

DYNAMIC MICROFINANCE INSTITUTION S.C.

# *AUDITOR'S REPORT AND ACCOUNTS*

JUNE 30, 2025



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Getachew Wakjira

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### **Chartered Certified Accountant (IJK)**

## աՀԵՖԵՔ ԹԻՂԻ ՔԱՐԵԴ (Հ Դ.Բ.)

*Certified Audit Firm (Eth.)*

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**DYNAMIC MICROFINANCE INSTITUTION SHARE COMPANY**  
**DIRECTORS, MANAGEMENT, PROFESSIONAL ADVISORS AND REGISTERED OFFICE**

**Directors (As of 30 June 2024)**

1. Ato Tesfaye Fente	BoD Chair Person
2. Ato Bekele Bayisa	D/Chair Person
3. Ato Abebaw Zewudie	Board Member
4. Ato Werkineh Tesfaye	Board Member
5. Ato Samuel Tadesse	Board Member
6. Ato Yohannes Emiru	Board Member
7. Ato Mengesha Dibekulu	Board Member
8. Ato Binalfew nega	Board Member
9. Ato Yilma Gebrie	Board Member

**Executive Managements (as of 30 June 2025)**

1. Ato Bewketu Alamirew	Chief Executive Officer (CEO)
2. Ato Abiyu Tewabe	Chief Operation Officer
3. Ato Amsalu Gelaneh	Chief Resource Mgt. Officer
4. Ato Kebede Belachew	Director, Legal Service
5. Ato Samson Getahun	Director, Internal Audit & Risk Mgt.

**Head Office**

Region -Addis Ababa  
 Sub City-Lideta , Wereda- 09  
 House No. -New  
 Tell- 251-11-51-56-817  
 P.O. Box 20943/1000  
 Addis Ababa

**Independent Auditor**

Getachew Wakjira  
 Chartered Certified Accountant (UK) Certified Auditor Firm (Eth)  
 Tel. 0115-15-78-06  
 Mob. +2519-11-21-20-87  
 Email [getwak611@gmail.com](mailto:getwak611@gmail.com)  
 P.O.Box.40418

**Principal Banks**

Commercial Bank of Ethiopia (CBE)  
 Cooperative Bank of Oromia S.C  
 Awash Bank S.C  
 Tsehay Bank S.C  
 Bank of Abyssinia S.C  
 Bunna Bank S.C



Chief Executive Officer (CEO)

Chief Operation Officer

Chief Resource Mgt. Officer

Director, Legal Service

Director, Internal Audit & Risk Mgt.

Office 011-515 78 06 - 011-552 05 80  
Mobile 0911-21 20 87  
Fax 251-011-552 05 80

P. o. Box 40418

Ref. No. 255/GW/18

Addis Ababa, Ethiopia

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

**OPINION**

We have audited the accompanying financial statements of Dynamic Microfinance Institution S.C which comprise statement financial position as at June 30, 2025, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

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

We have no comments to make on the report of the Board of Directors' relating the financial matters and pursuant to Article 349 (2) of the Commercial Code of Ethiopia of 2021, we recommend that the accompanying financial statements be approved.

**BASIS FOR OPINION**

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



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

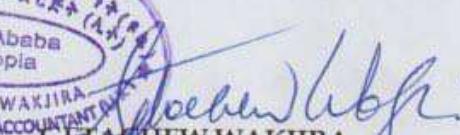
Management of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether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

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

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

## **AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the financial statements 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 decisions of users taken on the basis of these financial statements.

  
Getachew Wakjira  
Chartered Certified Accountant (UK)  
Certified Audit Firm (Eth)  
Addis Ababa  
Ethiopia  
GETACHEW WAKJIRA  
CHARTERED CERTIFIED ACCOUNTANT (UK)  
CERTIFIED AUDIT FIRM (ETH)

Addis Ababa  
October 29, 2025



## DYNAMIC MICROFINANCE INSTITUTION S.C

### General Information

Dynamic Micro Finance Institution S.C. (hereinafter referred to as "DMFI") is a microfinance institution established in May 2009. DMFI operates in accordance with the provisions of the Commercial Code of Ethiopia (Proc. No. 1243/2021) and the Micro-Financing Business Proclamation No. 626/2009 as amended by Proclamation No. 1164/2019. The Company conducts its business in compliance with the law and is regulated by the National Bank of Ethiopia ("NBE").

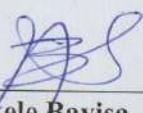
The Main Objectives of DMFI as stated in its memorandum of association are:

- To mobilize financial resources and provide credits (loans) to rural and urban individuals and Micro, Small and Medium Enterprises (MSMEs) engaged-in economic and developmental activities;
- To accept from its customers compulsory, voluntary and fixed time deposits;
- To render local money transfer services;
- To buy treasury bills and share certificates from aligned industries and generate income as appropriate;
- To acquire, maintain, lease and or transfer any movable or immovable properties, including office buildings in which it carries out its operations;
- To help low-income households in urban and rural areas undertake income generating production and service activities;
- To provide technical, marketing, managerial and administrative advice to customers;
- To administer micro financing fund;
- To provide agent banking and digital financial services;
- To provide interest free micro fiancé services; and
- To engage in any other related activity as determined by the National Bank of Ethiopia;



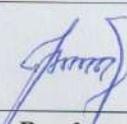
**DYNAMIC MICROFINANCE INSTITUTION S.C.**  
**Statement of Profit or Loss and Other Comprehensive Income**  
**For the Year Ended June 30 2025**  
**(In Ethiopia Birr)**

	<b>Notes</b>	<b>30-Jun-2025</b>	<b>30-Jun-2024</b>
Interest Income	1	93,400,267	65,737,611
Interest Expense	8	50,889,631	38,162,138
<b>Net interest income before impairment</b>		<b>42,510,636</b>	<b>27,575,473</b>
Loan Impairment charge	7	(26,321,651)	(7,839,310)
<b>Net interest income</b>		<b>16,188,984</b>	<b>19,736,163</b>
Fees and Commission income	2	12,624,293	8,740,418
<b>Net fee and commission income</b>		<b>12,624,294</b>	<b>8,740,418</b>
Other operating income	3	65,327,791	6,084,438
<b>Net operating income</b>		<b>94,141,069</b>	<b>34,561,019</b>
<b>Expenses</b>			
Salaries and other employee benefits	4	45,895,148	42,679,220
General and administrative expenses	5	19,296,180	9,266,855
Dep & amort on prop, plant & equip	6	6,096,487	5,481,557
Impairment on other assets		-	134,844
<b>Total operating expense</b>		<b>71,287,815</b>	<b>57,562,476</b>
Profit before tax		<b>22,853,254</b>	(23,001,457)
Office rent tax		<b>741,731</b>	<b>404,102</b>
<b>Profit for the year after tax</b>		<b>22,111,522</b>	<b>(23,405,559)</b>

  
**Bekele Bayisa**

**D/Chairman - Board of Directors**  
**October, 2025**



  
**Bewketu Alamirew**

**Chief Executive Officer (CEO)**  
**October, 2025**



**DYNAMIC MICROFINANCE INSTITUTION S.C.**

**Statement of Financial Position**

**As at 30 June 2025**

**(in Ethiopia Birr)**

<b>Assets</b>	<b>Notes</b>	<b>30-Jun-2025</b>	<b>30-Jun-2024</b>
Cash and cash Equivalents	9	141,031,136	83,345,533
Other assets and Prepayments	10	15,315,179	15,065,635
Loans and advances to Customers (Net)	11	341,610,855	320,490,505
Property, plant and equipment	12	76,610,832	80,684,732
Right of use Building	13	921,364	2,431,631
Investment in Securities	14	16,041,100	15,646,189
<b>Total assets</b>		<b>591,530,466</b>	<b>517,664,225</b>
<b>Liabilities</b>			
Deposit from customers	15	346,542,406	205,449,257
Borrowings	16	102,214,869	169,283,774
Current income tax liability	17	2,964,750	1,783,046
Other liabilities	18	19,573,407	21,560,399
Finance lease Obligation	19	1,871,418	2,261,940
<b>Total liabilities</b>		<b>473,166,850</b>	<b>400,338,416</b>
<b>Equity</b>			
Share capital	20	150,122,000	137,029,000
Legal reserve	21	3,428,298	3,428,298
Other Reserve	21	274,070	274,070
Retained Earnings		(35,460,752)	(23,405,559)
<b>Total equity</b>		<b>118,363,616</b>	<b>117,325,809</b>
<b>Total liabilities and equity</b>		<b>591,530,466</b>	<b>517,664,225</b>

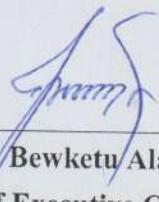
The accompanying notes are an integral part of these financial statements.

  
Bekele Bayisa

D/Chairman - Board of Directors

October, 2025



  
Bewketu Alamirew

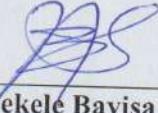
Chief Executive Officer (CEO)

October, 2025

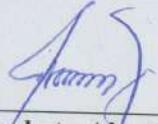


**DYNAMIC MICROFINANCE INSTITUTION S.C.**  
**Statement of cash flows**  
**For the year ended 30 June 2025**  
**(in Ethiopia Birr)**

	<b>30 June 2025</b>	<b>30 June 2024</b>
<b>Cash flows from operating activities</b>		
Cash flows from operating activities	113,365,683	44,028,913
<b>Net cash (outflow)/inflow from operating activities</b>	<b>113,365,683</b>	<b>44,028,913</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(1,058,015)	(4,538,080)
Right of use Building	(646,160)	
Purchases of investment securities	-	(5,212,360)
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(1,704,175)</b>	<b>(9,750,440)</b>
<b>Cash flows from financing activities</b>		
Proceeds (settlement) from borrowings	(67,068,905)	(32,277,163)
Proceeds from issues of shares	13,093,000	13,035,914
Finance Lease Obligation	-	
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(53,975,905)</b>	<b>(19,241,249)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>57,685,603</b>	<b>15,037,224</b>
Cash and cash equivalents at the beginning of the year	83,345,533	68,308,309
<b>Cash and cash equivalents at the end of the year</b>	<b>141,031,136</b>	<b>83,345,533</b>

  
**Bekele Bayisa**

D/Chairman - Board of Directors  
October, 2025

  
**Bewketu Alamirew**

Chief Executive Officer (CEO)  
October, 2025

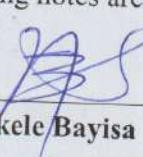


**DYNAMIC MICROFINANCE INSTITUTION S.C.**

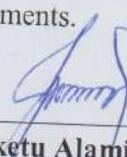
**Statement of Change in equity**  
**For the Year ended June 30 2025**  
**(in Ethiopia Birr)**

	<b>Share Capital</b>	<b>Retained Earning</b>	<b>Legal Reserve</b>	<b>General Reserve</b>	<b>Total</b>
Balance 30 July 2023	<b>109,265,000</b>	<b>14,728,086</b>	<b>3,428,298</b>	<b>274,070</b>	<b>127,695,454</b>
Profit for the year		(23,405,559)			(23,405,559)
Increase of the share capital- cash	13,035,914				13,035,914
Increase of the share capital	14,728,086	(14,728,086)			-
Transfer to legal reserve					-
<b>Balance 30 June 2024</b>	<b><u>137,029,000</u></b>	<b><u>(23,405,559)</u></b>	<b><u>3,428,298</u></b>	<b><u>274,070</u></b>	<b><u>117,325,809</u></b>
Balance 30 July 2024	<b>137,029,000</b>	<b>(23,405,559)</b>	<b>3,428,298</b>	<b>274,070</b>	<b>117,325,809</b>
Profit for the year		22,111,522			22,111,522
Increase of the share capital- cash	13,093,000				13,093,000
Increase of the share capital					-
Transfer to legal reserve					-
Other Capital		(34,166,715)			(34,166,715)
<b>Balance 30 June 2025</b>	<b><u>150,122,000</u></b>	<b><u>(35,460,752)</u></b>	<b><u>3,428,298</u></b>	<b><u>274,070</u></b>	<b><u>118,363,616</u></b>

The accompanying notes are an integral part of these financial statements.

  
**Bekele Bayisa**

**D/Chairman - Board of Directors**  
**October, 2025**

  
**Bewketu Alamirew**

**Chief Executive Officer (CEO)**  
**October, 2025**



**Dynamic Microfinance Institution S.C**

**Notes to the Financial statements**

**As at June 30, 2025**

**(In Ethiopia Birr)**

**1 Net Interest Income**

Interest income for the years ended 30 June 2025 and 30 June 2024 are presented as follows. It consists of both interest incomes from loans and bank deposit.

	<u>June 30. 2025</u>	<u>June 30. 2024</u>
<b>Interest income arising from:</b>		
Loans to customers	90,846,381	67,474,381
Bank Deposits	2,553,886	1,172,438
<b>Total interest income</b>	<b><u>93,400,267</u></b>	<b><u>68,646,819</u></b>

**2 Fees and Commission**

Fees and commissions related to loans are presented below for the years ended 30 June 2025 and 30 June 2024 respectively.

	<u>June 30. 2025</u>	<u>June 30. 2024</u>
<b>Fees and commission income</b>		
Service charge income	12,462,042	6,347,716
Income from Insurance	97,992	8,647
Income from Penalty	880	1,812,578
Income from Registration	63,380	571,477
<b>Total fees and commission income</b>	<b><u>12,624,294</u></b>	<b><u>8,740,418</u></b>

**3 Other operating income**

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

	<u>June 30. 2025</u>	<u>June 30. 2024</u>
<b>Other operating income</b>		
Dividend income	1,222,490	844,154
Office Rent Income	3,934,275	2,909,207
Sales of Pass Book	340,988	1,172,438
Other income	59,830,038	1,158,638
<b>Total other operating income</b>	<b><u>65,327,791</u></b>	<b><u>6,084,437</u></b>



#### 4 Salaries and other employee benefits

Salaries and employee benefit expenses for the years ended June 30 2025 and June 30 2024 are presented as follows:

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
Salary Expense	30,200,371	30,367,660
Pension Cost	3,168,883	3,193,804
Staff allowance	5,789,055	5,765,387
Medical Insurance Expense	1,132,131	237,852
Leave expense	2,014,437	1,180,929
Employees Benefit on staff loan	985,763	490,302
Severance expense	2,604,507	1,443,287
<b>Total salaries and employee benefits</b>	<b>45,895,148</b>	<b>42,679,221</b>

#### 5 General and administrative expenses

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

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
Rent expense	1,979,117	1,691,802
Per diem & travel	424,763	310,470
Stationery and printing	1,098,273	996,318
Other allowances (Board)	888,000	864,000
Communication	704,607	600,355
Marketing and promotion	301,561	119,732
Insurance	92,471	382,385
Miscellaneous	259,961	90,334
Transportation	403,779	243,077
Fuel & lubricants	603,904	420,932
Entertainment	188,700	268,732
Maintenance & repair	1,215,369	682,429
Training	225,567	60,608
Wage	227,090	235,595
Cleaning and supplies	47,780	32,422
Service charge	321,187	330,295
<b>Audit fee</b>	<b>93,725</b>	<b>82,225</b>



Utilities	235,662	121,928
Membership fee	50,000	65,000
License fee	547,978	1,053,322
Commission Expense	240,507	1,018,997
Interest Expense for RoUA	127,246	-
Legal Fee	3,224,049	-
Other operating expense	6,536,614	-
<b>Total General and Admin expenses</b>	<b><u>19,296,180</u></b>	<b><u>9,670,958</u></b>

#### 6 Depreciation and Amortization Cost:

Depreciation expense on property, plant and equipment and Amortization expense on RoU Assets on Rental Branch offices for the years ended June 30 2025 and June 30 2024 are presented as follows:

	<u>June 30. 2025</u>	<u>June 30. 2024</u>
Depreciation expense on PPE	4,311,714	3,994,403
Amort expense on ROU-Building	1,784,773	1,487,154
<b>Total depreciation expense</b>	<b><u>6,096,487</u></b>	<b><u>5,481,557</u></b>

#### 7 Impairment expense:

Loan impairment expense based on NBE directive is calculated and recorded as follows.

	<u>June 30. 2025</u>	<u>June 30. 2024</u>
Impairment expense	26,321,652	868,229
	-	134,844
<b>Total impairment expense</b>	<b><u>26,321,652</u></b>	<b><u>1,003,073</u></b>

#### 8 Financial Costs:

The following are an Interest expenses on financial liabilities for the year ended 30 June 2025 and 30 June 2024 respectively.

	<u>June 30. 2025</u>	<u>June 30. 2024</u>
Interest expense on Savings	32,626,800	16,414,122
Interest expense on bank loan	18,262,831	21,748,017
<b>Total interest expense on financial liabilities</b>	<b><u>50,889,631</u></b>	<b><u>38,162,139</u></b>



**9 Notes to the statement of cash flows**

**a) Cash used in operations**

Cash from operations are presented as follows:

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
Profit /loss for the Year	22,111,522	(23,001,457)
<b>Adjustments for non-cash items:</b>		
Dep. of property and equipment	6,096,487	5,481,557
Loan impairment Charge	26,321,652	7,839,311
Impairment loss on other assets	-	134,844
Service Charge and Others	(72,921,357)	(6,857,313)
<b>Changes in operating assets and liabilities:</b>		
Decrease/ (Increase) in loans and adv.	(22,547,272)	(201,467)
Decrease/ (Increase) in other assets	(732,043)	3,304,132
Increase/ (Decrease) in customer's deposit	138,788,120	54,766,714
Increase/ (Decrease) in Tax Liability	1,181,704	888,375
Increase/ (Decrease) in other liabilities	15,065,870	1,674,218
	<u>113,365,683</u>	<u>44,028,913</u>
<b>b) Cash and cash equivalents</b>	<u>30-Jun-25</u>	<u>30-Jun-24</u>
Cash on hand	-	-
Deposits with local banks	141,031,136	83,345,533
	<u>141,031,136</u>	<u>83,345,533.2</u>

**10 Other assets and Prepayments**

Other assets include the following subsidiary accounts. they are listed with their balance at 30 June 2025 and 30 June 2024.

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
Prepayment	4,989,019	11,933,403
Inventory	2,075,742	1,994,247
Prepaid asset - Staff loan	119,818	-
Other Receivables	3,074,854	2,141,058
Impairment Allowance - Other Asset	5,055,746	(1,003,073)
<b>Total other Asset and Prepayment</b>	<u>15,315,179</u>	<u>15,065,635</u>



**11 LOANS TO CUSTOMERS**

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

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
<b>Gross loans to customers</b>		
Agriculture loan	18,201,367	14,557,391
Trade loan	226,804,857	229,457,331
MSE loan	2,387,274	1,045,436
Housing loan	65,317,956	53,322,730
Staff Loan	3,944,693	
WASH loan	1,497,031	1,761,065
MISALE loan	40,492	108,476
Consumption loan	1,102,331	4,257,050
Special loan	44,563,738	24,242,953
<b>Gross loans to customers</b>	<b><u>363,859,738</u></b>	<b><u>328,752,432</u></b>
<b>Less: Allowance for impairment losses</b>	<b>22,248,883</b>	8,261,927
<b>Net loans to customers</b>	<b><u>341,610,855</u></b>	<b><u>320,490,505</u></b>

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

<b>Originated loans to customers according to the agreement</b>	<u>June 30. 2025</u>	<u>June 30. 2024</u>
Current and less than 90 days overdue	267,722,471	209,027,687
90 to 180 days overdue	11,814,709	46,889,218
180 to 365 days overdue	24,126,336	66,509,276
above 365 days overdue	60,196,222	6,326,252
<b>Balance at the end of the year</b>	<b><u>363,859,738</u></b>	<b><u>328,752,433</u></b>
Less: allowance for impairment losses	22,248,883	8,261,927
<b>Balance at the end of the year</b>	<b><u>341,610,855</u></b>	<b><u>320,490,506</u></b>



<b>12 PROPERTY, PLANT AND EQUIPMENT</b>					
Property, plant and equipment as at 30 June 2025 is presented as follows:					
<u>Cost</u>	Buildings	Motor Vehicles	Computer and Accessories	Office Equipment & Furniture	Total
<b>PPE As at 30 June 2024</b>	<b>67,433,660</b>	<b>6,877,070</b>	<b>5,665,657</b>	<b>4,088,371</b>	<b>88,176,073</b>
As at 01 July 2024	67,433,660	6,877,070	5,665,657	4,088,371	88,176,073
Additions in the year			2,305,048	2,864,282	5,169,330
<b>As at 30 June 2025</b>	<b>67,433,659</b>	<b>6,877,070</b>	<b>6,912,690</b>	<b>6,952,653</b>	<b>88,176,073</b>
<b>Accumulated depreciation</b>					
As at 01 July 2024	1,374,373	2,297,969	2,166,211	1,417,374	7,255,927
Charge for the year	1,564,399	881,278	981,500	882,135	4,309,313
<b>As at 30 June 2025</b>	<b>2,938,772</b>	<b>3,179,247</b>	<b>3,147,711</b>	<b>2,299,509</b>	<b>11,565,240</b>
<b>PPE As at 30 June 2025</b>	<b>64,494,887</b>	<b>3,697,823</b>	<b>3,764,979</b>	<b>4,653,144</b>	<b>76,610,832</b>

### 13 ROU Building

Right of use on buildings of rented branch offices for the year ended 30 June 2025 and 30 June 2024 are:

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
<b>Cost:</b>		
At the beginning of the year	4,762,183	4,762,183
Addition	1,270,932	2,483,580
At the end of the year	<b>6,033,115</b>	<b>7,245,763</b>
<b>Accumulated depreciation:</b>		
At the beginning of the year	3,326,978	3,326,978
Charge for the year	1,784,773	1,487,154
At the end of the year	<b>5,111,751</b>	<b>4,814,132</b>
<b>Net book value</b>	<b>921,364</b>	<b>2,431,631</b>



#### 14 Investment

A breakdown of the investments in different allied business as at 30 June 2025 and 30 June 2024 comprises the following:

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
ET-Inclusive	3,196,000	3,100,000
Tsehay Insurance S.C.	3,240,000	3,108,000
Buna International Bank	564,100	438,189
Tsehay Bank	4,000,000	4,000,000
Investment Ethio Life and General Insurance s.c	5,041,000	5,000,000
	<u>16,041,100</u>	<u>15,646,189</u>

#### 15 Deposits from Customers

Saving Deposit from customers consists of different categories. The balance of those Savings as at 30 June 2025 and 30 June 2024 comprises the following:

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
Voluntary Saving	175,427,657	56,821,731
Compulsory saving	13,925,815	14,472,081
Time Deposit	157,188,934	134,155,445
<b>Total Deposit</b>	<b>346,542,406</b>	<b>205,449,257</b>

#### 16. Borrowings

To meet and expand its operation's scope, Dynamic Microfinance Institution S.C. has obtained long term loans from the following banks:

No.	LENDER	LOAN AMOUNT	TERM YEAR	IN	INT. RATE
1	Bunna Bank	5,000,000.00	5		10.75%
2	DBE	44,000,000.00	5		8%
3	COOP Bank 1 <sup>st</sup> Cycle	80,000,000.00	5		14.75%
4	COOP Bank Loan 2 <sup>nd</sup> Cycle	40,000,000.00	4		12.25%
5	BOA	25,000,000.00	5		13%
6	Awash Bank	50,000,000.00	3		14%
7	CBE	24,000,000.00	2		12%



The current Outstanding balance of Banks loan is presented as follows.

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
Bank Loan-Bunna	150,966	858,819
Bank Loan-DBE RUFIP Loan	24,902,706	30,663,512
Bank Loan-Cooperative	56,736,076	77,994,126
Bank Loan-Abyssinia	11,952,787	16,894,332
Bank Loan-Awash	-	18,872,985
Bank Loan CBE	8,472,333	24,000,000
<b>Total Borrowings</b>	<b><u>102,214,869</u></b>	<b><u>169,283,774</u></b>

#### 17 Tax Payables

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
Employment income tax payable	1,169,456	1,378,944
Withholding Tax Payable	24,018	
Pension Payable	654,686	
Rent Income Tax Payable	741,731	404,102
Interest Tax Payable	374,859	
<b>Total other liabilities</b>	<b><u>2,964,750</u></b>	<b><u>1,783,046</u></b>

#### 18 Other Liabilities

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

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
Accrued leave payable	2,936,120	2,278,755
Accrued interest payable on savings	2,305,029	
Accrued interest payable on Loan	7,251,689	
Accrued payables	2,649,557	584,685
Other Payables	1,432,517	16,498,387
Accrued severance Pay	2,998,495	2,198,572
	<b><u>19,573,407</u></b>	<b><u>21,560,399</u></b>



**19 Lease Liability**

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
<b>Lease</b>		
At the beginning of the year	2,122,128	2,261,940
Change for the year	(250,710)	
<b>At the end of the year</b>	<b><u>1,871,418</u></b>	<b><u>2,261,940</u></b>

**20 Share Capital**

The institution has 500,000,000 authorized share capitals. The Paid-up capital recorded for the year is presented below.

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
Beginning Paid up capital.	137,029,000	109,265,000
Additional payment in the year	13,093,000	27,764,000
<b>Issued and fully paid:</b>	<b><u>150,122,000</u></b>	<b><u>137,029,000</u></b>

**21 Reserve**

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

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
Legal reserve beginning of the year	3,428,298	3,428,298
Transfer from current year profit or loss	-	-
General reserve beginning Balance	274,070	274,070
Transfer from current year	-	-

**22 Retained Earnings**

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

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
At the beginning of the year	(23,405,559)	-
Prior Period Adjustment	(34,166,715)	-
Profit for the year	22,111,522	(23,405,559)
Capitalized to paid-up capital	-	-
Transfer to legal reserve	-	-
<b>At the end of the year</b>	<b><u>(35,460,752)</u></b>	<b><u>(23,405,559)</u></b>



## 23 Commitments and Contingencies

### LITIGATION

In the ordinary course of business organizations are usually subject to legal actions and complaints. As it is not certain that all the customers will meet the repayment obligations the Organization recognizes provision for impairment for such loans

## 24 Financial Instruments – Risk Management

As a financial institution The Organization is exposed to risks that arise from its use of financial instruments This note describes The Organization'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.

## GENERAL OBJECTIVES POLICIES AND PROCESSES

The management has overall responsibility for the determination of The Organization'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 organizations finance function.

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

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

## CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation Exposure to credit risk arises as a result of the lending and other transactions with counterparties giving rise to financial assets. As the Organization is providing microloans to customers as the core business activity credit risk is of crucial importance similar to any Micro Financing Institution MFI risk management process To avoid significant financial damage caused by this risk the Organization uses various methods to identify and manage them effectively.

The Organization has developed policies and procedures for the management of credit exposures both for on balance sheet and off-balance sheet exposures including guidelines to limit portfolio



concentration and the establishment of a Credit Committee which actively monitors credit risk. The credit policy is reviewed and approved by management.

The Organization continuously monitors the performance of individual credit exposures and branches and regularly reassesses the creditworthiness of its customers. The review is based on updated financial information of clients obtained by credit staff from monitoring and later the information is crosschecked on a risk-based assessment by Department of Internal and Field Control.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting dates was:

	<u>30-06-25</u>	<u>30-06-24</u>
Cash and cash equivalents	141,031,136	83,345,533
Loans to customers	363,859,738	328,752,432
	<u>504,890,874</u>	<u>328,752,432</u>

### **Total credit risk exposure**

#### **24.1.1 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 ensures 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. The formula is (loan outstanding minus collateral value over loan outstanding). If value of collateral is greater than or equal to value of loan outstanding, then LGD is zero.

##### **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 as follows:

	Note	<u>30-06-25</u>	<u>30-06-24</u>
Cash and cash equivalents	9	141,031,136	83,345,533
Other assets and prepayments	10	15,315,179	15,065,635
Loans and advances to customers (Net)	11	341,610,855	320,490,505
<b>Total financial assets</b>		<b><u>497,957,170</u></b>	<b><u>418,901,673</u></b>

**24.1.2. Amounts arising from Expected Credit Loss (ECL)**

i. **Inputs, assumptions and techniques used for estimating impairment as per accounting policy**

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 credit experience 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;
- The institution uses different criteria for determining whether there has been a significant increase in credit risks such as quantitative test based on movement in PD and Qualitative indicators

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 analyses



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.

The credit risk may also be deemed to have increased significantly since initial recognition is 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.

The institution considers that a significant increase in credit risk occurs when the number of past due days increase. Past due days 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.

#### 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;
- 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 for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk.

#### 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 modeling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

Where modeling 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.



## 24.2 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 and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign



exchange rates (currency risk) and interest rates (interest rate risk). The institution dose not ordinarily engage in trading activities yet.

### 24.3 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 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.

The data below summarizes the institution's exposure to interest rate risks. The aggregated amounts of the institution's interest-bearing financial assets and interest-bearing financial liabilities at carrying amount as at 30 June 2025 and 30 June 2024 is presented as follows:



	<u>Note</u>	<u>30 June 2025</u>	<u>30-June-24</u>
<b>Assets</b>			
Cash and balances with banks	9	141,031,136	83,345,533
Loans and advances to customers (Net)	11	341,610,855	320,490,505
Investment in securities	14	16,041,100	15,646,189
Total interest bearing financial assets		<b>498,683,091</b>	<b>419,482,227</b>
<b>Liabilities</b>			
Deposit from customers	15	346,542,406	205,449,257
Borrowings	16	102,214,869	169,283,774
Total interest bearing financial liabilities		<b>448,757,275</b>	<b>374,733,031</b>
Net interest sensitivity gap		<b>49,925,816</b>	<b>44,749,196</b>



## 24.4 Liquidity Risk

Liquidity risk refers to the availability of fund to meet loan repayment 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 part of assets liabilities management process. The liquidity risk as of 30 June 2024 and 30 June 2023 is presented as follows.

	<u>Note</u>	<u>30 June 2025</u>	<u>30-June-24</u>
<b>Financial assets</b>			
Cash and cash equivalents	9	141,031,136	83,345,533
Loans and advances to customers (Net)	11	341,610,855	320,490,505
Total financial assets		<u>482,641,991</u>	<u>403,836,038</u>
<b>Financial Liabilities</b>			
Deposit from customers	15	346,542,406	205,449,257
Borrowings	16	102,214,869	169,283,774
Current income tax liability & Other liabilities	17	22,538,157	23,343,445
Finance lease Obligation		1,871,418	2,261,940
<b>Total Financial liabilities</b>		<u>473,166,850</u>	<u>400,338,416</u>
<b>Liquidity gap</b>		<u>9,475,141</u>	<u>3,497,622</u>

## 25. Financial risk management

### 25.1 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 is assumed that the carrying amounts approximate to their fair value.

### 25.2 Risk management structure

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 institutions' 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 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 retaining ultimate responsibility for designing and operating processes that ensure the effective implementation of the objectives and policies. The overall objective of the management is to set mechanisms that seek to reduce risks as far as possible without unduly affecting the institution's competitiveness and flexibility.

Through its operations, the institution is exposed to the following financial risks:

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

### 25.3 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.

#### 25.4 Risk mitigation

Risk controls and mitigates, 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 measure is obtaining sufficient collateral securities and guarantees for certain loan products as the second way out in case of default.

#### 25.5. Financial instruments by category

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

	<u>Notes</u>	<u>30-06-25</u>	<u>30-06-24</u>
Cash and cash equivalents	9	141,031,136	83,345,533
Other assets and prepayments	10	15,315,179	15,065,635
Loans and advances to customers (Net)	11	341,610,855	320,490,505
Total financial assets		<u>497,957,170</u>	<u>418,901,673</u>

#### 26. Transactions with related parties

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



- a) Parties that directly or indirectly through one or more intermediaries; control or are controlled by or are under common control with the company this includes parents subsidiaries and fellow subsidiaries; have an interest in the organization that gives them significant influence over the organization; 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.



## Accounting Policy

### 1. 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. The financial statements



for the period ended 30 June 2019 are the first financial statements the company has prepared in accordance with IFRS.

**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 judgments**

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 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 financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgment or complexity, assumptions and estimates are significant to the financial statements.

**e. Going concern**

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

## **2. Summaries 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.

### **2.1 Changes in significant accounting policies**

#### **2.1.1 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 Programs, 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 earnings as at 1 July 2018 without restating comparative periods.

The standard provides a single, principles based five step model to be applied to all contracts with customers in 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. 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 de-recognition**

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 may 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**



**a. Policy applicable from July 1, 2018**

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 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.

**b. Policy applicable before July 1, 2018**



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

- **Financial assets at fair value through profit or loss**

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

- **Loans and receivables**

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

- **Available-for-sale financial assets**

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

Available-for-sale financial assets that do not have a quoted price in an active market and whose fair value cannot be reliably measured are measured at cost less any impairment losses at the end of each reporting period.

Interest income on available-for-sale financial assets is recognized in finance income using the effective interest method. Dividends on available-for-sale equity securities are recognized in finance income when the right to receive dividends has been established.

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 their impact.

New standard or amendments Effective for annual periods beginning on or after

- ✓ Amendments to IAS 1 and IAS 8 Definition of Material 01-Jan-20
- ✓ Amendments to references to the Conceptual Framework in IFRS Standards 01, Ja



✓ Annual improvements cycle (2015-2017) 01-Jan-20

### **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 24 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.

### **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 premeasured.
- If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party premeasures the previously held interest at fair value.

### **IAS 12 Income taxes**

This IAS 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**

This IAS 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 adopts the amendments.

## **2.2 Recognition of income and expenses**

### **Policy applicable after 1 July 2018**

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.

### **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).

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"

### **Policy applicable before 1 July 2018**

#### **Effective interest rate**

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

#### **I. Dividend Income**

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

#### **II. Fees and commission income**

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

#### **2.3. 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. **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 determines 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.

## **Loans and receivables**

Loans and receivables are 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.

## **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. Policy applicable from 1 July 2018**

#### **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 solely payments of principal and interest (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

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 consider

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

The Institution holds a portfolio of long-term declining-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 judgment:

- 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;
- The extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- Whether the Institution will benefit from any upside from the underlying assets.

### **Contractually linked instruments**

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

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

### **Reclassifications**

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

### **Financial liabilities**

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



## De-recognition

### iii. Policy applicable from 1 July 2018

#### 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.

De-recognition 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 DE recognition of such securities. Any interest in transferred financial assets that qualify for De recognition that is create 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 de-recognized. 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 de-recognition 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.

### **Policy applicable prior to 1 July 2018**

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

#### **iv. Modifications of financial assets and financial Liabilities Policy applicable from 1 July 2018**

##### **Financial assets**

If the terms of a financial asset are modified, then the Institution evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is 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 De-recognition.

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.



If the modification of a financial asset measured at amortized cost or FVOCI does not result in De-recognition 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 de-recognizes 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 de-recognition, 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.

### **Policy applicable prior to 1 July 2018**

#### **Financial assets**

If the terms of a financial asset were modified, then the Institution evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial



asset were deemed to have expired. In this case, the original financial asset was de-recognized and a new financial asset was recognized at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognized, then impairment of the asset was measured using the pre-modification interest rate."

### **Financial liabilities**

The Institution de-recognized a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognized at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognized in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as de-recognition, then any costs and fees incurred were 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**

#### **Policy applicable prior from 1 July 2018**

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Institution has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price- i.e. the fair value of the consideration given or received. If the Institution determines that the fair value on initial recognition differs from the



transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is 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.

### **Policy applicable prior to 1 July 2018**

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

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring



market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

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

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

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

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

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

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

- If the expected restructuring will not result in de-recognition 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 de-recognition 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 de-recognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition 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 deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

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

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through
- Voluntary or mandatory debt forgiveness.

The international support mechanisms in place to provide the necessary support as lender of last resort to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfill the required criteria.

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.

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

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Institution's procedures for recovery of amounts due.

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

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

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'.

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

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

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

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

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



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

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

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

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

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

The collective allowance for groups of homogeneous loans was established using statistical methods such as roll rate methodology or, for small portfolios with insufficient



information, a formula approach based on historical loss rate experience. The roll rate methodology used statistical analysis of historical data on delinquency to estimate the amount of loss. Management applied judgment to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates were regularly benchmarked against actual loss experience.

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

In assessing the need for collective loss allowance, management considered factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions were made to define how inherent losses were modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depended on the model assumptions and parameters used in determining the collective allowance. Loans that were subject to a collective IBNR provision were not considered impaired.

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

For assets measured at amortized cost: If an event occurring after the impairment was recognized caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.

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

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



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

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

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

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

#### **Offsetting financial instruments**

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

#### **2.4 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.

#### **2.5 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:

<u>Asset Class</u>	<u>Useful life (Years)</u>
Building	20-50
Motor Vehicle	15
Furniture and Fittings	5 - 10
Office equipment	5 - 20
Computer equipment and accessories	7 - 10

## 2.6 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 are presented as a separate line item in the income statement.

## 2.7 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 values 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."

## 2.8. 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

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

## 2.9 Employee benefits

Salaries, 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.

## 2.10 Severance payment

As per the labor proclamation no 1156/2019 Section 3 Article 39, the employee right to receive severance pay and compensation defined as a worker who has completed his probation period and who is not eligible for pension shall have the right to receive severance pay. Hence the institution estimates and accounts severance pay for subsequent period based on the service period of employees and the institution's attrition rate.

## 2.11 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.

## 2.12 Legal reserve



In accordance with the Commercial code of Ethiopia, (Proc. No. 1243/2021) Article 554, a 5% provision for legal reserve shall be made from the current year's net profit until it reaches twenty percent (20%) of the registered capital.

### **2.13 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 installments."

### **2.14 Impairment of non-financial assets**

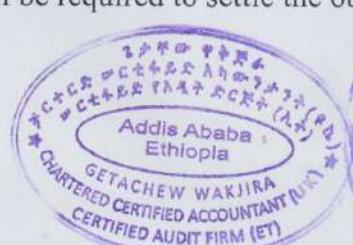
Internal and external sources of information are reviewed at the end of each reporting period to identify indications that non-financial assets, including property, plant and equipment, long-term leasehold prepayments, intangible assets and other long-term assets may be impaired.

### **2.15 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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a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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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.

### **3. Accounting judgments and estimates**

#### **a) Accounting judgments**

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

- 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. Judgments 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. Judgments 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.

**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.

