LIYU MICRO FINANCE INSTITUTION S.C

AUDITORS' REPORT AND ACCOUNTS

JUNE 30, 2024

ጌታቸው ዋቅጅራ	*Getachew Wakjira*
ቻርተርድ ሠርቲፋይድ አካውንታንት (ዩኬ)	*Chartered Certified Accountant (U.K.)*
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LIYU MICRO FINANCE INTITUTION S.C
Company Profile
For the Year Ended 30,June 30,2024

Board of Directors (As of 30 June , 2024)		Appointment Date
Ato Ayele Bogale	Chairperson	July 20,2022
Ato Abiyot Weldeyesus	Director	July 20,2022
Ato Abera Reta	Director	July 20,2022
Ato Solomon Yéhulashet	Director	July 20,2022
Ato Mengistu Meharu	Director	July 20,2022
Ato Guya Daba	Director	July 20,2022
Senior Management		
Ato Anbessie Chaka	Chief Excutive Officer	May 31,2014
Ato Zelalem Mengesha	Chief Operation Officer	April 1,2018
Ato Shumie Waktola	Finance and Accounts Deparment Director	Dece 7,2017
Ato Habtamu Ketsela	HR and Admin Department Director	June 21,2017
Ato Melese Girma	Saving Deprtment Director	Nov 18,2019
Ato Getachew Kassahun	Credit Department Director	Nove 18,2019
Ato Hunde Charnet	Internal Audit Department Director	1-Oct-22

Independent auditor

Getachew Wakjira
Chartered Certified Accountant (U.K.)
Certified Audit Firm (Eth.)
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Registered office

Region	Addis Ababa City Administration
City/Town	Addis Ababa
Woreda/Sub-City	Bole
Kebele	04
Mailing Address	10689
Telephone	251-919-913015/16/17
Fax	251-11-557-62-84
Website	www.Liyumfi.com
E-mail	info@liyumfi.com

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GETACHEW WAKJIRA
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Ref. No. 327/GW/17

AUDITORS' REPORT TO THE SHAREHOLDERS OF LIYU MICRO FINANCE INSTITUTION S.C ON THE ACCOUNTS OF LIYU MICRO FINANCE INSTITUTION S.C

OPINION

We have audited the accompanying financial statements of LIYU MICRO FINANCE INSTITUTION S.C which comprise statement financial position as at June 30, 2024, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2024, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

BASIS FOR OPINION

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

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

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

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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.

Report on Other Legal Requirements

As required by the Commercial Code of Ethiopia of 2021, we must report to you in accordance with

Article 349 (1) We have no comment to make on the report of the Board of Directors of the Company in so far as it relates to these financial statements and

Article 349 (2) that we recommend approval of the financial statements.

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

Addis Ababa
November 20, 2024

LIYU MICRO FINANCE INSTITUTION S.C
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2024

(In Ethiopia Birr)

	Notes	30-Jun-2024	30-Jun-2023
Assets			
Cash and cash equivalents	5	382,657,182	403,580,262
Other assets and prepayments	8	12,736,904	7,529,191
Loans and advances to customers (Net)	6	1,549,139,494	1,212,257,897
Property, plant and equipment (Net)	7	108,689,223	110,619,712
Financial assets at fair value through OCI (2024 AFS)	10	5,241,500	3,319,514
Total assets		**2,058,464,302**	**1,737,306,577**
Liabilities			
Deposit with interest from customers	11	641,258,728	467,651,220
Borrowing	12	1,047,204,984	964,558,923
Other liabilities	13	13,993,949	15,515,733
Total liablities		**1,702,457,661**	**1,447,725,876**
Equtiy			
Share capital	14	28,000,000	10,000,000
Legal reserve	16	5,600,000	2,000,000
Retained earning and Donated Equity	17,18	312,943,354	268,117,414
Revaluation surplus		9,463,287	9,463,287
Total equity		**356,006,641**	**289,580,701**
Total liablities and equity		**2,058,464,302**	**1,737,306,577**

The financial statements on pages 3 to 6 were approved and authorised for issue by the board of directors on an were signed on its behalf by:

Ayele Bogale
Board Chairperson

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Anbessie Chaka
Chief Executive Officer

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

Liyu Microfinance Institution S.C

Accounting and auditing Board of Ethiopia
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LIYU MICRO FINANCE INSTITUTION S.C

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2024

(In Ethiopia Birr)

	Notes	30-Jun-2024	30-Jun-2023
Interest income	21	297,884,188	234,657,117
Interest expense	22	129,869,148	89,231,619
Net interest income before impairment		**168,015,040**	**145,425,499**
Loan impairment charge Provision Exp.	23	950,751	2,110,209
Net interest income		**167,064,289**	**143,315,289**
Fees and Service charge income	24	23,793,005	17,313,357
Net fee and commission income		**23,793,005**	**17,313,357**
Other operating and Donation income	25	11,902,947	17,718,910
Net operating income		**202,760,241**	**178,347,556**
Salaries and other employee benefits	27	101,501,913	82,485,488
General and administrative expenses	29	35,964,535	30,235,349
Depreciation on property, plant and equipment	28	4,623,023	4,022,997
		142,089,471	116,743,835
Profit from Operation		**60,670,770**	**61,603,721**
Donation Income	**26**	**3,009,633**	**2,907,240**
Profit before tax		**63,680,403**	**64,510,961**
Taxation charge		**-**	**-**
Profit for the year after tax		**63,680,403**	**64,510,961**
Other comprehensive income		**-**	**-**
Total comprehensive income for the year		**63,680,403**	**64,510,961**

LIYU MICRO FINANCE INSTITUTION S.C
STATEMENT OF CHANGE IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2024
(In Ethiopia Birr)

	Share capital	Legal reserve	Retained Earning & Donation Equity	Revaluation surplus	Total
Balance as at 1 July 2022	10,000,000	2,000,000.00	202,085,521	9,463,287	223,548,808
Profit for the year	-	-	64,510,961		64,510,961
Increase of the share capital	-		-		-
Transfer to legal reserve	-	-	-		-
Prior period adjustment		-	1,520,932		1,520,932
Revaluation Surplus	-	-	-	-	-
					-
Balance 30 June 2023	**10,000,000**	**2,000,000**	**268,117,414.42**	**9,463,287**	**289,580,700**
Balance as at 1 July 2023	10,000,000	2,000,000	268,117,414	9,463,287	289,580,701
Profit for the year	-	-	63,680,403		63,680,403
Increase of the share capital	18,000,000	-	(18,000,000)		-
Transfer to legal reserve	-	3,600,000	(3,600,000)		-
Prior period adjustment	-	-	2,745,537		2,745,537
Revaluation Surplus	-	-	-	-	-
Balance 30 June 2024	**28,000,000**	**5,600,000**	**312,943,354**	**9,463,287**	**356,006,641**

LIYU MICRO FINANCE INSTITUTION S.C
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2024

(In Ethiopia Birr)

	Note	30 June 2024	30 June 2023
Cash flows from operating activities			
Cash flows from operating activities	20	(98,362,858)	(71,401,976)
Net cash (outflow)/inflow from operating activities		**(98,362,858)**	**(71,401,976)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(3,284,297)	(11,500,055)
Reclassification of property, plant and equipment		-	-
Purchases of investment securities		(1,921,986)	(1,339,000)
Net cash (outflow)/inflow from investing activities	20	**(5,206,283)**	**(12,839,055)**
Cash flows from financing activities			
Proceeds (settlement) from borrowings	20	82,646,061	232,318,419
Proceeds from issues of shares		-	-
Share premium received/(refunded)		-	-
Net cash (outflow)/inflow from financing activities		**82,646,061**	**232,318,419**
Net increase/(decrease) in cash and cash equivalents		**(20,923,080)**	**148,077,388**
Cash and cash equivalents at the beginning of the year		403,580,262	255,502,874
Cash and cash equivalents at the end of the year		**382,657,182**	**403,580,262**

(In the Ethipian Birr)

1 General Information

Liyu Micro Finance Institution S.C. (" the Institution ") is established in November 1997 The Company operates in accordance with the provisions of the Commercial Code of Ethiopia of 1243/2013 and the Micro-Financing Business (amendement) Proclamation No. 1164/2019.

The Institution was established to contribute its part in fighting poverty through the delivery of financial and non-financial services. Currently it has been extending its financial services within 3 regions namely Oromia, Amhara and Centeral Ethiopia and one City Administration, Addis Ababa with 30 branch offices and 14 sub branch offices.

The underlying vision of LMFI is to be the one of the 3rd MFI in Ethiopia at 2027 that improves the livelihoods, productivity and high net worth of the poor especially of women and persons with disabilities while its mission is inspiring the under privileged, especially women and persons with disabilities to change their lives through providing fast, quality, affordable and need based financial services.The Institution's principal business activities are deposit moblization, provides financial and non-financial support services to the target population

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

Liyu Micro Finance Institution (LMFI) S.C.
P.O.BOX 10689
Addis Ababa
Ethiopia

2 Basis Of Preparation

a. Statement of Compliance

These financial statements, for the period ended 30 June 2024, are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Accordingly, the institution has prepared financial statements which comply with IFRS applicable for periods ending on or after 30 June 2024, together with the comparative period data as at and for the year ended 30 June 2023, as described in the summary of significant accounting policies.

Addis Ababa
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Liyu Microfinance Institution S.C

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In preparing these financial statements, the institution's opening statement of financial position was prepared as at 1 July 2023. This note explains the principal adjustments made by the institution in preparing the the report, including the statement of financial position as at year ended 30 June 2024

The Financial statements comprise the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements. The Financial statements for the period ended 30 June 2024 are the sixth financial statements the company has prepared in accordance with IFRS.

b. Basis of Measurement

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

c. Functional and Presentatipon currency

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

d. Use of Estimates and Judgements

The preparation of Financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Institution's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed.

Management believes that the underlying assumptions are appropriate and that the Institution's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4 .

e. Going Concern

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

3 Summmary of significant Accounting Policies

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

3.1 New Standards, Amendements and Interpretations Adopted during the year

No new standards implemented in the Year 2023/2024 which is related with the institution

3.2.1 Existing Standards applied in the year

The Institution accept the amendments to IAS 1, 'Presentation of financial statements', and IAS 8, Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: Use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting clarify the explanation of the definition of material; and incorporate some of the guidance in IAS 1 about immaterial information.

The amended definition is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify the definition of material and make IFRSs more consistent, but are not expected to have a significant impact on the preparation of financial statements.

3.2.2 Revenue from Contract with Customers

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised during the year. Accordingly, the impact on the comparative information is limited to new disclosure requirements.This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 18 Transfer of Assets from Customers and SIC-31

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

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

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

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

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

3.2.3 IFRS 9: Financial Instruments

The institution has adopted IFRS 9, with effect from July 1, 2018. As permitted by the standard, comparative figures have been restated. The accounting policies are described below where appropriate.

a) Recognition and Derecognition

The institution initially recognises receivables from customers on the date on which they are originated. All other financial instruments are recognised on the transaction date, which is the date on which the Institution becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Financial instruments, comprising financial assets and financial liabilities, are recognised in the statement of financial position when the institution becomes a party to the contractual provisions of the instrument.

The institution derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred

Or Where it neither transfers nor retains substantially all of the risks and rewards of ownership and loses control. When control is retained, the institution continues to recognise the financial asset to the extent of its continuing involvement.

Financial assets are also de-recognised when they are written off. Financial assets are written off when there is no reasonable expectation of further recoveries even though there may be enforcement actions ongoing. The institution derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the institution currently has a legally enforceable right to set off the recognised amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

b) Classification and Measurement

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

▪ Financial assets measured at fair value through profit or loss (FVPL), Non equity financial assets are classified as FVPL if the arise from contract which did not give rise to cash flow which are solely principal and interest, or otrherwise where they are held in a Business model which mainly realize them through sale, Such assets are remeasured at fair value at the end ofeach reporting period, Gain and Losses arising from remeasurement are taken to profit or Loss, as are transaction costs.

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

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

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Liyu Microfinance Institution S.C

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

Financial assets measured at amortised cost that are not purchased or originated credit-impaired are measured at amortised cost using the effective interest method. For those purchased or originated credit-impaired, the institution applies the credit-adjusted effective interest rate since initial recognition.

These assets are also subject to impairment losses. Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated on the amortised cost (i.e. gross carrying amount less loss allowance). Interest income is included in finance income.

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

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

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

At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the available-for-sale reserve except for the foreign exchange gain or loss on debt instruments which is recognised in finance income or expenses. When these assets are derecognised or impaired, the cumulative gain or loss is reclassified from equity to profit or loss.

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

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

■ Financial liabilities at amortised cost

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

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

IFRS 9 classification 30 June 2024	Note	Mandatorily Designated at FVTPL	Other financial assets and liabilities at amortised cost	Total carrying amount
Financial assets				
Cash and bank balances	5		382,657,181.70	382,657,181.70
Receivables due from customers	6		1,549,139,493.61	1,549,139,493.61
Other financial assets	8		-	-
Total Financial assets			**1,931,796,675.31**	**1,931,796,675.31**
Financial liabilities				
Deposit from customers	11		641,258,728.35	641,258,728.35
Borrowings	12		1,047,204,983.68	1,047,204,983.68
Other financial laiblities	13		13,993,948.92	13,993,948.92
Total financial liabilities			**1,702,457,660.94**	**1,702,457,660.94**

The following table reconciliation for the opening to the closing balance of the impairment allowance by the class of financial instruments. Summarises the impact of transition to IFRS 9 on the opening balance of the liability regulatory risk reserve and Retained earning. There is no impact on other components of equity.

	2023			
	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 July, 2022	717,413.00	3,758,169.00	13,856,368.00	18,331,950.00
Changes in the impairment allowance				
Transfer to stage 1	(94,151)			(94,151)
Transfer to Stage 2		(1,802,991)		(1,802,991)
Transfer to Stage 3			2,847,893	2,847,893
Write offs			-	-
Changes due to modifications that did not result in derecognition				
New financial assets originated or purchased				
Financial assets that have been derecognised				
Loss allowance as at 30 June 2024	**623,262**	**1,955,178**	**16,704,261**	**19,282,701**

3.3 Recognition of Income and Expene

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

The Institution, earns income from interest on loans given for Agricultural, consumption and other small individual financings. Charges and fees are collected from customers for serving the loan.

I Interest Income and Expense

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For creditimpaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

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

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

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the institution estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

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

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

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

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

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

Interest income and expenses presented in the statement of profit or loss and OCI includes:

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

II. Effective interest rate

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

III. Dividend Income

As per the MoU and AOA of the insttituion there is no any devidened sharing among the share holders . The total Devidened income of the institution is directly treated as net income of the institution in the reporting year and capitalized to the retained earning as a capital through out the operation periods .

IV. Fees and Service charge income

LMFI recognized service charge as a revenue as per IFRS 15 understanding that the charge is collected as a fee for servicing a loan through out the loan appraisal to dibursement process.
According to IFRS 9 paragraph B5.4.3 LMFI treat service charge not as an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with IFRS 15 as fees charged for servicing a loan. The service charge collected did not represent the fee for the loan term service rather it is the one time charge collected from the loan customers to recover the costs initially incured by the institution for loan processing from client appraisal process up to the disbursement of loan to the customer.

V. Valuation Surplus

IAS 16 and IAS 38 allow a policy choice when measuring PP&E or intangible assets subsequently to their initial recognition - cost model or revaluation model (IAS 16.29; IAS 38.72)
Under Revaluation Model for Property Plant and Equipment and Intangible Assets (IAS 16 and IAS 38), an asset is carried at its fair value (i.e. revalued amount) less any accumulated depreciation and any accumulated impairment losses.
The effect of increase in carrying amount of an asset as a result of revaluation is included in other comprehensive income (OCI), but the decrease and impairment losses impact P/L. However, increase will be included in P/L to the extent of previous decreases and impairment losses and, similarly, decreases are included in OCI to the extent of previous accumulated increases. The resulting balance of revaluation surplus is accumulated as a separate part of equity under the heading of revaluation surplus (IAS 16.39-40).
The revaluation surplus can be transferred to retained earnings (without P/L impact) along with depreciation charge that is higher due to revaluation or when the related asset is derecognized (IAS 16.41). These transfers are not required but should be done; otherwise the balance of revaluation surplus will be carried forward indefinitely, even though related assets may be long gone.

Use of fair value as deemed cost' If an entity uses fair value in its opening IFRS statement of financial position as deemed cost for an item of property, plant and equipment, first IFRS financial statements shall disclose, for line item in the opening IFRS statement of financial positionTherefore based on IFRS 1 and IAS 16, the institution has taken prior year adjustment on the amount of revaluation surplus understated in the IFRS financial report due to misinterpretation of Valuation surplus as Revalued amount less cost instead of carrying amount. The adjustment will increase the amount of revaluation surplus and on the contrary decreases the amount of Accumulated deperciation and the total accumulated deperciation balance at the end of the reporting period will be lower than the opening balance as a result of the adjustment.

3.4 Financial assets and liabilities

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

I. Recognition and Initial Measurement

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

Financial assets

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

Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Institution as at fair value through profit or loss upon initial recognition.
A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
The Institution designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed and can only be applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise; or

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