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Harbu Micro Finance Institution S.C

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June 2022/23

# ANNUAL REPORT

[www.harbumfi.et](http://www.harbumfi.et)



**Tesfaye Befekadu Asfaw**



**Yismashewa Teklemarkos Felate**

## **Condolences**

Harbu Microfinance Institution S.Co. The Board of Directors, management, and staff members will express their deepest condolences to the late staff of the organization Mr. Tesfaye Befekadu, who was a founder and CEO of Harbu MFI until he passed away unexpectedly; and Mrs. Yismashewa T/Markos, who was also a founding member of the MFI and permanent employ of the organization until she passed away unexpectedly. Harbu MFI will not forget your contributions to the current progress and growth of the MFI. Without your contributions, we do not believe that Harbu would have achieved the current developments. May God rest your souls in peace!







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Harbu MFI SC.



June 2022/23

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# HEAD OFFICE



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Harbu Micro Finance Institution S.C  
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## Harbu Microfinance Institution S.C.

### Company Profile

For the year ended 30 June 2023

<b>Directors (As of 30 June 2023)</b>	<b>Position</b>	<b>Appointment Date</b>
Ato Asrat Teklu	Chairperson, Board Of Directors	12/10/2022
Ato Gelaye Hailu	Director	12/10/2022
Ato Abdelkarim Abagero	Director	12/10/2022
Ato Genene Seyoum	Director	12/10/2022
Ato Tarekegn Garumsa	Director	12/10/2022

<b>Senior Management</b>	<b>Position</b>	<b>Appointment Date</b>
Ato Adisu Jemal	Chief Executive Officer	3/30/2023
Ato Yitbarek Tilahun	Director, Finance	5/1/2023
Ato Shimi Wakjira	Director, Operation	8/29/2016
Ato Solomon Gebreselassie	Director, Business Development	4/16/2016
Ato Yewondossen Legesse	Director, Human Resource	4/1/2015
Ato Shiferaw Tadesse	Internal Control and Risk Service Head	12/1/2021

### Independent Auditor

Getachew Wakjira  
Chartered Certified Accountants (UK)  
Certified Accounting Firm (ETH)  
Tel. 011-5-15-78-06  
Tel. 011-5-52-05-80  
P.O.Box 40418

### Registered Office

Sub city	Bole
Wereda	4
H.No	250
e-mail	harbumfi@gmail.com
P.O.Box	13460
Tel	+251 116 630294

**AUDITORS' REPORT TO THE  
SHAREHOLDERS OF HARBU MICRO FINANCING INSTITUTION S.C  
ON THE ACCOUNTS OF HARBU MICRO FINANCING INSTITUTION S.C**

**OPINION**

We have audited the accompanying financial statements of Harbu Micro Financing Institution S.C which comprise statement financial position as at June 30, 2023, 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, 2023, 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.

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 AND REGULATORY REQUIREMENTS**

We have no comments to make on the reports of the Board of Directors of the company so far as it related to these financial statements and pursuant to Article 394/1 of the Commercial Code of Ethiopia 2021 and we recommend approval of the financial statements.

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

**Addis Ababa  
December 7, 2023**

**Harbu Microfinance Institution S.C.**  
**Statement of Financial Position**  
**As at 30 June 2023**  
**( in Ethiopia Birr )**

<b>Assets</b>	<b>Notes</b>	<b>30-Jun-23</b>	<b>30-Jun-22</b>
Cash and cash equivalents	5	145,962,568	90,399,202
Other assets and prepayments	8	51,318,448	19,299,583
Loans and advances to customers (Net)	6	866,421,714	744,721,954
Property, plant and equipment	7	93,051,608	71,909,264
Right of use asset	25	8,563,748	1,437,930
Financial assets at fair value through OCI	9	3,149,000	2,149,000
<b>Total assets</b>		<b>1,168,467,086</b>	<b>929,916,933</b>
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
Deposit from customers	10	205,431,335	165,747,009
Borrowing	11	731,539,561	612,662,976
Lease Liability	26	10,694,753	3,150,670
Other liabilities	12	19,521,907	11,730,776
<b>Total liabilities</b>		<b>967,187,556</b>	<b>793,291,431</b>
<b>Equity</b>			
Share capital		45,078,000	45,078,000
Donated Equity	13	26,241,426	25,170,426
Legal Reserve		8,806,378	-
Retained earning	14	57,570,698	22,229,495
Profit for the year		63,583,027	44,147,582
<b>Total equity</b>		<b>201,279,529</b>	<b>136,625,503</b>
<b>Total liabilities and equity</b>		<b>1,168,467,086</b>	<b>929,916,933</b>

The financial statements on pages 5 to 30 were approved and authorized for issue by the Board of Directors on and were signed on its behalf by:

\_\_\_\_\_  
**Ato Asrat Teklu**  
**Chairperson, Board Of Directors**  
**7-Dec-23**

\_\_\_\_\_  
**Ato Adisu Jemal**  
**Chief Executive Officer**  
**7-Dec-23**



**Harbu Microfinance Institution S.C.**  
**Statement of Profit or Loss and Other Comprehensive Income**  
**For the year ended 30 June 2023**  
**( in Ethiopia Birr )**

	Notes	30-Jun-23	30-Jun-22
Interest income	16	168,970,519	106,926,020
Interest expense	17	(65,537,973)	(39,568,166)
<b>Net interest income before impairment</b>		<b>103,432,546</b>	<b>67,357,854</b>
Loan impairment charge	6	(3,365,083)	(11,773,100)
<b>Net interest income</b>		<b>100,067,463</b>	<b>55,584,754</b>
Fees and commission income	18	19,984,601	33,008,020
Other operating income	19	13,601,765	8,970,373
<b>Net operating income</b>		<b>133,653,829</b>	<b>97,563,147</b>
Other non operating income	19	1,310,927	3,633,984
<b>Total operating and non operating income</b>		<b>134,964,756</b>	<b>101,197,130</b>
<b>Operating expenses</b>			
Salaries and other employee benefits	20	46,822,944	30,587,061
General and administrative expenses	23	14,496,964	12,152,627
Depreciation on property, plant and equipment	21	4,250,640	2,440,189
Depreciation charge - lease	25	4,006,093	7,828,692
Interest Expense -lease	26	486,864	148,914
Impairment on other assets	22	7,298	258,083
<b>Total operating expenses</b>		<b>70,070,802</b>	<b>53,415,565</b>
Non operating expense	24	1,310,927	3,633,984
<b>Net operating and non operating expenses</b>		<b>(71,381,729)</b>	<b>(57,049,549)</b>
<b>Profit before tax</b>		<b>63,583,027</b>	<b>44,147,582</b>
Taxation charge		-	-
<b>Profit for the year after tax</b>		<b>63,583,027</b>	<b>44,147,582</b>
<b>Other comprehensive income</b>			
Change in equity investment at FVOCI		-	-
<b>Total comprehensive income for the year</b>		<b>63,583,027</b>	<b>44,147,582</b>

**Harbu Microfinance Institution S.C.**  
**Statement of Change In Equity**  
**For the year ended 30 June 2023**  
**( in Ethiopia Birr )**

	<b>Share Capital</b>	<b>Donated Capital</b>	<b>Legal Reserve</b>	<b>Retained Earning</b>	<b>Total</b>
<b>Balance as at 1 July 2021</b>	<b>45,078,000</b>	<b>18,300,300</b>	-	<b>27,709,495</b>	<b>91,087,794</b>
Profit for the year	-	-	-	44,147,582	44,147,582
Transfer from donated equity	-	-	-	-	-
Increase of the share capital	-	-	-	-	-
Increase in Donated Capital	-	1,390,126	-	-	1,390,126
Prior period adjustment	-	5,480,000	-	(5,480,000)	-
<b>Balance 30 June 2022</b>	<b>45,078,000</b>	<b>25,170,426</b>	-	<b>66,377,076</b>	<b>136,625,503</b>
<b>Balance as at 1 July 2022</b>	<b>45,078,000</b>	<b>25,170,426</b>	-	<b>66,377,076</b>	<b>136,625,503</b>
Profit for the year	-	-	-	63,583,027	63,583,027
Transfer from donated equity	-	-	-	-	-
Beginning Legal reserve adjustment	-	-	5,627,227	(5,627,227)	-
Transferred to legal reserve	-	-	3,179,151	(3,179,151)	-
Increase of the share capital	-	-	-	-	-
Increase in Donated Capital	-	1,071,000	-	-	1,071,000
Prior period adjustment	-	-	-	-	-
<b>Balance 30 June 2023</b>	<b>45,078,000</b>	<b>26,241,426</b>	<b>8,806,378</b>	<b>121,153,725</b>	<b>201,279,529</b>

Harbu Microfinance Institution S.C.  
Statement of Cash Flows  
For the year ended 30 June 2023  
( in Ethiopia Birr )

	Notes	30-Jun-23	30-Jun-22
<b><u>Cash flows from operating activities</u></b>			
Cash flows from operating activities	15	(26,859,324)	(302,160,865)
<b><u>Net cash (outflow)/inflow from operating activities</u></b>		<b>(26,859,324)</b>	<b>(302,160,865)</b>
<b><u>Taxation</u></b>			
Income tax paid		-	-
<b><u>Cash flows from investing activities</u></b>			
Purchase of property, plant and equipment		(25,612,720)	(56,537,559)
Reclassification of property, plant and equipment		219,737	-
Purchases of right use of assets		(11,131,911)	-
Purchases of investment securities		(1,000,000)	(117,000)
<b><u>Net cash (outflow)/inflow from investing activities</u></b>		<b>(37,524,894)</b>	<b>(56,654,559)</b>
<b><u>Cash flows from financing activities</u></b>			
Proceeds (settlement) from borrowings		118,876,585	294,244,883
Proceeds from issues of shares		-	-
Proceeds from donated equity		1,071,000	6,870,125
<b><u>Net cash (outflow)/inflow from financing activities</u></b>		<b>119,947,585</b>	<b>301,115,008</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>55,563,366</b>	<b>(57,700,416)</b>
Cash and cash equivalents at the beginning of the year		90,399,202	148,099,618
<b><u>Cash and cash equivalents at the end of the year</u></b>		<b>145,962,568</b>	<b>90,399,202</b>

**Harbu Microfinance Institution S.C.**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2023**  
**( in Ethiopia Birr )**

**1. General Information**

Harbu Microfinance Institution S.C. (“ the Institution ”) was established on 17 February 2005. The Company operates in accordance with the provisions of the Commercial Code of Ethiopia of 1960 and the Micro-Financing Business Proclamation No. 626/2009.

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

Harbu Microfinance Institution S.C.  
P.O.BOX 13460  
Addis Ababa  
Ethiopia

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

**2. Basis of Preparation**

**a. Statement of compliance**

The Company has prepared a full set of financial statements for the year ended June 30, 2023 in accordance with International Financial Reporting Standards (IFRSs), International Accounting Standards and Interpretations (collectively IFRSs).

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

The financial statements for the period ended 30 June 2023 are the first financial statements the company has prepared in accordance with IFRS.

**b. Basis of measurement**

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

**c. Functional and presentation currency**

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

**d. Use of estimates and 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.