DEBO MICROFINANCE INSTITUTION S.C.

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

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DEBO MICROFINANCE INSTITUTION S.C.
FOR THE YEAR ENDED JUNE 30, 2025
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DEBO MICROFINANCE INSTITUTION S.C.
MANAGEMENT, PROFESSIONAL ADVISORS AND REGISTERED OFFICE
FOR THE YEAR ENDED JUNE 30, 2025

Directors (As of 30 June , 2025)

NEB-MFI/042/2017

Registered Office

Debo Microfinance Institution S.C
Bole subcity. Wereda 03
P.O.BOX 198/1065
Addis Ababa, Ethiopia

	Name	Position	Appointment Date
1	Amare Feleke Gashaw	Board President	16/09/2023
2	Anane Asfaw Tesema	V/B/president	16/09/2023
3	Fegegta Lemma Kibret	Member	16/09/2023
4	Abdi Bekele Hailu	Member	16/09/2023
5	Dawit Tilahun Edjeta	Member	16/09/2023
6	Michael Mengesha Delelu	Member	16/09/2023
7	Afework Yohannes Germamo	Member	16/09/2023
8	Getachew Mamo Areda	Member	16/09/2023
9	Natnael Hailu Tesema	Member	16/09/2023

Senior Management

Girma Olana	Chief Executive Officer	1/8/2019
Melkamu Wagari	Operation Manager	1/7/2019
Maranata Tadesse	A/Finance & Admin.Manager	11/2/2025
Haile Dembobsa	Marketing & Bussines Development Manager	26/1/2022

Independent auditor

AMA-HAI Certified Accountants & Auditors
Meskel Flower Road, Aster Surafel Building 2nd Floor, Room No. 205
Tel- +251-11-6552471/251-11470 0388/96
Fax-251-11-470 0394, Po.Box-13735
Addis Ababa, Ethiopia

Principal Bankers

Commercial Bank of Ethiopia
United Bank S.C.
Enat Bank S.C.
Berhan International Bank S.C.
Awash Bank S.C.
Cooperative Bank Of Oromiya
Bank Of Abyssinia
Siinqee bank
Dashen Bank S.C
Tsehay Bank S.C

DEBO MICROFINANCE INSTITUTION S.C.
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED JUNE 30, 2025

The Commercial Code of Ethiopia, 2021 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 2021, 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.

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 2021.

The Chief Executive Officer is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its profit or loss.

The Chief Executive Officer further accepts responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Chief Executive Officer to indicate that the Company will not remain a going concern for at least twelve months from the date of this statement.

Signed on behalf of the Directors by: and on September 20, 2025.

Amare Feleke Gashaw
Board President

Girma Olana
Chief Executive Officer

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Ama-Hai Certified Accountants & Auditors
Partners Amanuel Bahta, FCCA (U.K.)
Haileselassie G/Kidan, FCCA (U.K.)

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DEBO MICRO FINANCE INSTITUTION SHARE COMPANY

Opinion

We have audited the accompanying financial statements of Debo Micro Finance Institution Share Company which comprise the Statement of Financial Position as of 30 June 2025 and the related Statement of Profit & Loss and Other comprehensive income, Statement of Change in equity and Statement of Cash Flow for the year ended 30 June 2025, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Debo Micro Finance Institution Share Company as of 30 June 2025 and of its financial performances and cash flows for the year ended 30 June 2025 in accordance with International Financial Reporting Standards (IFRSs).

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibility for the audit of the financial statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA code) together with the ethical requirements that are relevant to our audit of the financial statements in Ethiopia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Responsibilities of Management and those charged with governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (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, 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' Responsibility for the audit of financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole 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 the aggregate, they could reasonably be expected to influence the economic decision of users taken on the basis of these financial statements.

Reporting on other legal requirements

As required by the Commercial Code of Ethiopia, based on our audit we report as follows:

i) Pursuant to Article 349 (1) of the Commercial Code of Ethiopia 2021 and based on our review of the board of directors' report, we have not noted any matter that we may wish to bring to your attention;

ii) Pursuant to article 349 (2) of the Commercial Code of Ethiopia we recommend the financial statements for approval.

Addis Ababa
September 25, 2025

Ama – Hai
Chartered Certified Accountants

DEBO MICROFINANCE INSTITUTION S.C.
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2025
(In Ethiopian Birr)

	Notes	30-Jun-25	30-Jun-24
Assets			
Cash and cash equivalents	5	40,300,239	39,241,062
Other assets and prepayments	8	12,505,311	8,005,429
Loans and advances to customers (Net)	6	307,779,434	219,709,003
Property, plant and equipment	7	8,848,685	9,018,226
Total Assets		**369,433,669**	**275,973,719**
Liabilities			
Deposit from customers	9	115,838,342	93,511,739
Other liabilities	10	25,780,619	20,749,614
Bank Term Loan	11	64,419,779	53,210,698
Total Liabilities		**206,038,740**	**167,472,052**
Equity			
Share Capital	12	100,000,000	76,890,633
Legal Reserve		5,490,327	2,745,684
Retained Earning	13	52,149,251	28,865,350
General Reserve	14	5,755,350	-
Total Equity		**163,394,928**	**108,501,667**
Total Liabilities and Equity		**369,433,668**	**275,973,719**

The financial statements on pages 5 to 8 were approved and authorized for issue on 20 Sep. 2025 the board of directors on and were signed on its behalf by:

The notes on pages 9 to 62 are an integral part of these financial statements.

Amare Feleke Gashaw
Board President

Girma Olana
Chief Executive Officer

DEBO MICROFINANCE INSTITUTION S.C.

Ama-Hal Certified Accountants & Auditors

DEBO MICROFINANCE INSTITUTION S.C.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2025
(In Ethiopian Birr)

	Notes	30-Jun-25	30-Jun-24
Interest Income	16	81,124,050	55,269,374
Interest Expense	17	(19,125,349)	(13,631,847)
Net Interest Income Before Impairment		61,998,701	41,637,527
Loan Impairment Charge	6	659,869	(3,696,899)
Net Interest Income		**62,658,570**	**37,940,628**
Fees and commission income	18	10,678,649	7,089,349
Other operating income	19	10,481,327	6,806,674
		21,159,976	**13,896,022**
Net operating income		**83,818,547**	**51,836,650**
Salaries and Other Employee Benefits	20	17,966,598	14,238,834
General and Administrative Expenses	22	9,568,482	6,856,579
Depreciation on Property, Plant and Equipment	21	1,390,610	356,659
		(28,925,690)	**(21,452,072)**
Profit (Loss) For the Year		54,892,857	30,384,579
Taxation Charges	31	-	-
		54,892,857	30,384,579
Other comprehensive income		-	-
Total comprehensive income for the year		**54,892,857**	**30,384,579**

Ama-Hal Certified Accountants & Auditors

DEBO MICROFINANCE INSTUTION S.C.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR EDNED JUNE 30, 2025
(In Ethiopian Birr)

	Notes	Share Capital	Legal Reserve	General Reserve	Retained Earning	Total
Balance as at July 2023		47,327,650	1,226,455	-	13,573,642	62,127,747
Profit for the year	13	-	-	-	30,384,579	30,384,579
Increase in Share Capital - Cash	12	15,989,341	-	-	-	15,989,341
Transferred to Share Capital	12	13,573,642	-	-	(13,573,642)	-
Transferred to Legal Reserve	13	-	1,519,229	-	(1,519,229)	-
Balance as at 30 June 2024		**76,890,633**	**2,745,684**	**-**	**28,865,350**	**108,501,667**
Balance as at 1 July 2024		76,890,633	2,745,684	-	28,865,350	108,501,667
Profit for the year	13	-	-	-	54,892,857	54,892,857
Transfere to General Reserve	14	-	-	5,755,350	(5,755,350)	-
Transferred to Share Capital	13	23,110,000	-	-	(23,110,000)	-
Transferred to Legal Reserve	13	-	2,744,643	-	(2,744,643)	163,394,524
Prior period Adjustment	13	(633)	-	-	1,037	404
Balance as at 30 Jun 2025		**100,000,000**	**5,490,327**	**5,755,350**	**52,149,251**	**163,394,928**

DEBO MICROFINANCE INSTITUTION S.C.
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2025
(In Ethiopian Birr)

	Notes	30-Jun-25	30-Jun-24
Cash flows from Operating Activities			
Cash flows from operating activities	15	(8,928,203)	(9,756,781)
Net cash (outflow)/inflow from Operating Activities		**(8,928,203)**	**(9,756,781)**
Cash flows from Investing Activities			
Purchase of property, plant and equipment	7	(1,226,169)	(6,087,325)
Fixed Asset Adjustement	7	5,100	5,400
Fixed Asset Disposal(Accumulated Deprication)	7	-	(657)
Net cash (outflow)/inflow from Investing Activities		**(1,221,069)**	**(6,082,582)**
Cash flows from Financing Activities			
Proceeds/adjustement from issues of shares		(633)	15,989,341
Proceeds from bank loan	11	66,638,667	-
Settlement of term loan	11	(55,429,585)	21,762,133
Net cash (outflow)/inflow from Financing Activities		**11,208,449**	**37,751,474**
Net increase/(decrease) in cash and cash equivalents		**1,059,176**	**21,912,111**
Cash and cash equivalents at the beginning of the year		39,241,062	17,328,951
Cash and cash equivalents at the end of the year		**40,300,239**	**39,241,062**
Cash and Cash Equivalent Consists of			
Cash at Bank	5	**40,300,239**	**39,241,062**

DEBO MICROFINANCE INSTITUTION S.C.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025
(In Ethiopian Birr)

1 General Information

Debo microfinance Institution S.C. is a Microfinance institution which was established on 03 August 2017. 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:

Debo Microfinance Institution S.C.
Bole Subcity, Wereda 03
P.O.BOX 198/1065
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, 2025 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 value.

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.

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 2018 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 recognized 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 recognized 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 recognizing revenue: at a point in time or over time. The standard specifies how and when the Institution will recognize 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 recognized at the date of initial application as an adjustment to the opening balance of Retained earning 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 recognizing 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 recognizing 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.

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 recognizes receivables from customers on the date on which they are originated. All other financial instruments are recognized 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 recognized in the statement of financial position when the institution becomes a party to the contractual provisions of the instrument. the institution derecognizes 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 recognize the financial asset to the extent of its continuing involvement.

Financial assets are also de-recognized 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 derecognizes 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 recognized amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(ii) Classification and Measurement

All financial assets and liabilities are initially recognized 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.

■ 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 recognized 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 amortized cost being recognized 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 derecognized, the cumulative gain or loss is reclassified from equity to profit or loss.

■ Financial assets measured at amortized cost

Financial assets are held at amortized 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 amortized cost that are not purchased or originated credit-impaired are measured at amortized 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 amortized cost (i.e. gross carrying amount less loss allowance). Interest income is included in finance income.

■ Financial liabilities at amortized cost

Financial liabilities, except those designated as at FVPL, are stated at amortized 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	Notes	Mandatorily Designated at FVTPL	Other Financial Assets and Liabilities at Amortized Cost	Total Carrying
Financial Assets				
Cash and bank balances	5	-	40,300,239	40,300,239
Receivables due from customers	6	-	307,779,434	307,779,434
Other financial assets	8	-	12,505,311	12,505,311
Total Financial Assets		-	**360,584,984**	**360,584,984**
Financial Liabilities	9	-	115,838,342	115,838,342
Other financial labilities	10	-	25,780,619	20,749,614
Borrowings	11	-	64,419,779	64,419,779
Total Financial Liabilities		-	**206,038,740**	**201,007,735**

IAS 39 Classification	Note	Loans and Receivables	Amortized Cost	Total Carrying Amount
Financial Assets				
Cash and bank balances	5	40,300,239	-	40,300,239
Receivables due from customers	6	307,779,434	-	307,779,434
Other financial assets	8	12,505,311		12,505,311
Total Financial Assets		**360,584,984**	-	**360,584,984**
Financial Liabilities				
Financial liabilities	9	-	115,838,342	115,838,342
Borrowings	11	-	64,419,779	64,419,779
Other financial labilities	10	-	25,780,619	25,780,619
Total Financial Liabilities		-	**206,038,740**	**206,038,740**

The following table reconciliation for the opening to the closing balance of the impairment allowance by the class of financial instruments. Comparative amounts for 2024 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 and Retained earning. There is no impact on other components of equity.

	30-Jun-25	30-Jun-24
Balance at the beginning of the year	5,378,512	2,595,797
Provision expense	(659,869)	3,696,899
	4,718,643	**5,378,512**

3.1.2. New Standards, Amendments and Interpretations Issued But Not Adopted

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	On or After
IFRS 16 Lease	1-Jan-19
Amendments to IAS 1 and IAS 8 Definition of Material	1-Jan-19
Amendments to references to the Conceptual Framework in IFRS Standards	1-Jan-19
Annual improvements cycle (2015-2017)	1-Jan-19

IFRS 16: Lease

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize 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, IAS 17.

Annual Improvement Cycle (2015 – 2017) – Various Standards

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: – 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 recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI
IAS 23 Borrowing costs	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. 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

3.2. Recognition of Income and Expenses

Revenue is recognized 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 recognized 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 amortized 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 financial instrument, but not ECL.

The 'amortized 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 amortization 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 'amortized 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 amortization 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 amortized 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 amortized 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 amortized 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 amortized 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 amortized cost;
- interest on financial liabilities measured at amortized cost

3.3. Financial Assets and Liabilities

IFRS 9 sets out requirements for recognizing 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) Recognition and Initial Measurement

Policy applicable prior to 1 July 2018

The Institution initially recognizes receivables from customers on the date on which they are originated. All other financial instruments are recognized 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 directly attributable to its acquisition or issue.

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 arise; or

- The financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis

Financial instruments included in this category are recognized 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 recognized 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 recognized at fair value which is the cash consideration to originate or purchase the loan including any transaction costs and measured subsequently at amortized cost using the effective interest method.

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 recognized at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognized in other comprehensive income and cumulated in a separate reserve in equity, fair value reserve, until the financial asset is derecognized. 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 recognized at fair value and subsequently measured at amortized cost.

II) Classification

Financial Assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or Fair Value Through Profit or Loss (FVTPL). A financial asset is measured at amortized 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 amortized 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:

– 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 those risks are managed;

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 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;
– the fair value of the collateral relative to the amount of the secured financial asset;
– the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
– whether the borrower is an individual or a substantive operating entity or is a special purpose entity;
– the Institution's risk of loss on the asset relative to a full-recourse loan;

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 t 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 amortized cost or FVTPL.

III) Derecognition

Financial Assets

The Institution derecognizes 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 derecognized) 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 recognized in OCI is recognized in profit or loss.

From 1 July 2018 any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized 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 recognized as a separate asset or liability.

The Institution enters into transactions whereby it transfers assets recognized 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 derecognized. 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 recognize 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 derecognized if it meets the derecognition criteria. An asset or liability is recognized 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 derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

IV) Modifications of financial assets and financial

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 derecognized and a new financial asset is recognized 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 derecognized and a new financial asset is recognized 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 amortized 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 recognizes 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 amortized 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.

Financial liabilities

The Institution derecognizes 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 recognized at fair value. The difference between the carrying amount of the financial liability derecognized and consideration paid is recognized 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 amortized 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 recognized 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 recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Fair value measurement

`Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in it 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 recognized 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 recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

V) Impairment Policy

The Institution recognizes 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 recognized 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.

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 recognized 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 recognized but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

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.

Restructured financial assets

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 derecognized 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 amortized 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.
Evidence that a financial asset is credit-impaired includes the following observable data:
– significant financial difficulty of the borrower or issuer;
– a breach of contract such as a default or past due event;
– 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
– the disappearance of an active market for a security because of financial difficulties.

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,

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 amortized 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 recognized 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 recognized in the fair value reserve.

Write–off

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.

Non – integral financial guarantee contracts

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.

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 recognizes an asset representing any prepayment of guarantee premium and a right to compensation for credit losses.

A prepaid premium asset is recognized 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 recognized 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'.

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.

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 recognized in profit or loss on the date of retirement or disposal.

II. Depreciation

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 Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization 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 amortized over the useful economic life. The amortization period and the amortization 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 amortization period or methodology, as appropriate, which are then treated as changes in accounting estimates. The amortization expenses on intangible assets with finite lives is presented as a separate line item in the income statement.

Amortization 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

3.7. 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 recognized 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 capitalized 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 derecognized.

Investment properties are derecognized 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.

3.8. 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 amortized over the period in which the service is to be enjoyed.

(b) Other receivables

3.9. 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 recognized 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.

3.10. Employee benefits

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.

3.11. 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.

3.12. Government Grant

Government grants are recognized 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 recognized 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 recognized 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.

3.13. 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.

3.14. Provisions and contingent liabilities

Provisions are recognized 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.

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3.15. Event after the reporting

On September 14, 2023, and October 2, 2023, after the reporting period ended, the company successfully secured a Commercial Bank Loan of Birr 28,000,000 from Awash Bank and Birr 10,000,000 from another source, totaling Birr 38,000,000. The loan carries an interest rate of 11.5% and is intended for lending purposes and operational expansion. The company also received funds from the USID palladium program, and the institution can receive incentives as per the agreement. This financing is expected to improve the company's liquidity and support its growth strategy.
This development will likely impact future financial statements, including cash flow projections and interest expense calculations. Management anticipates that this loan and funds will help in the preparation of proposals contributing to long-term growth and stability.
It is essential to include this disclosure in the notes to the financial statements to inform stakeholders of significant developments affecting the company's financial position and strategic direction.

4 Accounting judgements and estimates

(a) Accounting judgements
(i) Revenue recognition
To determine the satisfaction of performance obligations the institution applies the following judgements:

■ Where revenue is recognized 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 recognized 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.

(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 the customer's ability and intention to pay when due. The above estimation is inherent in revenue recognition and revenue may materially change if management's estimation were to change or to be found inaccurate.

(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.

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 amortization

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 amortized on a straight-line basis over the estimated useful lives. Both the period and method of depreciation and amortization are reviewed annually. The depreciation and amortization expense for future periods is adjusted if there are significant changes, such as operational efficiency or changes in technologies, from previous estimates.

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5 CASH AND CASH EQUIVALENTS

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

	30-Jun-25	30-Jun-24
Cash at Bank	40,300,239	39,241,062
Total cash and cash in equivalents	**40,300,239**	**39,241,062**

6 LOANS TO CUSTOMERS

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

	30-Jun-25	30-Jun-24
Employee Loan	528,968	872,859
Group Business Loan	5,478,054	4,884,044
Household Loan	36,526,604	51,056,916
Micro Enterprise Loan	-	806,856
Small Enterprise Loan	250,144,745	151,632,863
Group Agricultural Loan (Term)	13,147,114	9,421,889
Group Agri-business Loan	1,877,265	1,688,527
Individual Agri-business Loan	4,795,327	4,723,560
Gross loans to customers	**312,498,077**	**225,087,514**
Less: allowance for impairment losses	(4,718,643)	(5,378,511)
Net loans to customers	**307,779,434**	**219,709,003**

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

	30-Jun-25	30-Jun-24
Balance at the beginning of the year	5,378,512	2,595,797
Loan impairement loss/(gain)	(659,869)	3,696,899
	4,718,643	**5,378,512**

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	273,848,286	191,619,340
90 to 180 days overdue	28,937,829	21,207,057
180 to 365 days overdue	5,359,446	7,929,936
above 365 days overdue	4,352,516	4,331,181
Balance at the end of the year	312,498,077	225,087,514
Less: allowance for impairment losses	(4,718,643)	(5,378,511)
Balance at the end of the year	**307,779,434**	**219,709,004**

Loan to customers are collateralized by:

	30-Jun-25	30-Jun-24
Building	912,970,000	500,716,591
Vehicle	1,196,468,001	1,041,564,002
Cash	25,952,385	13,083,127
	2,135,390,386	**1,555,363,720**

Reconciliations 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	309,798,360	220,628,917
Accrued interest according to the agreement	2,699,717	4,458,598
Gross loans to customers according to the agreement	312,498,077	225,087,514
Less: allowance for impairment losses	(4,718,643)	(5,378,511)
Net loans to customers	**307,779,434**	**219,709,004**

Breakdown of current and noncurrent portions can be presented

	30-Jun-24	30-Jun-24
Current portion	218,957,528	144,944,694
Noncurrent portion	88,821,905	74,764,309
	307,779,434	**219,709,004**

7 PROPERTY, PLANT AND EQUIPMENT

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

Cost	Equipment and Computer	Furniture and Fixture	Motor Vehicle	Total
As at 30 Jun 2024	2,853,438	2,237,679	4,793,270	9,884,387
Current Year Additions	834,869	391,300	-	1,226,169
Reclassification (Desposal on Fixed Asset	-	(5,100)	-	(5,100)
As at 30 Jun 2025	3,688,307	2,623,880	4,793,270	11,115,656
Accumulated depreciation				-
Balance at 30 Jun 2024	205,255	223,544	437,362	866,161
Depriciation for the Year	557,662	464,287	368,661	1,390,610
Reclassification (Desposal on Fixed Asset	-		-	-
As at 30 Jun 2025	762,917	687,831	806,023	2,256,771
Net Book Value				
As at 30 Jun 2025	2,925,390	1,936,049	3,987,247	8,848,685
As at 30 June 2024	2,648,183	2,014,135	4,355,908	9,018,226

8 OTHER ASSETS AND PREPAYMENTS

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

	30-Jun-25	30-Jun-24
Prepayment	208,945	131,363
Prepaid Rent	1,513,791	1,000,605
Inventory (See Below 8A)	896,038	612,526
Investment	2,915,000	2,266,200
Prepaid asset - staff loan	1,976,844	1,541,072
Other receivables	3,017,393	2,453,663
Acquired property	1,977,301	-
Total other asset and Prepayment	12,505,311	8,005,429

Breakdown of current and noncurrent portions can be presented

	30-Jun-25	30-Jun-24
Current portion	4,595,617	6,656,514
Noncurrent portion	7,909,694	1,348,915
Total other asset and Prepayment	12,505,311	8,005,429

8A. Inventory

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

	30-Jun-25	30-Jun-24
Printing materials	865,994	601,355
Stationary	30,044	11,171
	896,038	**612,526**

8B. Investment

Investment as at 30 June 2025 and 30 Jun 2024omprises the following:

	30-Jun-25	30-Jun-24
ET inclusive Financial Technology S.C	2,915,000	2,266,200
	2,915,000	**2,266,200**

9 DEPOSITS FROM CUSTOMERS

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

	30-Jun-25	30-Jun-24
Voluntary Saving	20,336,920	16,141,399
Compulsory saving	31,822,662	13,786,990
Time Deposit	63,678,760	63,583,350
Total Deposit	**115,838,342**	**93,511,739**

Breakdown of borrowings by current and noncurrent portions can be presented

	30-Jun-25	30-Jun-24
Current portion	84,015,680	80,517,462
Noncurrent portion	31,822,662	12,994,277
Total Deposit	**115,838,342**	**93,511,739**

10 OTHER LIABILITIES

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

	30-Jun-25	30-Jun-24
Death Insurance payable	11,176,178	8,294,032
Deferred service charge income	1,775,573	1,076,530
Accrued leave payable	796,622	949,304
Accrued severance pay	798,526	-
Accounts payable	93,399	73,608
Interest payable on saving	1,148,247	850,095
Kibir Consultants	4,352,014	3,320,793
Promic Fund	2,559,213	2,128,653
USAID Fund	-	1,666,455
Accrued interest-Commercial Loan	1,372,468	1,470,926
Tax payable	1,040,880	849,067
Accrual	667,500	70,150
Total Other liabilities	**25,780,619**	**20,749,614**

Note 10A) PROMIC (Promotion of Microenterprises Programme)

This agreement based on the programme proposal of Debo MFI, approved by Swiss hand, as well as on the swiss hand Promic Guidelines. Having the objective of Poverty reduction by enabling poor societies to carry out microenterprises by investment consulting, entrepreneurial and providing credit. Target group of the programme were active poor particularly women or individual members of solidarity group with small daily income. Swiss hand provides know-how consulting and the resources for the loan fund which cost free to Debo MFI. The contribution of Swiss hand to the promic loan fund has to be considered as an interest-free loan and to be shown separately in the balance sheet of the partner. After years and with the formal approval of the Swiss hand the accumulated loan fund can go into the property of the microfinance fund of the partner (Debo MFI). The total transferred loan fund as of June 30, 2025 is 2,559,212.52.

Note 10B) Kibir Consultancy

Basis of Agreement is setting forth mutually agreed terms and conditions and process of partnership and collaborative engagement between KIBIR and Debo MFI or to expedite business partnership with an aim to fostering a seamless cooperation where both parties shall be mutually beneficial. KIBIR shall transfer cost free funds that serve as revolving funds to DEBO MFI each year. The fund will revolve for an indefinite time period with its clear exit strategy mentioned in the agreement. The net balance of the revolving fund which can be prepared and agreed up on by the two parties will be refunded to Kibir phase by phase payments. The Ultimately objective is to improve financial services and encourage communities in the targeted areas to save more and take loan to finance their income generating business activities. To cost free fund transferred to Debo MFI as of June 30,2025 is 4,352,013.77 .

Note 10C) USID (MS4G Fertilizer Blended Finance program)

This agreement is based on the program proposal of Debo MFI, approved by Palladium International LLC. The objective is to provide funding for fertilizer and purchases. According to the agreement, the institution can receive incentives. As of June 30, 2025, the total transferred loan fund was fully setteled.

11 BANK TERM LOAN

The institution has secured a bank loan from the Development Bank of Ethiopia, Commercial Bank of Ethiopia, and Awash Bank. The loan carries an interest rate of 11.5%, and the repayment schedule for all banks is semi-annually. As of June 30, 2025, the outstanding balance of commercial loans is 64,419,779.

The breakdown for the term loans is as follows

Bank	Loan granted	Interest rate	Semi annual repayment	outstanding balance
Commercial bank of ethiopia	56,000,000	11.50%	30,437,496.96	28,576,351
Awash international bank	25,000,000	11.50%	5,044,200.63	8,284,129
Berhan Bank	5,000,000	12.50%	1,012,865.48	539,939
Development bank of ethiopia	34,839,872.78	8%	4,354,989.00	27,019,360
				64,419,779

The movement of loan is as follows	
Beginning balance	53,210,698
Add: New loan proceed	66,638,667
Less: Repayments	(55,429,586)
	64,419,779

Bank Term Loan

	30-Jun-25	30-Jun-24
Commerical Loan	37,400,419	33,189,324
Concessional Loan	27,019,360	20,021,374
Total Loan	**64,419,779**	**53,210,698**

12 SHARE CAPITAL

The total authorized ordinary shares are 100,000,000, having a par value of 1000 birr. As of June 30, 2025, there are 137 shareholders, with a fully paid-up capital of birr 100,000,000. As of June 30, 2025, the weighted average paid-up capital is birr 93,415,233, and total comprehensive revenue is birr 54,892,857, from which 5% of the legal reserve will be deducted . As a result, the annual earnings per share are 59%.

	30-Jun-25	30-Jun-24
Authorized:		
100,000 Ordinary shares of 1,000 Birr each	100,000,000	100,000,000
Issued and fully paid:		
Issued and fully paid as of:	**100,000,000**	**76,890,633**

12.(A) Earning Per Share

	30-Jun-25	30-Jun-24
Profit for the year	54,892,857	30,384,579
Weighted average share value	93,415,233	66,623,625
	59%	**46%**

12.(B) Legal Reserve

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

	30-Jun-25	30-Jun-24
At the beginning of the year	2,745,684	1,226,455
Transfer from profit or loss	2,744,643	1,519,229
At the end of the year	**5,490,327**	**2,745,684**

13 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 beginning of the year	28,865,350	13,573,642
Profit /(loss) for the year	54,892,857	30,384,579
Transferred to Legal Reserve	(2,744,643)	(1,519,229)
Transferred to Share Capital	(23,110,000)	(13,573,642)
Transfer to General reserve	(5,755,350)	-
Prior period Adjustment	1,037	-
At the end of the year	**52,149,251**	**28,865,350**

14 GENERAL RESERVE

General assembly of the Company has decided to retain an amount of Birr 5,755,350 as a reserve from the profits of year 2024.

15 NOTES TO THE STATEMENT OF CASH FLOW

	Note	30-Jun-25	30-Jun-24
a) Cash used in operations			
Reconciliation of profit before income tax to cash from			
Profit before tax		54,892,857	30,384,579
Adjustments for non-cash items:			
Depreciation of property and equipment	21	1,390,610	356,659
Prior period Adjustment	13	1,037	-
Loan impairment Charge	6	(659,869)	3,696,899
Changes in operating assets and liabilities:			
-Decrease/ (Increase) in loans and advances	6	(87,410,563)	(104,843,961)
-Decrease/ (Increase) in other assets	8	(4,499,882)	(1,985,278)
-Increase/ (Decrease) in customer's deposit	9	22,326,603	53,345,135
-Increase/ (Decrease) in other liabilities	10	5,031,005	9,289,187
		(8,928,203)	**(9,756,781)**
b) Cash and cash equivalents			
Deposits with local banks	5	40,300,239	39,241,062
		40,300,239	**39,241,062**

16 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	79,592,348	54,310,666
Placements with banks	1,531,702	958,708
Total interest income	**81,124,050**	**55,269,374**

17 NET INTEREST EXPENSE

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

	30-Jun-25	30-Jun-24
Interest expense is arising from:		
Interest expense on customer deposit	11,863,880	7,827,497
Interest Expense on borrowing	7,261,469	5,804,351
Total interest expense on financial liabilities recorded at amortized cost:	**19,125,349**	**13,631,847**

18 FEES AND COMMISSION INCOME

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

	30-Jun-25	30-Jun-24
Service charge income	10,614,562	7,066,366
Dividend income	64,087	22,982
Total Fees and Commission	**10,678,649**	**7,089,349**

19 OTHER OPERATING INCOME

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

	30-Jun-25	30-Jun-24
Micro Credit Insurance Income	5,630,315	2,960,620
Income From Penalty	3,016,504	2,647,039
Gain on sale of fixed asset	20,010	657
Grant income from USAID Fund	1,666,455	1,198,358
Loan recovery	66,020	-
Other income	82,023	-
Total other operating income	**10,481,327**	**6,806,674**

20 SALARIES AND EMPLOYEE BENEFITS

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

	30-Jun-25	30-Jun-24
Salary	11,298,778	10,135,151
Pension Cost-Defined contribution plan	1,242,654	1,125,282
Staff allowance	1,929,527	1,273,867
Leave expense	188,315	575,144
Severance expense	1,077,696	-
Bonus	1,948,958	896,832
Uniform	20,070	-
Staff Medical Expenses	260,601	232,559
Total salaries and other employee benefits	**17,966,598**	**14,238,834**

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:

	03-Jun-25	03-Jun-24
Depreciation Expense	1,390,610	356,659
Total Depreciation Expense	**1,390,610**	**356,659**

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	2,760,969	2,261,299
Perdiem & travel	774,910	597,757
Stationary and printing	707,921	543,460
Communication	286,487	218,433
Marketing and promotion	1,206,673	15,228
Insurance	321,094	170,155
Miscellaneous expense	139,315	125,975
Fuel & lubricants	532,117	297,214
Maintenance & repair	523,813	437,716
Training	202,930	50,140
Wage	56,810	55,170
Cleaning and supplies	90,328	67,529
Service charge expense	43,968	116,345
Audit fee	83,185	70,150
Utilities	120,027	69,011
Membership fee	75,120	25,685
Commission fee	14,000	125,000
Meeting & Related Expenses	369,501	207,956
Board transport allowance	313,500	273,000
Pre Operational Costs	-	944,826
Other operating expense	271,869	124,531
License fee	63,000	60,000
Penalty	76,694	-
Information technology (IT) expense	534,251	-
Total General and Administrative expenses	**9,568,482**	**6,856,579**

23 COMMITMENTS AND CONTINGENIES

Litigation

In the ordinary course of business organizations 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 recognizes provision for impairment for such loans.

24 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 Jun 2024 and are payable as follows:

	30-Jun-25	30-Jun-24
Up to 1 year	1,513,791	1,000,605
1 year to 3 years	-	-
3 year to 5 years	-	-
Over 5 years	-	-
Financial commitments and contingencies	**1,513,791**	**1,000,605**

25 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 Institutions finance function.

The overall objective of the management is to set polices 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
- Liqudity 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 certain loan products as the second way out in case of default.

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

30-Jun-25	Notes	FVOCI	Amortized Cost	Total
Cash and cash equivalents	5	-	40,300,239	40,300,239
Loans and advances to customers (Net)	6	-	307,779,434	307,779,434
Other assets and prepayments	8		12,481,137	12,481,137
Investment	8b	-	2,915,000	2,915,000
Total Financial asset		-	**363,475,810**	**363,475,810**

30-Jun-24	Notes	FVOCI	Amortized Cost	Total
Cash and cash equivalents	5	-	39,241,062	39,241,062
Loans and advances to customers (Net)	6	-	219,709,003	219,709,003
Other assets and prepayments	8	-	5,739,229	5,739,229
Investment	8b	-	2,266,200	2,266,200
Total Financial asset		-	**266,955,494**	**266,955,494**

26 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.

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 utilization 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	40,300,239	39,241,062
Loans and advances to customers (Net)	307,779,434	219,709,003
Other assets and prepayments	12,481,137	5,739,229
Investment	2,915,000	2,266,200
	363,475,810	266,955,494
Credit risk exposures relating to off balance sheets are as follows:		
Loan Commitment	(64,419,779)	(53,210,698)
Total maximum exposure	299,056,031	213,744,796

Credit Quality Analysis

The following table sets out information about the credit quality of financial assets measured at amortized 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 - 12 Month ECL	Stage 2 - Life Time ECL	Stage 3 - Life Time ECL	Total	30-Jun-24
Stage 1 - Pass	97,396,218	-	-	97,396,218	74,875,498
Stage 2 - Special Mention	-	176,452,068	-	176,452,068	116,743,843
Stage 3 - Non Performing	-	-	38,649,791	38,649,791	33,468,174
Total gross exposure	97,396,218	176,452,068	38,649,791	312,498,077	225,087,514
Loss allowance	(2,453,999)	(1,549,586)	(715,059)	(4,718,644)	(5,378,696)
Net Carrying amount	**94,942,219**	**174,902,482**	**37,934,732**	**307,779,433**	**219,708,819**

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 analyze 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.

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 behavior to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognizing 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 realizing 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 date 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 foreach 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).

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 amortization. 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 amounts for 2025 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			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortized cost	(97,785)	(295,907)	(3,303,206)	(1,172,835)
Restatement of the prior year	(2,356,213)	(1,253,680)	2,588,147	(1,021,746)
Loss allowance as at 1 July	(2,453,999)	(1,549,586)	(715,059)	(4,718,644)
Changes in the impairment allowance				
- Transfer to stage 1	(2,453,999)	-	-	(2,453,999)
- Transfer to stage 2	-	(1,549,586)	-	(1,549,586)
- Transfer to stage 3	-	-	(715,059)	(715,059)
- Write offs	-	-	-	-
Net change in financial assets /originated or	94,942,219	174,902,482	37,934,732	307,779,433
Loss allowance as at 30 June	2,453,999	1,549,586	715,059	4,718,644

	2024			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortized cost	(307,945)	(193,218)	(671,672)	(1,172,835)
Restatement of the prior year	210,159	(102,688)	(2,631,534)	(2,524,063)
Loss allowance as at 1 July	(97,785)	(295,907)	(3,303,206)	(3,696,898)
Changes in the impairment allowance				-
- Transfer to stage 1	(97,785)	-	-	(97,785)
- Transfer to stage 2	-	(295,907)	-	(295,907)
- Transfer to stage 3	-	-	(3,303,206)	(3,303,206)
- Write offs	-	-	914,000	914,000
Net change in financial assets /originated or	74,412,463	116,172,862	30,037,493	220,622,818
Loss allowance as at 30 June	463,034	570,981	4,344,681	5,378,696

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

30-Jun-25	Neither Past Due Nor Impaired	Past Due But Not Impaired	Collectively Impaired	Individually Impaired	Total
Employee Loan	57,039	50,899	421,030	-	528,967
Group Business Loan	4,025,281	1,009,360	443,414	-	5,478,054
Household Loan	8,258,190	21,944,832	6,323,582	-	36,526,604
Micro Enterprise Loan	-	-	-	-	-
Small Enterprise Loan	67,149,422	153,149,500	29,845,822	-	250,144,744
Special Loan	-	-	-	-	-
Group Agricultural Loan (Term)	13,050,000	-	97,114	-	13,147,114
Group Agri-business Loan	1,413,218	47,478	416,569	-	1,877,266
Individual Agri-business Loan	3,443,067	250,000	1,102,260	-	4,795,327
Gross carrying amount	97,396,218	176,452,068	38,649,791	-	312,498,077
Loss allowance	(2,453,999)	(1,549,586)	(715,059)	-	(4,718,644)
Net Carrying amount	**94,942,219**	**174,902,482**	**37,934,732**	**-**	**307,779,433**





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 recognized 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.

	30-Jun-25	30-Jun-24
Total impairment based on IFRS	4,718,644	5,378,696
Total impairment based on NBE Directives	4,169,961	3,912,828
requirement	**548,684**	**1,465,868**

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.

	30-Jun-25		30-Jun-24	
Employee Loan	528,967	0.17%	872,859	0.39%
Group Business Loan	5,478,054	1.75%	4,884,044	2.17%
Household Loan	36,526,604	11.69%	51,056,916	22.68%
Micro Enterprise Loan	-	0.00%	806,856	0.36%
Small Enterprise Loan	250,144,744	80.05%	151,632,863	67.37%
Group Agricultural Loan (Term)	13,147,114	4.21%	9,421,889	4.19%
Group Agri-business Loan	1,877,266	0.60%	1,688,527	0.75%
Individual Agri-business Loan	4,795,327	1.53%	4,723,560	2.10%
Gross carrying amount	**312,498,077**	**100%**	**225,087,514**	**100%**

Nature of security in respect of loans and advances to customers

30-Jun-25	Building	Vehicle	Cash	Others	Total
Employee Loan	-	-	12,676	-	12,676
Group Business Loan	-	-	1,357,238	-	1,357,238
Household Loan	373,270,000	115,065,000	2,711,763	-	491,046,763
Micro Enterprise Loan	-	-	-	-	-
Small Enterprise Loan	517,550,000	1,081,403,001	19,185,053	-	1,618,138,054
Group Agricultural Loan (Term)	-	-	1,939,768	-	1,939,768
Group Agri-business Loan	-	-	284,440	-	284,440
Individual Agri-business Loan	22,150,000	-	461,447	-	22,611,447
Total security in respect of loans and advances	**912,970,000**	**1,196,468,001**	**25,952,385**	**-**	**2,135,390,386**

30-Jun-24	Building	Vehicle	Cash	Others	Total
Employee Loan	-	-	25,214	-	25,214
Group Business Loan	-	-	1,210,133	-	1,210,133
Household Loan	254,990,000	264,385,001	2,435,060	-	521,810,061
Micro Enterprise Loan	1,000,000	-	67,860	-	1,067,860
Small Enterprise Loan	231,126,591	777,179,001	7,261,306	-	1,015,566,898
Group Agricultural Loan	-		1,543,088		1,543,088
Group Agri-business Loan	-		318,607		318,607
Individual Agri-business Loan	13,600,000	-	221,859	-	13,821,859
Total security in respect of loans and advances	**500,716,591**	**1,041,564,002**	**13,083,127**	**-**	**1,555,363,720**

27 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.

28 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 summarizes the Institution's exposure to interest rate risks The table presents the aggregated amounts of the 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	40,300,239	39,241,062
Loans and advances to customers	Fixed	307,779,434	219,709,003
Investment	Fixed	2,915,000	2,266,200
Total interest bearing financial assets		350,994,673	261,216,265
Liabilities			
Deposits from customers	Fixed	115,838,342	93,511,739
Borrowings	Fixed	64,419,779	53,210,698
Total interest bearing financial liabilities		180,258,121	146,722,437
Net interest sensitivity gap		**170,736,552**	**114,493,828**

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 the institution's income or expenses.

29 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, 2025 can be presented in the following table:

	Notes	Up to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
Financial assets						
Cash and cash equivalents	5	40,300,239	-	-	-	40,300,239
Loans to customers	6	273,848,286	28,937,829	5,359,446	4,352,516	312,498,077
Total Financial Assets as at 30 June 2025		314,148,525	28,937,829	5,359,446	4,352,516	352,798,316
Financial liabilities						
Customers deposit	9	7,351,372	34,656,468	42,007,840	31,822,662	115,838,342
Total interest bearing financial liabilities						
Other liabilities	10	1,933,546	5,156,124	16,112,887	2,578,062	25,780,619
Bank Term Loan		-	-	-	64,419,779	64,419,779
Total Financial Liabilities as at 30 June 2025		9,284,918	39,812,592	58,120,727	98,820,503	206,038,740
Liquidity gap as at 30 June 2025		304,863,606	(10,874,763)	(52,761,281)	(94,467,987)	146,759,576
Liquidity gap as at 30 June 2024		222,258,903	(16,156,319)	(45,297,304)	(63,948,756)	96,856,524

30 TRANSACTION 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 then 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

Debo MFI board members receive a monthly transport allowance of 1500 birr and a sitting allowance of 1500 birr per meeting. This was approved during the FY 21/22 General Assembly Meeting. The Company's board meets monthly. The executive management team does not receive any additional cash or non-cash benefits apart from their salaries and related benefits, which are the same as those provided to other employees. The company contributes 11% to pension contributions on behalf of all executive management teams and employees, in compliance with government regulations. Additionally, a bonus of 3 months' salary up to 2-month salary is paid to executive management and employees. Annual salaries and benefits for the executive management team are as follows:

30-Jun-25	Board Of Directors	Key Management Personnel
Borrowing		
Customers deposit	221,306	8,359
Salaries and other employee benefits	-	5,086,686
	221,306	**5,095,045**

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

30-Jun-24	Board Of Directors	Key Management Personnel
Customers deposit	71,745	10,017
Salaries and other employee benefits	-	1,331,603
	71,745	**1,341,620**

31 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.

Debo Microfinance Institution S.C
Repayment Performance Report
For the Period (July 1, 2024 to June 30, 2025)

Particulars Required to Calculate Repayment Rate are:

1. Total Principal Amount Collected During the Year = 241,535,046.31
2. Total Prepayments Collected During the Year = 58,477,534.36
3. Total Amount Due During the Year (Expected)= 139,557,893.01
4. Total Amount Past Due from Previous Year = 5,865,264.95

Repayment Rate is Calculated as Follows:

$$\text{Repayment Rate} = \frac{\text{(Total Amount Collected During the Year) - (Prepayment)}}{\text{(Total Amount Due During the Year) + (Amount Past Due from Previous Year)}}$$

Therefore:

$$\text{Repayment Rate} = \frac{(241,535,046.31)-(58,477,534.36)}{(139,557,893.01) + (5,865,264.95)}$$

$$= (183057511.95/145423157.96)*100$$

$$= \underline{125.88\%}$$

Thus, Repayment Rate for the Period is 125.88 %