

East African Development Bank

Directors' Report and Financial Statements

For the year ended 31 December 2020

**East African Development Bank
Director's Report and Financial Statements
For the year ended 31 December 2020**

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CORPORATE INFORMATION

Registered office and principal place of business

Plot 4 Nile Avenue
EADB Building
P. O. Box 7128
Kampala, Uganda

Country offices

Kenya

7th Floor, The Oval Office
Ring Road, Parklands
Westland
P.O Box 47685
Nairobi, Kenya

Rwanda

Ground Floor, Glory House
Kacyiru
P.O. Box 6225
Kigali, Rwanda

Tanzania

349 Lugalo/ Urambo Street
Upanga
P.O. Box 9401
Dar es Salaam
Tanzania

Bankers

Standard Chartered Bank London
The Co-operative Bank of Kenya Limited
KCB Bank Rwanda Plc
NCBA Bank Kenya Plc
Standard Chartered Bank New York
Standard Chartered Bank AG
Citibank Europe Plc UK Branch
Citibank – New York
Standard Chartered Bank Uganda Limited
Citibank Uganda Limited
Stanbic Bank Uganda Limited
Standard Chartered Bank Kenya Limited
Bank of Kigali
Standard Chartered Bank Tanzania Limited

Auditor

PricewaterhouseCoopers
Certified Public Accountants,
10th Floor Communications House,
1 Colville Street,
P.O. Box 882
Kampala, Uganda

DIRECTORS' REPORT

1. Introduction

The Directors are pleased to submit their report together with the audited financial statements for the year ended 31 December 2020, which disclose the state of affairs of East African Development Bank ("EADB" or "the Bank").

Although the year was marked by the unfortunate global health and economic crisis triggered by the Novel Corona Virus (COVID-19) pandemic, the Bank managed to maintain its good performance and set stage for better performance in 2021 as the global economy is expected to steadily recover.

2. Incorporation

The Bank was created under the Treaty for the East African Co-operation of 1967, which was subsequently amended and re-enacted as the Treaty and Charter of the East African Development Bank ("The Bank's Charter") in 1980.

3. Mission and Vision

The Bank's Vision is to be a partner of choice in promoting sustainable social-economic development.

The Bank's Mission is to promote sustainable social economic development in East Africa by providing development finance, advisory and support services.

4. Principal activity

The principal activity of the Bank is development finance lending under the Bank's Charter. The Bank's principal activity is achieved through following:

- (a) Provision of financial assistance through loans to promote the development of Member States;
- (b) Provision of consulting, promotion, agency and other similar services for the region;
- (c) Promotion of economic development in the Member States, in such fields as industry, tourism, agriculture, telecommunications and other fields of development;
- (d) Joint financing operations and technical assistance to national development agencies of the Member States and use of such agencies as channels for financing specific projects; and
- (e) Co-operation with other institutions and organizations, public or private, national or international, which are interested in the development of the Member States.

DIRECTORS' REPORT (continued)

5. Business Objectives and Strategies

The main objective of the Bank is to support economic development in Member States through medium and long-term lending of financially viable and socially sustainable projects.

The Bank's strategy is anchored on Member States' national development strategies as well as the East African Community's Vision 2050. The year 2020 marked conclusion of the Bank's 2016-2020 strategic plan which, among other things, focused on five key areas in the region namely:

- food security covering agriculture, agribusiness and forestation;
- social development covering education, health and housing;
- infrastructure development covering energy, water, transport, manufacturing and ICT;
- regional integration covering trade and cross border projects; and
- climate change covering environmental protection, biodiversity and green investments.

Implementation of the strategy was monitored through quarterly and annual reports to the Board of Directors.

The strategic plan covering year 2021-2025 has been prepared and will be approved during the course of the year as the bank assess the Covid-19 situation in the region.

6. Governance

The Bank is committed to principles of good governance contained in the Charter and endeavours to make continuous improvements in line with the best practices to remain relevant and effective.

As such, governance plays a key role in the management of the affairs of the Bank and in the overall execution of its mandate it has various structures and measures in place to promote and safeguard good governance.

The key elements of the governance structure comprise: the Governing Council which is the supreme organ of the Bank; the Board of Directors which reports to the Governing Council, and the Advisory Panel to the Board. Further information about each of these organs of the Bank is provided below:

DIRECTORS' REPORT (continued)

a) Governing Council

The Governing Council is comprised of Ministers responsible for Finance in Member States and meets regularly to receive and consider reports from the Board of Directors. The following Governing Council Members served during the year:

	Name	Details
1	Hon. Matia Kasaija (Chairman)	Minister of Finance, Planning and Economic Development, Republic of Uganda
2	Hon. Dr. Philip Mpango ¹ (Up to 30 March 2021)	Minister of Finance and Planning, United Republic of Tanzania
3	Hon. Dr. Mwigulu Nchemba (From 31 March 2021)	Minister of Finance and Planning, United Republic of Tanzania
4	Hon. Amb. Ukur Yatani	Cabinet Secretary, The National Treasury, Republic of Kenya
5	Dr. Uzziel Ndagijimana	Minister of Finance and Economic Planning, Republic of Rwanda

b) Board of Directors and sub-committees

The Board of Directors is vested with all powers in the Bank and meets at least on quarterly basis to receive and consider reports from Management. The Board of Directors is comprised of Permanent Secretaries of the Ministries responsible for Finance in Member States, private sector representatives from Member States and the Director General. Non-Sovereign shareholders (class B shareholders) are represented to the Board by the African Development Bank.

The Board has two committees namely the Board Human Resources Committee which is responsible for all staffing and related issues in the Bank and the Board Audit Committee which is responsible for all internal control issues.

The Board of Directors met three times during the year to deliberate on various issues including the Bank's financial performance, risk management reports and approval of projects.

¹ On 30th March 2021 Hon. Dr. Philip Mpango was confirmed by the Parliament as Vice President of the United Republic of Tanzania following recommendation by the President. He was replaced by Hon. Dr. Mwigulu Nchemba who was appointed Minister of Finance and Planning with effect from 31st March 2021.

DIRECTORS' REPORT (continued)

6. Governance (continued)

b) Board of Directors and sub-committees (continued)

The Board Audit Committee also met thrice during the year and deliberated on Internal and external Audit reports while the Human Resources Committee met twice to deliberate various personnel related issues.

The Board members who served during the year and to the date of this report were:

	Name	Details
1	Mr Keith Muhakanizi (Chairman)	Permanent Secretary and Secretary to the Treasury, Ministry of Finance, Planning and Economic Development, Republic of Uganda
2	Dr Julius Muia	Principal Secretary, the National Treasury, Republic of Kenya
3	Mr Caleb Rwamuganza Up to 31 st December 2019	Permanent Secretary, Secretary to the Treasury, Ministry of Finance and Economic Planning, Republic of Rwanda
4	Mr James Doto Up to 3 rd April 2021	Permanent Secretary, Ministry of Finance and Planning, United Republic of Tanzania
5	Emmanuel Tutuba From 4 th April 2021	Permanent Secretary, Ministry of Finance and Planning, United Republic of Tanzania
6	Dr Abdu Mukhtar	African Development Bank - Class B shareholders Representative
7	Mr Francis N. Karuiru	Private Sector Representative, Republic of Kenya
8	Mrs Khadija I. Simba	Private Sector Representative, United Republic of Tanzania
9	Mr Mbundu Faustin	Private Sector Representative, Republic of Rwanda
10	Mr James Tumusiime	Private Sector Representative, Republic of Uganda
11	Ms Vivienne Yeda	Director General, East African Development Bank

c) Advisory Panel

The Advisory Panel is comprised of eminent personalities with extensive experience in international and development financing and they advise the Bank on best practices and effective strategies to pursue. The current members of the Advisory Panel are:

DIRECTORS' REPORT (continued)

c) Advisory council (continued)

Members of the Advisory Panel

	Name	Details
1	Mr Mahesh K. Kotecha	Former Managing Director of Capital Markets Assurance Corporation, New York and Capital Markets Assurance Corporation, Asia and former Managing Director of Mbia Insurance Corporation
2	Mr Toyoo Gyohten	President, Institute for International Monetary Affairs, Japan and Senior Adviser, Bank of Tokyo, Mitsubishi Limited
3	Mr Lars Ekengren	Former Deputy Director General, Swedish International Development Agency ("SIDA")
4	Mr Jannik Lindbaek	Former Executive Vice president and CEO of the International Finance Corporation ("IFC")

7. Capital and Shareholding

The Bank's authorised share capital is USD 2,160,000,000 comprised of 160,000 shares with a par value of USD 13,500 each.

The authorised shares are classified into Class A shares (144,000) which are available for subscription to only member states and in equal proportion and Class B (16,000) which are available for subscription to members other than Member States.

During the year the Bank received additional capital from Tanzania comprised of 457 Class A shares valued at USD 6,169,500 taking the total paid up share capital of the Bank to USD 195,993,000 comprised of 12,737 Class A shares valued at USD 171,949,500 and 1,781 class B shares valued at USD 24,043,500 (2019: paid up share capital of USD 189,823,500 comprised of 12,280 Class A shares valued at USD 165,780,000 and 1,781 class B shares valued at USD 24,043,500).

The Bank's Class A and Class B shareholders as at 31 December 2020 and 2019, respectively, were as follows:

Name	2020			2019		
	Shares	Value USD'000	%	Shares	Value USD'000	%
Class A						
Government of Kenya	3,800	51,300	26.17%	3,800	51,300	27.03%
Government of United Republic of Tanzania	3,800	51,300	26.17%	3,343	45,130	23.77%
Government of Uganda	3,800	51,300	26.17%	3,800	51,300	27.03%
Government of Rwanda	1,337	18,050	9.21%	1,337	18,050	9.51%
Total Class A	12,737	171,950	87.72%	12,280	165,780	87.33%

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DIRECTORS' REPORT (continued)

7. Capital and Shareholding (continued)

Name	2020			2019		
	Shares	Value	%	Shares	Value	%
		USD'000			USD'000	
Class B						
African Development Bank	1,240	16,740	8.54%	1,240	16,740	8.82%
FMO – Netherlands Development Finance Company	375	5,062	2.58%	375	5,062	2.67%
DEG – Deutsche Investitions- und Entwicklungsgesellschaft	100	1,350	0.69%	100	1,350	0.71%
Yugoslavia Consortium	28	378	0.19%	28	378	0.20%
SBIC - Africa Holdings	24	324	0.17%	24	324	0.17%
NCBA Bank Kenya Ltd (Previously Commercial Bank of Africa)	5	68	0.03%	5	68	0.04%
Nordea Bank Sweden	5	68	0.03%	5	68	0.04%
Standard Chartered Bank London	2	27	0.01%	2	27	0.01%
Barclays Bank Plc., London	2	27	0.01%	2	27	0.01%
Total Class B	1,781	24,044	12.27%	1,781	24,044	12.67%
Total Class A & B	14,518	195,994	100%	14,061	189,824	100%

8. Financial Performance

Despite challenges emanating from the COVID-19 pandemic and impact of measures taken to contain it, the Bank recorded a profit for the year of USD 6.37 million, which was 27% lower than the amount recorded in 2019 mainly due to the adverse effects of COVID-19 as detailed in section 9 below.

The financial results of the Bank are summarised below.

DIRECTORS' REPORT (continued)

8. Financial Performance

Performance highlights

Performance measure	2020 USD'000	2019 USD'000	Change USD'000	Change
Net operating income after impairment	14,695	16,231	(1,536)	(9.5%)
Operating expenses	8,330	7,500	830	11.1%
Profit for the year	6,365	8,731	(2,366)	(27.1%)
Total assets	375,863	374,965	898	0.2%
Net loans and advances	129,045	148,638	(19,593)	(13.2%)
Equity	278,949	266,417	12,532	4.7%
Return on Assets	1.69%	2.33%	(0.64%)	(27.6%)
Return on Equity	2.28%	3.28%	(1%)	(30.4%)

Once again, the credit rating agencies (the Moody's and Global Credit Rating) confirmed the Bank's investment grade rating with stable outlook signifying continued stability and bright prospects.

The Moody's rating report was released in October 2020 and re-affirmed the Bank's Baa3 rating with stable outlook sighting, among other things, its robust capital buffers and prudent liquidity levels. Supporting the stable outlook, the rating report states as follows: *'the stable outlook reflects our expectation that the bank's robust capital adequacy and prudent liquidity management are likely to remain broadly unchanged over the medium term as the institution pursues a modest growth path commensurate with its risk management capabilities and shareholder support capacity'*.

Another rating report by the Global Credit Rating was released in November 2020 and maintained the Bank's long-term issuer and short-term credit ratings of BBB- and A3 respectively with stable outlook. Providing rationale, the report states that the rating *'balances its geographical risk concentrations, preferred creditor treatment (PCT), fairly strong mandate, very strong capitalisation, modest risk position, adequate funding and strong liquidity'*.

9. COVID-19 impact and the Bank's response

2020 was marked by the unfortunate experience of an unprecedented combined health and economic crisis triggered by the novel corona virus (COVID-19) which ravaged the world impacting economic activities and sending global financial markets tumbling.

There has been widespread adverse impact of the pandemic spanning economic, political as well as social spheres which unfortunately, included loss of many lives.

DIRECTORS' REPORT (continued)

9. COVID-19 impact and Bank's response (continued)

In response to the pandemic, Governments took major bold steps to contain the spread of the disease as well as easing hardship to citizens. The measures taken to curb spread of the virus ranged from total lockdowns to controlled movements. On the other hand, measures taken to ease the hardship included direct financial support to impacted families, reductions in central bank interest rates, relaxation of rules on restructuring of loans, a range of tax reliefs and the promotion of mobile money and internet banking usage through reduction of fees.

The Bank was impacted directly by this pandemic through its financed projects, its own operations and through the impact of the pandemic on Bank staff some of whom were infected but fortunately have since made full recoveries.

In response to the pandemic, the Bank invoked its contingency plan and enhanced it to cater for the unique challenges brought by the pandemic which were not envisaged at the time of developing the contingency plan. The Bank fully adhered to measures taken by the authorities where it operates including strictly observing standard operating procedures (SOPs) in its operations.

The Bank's technology facilitated remote working and ensured that service delivery was not significantly impacted. Some support staff who could not work remotely were given paid leave days until the situation allowed to resume work with strict observation of the SOPs.

Perhaps the most important decision made was to remain committed to supporting our clients through this ordeal. The Bank maintained close relationships with customers to understand their challenges and provide needed support which included moratorium in loan repayment where underlying projects were negatively impacted.

As a result, the Bank managed to reschedule loans amounting to USD 40.20 million, which was 28.2% of the average loan portfolio during the year.

Fortunately, most of the customers have done very well following the flexibility provided and enabled them to keep liquidity that was required to support business which could have otherwise been used to repay the Bank's loans. Performance of the underlying loans has remained good.

The Bank continues committed to provide support to its existing customers in addition to approving new financing to sectors that will support recovery of the economy and provide employment and other positive economic impact.

DIRECTORS' REPORT (continued)

9) COVID-19 impact and Bank's response (continued)

The global and regional economic impact of the pandemic contributed to loss on foreign exchange and revaluation of investment properties amounting to USD 0.95 million, a significant increase compared to loss of USD 0.05 million in 2019. The foreign exchange loss resulted from translation of other currencies to the US Dollars (which is the Bank's reporting currency) while loss on revaluation of investment properties resulted from real estate market fall in the entire region.

Since these are not real losses it is expected that the market will correct during recovery and the Bank will recoup some of these losses although the same has already been fully covered in 2020 report and did not significantly impact the capital adequacy.

In addition, the Bank's approval of new loans and disbursements slowed down due to uncertainties brought by the pandemic while loan impairment charge increased several times to USD 0.59 million (0.4% of the gross loan portfolio) compared to only USD 0.16 million (0.1% of the gross loans portfolio) in 2019 in view of increased inherent risk.

Although there is hope for slow but steady global economic recovery, partly supported by the start of vaccination programs in some countries, the Bank will continue to monitor the COVID-19 situation and its impact carefully and take additional measures where necessary to safeguard its interests and those of its stakeholders.

10. Cash flow and Liquidity Management

Liquidity management is a critical aspect in any development bank operations and as such the Bank places significant importance on this aspect. Detailed liquidity risk management report is contained on note 36(c) of the financial statements.

During the year, the Bank maintained adequate liquidity and the actual liquidity ratio at the end of 2020 was 5.67 times compared to 3.99 times in 2019 and remained above the target ratio of 1.33 times.

Overall, the Bank's cash and cash equivalents reduced by USD 16 million (2019: reduction of USD 20 million). Cash generated from operating activities of USD 24 million together with the capital injection from the Government of Tanzania of USD 6 million and proceeds from loans of USD 4 million were offset by investments in placements of USD 36 million and debt repayments of USD 14 million.

DIRECTORS' REPORT (continued)

11. Market overview

The operating environment was characterised by unprecedented challenges mainly as a result of the COVID-19 pandemic. In addition to the pandemic, there were other challenges that originated from the previous year although most of them were overshadowed by the pandemic.

Politically, 2020 was a busy period for the region as both Tanzania and Burundi held their elections during the year while Uganda continued with its campaigns and elections were held in January 2021. Despite the uncertainties, and unfortunate loss of some innocent lives during the elections, the elections did not significantly disrupt the economic activities and the operations of the Bank, neither are the election outcomes expected to have major impact on future operations of the Bank.

The International Monetary Fund (IMF) World Economic Outlook update issued in January 2021 states that *'amid exceptional uncertainty, the global economy is projected to grow 5.5 percent in 2021 and 4.2 percent in 2022'*

On the other hand the World Bank in its press release dated 5 January 2021 projected the global economy to expand 4% in 2021, assuming an initial COVID-19 vaccine rollout becomes widespread throughout the year.

Although there is a consensus that there will be recovery in 2021, there is no similar consensus on the path expected on the recovery although it is expected to be slow and delicate requiring adjustments by policy makers if it is to be sustained. Both IMF and World Bank projections mentioned policy adjustments as an important aspect to realize the projected growth.

With continuation of the political leaderships in Tanzania and Uganda, there are no major economic policy changes expected. On the other hand, despite the ravage of the global health and economic crisis, the fundamentals in the Member States' economies are still relatively strong providing a good starting point.

The Bank is expecting to continue exercising caution on its operations during the year, staying ready to make needed adjustments to protect its interests and those of the stakeholders.

12. Future Plans

Usefulness of the development banks has almost always been felt the most during recovery from crises as demand for financing to support needed growth soars. The Bank remains committed to its core mandate of promoting development in member states. Despite the challenges expected in the Member States' economies, the Bank will play important role during growth by providing technical advice as well as needed financing.

DIRECTORS' REPORT (continued)

12. Future Plans (continued)

The Bank prepared its 2021-2025 strategic plan, cognisant of the ever-increasing need for its services in the region especially during the recovery period. The Bank will therefore be 'cautiously aggressive' in growing its activities in the region while at the same time continuing to mobilize appropriately priced credit facilities in order to fund the expected growth.

The Bank will continue to reach out to the new members who have joined the East African Community with the view of finalizing process for them to join the Bank hence broadening its operating environment.

At the same time, the Bank will continue to improve its risk management practices, drawing from the experience gained during the global health and economic crisis, to ensure that there is balance between pursuit of growth and quality of its assets.

Collaboration during this growth phase is an important aspect and therefore engagement with key stakeholders will be enhanced to ensure stronger, more effective and efficient alliances are built in order to fulfil the mandate.

13. Risk and Risk Management

The Bank has a robust risk management program documented in its Enterprise-wide risk management policy.

The Bank adopts three pillars of risk management philosophy where business units act as the first line of defence with risk champions in each risk-taking department taking leading roles. Risk and Compliance function act as the second line of defence and co-ordinate organization-wide risk management with periodic risk management reports to the Board. The Bank's Internal Audit function independently assess effectiveness of the Bank's risk management and recommend improvements. Detailed financial risk management disclosures are provided in Note 36 of the financial statements.

14. Solvency

The Board of Directors confirm that the financial statements have been prepared based on International Financial Reporting Standards and that they have been prepared on a going concern basis. The Board is confident that the Bank has all necessary resources to continue operating on this basis for a foreseeable future.

DIRECTORS' REPORT (continued)

15. Resources

The Bank continues to take pride in its committed and motivated staff team, its modern, resilient and agile technology as well as committed stakeholders including shareholders, fund providers and supportive clients.

The Bank's motivated and highly skilled human capital remain the bedrock of its performance and more efforts will be deployed to ensure that staff are well equipped to continue delivering on the mandate.

As witnessed during the height of the global health and economic crisis, the Bank's modern technology operating platform will continue to facilitate operations across the region while improvements and enhancements will continue to be made to ensure excellence and safety.

The commitment of the shareholders was reinforced during the year through receipt of additional capital from Tanzania. The additional capital automatically increased callable capital commitments to USD 873.75 million up from USD 842.9 million last year. The Bank is in turn committed to work tirelessly to deliver aspirations of the shareholders.

Fund providers remained committed to the Bank even during the turmoil of the global health and economic crisis and once again proving their importance to the growth and success of the Bank. More will be done to ensure that operations are sustainably profitable, and quality of assets improve, thereby guaranteeing repayment of their funds.

16. Employee Welfare

As alluded to in the previous section, employees are the most important resource of the Bank, henceforth deliberate efforts are made to maintain harmonious relationship in order to improve performance.

The Bank ensures that employees are well remunerated based on their actual performance and results achieved. The Bank operates a defined contribution retirement benefit scheme to which employees contribute 10% of their basic salary and the Bank contributes 10%, 12.5% or 15% of the employee's basic salary depending on the length of service. The scheme is independently managed by a professional fund manager who provides periodic reports to a committee nominated by staff.

The Bank also makes contribution to the statutory pension schemes for its support staff in Kenya and Uganda.

The Bank provides medical insurance cover for employees, their spouses and up to four qualifying dependants through a reputable medical insurance provider. Continuous monitoring on the services offered by the insurance cover is undertaken to guarantee quality service is provided to staff.

DIRECTORS' REPORT (continued)

16. Employee Welfare

In order to improve performance, the Bank provides continuous training to staff in various, need driven areas. The Bank will continue to innovate and improve staff welfare.

The Bank is an equal employer and staff are offered equal opportunities based on their merits and not based on gender, disability or any similar attributes in their jurisdictions/ countries of residence.

17. Related Party Transactions

The Bank's related party transactions are concluded at arm's length basis. Details of related party transactions at the end of the year are shown on Note 40.

18. Social and Environmental controls

The Bank remains committed to sustainable development and live by that commitment ensuring that all its projects do not negatively affect the people aimed to benefit or their environment.

The Bank's Environmental and Social policy provides guidance on day-to-day operations to ensure that safeguards are provided in all financed projects. Periodic reports are provided as part of monitoring process to assess the potential social or environmental impact.

The Bank does not finance any project with potential impact to environment before environmental impact assessment report approved by competent authorities in Member States is submitted showing their support for the project.

19. Stakeholders

Cordial relationship was maintained with all key stakeholders including shareholders, fund providers, customers, employees, service providers and the public at large. The Bank values contribution and support of all its stakeholders and implement strategies to assess the stakeholder's expectations and how they will be met. The Bank will continue to actively engage with its stakeholders with the view to improve the value creation process.

20. Dividends

The Directors do not recommend the payment of dividends for the year 2020 (2019: Nil). This is in line with shareholders' strategy to build up the capital of the Bank.

DIRECTORS' REPORT (continued)

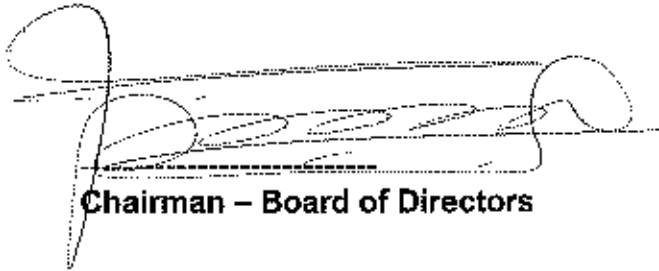
21. Events after reporting date

There are no other events after the reporting period.

22. Auditor

The Bank's 2021 auditor shall be appointed by the Governing Council in accordance with Article 26 (d) of the Bank's Charter.

By order of the Board



Chairman – Board of Directors

9th Sept, 2021
Date



Director

9th sept 2021
Date

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Treaty and Charter of the East African Development Bank ("the Bank's Charter") requires the Directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank at the end of the financial year and its financial performance for the year then ended. The Directors are responsible for ensuring that the Bank keeps proper accounting records that are sufficient to show and explain the transactions of the Bank; disclose with reasonable accuracy at any time the financial position of the Bank; and that enables them to prepare financial statements of the Bank that comply with International Financial Reporting Standards and the requirements of the Bank's Charter. They are also responsible for safeguarding the assets of the Bank and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Bank's Charter. They also accept responsibility for:

- (i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- (ii) Selecting suitable accounting policies and then applying them consistently; and
- (iii) Making judgements and accounting estimates that are reasonable in the circumstances.

The Directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

In preparing the financial statements, the Directors have assessed the Bank's ability to continue as a going concern. In performing this assessment, the Directors have considered the impact of COVID-19 on the East African market and wider international economy as discussed on the Directors report. The Directors hereby report that nothing has come to their attention to indicate that the Bank will not remain a going concern for at least twelve months from the date of this statement.

Approval of the financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 7th April 2021 and the Governing Council on 7th July 2021 and were signed on their behalf by:


Chairman – Board of Directors


Director General



REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF EAST AFRICAN DEVELOPMENT BANK

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of East African Development Bank ("the Bank") as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The financial statements of East African Development Bank set out on pages 23 to 102 comprise:

- the statement of financial position as at 31 December 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("the IESBA Code") together with the ethical requirements that are relevant to our audit of financial statements in Uganda, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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Partners: G. Muganyizi, D. Karamba, F. Karamuho, P. Ntambi, U. Mayanja

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REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF EAST AFRICAN DEVELOPMENT BANK (continued)

Key audit matter

A key audit matter is one that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. This matter was addressed in the context of our audit of the Bank's financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of loans and advances</p> <p>As disclosed in Note 15 of the financial statements, the Directors have estimated provisions for expected credit losses on loans and advances of USD 4.0 million at 31 December 2020 (2019: USD 3.4 million).</p> <p>We considered this a key audit matter due to significant judgment exercised by the Directors in estimating expected credit losses over the remaining lifetime of loans and advances whose credit risk increased significantly since origination and loans in default; and, for the next 12 months for all other loans and advances as follows:</p> <ul style="list-style-type: none"> • defining both default and significant increase in credit risk, based on quantitative and qualitative factors taking into consideration the effects of Corona Virus 2019 (COVID – 19) pandemic; and • in estimating probabilities of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") over the relevant period being either 12 months or remaining lifetime of the relevant loans and advances. 	<p>Our audit procedures are summarised as follows:</p> <p>We evaluated the appropriateness of the methodology applied by management in the calculation of expected credit losses for consistency with IFRS 9;</p> <p>We evaluated management controls over the staging of loans and advances between default (Stage 3), significant increase in credit risk (Stage 2) and others (Stage 1) and tested, on a sample basis, the staging of loans and advances by reference to changes during the year in the internal credit risk grading applied for a sample of the Bank's borrowers;</p> <p>We recomputed the reasonableness of PDs used by management as well as the accuracy of the underlying historical data applied by management in deriving PDs;</p> <p>We evaluated the suitability of forward looking data used in estimating PDs based on its correlation to the Bank's default history, together with the accuracy of its application in the PD estimation process. We also checked the reasonableness of the evidence available to support overlays applied in response to uncertainty arising from the adverse effects of the COVID-19;</p>



**REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF
EAST AFRICAN DEVELOPMENT BANK (continued)**

Key audit matter (continued)

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
	<p>We tested, on a sample basis, the reasonableness of the present values of expected future cashflows of loans and advances used by management in the calculation of LGD taking into account realizable values of collateral held by the Bank, costs to sell and the time value of money over the expected realization period;</p> <p>We recomputed, on a sample basis, expected credit losses for loans and advances and assessed the overall reasonableness of provisions for loans and advances made by the Bank as at 31 December 2020; and</p> <p>We evaluated the overall adequacy of relevant IFRS disclosures in the financial statements.</p>

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF EAST AFRICAN DEVELOPMENT BANK (continued)

Responsibilities of the Directors for the financial statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Treaty and Charter of the East African Development Bank ("the Bank's Charter"), and for such internal control as the Directors 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 Directors are responsible for assessing the ability of the Bank to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for overseeing the financial reporting process.

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, 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.

As part of an audit in accordance with ISAs, we exercise professional judgement 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.



**REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF
EAST AFRICAN DEVELOPMENT BANK (continued)**

Auditor's responsibilities for the audit of the financial statements (continued)

- 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 of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' 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 ability to continue as a going concern. If we conclude that a 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. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank 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 the Directors 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.

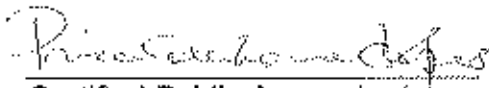


**REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF
EAST AFRICAN DEVELOPMENT BANK (continued)**

Auditor's responsibilities for the audit of the financial statements (continued)

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is CPA Uthman Mayanja – P0181.


Certified Public Accountants
Kampala


CPA Uthman Mayanja

21 September 2021

East African Development Bank
Annual Report and Financial Statements
For the year ended 31 December 2020

Statement of comprehensive income

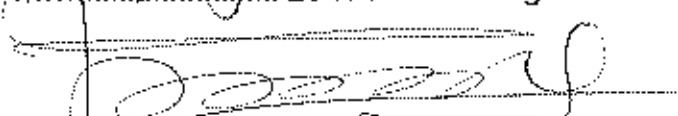
	Notes	2020 USD'000	2019 USD'000
Interest income	3	18,092	19,878
Interest expense	4	<u>(4,166)</u>	<u>(5,404)</u>
Net interest income		13,926	14,474
Fee and commission income	5	330	416
Other operating income	6	1,978	1,543
Other losses	7	(692)	(83)
Net fair value (loss)/ gain on investment property	19	<u>(254)</u>	<u>37</u>
Net operating income		15,288	16,387
Net impairment losses on financial assets	15(a)	<u>(593)</u>	<u>(156)</u>
Operating income after impairment charges		14,695	16,231
Employee benefits expense	8	(3,634)	(3,517)
Depreciation and amortization	20, 21 22	(909)	(902)
Other operating expenses	9	<u>(3,787)</u>	<u>(3,081)</u>
Profit before income tax	10	6,365	8,731
Income tax expense	11	-	-
Profit for the year		6,365	8,731
Other comprehensive income:			
Gain on revaluation of land and buildings, net of tax	34	-	1,533
Total comprehensive income		6,365	10,264
Earnings per share – basic and diluted (Expressed in USD per share)	12	<u>450.26</u>	<u>621.92</u>


**East African Development Bank
Annual Report and Financial Statements
For the year ended 31 December 2020**

Statement of financial position

	Notes	2020 USD'000	2019 USD'000
Assets			
Cash at bank	13	17,223	12,971
Placements with commercial banks	14	195,752	177,543
Loans and lease receivables	15	129,045	148,638
Equity investments	17	1,112	1,200
Other assets	18	526	997
Intangible assets	21	25	102
Property and equipment	20	13,089	14,050
Right of use assets	22	435	554
Investment property	19	18,656	18,910
Total assets		375,863	374,965
Liabilities			
Other liabilities	23	9,461	9,865
Borrowings	24	75,337	86,082
Lease liabilities	25	458	554
Special funds	26	3,990	3,990
Grants	27	189	578
Capital fund	29	7,479	7,479
Total liabilities		96,914	108,548
Capital and reserves			
Share capital	28	195,994	189,824
Share premium	28	3,874	3,874
Funds waiting allotment	30	80	83
Special reserve	31	12,602	12,557
Fair value reserve	32	382	451
Revaluation reserves	34	9,355	9,396
Retained earnings		56,662	50,232
Total shareholders' equity		278,949	266,417
Total shareholders' equity and liabilities		375,863	374,965

The financial statements set out on pages 23 to 102 were approved and authorised for issue by the Board of Directors on 7th April 2021 and the Governing Council on 23rd July 2021 and were signed on their behalf by:


Chairman – Board of Directors


Director General

East African Development Bank
Annual Report and Financial Statements
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Statement of changes in equity

Year ended 31 December 2019	Notes	Share capital USD '000	Share premium USD '000	Special reserves USD '000	Funds awaiting allotment USD '000	Fair value reserve USD '000	Retained earnings USD '000	Revaluation reserve USD '000	Total equity USD '000
At start of year		189,824	3,874	12,507	83	525	41,439	7,901	256,153
Statement of comprehensive income		-	-	-	-	-	8,731	-	8,731
Profit for the year		-	-	-	-	-	-	1,533	1,533
Other comprehensive income, net of tax	34	-	-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	8,731	1,533	10,264
Transactions with owners		-	-	50	-	-	(50)	-	-
Transfer to special reserve	31	-	-	-	-	-	38	(38)	-
Transfer from PPE revaluation reserve	34	-	-	-	-	(74)	74	-	-
Transfer from fair value reserve	32	-	-	-	-	-	-	-	-
At end of year		189,824	3,874	12,557	83	451	50,232	9,396	266,417

East African Development Bank
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For the year ended 31 December 2020

Statement of changes in equity (continued)

Year ended 31 December 2020	Notes	Share capital USD '000	Share premium USD '000	Special reserves USD '000	Funds awaiting allotment USD '000	Fair value reserve USD '000	Retained earnings USD '000	Revaluation reserve USD '000	Total equity USD '000
Balance at 1 January 2020		189,824	3,874	12,557	83	451	50,232	9,396	266,417
Comprehensive income		-	-	-	-	-	6,365	-	6,365
Profit for the year		-	-	-	-	-	-	-	-
Other comprehensive income, net of tax		-	-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	6,365	-	6,365
Transactions with owners		-	-	45	-	-	(45)	-	-
Transfer to special reserve	31	-	-	45	-	-	(45)	-	-
Transfer from the revaluation reserve	34	-	-	-	-	-	41	(41)	-
Transfer from fair value reserve	32	-	-	-	-	(69)	69	-	-
Contribution towards share capital	28	-	-	-	6,167	-	-	-	6,167
Share capital allotment	30	6,170	-	-	(6,170)	-	-	-	-
		6,170	-	45	(3)	(69)	65	(41)	6,167
At end of year		195,994	3,874	12,602	80	382	56,662	9,355	278,949

East African Development Bank
Annual Report and Financial Statements
For the year ended 31 December 2020

Statement of cash flows

	Notes	2020 USD'000	2019 USD'000
Cash flows from operating activities			
Interest receipts		13,798	15,668
Interest payments	24	(3,298)	(4,607)
Net fee and commission receipts		354	535
Other income received		580	720
Payments to employees and suppliers		(6,573)	(6,553)
Cash inflows from operating activities		4,861	5,763
Net change in loans and advances		18,916	9,715
Net other receipts from customers	6	1,032	457
Settlement of other liabilities		(757)	(891)
Net cash flows generated from operating activities		24,052	15,044
Investing activities			
Purchase of property and equipment	20	(50)	(60)
Placements with commercial banks		(36,003)	(28,994)
Net cash used in investing activities		(36,053)	(29,054)
Financing activities			
Settlement of medium and long term borrowings	24	(14,605)	(12,390)
Proceeds from borrowings	24	3,980	6,049
Receipt from member states towards share capital	30	6,167	-
Net cash used in financing activities		(4,458)	(6,341)
Net decrease in cash and cash equivalents		(16,459)	(20,351)
Cash and cash equivalent at the start of the year	33	153,800	174,169
Foreign exchange losses/(gains)		218	(18)
At end of year	33	137,559	153,800

Notes

1. Reporting entity

East African Development Bank ("the Bank") was created under the Treaty for the East African Co-operation of 1967, which was subsequently amended and re-enacted as the Treaty and Charter of the East African Development Bank ("The Charter") in 1980 with its current membership comprising the four East African Countries of Uganda, Kenya, Tanzania and Rwanda with its head office in Kampala, Uganda. The Bank is primarily involved in development finance lending and the provision of related services as stipulated under its Charter.

The Bank's principal office address is:

Plot 4 Nile Avenue
EADB Building
P. O. Box 7128
Kampala, Uganda

For purposes of the Bank's Charter, the profit and loss account is represented by the statement of comprehensive income and the balance sheet is represented by the statement of financial position in these financial statements.

2. Principal 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 years unless otherwise stated.

A) Basis of preparation

The Bank's financial statements are prepared in compliance with International Financial Reporting Standards ("IFRS"). Additional information required by the Bank's Charter is included within the financial statements where appropriate. The financial statements are presented in the functional currency, United States Dollars ("USD"), rounded to the nearest thousand, and prepared on the historical cost basis, except where otherwise stated in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions are changed. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 35.

Notes (continued)

2. Principal accounting policies (continued)

B) Changes in accounting policy and disclosures

(I) New and amended standards adopted by the Bank

The following standards and amendments have been applied by the Bank for the first time for the financial year beginning 1 January 2020.

(a) IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material

These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs:

- (i) use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting;
- (ii) clarify the explanation of the definition of material; and
- (iii) 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 adoption of these amendments is not expected to have an impact on the Bank's financial statements.

(II) New and amended standards yet to be adopted by the Bank

IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment

The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. This amendment is effective for annual periods beginning on or after 1 June 2020.

Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current

The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). This amendment effective for annual periods beginning on or after 1 January 2022.

Notes (continued)

2. Principal accounting policies (continued)

B) Changes in accounting policy and disclosures

(II) New and amended standards yet to be adopted by the Bank (continued)

Amendments to IAS 16 'Property, Plant and Equipment' on Proceeds before Intended Use

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss. This amendment is effective for annual periods beginning on or after 1 January 2022.

Annual improvements cycle 2018 -2020

IFRS 9, 'Financial Instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation.

IFRS 16, 'Leases', amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives. This amendment is effective for annual periods beginning on or after 1 January 2022.

The Bank did not early-adopt any new or amended standards in the financial year.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

C) Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). These financial statements are presented in United States Dollars (USD), which is the Bank's functional currency. Except as indicated, the financial information has been rounded off to the nearest thousand.

Notes (continued)

2. Principal accounting policies (continued)

C) Functional and presentation currency

Assets and liabilities expressed in various currencies are translated into US Dollars at rates of exchange ruling at the statement of financial position date. Transactions during the year are converted at exchange rates ruling at the transaction date. The resulting differences from the conversion and translation of all transactions and balances are dealt with in the statement of profit or loss in the period in which they arise.

D) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Bank's Board of Directors.

E) Revenue recognition

(i) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' or 'interest expense' respectively in the statement of profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Notes (continued)

2. Principal accounting policies (continued)

E) Revenue recognition (continued)

Interest income and expense presented in the statement of profit or loss includes interest on financial assets and liabilities at amortised cost on an effective interest rate basis.

(ii) Fees and commission income

Fees and commission income that are integral to the effective interest rate on a financial asset or liability are included in the measurement of effective interest rate.

Other fees and commission income including account servicing fees are recognized as the contractual service is performed per requirement of IRFS 15, Revenue from contracts with customers.

(iii) Dividend income

Dividend income is recognised when the right to receive dividends is established.

F) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Freehold land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Revaluation surplus

In accordance with IAS 16, the nature of revaluation surplus results from valuation of assets with significant changes in fair value. The fair value of land and buildings is usually determined from market-based evidence by appraisal that is done by professionally qualified valuers after every three to five years.

Changes in fair value are recognized in other comprehensive income and accumulated in equity under revaluation surplus.

Notes (continued)

2. Principal accounting policies (continued)

F) Property, plant and equipment (continued)

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Management and Directors review the residual value and useful life of an asset at the year end and any change considered to be appropriate in accounting estimate is recorded through the statement of comprehensive income.

Depreciation is calculated to write off the cost of the property and equipment on a straight-line basis over the expected useful lives of the assets concerned. The rates for depreciation used are as follows:

Buildings	5.0%
Motor vehicles	25.0%
Office equipment	10.0% - 25.0%
Furniture	12.5%

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining the result for the year.

G) Intangible assets

Computer software costs which are clearly identifiable and controlled by the Bank and have probable benefits exceeding the costs beyond one year are recognised as an intangible asset. Intangible assets are stated at cost net of accumulated amortization and impairment losses.

Subsequent expenditure on software is capitalized only when it increases the future economic benefits embodied in specific assets to which it relates. All other expenditure is expensed as incurred.

Notes (continued)

2. Principal accounting policies (continued)

G) Intangible assets (continued)

Amortization is recognized in statement of profit or loss on a straight line basis over an estimated useful life of software from the date that it is available for users. The estimated useful life of the software is four years.

H) Capital work-in-progress

Assets in the course of construction (capital work-in-progress) are not depreciated. Upon completion of the project the accumulated cost is transferred to an appropriate asset category where it is depreciated according to the policy.

I) Financial assets and liabilities

Measurement methods

Amortized cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at 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 loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions.

Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognized in profit or loss when an asset is newly originated.

Notes (continued)

2. Principal accounting policies (continued)

l) Financial assets and liabilities (continued)

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Bank recognises the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

(a) Financial Assets

(i) Classification and subsequent measurement

The Bank applies IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortized cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- (i) The Bank's business model for managing the asset; and
- (ii) The cash flow characteristics of the asset.

Notes (continued)

2. Principal accounting policies (continued)

l) Financial assets and liabilities (continued)

(i) Classification and subsequent measurement (continued)

Debt instruments (continued)

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through Other Comprehensive Income (OCI), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL.

Notes (continued)

2. Principal accounting policies (continued)

1) Financial assets and liabilities (continued)

Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

An example is the liquidity portfolio of assets, which is held by the Bank as part of liquidity management and is generally classified within the hold to collect and sell business model.

Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

Notes (continued)

2. Principal accounting policies (continued)

l) Financial assets and liabilities (continued)

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value.

Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established. Gains and losses on equity investments at FVPL are included in the Net trading income line in the statement of profit or loss.

(ii) Impairment

The Bank assesses on a forward-looking basis the expected credit losses associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts.

The Bank recognises a loss allowance for such losses at each reporting date. The measurement of expected credit loss (ECL) reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(iii) Modification of loans

As a long term lender, it is not unusual for the Bank to renegotiate or otherwise modify the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms.

Notes (continued)

2. Principal accounting policies (continued)

l) Financial assets and liabilities (continued)

(iii) Modification of loans (continued)

The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognises the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss.

(iv) Derecognition other than modification

Financial assets, or a portion thereof, are de-recognised when the contractual rights to receive the cash flows from the assets have expired, or when the Bank assesses that the possibility for such cash flow is remote especially when a loan remains in non-performing category for long period without being turned around successfully.

Notes (continued)

2. Principal accounting policies (continued)

1) Financial assets and liabilities (continued)

(iv) Derecognition other than modification(continued)

In most cases the Bank continues to follow up for repayments and when cashflows can be ascertained with reasonable degree of certainty then recognition of the expected cashflow is included in the financial statements. In other cases recognition is made when actual collection happens.

(b) Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except loan commitments.

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Notes (continued)

2. Principal accounting policies (continued)

(J) Derivative instruments

The Bank uses derivative instruments in its portfolios for asset/liability management, and risk management. These instruments are mainly cross-currency swaps and interest rate swaps. The derivatives are used to manage exposure to currency risk which arises when the Bank issues loans in the local currencies of member states out of predominantly USD denominated borrowings. The interest component of the derivatives is reported as part of interest income and expense.

The Bank classifies all derivatives as held-for-trading and these are measured at fair value, with all changes in fair value recognised in the statement of comprehensive income.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss. Where material, such derivatives are separated from the host contract and measured at fair value with unrealised gains and losses reported in the statement of comprehensive income.

K) Impairment of non-financial assets

The carrying amounts of the Bank's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If such a condition exists, the assets' recoverable amount is estimated and an impairment loss recognised in the statement of comprehensive income whenever the carrying amount of an asset exceeds the recoverable amount.

L) Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Bank in the statement of financial position.

M) Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

Notes (continued)

2. Principal accounting policies (continued)

M) Leases

i. Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component. The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate. The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased. Lease payments included in the measurement of the lease liability comprise the following: – fixed payments, including in-substance fixed payments; – variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; – amounts expected to be payable under a residual value guarantee; and – the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Notes (continued)

2. Principal accounting policies (continued)

M) Leases (continued)

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii. Bank acting as a lessor

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices. When the Bank acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease. To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset. The Bank applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Bank further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

N) Offsetting

Financial assets and liabilities are only offset and the net amount reported in the statement of financial position where there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis when permitted by the accounting standard or for gains and losses arising from a group of similar transactions.

During the year there was no offsetting transaction (2019: Nil).

Notes (continued)

2. Principal accounting policies (continued)

O) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where the Bank expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

P) Employees benefits

i) Retirement obligations

The Bank operates a defined contribution retirement benefit scheme to which employees contribute 10% of their basic salary and the Bank contributes 10%, 12.5% or 15% of the employees' basic salary depending on his/her length of service. The Bank complies with Member States regulations with respect to social security contributions where applicable.

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The Bank's contributions to the scheme are charged to the statement of profit or loss in the year in which they are made. Costs relating to early retirement are charged to the statement of profit or loss in the year in which they are incurred.

ii) Service gratuity

The Director General is entitled to contract gratuity equivalent to 20% of the annual gross salary. Gratuity is accounted for on an accruals basis. An accrual for the amount payable is made each year and is charged to the statement of profit or loss.

Notes (continued)

2. Principal accounting policies (continued)

P) Employees benefits (continued)

i) Retirement obligations (continued)

iii) Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

Q) Investment properties

Properties held for long-term rental yields that are not occupied by the Bank are classified as investment properties.

Certain properties of the Bank consist of a portion that is held for rental and a portion used for administrative purposes or occupied by Bank staff. In respect to such properties, portions that are held for rental yields or capital appreciation and can be leased or sold separately have been accounted for as investment property.

The properties held purely for rental yields have been classified under investment property. When the use of property changes from owner occupied to investment property, the property is re-measured at fair value and reclassified as investment property. Any gain arising on revaluation is recognized through other comprehensive income. Any loss arising on revaluation is recognized through the surplus or deficit.

R) Grants

Grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, (revenue grant) it is recognised as income over periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, (capital grant) it is recognised in the statement of comprehensive income on a systematic basis over the expected useful life of the relevant asset.

S) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise of cash with Banks held as demand and time deposits with original maturities of less than 90 days.

Notes (continued)

2. Principal accounting policies (continued)

T) Contingent liabilities – Financial guarantees and loan commitments

Letters of credit acceptances and guarantees are accounted for as Off-Balance Sheet items and described as contingent liabilities.

Financial guarantee contracts require the issuer to make pre-agreed payments to reimburse the holder for loss incurred because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Such financial guarantees are given to Banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other Banking facilities.

Financial guarantees are initially measured at fair value and subsequently measured at the higher of:

- The amount of loss allowance; and
- The premium received on initial recognitions less income recognized in accordance with the principles of IFRS 15.

Loan commitments provided by the Bank are measured as the amount of the loss allowance assuming the customer draws on the loan. However, the drawdown from the loans commitments is subject to fulfilments of conditions agreed in the loan contract and therefore the provision takes into account such conditions.

U) Taxation

In accordance with Article 49 of the Bank's Charter, the Bank, its property, other assets, income and its operations and transactions are exempt from all taxation and custom duties within member countries.

V) Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

W) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

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Notes (continued)

3 Interest income	2020	2019
	USD '000	USD '000
Interest income on loans to projects	12,124	13,869
Interest income on lease receivables	-	10
Interest income on deposits with other Banks	<u>5,968</u>	<u>5,999</u>
	<u>18,092</u>	<u>19,878</u>
4 Interest expense		
Interest expense on medium and long term borrowings	3,414	4,396
Interest expense on lines of credit	<u>752</u>	<u>1,008</u>
	<u>4,166</u>	<u>5,404</u>
5 Fee and commission income - net		
Gross fees and commission income		
Appraisal fees	44	50
Other fees and commission income	300	389
Commitment fees	<u>49</u>	<u>11</u>
	<u>393</u>	<u>450</u>
Gross fees and commission expense		
Commission charges	(7)	(10)
Commitment fees	(20)	(24)
Other fees and commission expense	<u>(36)</u>	<u>-</u>
	<u>(63)</u>	<u>(34)</u>
Net fee and commission income	<u>330</u>	<u>416</u>
6 Other operating income		
Rent income	489	592
Dividend income	10	-
Recovery of previously written off loans	1,032	472
Grant income (Note 27)	389	455
Other income on asset leasing	-	8
Write back of other liabilities	<u>58</u>	<u>16</u>
	<u>1,978</u>	<u>1,543</u>

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Notes (continued)

7 Other losses	2020	2019
	USD '000	USD '000
Net foreign exchange gain/(losses)	(581)	29
Finance costs (lease interest expense)	(43)	(38)
Net fair value (losses) on equity investments at fair value (Note 17)	<u>(68)</u>	<u>(74)</u>
	<u>(692)</u>	<u>(83)</u>
8 Employee benefits expense		
Salaries and wages	2,525	2,455
Pension and gratuity (Note 37)	336	327
Other staff costs	<u>773</u>	<u>735</u>
	<u>3,634</u>	<u>3,517</u>
9 Other operating expenses		
Staff duty travel	36	166
Directors expenses	48	58
Insurance	293	235
Advertising and publicity	38	225
Legal fees	1,288	453
Repairs and maintenance	81	103
Computer software expenses	157	144
Other IT related expenses	-	1
Internal audit costs	68	27
Statutory audit fees	55	52
Consultancy fees	174	202
Project insurance	274	354
Subscription to professional bodies	42	9
Scholarships (Note 27)	312	236
Other administrative expenses	<u>921</u>	<u>816</u>
	<u>3,787</u>	<u>3,081</u>

Notes (continued)

10 Expenses by nature

Profit before income tax is stated after charging the following:

	2020 USD '000	2019 USD '000
Directors emoluments:		
- Fees and allowances	41	28
- Other Board expenses	7	30
Depreciation on property and equipment (note 20)	712	702
Depreciation of right-of-use asset (note 22)	119	123
Amortization of intangible assets (note 21)	79	78
Impairment of loans and advances (note 16)	593	156
Employee benefits expense (Note 8)	3,634	3,517
Auditors remuneration	55	52
Operating expenses	<u>3,684</u>	<u>2,971</u>

11 Taxation

In accordance with Article 49 of the Bank's Charter, the Bank, its property, other assets, income and its operations and transactions are exempt from all taxation and custom duties within member countries.

12 Earnings per share – basic and diluted

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares for the number of shares not yet issued but for which payments have been received by the Bank.

	2020 USD '000	2019 USD '000
Net profit attributable to ordinary shareholders	<u>6,365</u>	<u>8,731</u>
Weighted average number of ordinary shares in issue and paid up during the year (Note 28)	<u>14,137</u>	<u>14,061</u>
Basic earnings per share	<u>450.26</u>	<u>621.92</u>

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Notes (continued)

12 Earnings per share – basic and diluted (continued)	2020	2019
Earnings per share – basic and diluted		
Dilutive number of ordinary shares	6	6
Total issued and dilutive shares	<u>14,143</u>	<u>14,067</u>
Diluted earnings per share	<u>450.07</u>	<u>621.64</u>
Dilutive shares represent the number of shares generated from the balance of funds awaiting allotment (Note 30).		
13 Cash at bank	2020	2019
	USD '000	USD '000
Cash at bank	<u>17,223</u>	<u>12,971</u>
14 Placements with commercial banks		
Placements with banks in member states		
Principal	164,790	150,549
Interest receivable	946	920
Placements with overseas banks		
Principal	30,000	26,000
Interest receivable	16	74
	<u>195,752</u>	<u>177,543</u>
The above amount is analyzed as follows:		
Amounts due within 3 months of date of acquisition	120,336	140,829
Amounts due after 3 months of date of acquisition	<u>75,416</u>	<u>36,714</u>
	<u>195,752</u>	<u>177,543</u>

The weighted average effective interest rate on deposits due from banks was 3.42 % (2019: 3.53 %).

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Notes (continued)

15 Loans and lease receivables	2020 USD'000	2019 USD'000
Loans to projects (Gross)		
Principal	129,780	147,993
Interest receivable	<u>3,246</u>	<u>4,033</u>
Gross loans	133,026	152,026
Impairment losses on loans and advances (Note 15a)	<u>(3,981)</u>	<u>(3,388)</u>
Net carrying amounts	<u>129,045</u>	<u>148,638</u>

Credit impairment losses

In table below is an analysis of the movement in the provision for impairment of loans and advances.

	2020 USD'000	2019 USD'000
At start of year, as previously stated	3,388	3,232
Movement in profit or loss:		
Increase in provision for expected credit losses	<u>593</u>	<u>156</u>
Impairment charge to profit or loss	<u>593</u>	<u>156</u>
Loss allowance at end of year	<u>3,981</u>	<u>3,388</u>

The table below shows the distribution of loans and receivables by sector

Distribution of loans and receivables by sector	2020	2019
Agro, marine and food processing	6%	7%
Construction companies, building materials and real estate	22%	26%
Financial Institutions	40%	39%
Education, health and other community services	13%	8%
Electricity	13%	15%
Hotels, tourism, leisure and entertainment	<u>6%</u>	<u>5%</u>
	<u>100%</u>	<u>100%</u>

Notes (continued)

16 Segment information

Management has determined the operating segments based on information reviewed by the Board of Directors for the purpose of allocating resources and assessing performance. The Board of Directors considers the business from both a geographic and product perspective. Geographically, the Board considers the performance in Kenya, Uganda, Tanzania and Rwanda.

The reportable operating segments derive their revenue primarily from lending to foster development through various products such as project loans, leases and equity.

The Board assesses the performance of the operating segments based on a measure of gross loans and advances to customers, portfolio quality, approvals, disbursements and profit. The measure excludes the effects of unrealised gains or losses on financial instruments. Interest expenditure is not allocated to segments, as this type of activity is part of managing the cash position of the Bank by treasury.

The segment information provided to the Board of Directors for the reportable segments for the year ended 31 December 2020 and 2019 respectively is as follows:

Loan exposure by country

Year ended 31 December 2020

Loan exposure by country	Gross Balances	%	Net Balances	%
Country	USD'000		USD'000	
Uganda	40,931	31%	40,187	31%
Kenya	33,587	25%	30,704	24%
Tanzania	44,486	33%	44,140	34%
Rwanda	14,022	11%	14,014	11%
Total	133,026	100%	129,045	100%

Exposure by product	Gross Balances	%	Net Balances	%
Country	USD'000		USD'000	
Long term loans	122,499	92%	118,686	92%
Medium term loans	3,900	3%	3,868	3%
Short term loans	6,627	5%	6,491	5%
Total	133,026	100%	129,045	100%

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Notes (continued)

16 Segment information (continued)

Year ended 31 December 2019

Loan exposure by country

Country	Gross Balances USD'000	%	Net Balances USD'000	%
Uganda	39,412	26%	39,068	26%
Kenya	36,860	24%	34,226	23%
Tanzania	58,439	38%	58,052	39%
Rwanda	17,315	12%	17,292	12%
Total Region	152,026	100%	148,638	100%

Exposure by product

Product	Gross Balances USD'000	%	Net Balances USD'000	%
Long term loans	137,279	90%	134,139	90%
Medium term loans	13,685	9%	13,622	9%
Short term loans	1,062	1%	877	1%
Loans sub-total	152,026	100%	148,638	100%

Year ended 31 December 2020

Portfolio quality (Gross)

Country	Performing portfolio USD'000	%	Non performing portfolio USD'000	%	Totals
Kenya	28,960	22%	4,627	4%	33,587
Rwanda	14,022	11%	-	0%	14,022
Tanzania	44,151	33%	335	0%	44,486
Uganda	37,965	29%	2,966	2%	40,931
Totals	125,098	95%	7,928	6%	133,026

Portfolio quality (Net)

Country	Performing portfolio USD'000	%	Non performing portfolio USD'000	%	Totals
Kenya	26,857	21%	3,847	3%	30,704
Rwanda	14,014	11%	-	0%	14,014
Tanzania	43,838	34%	302	0%	44,140
Uganda	37,511	29%	2,676	2%	40,187
Totals	122,220	95%	6,825	5%	129,045

Notes (continued)

16 Segment information (continued)

Portfolio quality (continued)

Year ended 31 December 2019

Portfolio quality (Gross)

Country	Performing portfolio USD'000	%	Non performing portfolio USD'000	%	Totals
Kenya	32,608	21%	4,252	3%	36,860
Rwanda	17,316	11%	-	0%	17,316
Tanzania	58,135	38%	303	0%	58,438
Uganda	36,747	24%	2,665	2%	39,412
Totals	144,806	94%	7,220	5%	152,026

Portfolio quality (Net)

Country	Performing portfolio USD'000	%	Non performing portfolio USD'000	%	Totals
Kenya	30,391	20%	3,835	3%	34,226
Rwanda	17,292	12%	-	0%	17,292
Tanzania	57,778	39%	274	0%	58,052
Uganda	36,663	25%	2,405	2%	39,068
Totals	142,124	96%	6,514	5%	148,638

Approvals and disbursements

	Approvals		Disbursements	
	Actual 2020 USD'000	Actual 2019 USD'000	Actual 2020 USD'000	Actual 2019 USD'000
By country				
Uganda	7,805	13,075	9,168	7,716
Kenya	2,469	3,659	2,221	3,598
Tanzania	-	10,000	-	10,000
Rwanda	600	6,000	-	-
	10,874	32,734	11,389	21,314
By product				
Loans	10,874	32,734	11,389	21,314

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Notes (continued)

16 Segment information (continued)

Segment statement of profit or loss for year ended December 2020

	Uganda	Kenya	Tanzania	Rwanda	Head Office	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Interest income	3,579	3,444	4,002	1,100	5,967	18,092
Interest expense	(912)	(837)	(311)	(22)	(2,084)	(4,166)
Net interest income	2,667	2,607	3,691	1,078	3,883	13,926
Fee and commission income	149	64	124	67	(64)	330
Other operating income	3	989	3	1	982	1,978
Other gains /(losses)	347	(1,159)	11	15	94	(692)
Net fair value gain/(loss) investment property	-	-	(154)	-	(100)	(254)
Total operating income	3,166	2,491	3,675	1,161	4,795	15,288
Credit impairment gain/(loss)	(401)	(249)	41	16	-	(593)
Operating income after impairment charges	2,765	2,242	3,716	1,177	4,795	14,695
Employee benefits expense	(552)	(211)	(191)	(90)	(2,590)	(3,634)
Depreciation and amortization	-	(79)	(19)	(57)	(754)	(909)
Other operating expenses	(757)	(757)	(757)	(379)	(1,137)	(3,787)
Profit before income tax	1,456	1,195	2,749	651	314	6,365
Income tax expense	-	-	-	-	-	-
Profit for the year	1,456	1,195	2,749	651	314	6,365
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	1,456	1,195	2,749	651	314	6,365

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Notes (continued)

16 Segment information (continued)

Segment statement of profit or loss for year ended December 2019

	Uganda USD'000	Kenya USD'000	Tanzania USD'000	Rwanda USD'000	Head Office USD'000	Total USD'000
Interest income	3,830	3,874	4,972	1,501	5,901	19,878
Interest expense	(1,192)	(1,094)	(406)	(29)	(2,683)	(5,404)
Net interest income	2,438	2,780	4,566	1,472	3,218	14,474
Fee and commission income	143	59	148	90	(24)	416
Other operating income	137	321	-	-	1,085	1,543
Other gains/(losses)	255	65	(81)	1	(323)	(83)
Net fair value gain/(loss) investment property	40	-	(3)	-	-	37
Total operating income	3,013	3,225	4,630	1,563	3,956	16,387
Credit impairment gain/(loss)	18	(209)	26	9	-	(156)
Operating income after impairment charges	3,031	3,016	4,656	1,572	3,956	16,231
Employee benefits expense	(845)	(920)	(659)	(282)	(811)	(3,517)
Depreciation and amortization	-	(82)	(20)	(56)	(744)	(902)
Other operating expenses	(616)	(616)	(616)	(308)	(925)	(3,081)
Profit before income tax	1,570	1,398	3,361	926	1,476	8,731
Income tax expense	-	-	-	-	-	-
Profit for the year	1,569	1,398	3,361	926	1,476	8,731
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	1,569	1,398	3,361	926	1,476	8,731

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Notes (continued)

16 Segment information (continued)

Segment statement of financial position for year ended December 2020

	Uganda	Kenya	Tanzania	Rwanda	Head office	Total
Assets	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash at bank	7,778	7,427	49	68	1,901	17,223
Placements with other Banks	-	-	-	-	195,752	195,752
Loans and lease receivables	40,187	30,704	44,140	14,014	-	129,045
Equity investments	-	527	585	-	-	1,112
Other assets	149	167	68	22	120	526
Investment properties	14,609	-	4,047	-	-	18,656
Property and equipment	10,714	1,233	1,138	4	-	13,089
Right of use assets	-	200	-	235	-	435
Intangible assets	-	-	-	-	25	25
Total assets	73,437	40,258	50,027	14,343	197,798	375,863
Liabilities						
Other liabilities	-	5,800	-	-	3,661	9,461
Borrowings	23,461	17,925	25,769	8,182	-	75,337
Lease liability	-	233	-	225	-	458
Special funds	-	-	-	-	3,990	3,990
Grants	-	-	150	-	39	189
Capital fund	-	-	-	-	7,479	7,479
Total liabilities	23,461	23,958	25,919	8,407	15,169	96,914
Capital and reserves						
Share capital	51,300	51,300	51,300	18,050	24,044	195,994
Share premium	-	-	-	-	3,874	3,874
Funds waiting allotment	-	-	-	-	80	80
Special reserve	-	-	-	-	12,602	12,602
Fair value reserve	-	-	-	-	382	382
Revaluation reserves	-	-	-	-	9,355	9,355
Retained earnings	(1,324)	(35,000)	(27,192)	(12,114)	132,292	56,662
Total shareholders' equity	49,976	16,300	24,108	5,936	182,629	278,949
Total shareholders' equity and liabilities	73,437	40,258	50,027	14,343	197,798	375,863

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Notes (continued)

16 Segment information (continued)

Segment statement of financial position for year ended December 2019

Assets	Uganda USD'000	Kenya USD'000	Tanzania USD'000	Rwanda USD'000	Head office USD'000	Total USD'000
Cash at bank	4,144	7,743	1	96	987	12,971
Placements with other Banks	-	-	-	-	177,543	177,543
Loans and lease receivables	38,823	32,788	58,559	17,292	1,176	148,638
Equity investments	-	529	671	-	-	1,200
Other assets	160	124	68	15	630	997
Investment properties	14,708	-	4,202	-	-	18,910
Property and equipment	11,831	1,177	1,038	4	-	14,050
Right of use assets	-	264	-	290	-	554
Intangible assets	-	-	-	-	102	102
Total assets	69,666	42,625	64,539	17,697	180,438	374,965
Liabilities						
Other liabilities	-	7,900	-	-	1,965	9,865
Borrowings	17,167	19,468	9,478	436	39,534	86,082
Lease liability	-	282	-	272	-	554
Special funds	-	-	-	-	3,990	3,990
Grants	-	-	150	-	428	578
Capital fund	-	-	-	-	7,479	7,479
Total liabilities	17,167	27,650	9,628	707	53,396	108,548
Capital and reserves						
Share capital	21,123	24,556	34,091	5,740	104,314	189,824
Share premium	-	-	-	3,874	-	3,874
Funds waiting allotment	-	-	-	-	83	83
Special reserve	-	-	-	-	12,557	12,557
Fair value reserve	-	-	-	-	451	451
Revaluation reserves	-	-	-	-	9,396	9,396
Retained earnings	16,190	16,728	13,003	7,996	(3,685)	50,232
Total shareholders' equity	37,313	41,284	47,094	17,610	123,116	286,417
Total shareholders' equity and liabilities	54,480	68,934	56,722	18,317	176,512	374,965

Notes (continued)

17 Equity investments at fair value

The Bank advances financing in the form of equity in exceptional cases where the project is assessed to have a significant impact on the community and its development as well as where the equity participation is necessary for improving the capital structure of the company or where the sponsors are unable to raise additional equity to enable the borrower operate on a commercially sound footing. Usually these are companies, which have substantial development impact but whose cash flows cannot support continuous repayments for long term loans. These investments are reported at their fair values in accordance with the Bank's accounting policies.

Equity investments	2020 USD '000	2019 USD '000
At start of year	1,200	<u>1,273</u>
Less:		
Investments that matured during the year	-	-
Revaluation loss	(20)	-
Fair value loss	<u>(68)</u>	<u>(73)</u>
At end of year	<u>1,112</u>	<u>1,200</u>

18 Other assets

Prepayments	142	147
Value Added Tax receivable	405	368
Fees and commission receivable	60	109
Tenants rent receivable	42	23
Receivables from projects	1,048	177
Other receivables	<u>345</u>	<u>173</u>
	2,042	997
Provision on other receivables	<u>(1,516)</u>	-
	<u>526</u>	<u>997</u>

The receivables from projects relates to costs incurred in respect of projects under receivership and have been fully provided.

19 Investment property

At start of year	18,910	18,873
Net fair value (loss)/ gain	<u>(254)</u>	<u>37</u>
At end of year	<u>18,656</u>	<u>18,910</u>

Notes (continued)

19 Investment property (continued)

An independent valuation of the Bank's land and buildings was performed by professional valuers Knight Frank Limited (Uganda and Kenya) and Africa Property Limited (Tanzania) to determine the fair value of the land and buildings as at 31 December 2020 based on estimated open market values.

Properties that are held by the Bank for generation of rental income have been classified under investment property as per Note 19. Land and buildings occupied by the Bank for administrative use is classified under property, plant and equipment (Note 20).

The table below shows revenue, costs and capital commitments related to investment property:

	2020 USD '000	2019 USD '000
Rental income from investment property	421	540
Direct operating expenses: Rented properties	53	57
Direct operating expenses: Unrented properties	15	17
Approved capital commitment	-	305

The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs for the year ended 31 December 2020 other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Fair value measurements	Quoted prices in active markets for identical assets (Level 1) USD'000	Significant other observable inputs (Level 2) USD'000	Significant unobservable inputs (Level 3) USD'000
2020			
Land	-	21,831	-
Buildings	-	9,901	-
2019			
Land	-	21,754	-
Buildings	-	10,151	-

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Notes (continued)

20 Property and equipment

Year ended December 2020

At 1 January 2020

	Land and buildings USD 000'	Capital work in progress USD 000'	Office equipment USD 000'	Motor Vehicles USD 000'	Furniture & fittings USD 000'	Total USD 000'
Cost or valuation	13,076	352	1,886	686	798	16,798
Accumulated depreciation	-	-	(1,374)	(686)	(688)	(2,748)
Net book amount	13,076	352	512	-	110	14,050

Year ended 31 December 2020

Opening net book amount	13,076	352	512	-	110	14,050
Revaluation gain	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
Additions	-	20	-	-	-	20
Transfers from work in progress	-	(105)	101	-	2	(2)
Disposals:						
Cost	-	(267)	-	-	-	(267)
Accumulated depreciation	-	-	-	-	-	-
Depreciation charge	(479)	-	(172)	-	(61)	(712)
Closing net book amount	12,597	-	441	-	51	13,089

Year ended 31 December 2020

Cost or valuation	13,076	-	1,987	686	800	16,549
Accumulated depreciation	(479)	-	(1,546)	(686)	(749)	(3,460)
Net book amount	12,597	-	441	-	51	13,089

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Notes (continued)

20 Property and equipment (continued)

Year ended 31 December 2019	Land and buildings USD 000'	Capital work in progress USD 000'	Office equipment USD 000'	Motor vehicles USD 000'	Furniture & fittings USD 000'	Total USD 000'
At 1 January 2019						
Cost or valuation	13,933	305	1,835	686	799	17,558
Accumulated depreciation	(1,914)	-	(1,229)	(685)	(619)	(4,447)
Net book amount	12,019	305	606	1	180	13,111
Year ended 31 December 2019						
Opening net book amount	12,019	305	606	1	180	13,111
Revaluation gain	1,533	-	-	-	-	1,533
Additions	-	108	-	-	-	108
Transfers from WIP	-	(61)	61	-	-	-
Disposals/retirement:						
Cost	-	-	(10)	-	(1)	(11)
Accumulated depreciation	-	-	10	-	1	11
Depreciation charge	(476)	-	(155)	(1)	(70)	(702)
Closing net book amount	13,076	352	512	-	110	14,050
Year ended 31 December 2019						
Cost or valuation	13,076	352	1,886	686	798	16,798
Accumulated depreciation	-	-	(1,374)	(686)	(688)	(2,748)
Net book amount	13,076	352	512	-	110	14,050

Notes (continued)

20 Property and equipment (continued)

The revaluation model under IAS 16 – Property, plant and equipment has been applied to land and buildings under own-use (this includes residential properties rented out to staff). An independent valuation was performed by a professional valuer (Knight Frank Limited and Africa Property Limited) to determine the fair value of land and buildings as at 31 December 2019. The fair value of land and buildings is usually determined from market-based evidence by appraisal that is done by professionally qualified valuers after every three to five years, therefore, no fair value revaluation gain has been recognised in the year.

If land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2020 USD'000	2019 USD'000
Cost	8,759	8,759
Accumulated depreciation	<u>(5,562)</u>	<u>(5,125)</u>
Net book amount	<u>3,197</u>	<u>3,634</u>

21 Intangible assets

Cost		
At start of year	1,963	1,963
Additions during the year	<u>2</u>	<u>-</u>
	<u>1,965</u>	<u>1,963</u>
Amortization		
At start of year	(1,861)	(1,783)
Amortization charge for the year	<u>(79)</u>	<u>(78)</u>
	<u>(1,940)</u>	<u>(1,861)</u>
At end of year	<u>25</u>	<u>102</u>

22 Right-of-use assets

Under IAS 17 – Leases, prepaid operating lease rentals were recognised at historical cost and subsequently amortised over the lease period. In respect of the change in accounting policy to IFRS 16 – Leases, the carrying amount of prepaid operating lease rentals at 1 January 2019 were reclassified as right-of-use assets specifically in respect to the Bank's rented office premises in Kenya and Rwanda. The average lease term is 2 years and 3 years, respectively.

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Notes (continued)

22 Right-of-use assets (continued)

Year ended 31 December 2019

At start of year, as previously stated -
 IFRS 16 adoption adjustment at 1 January 2019 677

At start of year, as restated 677
 Depreciation charge for the year (123)

At end of year 554

Year ended 31 December 2020

At start of year 677
 Accumulated depreciation (123)
 Depreciation charge for the year (119)

At end of year 435

23 Other liabilities

	2020 USD'000	2019 USD'000
Advances from customers	16	15
Rent received in advance	28	35
Accrued expenses	535	530
Deferred fee income	408	429
Deposits from tenants	67	89
KFW line of credit	6,752	7,846
Other creditors	<u>1,655</u>	<u>921</u>
	<u>9,461</u>	<u>9,865</u>

The KFW line of credit relates to an agricultural financing programme under the German Financial Cooperation in Kenya and Uganda meant for on-lending to selected Partnering Financial Institutions (PFIs) in local currency both medium and long term facilities. The beneficiaries of the above funds are Sidian Bank, Musoni Dairy, West Kenya Sugar and Kenya Women Microfinance Bank.

24 Borrowings

	2020 USD'000	2019 USD'000
Lines of credit with multi-lateral development banks	69,553	76,761
Lines of credit with other Financial Institutions	<u>5,784</u>	<u>9,321</u>
	<u>75,337</u>	<u>86,082</u>

Notes (continued)

24 Borrowings (continued)

Maturity analysis of borrowings	2020	2019
	USD'000	USD'000
Amounts payable within one year	16,468	18,558
Amounts payable after one year but within five years	45,245	54,839
Amounts payable after five years	24,977	28,446
	<u>86,690</u>	<u>101,843</u>

Borrowings movement analysis

At start of year	86,082	91,458
Proceeds from borrowings	3,980	6,049
Interest incurred during the year	4,166	5,404
Principle payments within the year	(14,605)	(12,390)
Interest payments within the year	(3,298)	(4,607)
Revaluation gain	(988)	168
	<u>75,337</u>	<u>86,082</u>

The KFW lines of credit include the Rural Finance Enhancement Programme and Agri Finance Enhancement Programme for on-lending to selected Partnering Financial Institutions (PFIs) in local currency.

EADB has a contractual obligation to repay principal and accumulated interest in Uganda Shillings to Ministry of Finance, Planning & Economic Development (the recipient) on maturity.

The weighted average effective interest rate on borrowings was 5.30% (2019: 6.51%).

The Bank has not given any security for the borrowings and has not defaulted on any of them. More information regarding the currency, maturity and contractual repricing rates for the Bank's borrowings are shown in Note 36.

In the table below is a list of all lenders as well as the tenor, interest rates, currency and outstanding balances of the facilities the Bank held with each lender as at 31 December 2020 and 31 December 2019.

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Notes (continued)

24 Borrowings (continued)

Lender	Tenor	Rate Type	Interest Rate %	Currency	2020	2019
					USD'000	USD'000
Nordic Development Fund	30	Fixed	0.75	EUR	4,697	4,595
European Investment Bank	7	Fixed	9.16	KES	1,080	1,936
Republic of Uganda-KFW	10	Fixed	6	UGX	5,423	5,401
Republic of Uganda-KFW	7	Fixed	6	UGX	1,547	1,541
European Investment Bank	6	Fixed	9.31	UGX	252	502
European Investment Bank	7	Fixed	9.41	KES	614	991
European Investment Bank	7	Fixed	9.39	KES	546	881
European Investment Bank	7	Fixed	8.26	RWF	193	305
Republic of Uganda-KFW	7	Fixed	6	UGX	1,533	1,527
Republic of Uganda-KFW	4	Fixed	6	UGX	450	449
European Investment Bank	7	Fixed	9.84	KES	1,041	1,567
Republic of Uganda-KFW	7	Fixed	6	UGX	5,034	5,013
Republic of Uganda-KFW	8	Fixed	6	UGX	1,677	1,670
Republic of Uganda-KFW	8	Fixed	6	UGX	1,124	1,120
Republic of Uganda-KFW	3	Fixed	6	UGX	588	-
Republic of Uganda-KFW	3	Fixed	6	UGX	1,198	-
European Investment Bank	7	LIBOR_6M	2.46	USD	224	672
Opec Fund For International Development	7	LIBOR_6M	3.27	USD	2,728	5,455
European Investment Bank	6	LIBOR_6M	2.43	USD	318	955
African Development Bank	10	LIBOR_6M	3.77	USD	18,750	22,500
Arab Bank For Economic Development	10	LIBOR_6M	3.99	USD	8,568	10,282
KFW-Agricultural Financing Kenya	13	Fixed	5	KES	1,088	1,170
KFW-Agricultural Financing Kenya	13	Fixed	5	KES	3,160	3,400
KFW-Agricultural Financing Kenya	12	Fixed	5	KES	2,182	-
NCBA Bank	3	Fixed	10	KES	5,733	9,240
Total Principal Borrowings					69,748	81,172
Interest payable					5,589	4,910
Total borrowings plus Interest					75,337	86,082

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Notes (continued)

25 Lease liabilities

	2020	2019
	USD'000	USD'000
Current	102	125
Non-current	356	429
	458	554

Below is an analysis of the movements in lease liabilities:

	2020	2019
	USD'000	USD'000
At start of year	554	677
Payments of principal portion of lease liability	(138)	(161)
Interest charge for the year (recognized in profit or loss)	42	38
At end of year	458	554

The incremental borrowing rate applied was 9.5% and 6% for leases denominated in Kenya Shillings and United States Dollars respectively.

26 Special funds

	2020	2019
	USD'000	USD'000
At start and end of year	3,990	3,990

This relates to the Norwegian/ EADB fund which was created out of a 1986/7 grant of NOK 30 million by the Norwegian Government to the Government of Uganda to provide loans for the rehabilitation of Ugandan industries. Under the grant agreement, the Bank was allowed to use a portion of interest paid on those loans to cover administrative expenses. Any balance of interest on loans and other interest earned on funds made available under the agreement was to accrue to a special fund to be managed by the Bank.

The special fund was to be used for certain expenditure including; a) payments to consultants and experts, b) strengthening the Bank's administrative capacity, c) technical assistance, d) loans on concessionary terms, e) or any other purpose agreed by the government of Norway and the Bank. The agreement is silent on the use of capital repayments. Consultations are underway with the Norwegian Government to determine the utilisation/ disposition of the remaining balance.

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Notes (continued)

27 Grants	SWISS/ EADB fund for technical assistance USD'000	Housing Finance Bank feasibility study grant	AfDB Credit Knowledge Management System USD'000	Total USD'000
31 December 2020				
At start of year	371	150	57	578
Grant utilisation	<u>(337)</u>	<u>-</u>	<u>(52)</u>	<u>(389)</u>
At the end of year	<u>44</u>	<u>150</u>	<u>5</u>	<u>189</u>
31 December 2019				
At start of year	774	150	109	1,033
Grant utilisation	<u>(403)</u>	<u>-</u>	<u>(52)</u>	<u>(455)</u>
At the end of year	<u>1</u>	<u>150</u>	<u>57</u>	<u>578</u>

Medical Training and Fellowship (METAF) Program

The East African Development Bank (EADB) Medical Training and Fellowship (METAF) program is a four-year program (2017-2020) that aims to increase the early detection, research and treatment of cancer and neurological disorders in East Africa, especially in communities and areas where access to qualified professionals remains a challenge. The program is delivered by the British Council as the Program Manager in partnership with the Royal College of Physicians (RCP) as the technical partner. It is funded under the SWISS/EADB Fund.

The programme was developed in response to the growing burden of non-communicable diseases, especially cancer and neurological disorders in member states of the EADB – Kenya, Tanzania, Rwanda and Uganda. Premised on British Council's expertise in managing training programmes and the RCP's expertise in improving medical care across the globe, the programme is a high impact sustainable training model employing a twin approach of short-term clinical trainings within East Africa and long-term fellowships tenable in the United Kingdom (UK).

EADB Math, Science, Technology and Engineering University Scholarship Program (STEM)

The EADB Math, Science, Technology and Engineering University Scholarship Program was launched in partnership with The Africa-America Institute. The multiple fast-track, 12 month scholarships are available to experienced teachers and lecturers with bachelor's degrees in mathematics, science, technology and engineering with an interest in pursuing a graduate degree in those fields in the United States at Rutgers University.

Notes (continued)

27 Grants (continued)

EADB Math, Science, Technology and Engineering University Scholarship Program (STEM) (continued)

The STEM scholarship aims to maximize the impact of EADB's investment into the higher education sector by granting scholarships to accomplished lecturers who have agreed to return to their East African universities and continue teaching after they have received their graduate degree at Rutgers University. The fully funded EADB graduate level scholarships provide full tuition, room and living expenses within a stipulated budget. Master's degrees include, Math Education, Science Education, Cell and development biology, Chemical and Biochemical Engineering, Industrial and Systems Engineering and Materials Science and Engineering.

SWISS/ EADB Fund

The SWISS fund for technical assistance was established following a grant from the Swiss Government. The funds were to be utilised for EADB's institution building support, staff training, corporate strategy and restructuring study. The Bank began utilising this grant for capacity building through offering scholarships and training for selected East African lawyers through the extractive industries seminars and medical training. During the year ended 31 December 2020, the Bank utilised part of the grant amounting to USD 337,000 (2019: USD 403,000).

Housing Finance Feasibility study grant

The grant represents funds received from the Government of Tanzania to fund the Housing Finance Bank feasibility study.

AfDB (Credit knowledge management system grant)

This relates to the capital grant received from African Development Bank for the purchase of customised web-based credit knowledge management software amounting to USD 209,000. Grant income is recognised in the statement of profit or loss on a straight-line basis over the life of the expected useful life of the software which management has estimated as four years. During the year USD 52,250 was recognised as grant income.

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Notes (continued)

28 Share capital

	Paid up share capital Number	Callable share capital Number	Total Number	Paid up share capital USD'000	Callable share capital USD'000	Total USD'000
Authorised share capital						
Class A						
At 1 January 2019	24,000	120,000	144,000	324,000	1,620,000	1,944,000
Additional authorised	-	-	-	-	-	-
At 31 December 2019	24,000	120,000	144,000	324,000	1,620,000	1,944,000
Additional authorised	-	-	-	-	-	-
At 31 December 2020	24,000	120,000	144,000	324,000	1,620,000	1,944,000
Class B						
At 1 January 2019	4,000	12,000	16,000	54,000	162,000	216,000
Additional authorised	-	-	-	-	-	-
At 31 December 2019	4,000	12,000	16,000	54,000	162,000	216,000
Additional authorised	-	-	-	-	-	-
At 31 December 2020	4,000	12,000	16,000	54,000	162,000	216,000
Totals Authorised (Class A&B) As at December 2019 & 2020	28,000	132,000	160,000	378,000	1,782,000	2,160,000
Issued share capital						
Class A						
At 1 January 2019	12,280	61,400	73,680	165,780	828,901	994,681
Issue of shares	-	-	-	-	-	-
At 31 December 2019	12,280	61,400	73,680	165,780	828,901	994,681
Issue of shares	457	2,285	2,742	6,170	30,848	37,018
At 31 December 2020	12,737	63,685	76,422	171,950	859,749	1,031,699
Class B						
At 1 January 2019	1,781	1,037	2,818	24,044	14,000	38,044
Issue of shares	-	-	-	-	-	-
At 31 December 2019	1,781	1,037	2,818	24,044	14,000	38,044
Issue of shares	-	-	-	-	-	-
At 31 December 2020	1,781	1,037	2,818	24,044	14,000	38,044
Paid in capital						
	Class A Number	Class B Number	Total Number	Class A USD'000	Class B USD'000	Total USD'000
At 1 January 2019	12,280	1,781	14,061	165,780	24,044	189,824
Issue of shares	-	-	-	-	-	-
At 31 December 2019	12,280	1,781	14,061	165,780	24,044	189,824
Issue of shares	457	-	457	6,170	-	6,170
At 31 December 2020	12,737	1,781	14,518	171,950	24,044	195,994

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Notes (continued)

28 Share capital (continued)

Name	31-Dec-20			31-Dec-19		
	Shares Number	Value USD '000	%	Shares Number	Value USD '000	%
Class A						
Government of Kenya	3,800	51,300	26.17%	3,800	51,300	27.03%
Government of United Republic of Tanzania	3,800	51,300	26.17%	3,343	45,131	23.77%
Government of Uganda	3,800	51,300	26.17%	3,800	51,300	27.03%
Government of Rwanda	1,337	18,050	9.22%	1,337	18,050	9.51%
Total Class A	12,737	171,950	87.73%	12,280	165,780	87.33%
Class B						
African Development Bank	1,240	16,740	8.54%	1,240	16,740	8.82%
FMO – Netherlands Development Finance Company	375	5,063	2.59%	375	5,063	2.67%
DEG – Deutsche Investitions- und Entwicklungsgesellschaft	100	1,350	0.69%	100	1,350	0.71%
Yugoslavia Consortium	28	378	0.19%	28	378	0.20%
SBIC - Africa Holdings	24	324	0.18%	24	324	0.17%
NCBA Bank	5	67.5	0.03%	5	67.5	0.04%
Nordea Bank Sweden	5	67.5	0.03%	5	67.5	0.04%
Standard Chartered Bank	2	27	0.01%	2	27	0.01%
Barclays Bank Plc., London	2	27	0.01%	2	27	0.01%
Total Class B	1,781	24,044	12.27%	1,781	24,044	12.67%
Total Class A & B	14,518	195,994	100%	14,061	189,824	100%

Authorised share capital

In 2015 the authorised capital stock was increased from USD 1,080,000,000 to USD 2,160,000,000 consisting of 80,000 additional shares being 100% increase in capital stock of the Bank with a par value of USD 13,500 each. This was to enable admission of new members into the Bank. In addition, a resolution was passed in 2013 approving African Development Bank (AfDB), a class B shareholder, to subscribe for a further 740 class B paid up shares and 1,037 class B callable shares at USD 13,500 each.

Class A

The authorised number of Class A ordinary shares is 144,000, (2019: 144,000) at a par value of USD 13,500 each. Class A ordinary shares are available for subscription to only member states and in equal proportion.

Class B

The authorised number of Class B ordinary shares is 16,000 (2019: 16,000) at a par value of USD 13,500 each. Class B ordinary shares are available for subscription to members other than member states. All issued Class B shares are fully paid up.

Notes (continued)

28 Share capital (continued)

Share premium

Share premium arose on the shares issued to the Republic of Rwanda on admission at a value of USD 17,913 per share. The total number of shares issued and paid for by the Republic of Rwanda on the admission program is 878 (2019: 878). Share premium therefore amounts to USD 4,413 per share which is equivalent to USD 3.9 million (2019: USD 3.9 million).

Callable capital

The capital stock of paid-in and callable Class A shares shall be available for subscription by member states in such proportion that, for every six shares subscribed, one share shall be fully paid-in with the remaining being callable. The Bank's Charter provides that the Bank may make calls on its callable share capital in the event that it is unable to repay borrowings and any other eligible payments due out of pre-existing resources.

In March 2012, the Bank's Charter was amended to allow class B shareholders to subscribe to callable capital of the Bank. In 2013, the Governing Council passed a special waiver on article 4(2)b of the Bank's Charter which sets out that for every four shares subscribed every one share is fully paid in. Following the waiver, 1,037 class B callable shares were allotted to African Development Bank.

Dividends

In accordance with the Bank's Charter, Class B shareholders have priority in respect of distributions to members over Class A shareholders. Dividends are payable to shareholders based on the number of shares held by each member.

29 Capital fund	2020	2019
	USD '000	USD '000
At start and end of year	<u>7,479</u>	<u>7,479</u>

This represents the balance of funds received from the Norwegian Government, in 1982 and 1987 for the Norwegian/ EADB fund on a grant basis. The Bank awaits feedback from the Norwegian Government on the disposition of the outstanding amount.

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Notes (continued)

30 Funds awaiting allotment	2020 USD'000	2019 USD'000
At start of year	83	83
Cash received towards share capital	6,167	-
Share allotment within the year	<u>(6,170)</u>	<u>-</u>
At end of year	<u>80</u>	<u>83</u>
31 Special reserve		
At start of year	12,557	12,507
Transfer of commission and guarantee fees	<u>45</u>	<u>50</u>
At end of year	<u>12,602</u>	<u>12,557</u>

The transfer to the special reserve is made in accordance with Article 17 of the Bank's Charter, the reserve being credited with commissions earned during the year. The special reserve is non distributable and serves the purpose of enabling the Bank meet its liabilities on borrowings or guarantees chargeable.

32 Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of derivative financial instruments and equity investments measured at fair value through the profit and loss account. The reserve represents an appropriation of unrealised fair value differences which are shown separately from retained earnings until realised. The movement in fair value reserve is shown below:

	2020 USD '000	2019 USD '000
At start of year	451	525
Transfer from retained earnings (Note 17)	<u>(69)</u>	<u>(74)</u>
At end of year	<u>382</u>	<u>451</u>

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Notes (continued)

33 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2020 USD '000	2019 USD '000
Cash and bank balances (Note 13)	17,223	12,971
Balances due from banks originally maturing within 90 days (Note 14)	<u>120,336</u>	<u>140,829</u>
	<u>137,559</u>	<u>153,800</u>

34 Revaluation reserve

The revaluation surplus arose from the revaluation of land and buildings performed and is non distributable.

	2020 USD '000	2019 USD '000
At start of year	9,396	7,901
Fair value revaluation gain	-	1,533
Transfer of excess depreciation to retained earnings	<u>(41)</u>	<u>(38)</u>
At end of year	<u>9,355</u>	<u>9,396</u>

35 Use of estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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.

This note provides an overview of the areas that involve a higher degree of judgement and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year.

Notes (continued)

35 Use of estimates and judgments (continued)

Measurement of expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about the future economic conditions and credit behaviour of the customers which are used to derive the inputs of expected credit loss (ECL), namely probability of default, exposure at default (ED) and loss given default (LGD).

A number of judgements and assumptions are required in applying the accounting requirements for measuring ECL such as:

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for measuring the ECL; and
- Establishing groups of similar financial assets for the purpose of measuring ECL.

Below is a sensitivity analysis for the key parameters considered by the Bank in the determining expected credit losses.

A 10% change in probability of default results in a USD 0.097 million change in expected credit losses, a 10% increase in loss given default results in a USD 0.35 million change in expected credit losses and a 10% change in exposure at default results in a USD 0.40 million change in expected credit losses.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Valuation techniques using significant unobservable inputs. The fair value disclosures are included in Note 36.

Notes (continued)

36 Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk and the Bank's management of capital.

Risk management framework

The Bank's Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Asset and Liability Committee (ALCO), Project Committee and the Risk Management Unit are responsible for developing and monitoring the risk management policies in their specified areas. The Board Audit Committee reports regularly to the Board of Directors on their activities while the Board of Directors reports to the Governing Council.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, 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 market conditions, products and services offered. The Bank through its procedures aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Bank's Board of Directors is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Board is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit Committee.

Notes (continued)

36 Financial risk management

Financial risk management (continued)

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers, other Banks and investment securities. For risk management reporting purposes, the Bank considers all elements of credit risk exposure such as individual obligator default risk and sector risk.

In the normal course of its business, the Bank is exposed to credit risk from counterparties, loans and advances to customers. The credit risk exposure is, however, managed through constant monitoring of the status of financial institutions where deposits are maintained. As a policy, the Bank places its deposits with strong commercial banks and internationally rated financial institutions. Credit risk is also minimized by the Bank's policy of diversification.

The Bank has investment policies and guidelines for the type of financial products and services and to restrict exposure to individual projects and industries.

Management of credit risk

The Projects Committee of management is responsible for oversight of the Bank's credit risk, including, formulating credit policies, covering collateral requirements and credit assessments, risk grading and reporting.

It is also responsible for documentary, legal procedures and compliance with regulatory and statutory requirements undertaken in consultation with the Bank's legal Department, establishing the authorization structure for the approval and renewal of credit facilities with concurrence of the Board of Directors; reviewing and assessing credit risk. The Bank assesses all credit exposures, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process, limiting concentrations of exposure to counterparties, products and industries (for loans and advances). New loan project requests are subject to Bank's risk grading in order to ensure that only viable projects are taken into the books.

The Bank also has a Portfolio team which is responsible for monitoring the credit quality of loans and ensuring appropriate corrective action is taken. The credit administration also provides advice, guidance and specialist skills to Operations Department to promote best practice in the management of credit risk. The Portfolio team prepares regular reports for Management and the Board's consideration on the performance of the loan portfolio.

Notes (continued)

36 Financial risk management

b) Credit risk (continued)

Management of credit risk (continued)

The Operations Department is required to implement the Bank's credit policies and procedures, and ensure that credit approval authorities are observed. The Operations Department is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolio, including those subject to Board approval. The Regular audits of the Operations Department and the Bank's credit processes are undertaken by Internal Audit.

Loans and advances (including loan commitments and guarantees)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss.

Credit risk grading

The Bank uses internal credit risk grading that reflect its assessment of the probability of default of individual counterparties. The Bank uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as sector and business risk, management/directors quality, financial resources, and level of collateral) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers.

Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.

Notes (continued)

36 Financial risk management

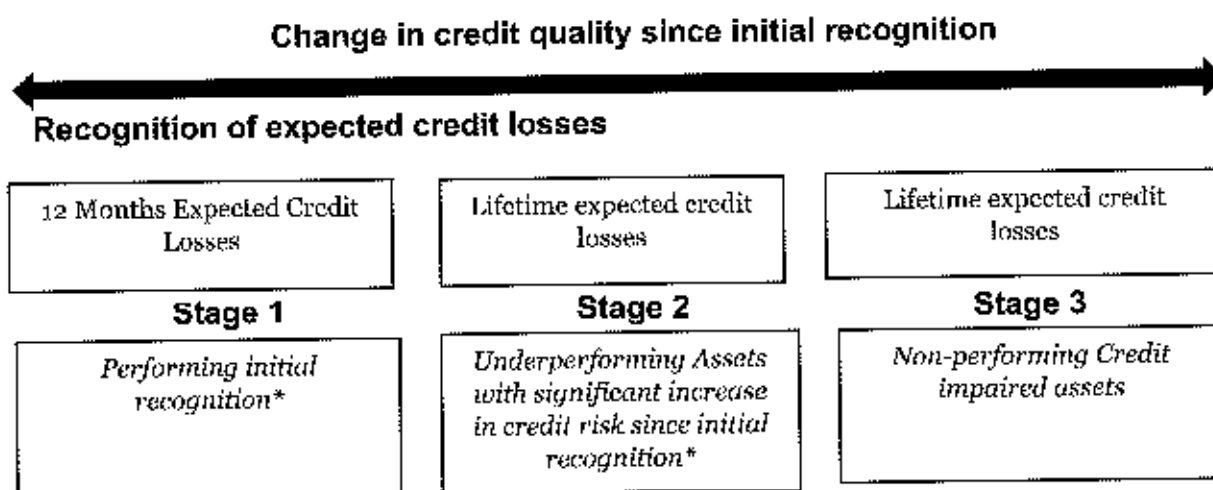
b) Credit risk (continued)

Expected credit loss measurement (continued)

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Change in credit quality since initial recognition

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets)



**Except for purchased or originated credit impaired assets*

Notes (continued)

36 Financial risk management (continued)

(b) Credit risk (continued)

The 3 stages are as detailed below:

Stage 1: includes financial instruments that *have not experienced a significant increase in credit risk* since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognised. 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date.

Stage 2: includes financial instruments that *have had a significant increase in credit risk* since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Stage 3: includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

The Bank has considered the following in determining the staging of facilities:

1. Qualitative factors
 - The client's risk rating
2. Quantitative factors
 - The facilities arrears status
 - Number of restructures, if any
 - Reasons for restructure
 - Change in client rating over the past 12 months
3. The indicators of Significant Increase in Credit Risk (SICR) are:
 - Is the facility more than 30 days past due?
 - Has it been restructured due to cash flow difficulties?
 - Has there been an increase in rating of the facility?

Notes (continued)

36 Financial risk management (continued)

(b) Credit risk (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Notes (continued)

36 Financial risk management (continued)

(b) Credit risk (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques(continued)

The Bank use a transition matrix approach in estimating the probabilities of default. According to this approach, the monthly migration matrix is multiplied out over a period of twelve months to get the 12M PD. Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type

Forward-looking information incorporated in the ECL models

To incorporate forward looking information into the ECL calculations, macroeconomic overlays were applied to the probability of default. Overlays were estimated and applied for three different scenarios, base case scenario, downside scenario and optimistic scenario.

These macroeconomic overlays and the probability of each economic scenario occurring were set using management judgement.

The main factors considered while assessing the possible impact of the economic scenario are:

- expected trend of the gross domestic product (GDP),
- expected trend of the consumer price index; and
- growth of credit to private sector.

Analysis is then made to determine how such changes are likely going to affect the probabilities of default as well as loss given default.

Bearing in mind the unique nature of 2020 operations due to the global health and economic crisis triggered by COVID-19 the Bank performed more rigorous assessment of exposures to borrowers in sectors that were adversely impacted by the pandemic namely, hotels, tourism, leisure and entertainment and education. However, since total Bank exposure in these sectors was not significant, the change in ECL were also marginal.

The Bank will continue to monitor the trend and improve its model as additional details emerge.

Notes (continued)

36 Financial risk management (continued)

(b) Credit risk (continued)

Maximum exposure to credit risk — Financial instruments subject to impairment

The following tables contain analyses of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets.

Loans and lease receivables

	Kenya USD'000	Uganda USD'000	Tanzania USD'000	Rwanda USD'000	Total USD'000
At 31					
December 2020					
Stage 1	20,670	32,740	44,151	14,022	111,583
Stage 2	8,290	5,226	-	-	13,516
Stage 3	4,627	2,966	334	-	7,927
Gross amount	33,587	40,932	44,485	14,022	133,026
At 31 December					
2019					
Stage 1	24,757	36,039	14,484	17,315	92,595
Stage 2	7,851	709	43,651	-	52,211
Stage 3	4,252	2,664	304	-	7,220
Gross amount	36,860	39,412	58,439	17,315	152,026

Maximum exposure to credit risk — Financial instruments whose impairment was determined to be immaterial

In relation to other financial assets such as balances with other banks and other receivables, the Bank considers the following factors while assessing significant increase in credit risk: payment delays and past due information (30 -day rule); and indicators of counterparty financial distress such as cash flow or liquidity issues. The key inputs in determining ECL are PD, LGD and EAD. Management performed as assessment of ECL as at 31 December 2020 and noted that the impact is not material to the financial statements.

The table below shows the other financial assets for which the impairment was determined to be immaterial.

Notes (continued)

36 Financial risk management (continued)

(b) Credit risk (continued)

	2020 USD'000	2019 USD'000
Cash at bank	17,223	12,971
Placements with commercial banks	<u>195,752</u>	<u>177,543</u>
	<u>212,975</u>	<u>190,514</u>

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

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Notes (continued)

36 Financial risk management (continued)

(b) Credit risk (continued)

The following tables explain the changes in the gross amount and the loss allowance between the beginning and the end of the annual period due to these factors:

	Stage 1 12-Month ECL USD'000	Stage 2 Lifetime ECL USD'000	Stage 3 Lifetime ECL USD'000	Total USD'000
Year ended 31 December 2020				
Loans and receivables	92,597	52,209	7,220	152,026
Gross carrying amount as at 1 January 2020				
Transfers				
Transfer from Stage 1 to Stage 2	(5,990)	5,990	-	-
Transfer from Stage 2 to stage 1	43,651	(43,651)	-	-
Financial assets derecognised during the period other than write offs	(37,351)	(4,870)	(291)	(42,512)
New financial assets originated	11,389	-	-	11,389
Changes in interest accruals	7,288	3,836	999	12,123
Gross carrying amount as at 31 December 2020	111,584	13,514	7,928	133,026
Provision for impairment				
As at 1 January 2020	392	2,290	706	3,388
Increase/ (decrease) in impairment provisions	575	(379)	397	593
As at 31 December 2020	967	1,911	1,103	3,981
Net carrying amount as at 31 December 2020	110,617	11,603	6,825	129,045

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Notes (continued)

36 Financial risk management (continued)

(b) Credit risk (continued)

Year ended 31 December 2019	Stage 1 12-Month ECL USD'000	Stage 2 Lifetime ECL USD'000	Stage 3 Lifetime ECL USD'000	Others USD'000	Total USD'000
Loans and receivables	125,186	19,990	14,500	-	159,676
Gross carrying amount as at 1 January 2019					
Transfers					
Transfer from Stage 1 to Stage 2	(27,287)	27,287	-	-	-
Transfer from Stage 2 to Stage 3	-	(295)	295	-	-
Transfer from Stage 3 to stage 2	-	7,397	(7,397)	-	-
Financial assets derecognised during the period other than write offs	(30,512)	(10,300)	(354)	-	(41,166)
New financial assets originated	20,967	347	-	-	21,314
Changes in interest accruals	4,243	7,783	176	-	12,202
Gross carrying amount as at 31 December 2019	92,597	52,209	7,220	-	152,026
Impairment					
As at 1 January 2019	1,025	224	1,979	4	3,232
Increase/(decrease) in impairment	(633)	2,066	(1,273)	(4)	156
As at 31 December 2019	392	2,290	706	-	3,388
Net carrying amount as at 31 December 2019	92,205	49,919	6,514	-	148,638

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Notes (continued)

36 Financial risk management (continued)

(b) Credit risk Measurement (continued)

Geographical concentration of financial assets

	Uganda	Tanzania	Kenya	Rwanda	Oversea	Totals
Year ending	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
December 2020						
Financial assets						
Cash and bank balances	8,112		7,427	68	1,567	17,223
Placements with banks	43,272	13,073	109,392	-	30,015	195,752
Loans and advances	40,931	44,486	33,587	14,022	-	133,026
Equity investments held at fair value	-	585	527	-	-	1,112
	92,315	58,194	150,933	14,090	31,582	347,113
Year ending December 2019						
	4,144	1	7,743	96	987	12,971
Placements with banks	52,245	12,284	86,940	-	26,074	177,543
Loans and advances	39,412	58,439	36,860	17,315	-	152,026
Equity investments held at fair value	-	671	529	-	-	1,200
	95,801	71,395	132,072	17,411	27,061	343,740

Notes (continued)

36 Financial risk management (continued)

(b) Credit risk Measurement (continued)

Write off policy

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Bank. Where loans or receivables have been written off, the Bank continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Collateral and other credit enhancements

The Bank holds collateral against loans and advances to customers in the form of legal mortgages, sovereign guarantees, insurance guarantees and floating charge over assets. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing.

An estimate of fair value of collateral and other security enhancements held against financial assets in stage 3 is shown below:

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
At December 2020	7,927	(1,103)	6,824	26,054
At December 2019	7,220	(706)	6,514	47,691

Credit exposures relating to off-statement of financial position

	2020 USD '000	2019 USD '000
Loan commitments	<u>3,330</u>	<u>1,580</u>

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of the counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed. Settlement limits form part of the credit approval/limit monitoring process described earlier.

Notes (continued)

36 Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations on its financial liabilities. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank has access to a diverse funding base. Funds are raised mainly from borrowings and share capital. This enhances funding flexibility, limits dependence on one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required in meeting business goals and targets set in terms of the overall Bank strategy. In addition, the Bank has an Asset and Liability Committee that meet on a regular basis to monitor liquidity risk, review and approve liquidity policies and procedures.

The Bank maintains a minimum of 1.33 times coverage of designated liabilities for the next twelve months in liquid assets as per the liquidity policy. Designated liabilities consist of liabilities and budgeted commitments that are due in twelve months.

The liquidity policy ratio as at the end of the year is as follows:

	2020	2019
	USD '000	USD '000
Cash and cash equivalents as per liquidity policy	187,583	159,952
Designated liabilities as per liquidity policy	<u>(44,139)</u>	<u>(53,437)</u>
Surplus per liquidity policy	<u>143,444</u>	<u>106,515</u>
Liquidity ratio	<u>5.67</u>	<u>3.99</u>

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Notes (continued)

Financial risk management (continued)

(c) Liquidity risk (continued)

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2020 to the contractual maturity date.

	Matured	< 6 Months	>6 Months < 1 Year	> 1 Year < 3 Years	> 3 Years < 5 Years	> 5 Years	Total	Amount as per Statement of Financial Position USD '000
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
31 December 2020								
Assets								
Cash at bank	17,223	-	-	-	-	-	17,223	17,223
Deposits due from commercial banks	-	196,794	-	-	-	-	196,794	195,752
Loans and lease receivables	6,918	21,129	25,085	66,243	23,686	19,556	162,617	129,045
Equity investments at fair value	-	-	-	1,112	-	-	1,112	1,112
Other assets receivable	526	-	-	-	-	-	526	526
Total assets	24,667	217,923	25,085	67,355	23,686	19,556	378,272	343,658
Liabilities and shareholder funds								
Other accounts payable	9,461	-	-	-	-	-	9,461	9,461
Lease liability	-	71	71	293	96	-	531	458
Medium and long term loans	-	8,727	7,741	32,397	12,849	24,977	86,691	75,337
Total liabilities and shareholder funds	9,461	8,798	7,812	32,397	12,945	24,977	96,390	85,256
Net liquidity gap -31 Dec 2020	15,206	209,125	17,273	34,958	10,741	(5,421)	281,882	
Cumulative gap- 31 Dec 2020	15,206	224,331	241,604	276,562	287,303	281,882		
Net liquidity gap -31 Dec 2019	13,421	191,168	14,239	47,348	13,029	(14,137)	265,068	
Cumulative gap- 31 Dec 2019	13,421	204,589	218,828	266,176	279,205	265,068		

Notes (continued)

36 Financial risk management (continued)

(c) Liquidity risk (continued)

Off balance sheet items

The Bank's off-balance sheet items comprise of loans commitments, letters of credit and capital commitments. The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that it commits to extend credit to customers, letters of credit and capital commitments are summarised in the table below;

	< 6 Months USD '000	> 6 Months < 1 Year USD '000	> 1 Year < 3 Years USD '000	> 3 Years < 5 Years USD '000	> 5 Years 7 Years USD '000	> 7 Years USD'000	Total USD '000
Loan commitments	710	2,620	-	-	-	-	3,330

(d) Interest rate risk

In broad terms the interest rate risk is the sensitivity of the Bank's financial performance to changes in the interest rates. The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the Bank's business strategies. In order to minimize interest risk, the Bank has a policy where the approved lending commitments are matched to specific lines of credit or source of funds, including adopting the funding interest rate characteristics (fixed or variable) to its on-lending activities.

As at 31 December 2020 if interest rates on interest bearing assets and liabilities had been higher/ lower by 200 bps, with all other variables held constant, the impact on statement of profit or loss would be a loss of USD 2.6 million (2019: USD 2.5 million), which is 0.94% percent of the total shareholders' equity. This is shown in the table below.

	2020 USD'000	2019 USD'000
Total assets repricing within 6 months	293,418	296,895
Total liabilities repricing within 6 months	31,225	40,590
Interest gap	262,193	256,305
Impact of interest rise by 200 bps	2,625	2,563
Impact on total shareholders' equity	0.94%	0.96%

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Notes (continued)

36 Financial risk management (continued)

(d) Interest rate risk (continued)

The table below summarizes the exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates. The Bank does not bear interest rate risk on off balance sheet items.

	Up to		1 to 3		3 to 6		6 to 12		1 to 5		Over		Total	
	1 month	1 to 3	1 to 3	3 to 6	3 to 6	6 to 12	6 to 12	1 to 5	1 to 5	5 years	5 years	Non-interest bearing	Total	
	USD '000	USD '000	months	months	months	months	months	months	years	years	USD '000	USD '000	USD '000	USD '000
Assets														
Cash and bank balances	-	-	-	-	-	-	-	-	-	-	-	17,223	17,223	17,223
Deposits due from banks	49,714	118,347	-	27,691	-	-	-	-	-	-	-	-	-	195,752
Loans and advances	2,448	90,175	-	5,043	10,524	833	-	24,003	-	-	-	-	-	133,026
Equity investments	-	-	-	-	-	-	-	-	-	-	-	1,112	1,112	1,112
Other assets receivable	-	-	-	-	-	-	-	-	-	-	-	526	526	526
Total assets	52,162	208,522	208,522	32,734	10,524	833	24,003	24,003	10,524	24,003	24,003	18,861	18,861	347,639
Liabilities and shareholders' funds														
Other accounts payable	-	-	-	-	-	-	-	-	-	-	-	9,461	9,461	9,461
Medium and long term loans	-	22,342	22,342	8,625	22,988	258	21,107	21,107	22,988	21,107	21,107	17	17	75,337
Total liabilities and shareholder funds	-	22,342	22,342	8,625	22,988	258	21,107	21,107	22,988	21,107	21,107	9,478	9,478	84,798
Interest sensitivity gap at 31 Dec 2020	52,162	186,180	186,180	24,109	(12,464)	575	2,896	2,896	(12,464)	2,896	2,896	9,383	9,383	262,841
Cumulative gap at 31 Dec 2020	52,162	238,342	238,342	262,451	250,562	263,026	253,458	253,458	250,562	253,458	253,458	262,841	262,841	262,841
Interest sensitivity gap at 31 Dec 2019	56,577	173,290	173,290	26,438	(11,608)	3,471	(4,679)	(4,679)	(11,608)	(4,679)	(4,679)	5,230	5,230	248,719
Cumulative gap at 31 Dec 2019	56,577	229,867	229,867	256,305	248,168	259,776	243,489	243,489	248,168	243,489	243,489	248,719	248,719	248,719

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Notes (continued)

36 Financial risk management (continued)

(e) Currency risk

The Bank does not actively engage in dealing and trading operations in currencies and so the Bank's exposure to currency risk mainly involves the risk of foreign exchange losses or gains arising on the retranslation of monetary assets, liabilities and off-balance sheet items denominated in foreign currency. To minimize currency risk in a multi-currency environment, the Bank matches its funding in one currency with assets in the same currency.

ASSETS (Figures in USD)	UGX '000	KES '000	TZS '000	RWF '000	EUR '000	GBP '000	SEK '000	Total
Cash and bank balances	6,051	997	42	61	7,095	9	1	14,256
Deposits due from banks	-	787	2	-	-	-	-	789
Loans and advances	18,128	21,236	-	197	4,485	-	-	44,046
Equity investments	-	153	585	-	-	-	-	738
Other assets receivable	157	335	63	16	-	618	-	1,189
TOTAL ASSETS	24,336	23,508	692	274	11,580	627	1	61,018
LIABILITIES								
Other accounts payable	89	-	-	-	6,752	-	-	6,841
Medium and long term borrowings	23,675	15,779	-	197	4,702	-	-	44,353
TOTAL LIABILITIES	23,764	15,779	-	197	11,454	-	-	51,194
Net currency position Dec 2020	572	7,729	692	77	126	627	1	9,824
Net currency position Dec 2019	2,794	6,688	1,149	67	220	179	1	11,099

Notes (continued)

36 Financial risk management (continued)

(e) Currency risk (continued)

Sensitivity analysis

The 10% movement of USD against other currencies at 31 December 2020 would have increased or decreased profit by USD 0.893 million (2019: USD 1.0 million). This is assuming that all other variables, in particular interest rates remain constant.

	2020 USD'000	2019 USD'000
FX denominated assets	61,018	64,438
FX denominated liabilities	51,194	53,338
Net open position	9,824	11,099
Impact of a 10% movement in exchange rate	893	1,010

(f) Fair value of financial assets and liabilities

The carrying amount of financial assets and liabilities approximate to their fair value.

(g) Fair value of financial instruments

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Fair value is determined using unadjusted quoted prices in an active market for identical assets and liabilities. Types of financial assets include: actively traded government and other agency securities, listed derivative instruments and listed equities. Types of financial liabilities include listed derivative instruments.
- Level 2 – Fair value is determined using valuation models with direct or indirect market observable inputs. Types of financial assets include: corporate and other government bonds and loans, and over-the-counter (OTC) derivatives. Types of financial liabilities include over-the-counter (OTC) derivatives.
- Level 3 – Fair value is determined using Valuation models using significant non-market observable inputs. Types of financial assets include: highly structured OTC derivatives with unobservable parameters and corporate bonds in illiquid markets. Types of financial liabilities include highly structured OTC derivatives with unobservable parameters.

Notes (continued)

36 Financial risk management (continued)

(g) Fair value of financial instruments (continued)

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. As at 31 December 2020 and 2019, fair values of the financial instruments held by the Bank were as follows:

	2020	2019
	USD'000	USD'000
Financial assets		
At fair value		
Equity investments	<u>1,112</u>	<u>1,200</u>
At amortised cost		
Loans and advances	129,045	148,638
Other assets receivable	526	997
Placements with commercial banks	195,752	177,543
Cash at bank	<u>17,223</u>	<u>12,971</u>
	<u>343,658</u>	<u>192,711</u>

The fair values of the Bank's financial assets and financial liabilities measured at amortised cost approximate their carrying amounts in the statement of financial position and are categorised under level 3 of the fair value hierarchy.

Liabilities as per balance sheet – at amortised cost

Other liabilities	9,461	9,865
Lease liability	458	554
Medium and long term loans	<u>75,337</u>	<u>86,082</u>
Total	<u>85,256</u>	<u>96,501</u>
	Level 3	Total
	USD '000	USD '000

31 December 2020

Financial assets at fair value through profit or loss

Equity investments at fair value	<u>1,112</u>	<u>1,112</u>
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31 December 2019

Financial assets at fair value through profit or loss

Equity investments at fair value	<u>1,200</u>	<u>1,200</u>
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Notes (continued)

36 Financial risk management (continued)

(g) Fair value of financial instruments (continued)

Reconciliation of level 3 items

Equity investments	Level 3 USD '000	Total USD '000
At start of year	1,200	1,273
Additions	-	-
Investments exited	-	-
Fair value gain/ (loss)	<u>(88)</u>	<u>(73)</u>
At end of year	<u>1,112</u>	<u>1,200</u>

The movement in fair value of equity investments has been analysed in Note 17.

The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs for the year ended 31 December 2020 other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

(h) Capital management

The Bank's objectives when managing capital, which is a broader concept than 'equity' on the face of the statement of financial position, are:

- To comply with the capital requirements set under the Bank's Charter;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

Notes (continued)

36 Financial risk management (continued)

(h) Capital management (continued)

- To maintain a strong capital base to support the development of its business.

The Bank's capital requirements are strictly observed under Article 11 of the Bank's Charter which requires that the Bank's outstanding loans, equity investments and guarantees do not at any one time exceed three times the Bank's unimpaired subscribed capital plus reserves and surplus relating to its ordinary capital resources but excluding the special reserve. The Bank was well within this limit as of 31 December 2020. The ratio is computed as a ratio of loans, equities and lease receivables divided by shareholders equity less special reserves.

	2020 USD '000	2019 USD '000
Gross loans and lease receivables	133,026	152,026
Shareholders' equity	278,990	266,417
Special reserve	<u>(12,602)</u>	<u>(12,557)</u>
	<u>266,388</u>	<u>253,860</u>
Ratio	<u>0.50</u>	<u>0.60</u>

Net debt reconciliation

Below is an analysis of net debt and the movements in net debt for each of the periods presented.

	2020 USD'000	2019 USD'000
Cash and cash equivalents (Note 33)	137,559	153,800
Borrowings (Notes 24)	(75,337)	(86,082)
Lease liability (Note 25)	<u>(458)</u>	<u>(554)</u>
Net debt	<u>61,764</u>	<u>67,164</u>

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Notes (continued)

36 Financial risk management (continued)

(h) Capital management (continued)

Net debt reconciliation (continued)

	Borrowings	Lease	Liquid	Total
	USD'000	liability	assets	USD'000
		USD'000	USD'000	
At 1 January 2019	(91,458)	(677)	174,169	82,034
Acquisitions	(6,049)	-	-	(6,049)
Repayments	16,997	161	-	17,158
Net foreign exchange difference		-		-
	(168)		(18)	(186)
Other adjustments/movements	(5,404)	(38)	(20,351)	(25,793)
At 31 December 2019	(86,082)	(554)	153,800	67,164
At 1 January 2020	(86,082)	(554)	153,800	67,164
Acquisitions	(3,980)	-	-	(3,980)
Repayments	17,903	138	-	18,041
Net foreign exchange difference	988		218	1,206
Other adjustments/movements	(4,166)	(42)	(16,459)	(20,667)
At 31 December 2020	(75,337)	(458)	137,559	61,764

37 Employee retirement benefit plans and gratuity

	Note	2020	2019
		USD '000	USD '000
Contribution to the retirement benefit plan	(i)	261	252
Contribution to the statutory pension scheme (NSSF)	(ii)	3	3
Gratuity	(iii)	72	72
		<u>336</u>	<u>327</u>

Notes (continued)

39 Off balance sheet items and contingencies (continued)

Nature of contingent liabilities

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period.

The Bank is a litigant in several cases which arise from normal day to day Banking activities. The Directors believe the Bank has strong grounds for success and are confident that they should get rulings in their favor in matters before court. In cases where the Bank may not be successful, Directors and management are confident that such cases would not significantly impact the Bank's operations either individually or in aggregate.

Management has also carried out an assessment of all the cases outstanding as at 31 December 2020 and did not find any that warranted a provision. This position is supported by independent professional legal advice.

40 Related party transactions

The Bank is owned by four East African Community member states of Kenya, Tanzania, Uganda and Rwanda who collectively own 87% of the total number of shares, which is 100% of the ordinary class A shares. The remaining 13% is widely held by class B shareholders as disclosed in note 28.

A number of Banking transactions are entered into with related parties in the normal course of business. These include loans, deposits with Banks, borrowings and capital contributions by the member states. The volumes of related-party transactions and outstanding balances at year-end, for the year are as follows:

	2020	2019
	USD '000	USD '000
Loans and advances to Directors		
Green Hills Academy Ltd	197	297
Loan to Government of United Republic of Tanzania	<u>11,122</u>	<u>13,048</u>

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Notes (continued)

40 Related party transactions (continued)

Deposits held with banks that are shareholders of the Bank and related entities:

	2020 USD '000	2019 USD '000
NCBA Bank Limited	57,262	35,503
Standard Chartered Bank PLC	30,962	26,074
Interest income earned on all of the above	<u>2,647</u>	<u>3,358</u>

Borrowings payable by the Bank to shareholders

African Development Bank	19,046	23,040
NCBA Bank Limited	<u>5,754</u>	<u>9,321</u>

Interest expense on borrowings as paid to shareholders

<u>1,708</u>	<u>2,467</u>
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As at 31 December 2020, provision on loans and advances to related parties amounted to USD 178,805 for Government of United Republic of Tanzania and USD 135 for The Green Hills Academy. The two loans were classified under stage one. None of the transactions incorporate special terms and conditions and no guarantees were given or received on these loans.

Key management compensation

Key management includes Directors (executives and non-executives) and members of senior management. The compensation paid or payable to key management for employee services is shown below:

	2020 USD '000	2019 USD '000
Salaries and other employee benefits	379	379
Other short-term employee benefits - Gratuity	72	72
Other expenses	<u>40</u>	<u>58</u>
	<u>491</u>	<u>509</u>

Notes (continued)

40 Related party transactions (continued)

	2020 USD '000	2019 USD '000
Directors' emoluments		
- Fees and allowances	41	28
- Salaries and other short-term employee benefits (included within key management compensation above)	451	451
- Other expenses	<u>7</u>	<u>30</u>
	<u>499</u>	<u>509</u>

41 Impact of COVID-19

As part of the global community, the Bank was impacted directly by the COVID-19 pandemic through its own operations and indirectly through operations of its customers/borrowers.

In response, the Bank invoked its contingency plan and enhanced it to cater for the unique challenges brought by the pandemic which were not envisaged at the time of developing the contingency plan.

The Bank's technology facilitated remote working and ensured that service delivery was not significantly impacted. Some support staff who could not work remotely were given paid leave days until the situation allowed to resume work with strict observation of the SOPs.

The Bank's approval of new loans and disbursements slowed down due to uncertainties brought by the pandemic while loan impairment charge increased several times to USD 0.59 million (0.4% of the gross loan portfolio) compared to only USD 0.16 million (0.1% of the gross loans portfolio) in 2019 in view of increased inherent risk.

In addition, there was loss on foreign exchange and revaluation of investment properties amounting to USD 0.95 million due to volatility of the foreign exchange and changes in the real estate market.

The Bank managed to reschedule loans amounting to USD 40.20 million, which was 28.2% of the average loan portfolio during the year.

The Bank expects slow return to normalcy but will continue to monitor the situation and take appropriate actions.