EAST AFRICAN DEVELOPMENT BANK

INVESTING IN A SUSTAINABLE FUTURE

Annual Report 2020

Your Partner in Development

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LIST OF ABBREVIATIONS & ACRONYMS

AADFI	Association of African Development Financing Institutions
AfDB	African Development Bank
ALCO	Assets and Liabilities Committee
BADEA	Arab Bank for Economic Development in Africa
BCP	Business Continuity Policy
BIF	Burundian Franc
CDM	Clean Development Mechanism
CGC	Coalition for Green Capital
CIF	Climate Investment Funds
CKMS	Credit Knowledge Management System
CPP	Client Protection Principles
DEG	German Investment and Development Company
DBSA	Development Bank of Southern Africa
EAC	East African Community
EACDF	East African Community Development Fund
EADB	East African Development Bank
ERM	Enterprise-wide Risk Management
ESPR	Environmental and Social Report
EIB	European Investment Bank
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
FMO	The Netherlands Development Finance Company
GCR	Global Credit Rating
GDP	Gross Domestic Product
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFC	International Finance Corporation
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IRENA	International Renewable Energy Agency
IUCEA	Inter-University Council for East Africa
JICA	Japan International Co-operation Agency
KES	Kenyan Shilling

KfW	Kreditanstalt für Wiederaufbau
KYC	Know Your Customer
LDCs	Least Developed Countries
MDB	Multilateral Development Banks
NDF	Nordic Development Fund
NDP	National Development Plan
NST	National Strategy for Transformation
NPL	Non Performing Loans
ODA	Overseas Development Assistance
OPEC	Organization of the Petroleum Exporting Countries
PFI	Partner Financial Institution
PWC	Price Waterhouse Coopers
RCC	Regional Collaboration Centre (UNFCCC)
RCSA	Risk Control Self Assessment
RWF	Rwandan Franc
SBIC	Africa Standard Bank Investment Corporation -Africa
SIDA	Swedish International Development Cooperation
SMEs	Small and Medium Enterprises
SPM	Social Performance Management
TZS	Tanzanian Shilling
UNFCCC	United Nations Framework Convention on Climate Change
UGX	Ugandan Shilling
USA	United States of America
USD	United States Dollar
VAT	Value Added Tax
WEO	World Economic Outlook

CORPORATE INFORMATION

Registered Office & Principal Place of Business

Uganda (Headquarters)

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

Auditor

Price water house Coopers
Certified Public Accountants,
10th Floor Communications House,
1 Colville Street,
P. O. Box 882, Kampala, Uganda

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

GOVERNING COUNCIL

Honourable Matia Kasaija
(Chairperson)

Minister for Finance, Planning and Economic Development, Republic of Uganda

Honourable Dr. Philip Mpango[1]

Minister for Finance and Planning, United Republic of Tanzania

Honourable (Amb) Ukur Yatani, EGH

Cabinet Secretary, National Treasury and Planning, Republic of Kenya

Honourable Dr. Uzziel Ndagijimana

Minister for Finance and Economic Planning, Republic of Rwanda

1 On 30th March 2021 Hon. Dr. Philip Mpango was confirmed by the Parliament to be the Vice President of the United Republic of Tanzania following recommendation of his name by the President. On the other hand, Hon. Dr. Mwigulu Nchemba was appointed to be Minister of Minister of Finance from 31st March 2021 and therefore a new Governing Council Member

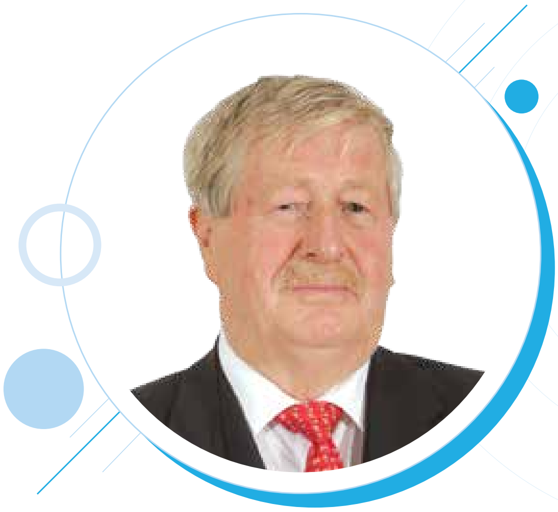
ADVISORY PANEL

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.

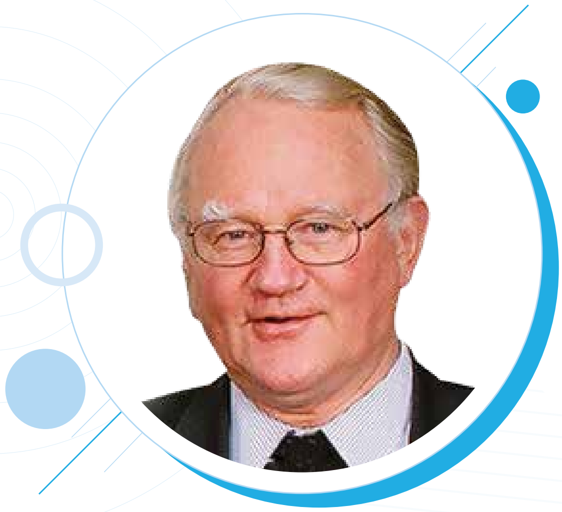
Mr Toyoo Gyohten

President, Institute for International Monetary Affairs, Japan and Senior Adviser, Bank of Tokyo, Mitsubishi Limited.



Mr Lars Ekengren

Former Deputy Director General, Swedish International Development Agency ("SIDA")



Mr Jannik Lindbaek

Former Executive Vice president and CEO of the International Finance Corporation ("IFC")

BOARD OF DIRECTORS

Mr. Keith Muhakanizi

Permanent Secretary/Secretary to the Treasury, Ministry of Finance, Planning and Economic Development, Republic of Uganda - **Chairperson**

Dr. Julius Monzi Muia, CBS

Principal Secretary, the National Treasury, Republic of Kenya - **Member**

Mr. Doto James[2]

Permanent Secretary, Pay Master General, Ministry of Finance and Planning, United Republic of Tanzania – **Member up to 3rd April 2021**

2 Mr. Emmanuel Tutuba was appointed to be the new Permanent Secretary in the Ministry of Finance and Planning of the United Republic of Tanzania with effect from 4th April 2021 and therefore a new Member of the Bank's Board of Directors.

BOARD OF DIRECTORS

Mr. Francis N. Karuiru

Private sector representative,
Republic of Kenya -
Member

Ms. Khadija I. Simba

Private sector representative,
United Republic of Tanzania -
Member

Dr. Mukhtar Abdu Sarkinbai

African Development Bank
Representative -
Member

Mr. Mbundu Faustin

Private sector representative,
Republic of Rwanda -
Member

BOARD OF DIRECTORS

Mr. James Tumusiime

Private sector representative,
Republic of Uganda -
Member

Ms. Vivienne Yeda

Director General

LETTER OF TRANSMITTAL

The Honourable Minister for Finance, Planning and Economic Development
The Republic of Uganda

The Honourable Cabinet Secretary, the National Treasury and Planning
The Republic of Kenya

The Honourable Minister for Finance and Planning
The United Republic of Tanzania

The Honourable Minister for Finance and Economic Planning
The Republic of Rwanda

In accordance with Articles 26 and 35 of the Charter for the East African Development Bank (the "Bank"), the Board of Directors herewith submits to the Honourable Members of the Governing Council and to the Members of the Bank, the Annual Report of the Bank for the period 1st January to 31st December 2020.

This Report highlights the activities of the Bank during the year and shows the Bank's financial position as at 31st December 2020. The Report also presents a summary of the economic performance of the Member States of the Bank.

Honourable Members of the Governing Council, please accept the assurances of my highest consideration and esteem.

Mr. Keith Muhakanizi
CHAIRPERSON
BOARD OF DIRECTORS

STATEMENT BY BOARD CHAIRPERSON

PERFORMANCE UNDER STRATEGIC PLAN (2016-2020)

$279m

Share Capital and Reserves

Increased its share capital and reserves from USD 266 million to USD 279 million

$20m

OPEC Fund

Line of credit for USD 20 million

$6.37m Profit

Good Performance Registered

Registered good performance with a profit of USD 6.37 million, although it was a drop of 27%

Import-substitution, Intra-regional exports, Agriculrural development and SMEs

Financed Selected Projects

Financed selected projects of strategic interest to the Member States

On behalf of the Board of Directors, I am delighted to present the Annual Report and Financial Statements of the East African Development Bank (EADB) for the year ended 31st December 2020.

During the year 2020, the Bank continued to pursue its Mission to promote sustainable social economic development in East Africa by providing development finance, advisory and support services. Despite challenges emanating from the COVID-19 pandemic and the impact of measures taken to contain it, EADB implemented activities to consolidate performance under its Strategic Plan (2016-2020). In particular, the Bank:

- Increased its share capital and reserves from USD 266 million to USD 279 million on account of additional share capital from the United Republic of Tanzania and profitability for the year.
- Signed a line of credit for USD 20 million from the OPEC Fund for International Development.
- Registered good performance with a profit of USD 6.37 million, although it was a drop of 27% from the amount recorded in 2019, largely due to the global and regional economic impact of the coronavirus pandemic.
- Financed selected projects of strategic interest to the Member States, including but not limited to promotion of import-substitution, intra-regional exports, agriculrural development and Small and Medium Enterprises (SMEs).

On behalf of the Board of Directors, I wish to recognize the contributions made by all stakeholders towards the Bank's successful performance. We appreciate our clients, shareholders and development partners for the continued support. I wish to thank my fellow Directors for their leadership of the Bank. I would like to take this opportunity to congratulate the Management and Staff of the Bank for a year of good performance in spite of the challenging economic environment.

The Bank's Strategic Plan for the period 2021-2025 is under preparation and will be launched during 2021. It will build on the results from the previous Strategic Plan and aim at consolidating the Bank's role in the development of Member States.

Mr. Keith Muhakanizi
Chairperson, Board of Directors

STATEMENT BY DIRECTOR GENERAL

Strong performance despite Covid-19 disruption

Investment Grading Rate
stable outlook signifying continued stability and bright prospects

We worked with BADEA and DBSA

5.7 X improvement in Liquid Assets
$134.22m Portfolio

We set ourselves ambitious targets for 2020. However, the subsequent economic and social impact of the coronavirus pandemic on our region and our clients became evident. The Bank navigated through the turbulence and achieved some of the set targets.

Once again, the credit rating agencies (the Moody's and Global Credit Rating) affirmed the Bank's investment grade rating with stable outlook signifying continued stability and bright prospects. We worked with the Arab Bank for Economic Development Bank in Africa (BADEA) and Development Bank of Southern Africa (DBSA) to complete due diligence on EADB for lines of credit which will finance projects in EADB Member States.

We continued to support our clients and new business, and activated a business continuity plan which worked very well. Perhaps the most important decision made was to remain committed to supporting our clients throughout the pandemic.

The Bank maintained close relationship with customers to understand their challenges and provide needed support which included moratorium in loan repayment where underlying projects were negatively impacted.

The Bank's technology facilitated remote working and ensured that service delivery was not significantly impacted. As a result, the Bank managed to reschedule loans totaling above USD 40 million, which was slightly above a quarter of the whole loan portfolio. Most of the customers subsequently did very well following the flexibility provided to keep liquidity that was required to support business instead of repaying the Bank's loans. Performance of the underlying loans has remained good.

Over the period 2016-2020, the Bank's liquidity coverage ratio, which is a measure of its liquid assets relative to its liabilities, improved from 2.2 times in 2016 to 5.7 times by the end of 2020. The Non Performing Loan (NPL) ratio, a key aspect of the balance sheet, improved from 6.9% in 2016 to 5.9% by the end of 2020 as the Bank continued to pursue a prudent lending approach. The outstanding portfolio size as at 31 December 2020 was USD 134.22 million compared to USD 153.25 million as at 31 December 2019. The drop in the gross portfolio was mainly due to slowdown in net lending following disruption of economic and business activities by the coronavirus pandemic.

The Bank continued its corporate social responsibility policy. Through its collaboration with Kreditanstalt für Wiederaufbau (KfW), EADB conducted training on Social Performance Management (SPM) & Client Protection Principles (CPP) for Management and staff of Sidian Bank Kenya, a Partner Financial Institution (PFI). A series of trainings on credit assessment model were also conducted for Directors, senior management and staff of Kenya Women Microfinance Bank, another PFI. The EADB in partnership with the British Council, the Royal College of Physicians and the Rwanda Ministry of Health through the University Teaching Hospital of Butare (CHUB), organized a training on early detection and treatment of neurological disorders for 20 medical doctors from districts and referral hospitals in Rwanda.

In the year 2021, we project to bring into the EADB business portfolio of over USD 100 million worth of new investment. The Bank shall prioritize investment in sectors of strategic significance to member countries, especially those which maximize development outcomes. The Bank shall continue to pursue prudent lending policies supported by robust risk management.

Vivienne Yeda
Director General

1.0 EAST AFRICAN DEVELOPMENT BANK

SNAPSHOT

VISION

To be the partner of choice for sustainable socio-economic development.

MISSION

To promote sustainable social-economic development in East Africa by providing development finance, support and advisory service.

EAST AFRICAN DEVELOPMENT BANK

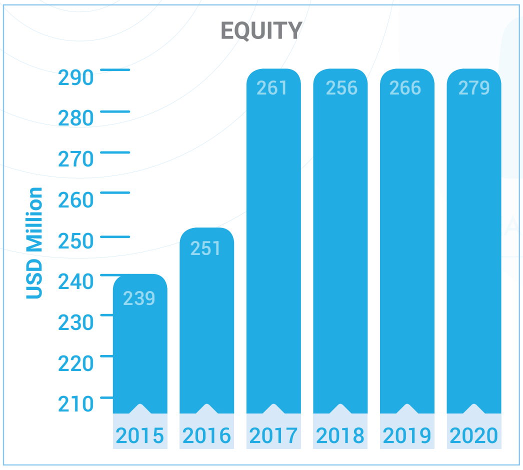
STRATEGIC OBJECTIVES

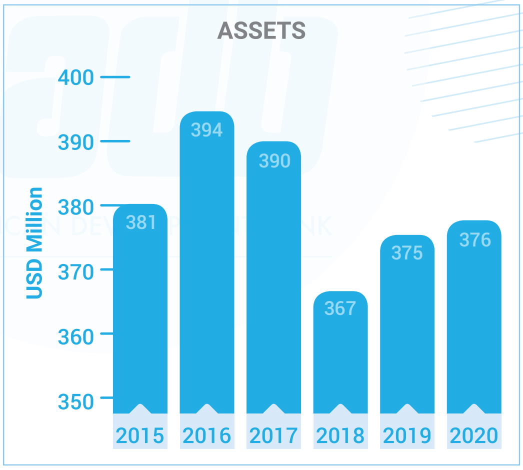
i. Improving financial performance and portfolio quality.
ii. Increasing the volume of lending and risk management.
iii. Improving and broadening the development outcomes.

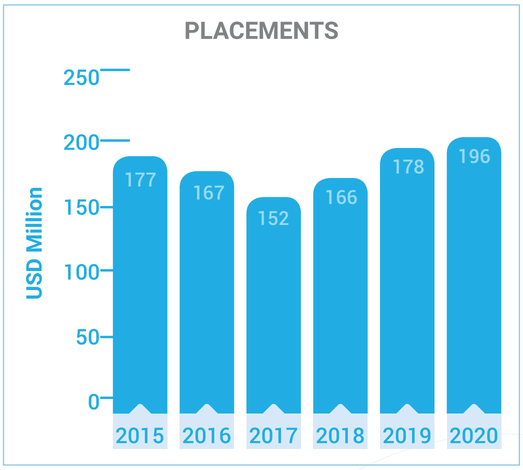
CORE VALUES

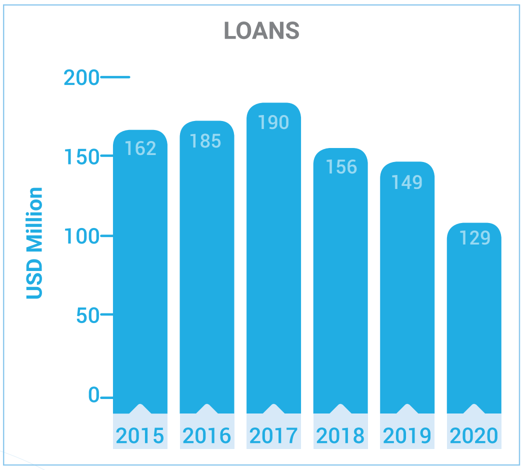
i. Service
ii. Integrity
iii. Leadership
iv. Innovation
v. Team work

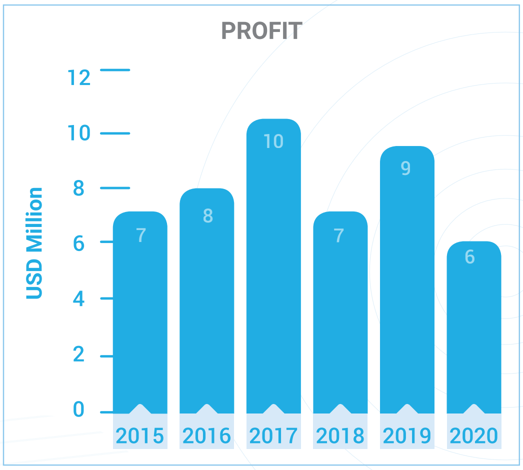
1.5 FOR THE YEAR 2020
KEY HIGHLIGHTS

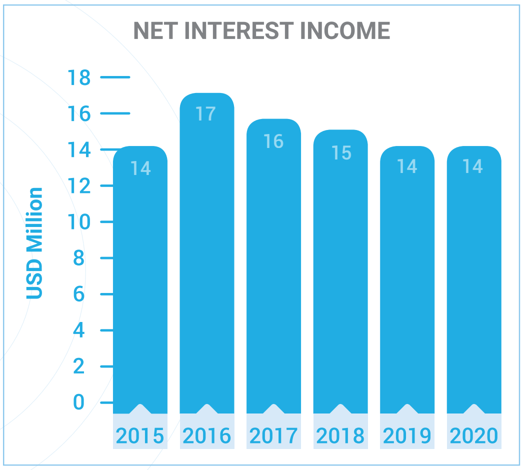












Impact Area Number

4,551
Loans disbursed
SMEs, Agriculture and Rural finance

20,432
Jobs supported by loans
SMEs, Agriculture and Rural finance

11,238
Women Jobs
out of the 20,432 supported

CSR programs

584
Doctors direct beneficiaries from the METAF program

6,000
Clinical Staff
benefited

189
Direct beneficiaries
of the extractive industries programs

1.6 STRATEGIC PARTNERSHIPS

SHAREHOLDERS

- **Class A shareholders:** the Member States of Kenya, Rwanda, Tanzania and Uganda represented by the respective Ministries responsible for Finance and Planning), and
- **Class B shareholders:** African Development Bank (AfDB), the Netherlands Development Finance Company (FMO), German Investment and Development Company (DEG), SBIC-Africa Holdings, NCBA Bank Kenya, Nordea Bank of Sweden, Standard Chartered Bank, London, Barclays Bank Plc., London and Consortium of former Yugoslav Institutions.

FINANCIAL INSTITUTIONS

- **EADB maintained its partnership with KfW for three lines of credit:** the Agricultural Financing Kenya Program, the Agri-finance Enhancement Program in Uganda, and the Rural Finance Enhancement Program in Uganda.
- The OPEC Fund for International Development (The OPEC Fund) signed a line of credit with EADB during 2020.
- The Arab Bank for Economic Development Bank in Africa (BADEA) and Development Bank of Southern Africa (DBSA) completed due diligence on EADB for lines of credit to finance projects in the EADB Member States.

CLIMATE FINANCE

The Bank continued to collaborate with the UNFCCC, Coalition for Green Capital (CGC), Climate Investment Funds (CIF) and other partners on issues related to climate finance. Climate change is now recognized as one of the biggest challenges to socio-economic development.

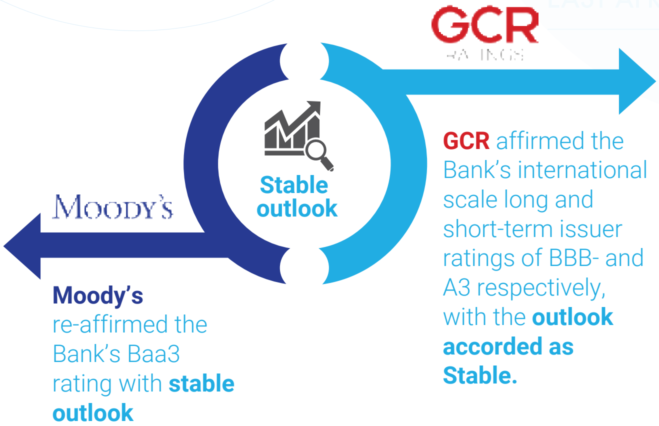
NATIONAL, REGIONAL AND INTERNATIONAL AGENCIES

The Bank continued to collaborate with various national, regional and international entities on matters of development and strategic interest to East Africa. These entities include National Bureaus of Statistics and Central Banks of EADB Member States, East African Community Secretariat, World Bank, International Monetary Fund (IMF), European Investment Bank (EIB), Nordic Development Fund (NDF) and Japan International Co-operation Agency (JICA).[1]

1.7 INTERNATIONAL CREDIT RATING

Rating Report

Investment Grade Rating awarded by Moody's & GCR



the Bank **benefits from one of the lowest leverage ratios** among the MDBs;

The Bank continued to maintain its investment grade rating awarded by Moody's and the Global Credit Rating (GCR). The rating report issued by Moody's in October 2020 re-affirmed the Bank's Baa3 rating with stable outlook, reflecting robust capital buffers and prudent liquidity levels, balanced against the low average credit quality of its shareholders and weak asset performance. Moody's further recognized that the Bank "benefits from one of the lowest leverage ratios among the Multilateral Development Banks (MDBs) that we rate, at 104% in 2019, which supports its capital position". Similarly, the report released by the GCR in November 2020 affirmed the Bank's international scale long and short-term issuer ratings of BBB- and A3 respectively, with the outlook accorded as Stable.[1]

2.0 ECONOMIC PERFORMANCE OF EADB MEMBER STATES

2.1 GLOBAL ECONOMIC CONTEXT

When the world was hit by the corona virus pandemic in 2020, the global economy contracted by an estimated -3.3%. This is in contrast to global growth rates averaging 3.5% during 2016-2018 and 2.8% in 2019[1]. At the pandemic peak in 2nd quarter 2020, global trade contracted by -18.5%[2]. East Africa[3], the fastest growing region in Sub-Saharan Africa slowed down remarkably from a GDP growth rate of 7.1% in 2019 to an estimated 1.2% in 2020. The rate of recovery in the years ahead could be slower than projected (see Table 2.1), due to the highly unpredictable next wave of the pandemic, the effectiveness of containment and economic stimulus measures, as well as the possibility of revisions in pandemic data.

Table 2.1: Global Trends in Real GDP Growth (%)

Economy	Average	Out-turn	Projected	
	2016 - 2018	2019	2020	2021
World	3.5	2.8	-3.3	6.0
Advanced economies	2.2	1.6	-4.7	5.1
Emerging market and developing economies	4.6	3.6	-2.2	6.7
Sub-Saharan Africa	2.6	3.2	-1.9	3.4
East Africa	2.8	5.4	-1.5	5.1

Source: *IMF Economic Outlook Database April, 2021. Growth rates for East Africa are Author's calculations based on the same IMF Database.*

The value of EAC share in world exports remained about 0.1% compared to LDCs' share of 1.0%. EAC intra-regional exports[4] comprised mainly manufactured, mineral, agricultural and pharmaceutical commodities, and contributed about 7% of the region's imports over the same period.

The overall trade deficit of EADB Member States i.e. Kenya, Rwanda, Tanzania and Uganda widened in recent years. The merchandise trade deficit widened from USD -16.102 billion in 2016 to USD -24.148 billion in 2019[5] in spite of these four countries increasing their value of exports to the world over the period. Rwanda and Uganda achieved higher export growth than Kenya and Tanzania.

2.2 MEMBER STATES' ECONOMIC POLICIES

The EAC countries maintained an open economy stance to fostering economic growth with the broad objectives of improving the business environment and realizing their national and regional medium to long-term development objectives. EAC countries continued to pursue a macroeconomic convergence framework adopted in 2007, targeting a ceiling of 8% on headline inflation rates; a ceiling of 3% on fiscal deficit-to-GDP ratios; a ceiling of 50% on gross public debt-to-GDP ratios; a floor of 4.5 months of imports for the levels of foreign exchange reserves, and a floor on tax-to-GDP ratio of 25%.

While striving for economic transformation, the EADB Member States implemented short-term fiscal and monetary measures aimed at containment of the coronavirus, supporting survival of businesses, and stimulating economic recovery.

1. The trade disputes between China and USA climaxed into a trade war from 2018 to 2019, which affected global economic performance
2 . Source: Africa Trade Report 2020 by Africa Export Import Bank.
3 . East African countries are: Burundi, Kenya, Rwanda, South Sudan, Tanzania and Uganda while EADB member states are: Kenya, Rwanda, Tanzania and Uganda.
4. A proportion of intra-EAC trade may not be reported due to statistical limitations to record informal cross-border trade. EAC cross border trade has also been affected by non-tariff barriers in some countries.
5.. ITC Trade Map indicators.

Industrialization and agro-processing strategies, promotion of Small and Medium Enterprises (SMEs) as well as expansionary fiscal and monetary policies were adopted across the region as elaborated below:

i) Kenya continued implementation of *The Big Four strategy 2018-2022* aimed at raising the manufacturing sector's share of GDP, increasing food security & nutrition, ensuring universal health coverage, and providing new affordable housing.

ii) Rwanda continued implementation of the 1st *National Strategy for Transformation (NST1) 2017-2024*, whose economic transformation pillar focuses on job creation, promotion of high-value industries, positioning Rwanda as a hub for financial services, and increasing the productivity of agriculture.

iii) Tanzania was in the final year of its 2nd National Development Plan (NDP) 2016/17-2020/21 aimed at *Nurturing Industrialization for Economic Transformation and Human Development*. Its priorities included: fostering economic growth and industrialization, fostering human development and social transformation, and improving the environment for business and enterprise development.

iv) Uganda launched its 3rd NDP with the theme *Sustainable Industrialization for Inclusive growth, employment and wealth creation*. The country prioritized import substitution, regional export promotion, agro industrialization, and light manufactures in its 2020/21 budget.

v) The four EADB Member States adopted similar fiscal and monetary measures, although varied in scope. These included:

- Increased health care spending and social protection to contain the spread of the coronavirus and alleviate its effects on the lives of the people.
- Reduction of domestic arrears, accelerated tax refund, tax reduction, deferral or exemption all aimed at increasing liquidity.
- Reduction of Central Bank Rate, reduction of statutory minimum reserve requirements, waiver of limitations on restructuring of credit facilities and flexible loan provisioning by financial institutions.
- Lending facilities: Kenya budgeted 0.5% of GDP in FY 2020/21 to cater for economic stimulus package that included credit guarantees and youth employment stimulus. Rwanda earmarked 0.5% of GDP for liquidity-constrained banks to borrow at the policy rate and benefit from longer maturity periods. Uganda recapitalized Uganda Development Bank and Uganda Development Corporation to boost import-substitution, export promotion, SME financing and agricultural value chains.

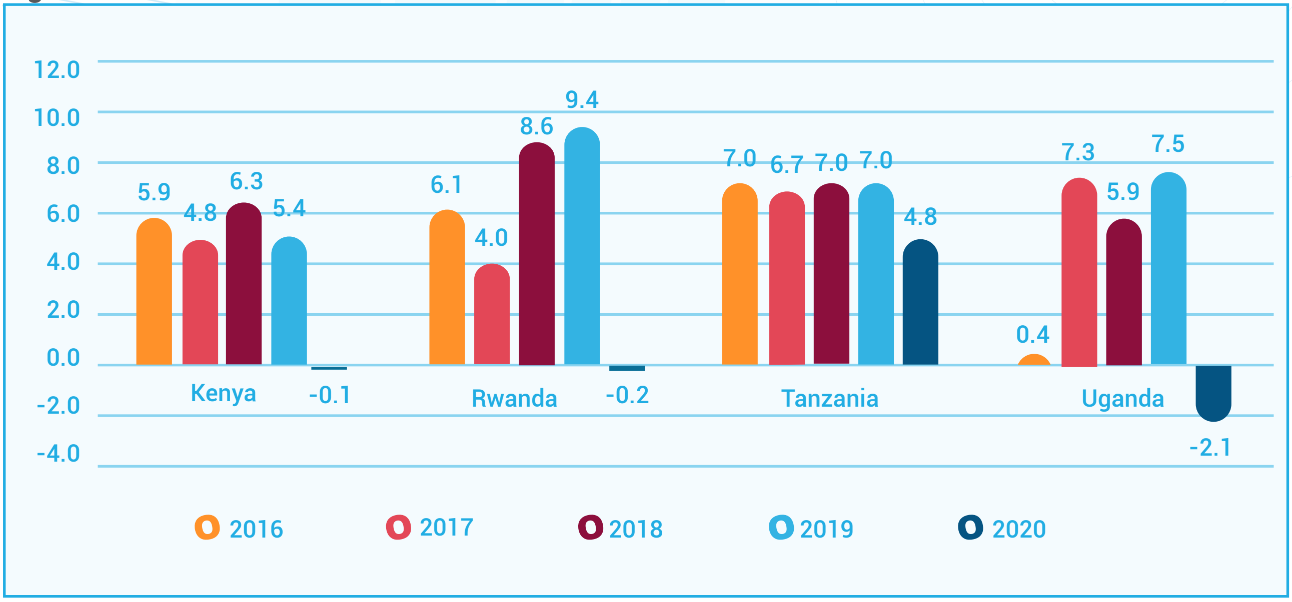
2.3 GROSS DOMESTIC PRODUCT (GDP) PERFORMANCE

Services, agriculture and agro-based manufacturing remain the main drivers of EAC economies. Over the period 2016-2020, the Gross Domestic Product (GDP) structure of the four EADB member countries did not transform. In Kenya and Rwanda, services and agriculture contributed at least 70% of each country's GDP over the period. In Tanzania and Uganda, services and industry were the predominant activities contributing more than two-thirds of each country's GDP. Most industrial output in Uganda came from agro-processing and light manufacturing while in Tanzania, construction contributed the largest industrial GDP on account of Government's strategy focused on major infrastructure, housing and energy investments.

Kenya's economy was relatively diversified, with agriculture, manufacturing, financial services, education, construction and transport contributing significant shares to GDP. Rwanda continued to depend on food crops, with nascent manufacturing, transport, construction and real estate activities.

GDP growth trends for the Member States for the period 2016-2020 are depicted in Figure 1. As can be noted, all EADB Member States' economies contracted during 2020, except Tanzania which implemented partial economic lock-down measures against the coronavirus pandemic. Rwanda and Uganda which are landlocked countries, were evidently hit most by the coronavirus pandemic.

Figure 1: GDP Growth Rates 2016-2020



Source: *National Statistics Bureaus for Kenya, Rwanda, Tanzania and Uganda. Data for 2020 is based on IMF database except for Tanzania which is provided by the Ministry of Finance.*

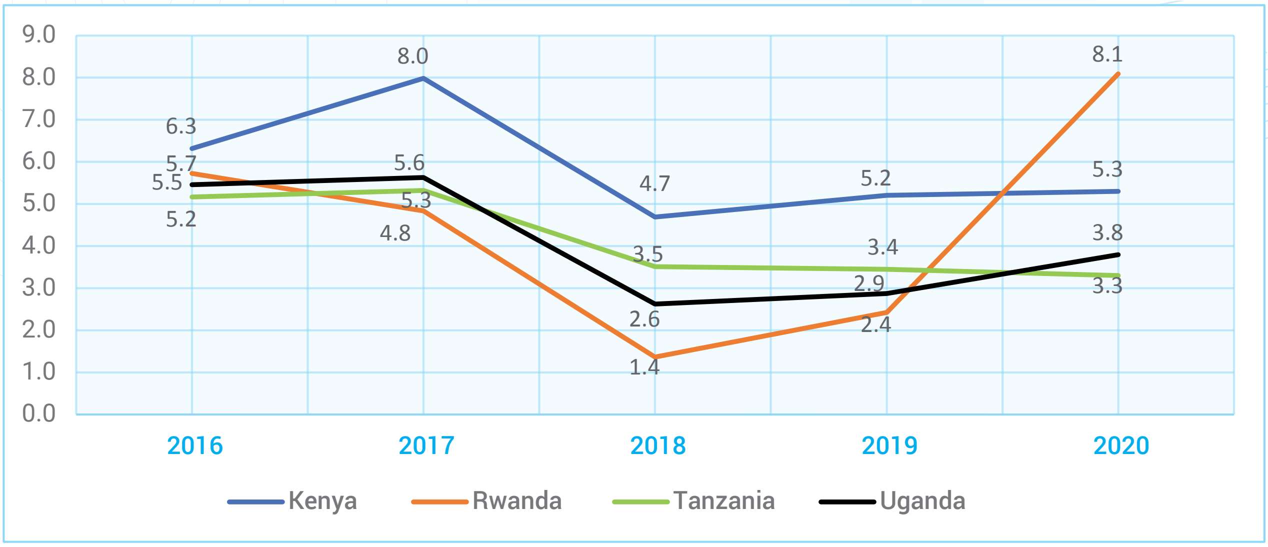
Across the region, the services sector (especially education, transport, hotels and tourism) and manufacturing were most contracted following economic lockdown measures that disrupted supply chains and subdued demand. In contrast with Kenya where the agricultural sector expanded during 1st to 3rd quarters 2020, it contracted in Rwanda and Uganda. In Kenya and Tanzania, financial services slowed but in Rwanda and Uganda they contracted.

Manufacturing sector experienced higher contraction in Uganda compared to Rwanda and Kenya while it slowed down in Tanzania. Among the four countries, Rwanda experienced the highest contraction in construction during the pandemic. On a positive note, the health sectors in all the four East African countries expanded during 2020. Also, by the 3rd quarter 2020, available data for Rwanda and Uganda showed both economies beginning to recover.

2.4 ANNUAL INFLATION

As indicated in Figure 2, compared to the same period in 2019, inflation was relatively muted in Kenya in 2020. It declined slightly in Tanzania during the year; rose by 0.9 percentage points in Uganda; and shot up in Rwanda from an average of 2.4% in 2019 to 8.1% in 2020. Rwanda experienced inflationary pressures from January to October 2020, and for 7 months surpassed the EAC benchmark ceiling of 8%. Rwanda's inflation was driven by price increases for beverages, energy, transport and agricultural commodities particularly during the 2nd and 3rd quarters of the year when supply in those sectors had contracted.

Figure 2: Year-on-Year Inflation (Average Consumer Prices)



Source: *National Bureaus of Statistics for Kenya, Rwanda, Tanzania and Uganda.*

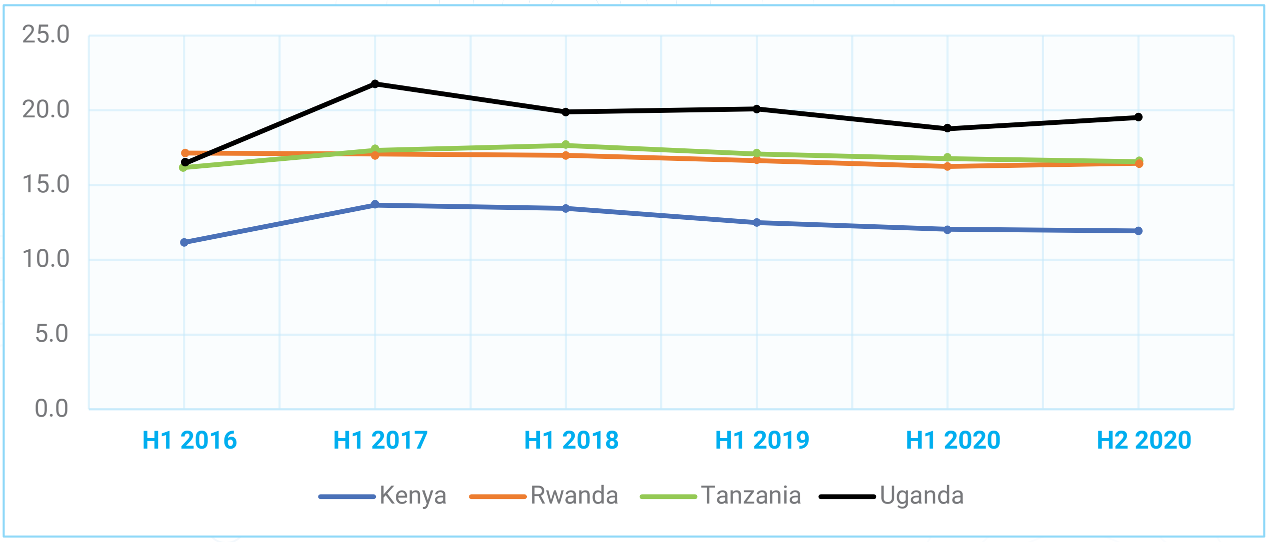
2.5 THE MONETARY AND FINANCIAL SECTOR

2.5.1 CENTRAL BANK RATE AND LENDING RATES

In line with their expansionary monetary policies during 2020, Kenya, Rwanda and Uganda cut their Central Bank Rates to 7%, 4.5% and 7%, respectively. They were the lowest rates since 2016. Tanzania maintained its CBR at 12% throughout 2016-2020. The main aim of CBR policy is to influence prices in an economy, including lending rates. As shown in Figure 3, there was little decline in the weighted average lending rates in all four countries during the 1st half-year 2020 in comparison to the 1st half-year 2019.

The low response of lending rates to CBR cuts could reflect the high cost of funds deployed by banks and the perceived high risk of lending on account of the economic effects of COVID-19. Lending rates remained highest in Uganda and lowest in Kenya. However, as the economies started recovering, weighted average lending rates further declined and, by December 2020, were slightly lower than pre-pandemic rates.

Figure 3: Weighted Average Lending Rates (Local Currency)

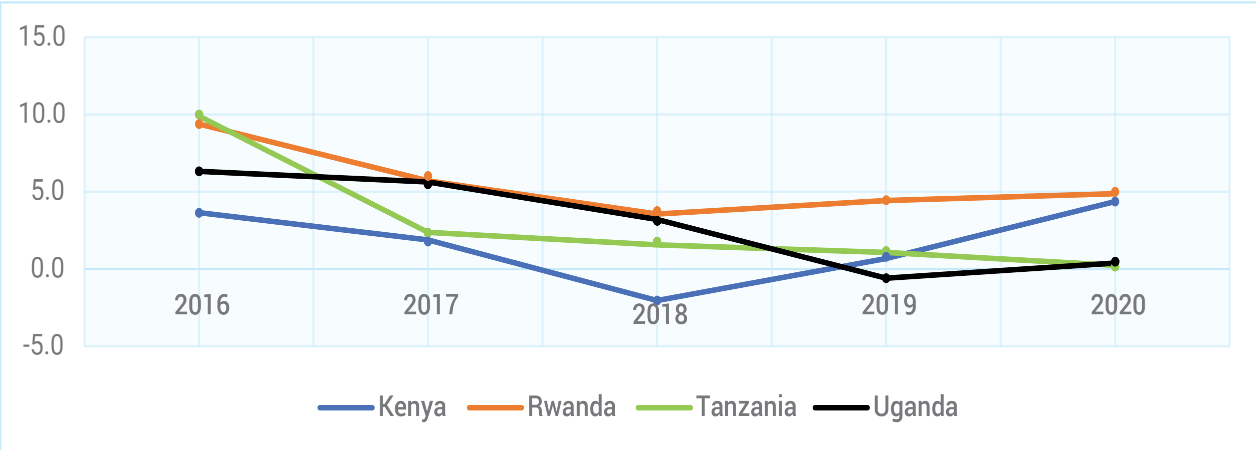


Source: *Central Banks for Kenya, Rwanda, Tanzania and Uganda.*

2.5.2 EXCHANGE RATES

Compared to 2019, exchange rates for all EADB Member States depreciated in 2020 (See Figure 4). However, the Kenya Shilling experienced most pressure, with its currency depreciation worsening from a year-on-year average of 0.7% in 2019 to 4.4% in 2020. Kenya's exchange rate pressures could be partly attributed to reduction in the country's foreign exchange reserves and contraction in foreign exchange earnings from services exports, particularly tourism, following the outbreak of the coronavirus. However, depreciation of the Kenya Shilling started in 2019 before the coronavirus pandemic – which could reflect market adjustment of an over-valued currency. Across the four countries, currency depreciation rates were highest in Rwanda over the period 2016-2020 while the Tanzania Shilling remained relatively strong as depicted below.

Figure 4: Annual % Change in LCY:USD Exchange Rate

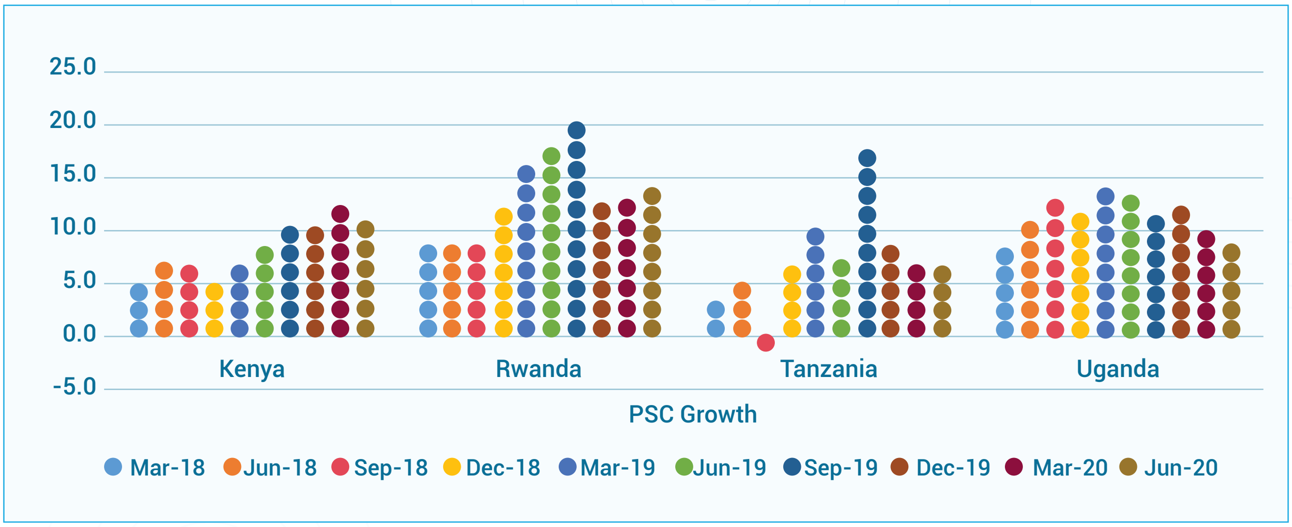


Source: *Central Banks for Kenya, Rwanda, Tanzania and Uganda*

2.5.3 PRIVATE SECTOR CREDIT

As shown in Figure 5, the period January-June 2020 recorded a general growth in private sector credit in Kenya, Rwanda, Tanzania and Uganda but at lower annualized rates than 2019 for Rwanda, Tanzania and Uganda. Kenya, Tanzania and Uganda experienced deceleration in private sector credit from the 1st to the 2nd quarters of 2020 whereas Rwanda started to show recovery, registering a 14.1% private sector credit growth in June 2020.

Figure 5: Annual Growth in Private Sector Credit



Source: *Central Banks for Kenya, Rwanda, Tanzania and Uganda*

Largely as a result of accommodative monetary policies adopted by EADB member countries, which included measures for banks to restructure, reschedule and reclassify loans for businesses affected by the coronavirus containment measures, the ratios of Non Performing Loans (NPLS) to total loans remained close to pre-pandemic rates. As shown in Table 2.2, NPLs rose throughout the year in Kenya. In Rwanda and Uganda, NPLs rose during March-June 2020 but declined from September to December 2020. Compared to 2019, loan performance improved in Rwanda but worsened in Kenya and Uganda. However, NPLs remained comparatively higher in Kenya and Tanzania than in Rwanda and Uganda. Looking ahead, asset quality could deteriorate in the near term if maturing credit relief is still distressed, as well as on account of the slow recovery in economic activity.

Table 2.2: Non Performing Loans Ratio (%)

Country	Mar-19	Mar-20	Jun-19	Jun-20	Sep-19	Sep-20	Dec-19	Dec-20
Kenya	12.8	**12.7**	12.7	**13.1**	12.4	**13.6**	12.1	**14.1**
Rwanda	6.8	**5.5**	5.6	**5.5**	5.3	**5.2**	4.9	**4.5**
Tanzania	10.9	**11.0**	10.7	**10.8**	11.0	**n.a.**	10.1	**9.3**
Uganda	3.8	**5.4**	3.8	**6.0**	4.4	**5.1**	4.9	**5.3**

Source: *Central Banks for Kenya, Rwanda, Tanzania and Uganda*

2.6 DOING BUSINESS ENVIRONMENT

The business environment in Kenya, Rwanda, Tanzania and Uganda is more favorable than the average for sub-Saharan Africa. During 2019, the four countries implemented the reforms to further ease business, which are summarized in Table 2.3.

Table 2.3: Doing Business Reforms[6]

Country	Doing Business Reforms Undertaken in 2019
Kenya	Kenya made dealing with construction permits more transparent by making building permit requirements publicly available online and by reducing fees.
	Improved the reliability of electricity supply by modernizing its existing infrastructure and by inaugurating a new substation in Nairobi.
	Made property registration faster by moving consents to transfer, payment and payment verification online.
	Property registration was made more difficult due to an additional payment slip generation and increased consent application and title search fees.
	Strengthened access to credit by introducing online registration, modification and cancellation of security interests, and public online searches of its collateral registry.
	Strengthened minority investor protections by requiring shareholders to approve the election and dismissal of an external auditor.
	Made paying taxes easier by introducing an online filing and payment system for social security contributions.
	Made resolving insolvency easier by improving the continuation of the debtor's business during insolvency proceedings.
Rwanda	Rwanda made starting a business easier by exempting newly-formed small and medium enterprises from paying the trading license tax for their first two years of operation.

6 The listed reforms were gathered from the World Bank Doing Business Report 2020 except for Tanzania which were provided by the Ministry of Finance.

Rwanda	Made dealing with construction permits faster by reducing the time to obtain a water and sewage connection.
	Improved building quality control by requiring all construction professionals to obtain liability insurance on buildings once in use.
	Improved the reliability of power supply by upgrading its power grid infrastructure.
	Changed regulations pertaining to weekly rest, working hours, severance payments and re-employment priority rules after redundancy dismissals.
Tanzania	Tanzania continued with implementation of the roadmap for improvement of business and investment environment as well as the Blueprint for regulatory reforms through which Government abolished about 54 levies.
	Streamlined the procedures for obtaining various permits and other services, thereby reducing bureaucracies the cost of doing business.
	Developed an online complaints and feedbaclk platform to facilitate the resolution of investor challenges.
	Reduced the number of roadblocks along the central corridor from 15 to 3 to reduce time and transportation cost for goods in transit.
Uganda	Uganda improved the monitoring and regulation of power outages by improving its calculations of the annual system average interruption duration index (SAIDI) and system average interruption frequency index (SAIFI).

As a result of the reforms listed in Table 2.3., and other past reforms, Rwanda had the most favorable business environment in East Africa despite sliding from a global ranking of 29th in 2018 to 38th in 2019. Kenya succeeded in consistently improving its business environment by 12 percentage points over the period 2016-2019, and raising its global ranking from 92nd to 56th. However, Tanzania and Uganda lagged in the pace of their reforms. While both countries improved their ease of doing business between 2018 and 2019, their global rankings deteriorated over the period 2016-2019. Table 2.4 shows the scores and rankings of the EAC countries for the period 2016-2019.

Table 2.4: Doing Business Indicators

Country/Year	Doing Business Score				Doing Business Ranking			
	2016	2017	2018	2019	2016	2017	2018	2019
Burundi	47.4	46.9	47.4	46.8	157	164	168	166
Kenya	61.2	65.2	70.3	73.2	92	80	61	56
Rwanda	69.8	73.4	77.9	76.5	56	41	29	38
South Sudan	33.9	32.3	35.3	34.6	186	187	185	185
Tanzania	54.5	54	53.6	54.5	132	137	144	141
Uganda	57.8	56.9	57.1	60.0	115	122	127	116

Source: *World Bank Doing Business Reports, Various Issues.*

Kenya and Rwanda stood out with the most favorable environment for getting credit. However, registering property and enforcing contracts remained common constraints in Kenya, Tanzania and Uganda – only Rwanda successfully implemented reforms to improve registration of property. Tanzania had significant limitations to trading across borders while both Rwanda and Tanzania ranked low in protecting minority investors.

3.0 KEY ACTIVITIES AND RESULTS FOR THE YEAR

KEY ACTIVITIES AND RESULTS

1 2 3 4

CORPORATE ACTIVITIES

GOVERNANCE AND BOARD MATTERS
- Approval of the annual audited Financial statement for the bank, December 2019

FINANCE
- Monitored loan repayments, planning and budgeting

HR MANAGEMENT
- Coordinated Bank-driven initiatives to ensure safety and health for all staff.

TREASURY ACTIVITIES
- Resource mobilization, investments, and management currency exchange rate risk.

COUNTRY OFFICES

SUPPORT BUSINESS CONTINUITY IN KENYA, RWANDA, UGANDA
- Supported business continuity and preservation of jobs
- Supported Universities,schools, hospitals and SME enterprises.

LENDING OPERATIONS

VOLUME OF LENDING
- Long-term loans accounted for 89.0% of the total loan portfolio

PORTFOLIO EXPOSURE AND QUALITY
- Restructured some of the projects that faced hardship in servicing their loans.

ENVIRONMENTAL AND SOCIAL MANAGEMENT
- Collated an internal Environmental and Social Risk Performance Report (ESPR) covering projects that had been financed by the Bank.

RISK MANAGEMENT

- Enhanced Risk Management
- Supported system improvement - Credit Knowledge Management System (CKMS).
- Incorporated best practices - Benchmarking with AADFI.

Social distancing

On-line training

Remote Working

Wearing a Mask

Washing Hands

Bank signed a line of **credit agreement**; **$20Million** from the OPEC Fund for International Development.

$195Million Treasury investments at the end of 2020.

3.1 CORPORATE ACTIVITIES

3.1.1 GOVERNANCE AND BOARD MATTERS

During the period under review, the Governing Council of the Bank met to discharge its business which included approval of the annual audited financial statements for the Bank for the year ended 31st December 2019. The Council also approved the annual report for 2019.
The Board and relevant Committees of the Board held meetings in May, August and October 2020 to discharge the business of the Bank.

3.1.2 FINANCE DEPARTMENT

During the year, the Bank spent significant effort on managing risks that emerged due to the corona virus pandemic and supporting clients who were negatively impacted by the pandemic. The Finance Department monitored loan repayments and provided data that facilitated rescheduling of loans to customers whose sectors were negatively impacted and sought repayment relief to allow them to retain some liquidity to support their operations. Related to this, in order to ensure that the Bank's credit impairment calculation reflected the heightened risk terrain, the department spearheaded review of the expected credit impairment model and implemented additional reviews to take into consideration the unique environment which could not be captured in the model.

The Department played an important role in planning and budgeting by developing different scenarios which facilitated preparation, revision and monitoring of the 2020 budget. The department played well the credit administration as well as treasury back office roles and ensured that the Bank's short-term investments and liquidity were well managed. The turbulent global financial markets brought additional risks including counter party risks as well as foreign exchange risk and this required close collaboration of the Finance and Treasury departments to manage the situation.

The Bank's financial reporting complied with all tax requirements in Member States, including submission of monthly statutory returns. However, improvement in core-banking and financial reporting systems could not be accomplished during 2020 and was carried forward to 2021.

3.1.3 HUMAN RESOURCE MANAGEMENT

The year 2020 started well until March when the world was confronted with a health disruption occasioned by the COVID 19 virus. The Human Resources Department became the nerve Centre of coordinating Bank-driven initiatives to ensure that there was firstly, safety and health for all staff, and secondly, there was minimum disruption to all business operations. The department took several measures to realize safety of staff and undisrupted business operations including the following:

- All staff members were sensitized on World Health Organisation Health [WHO] guidelines on prevention of COVID 19 infection.
- All work places were restructured in line with WHO guidelines.
- All staff performing non-critical roles were sent on administrative leave.
- Staff performing mission critical roles were split into two groups: one group operated from home, working remotely while those whose roles could only be performed at the office were allowed to work from the office guided by health protocols.
- All staff members, except those on administrative leave, were required to demonstrate accountability through daily performance dashboards.

Two notable best practices have emerged out of the health disruption:

Remote Working: Staff operating at home have been facilitated through provision of laptops, data bundles, and a situation office for printing and scanning documents. Meetings, conferences, interviews and workshops take place remotely. Remote working has operated effectively and could become the new norm.

On-line training: Due to the limitations of face-to-face training interventions within the COVID 19 context, the department innovatively coordinated delivery of on-line training programmes as follows to build staff capabilities: performance management, information security, physical security, fraud prevention, mental health training, environmental and social risk management and climate change, and climate finance eLearnings, evacuation planning and procedures, leadership development, IFRS 9 Accounting and Wholesale Lending. On-line training is efficient and an effective way of training dispersed group of participants.

The department has reviewed the current Staff Rules and Regulations [SRRs] in line with best practice. Finally, the department played a critical role in coordinating stakeholders who prepared the draft 2021-2025 Strategic Plan. The department provided insights on key people strategic drivers.

3.1.4 TREASURY ACTIVITIES

In the 2016-2020 period, the Bank planned to grow and establish itself as a major development financier. To achieve the desired growth, it was important to strengthen the balance sheet. Significant achievements in this regard included securing additional funding from existing funding partners as well as diversifying to new funding sources. New funding relationships were established with the Arab Bank for Economic Development in Africa (BADEA) and KfW Development Bank. The relationship with KfW enabled the Bank to offer three lines of credit targeting SMEs in Kenya and Uganda with a significant socio-economic impact. These lines are the Rural Finance Enhancement Program (RFEP) in Uganda, the Agri-finance Enhancement program (AEP) also in Uganda and the Agricultural Financing Kenya Program (AFK) in Kenya.

During 2020, the Bank carried out its treasury operations in accordance with the provisions of Treasury Policies and Procedures under the supervision of the Assets and Liabilities Committee (ALCO). The main treasury operations conducted included resource mobilization, investments, and management currency exchange rate risk. In 2020, the Bank signed a line of credit agreement for USD 20 Million from the OPEC Fund for International Development. The Arab Bank for Economic Development Bank in Africa (BADEA) and Development Bank of Southern Africa (DBSA) completed due diligence on EADB for lines of credit to finance projects in the EADB Member States. Treasury investments are mainly held in time deposits with commercial banks in the region and outside the region with appropriate maturities to maintain sound levels of liquidity. At the end of 2020, EADB held treasury investments worth USD 195 million in various currencies invested with counterparty banks. The Bank also maintained an extremely strong liquidity position both in the short and long term.

3.2 COUNTRY OFFICES FACE THE COVID-19 CHALLENGE

The tough economic conditions brought about by the COVID-19 pandemic constrained liquidity for businesses as well as households with most businesses struggling to keep afloat due to subdued revenues. The sectors that were worst hit by the pandemic were education and accommodation & food services as businesses in these sectors either operated under minimum capacity or completely closed down. The Bank's portfolio in each country was affected as follows:

- Within the Bank's portfolio in Kenya, there was a shut-down of the operations of a Bank-funded hotel and lodge in Nyeri County from March 2020, and a deterioration in the occupancy rates for residential housing units in Nairobi County.
- The Bank's portfolio in Rwanda was greatly disrupted. Rwanda heavily relies on imported construction and manufacturing materials. Such import supply chains were interrupted by coronavirus lock-down measures restricting cross-border transportation.

The overarching thrust of EADB's response was to support business continuity and preservation of jobs in order to ensure sustained source of livelihood for the East African people. As part of the Bank's COVID-19 response activities, EADB entered into early and transparent negotiations with clients in order to help its customers to navigate the impact of the COVID-19, survive, adapt and prepare for the new economic environment.

A number of projects in the health, education, manufacturing and financial services sectors had their loans restructured. This included restructuring of two healthcare facilities in Kenya to be able to continue to provide medical supplies and hospital services. Other solutions provided by the Bank to its customers included deferral of scheduled loan repayments in order to ease their cash flow pressures, and supporting the affected clients in cash flow management and forecasting. The EADB team collaborated with affected clients to review the steps that the businesses needed to take to not only survive but put themselves in the best position for reopening. EADB's support assisted Universities, schools, hospitals and SME enterprises.

3.2.1 HIGHLIGHTS ON EADB OPERATIONS IN KENYA

New Commitments and Disbursements by EADB in Kenya: EADB continued to support the agriculture sector through lines of credit with a total of EUR 2 million being disbursed in 2020 to boost Kenya's food security and secure the livelihoods of rural populations.

EADB's Training and Capacity Building for Kenya's Banking Industry: Under the Agricultural Financing Kenya project, with the support of consultants, EADB delivered a number of training programs which benefited the staff of selected Partner Financial Institutions (PFIs). These trainings were conducted virtually in the context of the pandemic.

In September 2020, the Technical Assistance Consultants under the Agricultural Financing Kenya project facilitated a Social Performance Management (SPM) & Client Protection Principles (CPP) Orientation training for Sidian Bank which was conducted over a period of 6 days. A total of 17 participants drawn from Branch Offices and Head Office attended the training sessions. The objective of this training was to provide an orientation to selected managers of Sidian Bank on SPM and CPP as well as equip them on the use of a selected social audit tool. In 2021, further training will be planned for Sidian Bank in two other areas: Value Chain Analysis and training in selected value chains as well as a review of the progress with regard to ESM policies and their integration throughout the bank.

In December 2020, further training and capacity building activities were conducted for Kenya Women Micro finance Bank. The beneficiaries of the training included: directors, senior management and regional staff of the bank. The trainings were conducted virtually through webinars, in compliance with the COVID-19 context. The trainings comprised 16 webinars incorporating 32 hours of training and were delivered to over 70 staff in groups of no more than 30 participants. At the close of 2020, the Kenya Women Microfinance Bank Credit Team was also taken through the credit assessment model. In 2021, a further training is scheduled for Kenya Women Microfinance Bank's 1,400 loan officers.

3.2.2 HIGHLIGHTS ON EADB OPERATIONS IN RWANDA

While the lending activities planned by the Rwanda country office were affected by the pandemic, the country office managed to stay on track with other key corporate activities, such as arranging for screening of the EADB Medical Training and Fellowship (METAF) initiative in Rwanda. The screening of the EADB METAF documentary on Rwanda Broadcasting Agency television network on 20th August 2020 successfully placed the EADB brand in the public domain as a key supporter of regional health initiatives.

Screening on Rwanda Television of EADB Neurology Training Activity: The EADB in partnership with the British Council, the Royal College of Physicians and the Rwanda Ministry of Health through the University Teaching Hospital of Butare (CHUB), organized a training for medical doctors from districts and referral hospitals on early detection and treatment of neurological disorders. The training brought together 20 medical practitioners from districts and referral hospitals in Rwanda who were trained on early detection of neurological symptoms.

Participants of the EADB METAF training held in Huye District, Rwanda

A communication plan was developed and implemented by Pamuzinda productions to support the organizers of the training in raising awareness on Neurological disorders and efforts towards resolving the issue. Media houses and radio stations in Rwanda were invited to cover the training and raise awareness on the neurological disorders.

3.2.3 HIGHLIGHTS ON EADB OPERATIONS IN UGANDA

Despite the unprecedented coronavirus challenges, the Bank through its Country office in Uganda continued disbursing funds and supporting projects that were under implementation where the Bank had made commitments. One such project is a medical consumable manufacturing plant factory in Kampala Industrial and Business Park, Namanve. Once completed, this factory will among others manufacture examination and surgical gloves. The plant has been built and set up in compliance with all local and international operational, environmental health and safety standards.

This project could not have been implemented at a better time than when the world and Uganda was grappling with a need for increased personal protective and protective equipment for health workers in the wake of the pandemic. This project is a manifestation of the Bank's unwavering commitment towards the health sector, and in line with the safety of frontline medical workers.

Warehouse

The fully automated and equipped with the latest technology in glove manufacturing, EAMV plans to put its products on the East African market in mid-2021. For Uganda, EAMV products will substitute importation of medical consumables and save the country significant foreign exchange. This is in line with the Government of Uganda's drive for import substitution and industrialization. EAMV will also be exporting its products to the various neighboring countries, thereby promoting intra-regional trade.

As the pandemic continued to impact the Ugandan economy and specifically to the agricultural sector, as a mechanism of ensuring food security, EADB in collaboration with KFW, continued to extend financing to commercial banks under the Agricultural Enhancement and Rural Finance Programs. To this end, in 2020, EADB in Uganda disbursed USD 5.9 million (an equivalent of over UGX 21.9 billion) to four commercial banks for on-lending. The commercial banks, in turn, disbursed loans to SME businesses in agricultural value chains or those operating in rural areas. The banks also disbursed finance leases to companies undertaking primary agriculture.

3.2.4 HIGHLIGHTS ON EADB OPERATIONS IN TANZANIA

During the year the Tanzania country office performed three major activities, continuous monitoring of the existing portfolio, business development to prepare new projects and corporate social responsibility.

The monitoring activities centred on loans that were already disbursed. As at the end of year, EADB's portfolio in Tanzania amounted to USD 45.10 million and was the highest among the Member States accounting for 34% of the total portfolio. Despite COVID-19 related challenges, the portfolio in Tanzania continued to perform well and any emerging challenges were timely addressed with the borrowers.

On business development, the Country office engaged potential customers and analysed several proposals some of which showed positive prospects for approval and disbursement in 2021. The proposals included an agro-processing project with a funding requirement of USD 13.5 million. The second project was for a facility of USD 5 million for on-lending to small and medium-scale enterprises [SMEs] operating in various sectors of economy. That facility was in addition to existing lines of credit extended to financial institutions for similar purposes. It was also exciting to work on a clean energy project of approximately USD 3.8 million planning to set up non- grid renewable energy system in areas that are out of reach of the main national power grid. The project will contribute to the Tanzanian's energy and power pool by improving access to electricity for Tanzanians' rural population (66.2% of the total population).

As part of the Bank's strategy to build capacity in Member States, the Bank in partnership with DLA Piper Law Firm, continued with its programme to deliver to public sector legal professionals to strengthen East Africa's negotiation capacity in deals related to the extractives industry. The training which was 6th in the series was held in Dar es Salaam and, unfortunately due to travel restrictions in response to the COVID-19 pandemic, only Tanzania participants took part.
In total 13 lawyers from public institutions in Tanzania participated and appreciated the knowledge and skills gained.

3.3 LENDING OPERATIONS

3.3.1 VOLUME OF LENDING

Table 3.1 provides the outstanding portfolio as at 31st December 2020 and 31st December 2019. The gross portfolio decreased by 14% from USD 153.25 million as at 31 December 2019 to USD 134.22 million as at 31 December 2020. This decrease was mainly due to slowdown in activities of the Bank under subdued economic activities in Member States. Long-term loan is the leading product at the Bank, accounting for 89.0% of the total loan portfolio with a gross exposure of USD 119.47 million as at 31 December 2020. The long-term loan exposure was 89.2% of gross loan exposure of USD 136.68 million as at 31 December 2019.

Table 3.1: Outstanding Portfolio (USD million)

	December 2020			December 2019	
Outstanding Portfolio	**134.22**	**100%**		**153.25**	**100%**
Equity	**1.13**	**0.8%**	↓	**1.22**	**0.8%**
Loan	**133.09**	**99.2%**	↓	**152.03**	**99.2%**
Loan ST	8.01	6.0%	↓	9.60	6.3%
Loan MT	5.61	4.2%	↓	5.75	3.7%
Loan LT	119.47	89.0%	↓	136.68	89.2%

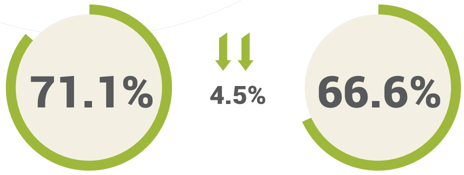
As indicated in Figure 6, the United States Dollar is the dominant currency in the Bank's portfolio as at 31 December 2020. The projects funded in US Dollars accounted for 66.6% (USD 89.41 million) of the total portfolio, compared to 71.1% (USD 108.89 million) as at 31 December 2019.

Figure 6 also indicates that Tanzania had the largest portfolio, amounting to USD 45.1 million (33.6%) of the total portfolio. Uganda's portfolio was second at 30.5% valued at USD 40.95 million, followed by Kenya at 25.4% value USD 34.14 million, and Rwanda at 10.5% value USD 14.03 million. In comparison to 2019, the Bank's portfolio in each of the four countries declined in 2020.

As at 31 December 2020, the top three sectors with the highest exposures were Commercial Banks (USD 25.84 million), Development Financial Institutions (USD 23.95 million) and Residential Real Estate Companies (USD 20.49 million), which accounted for 19.3%, 17.8% and 15.3% of the portfolio respectively.

Portfolio

Projects funded in US Dollars accounted for;



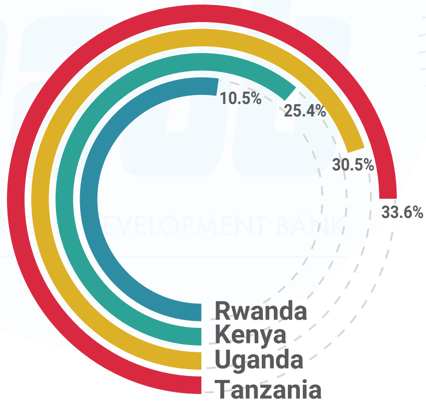
$108.089M

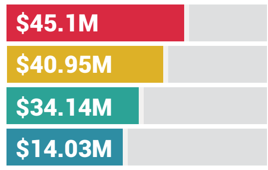
- **United States Dollar**
  Dominant currency in the Bank's portfolio as at **31st December 2019**.

$89.41M

- **United States Dollar**
  Dominant currency in the Bank's portfolio as at **31st December 2020**.

Country Exposure





- **Tanzania- Largest portfolio**
  In comparison to 2019, the Bank's portfolio in each of the four countries declined in 2020.

As at 31 December 2020, the top three sectors with the highest exposures;

Commercial Banks	Development Financial Institutions	Residential Real Estate Companies
$25.84M	$23.95M	$20.49M

Figure 6: Portfolio Snapshot (USD Million) as at 31/12/2020

Portfolio Snapshot by Currency

	Outstanding Amount		
1	Other	0.79	0.7%
2	EUR	4.49	3.3%
3	UGX	18.14	13.5%
4	KES	21.39	15.9%
5	USD	89.41	66.6%

Portfolio Snapshot by Sector

	Outstanding Amount		
1	Electricity	16.44	12.2%
2	Residential	20.49	15.3%
3	Development	23.95	17.8%
4	Commercial B	25.84	19.3%
5	Other	47.50	35.4%

Portfolio Snapshot by Country

	Outstanding Amount		
1	Rwanda	14.03	10.5%
2	Kenya	34.14	25.4%
3	Uganda	40.95	30.5%
4	Tanzania	45.10	33.6%

Portfolio Snapshot by E&S Grades

Outstanding Amount		
1 (High)	30.62	22.8%
2 (Medium)	44.97	33.5%
3 (Low)	4.01	3.0%
4 (Intermediaries)	54.62	40.7%

3.3.2 PORTFOLIO EXPOSURE AND QUALITY

Following temporary lockdown/closure of most of the sectors of the economies during the corona virus pandemic, various projects were not able to meet the loan installments due to their strained cash flows then. As a result, the Bank had to restructure some of the projects that faced hardship in servicing their loans. The top ten exposures as at 31 December 2020 amounted to USD 93.7 million, equivalent to 70% of the gross portfolio and 35.71% of the Bank's net worth. All the four countries had projects in the top 10 exposures. Six of the top ten project exposures under IFRS 9 classification were in "STAGE 1", three are in "STAGE 2" and one is in "STAGE 3". All the top ten exposures were within the stipulated policy limit of 15% of the Bank's net-worth. Arrears as at 31 December 2020 were from 6 projects and amounted to USD 6.9 million; showing a marked improvement from USD 8.36 million as at 31 December 2019. The decrease in the arrears compared to the previous year and quarters was mainly due to successful restructuring of some of the accounts which subsequently started performing. As highlighted in Table 3.2, the total Non-performing loans (NPLs) increased slightly to USD 7.94 million (5.9% of total gross portfolio), compared to USD 7.22 million (4.7% of total gross portfolio) as at 31 December 2019. The increase in NPL is due to continued accrued interest on the existing non-performing loans. Nonetheless, EADB's NPLs are comparable to the average NPLs in the financial sectors of member countries.

Table 3.2: Portfolio Quality (USD Million)

	December 2020			December 2019	
Gross Loans	**134.22**	**100%**	↓	**153.25**	**100%**
Stage 1	92.27	68.74%	↑	131.37	85.7%
Stage 2	34.01	25.34%	↓	14.66	9.6%
Performing Portfolio	**126.28**	**94.08%**		**146.03**	**95.3%**
Stage 3	7.94	5.92%	↑	7.22	4.7%
Non-performing Portfolio	**7.94**	**5.92%**	↑	**7.22**	**4.7%**

In total, there were 3 non-performing projects as at December 2020. Table 3.3 shows the sector exposure of non-performing loans.

Table 3.3: Sector Exposure of Non-Performing Loans (USD Million)

No.	Sector	Exposure	%
1	Commercial Real Estate Companies	4,628,951	58.3%
2	Hotels, Tourism, Leisure and Entertainment	3,310,237	41.7%
	Total	**7,939,188**	**100%**

3.3.3 ENVIRONMENTAL AND SOCIAL MANAGEMENT

EADB recognizes that sustainable development depends upon a positive interaction between economic and social development on the one hand and environmental protection on the other. The Bank contributes to sustainable development through financing activities and therefore acknowledges that identifying and managing environmental risks should be part of the normal process of risk assessment and management.

EADB collated an internal Environmental and Social Risk Performance Report (ESPR) covering projects that had been financed by the Bank. Due Diligence Reports were also developed for all the potential projects from all the Country Offices (Uganda, Kenya, Tanzania and Rwanda) which were being appraised for entry into the Bank's pipeline. As at 31st December 2020, the Bank had total of 38 projects, out of which, seven were categorized under 1[1], 11 under Category 2[2], 4 under category 3[3] and 17 under Category 4[4], in all the Member States (Table 3.4). There are measures as part of the conditions subsequent to disbursement for each project and are monitored by the Bank as part of its routine supervision activities. The bulk of the Bank's projects and exposures were projects classified as Category 4, followed by Category 2, 1 and finally 3.

Table 3.4: Environmental and Social Management Risk Analysis of the Bank's Portfolio

Country Office	Risk Category				Total
	Category A – High risk (1)	Medium Activity Risk (2)	Low Activity Risk (3)	Financial Intermediary (4)	
Uganda	3	4	4	6	17
Kenya	2	4	0	6	12
Tanzania	1	2	0	3	6
Rwanda	1	1	0	1	3
Total	**7**	**11**	**4**	**16**	**38**

3.4 RISK MANAGEMENT

The Bank's risk management processes have continued to prove effective throughout the year, despite a tough economic environment. Executive management remained closely involved in risk management initiatives, which have focused particularly on preserving appropriate levels of liquidity and capital, and effectively managing the risk portfolio. Responsibility and accountability for risk management resides at all levels within the Bank, from the board through the executive management to each business units.

The risk and compliance department set out specific risk focus during the Year and continue to make good progress on these initiatives and primarily, focused on:

Board Risk Oversight: The key risk work-stream set out in International Financial Consulting (IFC) report pertain to risk reporting structure to the Board of Directors. Plans for appropriately implementing this recommendation have been finalized, management has supported a standing risk agenda in the Board meetings. Recently risk presented the bank's risk landscape status and the appropriate mitigating strategies to the Board.

Closure on policy gaps through approval of relevant outstanding bank policies: Gap analysis to identify differences between current risk governance and management has been completed and the recommendations of the IFC report. Several gaps which required department's attention have been closed. The Bank now has an active RCSA agreed with the respective business units. The RCSA process captures the risk profile of the Bank. There are Key Risk Indicators (KRI) to which the department now report, on a quarterly basis. These KRI enable the department to maintain up-to-date risk matrices to ease reporting. Several outstanding draft risk management related policies such as AML/CFT policy; BCP/DR policy; Operations policy have been approved and are now in use noting the introduction of a

1 Category A (1): Projects are likely to have significant adverse environmental and social impacts that are sensitive, diverse, irreversible, or unprecedented. A potential impact is considered "sensitive" e.g. if it bears high risks for the workforce, affects significantly communities, indigenous people or other vulnerable groups, involves resettlement or large retrenchment or may lead to loss of a major natural habitat or cultural heritage sites.

2 Medium Activity Risk (2): Activities classified as Medium Risk are those for which the environmental and social impacts can readily be predicted, prevented, and/or mitigated, given appropriate levels of a borrower's financial and technical/ managerial capabilities.

3 Low Activity Risk (3): These activities have little environmental or social impact and require a minimum of Environmental and Social Due Diligence.

4 Financial Intermediary (4): Screening of all final loans (under the EADB credit line) against the EADB Exclusion List and adherence to all the ESM requirements.

standard Incident reporting template.
Implementation and operationalization of the Bank's ERM Framework and processes: There is a stress testing framework which guides the quarterly execution of stress test trends for the Portfolio Asset Quality, Liquidity Funds and Foreign Exchange Movement; Credit Risk; Liquidity Risk & Market Risk. The stress testing program is a key management tool that facilitates a forward-looking perspective on risk management and business performance. The resultant scenarios are used in proactively managing the Bank's risk profile, capital planning and management, strategic business planning and setting of capital buffers. Stress testing is an integral component of internal capital adequacy assessment process (ICAAP), and is used to assess and manage the adequacy of capital. Risk managers use this to advise on whether to raise additional capital, reduce capital outflows, adjust the capital structure and/or reduce its risk appetite. Fortunately, the outcome of these stress tests indicate that the Bank is well within its risk tolerance levels in all of the scenarios.

Introduction of a Monthly Risk Reporting and continuous underwriting of project risks as per the Bank's risk profile: Risk management processes have been adhered to throughout the year. The department undertook several formal, well defined work processes, while using checklists, and expert input. These were:

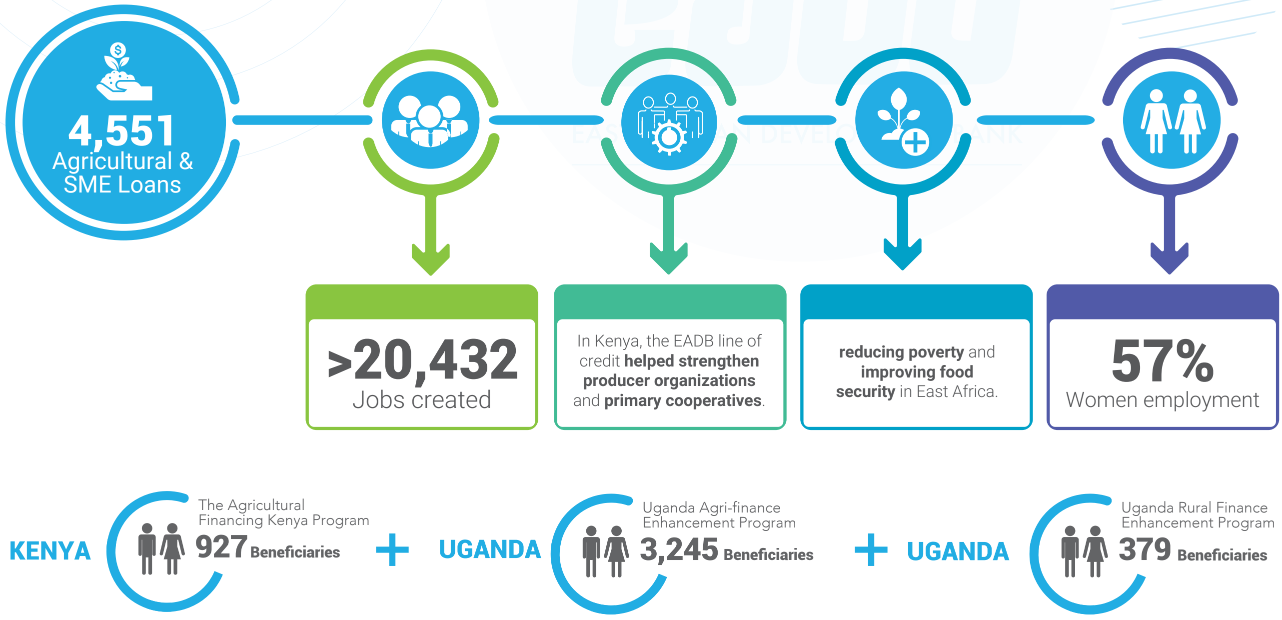
- Underwriting project risks.
- Counter party exposure analysis.
- Credit risk grading.
- Conducting risk based transaction testing in line with middle office management.
- Supporting recommissioning Credit Knowledge Management System (CKMS).
- Annual reviews of counterparts AML/CFT processes.
- Benchmarking risk management with AADFI.

Introduction of a BCP Plan in Q1 for managing pandemic and future pandemics:
At the onset of the pandemic crisis which led to business lockdown the department instituted and activated the Business Continuity Plan (BCP) work plan which has enabled it to minimize business disruptions and has ensured smooth and continuous running of the Bank. The department is therefore part of the team that has proved to all stakeholders that the bank business is robust enough to cope with emergencies. We successfully spearheaded the testing of the BCP/DR and now have the right backup processes and procedures that have lessened the risk of data breach.

Consistent Periodic Risk Reporting: Risk reports are a way of communicating project, business and financial risks and impart information about the Bank's most pressing risks to management. The department's Monthly Risk Management Reports (MRMR) address critical risks as well as emerging risks that could cause larger trouble if they are not monitored carefully. These reports have enabled management to offer strategic advice time and again. The Bank will rely on risk reports to understand how it might need to change operations to do business in a more risk-aware manner.

Introduction of a Compliance Calendar of events for tracking Risk activities: Risk management are now able to share objectively its compliance calendar of activities highlighting when the reviews will occur within the year and why. With the Risk based approach adopted, the department can prioritize which activities should precede which ones and synchronized calendar with other counterparts across the industry. Classic examples include the annual review of Counter party KYC requirements, IFRS reviews, stress tests and trainings.

4.0 DEVELOPMENT OUTCOMES



4.1 DEVELOPMENT OF THE SMALL AND MEDIUM ENTERPRISE SECTOR

Partnering with seven commercial banks, EADB has implemented the Agricultural Financing Kenya Program, the Agri-finance Enhancement Program in Uganda, and the Rural Finance Enhancement Program in Uganda to increase access to finance for Small and Medium-sized Enterprises (SMEs) in the agricultural sector and rural areas.

Through the partnership, EADB has disbursed concessional local currency lines of credit to commercial banks dedicated to increasing agricultural lending, expanding rural outreach, and boosting financing for women and the youth. EADB's funding gives partner banks a pricing incentive to increase lending appetite towards agriculture and SMEs. With EADB catalytic finance, SMEs have played a key role in providing employment and income opportunities.

Over the period October 2018 – December 2020, EADB partner commercial banks in Kenya and Uganda disbursed more than 4,551 agricultural and SME loans, supporting the creation and sustenance of more than 20,432 jobs. The Uganda Rural Finance Enhancement Program served 379 SMEs and supported an average of 28 jobs per end-borrower, with some medium enterprises generating or sustaining jobs in hundreds. The Agricultural Financing Kenya Program served 927 beneficiaries while the Uganda Agri-finance Enhancement Program reached 3,245 end-borrowers each of whom generated or sustained 2-3 jobs. These results proved that at least one extra job can be sustained by investing between USD 2,000 and USD 3,500 in agricultural and SME finance.

The proportion of women who gained or sustained employment ranged from 53% to 57% of total number of jobs across the three programs. There were also many other SMEs that benefited indirectly from opportunities along the value chains of end-borrowers. In Kenya, the EADB line of credit helped strengthen producer organizations and primary cooperatives. It is expected that these programs contributed substantially towards reducing poverty and improving food security in East Africa. As a catalytic effect of EADB's lines of credit, the PFIs expanded the volume of lending to agricultural and SME businesses, and increased the proportion of agricultural and SME loans in their loan portfolios.

4.2 INVESTING IN NATIONAL STRATEGIC PROJECTS

EADB has four lines of credit with Rwanda Development Bank (BRD) to support its development enhancing investments. In total, the lines of credit have financed 20 projects in the energy, education, transport, tourism and manufacturing sectors. EADB's financing boosted the growth of tourism and contributed to reduction of the energy and transport costs of doing business in Rwanda. According to the World Bank's doing business indicators, Rwanda improved its business environment from 56th position in 2016 to 38th position in 2019. The EADB-financed investments directly created over 1,100 permanent jobs.

EADB also has a line of credit to TIB Development Bank to support development enhancing investments. The TIB line of credit financed 7 projects in the energy, gas, transport, agro-processing and tourism sectors, and is estimated to have directly created over 1,500 jobs. Improvements recorded in access to energy for production and agro-processing infrastructure confirm the potential for scaling the development-enhancing investments in Tanzania.

4.3 CORPORATE SOCIAL RESPONSIBILITY

4.3.1 MEDICAL TRAINING AND FELLOWSHIP PROGRAMME (METAF)

The METAF Program, launched in August 2016, was a four-year program with the objective of increasing the early detection, research and treatment of cancer and neurological diseases in East Africa, especially in communities where access to qualified professionals remains a challenge. Financed by EADB, the METAF program was managed in partnership with the British Council (BC) and the Royal Council of Physicians (RCP), as the technical partner.
Over the four-year period (2016-2020) the METAF program provided short clinical training courses in neurology and oncology to 584 doctors in East Africa. By the end of 2020 over 6,000 clinical staff benefitted from the knowledge gained in the clinical courses through mentoring by course participants.

4.3.2 BUILDING CAPACITY FOR LAWYERS IN EXTRACTIVE INDUSTRY

This program is run by the Bank in partnership with DLA Piper, a global law firm, towards strengthening capacity related to extractive industry contract negotiations in East Africa. This partnership takes the form of co-hosting regional training seminars designed to endow and sharpen the skills of the public sector lawyers involved in structuring, negotiating transactions and drafting agreements for and on behalf of governments in extractive sectors and other large scale projects. During the year one program was conducted in Tanzania and brought together 13 lawyers from different public institutions in Tanzania. Due to COVID-19 restrictions in other countries, only Tanzanian participants attended.

The training in Tanzania brought cumulative number of workshops held through this program to nine and they have had significant impact in the negotiation and drafting expertise of the participants.

4.3.3 SCIENCE, TECHNOLOGY AND ENGINEERING UNIVERSITY SCHOLARSHIP (STEM)

The Programme offers multiple fast-track 12-month scholarships to experienced teachers and lecturers who have a Bachelor's degree in the STEM subjects opportunity to pursue a graduate degree in the same fields at Rutgers University, New Jersey, USA.

During the year there was no additional students sponsored but those previously sponsored, successfully completed the program and returned, continued to teach students in their respective institutions.

5.0 PROSPECTS FOR THE YEAR AHEAD

Prospects for the Year Ahead

Bank prospects

To **grow business portfolio** by over **USD100 million** worth of **new investment**

MANUFACTURING
AGRICULTURAL
ENERGY
EDUCATION

SUPPORT EADB MEMBER STATES

Expansion of special lines of credit to spread out to Rwanda and Tanzania.
Promote **SMEs** and **Agricultural value chains**

FOCUS ON MATERIALITY AND RISK APPETITE

To determine the **risk profile of the Bank and its proper investment strategy**

RISK SYSTEMS IMPROVEMENT

Support the functioning of CKMS

Slow economic growth occasioned by the pandemic

Measures put in place to ensure business growth and continuity,...

Social distancing
On-line training
Remote Working
Wearing a Mask
Washing Hands

The Bank projects to grow its business portfolio by over USD 100 million worth of new investment in manufacturing, agriculture, energy and education sectors. Considering the recent easing of some of the restrictions and re-opening of some of the sectors, the Bank expects that the Member States' economies will advance on their journey to recovery. However, there will be a time-lag at both micro and macro level before individual businesses and the national economies pick up. For example, Rwanda Bankers Association has indicated a best case of 2 years, with the possibility of 5 years before the Rwanda economy fully recovers.

In order to support EADB Member States in their efforts to promote SMEs and agricultural value chains, EADB will expand special lines of credit currently offered in Uganda and Kenya, and spread them out to Rwanda and Tanzania. Accessing those special lines could have the benefit of expanding agriculture projects and financial intermediaries, thus enhancing development.

The outbreak of the corona virus brought economic disruptions with inevitable impact on the general financial sector. Risk exposures are on the increase, and the industry is faced with significant deterioration of asset quality and low interest rate environment. These scenarios may lead to increased NPL ratios and decreasing liquidity ratios respectively. While the Bank is holding sufficient capital and liquidity buffers and its capital and liquidity ratios are well above the prudential ratio limits, the uncertainties about the medium and long term consequences of the COVID 19 pandemic are still very high, and lead to a fragile business environment going forward.

The Bank will focus on materiality and risk appetite and will continuously identify the risks and the risk levels the Bank's business strategy and operations are exposed to while reflecting their probability of occurrence and impact thereof. This is important for determining the risk profile of the Bank and its proper investment strategy. The Bank has already defined the maximum level of risks it can assume given its current level of resources in its Risk Appetite Statement. Quantitative measures based on forward looking assumptions that allocate the Bank's aggregate risk appetite for different risk categories will be put in place to back-up the risk appetite framework

The Risk and Compliance department will support the functioning of CKMS which is aligned to risk analysis objectives. The tool expected to support the credit process is undergoing implementation. Risk will champion the gap analysis of the tool to ensure that all outstanding bugs are addressed, and the tool is formally rolled out. With the apparent impact of the pandemic, the department will continuously test the resilience of the Bank's investment portfolio, adequacy of its assets and capital holdings against possible present and future business scenarios.

EADB is cognizant to how companies are adapting to new ways of doing business, the resultant opportunities, and the appropriate interventions necessary in 2021 in the face of the slow economic growth occasioned by the pandemic and has put in place measures to ensure business growth and continuity, in line with the Bank's strategic plan for 2021-2025.

EAST AFRICAN DEVELOPMENT BANK

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2020

6.0 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 to promote the development of the 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 up to 30 March 2021	Minister of Finance and Planning, United Republic of Tanzania
3	Hon. Amb. Ukur Yatani	Cabinet Secretary, The National Treasury, Republic of Kenya
4	Dr. Uzziel Ndagijimana	Minister of Finance & Economic Planning, Republic of Rwanda
5	Hon. Dr. Mwigulu Nchemba (From 31 March 2021)	Minister for Finance and Planning, United Republic of Tanzania

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.

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 & Economic Development, Republic of Uganda
2	Dr Julius Muia	Principal Secretary, the National Treasury, Republic of Kenya

DIRECTORS' REPORT (continued)

3	Mr. Caleb Rwamuganza Up to 31st December 2019	Permanent Secretary, Secretary to the Treasury, Ministry of Finance and Economic Planning, Republic of Rwanda
4	Mr. James Doto (Until 3 April 2021)	Permanent Secretary, Ministry of Finance and Planning, United Republic of Tanzania
5	Mr. Emmanuel Tutuba (From 4 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:

	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.

DIRECTORS' REPORT (continued)

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	%	Shares	Value	%
Class A		USD'000			USD'000	
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	87.34%

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%**

DIRECTORS' REPORT (continued)

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.

Performance highlights

	2020	2019	Change	% Change
Performance measure	**USD'000**	**USD'000**	**USD'000**	
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'.

DIRECTORS' REPORT (continued)

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.

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.

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.

DIRECTORS' REPORT (continued)

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.

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.

DIRECTORS' REPORT (continued)

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.

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.

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

DIRECTORS' REPORT (continued)

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.

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.

DIRECTORS' REPORT (continued)

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.

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 General

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**

7.0 Report on the audit of the financial statements

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 63 to138 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 (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.

PricewaterhouseCoopers Certified Public Accountants, Communications House, 1 Colville Street, P. O. Box 882, Kampala Uganda. Registration Number 113042. T: +256 (414) 236018, +256 (312) 354400, F: +256 (414) 230153, E: ug_general@pwc.com, www.pwc.com/ug. Partners: **C** Mpobusingye **D** Kalemba **F** Kamulegeya **P** Natamba **U** Mayanja. PricewaterhouseCoopers CPA is regulated by the Institute of Certified Public Accountants of Uganda (ICPAU), ICPAU No. AF0004

Report on the audit of the financial statements (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
Impairment of loans and advances 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 million at 31 December 2020 (2019: USD 3.4 million). The Directors have exercised significant judgment 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: • 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.	Our audit procedures are summarised as follows: We evaluated the appropriateness of the methodology applied by management in the calculation of expected credit losses for consistency with IFRS 9; 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; We tested, on a sample basis, the reasonableness of PDs used by management as well as the accuracy of the underlying historical data applied by management in deriving PDs; We evaluated the suitability of forward looking data used in estimating PDs 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; We tested, on a sample basis the reasonableness of the EAD for on and off balance sheet items;

Report on the audit of the financial statements (continued)

Key audit matter (Continued)

Key audit matter	How our audit addressed the key audit matter
The Directors 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 twelve month probabilities of default and over the lifetime of the facilities to determine the lifetime probabilities of default.	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; and 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 management as at 31 December 2020.

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.

Responsibilities of the Directors for the financial statement

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.
- 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.

Report on the audit of the financial statements (continued)

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

- 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.

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

21 September 2021

CPA Uthman Mayanja

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2020	2019
		USD'000	USD'000
Interest income	3	18,092	19,878
Interest expense	4	(4,166)	(5,404)
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	(254)	37
Net operating income		15,288	16,387
Net impairment losses on financial assets	15(a)	(593)	(156)
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	(3,787)	(3,081)
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 & 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	450.26	621.92

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 63 to 138 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

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019	Notes	Share capital	Share premium	Special reserves	Funds awaiting allotment	Fair value reserve	Retained earnings	Revaluation reserve	Total equity
		USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
At start of year		**189,824**	**3,874**	**12,507**	**83**	**525**	**41,439**	**7,901**	**256,153**
Statement of comprehensive income									
Profit for the year		-	-	-	-	-	8,731	-	8,731
Other comprehensive income, net of tax	34	-	-	-	-	-		1,533	1,533
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**8,731**	**1,533**	**10,264**
Transactions with owners									
Transfer to special reserve	31	-	-	50		-	(50)	-	-
Transfer from PPE revaluation reserve	34	-	-	-	-	-	38	(38)	-
Transfer from fair value reserve	32	-	-	-	-	(74)	74	-	-
		-	-	50	-	(74)	62	(38)	-
At end of year		**189,824**	**3,874**	**12,557**	**83**	**451**	**50,232**	**9,396**	**266,417**

Statement of changes in equity (continued)

Year ended 31 December 2020	Notes	Share Capital	Share premium	Special reserves	Funds awaiting allotment	Fair value reserve	Retained earnings	Revaluation reserve	Total equity
		USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
Balance at 1 January 2020		**189,824**	**3,874**	**12,557**	**83**	**451**	**50,232**	**9,396**	**266,417**
Comprehensive income									
Profit for the year		-	-	-	-	-	6,365	-	**6,365**
Other comprehensive income, net of tax		-	-	-	-	-	-	-	-
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**6,365**	**-**	**6,365**
Transactions with owners									
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**

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.

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.

Notes (continued)

2. Principal accounting policies

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.

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.

Notes (continued)

2. Principal accounting policies (continued)

F) Property, plant and equipment (continued)

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.

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.

Notes (continued)

2. Principal accounting policies (continued)

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.

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.

Notes (continued)

2. Principal accounting policies (continued)

(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.

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.

Notes (continued)

2. Principal accounting policies (continued)

l) Financial assets and liabilities (continued)

- 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.

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.

Notes (continued)

2. Principal accounting policies (continued)

I) Financial assets and liabilities (continued)

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.

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.

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.

Notes (continued)

2. Principal accounting policies (continued)

I) Financial assets and liabilities (continued)

- 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.

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.

Notes (continued)

2. Principal accounting policies (continued)

I) Financial assets and liabilities (continued)

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, canceled 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.

(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.

Notes (continued)

2. Principal accounting policies (continued)

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.

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.

Notes (continued)

2. Principal accounting policies (continued)

M) Leases (continued)

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.

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.

iii) Other entitlements

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

Notes (continued)

2. Principal accounting policies (continued)

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.

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.

Notes (continued)

2. Principal accounting policies (continued)

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 fulfillments 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.

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	5,968	5,999
	18,092	19,878
4 INTEREST EXPENSE		
Interest expense on medium and long term borrowings	3,414	4,396
Interest expense on lines of credit	752	1,008
	4,166	5,404
5 FEE AND COMMISSION INCOME - NET		
Gross fees and commission income		
Appraisal fees	44	50
Other fees and commission income	300	389
Commitment fees	49	11
	393	450
Gross fees and commission expense		
Commission charges	(7)	(10)
Commitment fees	(20)	(24)
Other fees and commission expense	(36)	-
	(63)	(34)
Net fee and commission income	330	416
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	58	16
	1,978	1,543

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)	(68)	(74)
	(692)	(83)
8 EMPLOYEE BENEFITS EXPENSE		
Salaries and wages	2,525	2,455
Pension and gratuity (Note 37)	336	327
Other staff costs	773	735
	3,634	3,517
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	921	816
	3,787	3,081

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	**3,684**	2,971

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	**6,365**	8,731
Weighted average number of ordinary shares in issue and paid up during the year (Note 28)	**14,137**	14,061
Basic earnings per share	**450.26**	621.92

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	**14,143**	14,067
	Diluted earnings per share	**450.07**	621.64

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	**17,223**	12,971

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
		195,752	177,543
	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	**75,416**	36,714
		195,752	177,543

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

Notes (continued)

15 LOANS AND LEASE RECEIVABLES

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

(a) Credit impairment losses

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

	2020	2019
	USD'000	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	593	156
Impairment charge to profit or loss	593	156
Loss allowance at end of year	3,981	3,388

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	6%	5%
	100%	100%

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%**

Notes (continued)

16 SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2019

Loan exposure by country

Country	Gross Balances	%	Net Balances	%
	USD'000		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				
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	%	Non performing portfolio	%	Totals
	USD'000		USD'000		
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	%	Non performing portfolio	%	Totals
	USD'000		USD'000		
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**

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	54	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**

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	3,630	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**

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**

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	435	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**	**266,417**
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		
Additions (Reclassified from loans)	**1,200**	1,273
	-	-
	1,200	1,273
Less:		
Investments that matured during the year	**-**	-
Revaluation loss	**(20)**	-
Fair value loss	**(68)**	(73)
At end of year	**1,112**	1,200

18 OTHER ASSETS

	2020 USD '000	2019 USD '000
Prepayments	**142**	147
Value Added Tax receivable	**405**	368
Fees and commission receivable	**60**	109
Tenants rent receivable	**42**	23
Project receivables	**1,048**	177
Other receivables	**345**	173
	2,042	997
Provision on other receivables	**(1,516)**	-
	526	997

Project receivables relate to costs incurred in respect of projects under receivership with provisions for impairment of USD 1.048 million (2019: USD 0.177 million).

19 INVESTMENT PROPERTY

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

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	2019
	USD '000	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)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	USD'000	USD'000	USD'000
2020			
Land	-	21,831	-
Buildings	-	9,901	-
2019			
Land	-	21,754	-
Buildings	-	10,151	-

Notes (continued)

20 PROPERTY AND EQUIPMENT

Year ended December 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'
At 1 January 2020						
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**

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 and Fittings USD 000'	Total USD 000'
At 31 January 2018						
Cost of 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	**(5,562)**	(5,125)
Net book amount	**3,197**	3,634

21 INTANGIBLE ASSETS

	2020 USD'000	2019 USD'000
Cost		
At start of year	**1,963**	**1,963**
Additions during the year	**2**	-
	1,965	1,963
Amortization		
At start of year	**(1,861)**	(1,783)
Amortization charge for the year	**(79)**	(78)
	(1,940)	(1,861)
At end of year	**25**	**102**

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.

Notes (continued)

22 RIGHT-OF-USE ASSETS (CONTINUED)

	USD '000
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	2019
	USD'000	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	**1,655**	921
	9,461	9,865

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 Diary,West Kenya Sugar and Kenya Women Microfinance Bank.

Notes (continued)

24 BORROWINGS

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

Maturity analysis of borrowings		
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
	86,690	101,843

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
At end of year	**75,337**	86,082

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.

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

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.

Notes (continued)

27 GRANTS

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

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.

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	54,00	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**

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	7,479	7,479

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.

30 FUNDS AWAITING ALLOTMENT

	2020	2019
	USD'000	USD'000
At start of year	83	83
Cash received towards share capital	6,167	-
Share allotment within the year	(6,170)	-
At end of year	80	83

Notes (continued)

31 SPECIAL RESERVE

	2020	2019
	USD '000	USD '000
At start of year	**12,557**	12,507
Transfer of commission and guarantee fees	**45**	50
At end of year	**12,602**	12,557

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	2019
	USD '000	USD '000
At start of year	**451**	525
Transfer from retained earnings (Note 17)	**(69)**	(74)
At end of year	**382**	451

33 CASH AND CASH EQUIVALENTS

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

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

Notes (continued)

34 REVALUATION RESERVE

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

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

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.

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.

Notes (continued)

35 USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

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.

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.

Notes (continued)

36 FINANCIAL RISK MANAGEMENT

(a) Introduction and overview (continued)

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.

(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.

Notes (continued)

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

Management of credit risk (continued)

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.

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.

Notes (continued)

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

Expected credit loss measurement (continued)

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.
- 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)

Recognition of expected credit losses

12 Months Expected Credit Losses	12 Months Expected Credit Losses	Lifetime expected Credit losses
Stage 1	**Stage 2**	**Stage 3**
*Performing initial recognition**	*Underperforming Assets with significant increase in credit risk since initial recognition**	*Non-performing Credit impaired 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?

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:

Notes (continued)

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

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

- 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.

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.

Notes (continued)

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

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.

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**

Notes (continued)

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

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.

	2020	2019
	USD'000	USD'000
Cash at bank	**17,223**	12,971
Placements with commercial Banks	**195,752**	177,543
	212,975	190,514

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.

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				
Gross carrying amount as at 1 January 2020	**92,597**	**52,209**	**7,220**	**152,026**
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**

Notes (continued)

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

	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
Year ended 31 December 2019					
Loans and receivables					
Gross carrying amount as at 1 January 2019	**125,186**	**19,990**	**14,500**	**-**	**159,676**
Transfers					
Transfer from Stage 1 to Stage 2	(27,287)	27,287	-	-	-
Transfer from Stage 2 to Stage3	-	(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**

Notes (continued)

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk Measurement (continued)

Geographical concentration of financial assets

	Uganda USD'000	Tanzania USD'000	Kenya USD'000	Rwanda USD'000	Oversea USD'000	Totals USD'000
Year ending 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						
Cash and bank balances	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	3,300	1,580

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	**(44,139)**	(53,437)
Surplus per liquidity policy	**143,444**	106,515
Liquidity ratio	**5.67**	3.99

Notes (continued)

36 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
31 December 2020	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
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	> 6 Months < 1 Year	> 1 Year < 3 Years	> 3 Years < 5 Years	> 5 Years 7 Years	> 7 Years	Total
	USD '000	USD '000	USD '000	USD '000	USD '000	USD'000	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	2019
	USD'000	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%

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

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	11,098

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	2019
	USD'000	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 USD'000	2019 USD'000
Financial assets		
At fair value		
Equity investments	**1,112**	1,200
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	**17,223**	12,971
	343,658	192,711

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	**75,337**	86,082
Total	**85,256**	96,501

Notes (continued)

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value of financial instruments (continued)

	Level 3 USD '000	Total USD '000
31 December 2020		
Financial assets at fair value through profit or loss		
Equity investments at fair value	**1,112**	**1,112**
31 December 2019		
Financial assets at fair value through profit or loss		
Equity investments at fair value	1,200	1,200

Reconciliation of level 3 items

Equity investments		
At start of year	**1,200**	1,273
Additions	**-**	-
Investments exited	**-**	-
Fair value gain/ (loss)	**(88)**	(73)
At end of year	**1,112**	1,200

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).

Notes (continued)

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(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
- 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	**(12,602)**	(12,557
	266,388	253,860
Ratio	**0.50**	0.60

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)	**(458)**	(554)
Net debt	**61,764**	67,164

Notes (continued)

36 FINANCIAL RISK MANAGEMENT (CONTINUED)

(h) Capital management (continued)

	Borrowings	Lease Liability	Liquid Assets	Total
	USD'000	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 USD '000	2019 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
		336	327

(i) 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. A Board of Trustees manages the scheme, the scheme administrator is Alexander Forbes, custodian Standard Chartered Bank Uganda and Fund manager Sanlam Investments Limited.

Notes (continued)

37 EMPLOYEE RETIREMENT BENEFIT PLANS AND GRATUITY (CONTINUED)

(ii) The Bank also makes contributions to a statutory pension scheme, the National Social Security Fund for its casual staff. The contributions and obligations under the scheme are limited to specific contributions legislated from time to time and the Bank's contribution is currently 10% of the employees' gross salary and Kenya Shillings 200 for Kenyan employees resident in Kenya.

(iii) Gratuity is paid to the Director General at 20% of annual gross salary at the end of each year.

Other staff benefits

The Bank promoted the welfare of its staff through various measures such as the car purchase loan scheme, education assistance loans, housing loans and a funded medical scheme. Costs associated with providing these benefits are expensed as and when incurred and reported under employee benefits expense (Note 8).

38 CAPITAL COMMITMENTS

	2020 USD '000	2019 USD '000
Authorised and contracted for	-	352

39 OFF BALANCE SHEET ITEMS AND CONTINGENCIES

The Bank conducts business involving guarantees, performance bonds and indemnities. The following are the commitments and contingencies outstanding as at year-end.

	2020 USD '000	2019 USD '000
Un-disbursed commitments	3,330	1,580

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.

Notes (continued)

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
Loans and advances to Directors	**USD '000**	**USD '000**
Green Hills Academy Ltd	**197**	297
Loan to Government of United Republic of Tanzania	**11,122**	13,048

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

	2020	2019
	USD '000	**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	**2,647**	3,358

Borrowings payable by the Bank to shareholders		
African Development Bank	**19,046**	23,040
NCBA Bank Limited	**5,754**	9,321
Interest expense on borrowings as paid to shareholders	**1,708**	2,467

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.

Notes (continued)

40 RELATED PARTY TRANSACTIONS (CONTINUED)

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	**40**	58
	491	509

	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	**7**	30
	499	509

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.

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