,865)	5,154,149
Net interest income		19,865,352	22,303,914
Fees and commission income	18	4,285,468	3,927,211
Net fee and commission income		4,285,468	3,927,211
Other operating income	19	17,081,233	14,305,878
Net operating income		41,232,054	40,537,004
Salaries and other employee benefits	20	28,568,098	27,648,475
General and administrative expenses	22	12,674,568	8,765,407
Depreciation on property, plant and equipment	21	1,014,701	861,900
Profit before tax		(1,025,314)	3,261,221
Taxation charge	15.1	-	-
Profit for the year after tax		(1,025,314)	3,261,221
Other comprehensive income		-	-
Total comprehensive income for the year		(1,025,314)	3,261,221



ESHET MICROFINANCE INSTITUTION S.C.
Statement of Change in equity
For the year ended 30 June 2025
(in Ethiopia Birr)

	Share capital	Donated Capital	Retained earning	Legal reserve	Total
Balance as at 1 July 2023	10,000,000	23,255,474	(12,448,031)	171,523	20,978,966
Profit for the year	-	-	3,261,221	-	3,261,221
Addition during the year	-	-	-	-	-
Balance 30 June 2024	10,000,000	23,255,474	(9,186,810)	171,523	24,240,187
Profit for the year	-	-	(1,025,314)	-	(1,025,314)
Prior year adjustment	-	-	-	-	-
Balance 30 June 2025	10,000,000	23,255,474	(10,212,124)	171,523	23,214,873



ESHET MICROFINANCE INSTITUTION S.C.

Statement of cash flows

For the year ended 30 June 2025

(in Ethiopia Birr)

	Notes	30 June 2025	30 June 2024
Cash flows from operating activities			
Cash flows from operating activities	16	7,093,003	(24,644,836)
Net cash (outflow)/inflow from operating activities		7,093,003	(24,644,836)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(386,547)	1,010,484
Reclassification of property, plant and equipment		45,241	
Disposal of property, plant and equipment	9	(606,000)	404,000
Net cash (outflow)/inflow from investing activities		(947,306)	1,414,484
Cash flows from financing activities			
Proceeds (settlement) from borrowings	11	(15,389,176)	5,672,380
Proceeds from donated capital	13.1	-	2,422,533
Net cash (outflow)/inflow from financing activities		(15,389,176)	8,094,913
Net increase/(decrease) in cash and cash equivalents		(9,243,479)	15,135,439
Cash and cash equivalents at the beginning of the year		36,328,739	21,193,300
Cash and cash equivalents at the end of the year	5	27,085,260	36,328,739



ESHET MICROFINANCE INSTITUTION S.C.

Notes to the Financial statements

For the year ended 30 June 2025

(in Ethiopia Birr)

1 General Information

Eshet microFinance Institution S.C. is a Microfinance institution which was established on March 2000. The Company operates in accordance with the provisions of the Commercial Code of Ethiopia of 1960 and the Micro-Financing Business Proclamation No. 626/2009.

The Company conducts its business under the Law on Microfinance activity and is regulated by the National Bank of Ethiopia ("NBE"). The address of its registered office is as follows:

Eshet Microfinance Institution S.C.

P.O.BOX 23923 Code 1000

Addis Ababa

Ethiopia

The Institution's principal business activity is deposit mobilization and provides micro and small loans.

2 Basis of preparation

a. Statement of compliance

The Company has prepared a full set of financial statements for the year ended June 30, 2021 in accordance with International Financial Reporting Standards (IFRSs), International Accounting Standards and Interpretations (collectively IFRSs).

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.

b. Basis of measurement

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below. Modified valuation applied for certain financial instrument classifications that shall be measured at fair

c. Functional and presentation currency

The financial statements are presented in Ethiopian Birr (Birr).

d. Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. 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 4.

e. Going concern

The financial statements have been prepared on a going concern basis. The management have no doubt that the institution would remain in existence after 12 months.

3 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.



ESHET MICROFINANCE INSTITUTION S.C.

Notes to the Financial statements

For the year ended 30 June 2025

(in Ethiopia Birr)

3.1 Changes in significant accounting policies

3.1.1 New standards, amendments and interpretations adopted during the year

A number of new standards are effective from 30 June 2019 but they do not have a material effect on the Institution's financial statements. Due to the transition method chosen by the Institution in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised during the year. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets;
- additional disclosures related to IFRS 9; and
- Additional disclosures related to IFRS 15

Except for changes noted below, the Institution has consistently applied the accounting policies to all periods presented in these financial statements

a. IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when the Institution will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

The Institution applied IFRS 15 on 1 July 2018 using the modified retrospective approach in which the cumulative effect of initially applying this Standard is recognised at the date of initial application as an adjustment to the opening balance of Retained earnings as at 1 July 2018 without restating comparative periods.

The standard provides a single, principles based five step model to be applied to all contracts with customers in recognising revenue being; identify the contract(s) with a customer, identifying the performance obligation in the contract, determining the transaction price, allocating the transaction price to the performance obligation in the contract; and recognising revenue when (or as) the entity satisfies a performance obligation.

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.



ESHET MICROFINANCE INSTITUTION S.C.

Notes to the Financial statements

For the year ended 30 June 2025

(in Ethiopia Birr)

Under IFRS 15, an entity recognizes when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Amendments to IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

b. IFRS 9: Financial Instruments

The institution has adopted IFRS 9, with effect from July 1, 2018. As permitted by the standard, comparative figures have not been restated and these are presented in accordance with the companies' previous policies. Both the new and the old accounting policies are described below where appropriate.

(i) Recognition and derecognition

The institution initially recognises receivables from customers on the date on which they are originated. All other financial instruments are recognised on the transaction date, which is the date on which the Institution becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Financial instruments, comprising financial assets and financial liabilities, are recognised in the statement of financial position when the institution becomes a party to the contractual provisions of the instrument. The institution derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or where it neither transfers nor retains substantially all of the risks and rewards of ownership and loses control. When control is retained, the institution continues to recognise the financial asset to the extent of its continuing involvement.

Financial assets are also de-recognised when they are written off. Financial assets are written off when there is no reasonable expectation of further recoveries even though there may be enforcement actions ongoing. The institution derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire. Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the institution currently has a legally enforceable right to set off the recognised amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Classification and measurement

Policy applicable from July 1, 2018

All financial assets and liabilities are initially recognised at fair value, which is usually the transaction price. Subsequently, measurement depends on the financial assets/liabilities classification as follows:

■ Financial assets measured at fair value through profit or loss (FVPL)

Non-equity financial assets are classified as FVPL if they arise from contracts which do not give rise to cash flows which are solely principal and interest, or otherwise where they are held in a business model which mainly realizes them through sale. Such assets are re-measured to fair value at the end of each reporting period. Gains and losses arising from re-measurement are taken to profit or loss, as are transaction costs.



ESHET MICROFINANCE INSTITUTION S.C.

Notes to the Financial statements

For the year ended 30 June 2025

(in Ethiopia Birr)

■ Financial assets measured at FVOCI

Non-equity financial assets are classified as FVOCI where they arise from contracts which give rise to contractual cash flows which are solely principal and interest and which are held in a business model which realizes some through sale and some by holding them to maturity. They are recognised initially at fair value plus any directly attributable transaction costs, or in the case of trade receivables, at the transaction price.

At the end of each reporting period they are re-measured to fair value, with the cumulative gain or loss compared to their amortised cost being recognised in other comprehensive income and in the fair value reserve, except for the recognition in profit and loss of expected credit losses, interest income and foreign exchange gains and losses.

When these assets are derecognised, the cumulative gain or loss is reclassified from equity to profit or loss.

■ Financial assets measured at amortised cost

Financial assets are held at amortised cost when they arise from contracts which give rise to contractual cash flows which are solely principal and interest and are held in a business model which mainly holds the assets to collect contractual cash flows.

Financial assets measured at amortised cost that are not purchased or originated credit-impaired are measured at amortised cost using the effective interest method. For those purchased or originated credit-impaired, the institution applies the credit-adjusted effective interest rate since initial recognition. These assets are also subject to impairment losses. Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated on the amortised cost (i.e. gross carrying amount less loss allowance). Interest income is included in finance income.

Policy applicable before July 1, 2018

All financial assets and liabilities are initially recognised at fair value, which is usually the transaction price. Subsequently, measurement depends on their classification as follows:

■ Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss if they are classified as held-for-trading or are designated as such on initial recognition, and are re-measured to fair value at the end of each reporting period. Gains and losses arising from re-measurement are taken to profit or loss, as are transaction costs.

■ Loans and receivables

Loans and receivables including trade receivables are measured at amortised cost using the effective interest method including a reduction for any impairment losses. Interest income is included in finance income.

■ Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not classified in any of the above categories of financial assets and are recognised initially at fair value plus any directly attributable transaction costs. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the available-for-sale reserve except for the foreign exchange gain or loss on debt instruments which is recognised in finance income or expenses. When these assets are derecognised or impaired, the cumulative gain or loss is reclassified from equity to profit or loss.



ESHET MICROFINANCE INSTITUTION S.C.

Notes to the Financial statements

For the year ended 30 June 2025

(in Ethiopia Birr)

Available-for-sale financial assets that do not have a quoted price in an active market and whose fair value cannot be reliably measured are measured at cost less any impairment losses at the end of each reporting period. Interest income on available-for-sale financial assets is recognised in finance income using the effective interest method. Dividends on available-for-sale equity securities are recognised in finance income when the right to receive dividends has been established.

Policy applicable before and after July 1, 2018

■ Financial liabilities at amortised cost

Financial liabilities, except those designated as at FVPL, are stated at amortised cost using the effective interest method. Interest is included in finance expenses unless capitalized into property, plant and equipment.

■ Financial liabilities designated as at FVPL

the institution has irrevocably designated certain financial liabilities as at FVPL on initial recognition because they are managed and their performance is evaluated on a fair value basis and information is provided internally on that basis to the institution's key management personnel.

IFRS 9 classification 30 June 2025	Note	Mandatorily Designated	Other financial assets	Total carrying amount
Financial assets				
Cash and bank balances	5		27,085,260	27,085,260
Receivables due from customers	6		136,313,540	136,313,540
Other financial assets			-	-
			<u>163,398,800</u>	<u>163,398,800</u>
Financial liabilities				
Financial liabilities	9		78,546,670	78,546,670
Borrowings	10		72,458,078	72,458,078
Other financial liabilities			-	-
			<u>72,458,078</u>	<u>72,458,078</u>

The Institution performed a detailed analysis of its business models for managing financial assets and analysis of their cash flows characteristics.

	IAS 39 carrying amount	Re-measurement	IFRS 9 carrying amount
	30-Jun-25		30-Jun-25
Opening balance	27,085,260	-	27,085,260
Re-measurement	-	-	-
	<u>27,085,260</u>	-	<u>27,085,260</u>
Receivables due from customers			
Opening balance	136,313,540	-	136,313,540
Re-measurement	-	-	-
	<u>136,313,540</u>	-	<u>136,313,540</u>
Financial Liability			
Opening balance	72,458,078	-	72,458,078
Re-measurement	-	-	-
	<u>72,458,078</u>	-	<u>72,458,078</u>
Other financial liabilities			
Opening balance	72,458,078	-	32,615,047
Re-measurement	-	-	-
	<u>72,458,078</u>	-	<u>32,615,047</u>



ESHET MICROFINANCE INSTITUTION S.C.

Notes to the Financial statements

For the year ended 30 June 2025


(in Ethiopia Birr)

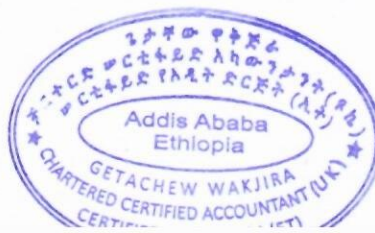
All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity). Of those standards that are not yet effective, IFRS 16 and amendments to IAS 1 and IAS 8 are expected to have effect on the Institutions' financial statements in the period of initial application which the Institution is yet to assess there impact..

New standard or amendments	Effective for annual periods beginning on or after
– IFRS 16 Lease	1/1/2019
– Amendments to IAS 1 and IAS 8 Definition of	1/1/2020
– Amendments to references to the Conceptual	1/1/2020
– Annual improvements cycle (2015-2017)	1/1/2020

IFRS 16: Lease

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor,

Standards	Amendments
IFRS 3 Business Combinations and IFRS 11 Joint Arrangements	Clarifies how a Company accounts for increasing its interest in a joint operation that meets the definition of a business: <ul style="list-style-type: none"> – If a party maintains (or obtains) joint control, then the previously held interest is not remeasured. – If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.
IAS 12 Income taxes	Clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI
 <p>IAS 23 Borrowing costs</p>	<p>Clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.</p> <p>As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.</p>



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3.2 Recognition of income and expenses

Policy applicable after 1 July 2018

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Institution 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.

The Institution, earns income from interest on loans given for Agricultural, consumption and other small individual financings. Charges and fees collected from various services rendered to clients like registration fee, loan application acceptance charges and others.

i Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the institution estimates future cash flows considering all contractual terms of the

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 July 2018).

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 July 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Interest income and expenses calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets measured at amortised cost;
- interest on financial liabilities measured at amortised cost



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Policy applicable before 1 July 2018

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest reprising date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

i Dividend Income

Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorized for issue, are disclosed in the subsequent events note.

ii Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of bonds, shares or other securities are recognised on completion of the underlying transaction. Service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

3.3 Financial assets and liabilities

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments:

Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39.

The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

i Policy applicable prior to 1 July 2018

The Institution initially recognises receivables from customers on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date on which the Institution becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are



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Financial assets

The Institution classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale financial assets. The Institution determine the classification of its financial assets at initial recognition. The Institution uses trade date accounting for regular way contracts when recording financial asset transactions.

Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Institution as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The Institution designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed and can only be applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise exist
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to management

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss and are reported as 'Net gains/(losses) on financial instruments classified as held for trading'.

Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income' or 'Dividend income', respectively. Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in 'Net gains on financial instruments designated at fair value through profit or loss'.

– Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Institution upon initial recognition designates as at fair value through profit or loss;
- those that the institution upon initial recognition designates as available-for-sale

Loans and receivables are initially recognised at fair value which is the cash consideration to originate or purchase the loan including any transaction costs and measured subsequently at amortised cost using the effective interest method.



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– Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income and cumulated in a separate reserve in equity, fair value reserve, until the financial asset is derecognised. However, interest is calculated using the effective interest method

Financial liabilities

The Institution's holding in financial liabilities represents mainly deposits from customers, long term liabilities and other liabilities. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

ii Policy applicable from 1 July 2018

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or Fair Value Through Profit or Loss (FVTPL). A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

– the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

– the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

– the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

– the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Institution may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL. In addition, on initial recognition, the Institution may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Institution makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:



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– the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

– how the performance of the portfolio is evaluated and reported to the Institution's management;
– the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how E244:M246;

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Institution considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Institution considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Institution's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Institution holds a portfolio of long-term fixed-rate loans for which the Institution has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Institution has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Non-recourse loans

In some cases, loans made by the Institution that are secured by collateral of the borrower limit the Institution's claim to cash flows of the underlying collateral (non-recourse loans). The Institution applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Institution typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;



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Contractually linked instruments

The Institution has some investments in securitizations that are considered contractually linked instruments. Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the SPPI criterion only if all of the following conditions are met:

- the contractual terms of the instrument itself give rise to cash flows that are SPPI without looking through to the underlying pool of financial instruments;
- the underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are SPPI; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are SPPI; or align the cash flows of the contractually linked instruments with the cash flows of the pool of underlying instruments under (i) arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and
- the exposure to credit risk inherent in the contractually linked instruments is equal to or less than the exposure to credit risk of the underlying pool of financial instruments.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Institution changes its business model for managing financial assets.

Financial liabilities

The Institution classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

iii Derecognition

Policy applicable from 1 July 2018

Financial assets

The Institution derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Institution neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.



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From 1 July 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Institution is recognised as a separate asset or liability.

The Institution enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale – and – repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions, because the Institution retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Institution neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Institution continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Institution retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Institution derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Policy applicable prior to 1 July 2018

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Institution tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.



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iv Modifications of financial assets and financial liabilities Policy applicable from 1 July 2018

Financial assets

If the terms of a financial asset are modified, then the Institution evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

If the terms of a financial asset are modified, then the Institution evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Institution plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Institution first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating– rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.



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Financial liabilities

The Institution derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Policy applicable prior to 1 July 2018

Financial assets

If the terms of a financial asset were modified, then the Institution evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the premodification interest rate.

Financial liabilities

The Institution derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss.

Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.



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Fair value measurement

Policy applicable prior from 1 July 2018

'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 in the principal or, in its absence, the most advantageous market to which the Institution has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Institution measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Institution uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If the Institution determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out. If an asset or a liability measured at fair value has a bid price and an ask price, then the Institution measures assets and long positions at a bid price and liabilities and short positions at an ask price.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Institution measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Institution on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments, e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Institution recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.



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Policy applicable prior to 1 July 2018

For financial instruments traded in active markets, the determination of fair values of financial instruments is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes from Nairobi Securities Exchange, Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments.

The Institution uses widely recognised valuation models for determining fair values of non-standardized financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

For more complex instruments, the Institution uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models such as present value techniques are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The Institution recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Institution measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.



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The Institution considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Institution does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Institution expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Institution if the commitment is drawn down and the cash flows that the Institution expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Institution expects to recover.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Institution assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

- the restructuring of a loan or advance by the Institution on terms that the Institution would not consider
- otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or



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A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Institution considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political

Presentation of allowance for ECL in the statement of financial position

- Loss allowances for ECL are presented in the statement of financial position as follows:
 - financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
 - loan commitments and financial guarantee contracts: generally, as a provision;
 - where a financial instrument includes both a drawn and an undrawn component, and the Institution cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Institution presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
 - debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Institution determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Institution's procedures for recovery of amounts due.

The Institution assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Institution considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's Bank.



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If the Institution determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Institution considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Institution determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Institution presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

At each reporting date, the Institution assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a Bank of financial assets was 'impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

In addition, a loan that was overdue for 90 days or more was considered impaired. Objective evidence that financial assets were impaired included:

- significant financial difficulty of a borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Institution on terms that the Institution would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a Bank of assets, such as adverse changes in the payment status of borrowers or

A loan that was renegotiated due to a deterioration in the borrower's condition was usually considered to be impaired unless there was evidence that the risk of not receiving contractual cash flows had reduced significantly and there were no other indicators of impairment.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment. In general, the Institution considered a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may have been appropriate.

The Institution considered evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities were assessed for specific impairment. Those found not to be specifically impaired were then collectively assessed for any impairment that had been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that were not individually significant were collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar credit risk characteristics.

In making an assessment of whether an investment in sovereign debt was impaired, the Institution considered the following factors.



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- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This included an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there was the capacity to fulfil the required criteria.

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows, management made judgements about a debtor's financial situation and the net realizable value of any underlying collateral. Each impaired asset was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable were independently approved by the Credit Risk function.

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows, management made judgements about a debtor's financial situation and the net realizable value of any underlying collateral. Each impaired asset was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable were independently approved by the Credit Risk function.

The collective allowance for groups of homogeneous loans was established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology used statistical analysis of historical data on delinquency to estimate the amount of loss. Management applied judgement to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates were regularly benchmarked against actual loss experience.

The IBNR allowance covered credit losses inherent in portfolios of loans and advances, and held to-maturity investment securities with similar credit risk characteristics when there was objective evidence to suggest that they contained impaired items but the individual impaired items could not yet be identified.

In assessing the need for collective loss allowance, management considered factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions were made to define how inherent losses were modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depended on the model assumptions and parameters used in determining the collective allowance.

Loans that were subject to a collective IBNR provision were not considered impaired.

Impairment losses on assets measured at amortised cost were calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on available-for-sale assets were calculated as the difference between the carrying amount and the fair value.



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- For assets measured at amortised cost: If an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.
 - For available-for-sale debt security: If, in a subsequent period, the fair value of an impaired debt security increased and the increase could be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss; otherwise, any increase in fair value was recognised through OCI.
- Any subsequent recovery in the fair value of an impaired available-for-sale equity security was always recognised in OCI.

Impairment losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continued to be recognised through the unwinding of the discount.

Impairment losses on available-for-sale investment securities were recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that was reclassified from equity to profit or loss was the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to the application of the effective interest method were reflected as a component of interest income.

The Institution write-off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Institution Credit determined that there was no realistic prospect of recovery.

At initial recognition, the Institution has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise. Before 1 July 2018, the Institution also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

The Institution has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or the designation eliminates or
- significantly reduces an accounting mismatch that would otherwise arise. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

3.4 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, demand deposits with third party merchants, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the institution's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.



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3.5 Property, plant and equipment

i Cost

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses .

Cost includes expenditure that is directly attributable to the acquisition of the assets including for self-constructed assets, the cost of materials, direct labor, the initial estimate, where appropriate, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Construction in progress is transferred to other property, plant and equipment when it is ready for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment and investment property, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Asset Class	Useful life (years)
Building	50
Motor Vehicle	15
Furniture and Fittings	5 - 10
Office equipment	5 - 20
Computer equipment and accessories	10

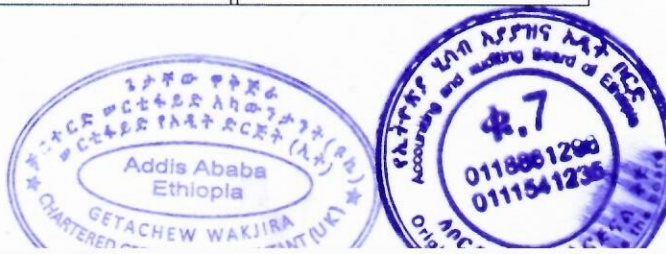
3.6 Intangible

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in income statement in the period in which the expenditure is incurred .

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or methodology, as appropriate, which are then treated as changes in accounting estimates. The amortisation expenses on intangible assets with finite lives is presented as a separate line item in the income statement.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives, as follows:

Asset Class	Useful life (years)
Software	6



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Investment Property

Property that is held for long-term rental yields or for capital appreciation or both, are classified as investment properties.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to The Institution and the cost can be reliably measured. This is usually when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The Institution has opted to subsequently carry investment property at cost and disclose fair value. Fair value is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, The Institution uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as of the reporting date by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the financial statements.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to The Institution and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

Investment properties are derecognised when they have been disposed. Where The Institution disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the statement of changes in net assets available for benefit.

0.1 Other Assets

Other assets are generally defined as claims held against other entities for the future receipt of money. The other assets in the Institution's financial statements include the following:

(a) Prepayment

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 amortised over the period in which the service is to be enjoyed.

(b) Other receivables

Other receivables are recognised upon the occurrence of event or transaction as they arise and cancelled when payment is received. The Institution's other receivables are receivables from debtors.



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0.2 Leased assets

Most of the institution's leases are operating leases which do not transfer substantially all the risks and rewards of ownership to the institution.

Payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covering the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Salaries, profit-sharing and bonus payments, paid annual leave and contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

0.01 Share capital

Share capital is the total of the institution's shares that are held by shareholders. Ordinary shares are classified as share capital in equity. Any premium received over and above the par value of the shares is classified as share premium.



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0.02 Government Grant

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Institution receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to income statement over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments.

0.03 Impairment of non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that non-financial assets, including property, plant and equipment, long-term leasehold prepayments, intangible assets and other long-term assets may be impaired.

0.04 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the institution has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be reliably estimated, disclosure is made of the contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote. Provisions are recognised for liabilities of uncertain timing or amount when the institution has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.



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4 Accounting judgements and estimates

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be reliably estimated, disclosure is made of the contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote. Provisions are recognised for liabilities of uncertain timing or amount when the institution has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

(a) Accounting judgements

(i) Revenue recognition

To determine the satisfaction of performance obligations the institution applies the following judgements:

- Where revenue is recognised over time, the institution primarily uses the output method to measure progress; in limited business units, the input method is adopted when the institution is unable to reasonably measure the outcome of a performance obligation. Judgements applied when using the output method include assessing progress and milestones achieved and determining if that represents the value of goods and/ or services delivered to the customer to date. Judgements applied when using the input method include determining if consumption of the resources relative to the total expected amount faithfully depicts the transfer of control of goods and/or services promised to the customer.
- Where revenue is recognised at a point in time, the institution assesses the transfer of control by reference to the contractual terms and the circumstance of the arrangements including a consideration of past business practice. These include having a legal right to payment, title has passed, the customer has the risks and rewards of ownership, or the customer is using the asset to generate value for themselves.



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(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Revenue recognition

To determine the transaction price and the amounts allocated to performance obligations the institution applies the following estimation:

- Variable consideration is estimated using the most likely amount or expected value based on the nature of the specific consideration and the analysis of relevant contract terms, taking into consideration historical, current and expected information.
- Obligations for returns and refunds are judged based on estimates made from historical information associated with similar products and anticipated rates of claims for the products.
- The collectability of a consideration is estimated at contract inception, based on the institution's assessment on

(ii) Impairment of trade receivables and contract assets

The credit risk of customers is regularly assessed with a focus on the customer's ability and willingness to pay, reflected by the institution's estimation of the expected

credit loss allowance on trade receivables and contract assets. the institution estimates expected credit loss by assessing the loss that will be incurred given customer default based on past payment experience and adjusted by the cash flow expected from collateral or credit risk mitigation received where these are considered to be integral to the asset, and by assessing the probability of default taking into account information specific to the customer as well as pertaining to the country and economic environment in which the customer operates. From January 1, 2019 the estimate also incorporates forward looking data.



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Impairment is assessed on an individual basis for trade receivables and contract assets meeting pre-determined criteria, including customers in financial difficulties, and contracts with risk mitigation arrangements or significant financing arrangements etc. Apart from receivables and contract assets that have been assessed and provided for individually, allowances are estimated using provision matrices by management with reference to the customers' credit risk ratings and aging analysis of the remaining trade receivable and contract asset balances. Different provision matrices have been developed by the institution based on different customer groups which indicate different risk characteristics. If the financial condition of customers were to deteriorate or improve, or actual future economic performance is different to the institution's estimates, additional allowances or reversals may be required in future periods.

(iii) Net realizable value of inventories

The net realizable value of inventories is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. They could change significantly as a result of competitor actions in response to severe industry cycles or other changes in

market condition. Management will reassess the estimations at the end of each reporting period.

(iv) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. Intangible assets with finite useful life are amortised on a straight-line basis over the estimated useful lives. Both the period and method of depreciation and amortisation are reviewed annually. The depreciation and amortisation expense for future periods is adjusted if there are significant changes, such as operational efficiency or changes in technologies, from previous estimates. 38



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5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 30 June 2025 and 2024 can be presented as follows:

	<u>30-Jun-25</u>	<u>30-Jun-24</u>
Cash on hand	0	0
Cash at Bank	27,085,260	36,328,739
Total cash and cash in equivalents	27,085,260	36,328,739

6 LOANS TO CUSTOMERS

Loan to customers as at 30 June 2025 and 2024 can be presented as follows:

	<u>30-Jun-25</u>	<u>30-Jun-24</u>
Gross loans to customers		
Agricultural loan	6,987,772	10,458,256
Business loan	54,578,502	45,892,783
Employee loan	57,984,668	50,786,351
Solar Energy Loan	6,190,640	7,763,233
Individual Agri Loan	10,463,111	7,213,666
Small and Medium Enterprise Loan	101,100	-
Staff Loan	2,333,483	1,203,578
	138,639,277	123,317,868
Less : allowance for impairment losses	(2,325,737)	(4,019,153)
Net loans to customers	136,313,540	119,298,715

Movments of the loan impairment allowance for the year ended 30 June 2025 and 30 June 2024 as follows:

	<u>30-Jun-25</u>	<u>30-Jun-24</u>
Balance at the beginning of the year	(29,046,810)	(23,892,661)
Provision expense	(762,865)	(5,154,149)
Balance at the end of the year	(28,283,945)	(29,046,810)



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For the year ended 30 June 2025

The following table provide information on the credit quality of the loan portfolio:

Originated loans to customers according to the agreement	30-Jun-25	30-Jun-24
Current and less than 90 days overdue	112,783,430	124,097,623
90 to 180 days overdue	11,918,199	-
180 to 365 days overdue	2,886,805	-
above 365 days overdue	8,716,106	12,782
Balance at the end of the year	136,304,540	124,110,405
Less : allowance for impairment losses	(28,283,945)	(29,046,810)
Balance at the end of the year	108,020,595	95,063,595

Loan to customers are collateralized by:	30-Jun-25	30-Jun-24
Building	187,580,000	70,644,400
Cash	15,839,668	12,995,996
Others	11,300,000	-
	214,719,668	83,640,396

Reconcillations of loans to customers according to the agreement and interest rate:

	30-Jun-25	30-Jun-24
Originated loans to customers according to the agreement	107,115,378	106,245,595
Accrued interest according to the agreement	30,737,977	28,594,707
Gross loans to customers according to the agreement	137,853,354	134,840,302
Gross loans to customers	137,853,354	134,840,302
Less: allowance for impairment losses	(28,283,945)	(29,046,810)
Net loans to customers	109,569,409	105,793,492

Breakdown of current and noncurrent portions can be presented

	30-Jun-25	30-Jun-24
Current portion	96,806,609	84,735,732
Non current portion	33,573,679	23,749,324
Total loan and advances	130,380,287	108,485,056

According to the information provided by the management the Recovery rate of the loans & advance for the year ended 30 June 2025 was 98%.



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Notes to the Financial statements

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7 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at 30 June 2025 and 2024 can be presented as follows:

Cost	Motor Vehicles	Computer Equipment	Office Equipment	Furniture	Building	Const. in progress	Total
As at 01 July 2024	3,631,943	3,309,564	1,209,301	3,339,013	3,049,809	1,741,521	16,281,150
Additions	-	46,957	339,590	-	-	-	386,547
Reclassification	-	37	97,704	(89,741)	-	(8,000)	-
Disposal	-	(100,753)	(32,200)	(18,465)	-	-	(151,417)
As at 30 June 2024	3,631,943	3,255,805	1,614,395	3,230,808	3,049,809	1,733,521	16,516,280
Depreciation							
As at 01 July 2024	2,449,550	1,020,924	421,159	1,111,492	460,481	-	5,463,607
Charge for the year	168,039	267,269	125,628	281,635	172,130	-	1,014,701
Disposal	-	(56,018)	(31,878)	(18,281)	-	-	(106,176)
Reclassification	-	-	-	-	-	-	-
As at 30 June 2024	2,617,590	1,232,176	514,910	1,374,845	632,611	-	6,372,132
As at 30 June 2025	1,014,353	2,023,630	1,099,485	1,855,963	2,417,197	1,733,521	10,144,148
As at 30 June 2024	1,182,392	2,288,640	788,142	2,227,522	2,589,327	1,741,521	10,817,543



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8 Other assets and prepayments

Other assets as at 30 June 2025 and 2024 can be presented as follows:

Non Financial Assets	30-Jun-25	30-Jun-24
Prepayment	118,524	195,861
Prepaid Rent	1,396,846	1,485,969
Inventory	548,885	285,308
Prepaid asset - staff loan	-	343,984
Other receivables	802,074	22,650
Impairment allowance - other asset	-	-
Gross amount	2,866,329	2,333,773
Total other asset and Prepayment	2,866,329	2,333,773

Breakdown of current and noncurrent portions can be presented

	30-Jun-25	30-Jun-24
Current portion	2,321,727	1,890,356
Noncurrent portion	544,603	443,417
Total financial assets	2,866,329	2,333,773

8(a) Impairment allowance on other assets

A reconciliation of the allowance for impairment losses for other assets is as follows:

8(a) Inventory

A breakdown of the items included within inventory is as follows:

	30-Jun-25	30-Jun-24
Printing materials	406,276	142,324
Stationary	142,609	142,984
	548,885	285,308

9 Investment

Investment as at 30 June 2025 and 30 June 2024 comprises the following:

	30-Jun-25	30-Jun-24
Share	1,611,400	1,529,400
Investment	4,372,000	3,848,000
A breakdown of the investments is as follows:		
ET Inclusive Finance Technology S.C. and share	5,983,400	5,377,400



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10 Deposits from customers

Deposit from customers as at 30 June 2025 and 30 June 2024 comprises the following:

	30-Jun-25	30-Jun-24
Voluntary Saving	34,560,551	30,560,923
Compulsory saving	17,146,646	13,879,937
Time Deposit	24,266,144	7,339,000
Staff Saving	1,952,429	2,928,619
Accrued interest	620,901	-
Total Deposit	78,546,670	54,708,479

Breakdown of borrowings by current and noncurrent portions can be presented

	30-Jun-25	30-Jun-24
Current portion	21,831,900	19,305,335
Noncurrent portion	56,714,770	35,403,144
Total Deposit	78,546,670	54,708,479

11 Borrowings

Borrowings as at 30 June 2025 and 30 June 2024 comprises the following:

	30-Jun-25	30-Jun-24
Borrowings	69,630,912	84,383,163
Accrued interest	2,827,166	3,464,091
Total borrowings	72,458,078	87,847,254

Breakdown of borrowings by current and noncurrent portions can be presented

	30-Jun-25	30-Jun-24
Current portion	39,457,248	21,599,110
Non current portion	33,000,830	60,575,764
Total borrowings	72,458,078	82,174,874

Following table details outstanding borrowings as at 30 June 2025 and 30 June 2024

	30-Jun-25	30-Jun-24
Loan Payable RUFIP	24,260,678	25,867,026
Loan Payable Sinqee BANK	5,090,751	6,923,596
Loan Payable CBO BANK	5,346,167	8,279,936
Loan Payable CBE BANK	10,856,340.30	20,000,000
Loan Payable DBE BANK	12,587,902	8,108,905
Loan Payable Awash BANK	11,489,074	15,203,700
Accrued Interest Payable on debt	2,827,166	3,464,091
Total Borrowings	72,458,078	87,847,254



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The Borrowing are obtained from various local commercial banks and Development bank of Ethiopia. The institution obtained the loan from Oromia International Bank, Enat Bank, United Bank and Cooperative Bank of Oromia as working capital financing to match credit demand of clients. Loan secured from Development Bank of Ethiopia to extend financing in rural areas which is part of Rural Financial Intermediation Program fund availed by the banks at reduced interest rate.

12 Other Liabilities

Other liabilities as at 30 June 2025 and 30 June 2024 comprises the following:

	30-Jun-25	30-Jun-24
Death Insurance		-
Deferred service charge income	3,470,333	2,827,619
Accrued leave payable	1,734,531	1,885,876
Deferred Micro credit payable	1,820,558	1,530,791
Deferred Revenue Restricted	-	0
Other liabilities	229,925	154,379
Tax payable	542,602	560,312
Accrued severance pay	53,502	47,374
Staff Pension Fund Payable	321,606	353,899
Total Other liabilities	8,173,056	7,360,249

13 Share Capital

Authorised:

10,000 Ordinary shares of 1,000 Birr each

30-Jun-25 30-Jun-24

10,000,000 10,000

Issued and fully paid:

10,000 Ordinary shares of 1000 Birr each

10,000,000 10,000,000

Earning per share

No. of weighted average shares

10,000 10,000

Earning per share

(103) 326

13.1 Donated Equity

Total donated capital as at 30 June 2025 and 30 June 2024 is as follows:

	30-Jun-25	30-Jun-24
At the beginning of the year	23,255,475	20,832,942
Addition during the year	-	2,422,533
At the end of the year	23,255,475	23,255,475

14 Legal Reserve

Total legal reserve as at 30 June 2025 and 30 June 2024 is as follows:

	30-Jun-25	30-Jun-24
At the beginning of the year	171,523	171,523
Transfer from profit or loss	-	-
At the end of the year	171,523	171,523



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15 Retained Earnings

Total retained earning as at 30 June 2025 and 30 June 2024 is as follows:

	30-Jun-25	30-Jun-24
At the begning of the year	(9,186,810)	(12,448,032)
Profit for the year	(1,025,314)	3,261,221
Capitalized to paidup capital	-	-
Transfer to legal reserve	-	-
At the end of the year	(10,212,124)	(9,186,811)

15.1 Taxation charge

According to the Micro Finance Proclamation No. 626/2009 Article 23, a micro finance that fully ploughs back the profit to the business activity is exempt from profit tax but if the company distributes the profit to shareholders it shall pay profit tax as any Business entity.

16 Notes to the statement of cashflows

Notes

a) Cash used in operations

Reconciliation of profit before income tax to cash from operations

	30-Jun-25	30-Jun-24
Profit (Loss) before tax	(1,025,314)	3,261,221
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	1,014,701	861,900
Loan impairment Charge	6	(4,019,153)
Prior year adjustment	8a	145,216
Changes in operating assets and liabilities:		
Deffe		188,996
-Decrease/ (Increase) in loans and advances	6	(8,993,735)
-Decrease/ (Increase) in other assets	8	493,067
-Increase/ (Decrease) in customer's deposit	10	(14,657,452)
-Increase/ (Decrease) in other liabilities	12	(1,924,895)
	7,093,003	(24,644,835)
	30-Jun-25	30-Jun-24
b) Cash and cash equivalents		
Cash in hand	-	-
Deposits with local banks	27,085,260	36,328,739
	27,085,260	36,328,739

17 Net Interest Income

Net interest income for the years ended 30 June 2025 and 30 June 2024 can be presented as follows:

	30-Jun-25	30-Jun-24
Interest income is arising from:		
Loans to customers	32,005,471	38,859,027
Placements with banks	941,905	730,250
Total interest income	32,947,376	39,589,277
Interest expense is arising from:		
Interest expense on customer deposit	5,112,863	3,119,493
Interest Expense on borrowing	8,732,025	9,011,720
Total interest expense on financial liabilities recorded at amortised cost:	13,844,888	12,131,213



ESHET MICROFINANCE INSTITUTION S.C.
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18 Fees and Commission

Net fee and commission for the years ended 30 June 2025 and 30 June 2024 can be presented as follows:

Fees and comission income	30-Jun-25	30-Jun-24
Service charge income	3,708,639	3,472,968
Dividend income	576,829	454,243
Total Fees and Commission	4,285,468	3,927,211

19 Other Operating Income

Other operating income for the years ended 30 June 2025 and 30 June 2024 can be presented as follows:

Other Operating Income	30-Jun-25	30-Jun-24
Micro Credit Insurance Income	2,129,166	2,092,802
Income From Penalty	2,780,979	1,375,397
Other income	12,171,089	6,585,467
Loan loss reserve reversal	-	4,252,213
Total other operating income	17,081,233	14,305,878

20 Salaries and other employee benefits

Staff related expenses for the years ended June 30 2025 and June 30 2024 can be presented as follows:

	30-Jun-25	30-Jun-24
Salary	22,541,640	21,863,886
Pension Cost-Defined contribution plan	2,444,682	2,376,766
Staff allowance	2,139,975	2,177,035
Other Staff expenses	27,200	4,500
Leave expense	215,002	389,827
Medical	279,594	280,021
Severance pay	920,005	556,441
Total salaries and other employee benefits	28,568,098	27,648,475



21 Depreciation on property, plant and equipment

Depreciation expense for the years ended June 30 2025 and June 30 2024 can be presented as follows:

	30-Jun-25	30-Jun-24
Depreciation expense	1,014,701	861,900
Total depreciation expense	1,014,701	861,900



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22 General and administrative expenses

General and administrative expenses for the years ended June 30 2025 and June 30 2024 can be presented as follows:

	30-Jun-25	30-Jun-24
Rent expense	3,269,712	2,667,143
Perdiem & travel	573,015	564,570
Stationary and printing	850,725	378,282
Mv- Annual Inspection	33,982	50,949
Communication	271,994	262,039
Marketing and promotion	55,945	40,865
Insurance	513,674	336,861
Miscellaneous expense	107,259	363,021
Transportation	385,734	342,010
Fuel & lubricants	667,901	639,288
Photo Copy	47,021	35,605
Maintenance & repair	1,106,897	158,892
Training	546,645	618,789
General assembly	72,900	25,000
Cleaning and supplies	269,734	214,277
Professional fee	-	-
Service charge	88,152	45,320
Audit fee	77,735	106,242
Utilities	27,343	25,774
Membership fee	150,085	74,101
Amortization expense	-	-
Coin Box Maintainace	3,436	7,660
Legal expense	2,285,222	905,027
Annual Work fee for Board	111,000	129,500
Tax expense	38,531	797
Other operating expense	313,835	11,765
License fee	12,670	34,758
Uniform expenses	-	-
Loading un loading	40,900	31,500
CBS maintainance and suport service fee	572,812	514,114
Generator Maintenance Expense	9,710	35,900
Deposite insurance premium	139,340	145,360
Loss on disposal of PPE	30,662	-
Total General and Administrative expenses	12,674,568	8,765,407



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23 Commitments And Contingencies

LITIGATION

In the ordinary course of business organisations are usually subject to legal actions and complaints.

Following the Institution's customers' failure to meet loan repayment obligations the Institution is involved in legal disputes against such customers. The highest possible outcome from such legal disputes is the amount of loans receivable from such customers (including accrued interest and other charges)

As it is not certain that all the customers will meet the repayment obligations the Institution recognises provision for impairment for such loans

OPERATING LEASE COMMITMENTS

The institution leases offices under cancellable operating lease. The leases typically run for a period of 2 years, with an option to renew the lease after that date operating lease commitments as at 30 June 2025 and 30 June 2024 and are payable as follows:

	30-Jun-25	30-Jun-24
Upto 1 year	804,235	652,235
1 year to 3 years	240,000	152,000
3 year to 5 years	-	-
Over 5 years	-	-
Financial commitments and contingencies	1,044,235	804,235



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24 Financial risk management

Introduction

As a financial institution the Institution is exposed to risks that arise from its use of financial instruments. This note describes the Institution's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. Financial assets and financial liabilities that are liquid or have a short term maturity it is assumed that the carrying amounts approximate to their fair value.

Risk is inherent in the Institution's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Institution's continuing profitability and each individual within the Institution is accountable for the risk exposures relating to his or her responsibilities. The Institution is exposed to credit risk, liquidity risk, market risk and various operating risks.

Risk management structure

Risk management is one component of all core processes of the Institution. In its day-to-day activities the institution is exposed to various types of financial risks, the most important of which are credit risk, liquidity risk, interest rate risk and operational risk.

The Institution's risk management and control is based on the following key principles:

- The board of Directors approves the risk management policies of the Institution and ensures their implementation.
- The management is responsible for implementing the policies in a manner that limits risks associated with each risk exposure.
- Appropriate and effective internal control exists to safeguard assets and to ensure compliance with relevant laws, regulations and institutional policies.
- The risk management and monitoring is supported by a management information system that supplies timely and consolidated reports on the financial conditions, operating performance and risk exposure of the Institution.

The Independent Risk Management and Compliance function is established to review compliance with the approved risk management policies and various risk related committees are established which are responsible for the implementation of the risk management policies.

The management has overall responsibility for the determination of the Institution's risk management objectives and policies and whilst retaining ultimate responsibility for them it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Institution's finance function.

The overall objective of the management is to set policies that seek to reduce risks as far as possible without unduly affecting the Institution's competitiveness and flexibility. Further details regarding these policies are set out below. Through its operations the Institution is exposed to the following financial risks:

- Credit risk
- Liquidity risk
- Market risk
- Interest rate risk

Risk measurement and reporting systems

The Institution's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

Monitoring and controlling risks is primarily performed based on limits established by the Institution. These limits reflect the business strategy and market environment of the Institution as well as the level of risk that the Institution is willing to accept, with additional emphasis on selected regions. In addition, the Institution's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Risk mitigation

Risk controls and mitigants, identified and approved for the Institution, are documented for existing and new processes and systems. The Institution uses risk tolerance limit as a risk limit control. This risk tolerance limit composed of risk limit by economic sector, by credit product and by maturity. There also limitations imposed by the regulatory organ which all Microfinance Institutions should comply.

As part of the credit risk mitigation which is the main identified financial risk of the Institution, an appropriate risk environment, credit policies and procedures are established. In addition, there is portfolio management, appropriate credit administration and monitoring and loan review function.

The other credit risk mitigation measures is obtaining sufficient collateral securities and guarantees for credit products as the second way out in case of default.



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Financial instruments by category

The Institution's financial assets are classified into the following measurement categories: available-for-sale and loans and receivables and the financial liabilities are classified into other liabilities at amortised cost.

Financial instruments are classified in the statement of financial position in accordance with their legal form and substance.

30-June-2025	Notes	FVOCI	Cost	Total
Cash and cash equivalents	5	-	27,085,260	27,085,260
Loans and advances to customers (Net)	6	-	136,313,540	136,313,540
Other assets and prepayments	8	-	2,866,329	2,866,329
Financial assets at fair value through OCI	9(a)	5,983,400	-	5,983,400
Total Financial asset		5,983,400	166,265,130	172,248,530

30-June-2024	Notes	FVOCI	Amortized Cost	Total
Cash and cash equivalents	5	-	36,328,739	36,328,739
Loans and advances to customers (Net)	6	-	119,298,715	119,298,715
Other assets and prepayments	8	-	2,333,773	2,333,773
Financial assets at fair value	9(a)	5,377,400	-	5,377,400
Total Financial asset		5,377,400	157,961,227	163,338,627

Credit risk

Credit risk is the probability that a counterparty of the Institution will not meet its obligations in accordance with agreed terms and conditions which may lead to financial loss. The Institution is exposed to credit risk due to activities such as loans and advances and loan commitments arising from lending activities.

Management of credit risk

In measuring credit risk of loans and receivables to various counterparties, the Institution considers the character and capacity of the obligor to pay or meet contractual obligations, current exposures to the counter party/obligor and its likely future developments, credit history of the counterparty/obligor; and the likely recovery ratio in case of default obligations-value of collateral and other ways out. The Institution's policy is to lend principally on the basis of the customer's repayment capacity through various evaluation. However as much as possible the institution ensure that the loans are backed by collateral to reflect the risk of the obligors and the nature of the facility.

In the estimation of credit risk, the Institution estimate the following parameters:

a 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.

b 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.

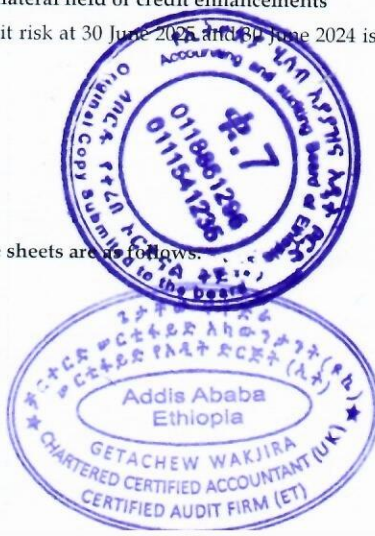
c Exposure at Default

This represents the amount that is outstanding at the point of default. Its estimation includes the drawn amount and expected utilisation of the undrawn commitment at default.

Maximum exposure to credit risk before collateral held or credit enhancements

The institution's maximum exposure to credit risk at 30 June 2025 and 30 June 2024 is represented by the net carrying amounts in the statement of financial position.

	30-Jun-25	30-Jun-24
Cash and cash equivalents	27,085,260	36,328,739
Loans and advances to customers (Net)	136,313,540	119,298,715
Other assets and prepayments	2,866,329	2,333,773
Financial assets at fair value through OCI	5,983,400	5,377,400
Total Financial asset	172,248,530	163,338,627
Credit risk exposures relating to off balance sheets are as follows:		
Loan Commitment	-	-
Total off balance sheet exposure	-	-
Total maximum exposure	172,248,530	163,338,627



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Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments (2025) and available-for-sale debt assets (2024). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Credit risk exposure	Stage 1	Stage 2	Stage 3	Total	30-Jun-25
	12 Month ECL	Life time ECL	Life time ECL		
Stage 1 - Pass	43,362,728			43,362,728	89,377,128
Stage 2 - special mention	52,404,451	-		52,404,451	9,027,724
Stage 3 - Non performing	11,348,199		-	11,348,199	2,554,674
Total gross exposure	107,115,378	-	-	107,115,378	100,959,526
Loss allowance	(2,325,737)	-	-	(2,325,737)	(2,839,036)
Net Carrying amount	104,789,641	-	-	104,789,641	98,120,490

Amounts arising from ECL

i) inputs, assumptions and techniques used for estimating impairment

See accounting policy in note 3.3 - iv

ii) Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Institution considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Institution's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).
- the Institution uses three criteria for determining whether there has been a significant increase in credit risk:
- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due,

iii) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Institution collects performance and default information about its credit risk exposures analyzed by type of product and borrower. The Institution employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

iv) Determining whether credit risk has increased significantly

The Institution assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Institution's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences.



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The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Institution's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgment and relevant historical experiences.

As a backstop, the Institution considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Institution determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Institution monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

v) Definition of default

The Institution considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Institution in full, without recourse by the Institution to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Institution.
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Institution considers indicators that are:

- qualitative: e.g. breaches of covenant;
 - quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Institution; and
 - based on data developed internally and obtained from external sources.
- Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

vi) Incorporation of forward-looking information

The Institution incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

External information which includes economic data and forecasts, an external and independent macroeconomic data body will be considered in the forward looking information assessment. This is in addition to industry-level, semi annual NPL trends across statically comparable sectors.

The Institution has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

vii) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).



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ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading 'Generating the term structure of PD'.

LGD is the magnitude of the likely loss if there is a default. The Institution estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Institution derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

viii) Loss allowance

The following table reconciliation for the opening to the closing balance of the impairment allowance by the class of financial instruments. Comparative mounts for 2018 represent the allowance for credit losses and reflect the measurements basis under IAS 39. summarises the impact of transition to IFRS 9 on the opening balance of the liability regulatory risk reserve and Retained earning. There is no impact on other components of equity.

	2025			Total
	Stage 1	Stage 2	Stage 3	
Loans and advances to customers at amortised cost impairment allowance as at 30 June	(2,325,737)	-	-	(2,325,737)
Restatement of the prior year	-	-	-	-
Loss allowance as at 1 July	(2,325,737)	-	-	(2,325,737)
Changes in the impairment allowanc				
- Transfer to stage 1	(2,325,737)	-	-	(2,325,737)
- Transfer to stage 2	-	-	-	-
- Transfer to stage 3	-	-	-	-
- Write offs	-	-	-	-
Net change in financial assets /originated or dereco	(4,651,474)	-	-	(4,651,474)
Loss allowance as at 30 June	(6,977,211)	-	-	(6,977,211)



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Credit quality analysis for loans and advances comparative information under IAS 39 summarized as follows;

	<u>30-Jun-25</u>				
	Neither past due nor impaired	Past due but not impaired	Collectively Impaired	Individually impaired	Total
Agricultural loan	2,232,900	23,674	-	-	2,248,952
Business loan	40,618,871	3,949,987	-	-	44,568,858
Employee loan	36,360,395	7,354,868	-	-	43,715,263
Solar Energy Loan	6,133,917	-	-	-	6,133,917
Individual Agri Loan	10,321,096	19,670	-	-	10,340,766
Small and Medium Enterprise Loan	100,000	-	-	-	100,000
Gross carrying amount	<u>95,767,179</u>	<u>11,348,199</u>	<u>-</u>	<u>-</u>	<u>107,115,378</u>
Loss allowance	(2,325,737)	-	-	-	(2,325,737)
Net Carrying amount	<u>93,441,442</u>	<u>11,348,199</u>	<u>-</u>	<u>-</u>	<u>104,789,641</u>

Statement of Prudential adjustments

Provisions under prudential guidelines are determined using the time based provisioning prescribed by the National Bank of Ethiopia (NBE) Directives. This is at variance with the forward looking model required by IFRS-9. As a result of the differences in the methodology/provision, there will be variances in the impairments allowances required under the two methodologies.

The proclamation 'Financial Reporting Proclamation No.847/2014 stipulates that Banks would be required to make provisions for loans as prescribed in the relevant IFRS Standards when IFRS is adopted.

However, the Institution would be required to comply with the following:

(a) Provisions for loans recognised in the income statement should be determined based on the requirements of IFRS. However, the IFRS provision should be compared with provisions determined under the NBE Directives and the expected impact/changes in other reserves should be treated as follows:

- Prudential provisions is greater than IFRS provisions; the excess provision resulting should be transferred from the general reserve (retained earnings) account to a "regulatory risk reserve".
- Prudential provisions is less than IFRS provisions; IFRS determined provision is charged to the statement of comprehensive income. The cumulative balance in the regulatory risk reserve is thereafter reversed to the general reserve(retained earnings) account

(b) The non-distributable reserve should be classified under Tier 1 as part of the core capital.

	<u>30-Jun-25</u>	<u>30-Jun-24</u>
Total impairment based on IFRS	(28,283,945)	(29,046,810)
Total impairment based on NBE Directives	762,865	(5,154,149)
Variation in impairment based on IFRS to statutory requirement	<u>(27,521,080)</u>	<u>(34,200,959)</u>

Credit Concentration

The Institution monitors concentrations of credit risk by economic sector. An analysis of concentrations of credit risk at 30 June 2025 and 30 June 2024.

	<u>30-Jun-25</u>		<u>30-Jun-24</u>	
Agricultural loan	6,987,772	5.04%	10,458,256	8.48%
Business loan	54,578,502	39.37%	45,892,783	37.22%
Employee loan	57,984,668	41.82%	50,786,351	41.18%
Solar Energy Loan	6,190,640	4.47%	7,763,233	6.30%
Individual Agri Loan	10,463,111	7.55%	7,213,666	0.00%
Small and Medium Enterprise Loan	101,100	0.07%	-	0.00%
Staff Loan	2,333,483	1.68%	1,203,578	0.00%
Net Carrying amount	<u>138,639,277</u>	<u>100.00%</u>	<u>123,317,868</u>	<u>93.17%</u>



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Nature of security in respect of loans and advances to customers

30-Jun-25	Building	Vehicle	Share	Cash	Others	Total
Agricultural loan	-	-	-	229,400	-	229,400
Business loan	187,580,000	11,300,000	-	6,413,100	-	205,293,100
Employee loan	-	-	-	6,416,630	-	6,416,630
Solar Energy Loan	-	-	-	636,310	-	636,310
Individual Agri Loan	-	-	-	1,055,200	-	1,055,200
Staff Loan	-	-	-	30,000	-	30,000
Total security in respect of loans and advar	187,580,000	11,300,000	-	14,780,640	-	213,660,640

MARKET RISK

Market risk is the risk that the fair value of a financial instrument will decrease because of changes in market factors. Market risk arises from the institution's use of interest bearing financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates interest rate risk.

The institution dose not ordinarily engage in trading activities as there are no active markets in Ethiopia.

INTEREST RATE RISK

Interest rate risk arises from potential changes in market interest rates that can adversely affect the fair values of the financial assets and liabilities of the Institution.This risk can arise from maturity mismatches of assets and liabilities as well as from the repricing characteristics of such assets and liabilities.

The table below summarises ihe Institution's exposure to interest rate risks The table presents the aggregated amounts of ihe Institution's interest bearing financial assets and interest bearing financial liabilities at carrying amounts as at 30 June 2025 and 30 June 2024

	Interest variable	30-Jun-25	30-Jun-24
Asset			
Cash and balances with banks	Fixed	27,085,260	36,328,739
Loans and advances to customers	Fixed	136,313,540	119,298,715
Investment securities and share	Fixed	5,983,400	3,848,000
Total interest bearing financial assets		169,382,200	159,475,454
Liabilities			
Deposits from customers	Fixed	78,546,670	54,708,479
Borrowings	Fixed	72,458,078	87,847,254
Total interest bearing financial liabilities		151,004,748	142,555,733
Net interest sensitivity gap		18,377,452	16,919,721

The information about maturities of interest bearing financial assets and interest bearing financial liabilities is given in liquidity risk quantitative disclosures.

The Institution's all interest bearing assets and liabilities are at fixed interest rates therefore market interest rate fluctuations do not affect ihe institution's income or expenses.



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25 Transactions with related parties

Related parties or transactions with related parties as defined by IAS “Related party disclosures” could be one or more of the following:

- a) Parties that directly or indirectly through one or more intermediaries: control or are controlled by or are under common control with the company this includes parents subsidiaries and fellow subsidiaries; have an interest in the Institution that gives them significant influence over the Institution; and that have joint control over the company;
- b) Members of key management personnel of the company or its parent;
- c) Close members of the family of any individuals referred to in a or b;
- d) Parties that are entities controlled jointly controlled or significantly influenced by or for which significant voting power in such entity resides with directly or indirectly any individual referred to in c or b;

In considering each possible related party relationship attention is directed to the substance of the relationship and not merely the legal form Details of transactions between the Institution and other related parties are disclosed below :

Related party balances and transactions as and for the year ended 30 June 2025

2025	Board Directors	Key mamangement personnel
Borrowing	-	338,143
Customers deposit	-	306,655
Interest expense	-	35,444.02
Transport allowance	111,000	132,000
Salaries and other employee benefits	-	3,784,313
		4,596,555

Related party balances and transactions as and for the year ended 30 June 2024

2024	Board Directors	Key mamangement personnel
Borrowing	-	694,749
Customers deposit	-	-
Interest expense	-	-
Transport allowance	116,000	158,400
Salaries and other employee benefits	-	17,727,745



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26 Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet loan repayments and other financial commitments associated with financial instruments as they actually fall due.

In order to manage liquidity risk the Institution performs regular monitoring of future expected cash flows which is a part of assets/liabilities management process. An analysis of the liquidity and interest rate risks is presented in the following tables. The presentation below is based upon the information provided by key management personnel of the Institution.

Liquidity of Financial assets and liabilities as at June 30 can be presented in the following table:

Financial assets	Up to 3 months	3 to 6 months	5 to 12 months	Over 1 year	Total
Cash and cash equivalents	27,085,260				27,085,260
Loans to customers	40,059,022	39,318,106	17,429,481	33,573,679	130,380,287
financial assets as at 30 June 2024	67,144,282	39,318,106	17,429,481	33,573,679	157,465,547
Financial liabilities	Up to 3 months	3 to 6 months	5 to 12 months	Over 1 year	Total
Customers deposit	1,910,291	9,005,659	10,915,950	56,714,770	78,546,670
Borrowings	8,136,892	4,882,135	3,254,757	20,400,034	36,673,817
Interest bearing financial liabilities	10,047,183	13,887,794	14,170,707	77,114,804	115,220,487
Other liabilities	612,979	1,634,611	5,108,160	817,306	8,173,056
financial liabilities as at 30 June 2025	10,660,162	15,522,405	19,278,867	77,932,110	123,393,543
Financial assets	Up to 3 months	3 to 6 months	5 to 12 months	Over 1 year	Total
Cash and cash equivalents	27,085,260				27,085,260
Loans to customers	136,313,540	15,349,083	(66,926,892)	23,749,324	108,485,056
financial assets as at 30 June 2025	163,398,800	15,349,083	(66,926,892)	23,749,324	135,570,316
Financial liabilities	Up to 3 months	3 to 6 months	5 to 12 months	Over 1 year	Total
Customers deposit	1,689,217	7,963,451	9,652,668	35,403,144	54,708,479
Borrowings	1,495,928	1,658,248	18,444,934	60,575,764	82,174,874
Interest bearing financial liabilities	552,019	1,472,050	4,600,156	736,025	7,360,249
Other liabilities					
Financial liabilities as at 30 June 2024	552,019	1,472,050	4,600,156	736,025	7,360,249
Liquidity gap as at 30 June 2025	56,484,120	23,795,701	(1,849,386)	(44,358,431)	34,072,004
Liquidity gap as at 30 June 2024	162,846,782	13,877,033	(71,527,048)	23,013,299	128,210,066

