AFRICA VILLAGE MICROFINANCE S.C

AUDITOR'S REPORT

AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 07 JULY 2025

GETACHEW WAKJIRA

CERTIFIED AUDIT FIRM

Management's Responsibility for the Financial Statements

The managements are responsible for the preparation and fair presentation of the financial statements that give a true and fair view in accordance with the accounting policy adopted by the company, and for such internal control as the management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the managements are 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 the management either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for The Audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, ad 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose not expressing an opinion on the effectiveness of the business's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the business ability to continue as a going concern. If we conclude that material uncertainty exists.
- We are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. However, future events or conditions may cause the business to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal Requirements

We have reviewed and have no comment to make on the report of the Board of Directors of the Company in so far as it related to these financial statements and pursuant to articles 348 & 349 of the Commercial Code of Ethiopia 2013. We recommend approval of these financial statements.

Getachew Wakjira

Chartered Certified Accountants (UK)
Certified Audit Firm in Ethiopia

Addis Ababa
3 November, 2025

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The commercial code of Ethiopia 2013 of require the Directors to prepare financial statements for each financial year that present fairly the state of affairs of the Company as the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The Directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. The financial statements have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with the International Financial Reporting Standard (IFRS) and the requirements of the Commercial Code of Ethiopia. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its financial results in accordance with the International Financial Reporting Standard (IFRS).

The Directors further accept responsibility for the maintenance of accounting records that may be relied up on in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement. To enable the Directors to meet these responsibilities they set standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation to responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure acceptable level of risk. These controls are monitored throughout the Company and all employees are require to maintain the highest ethical standards in ensuring the Company's business is conducted in a manner that in all reasonable circumstances in above reproach. The focus of risk management in the Company is on identifying, assessing, managing and monitoring all known risks across the Company. While operating risk cannot be fully eliminated, the company endeavors to minimize it by ensuring the appropriate infrastructure, controls, systems, and ethical behavior are applied and managed within predetermined procedures and constraints.

The Directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements.

However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

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

The financial statements were approved by the Directors on ____________________, and are signed on behalf of the shareholder's by one shareholder/directors and the Finance Manager of the Company as follows:

Tesgen Belay Ayezengaw
Finance Manager

Tefera Tesfaye Desta
Chief Executive Officer (CEO)

Finance Manager

General Manager

Addis Ababa Ethiopia
GETACHEW WAKJIRA
CHARTERED CERTIFIED ACCOUNTANT
CERTIFIED AUDIT FIRM (ET)

Head Office
Africa Village Micro Finance S.C.

Accounting and auditing
0116881296
0111541235
Original Copy Submitted to

ጌታቸው ዋቅጅራ
ቻርተርድ ሠርቲፋይድ አካውንታንት (ዩኬ)
ሠርቲፋይድ የኦዲት ድርጅት (ኢትዮ)

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

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. 295/GW/18

Addis Ababa, Ethiopia

AUDITORS' REPORT TO THE SHAREHOLDERS OF AFRICA VILLAGE MICROFINANCE S.C. ON THE ACCOUNTS OF AFRICA VILLAGE MICROFINANCE S.C.

OPINION

We have audited the accompanying financial statements of Africa Village Microfinance S.C. which comprise statement financial position as at July 7, 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 July 7, 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.

e-mail getwak611@gmail.com

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
November 3, 2025

AFRICA VILLAGE MICROFINANCE S.C

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 07 JULY 2025

Currency: Ethiopian Birr

	Notes		2024
Interest Income	5	78,588,568	23,041,521
Interest Expense	6	(8,389,824)	(2,913,445)
Net Interest Income		**70,198,744**	**20,128,076**
Net Fees and Commission Income	7	387,848	145,365
Income from Service Charge	7	9,281,752	9,730,012
Other Operating Income	8	21,106,877	6,135,912
Total Operating Income		**100,975,222**	**36,139,365**
Less: Loan Impairment Charge		(835,293)	(486,634)
Net Operating Income		**100,139,929**	**35,652,731**
Salary and Other Employee Benefits	10	33,543,679	18,526,923
Depreciation & Amortization	11,17	1,207,506	743,507
Other Operating Expenses	11	12,758,473	6,857,045
		47,509,658	26,127,475
Profit(Loss) Before Tax		**52,630,271**	**9,525,256**
Provision for Profit Tax		-	-
Profit/Loss after Tax		**52,630,271**	**9,525,256**

Ato Tefera Tesfaye
General Manager

Tefera Tesfaye Desta
Chief Executive Officer (CEO)

Ato Temesgen Belay
Finance Manager

Temesgen Belay Ayezengaw
Finance Manager

Addis Ababa
Ethiopia
GETACHEW WAKJIRA
CHARTERED CERTIFIED ACCOUNTANT
CERTIFIED AUDIT FIRM

Africa Village Micro Finance S.C
Head Office

AFRICA VILLAGE MICRO FINANCE S.C
STATEMENT OF FINANCIAL POSITION
AS AT 07 JULY 2025

Currency: Ethiopian Birr

ASSETS	Notes		2024
Current Assets			
Cash and Balances with Banks	12	22,438,466	27,195,076
Loans Receivables	13	456,384,521	249,828,576
Interest Receivable		16,194,828	7,730,183
Stock - Stationeries & Supplies		1,225,091	362,645
Other Assets	16	5,529,363	3,556,633
		501,772,269	**288,673,113**
Non-Current Assets			
Leasehold land	14	1,012,108	1,042,321
Investment	15	7,986,198	6,958,000
Intangible Asset		1,770,331	314,461
Property, Plant and Equipment	17	26,925,812	11,636,958
		37,694,449	**19,951,740**
TOTAL ASSETS		**539,466,718**	**308,624,853**
LIABILITIES			
Current Liabilities			
Security and Compulsory Saving	18	27,821,118	13,784,022
Voluntary and Individual Savings	18	79,230,671	62,221,794
Bank Loan Current Maturity		-	-
Other Payable	19	193,916,039	61,654,486
		300,967,828	**137,660,302**
Non-Current Liabilities			
Lease Payable		939,992	939,992
Bank Loan	20	30,956,147	17,500,000
Employee Benefit (Severance & leave pay)	22	2,485,354	1,406,727
Deferred Service Charge		-	192,851
		34,381,494	**20,039,570**
TOTAL LIABILITIES		**335,349,322**	**157,699,872**
EQUITY			
Paid-up Capital		150,000,000	149,780,000
Donated Equity		1,129,222	1,129,222
Legal Reserve		3,233,508	601,994
General Reserve		48,579	48,579
Retained Earnings		50,448,081	107,180
IFRS Adjustment Reserve		(741,994)	(741,994)
TOTAL EQUITY		**204,117,396**	**150,924,981**
TOTAL EQUITY AND LIABILITIES		**539,466,718**	**308,624,853**

Ato Tefera Tesfaye
General Manager

Tefera Tesfaye Desta
Chief Executive Officer (CEO)

Ato Temesgen Belay
Finance Manager

AFRICA VILLAGE MICROFINANCE S.C
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 07 JULY 2025

Currency: Ethiopian Birr

		2024
Cash flows from operating activities		
Profit (Loss) Before Taxation	52,630,271	9,525,256
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	1,207,506	728,401
Taxes penalty Paid and Prior Year Adjustment	-	-
Employee benefit (Severance)	270,294	934,534
	54,108,071	**11,188,192**
Changes in working capital:		
Decrease/ (Increase) in loans and advances to customers	(206,555,945)	(204,380,629)
Decrease/ (Increase) in Interest Receivable	(8,464,645)	(2,186,323)
Decrease/ (Increase) in Stock - Stationeries & Supplies	(862,446)	(130,160)
Decrease/ (Increase) in other assets	(1,972,730)	(2,136,837)
Increase/ (Decrease) in deposits - Security & Compulsory Saving	14,037,096	6,372,031
Increase/ (Decrease) in deposits - Voluntary and Individual Savings	17,008,877	44,036,970
Increase/ (Decrease) in other liabilities	132,261,553	55,708,584
	(54,548,240)	**(102,716,366)**
Net cash (outflow)/inflow from operating activities	**(440,169)**	**(91,528,174)**
Cash flows from investing activities		
Purchase of property, plant and equipment	(16,496,359)	(4,083,103)
Purchase of Equity Investments	(1,028,198)	(4,850,175)
PPE Core banking Adjustment	-	-
Net cash (outflow)/inflow from investing activities	**(17,524,557)**	**(8,933,278)**
Cash flows from financing activities		
Lease Paid	-	102,329)
Proceeds for Loan	16,678,280	17,500,000
Settlements for Loan	(3,690,165)	(519,146)
Additional Capital Contributions	220,000	104,550,000
Net cash (outflow)/inflow from financing activities	**13,208,115**	**121,428,525**
Net increase/(decrease) in cash and cash equivalents	**(4,756,611)**	**20,967,073**
Cash and Bank Balances, Beginning of the Year	**27,195,077**	**6,228,003**
Cash and Bank Balances, End of the Year	**22,438,466**	**27,195,076**

AFRICA VILLAGE MICROFINANCE S.C
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 07 JULY 2025

	Paid up Capital	Donated Capital	Legal reserves	Retained Earnings	General reserve	IFRS Adjustment Reserve	Total
Balance As at 7 July 2023	**45,230,000**	**1,129,222**	**125,731**	**(8,941,813)**	**48,579**	**(741,994)**	**36,849,72[illegible]**
Additional Share Capital	104,550,000	-	-	-	-	-	**104,500,00[illegible]**
Prior Year Adjustment	-	-	-	-	-	-	-
Profit(Loss) for the Period	-	-	-	9,525,256	-	-	**9,525,25[illegible]**
Transfer to Legal Reserve	-	-	476,263	(476,263)	-	-	-
Balance As at 7 July 2024	**149,780,000**	**1,129,222**	**601,994**	**107,180**	**48,579**	**(741,994)**	**150,924,98[illegible]**
Additional Share Capital	220,000	-	-	-	-	-	**220,000**
Profit(Loss) for the Period	-	-	-	52,630,271	-	-	**52,630,271**
Transfer to Legal Reserve	-	-	2,631,514	(2,631,514)	-	-	-
Prior Year Adjustment	-	-	-	342,144	-	-	**342,144**
Balance As at 7 July 2025	**150,000,000**	**1,129,222**	**3,233,508**	**50,448,081**	**48,579**	**(741,994)**	**204,117,39[illegible]**

1 General Information

Africa Village Micro Finance S.C. (AVMF) was established in the year 1998 G.C as a "Share Company" under the Commercial Code of Ethiopia and licensed by the National Bank of Ethiopia as a "Microfinance Institution" under Proclamation No. 626/2009, issued for licensing and supervision of micro-finance institutions. AVMF's registration office is at :

Africa Village Microfinance S.C, Kirkos Sub-City Woreda 03 Addis Ababa, Ethiopia. AVMF is currently operating through 19 branches outlets.

The objective of AVMF is to create an attitude of self-reliance and confidence of the rural and urban micro and small Entrepreneurs by assisting them increase their income levels through savings and credit facilities including business support services. AVMF S.C. was formally established as financial and nonfinancial service provider to the active poor in 1997. It started its operation in 1998 after obtaining its license from the National Bank of Ethiopia. AVMF S.C. is peculiar in its formation and establishment from the majority of Ethiopian MFIs. This is due to the fact that it was to become the first client owned institution in the country.

2 Summary of Significant Accounting Policies

2.1 Introduction to Summary of Significant Accounting Policies

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

2.2 Basis of Preparation

The financial statements for the period ended 7 July 2025 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information required by National regulations is included where appropriate.

The financial statements comprise the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

The financial statements have been prepared in accordance with the going concern principle under the historical cost concept and faire value. All values are rounded to the nearest one birr, except when otherwise indicated. The financial statements are presented in rounded to the nearest Ethiopian one Birr (Birr' 1).

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 AVMF's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that AVMF financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

2.2.1 Going Concern

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

2.2.2 Changes in Accounting Policies and Disclosures

New Standards, amendments, interpretations issued but not yet effective.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 8 July 2020, and have not been applied in preparing these financial statements. Effects of these changes are assessed by the company as set out below:

Standard	Description	Effective date	Impact
IAS 1 — Presentation of Financial Statements	IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.	The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and are to be applied retrospectively. Earlier application is permitted.	AVMF has opted not to adopt early. No significant impact is expected.
IAS 16, Property plant and equipment	IAS 16 "Property, Plant and Equipment" outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.	Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, earlier application is permitted. The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.	AVMF opted to adopt the amendments when due. But no significant change is expected.
IAS 17, Provision, contingent liabilities and contingent assets	IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable).	Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, earlier application is permitted. The amendments are effective for annual periods beginning on or after January 1, 2022. Early	AVMF opted to apply the amendments when due.
IAS 41 Agriculture	IAS 41 "Agriculture" sets out the accounting for agricultural activity – the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The standard generally requires biological assets to be measured at fair value less costs to sell.	Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, earlier application is permitted. The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.	The standard is not relevant for the AVMF's reporting purpose.

IFRS 3, Business combination	IFRS 3 "Business Combinations" outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.	Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, earlier application is permitted. The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the	The standard is not relevant for AVMF's reporting purpose as of now. The amendments shall be considered when AVMF gets involved in a transaction that involve business combination
IFRS 9, Financial Instruments	The final version of IFRS 9 "Financial Instruments" issued in July 2014 is the IASB's replacement of IAS 39 "Financial Instruments: Recognition and Measurement". The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.	Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, earlier application is permitted. The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.	AVMF shall apply the amendments when due. The amendments are expected to have an impact on AVMF's financial statements.
Annual Improvements to IFRS Standards 2018–2020	IFRS 9 – The amendment clarifies which fees IFRS 16 – The amendment to illustrative IAS 41 – The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.	The improvements are effective for annual reporting periods beginning on or after 1 January 2022. Early application is permitted.	AVMF shall apply the improvements when due. The improvements are not expected to have an significant impact on AVMF's financial statements.
Definition of Accounting Estimates (Amendments to IAS 8)	The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies	Effective for annual reporting periods beginning on or after 1 January 2023.	AVMF shall apply the amendment when due. The amendments are not expected to have an impact on AVMF's financial statements.
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.	Effective for annual reporting periods beginning on or after 1 January 2023.	AVMF shall apply the amendment when due. The amendments are expected to have an impact on AVMF's financial statements.

2.3 Foreign Currency Translation

a) Functional and Presentation Currency

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

b) Transactions and Balances

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

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

2.4 Recognition of Income and Expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to AVMF 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. AVMF, earns income from interest on loans given for large group rural and urban, Individual and other. Other incomes includes sale of share ,sale of pass book, interest from bank deposit and Penalty.

2.4.1 Interest and Similar Income and Expense

For all financial instruments measured at amortized cost income or expense is recorded using the Effective Interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the Effective Interest Rate (EIR), but not future credit losses.
The carrying amount of the financial asset or financial liability is adjusted if AVMF revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and Interest and similar expense for financial liabilities.
Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.4.2 Fees and Commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income are recognized as the related services are performed.

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. Other fees and commission expenses relates mainly to transaction and service fees are expensed as the services are received.

2.4.3 Dividend Income

Dividend income is recognized when AVMF right to receive the payment is established, which is generally when the shareholders approve and declare the dividend. AVMF classified Dividend income as other income

2.5 Financial Instruments - Initial Recognition and Subsequent Measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. IFRS 9 set out requirement for recognition , measuring of financial ,instrument such as financial asset and liability and other contract to buy or sell non-financial asset.

2.5.1 Financial Assets

Initial Recognition and Measurement

All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that AVMF commits to purchase or sell the asset.

Subsequent Measurement

AVMF has applied IFRS 9 and classify its financial asset in the following measurement catatogy:

1. Amortized cost,
2. fair value through profit and loss (FVTPL), and
3. fair value through Other Comprehensive Income (FVOCI) as per the business model option.

Financial assets at amortized costs

Derecognition of Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e. removed from AVMF's statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or
- AVMF has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either

(a) AVMF has transferred substantially all the risks and rewards of the asset, or

(b) AVMF has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When AVMF has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, AVMF continues to recognize the transferred asset to the extent of AVMF's continuing involvement. In that case, AVMF also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that AVMF has retained.

Impairment of Financial Assets

AVMF assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter Bankruptcy or other financial reorganization, default or delinquency in interest or principal payments and where observable data indicates that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortized Cost

At each reporting date AVMF access whether there is objective evidence that the financial asset are impaired for financial asset measured at amortized cost(loan and receivable. AVMF measure its impairment of financial asset based of expected credit loss (ECL) as follows:

1. Financial asset that are neither past due nor impaired(stage -1): AVMF shall consider 0 to 30 days past due accounts as performing asset and interest revenue is considered on gross carrying amount.
2. Financial asset that are past due but not impaired(stage 2):Loss allowance is recognized in the amount of lifetime expected credit loss, and when the credit risk of the certain financial assets significantly increased and the resulting credit quality is not low risk. Hence at this stage, in addition to assessed future potential risks that significantly increase impairment shall consider 31 to 90 days past due loans assets and the interest revenue be recognized on the gross carrying amount
3. Impaired loan(stage 3) : A financial asset shall be considered as credit impaired when one or more events that determine on future cash flow of the financial asset existed and AVMF considered 91 to 365 days past due loan as impaired loan and interest revenue is considered on net outstanding amount.
4. Total loss loan: AVMF consider loans that past due >365 as total loss and impaired loan and interest revenue is considered on net outstanding amount. The following are evidenced that a financial asset is impaired.
   1. Breach of contract such as a default or past due event
   2. The restructuring of a loan on terms
   3. It is becoming probable that the borrower will enter bankruptcy
   4. Displacement of clients due to natural and human effects

For financial assets carried at amortized cost (such as loans and receivables), AVMF assesses collectively whether objective evidence of impairment exists for financial assets that are not individually significant, or collectively for financial assets that are not individually significant. If AVMF determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'loan impairment charge'.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of AVMF's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, payment status, or other factors that are indicative of incurred losses and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Collateral
Valuation
AVMF seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as House, ,Vehicle, Salary and Compulsory Saving for loan disbursed .The fair value of collateral is generally assessed, at a minimum, at inception and based on AVMF reporting schedule. Assets collateral pledged to loans are registered by respective city administrative municipality

Collateral
Recover
In settlement of overdue loan AVMF has a policy to recover its loan. Before collecting from collateralized asset AVMF tried to collect its loan with the help of social pressure or give writing warring to the property owner. If this offer does not work to recover the loan , AVMF can take such measures ,for a group loan compulsory saving amount shall not be withdrawn until the entire loan of the group shall be settled,. It should be adjusted against pending loan receivable balance. For the asset pledge as of guarantee shall be posted on Newspaper to invite participants for foreclosure sell on specific date . Up on the appointed date the presence of local administrative personal, the owner and AVMF's representative the participants could offer an action price that planning to buy the asset. Then the selling amount should be determine for covering all expenses of the procedure , pending settlement of the loan amount and the remaining shall be refunded to the owner.

2.5.2 Financial Liabilities

Initial Recognition and Measurement

All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs. AVMF's financial liabilities include customer's deposit, Borrowings and other short term and long term liabilities.

Subsequent Measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial Liabilities at Amortized Cost

Financial instruments issued by AVMF, that are not designated at fair value through profit or loss but are classified as financial liabilities at amortized cost, where the substance of the contractual arrangement results in AVMF having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset.
After initial measurement, financial liabilities at amortized cost are subsequently measured at amortized cost using the effective interest rate (EIR). Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. Financial liabilities carried at amortized cost comprise of customer deposits ,Commercial borrowing, and other.

Derecognition of Financial Liabilities

Financial liabilities are derecognized when the contractual rights to receive the cash flows from these liabilities have ceased to exist or the liability have been transferred and substantially all the risks and rewards of ownership of the liabilities are also transferred (that is, if substantially all the risks and rewards have not been transferred). Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

Addis Ababa
Ethiopia
GETACHEW WAKJIRA
CHARTERED CERTIFIED ACCOUNTANT
CERTIFIED AUDIT FIRM

2.5.3 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where AVMF has 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of AVMF or the counterparty.

2.6 Cash and Cash Equivalents

Cash and cash equivalent comprises cash on hand and on demand deposit with short term highly liquid financial asset that are subject to insignificant risk of change in value and are used by the entity in the management of its short term obligation. Cash and cash equivalent comprises cash at bank, petty cash and voluntary saving fund. Cash and cash at bank are carried at nominal value, which corresponds to their fair value. For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and cash at bank.

2.7 Property, Plant and Equipment

Property, plant, and equipment are tangible items that are held for use in the supply of services, or administrative purpose are expected to be used during more than one period and shall initially be recognized at cost if it is probable that future economic benefits associated with the item will flow to the entity and cost of the item can be reliably measured. Costs incurred in respect of day to day servicing and spare parts are recognized in profit and loss .

Subsequent to initial recognition, items of property, plant, and equipment shall be measured at revaluation model. Revaluation should be reviewed whenever there is a material change in carrying amount and shall be conducted every three years. Any gain or loss arises as a result of revaluation shall be treated in the following way:

1. If the carrying amount (CA) increases: treats as other comprehensive income under the heading "Revaluation surplus".
2. If the Carrying amount decreases: treat through Profit or Loss for the year the amount in excess of previously Recognized revolution surplus.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Asset Category	Years	%
Buildings	50	5%
Furniture and Equipment	10	10%
Computer and Accessories	7	7%
Motor vehicles	15	15%
Motor Bike	10	10%

PPE shall be derecognized or removed from the statement of financial position on disposal or if no future economic benefits arise. Gain or loss on disposal is the difference between the proceeds and the carrying amount and should be recognized in Profit and Loss.

Addis Ababa
Ethiopia
GETACHEW WAKJIRA
CHARTERED CERTIFIED ACCOUNTANT
CERTIFIED AUDIT FIRM

Africa Village Micro Finance S.C
Head Office

Original Copy Submitted to the Board
0118861256
0111541235

2.8 Intangible Assets

An intangible asset is an identifiable non-monitory asset without physical substance and controlled by the entity and is expected to prove a future economic benefit for AVMF. 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.

AVMF can be measured intangible asset at cost less accumulated amortization using a straight-line method and shall be recognized in profit and loss. Subsequent expenditures on software shall be capitalized only when it increases the future economic benefits of the asset. All other repair and maintenance costs are recognized in profit and loss during the financial period. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life . The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortization period or methodology, as appropriate, which are then treated as changes in accounting estimates. The amortization expenses on intangible assets with finite lives is presented as a separate line item in the income statement.

2.9 Non-Current Assets (or Disposal Groups) Held for Sale and Discontinued Operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally

2.10 Impairment of Non-Financial Assets

AVMF assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, AVMF estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

AVMF bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of AVMF's cash generating unit to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, AVMF estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

2.11 Other Assets

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

a) Prepayment

Prepayments: are payments made in advance for service to be benefited in the future. The amount is initially recognized as an asset and subsequently amortized over the service period to an expense account.

b) Other Receivables

Other receivables: refers to money due from third parties both within the institution and outside the institution are and recognized upon the occurrence of event or transaction as they arise and cancelled when payment is received.
AVMF's other receivables includes advance to staff (for travel, work, purchase and staff loan.

2.12 Fair Value Measurement

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

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

The principal or the most advantageous market must be accessible to AVMF.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
AVMF uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

2.13 Employee Benefits

Employee benefits are all forms of consideration given by AVMF in exchange for service rendered by all employees or for the termination of employment .AVMF operated Short term employee benefit, post-employment benefit, termination benefit, and other long term benefits.

a) Short Tem Employee Benefit

AVMF operates short term benefit that is expected to be settled wholly within 12 months after the end of the period in which the employee renders the related service. AVMF has a short term benefit such as salary, wage and other that shall be paid on service delivery. Other short term benefits like insurance (money and fidelity) are contractually transferred to the managing insurance company upon payment of annual premium.

b) Post Employment

Defined Contribution Plan

AVMF operates defined contribution plans;
Pension scheme in line with the provisions of Ethiopian pension of private organization employees proclamation 715/2011. Funding under the scheme is 7% and 11% by employees and AVMF respectively based on the employees' salary. Employer's contributions to this scheme are charged to profit or loss and other comprehensive income in the period in which they relate.

Defined Benefit Plan

AVMF recognize an accrued liability for termination benefits called severance payment in accordance with Ethiopian labor Law that will be paid when an employee resigns. AVMF is legally obliged to pay severance for those employees who served the entity for more than five years.

c) Termination Benefits

Termination Benefit: it is an employee benefit provided in exchange for the termination of an employee's employment as a result of an entity's decision to terminate an employee before the normal retirement date. Among all employees benefits mentioned above, AVMF should recognize an accrued liability for termination benefits called severance payment and unpaid leave balance. Further, it is legally obliged to pay unused leave balance for the maximum of two years (unused leaves balance above two years shall be expired.

d) Bonus Plans

AVMF recognizes a liability and an expense for bonuses and incentive and recognized as an expense on payment or accrued based on realized performance report that shall be paid shortly.

2.14 Provisions

Provision is a liability of uncertain timing or amount of a future expenditure that is different from the provision for doubtful debt.
Contingent liability is a possible obligation that arises from past events and its existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. It must be disclosed in the notes if they are probable.
Legal obligation is an obligation that could be contractual, arise due to legislation, and a result from other operating of law. A constructive obligation is an obligation that results from an entity's action AVMF should disclose provisions, contingent liabilities and contingent assets in the notes to enable users to understand their nature, timing and amount and the entity's hold that will be settled within 12 months after the reporting period.

2.15 Investment Properties

Investment property is land or a building or part of a building or both held by the AVMF or by the lessee under finance lease to earn rentals or for capital appreciation or both. AVMF's investment property is a building that is leased to a third party, share purchased from companies and others. Investment property is initially measured at cost unless it is transferred from another category in the statement of financial position. The cost includes the purchase price and any directly attributable expenditure like legal fees or professional fees, property taxes and others. Subsequent to initial recognition, AVMF should measure investment property using a fair value method. No depreciation is calculated for investment properties but gains or losses arising from changes in the fair value of investment property must be included in the profit or loss account for the period in which it arises and income earned from investment property is recognized as

De-Recognition of Investment Property

An investment property shall be derecognized or eliminated from the statement of financial position on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in profit or loss.

2.16 Inventory

AVMF' inventory deals with materials or supplies to be consumed/used in the process of rendering services. Inventories are recognized from the date that the entity takes the risk and reward of ownership of the inventory and shall be measured at lower of cost and net realizable value. The cost of inventory comprises all the cost of purchase, and costs incurred in bringing the inventories to the present location and condition. The cost of inventory should be assigned based on a first-in, first-out (FIFO) method of measurement. The followings are the major inventors of AVMF; printing material, Stationary material , Office supplies, and others. Expense is recognized upon the utilization of the inventory. When an adjustment is required to the quantity of the inventory or obsolescence in use, there should be a plus or minus recognition to the period expense account.

2.17 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

IFRS 16_leases was issued in January 2016 (Effective 1 January 2019) . It sets out the principles for the recognition,
AVMF has initially adopted IFRS 16 from 1 July 2019. The standard eliminates the classification of leases as either
It also elected to apply the practical expedient that allows entities to rely on its assessment of whether leases were onerous

The adoption of IFRS 16 requires AVMF to make a number of assumptions, estimations and judgments that includes:

At the commencement date, AVMF recognized: all leases as right right-of-use-asset at cost. Cost of right-of-use asset includes the amount of lease liability, lease payments made at or before the commencement date (less any lease incentives received), any initial direct costs incurred and an estimate of costs to be incurred by AVMF in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

a lease liability at the present value of the lease payments that are not paid at that date. Present value of lease payments will be determined by discounting future lease payments at the interest rate implicit in the lease arrangement, if it is readily determined or at AVMF's incremental borrowing rate.

After the commencement date, AVMF measures:

AVMF as a lessor

Leases where AVMF does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in Other operating income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period

3 Significant accounting judgments, estimates and assumptions

The preparation of financial statements requires the use of accounting estimates, which, by definition, will seldom equal the actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The preparation of AVMF's financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to AVMF's exposure to risks and uncertainties includes:

- Capital management Note 4.6
- Financial risk management and policies Note 4.1
- Sensitivity analyses disclosures Note 4.5.2

3.1 Judgments

In the process of applying AVMF's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. AVMF based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes

3.2 Impairment Losses on Loans and Advances

AVMF reviews its loan portfolios for impairment on an on-going basis. AVMF first assesses whether objective evidence of impairment exists collectively for financial assets that are not individually significant. Impairment provisions are also recognized for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Impairment of Non-Financial Assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that AVMF is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

In assessing whether there is any indication that an asset may be impaired, AVMF considers the following indications:

(i) External information

•there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.

•significant changes with an adverse effect on AVMF have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which AVMF operates or in the market to which an asset is dedicated.

•market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

(ii) Internal information

•evidence is available of obsolescence or physical damage of an asset.

•significant changes with an adverse effect on AVMF have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.

•evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

Addis Ababa
Ethiopia
GETACHEW WAKJIRA
CHARTERED CERTIFIED ACCOUNTANTS
CERTIFIED AUDIT FIRM

Africa Village Micro Finance S.C.
Head Office

Original Copy Submitted to the ...

4. Financial Risk Management

4.1 Introductions

Risk management is a continual process of systematically identifying, measuring, monitoring and managing risks in the organization that is one of the basic and crucial processes for AVMF to minimize threats to the financial possibility. It is a day today activity that the entity exposed to spectrum of risks; such as credit risk , Liquidity risk, interest rate risk and operational risk . The core functions of AVMF' risk management are to identify all key risks that are exposed, measure these risks, manage the risk positions and determine capital allocations to each operating function to minimize the adverse effect of financial performance of AVMF. AVMF regularly reviews its risk management policies and systems to reflect changes in markets and products to achieve an appropriate balance between risk and return and minimize potential adverse effects on its financial performance.

4.1.1 Risk Management Structure

The Board of Directors has overall responsibility for the establishment and oversight of AVMF's risk management framework. The Board has established Risk Committee, which are responsible for developing and monitoring's risk management policies. AVMF's risk management policies are established to identify and analyze the risks faced by AVMF , to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in the regulation, market conditions, products and services offered. AVMF, through its training and procedures and policies for management, aims to develop a constructive control environment, in which all employees understand their roles and obligations.

AVMF's Board of Directors is responsible for monitoring compliance with AVMF's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by AVMF . AVMF's Board of Directors is assisted in these functions by the Risk committee. The Risk committee undertakes regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Risk sub Committee.

4.1.2 Risk Measurement and Reporting Systems

AVMF'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. AVMF also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by AVMF. These limits reflect the business strategy and market environment of AVMF as well as the level of risk that AVMF is willing to accept, with additional emphasis on selected areas. In addition, AVMF'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.

4.1.3 Risk Mitigation

Risk controls and mitigates, identified and approved for AVMF, are documented for existing and new processes and systems. The adequacy of these mitigation using an operational risk management tool which requires risk owners to confirm the effectiveness of established controls.

4.2 Financial Instruments by Category

AVMFs financial assets are classified into the following measurement categories: available-for-sale and loans and receivables measured at amortized cost and the financial liabilities are classified at amortized cost and other payable Financial instruments are classified in the statement of financial position in accordance with their legal form and substance.

AVMF classification of its financial assets is summarized in the table below:

7 July 2025	Notes	FVTPL	FVOCI	Amortized cost	Total
Cash and balances with banks	12	-	-	22,438,466	22,438,466
Loans and receivables	13	-	-	456,384,521	456,384,521
Interest Receivable				16,194,828	16,194,828
Other Assets	14	-	-	5,529,363	5,529,363
Total financial assets		-	-	**500,547,178**	**500,547,178**

7 July 2024	Notes	FVTPL	FVOCI	Amortized cost	Total
Cash and balances with banks	12	-	-	27,195,076	27,195,076
Loans and receivables	13	-	-	249,828,576	249,828,576
Interest Receivable				7,730,183	7,730,183
Other Assets	15	-	-	3,556,633	3,556,633
Total financial assets		-	-	**288,310,468**	**288,310,468**

4.3 Credit Risk

Credit risk is the probability that a counterparty of AVMF will not meet its obligations in accordance with agreed terms and conditions which may lead to financial loss. AVMF is exposed to credit risk mainly for loan and advance provide to customers and it is the major risk of the organization. Credit risk is managed through periodic analysis of the ability of borrower to determine the capacity to meet its principal and interest and it is also mitigated by obtaining collateral.

Credit management is conducted as per the risk management policy and guideline approved by the board of directors and the Risk Management Committees. Such policies are reviewed and modified periodically based on changes and expectations of the markets where AVMF operates, regulations, and other factors.

4.3.1 Management of Credit Risk

In measuring credit risk of loans and receivables to various counterparties, AVMF 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. Our credit exposure comprises loans and receivables which are developed to reflect the needs of our customers. AVMF's policy is to lend principally on the basis of our customer's repayment capacity through quantitative and qualitative evaluation. However we ensure that our 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(LGD)

Loss Given Default is defined as the portion of the loan determined to be irrecoverable at the time of loan default (1 – recovery rate). Our methods for estimating LGD includes both quantitative and qualitative factors.

c) Exposure at Default

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

4.3.2 Impairment Assessment

AVMF assesses its impairment for the purpose of IFRS reporting using a 'three-stage' model for impairment based on changes in credit quality since initial recognition as follows :

1. A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by AVMF

2. A financial instrument that the credit risk significantly increased transferred to stage 2 but not deemed to credit impaired

3.A financial instrument is credit-impaired moved to 'Stage 3'.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, AVMF 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 AVMF's historical experience and expected credit risk assessment and including forward-looking information. AVMF considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative criteria have been met. The quantitative criteria is based on either absolute or relative changes in credit quality. In both cases, AVMF is expected to specify the percentage change, for either 12-month or lifetime PDs in comparison to the corresponding 12-month or lifetime PDs as calculated at origination, respectively, that would indicate a significant increase in credit risk since origination

AVMF Classify transition from Stage 1 to Stage 2, and stage 3 and Loss as follows:

Stage	Day past due
Stage 1	0-30
Stage 2	31-90
Stage 3	91-365 and total loss

a) Individual Assessment

AVMF reviewed and revised existing impairment triggers for each loan asset portfolio to ensure that a trigger identifies a loss event as early as possible, which would result in the earliest possible recognition of losses within the IFRS framework. AVMF then estimated the impairment based on the shortfall between the present value of estimated future cash flows and the asset carrying amount. Since the loan data is big, AVMF shall perform individual assessment of portfolio account and categorize collectively for further analysis.

b) Collective Assessment

Loans and receivables that are not specifically impaired are assessed under collective impairment. For the purpose of collective impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to contractual terms.

c) Collective Assessment (Contd)

AVMF generally bases its analyses on historical experience. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry-specific problems). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. The impairment allowance is reviewed by credit management to ensure alignment with the AVMF's overall policy.

Currency: Ethiopian Birr

4.3.3 Credit Related Commitments Risks

Since AVMF could not issue any promissory document to third party don't have any credit related commitments risk

4.3.4 Maximum Exposure to Credit Risk Before Collateral Held or Credit Enhancements

a) Types of Credit Exposure

AVMF's maximum exposure to credit risk at 7 July 2025 and 7 July 2024 respectively, is represented by the net carrying amounts in the statement of financial position.

	7 July 2025	7 July 2024
Cash and balances with banks	22,438,466	27,195,076
Loans and receivables	456,384,521	249,828,576
Other Assets	5,529,363	3,556,633
Interest Receivable	16,194,828	7,730,183
Total maximum exposure	**500,547,178**	**288,310,468**

b) Loans and Receivables at Amortized Cost

i) Gross loans and receivables to customers per sector is analyzed as follows:

	7 July 2025	7 July 2024
Agricultural Loan	19,119,113	24,684,642
Consumption Loan	8,328,532	19,211,659
Service Loan	133,265,551	5,350,545
Trade Loan	28,108,545	89,634,976
Lease	-	3,300,453
Construction	-	2,384,600
Climate Financing	265,221,571	106,827,336
	454,043,712	251,394,210
Staff Loan	2,340,809	1,614,297
	456,384,521	**253,008,507**

ii) Gross loans and receivables to customers per National Bank of Ethiopia's impairment guidelines is analyzed as follows:

	7 July 2025	7 July 2024
Preforming	456,384,521	249,219,924
Substandard (91-180 past due)	110,739	561,590
Doubtful(181-365 Past due)	495,136	374,919
Loss(More than 365 past due)	679,584	1,237,778
	457,669,980	**251,394,210**

The above table represents a worst case scenario of credit risk exposure of AVMF as at the reporting dates without taking in to account any collateral held or other credit enhancements attached. The exposures are based on net carrying amounts as reported in the statement of financial position.

Management is confident in its ability to continue to control and effectively manage the credit risk exposure in AVMF's loan and advances portfolio.

4.3.5 Credit Quality Analysis

a) Credit Quality of Loans and Receivables

7 July 2025	Neither past due nor impaired Stage -1 and Past due but not impaired Stage-2	Individually impaired stage-3	Total
Agriculture		19,345,937	19,345,937
Trade		28,454,398	28,454,398
Consumption		8,533,346	8,533,346
Lease		-	-
Construction		-	-
Service		133,522,528	133,522,528
Climate Financing		265,472,962	265,472,962
Gross		**455,329,171**	**455,329,171**
Less: Impairment Allowance		(1,285,459)	(1,285,459)
Net		**454,043,712**	**454,043,712**

7 July 2024	Neither past due nor impaired Stage -1 and Past due but not impaired Stage-2	Individually impaired stage-3	Total
Agriculture		24,684,642	24,684,642
Trade		89,634,976	89,634,976
Consumption		19,211,659	19,211,659
Lease		3,300,453	3,300,453
Construction		2,384,600	2,384,600
Service		5,350,545	5,350,545
Climate Financing		106,827,336	106,827,336
Gross		**251,394,210**	**251,394,210**
Less: Impairment allowance		(1,565,635)	(1,565,635)
Net		**249,828,576**	**249,828,576**

b) Allowance for Impairment	**Sub Standard** (91 -180 Days)	**Doubtful** (151-365 Days)	**Loss** (Over 365 days)	**7 July 2025**	**7 July 2024**
Collective Impairment	110,739	459,136	679,584	1,285,459	1,565,635
Total Allowance for Impairment				**1,285,459**	**1,565,635**

4.3.6 Credit Concentrations

AVMF monitors concentrations of credit risk by socio-economic sector. An analysis of concentrations of credit risk at 7 July 2025 and 7 July 2024. AVMF concentrates all its financial assets in Ethiopia, particularly Addis Ababa, Driedawa, Oromia, Tigray and Central Ethiopia regional state.

7 July 2025	Public Enterprise Birr	Cooperative Birr	Private Birr
Cash and balance with banks		-	22,438,466
Loans and Receivables	-	-	454,043,712
Interest Receivable		-	16,194,828
Other Assets	-	-	5,529,363
		-	**498,206,369**

7 July 2024	Public Enterprise Birr	Cooperative Birr	Private Birr
Cash and balance with banks			27,195,076
Loans and receivables			249,828,576
Interest Receivable			7,730,186
Other Assets			3,556,633
			288,310,468

4.3.7 Nature of Security in Respect of Loans and Receivables

7 July 2025	Secured against Fixed asset Birr	Individual Cash guarantees Birr	Total Birr
Agriculture	-	19,119,513	19,119,513
Trade	-	28,108,545	28,108,545
Consumption	-	8,328,532	8,328,532
Lease	-	-	-
Construction	-	-	-
Service	-	133,265,551	133,265,551
Climate Financing	-	265,221,571	265,221,571
	-	**455,329,171**	**455,329,171**
Less: Impairment allowance		(1,285,459)	(1,285,459)
		454,043,712	**454,043,712**

4.3.8 Collateral Held and their Financial Effect

The general credit worthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and AVMF generally requests that borrowers provide it. Staff loans also secured to the extent of the loan amount by salaried employee which work inside or outside AVMF MFI .

AVMF may take collateral in the form of House, Vehicle, Cash/savings and group guarantees. AVMF does not sell or repledge the collateral in the absence of default by the owner of the collateral. In addition to AVMF's focus on creditworthiness, it aligns with its credit policy guide to periodically update the validation of collaterals held against all loans to customers.

4.4 Liquidity Risk

Liquidity risk is the risk that AVMF cannot meet its maturing obligations when they become due, at reasonable cost and in a timely manner. Liquidity risk arises because of the possibility that AVMF might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to AVMF on acceptable terms.
The main objective of liquidity risk framework is to maintain sufficient liquidity in order to ensure that we meet our maturing obligations.

AVMF cash flow forecasting is performed by the finance department. The finance department monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs, monitoring statement of financial position liquidity ratio against internal and regulatory requirements and management of future cash flow .
AVMF has incurred indebtedness in the form of borrowings. AVMF evaluates its ability to meet its obligations on an ongoing basis. Based on these evaluations, AVMF plan strategies to manage its liquidity risk.
Prudent liquidity risk management implies that sufficient AVMF is maintained and that sufficient funding is available to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk to AVMF's reputation.

4.5 Market risk

Market risk is defined as the risk of loss risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market risk factors such as interest rates, foreign exchange rates, equity prices, credit spreads and their volatilities. Market risk can arise in conjunction with trading and non-trading activities of a financial institutions.
AVMF does not ordinarily engage in trading activities as there are no active markets in Ethiopia.

4.5.1 Management of Market Risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The main objective of Market Risk Management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

4.5.2 Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. Borrowings obtained at variable rates give rise to interest rate risk.

7 July 2025	Fixed Birr	Non-interest bearing Birr	Total Birr
Assets			
Cash and balances with banks	14,322,485	8,115,981	22,438,466
Loans and receivables	5,529,363	472,579,349	478,108,712
Total	**19,851,848**	**480,695,330**	**500,547,178**
Liabilities			
Deposits from customers	107,051,790		107,051,895
Other liabilities	-	196,599,391	196,599,391
Borrowing	30,956,147		30,956,147
Total	**138,007,937**	**199,599,391**	**334,607,328**

7 July 2024	Fixed Birr	Non-interest bearing Birr	Total Birr
Assets			
Cash and balances with banks	21,790,446	5,404,630	27,195,076
Loans and receivables	3,556,633	257,558,759	261,115,392
Total	**25,347,079**	**262,963,389**	**288,310,468**

Liabilities			
Deposits from customers	76,005,816		76,005,816
Other liabilities	-	64,194,056	64,194,056
Borrowing	17,500,000		17,500,000
Total	**93,505,816**	**64,194,056**	**157,699,872**

4.6 Capital Management

AVMF's objectives when managing capital are to comply with the capital requirements set by the National Bank of Ethiopia, safeguard its ability to continue as a going concern, and to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

4.6.1 Capital Adequacy Ratio

According to the Licensing & Supervision of Microfinance Business Directive No MFI/27/2015 of the National Bank of Ethiopia, AVMF has to maintain capital to risk weighted assets ratio of 12% at all times.

The capital adequacy ratio is the quotient of the capital base of AVMF and its risk weighted asset base. Capital includes capital contribution, retained earnings, legal reserve and Donated equity .

	7 July 2025 Birr	7 July 2024 Birr
Capital		
Capital contribution	150,000,000	149,780,000
Donated Equity	1,129,222	1,129,222
Retained earnings	50,448,081	107,180
Legal reserve	3, 233,508	601,994
Reserve Surplus	-	(741,994)
	204,810,811	**150,876,402**
Credit equivalents for on balance sheet items	334,607,328	157,699,872
Risk Weighted Assets		
Risk weighted balance for on-balance sheet items	500,547,178	288,310,468

4.7 Fair Value of Financial Assets and Liabilities

IFRS 13 requires an entity to classify measured or disclosed fair values according to a hierarchy that reflects the significance of observable inputs.
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, which comprises of three levels as described below, based on the lowest level input that is significant to the fair value measurement as a whole.

4.7.1 Valuation Models

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable input reflect market data obtained from independent sources; unobservable inputs reflect AVMF's market assumptions.

4.7.2 Financial Instruments not Measured at Fair Value - Fair Value Hierarchy

The following table summarizes the carrying amounts of financial assets and liabilities at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

7 July 2025	Carrying amount Birr	Fair value Birr
Financial Assets		
Cash and balances with banks	22,438,466	22,438,466
Loans and receivables	454,043,712	454,043,712
Interest Receivable	16,194,828	16,194,828
Other asset	5,529,363	5,529,363
Total	**498,206,369**	**498,206,369**
Financial Liabilities		
Deposits from customers	107,051,790	107,051,790
Borrowings	30,956,147	30,956,147
Other liabilities	196,599,391	196,599,391
Total	**334,607,328**	**334,607,328**

7 July 2024	Carrying amount Birr	Fair value Birr
Financial Assets		
Cash and balances with banks	27,195,076	27,195,076
Loans and receivables	249,828,576	249,828,576
Interest Receivable	7,730,183	7,730,183
Other asset	3,556,633	3,556,633
Total	**288,310,468**	**288,310,468**
Financial Liabilities		
Deposits from customers	76,005,816	76,005,816
Borrowings	17,500,000	17,500,000
Other liabilities	64,194,056	64,194,056
Total	**157,699,872**	**157,699,872**

4.7.3 Valuation Techniques using Significant Unobservable Inputs - Level 3

AVMF has no financial asset measured at fair value on subsequent recognition

Currency: Ethiopian Birr

		2024
5 Interest Income		
Interest Income on Loans	78,017,647	21,636,184
Interest on Saving Deposits	570,921	1,329,848
Interest on Staff Loan	-	75,489
	78,588,568	**23,041,521**
6 Interest Expenses		
Interest Expense on client saving deposit	6,313,097	2,882,611
Interest Expense on Loan	2,076,727	30,833
	8,389,824	**2,913,445**
7 Net fees and commission income		
Fee and commission income		
Service charge	9,281,752	9,730,012
Registration Fee	188,499	73,620
Income from legal fee & Pass Book	199,349	71,745
	9, 669,600	**9,875,376**
Fee and commission expense		
Net fees and commission income	**9,669,600**	**9,875,376**
7.a. Service Charges on the loans granted	-	-
Less: Unearned Service Charges realized during the year	-	-
Service Charges Earned	-	-
8 Other Operating Income		
Loan loss recovery	-	189,437
Legal fee refund	-	92,252
Penalty and Other Income	11,158,880	1,173,950
Fixed Assets Revaluation - Vehicles	308,790	-
Credit Life Insurance Premium Income	4,111,790	4,680,274
Other (Sundry) Income	5,527,417	-
	21,106,877	**6,135,912**
9 Loan Impairment Charge		
Loan Loss as per GAAP	-	-
Impairment recovery	-	-
Loans written off	-	-
	-	-
1 0 Salary and Other Employees Benefits		
Salary Expense	24,394,211	17,732,445
Annual leave Expenses	935,431	630,996
Severance Expenses	270,294	163,482
Pension Expenses	2,225,817	-
Transport Allowance	2,163,763	-
Representative Allowance	737,421	-
Wage and Casual Labour	412,421	-
House Allowance	2,293,028	-
Hardship Allowance	111,293	-
	33,543,679	**18,526,923**

11 Other operating expenses

	7 July 2025	7 July 2024
Parking Expenses	1,524	-
Telephone VPN Internet	846,529	-
Client Death/ Life Insurance	20,984	-
Office Rent Expense	3,532,801	2,531,294
Perdium and Traveling Expense	950,516	387,173
Sundry Expenses	1,060,444	180,626
Stationary and Printing Expense	842,254	1,195,585
Depreciation	1,207,506	743,507
Fuel and Lubricant Expense	357,786	217,217
Advertisement Expense	178,074	77,920
Communication Expense	-	606,859
Repair and Maintenance Expense	161,440	246,882
Spare part Expense	30,585	2,665
Transport Expenses	706,559	395,913
Legal Fee	163,934	266,525
Utility Expense	111,331	34,353
Audit Fee	94,925	75,000
Training Expense	2,000	3,225
Bank Charge	113,815	285,973
Insurance Expense	411,119	70,620
Membership fee	345,920	-
License and registration	95,794	112,788
Cash Indemnity Expenses	100	13,400
Meeting Refreshment	444,485	145,701
Uniform Expense	42,357	7,326
Medical Expense	167,733	-
Mobile Card Expense	329,352	-
Office Equipment Expenses	177,408	-
Deposit Insurance Expenses	209,407	-
Consultancy & Professional Fee	331,882	-
Photocopy & Printing Expenses	746,861	-
Municipality Expenses	140,923	-
Vehicles Keep – Up Cost	139,631	-
	13,965,979	**7,600,552**

12 Cash at Bank Balances

	7 July 2025	7 July 2024
Cash at Bank - Saving	14,322,485	21,790,446
Cash at Bank - Current	8,115,981	5,404,630
	22,438,466	**27,195,076**
Maturity analysis		
Current	22,438,466	27,195,076
Non-Current	-	-
	22,438,466	**27,195,076**

Cash and cash equivalents in the statement of cash flows are the same as on the statement of financial position.

13 Loans Receivables

	7 July 2025	7 July 2024
Loans Outstanding	457,669,980	251,394,210
Gross amount	**457,669,980**	**251,394,210**
Less: Loan Impairment allowance	(1,285,459)	(1,565,635)
	456,384,521	**249,828,575**

13.1 Impairment allowance on loans and receivables

A reconciliation of the allowance for impairment losses for loans and receivables by class is as follows:

Collective allowance for impairment	As at 7 July 2025	Charge for the year	As at 7 July, 2024
Impairment Loss	1,285,459	(280,176)	1,565,635
	1,285,459	**(280,176)**	**1,565,635**

14 Leasehold land

	Balance 07-07-25	Addition	Balance 07-07-24
Cost	1,027,215	-	1,042,321
Amortization	15,106	-	15,106
	1,012,108		**1,027,215**

The company acquired 625 m2 of land on a 30 years lease term from Oromia regional Government - Sendafa Town Administration as per a lease agreement signed in 30/02/2016 E.C. The Cost of the Lease Land Birr 1,057,427 is repayable over 40 years with annual payment of Birr 15,106

15 Investments

	7 July 2025	7 July 2024
Share Investment - Inclusive Financial Technology S.C.	2,986,198	1,958,000
Share Investment - Ethiopian Securities Exchange S.C	5,000,000	5,000,000
	7,986,198	**6,958,000**

The balances are maintained based on amortized cost valuation as there is no clearly identified market for the instrument.

16 Other assets

	7 July 2025	7 July 2024
Financial assets		
Staff Loan	-	1,614,297
	-	**1,614,297**
Other financial assets		
Prepayments	283,110	904,033
Staff Receivables	71,507	67,791
Operation Advance	16,217	482,884
Sundry Receivable	182,838	326,461
Court Receivable	266,481	161,168
Prepaid Rent	4,182,098	
Prepaid Insurance	22,782	
Receivable from Individual	419,223	
Purdium & Travel Advance	85,107	
	5,529,363	**1,942,337**
Less :Impairment allowance on other assets	-	-
	5,529,363	**3,556,634**
Maturity analysis		
Current	5,529,363	3,556,634
Non-Current	-	-
	5,529,363	**3,556,633**

Currency: Ethiopian Birr

17 Properties, Plant and Equipment

	Buildings	Motor Vehicles and Cycles	Computer & Accessories	Office Equipment & Furniture	Generator	Construction in progress	Total
Costs							
As at July 7, 2023	188,614	1,411,817	2,770,422	1,014,869	175,000	4,811,671	10,372,393
Additions - in the year	-	232,650	1,392,461	1,752,132	424,000	281,860	4,083,103
As at July 7, 2024	188,614	1,644,467	4,162,883	2,767,001	599,000	5,093,531	14,455,496
Additions - in the year	-	1,817,790	1,108,390	2,173,784	47,590	11,348,805	16,496,359
As at July 7, 2025	188,614	3,462,257	5,271,273	4,940,785	646,590	16,442,336	30,951,855
Depreciation							
As at July 7, 2023	56,662	1,333,795	458,659	223,520	17,500	-	2,090,136
Current Depreciation	3,772	82,931	460,039	158,717	22,942	-	728,401
As at July 7, 2024	60,434	1,416,726	918,698	382,237	40,442	-	2,818,537
Current Depreciation	3,772	490,783	332,934	316,547	63,469	-	1,207,506
As at July 7, 2025	64,206	1,907,509	1,251,632	698,784	103,911	-	4,026,043
Carrying Value							
As at July 7, 2024	128,179	227,741	3,244,185	2,384,764	558,558	5,093,531	11,636,958
As at July 7, 2025	124,408	1,554,749	4,019,640	4,242,001	542,679	16,442,336	26,925,812

Company Deprecation Policy

Asset Category	Years	%
Buildings	50	5%
Furniture and Equipment	10	10%
Computer and Accessories	7	7%
Motor vehicles	15	15%
Motor Bike	10	10%

Addis Ababa Ethiopia
GETACHEW WAKJIRA CHARTERED CERTIFIED ACCOUNTANT CERTIFIED AUDIT FIRM

Africa Village Micro Finance S.C Head Office

0118861296
0111541235
Original Copy Submitted

AFRICA VILLAGE MICROFINANCE S.C
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 07 JULY 2025

Currency: Ethiopian Birr

		7 July 2025	7 July 2024
18	**Client Saving and Deposits**		
	Loan Insurance Fund - Compulsory	27,821,118	7,894,422
	On Going Saving - Compulsory	-	5,889,601
	Security and Compulsory Saving	**27,821,118**	**13,784,023**
	Loan Saving - Voluntary	56,611,963	11,880,143
	Individual Saving - Ordinary	-	47,880,244
	Time Deposit	21,232,010	1,192,023
	Other Deposits	1,386,698	1,269,383
	Voluntary and Individual Savings	**79,230,671**	**62,221,794**

		7 July 2025	7 July 2024
19	**Other Liabilities**		
	Construction Retention Payable	126,167	-
	Saving interest Payable	-	182,678
	Provident Fund and Pension	591,630	180,912
	Employee Income Tax	1,139,800	301,823
	Withhold Tax Payable	352,641	114,570
	Intercompany Account	-	1,180,148
	Audit fee - Accrued	80,500	75,000
	Other Payable	90,892	118,577
	Payable to Individual	117,512,421	1,521,363
	Payable to Organization	73,795,636	57,958,000
	Cash Indemnity	8,400	21,415
	Service Charge VAT Payable	217,949	
		193,916,038	**61,654,486**

		7 July 2025	7 July 2024
20	**Bank Term Loans**		
	Commercial Loan		
	Current		
	Non-Current		
	Awash International Bank S.C	11,936,455	15,000,000
	Development Bank Of Ethiopia-RUFIP	19,019,693	2,500,000
		30,956,148	**17,500,000**

Africa Village Micro Finance S.C. financial liabilities which includes short and long term loans.

Under IFRS, All financial liabilities are initially recognized at fair value, minus transaction costs that are directly attributable to issuing the financial liability.

There are two measurement categories for financial liabilities: fair value, and amortized cost. Financial liabilities are measured at amortized cost, unless they are required to be measured at fair value through profit or loss or an entity has opted to measure a liability at fair value through profit or loss.

The Company secured term loans from the Development Bank of Ethiopia and Awash International Bank S.C., with annual interest rates of 8% and 13%, respectively. These loans, provided in consideration of AVMF's financial services, amount to Br. 2,500,000 2nd phase term loan of 5,000,000 birr agreement to DBE and 14,644,692.63 birr new term loan to Awash Bank as per the signed contract agreement.

Maturity analysis	7 July 2025	7 July 2024
Current	30,956,148	-
Non-Current	-	17,500,000
	30,956,148	**17,500,000**

21 Grants

	7 July 2025	7 July 2024
Balance as at the beginning of the year	-	-
Amortization	-	-
		-
Balance at the end of the year	-	-

	7 July 2025	7 July 2024
Current	-	-
Non-Current	-	-
	-	-

A grant loans with below market rate of interest are measured at fair value on initial recognition loan shall be recognized and measured in accordance with IFRS 9 Financial Instruments: Recognition and measurement The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with IFRS 9 and the proceeds received. This benefit is accounted for in accordance with IAS 20.

IAS 20 requires that a grant is not recognized until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.

		7 July 2025	7 July 2024
22	**Employee Benefits**		
22.1	**Severance Payable**		
	Defined Benefits liabilities:		
	Opening Balance	**480,736**	**472,193**
	Severance pay - Currently Accrued (Added)	270,294	163,482
	Severance Current payment	(125,080)	(154,939)
	Liability in the statement of financial position	**625,950**	**480,736**
22.2	**Annual leave pay**		
	Opening Balance	**925,992**	**354,288**
	Leave pay - Currently Accrued (Added)	935,431	630,996
	Leave Current payment	(28,882)	(59,292)
		1,832,541	**925,992**
	Liability in the statement of financial position	**2,458,491**	**1,406,728**

Profit/Loss statement charge included in personnel expenses:

Severance costs	270,294	163,482
Annual leave pay	935,431	630,996
	1,205,725	**794,478**

Total defined benefit expenses (Severance)		
Measurements for:		
Measurement of severance under IFRS	-	-
Deferred tax (liability)/asset on re measurement gain	-	-

Severance cost charged in the income statement is recognized under personnel expenses based on service year and current salary of the employee.

Maturity analysis	7 July 2024	7 July 2023
Current	-	-
Non-Current	2,485,354	1,406,727
	2,485,354	**1,406,727**

Severance pay

AVMF recognized severance payment plan for its employees who have served for 5 years and above and are below the retirement age (i.e. has not met the requirement to access the pension fund). The final pay-out is determined by reference to current benefit's level (monthly salary) and number of years in service and is calculated as 1 month salary for the first year in employment plus 1/3 of monthly salary for each subsequent years in employment to a maximum of 12 months final monthly salary.

Below are the details of movements and amounts recognized in the financial statements:

		7 July 2025	7 July 2024
A	**Liability recognized in the financial position**	2,485,354	1,406,727
B	**Amount recognized in the profit or loss**		
	Current service cost	1,205,725	794,478

23 Capital

23.1. Paid-up Capital		**149,780,000**	**45,230,000**
Current Additions			
Tefera Tesfaye Desta	80,000		
Lema Tsegaye	60,000		
Tilahun Kuma	40,000		
Temesgen Belay Ayzengaw	40,000		
		220,000	**104,780,000**
		150,000,000	**149,780,000**

Currency: Ethiopian Birr

24 Related party transactions

A number of transactions were entered into with related parties in the normal course of business. These are disclosed below:

a) Transactions with related parties

There are no staff loans and advances disbursed to key management members and outstanding for the years ended 07 July 2025.

b) Key management compensation

Key management has been determined to be the members of the Board of Directors and General Manager of AVMF. Benefit paid or payable to key management is shown. There were no sales or purchase of goods and services between AVMF and key management personnel made during the year ended 7 July 2025.

	7 July 2025	7 July 2024
Salaries and Other Short-Term Employee Benefits	5,707,082	3,279,662
Post-Employment Benefits	936,240	647,101
Termination Benefits	-	-
Sitting allowance (GM/Representation Allowance)	132,000	132,000
Board allowance	756,000	600,000
Other expenses	-	-
	7,531,322	**4,658,763**

Benefit of AVMF key management personnel includes salaries, non-cash benefits and contributions to the post- employment defined benefits plans.

25 Events after reporting period

In the opinion of the Management, there were no events in AVMF after 7 July 2025 on the profit for the period ended on that date, which have not been adequately provided for or disclosed.

		7 July 2025	7 July 2024
	NPL & PAR by NBE Standard		
	Total Loan Outstanding	456,384,521	251,394,210
Less:	Substandard (91-180 past due)	110,739	140,398
:	Doubtful (181-365 Past due)	495,136	187,459
:	Loss (More than 365 past due)	679,584	1,237,778
	Performing Loan Outstanding	**455,099,062**	**249,828,576**

Portfolio at Risk (PR)

Total Loan Outstanding	456,384,521	251,394,210
Impairment Loss	1,285,459	1,565,635
PAR	**0.28%**	**0.6%**

Repayment rate is a popular measure that indicate the quality of risk involved in the current outstanding portfolio. It only measures the loan portfolio or the amount of historical rate of loan recovery.

Annual Repayment Rate = Total value of principal loan collected in reporting year - Unscheduled collection in reporting year

Total value of principal scheduled for collection in reporting year + Value of payments in arrears at the beginning of the year.

$$\frac{106{,}831{,}016 - 0}{106{,}831{,}016 + 280{,}176} \times 100\%$$

$$\frac{106{,}831{,}016}{107{,}111{,}192} \times 100$$

99.72%