# East African Development Bank

## Directors' Report and Financial Statements

## For the year ended 31 December 2019

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## CORPORATE INFORMATION

### Registered office and 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

### Bankers

Standard Chartered Bank–London
Standard Chartered Bank– New York
Standard Chartered Bank - Frankfurt
Citibank – London
Citibank – New York
Standard Chartered Bank - Uganda
Citibank Uganda Limited
Stanbic Bank Uganda Limited
Standard Chartered Bank - Kenya
Bank of Kigali
Standard Chartered Bank - Tanzania

### Auditor

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

## DIRECTORS' REPORT

### 1. Introduction

The Directors submit their report together with the audited financial statements for the year ended 31 December 2019, which disclose the state of affairs of East African Development Bank ("EADB" or "the Bank").

### 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 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) Promotion of the development of the region;

(e) 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

(f) 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 both fulfilled and existing projects.

The Bank's strategy is anchored on Member States' national development strategies as well as the East African Community. Currently the Bank is operating under its 2016-2020 strategy which, among other things, focuses 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.

Management reports to the Board on a quarterly and annual basis.

Preparation of the 2021-2025 strategy is underway and will be approved by the Board during 2020.

### 6. Governance

Governance plays a key role in the management of the affairs of the Bank and in the overall execution of its mandate. The Bank 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.

## DIRECTORS' REPORT (continued)

### 6. Governance (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 | Minister of Finance and Planning, United Republic of Tanzania |
| 3 | Hon. Amb. Ukur Yatani (From 25 July 2019) | Cabinet Secretary, The National Treasury, Republic of Kenya |
| 4 | Mr. Henry K. Rotich (Up to 24 July 2019) | Cabinet Secretary, The National Treasury, Republic of Kenya |
| 5 | Dr. Uzziel Ndagijimana | Minister of Finance and Economic Planning, Republic of Rwanda |

#### b) Board of Directors and sub-committees

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

The Board has two committees namely the Board Human Resources Committee which is responsible for all staffing issues in the Bank and the Board Audit Committee which is responsible for all internal control issues. The Audit committee currently is also responsible for Bank's risk management.

The Board of Directors met twice during the year to deliberate on various issues including the Bank's financial performance and approval of projects.

The Board Audit Committee also met twice during the year and deliberated on Internal and external Audit reports as well as Risk management reports.

## DIRECTORS' REPORT (continued)

### 6. Governance (continued)

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

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

| | Name | Details |
|---|---|---|
| 1 | Mr Keith Muhakanizi (Chairman) | Permanent Secretary and Secretary to the Treasury, Ministry of Finance, Planning and Economic Development, Republic of Uganda |
| 2 | Dr Kamau Thugge (Up to 24 July 2019) | Principal Secretary, the National Treasury, Republic of Kenya |
| 3 | Dr Julius Muia (From 25 July 2019) | Principal Secretary, the National Treasury, Republic of Kenya |
| 4 | Mr Caleb Rwamuganza | Permanent Secretary, Secretary to the Treasury, Ministry of Finance and Economic Planning, Republic of Rwanda |
| 5 | Mr James Doto | Permanent Secretary, Ministry of Finance and Planning, United Republic of Tanzania |
| 6 | Dr. Abdu Mukhtar | African Development Bank - Class B shareholders Representative |
| 7 | Mr Francis N. Karuiru | Private Sector Representative, Republic of Kenya |
| 8 | Mrs Khadija I. Simba | Private Sector Representative, United Republic of Tanzania |
| 9 | Mr Mbundu Faustin | Private Sector Representative, Republic of Rwanda |
| 10 | Mr. James Tumusiime | Private Sector Representative, Republic of Uganda |
| 11 | Ms Vivienne Yeda | Director General, East African Development Bank |

### c) Advisory Panel

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

## DIRECTORS' REPORT (continued)

### Members of the Advisory Panel

| | Name | Details |
|---|---|---|
| 1 | Mr Mahesh K. Kotecha | Former Managing Director 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, 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.

The paid up share capital amounted to 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 shareholders at the end of the year were as follows:

| Name | 2019 and 2018 | | |
|---|---|---|---|
| | Shares | Value | % |
| **Class A** | | **USD'000** | |
| Government of Kenya | 3,800 | 51,300 | 27.03% |
| Government of United Republic of Tanzania | 3,343 | 45,130 | 23.77% |
| Government of Uganda | 3,800 | 51,300 | 27.03% |
| Government of Rwanda | 1,337 | 18,050 | 9.51% |
| **Total Class A** | **12,280** | **165,780** | **87.33%** |
| | | | |
| **Class B** | | | |
| African Development Bank | 1,240 | 16,740 | 8.82% |
| FMO – Netherlands Development Finance Company | 375 | 5,062 | 2.67% |
| DEG – Deutsche Investitions- und Entwicklungsgesellschaft | 100 | 1,350 | 0.71% |
| Yugoslavia Consortium | 28 | 378 | 0.20% |
| SBIC - Africa Holdings | 24 | 324 | 0.17% |
| NCBA Bank Kenya Ltd (Previously Commercial Bank of Africa) | 5 | 68 | 0.04% |
| Nordea Bank Sweden | 5 | 68 | 0.04% |
| Standard Chartered Bank London | 2 | 27 | 0.01% |
| Barclays Bank Plc., London | 2 | 27 | 0.01% |
| **Total Class B** | **1,781** | **24,044** | **12.67%** |
| **Total Class A & B** | **14,061** | **189,824** | **100%** |

## DIRECTORS' REPORT (continued)

### 8. Financial Performance

The Bank remained strong during the year and the credit rating agencies (the Moodys and Global Credit Rating) confirmed the Bank's investment grade rating with stable outlook.

The Moodys rating report released in September 2019 re-affirmed the Bank's Baa3 rating with stable outlook sighting, among other things, expected continuation of '*the Bank's robust capital and prudent liquidity ratios*'. The report states that the rating agency could consider upgrading the Bank if it became increasingly likely that the Bank could maintain the low leverage ratio while expanding its balance sheet and improvement of risk management leading to sustained decline in non-performing assets to very low levels.

On the other hand the Global Credit Rating report released in December 2019 upgraded the Bank's rating to BBB- with stable outlook from the previous rating of BB+ sighting, among other things, '*very strong capitalization, relatively modest risk position, limited funding and strong liquidity*'.

More importantly, the Bank continued to register solid performance with a 34% increase in profitability and 2% growth in total assets. Returns on Assets and Equity also improved remarkably.

The financial results of the Bank are summarised below.

Performance highlights

| **Performance measure** | **2019 USD'000** | **2018 USD'000** | **Change USD'000** | **% Change** |
|---|---|---|---|---|
| Net operating income | 16,231 | 15,377 | 854 | 5.6% |
| Operating expenses | 7,500 | 8,871 | (1,371) | (15.5%) |
| **Profit for the year** | **8,731** | **6,506** | **2,225** | **34.2%** |
| Total assets | 374,965 | 366,832 | 8,133 | 2.2% |
| Net loans and advances | 148,638 | 156,444 | (7,806) | (5.0%) |
| Equity | 266,417 | 256,153 | 10,264 | 4.0% |
| Return on Assets | 2.33% | 1.77% | 0.56% | 31.6% |
| Return on Equity | 3.28% | 2.54% | 0.74% | 29.1% |

## DIRECTORS' REPORT (continued)

### 9. Cash flow and Liquidity Management

The Bank places significant importance on liquidity management and the detailed liquidity risk management report is contained on note 36(c) of the financial statements.

During the year, the Bank generated USD 15 million from operating activities and made net investments in interest earning placements of USD 29 million. This in addition to net repayments to lenders of USD 6 million led to a net reduction in cash of USD 20 million. By contrast, in 2018, the Bank generated net cash flows from operating activities of USD 27 million and net cash flows from investing activities of USD 6 million. This in addition to net repayments to lenders of USD 18 million led to a net increase in cash of USD 15 million.

During the year the Bank maintained adequate liquidity and the actual liquidity ratio at the end of 2019 was 3.99 times compared to 4.00 in 2018 and both are above the target ratio of 1.33 times.

### 10. Market overview

The operating environment remained positive during the reporting period despite looming dangers from slowdown in global economy, partly as a result of the trade war between China and the United States of America.

Reduction of tension between China and the United States of America was expected to have some positive impact in the global economy in 2020. However, emergence of the Novel Corona Virus (COVID-19) has set the global economy on uncertain path as global financial markets have experienced unprecedented falls. Central Banks have shown willingness to implement equally unprecedented measures to contain the impact of the pandemic to the economy. The Bank cannot at the moment establish, with any degree of certainty, the impact of the pandemic to the Member States' economies and its activities in these economies but remain cautiously optimistic.

According to the African Development Bank (AfDB)'s African Economic outlook for 2020, the African economy was projected to improve to 3.9% from 3.4% estimated for 2019 with Rwanda and Tanzania being mentioned among the countries that will lead the growth. The emergence of COVID-19 is expected to change the outlook but performance in Member States is still expected to remain positive though lower than earlier projected.

The report also highlights improvement of growth fundamentals with a shift from private consumption to investment and exports with investment accounting for more than 50% of the growth for the first time in a decade.

In addition to the outlook report, results from the World Bank's Doing Business survey revealed that the economies in the East African region made significant improvements with Kenya being mentioned among the most improved countries. Rwanda remained the top performer in the region despite slipping in the overall ranking.

**DIRECTORS' REPORT (continued)**

## 10. Market overview (continued)

The Bank will continue assessing the impact on its operating environment.

The overall conclusion is that the operating environment will continue to be conducive and provide good ground for the Bank's continued growth. This is, however, subject to the ultimate economic impact of the COVID-19 and should it significantly impact the Bank's Member States economies the Bank will appropriately respond by revising its strategy accordingly.

## 11. Future Plans

The Bank's core strategy remains the promotion of development in member states. The positive economic indicators in the member states provide a conducive environment for growth.

There are no major changes in Member States' strategies and all retain ambitious plans in infrastructure development as well as industrialization agenda which provide opportunities for the Bank to expand its programs. Intervention in promotion of small and medium enterprises and in the offering of social services, notably education, health and housing will continue to feature in the Bank's agenda.

The Bank will continue to mobilize appropriately priced credit facilities in order to fund the growth of operations in the member states, building on the good progress registered so far.

In order to maintain its investment grade rating the Bank will continue to improve its risk management strategies to ensure that the pursuit of growth does not in any way compromise its good risk management record.

The Bank will continue to engage key stakeholders with a view to building effective and efficient alliances to facilitate growth of its projects in the region.

## 12. 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.

## DIRECTORS' REPORT (continued)

### 13. Solvency

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

### 14. Resources

The Bank is endowed with immense resources enabling it to operate efficiently and they are expected to continue being available to support the operations.

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

In addition, the Bank has a modern technology operating platform which facilitates operations across the region. The Bank will continue to improve and enhance its technology platform while at the same time making sure that required risk management safeguards are implemented to avoid disruptions.

The Bank also takes pride in its very committed shareholders who, in addition to provision of the capital, stand ready to provide even more resources through their callable capital commitments which at the end of the 2019 stood at USD 842.9 million. Efforts will continue to be made to ensure that delivery is made to their expectations at all times.

### 15. Employee Welfare

Employees are the most important resource of the Bank and therefore 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 the employees.

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

## DIRECTORS' REPORT (continued)

### 15. Employee Welfare (continued)

The Bank also provides continuous training to staff in various, need driven areas, to ensure that their performance is improved. 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.

### 16. 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.

### 17. Social and Environmental controls

The Bank is an ardent advocate of sustainable development and ensures that all its projects do not negatively affect the people aimed to benefit or their environment.

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

The Bank does not finance projects 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.

### 18. 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.

### 19. Dividends

The Directors do not recommend the payment of dividends for the year (2018: Nil). This is in line with shareholders' strategy to build up the capital of the Bank.

### 20. Events after reporting date

Besides the disclosure under note 41 in respect of COVID-19, there are no other events after the reporting period that warrant reporting.

**DIRECTORS' REPORT (continued)**

## 21. Auditor

In line with the Bank's policy to rotate its external auditor from time to time, the Bank's current auditor PricewaterhouseCoopers Certified Public Accountants shall not be eligible for reappointment and a new auditor shall be appointed by the Governing Council in accordance with Article 2 (d) of the Bank's Charter.

**By order of the Board**

**Chairman – Board of Directors**

**Director**

29-06-20

**Date**

29-06-2020

**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 prescribed 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 apply them consistently; and

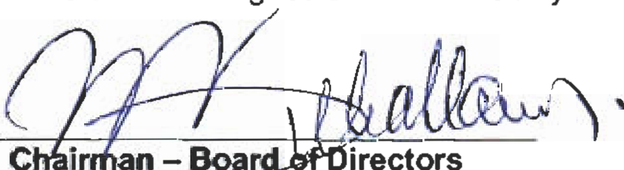
(iii) Making judgements and accounting estimates that are reasonable in the circumstances.

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 results of the Bank's assessment of the possible impact on its cash flows and operations as a result of the macroeconomic impact of COVID-19 on the local Ugandan market and wider international economy that is disclosed in Note 41 of the financial statements. 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.

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

### Approval of the financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 24th March 2020 and the Governing Council on 5th May 2020 and were signed on their behalf by:



**Chairman – Board of Directors**

**Director General**

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

## 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 2019, 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 20 to 97 comprise:

- the statement of financial position as at 31 December 2019;
- 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 IESBA International Code of Ethics for Professional Accountants (including International Independence Standards) ["the IESBA Code"]. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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Partners: C Mpobusingye D Kalemba F Kamulegeya P Natamba U Mayanja

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

## 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**<br><br>As disclosed in Note 15 of the financial statements, the Directors have estimated provisions for expected credit losses on loans and advances of USD 3.4 million at 31 December 2019 (2018: USD 3.2 million).<br><br>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:<br><br>• in defining both default and significant increase in credit risk, based on quantitative and qualitative factors; and<br><br>• in estimating probabilities of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") – all of which have been determined on an individual borrower basis, over the relevant period, being either 12 months or remaining lifetime of the relevant loans and advances. | Our audit procedures are summarised as follows:<br><br>We evaluated the appropriateness of the methodology applied by management in the calculation of expected credit losses for consistency with IFRS 9;<br><br>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;<br><br>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;<br><br>We evaluated the suitability of forward looking data used in estimating PDs together with the accuracy of its application in the PD estimation process;<br><br>We tested, on a sample basis the reasonableness of the EAD for on and off balance sheet items; |

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

### Report on the audit of the financial statements (continued)

*Key audit matter (continued)*

| *Key audit matter* | *How our audit addressed the key audit matter* |
| --- | --- |
| | 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<br><br>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 2019. |

*Other information*

The Directors are responsible for the other information. The other information includes the corporate information, the Directors' report and the statement of Directors' responsibilities but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and additional sections of the Bank's complete annual report, which are expected to be made available to us after that date.

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

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

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

**Report on the audit of the financial statements (continued)**

*Responsibilities of the Directors for the financial statements*

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Treaty and Charter of the East African Development Bank ("the Bank's Charter"), and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the ability of the Bank to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for overseeing the financial reporting process.

*Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

### Report on the audit of the financial statements (continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

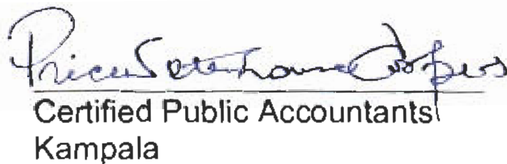
**REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF EAST AFRICAN DEVELOPMENT BANK (continued)**

**Report on the audit of the financial statements (continued)**

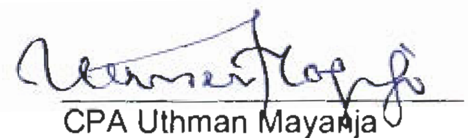
*Auditor's responsibilities for the audit of the financial statements (continued)*

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

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



Certified Public Accountants
Kampala



CPA Uthman Mayanja

10 July 2020

## Statement of comprehensive income

| | Notes | 2019 USD'000 | 2018 USD'000 |
|---|---|---|---|
| Interest income | 3 | **19,878** | 21,537 |
| Interest expense | 4 | **(5,404)** | (6,370) |
| **Net interest income** | | **14,474** | 15,167 |
| Fee and commission income | 5 | **416** | 424 |
| Other operating income | 6 | **1,543** | 2,967 |
| Other losses | 7 | **(83)** | (111) |
| Net fair value gain/(loss) on investment property | 19 | **37** | (261) |
| **Net operating income** | | **16,387** | 18,186 |
| Credit impairment losses | 15(a) | **(156)** | (2,809) |
| **Operating income after impairment charges** | | **16,231** | 15,377 |
| Employee benefits expense | 8 | **(3,517)** | (3,690) |
| Depreciation and amortization | 20, 21, 22 | **(902)** | (775) |
| Other operating expenses | 9 | **(3,081)** | (4,406) |
| **Profit before income tax** | 10 | **8,731** | 6,506 |
| Income tax expense | 11 | **-** | - |
| **Profit for the year** | | **8,731** | 6,506 |
| **Other comprehensive income:** | | | |
| Gain on revaluation of land and buildings | 34 | **1,533** | - |
| **Total comprehensive income** | | **10,264** | 6,506 |
| Earnings per share – basic and diluted (Expressed in USD per share) | 12 | **621** | 463 |

## Statement of financial position

| | Notes | 2019 USD'000 | 2018 USD'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash at bank | 13 | **12,971** | 10,867 |
| Placements with commercial banks | 14 | **177,543** | 165,519 |
| Loans and lease receivables | 15 | **148,638** | 156,444 |
| Equity investments | 17 | **1,200** | 1,273 |
| Other assets | 18 | **997** | 565 |
| Property and equipment | 20 | **14,050** | 13,111 |
| Right of use assets | 22 | **554** | - |
| Investment property | 19 | **18,910** | 18,873 |
| Intangible assets | 21 | **102** | 180 |
| **Total assets** | | **374,965** | 366,832 |
| **Liabilities** | | | |
| Other liabilities | 23 | **9,865** | 6,719 |
| Borrowings | 24 | **86,082** | 91,458 |
| Lease liabilities | 25 | **554** | - |
| Special funds | 26 | **3,990** | 3,990 |
| Grants | 27 | **578** | 1,033 |
| Capital fund | 29 | **7,479** | 7,479 |
| **Total liabilities** | | **108,548** | 110,679 |
| **Capital and reserves** | | | |
| Share capital | 28 | **189,824** | 189,824 |
| Share premium | 28 | **3,874** | 3,874 |
| Funds waiting allotment | 30 | **83** | 83 |
| Special reserve | 31 | **12,557** | 12,507 |
| Fair value reserve | 32 | **451** | 525 |
| Revaluation reserves | 34 | **9,396** | 7,901 |
| Retained earnings | | **50,232** | 41,439 |
| **Total shareholders' equity** | | **266,417** | 256,153 |
| **Total shareholders' equity and liabilities** | | **374,965** | 366,832 |

The financial statements set out on pages 20 to 97 were approved and authorised for issue by the Board of Directors on ..24th March.........2020 and the Governing Council on 5th.........May.. 2020 and were signed on their behalf by:

**Chairman – Board of Directors** **Director General**

## Statement of changes in equity

| Year ended 31 December 2018 | Notes | Share capital USD '000 | Share premium USD '000 | Special reserves USD '000 | Funds awaiting allotment USD '000 | Fair value reserve USD '000 | Retained earnings USD '000 | Revaluation reserve USD '000 | Total equity USD '000 |
|---|---|---|---|---|---|---|---|---|---|
| **At start of year as restated** | | 189,824 | 3,874 | 12,443 | 83 | 455 | 35,029 | 7,939 | 249,647 |
| **Comprehensive income** | | | | | | | | | |
| Profit for the year | | - | - | - | - | - | 6,506 | - | 6,506 |
| Other comprehensive income: | | - | - | - | - | - | - | - | - |
| **Total comprehensive income** | | - | - | - | - | - | 6,506 | - | 6,506 |
| **Transactions with owners** | | | | | | | | | |
| Transfer to special reserve | 31 | - | - | 64 | | - | (64) | - | - |
| Transfer from the revaluation reserve | 34 | - | - | - | - | - | 38 | (38) | - |
| Transfer to fair value reserve | 32 | - | - | - | - | 70 | (70) | - | - |
| **At end of year** | | **189,824** | **3,874** | **12,507** | **83** | **525** | **41,439** | **7,901** | **256,153** |
| **Year ended 31 December 2019** | | | | | | | | | |
| **At start of year** | | 189,824 | 3,874 | 12,507 | 83 | 525 | 41,439 | 7,901 | 256,153 |
| **Comprehensive income** | | | | | | | | | |
| Profit for the year | | - | - | - | - | - | 8,731 | - | 8,731 |
| Other comprehensive income: | | | | | | | | | |
| Revaluation surplus on land and buildings | | - | - | - | - | - | - | 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 the revaluation reserve | 34 | - | - | - | - | - | 38 | (38) | - |
| Transfer to fair value reserve | 32 | - | - | - | - | (74) | 74 | - | - |
| **At end of year** | | **189,824** | **3,874** | **12,557** | **83** | **451** | **50,232** | **9,396** | **266,417** |

## Statement of cash flows

| | Notes | 2019 USD'000 | 2018 USD'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest receipts | | **15,668** | 18,781 |
| Interest payments | 24 | **(4,607)** | (5,710) |
| Net fee and commission receipts | | **535** | 446 |
| Other income received | | **720** | 664 |
| Payments to employees and suppliers | | **(6,553)** | (7,387) |
| **Cash inflows from operating activities** | | **5,763** | 6,794 |
| Net change in loans and advances | | **9,715** | 20,056 |
| Net other receipts from customers | | **457** | 986 |
| Settlement of other liabilities | | **(891)** | (538) |
| **Net cash flows generated from operating activities** | | **15,044** | 27,298 |
| **Investing activities** | | | |
| Purchase of property and equipment | 20 | **(60)** | (46) |
| Purchase of computer software | 21 | **-** | (29) |
| Placements with commercial banks | | **(28,994)** | 6,079 |
| **Net cash used in/ generated from investing activities** | | **(29,054)** | 6,004 |
| **Financing activities** | | | |
| Settlement of medium and long term borrowings | 24 | **(12,390)** | (19,922) |
| Proceeds from borrowings | 24 | **6,049** | 1,744 |
| **Net cash used in financing activities** | | **(6,341)** | (18,178) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(20,351)** | 15,124 |
| Cash and cash equivalent at the start of the year | | **174,169** | 159,326 |
| Foreign exchange losses | | **(18)** | (281) |
| **At end of year** | 33 | **153,800** | 174,169 |

## Notes

### 1. Reporting entity

East African Development Bank (the "Bank") is a regional Bank established under the Bank's Charter of 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 statement 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 applied, 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 2019.

#### (i) IFRS 16: Leases

This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular.

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.

Under IFRS 16, 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. Following the adoption of IFRS 16, the Bank has recognised right-of-use assets and related lease liabilities as set out under note 22.

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'

The Bank adopted a modified retrospective approach on adoption of IFRS 16 and as such the initial adoption impact was recognised in the statement of financial position at 1 January 2019.

On adoption of IFRS 16, the Bank recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 9.5% and 6% for leases denominated in Kenya Shillings and US Dollars respectively.

**Notes (continued)**

**Principal accounting policies (continued)**

**B) Changes in accounting policy and disclosures (continued)**

**(I) New and amended standards adopted by the Bank (continued)**

**(i) IFRS 16: Leases (continued)**

(i) Practical expedients applied

In applying IFRS 16 for the first time, the Bank has used the following practical expedients permitted by the standard:

a) applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
b) relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 January 2019;
c) excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
d) using hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
e) the Bank excluded lease of printers having considered them small lease items as provided for in the standard.

*ii) Measurement of lease liabilities*

The associated right-of-use were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

*iii) Amounts recognised in the balance sheet*

At 1 January 2019, the right-of-use assets comprised of office premises for Kenya and Rwanda and amounted to USD 677,195 while the lease liability amounted to USD 677,195. Additions to the right of use assets during the year ended 31 December 2019 were nil.

*iv) Amounts recognised in profit or loss*

At 31 December 2019, the depreciation charge for the right-of-use assets amounted to USD 122,730 and the interest expense on the lease liability amounted to USD 38,192.

A detailed analysis of the impact of the adoption of IFRS 16 is indicated in notes 22 and 25.

**Notes (continued)**

**Principal accounting policies (continued)**

**(I) New and amended standards adopted by the Bank (continued)**

(i) **Amendments to IFRS 9 – 'Financial instruments'** on prepayment features with negative compensation and modification of financial liabilities.

The amendment covers two issues:

(i) The amendments allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss. It is likely to have the biggest impact on banks and other financial services entities.

(ii) How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under IAS 39 today and will affect all kinds of entities that have renegotiated borrowings.

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

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the bank has decided not to adopt early. Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. The following new standards, amendments and interpretations not adopted in the current year are not expected to have a material impact on the Bank's financial statements.

**(a) IFRS 17 Insurance Contracts**

IFRS 17 replaces IFRS 4 and is effective for annual periods beginning January 2021. It provides a comprehensive guidance for insurance contracts including recognition, measurement, presentation and disclosure.

The standard applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), as well as to certain guarantees and financial instruments with discretionary participation features.

The adoption of this standard is not expected to have an impact on the Bank's financial statements as currently the Bank is not engaged in the provision of insurance services.

**Notes (continued)**

**Principal accounting policies (continued)**

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

**(b) 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.

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.

**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.

**Notes (continued)**

## 2. Principal accounting policies (continued)

### 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 comprehensive income 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.

Interest income and expense presented in the statement of comprehensive income 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.

*(ii) Fees and commission income (continued)*

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.

## Notes (continued)

## 2. Principal accounting policies (continued)

## E) Revenue recognition (continued)

*(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.

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.

**Notes (continued)**

## 2. Principal accounting policies (continued)

### F) Revenue recognition (continued)

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 eamings.

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 comprehensive income 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)

### l) 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.

**Notes (continued)**

**2. Principal accounting policies (continued)**

**l) Financial assets and liabilities**

- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

**(a) Financial Assets**

*(i) Classification and subsequent measurement*

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

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

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

*Debt instruments*

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

Classification and subsequent measurement of debt instruments depend on:

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

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.

## Notes (continued)

## 2. Principal accounting policies (continued)

### l) Financial assets and liabilities (continued)

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through Other Comprehensive Income (OCI), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

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

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.

**Notes (continued)**

## 2. Principal accounting policies (continued)

### I) Financial assets and liabilities (continued)

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

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

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

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

*Equity instruments*

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

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.

Notes (continued)

## 2. Principal accounting policies (continued)

### l) Financial assets and liabilities (continued)

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.
- 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.

**Notes (continued)**

**2. Principal accounting policies (continued)**

**l) Financial assets and liabilities (continued)**

**(ii) Impairment (continued)**

- 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.

***(ii) Derecognition***

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

**Notes (continued)**

## 2. Principal accounting policies (continued)

### I) Financial assets and liabilities (continued)

***(ii) Derecognition*** **(continued)**

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.

**Notes (continued)**

**2. Principal accounting policies (continued)**

**I) Financial assets and liabilities (continued)**

**K) Impairment of non-financial assets**

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

**L) Fiduciary assets**

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

**M) Lease assets**

As described in Note (ii), the Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

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. This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

**Policy applicable from 1 January 2019**

**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.

**Notes (continued)**

## 2. Principal accounting policies (continued)

### M) Lease assets (continued)

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

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

*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.

**Notes (continued)**

## 2. Principal accounting policies (continued)

### M) Lease assets (continued)

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.

**Policy applicable before 1 January 2019**

For contracts entered into before 1 January 2019, the Bank determined whether the arrangement was or contained a lease based on the assessment of whether: – fulfilment of the arrangement was dependent on the use of a specific asset or assets; and – the arrangement had conveyed a right to use the asset.

i. **As a lessee**
The Bank did not have any finance leases under IAS 17. [IAS 17.8, 33, SIC 15.3] Assets held under other leases were classified as operating leases and were not recognised in the Bank's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

ii. **As a lessor**
When the Bank acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease. To classify each lease, the Bank made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Bank considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

### 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 (2018: 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.

### P) Employees benefits

#### i) Retirement obligations

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

**Notes (continued)**

**2. Principal accounting policies (continued)**

**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 comprehensive income.

**iii) Other entitlements**

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

**Q) Investment properties**

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

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

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

**R) Grants**

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

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

**S) Cash and cash equivalents**

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

## Notes (continued)

## 2. Principal accounting policies (continued)

### S) Cash and cash equivalents (continued)

### T) Contingent liabilities – Financial guarantees and loan commitments

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

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

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

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

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

### U) Taxation

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

### V) Dividends

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

### W) Comparatives

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

## Notes (continued)

### 3 Interest income

| | 2019 USD '000 | 2018 USD '000 |
|---|---|---|
| Interest income on loans to projects | **13,869** | 15,884 |
| Interest income on lease receivables | **10** | 27 |
| Interest income on securities held to maturity | **-** | 3 |
| Interest income on deposits with other Banks | **5,999** | 5,623 |
| | **19,878** | 21,537 |

### 4 Interest expense

| | 2019 USD '000 | 2018 USD '000 |
|---|---|---|
| Interest on medium and long term borrowings | **4,396** | 5,227 |
| Interest on lines of credit | **1,008** | 1,143 |
| | **5,404** | 6,370 |

### 5 Fee and commission income - net

| | 2019 USD '000 | 2018 USD '000 |
|---|---|---|
| **Gross fees and commission income** | | |
| Appraisal fees | **50** | 64 |
| Other fees and commission income | **389** | 494 |
| Commitment fees | **11** | 23 |
| | **450** | 581 |
| **Gross fees and commission expense** | | |
| Commission charges | **(10)** | (62) |
| Commitment fees | **(24)** | (54) |
| Other fees and commission expense | **-** | (41) |
| | **(34)** | (157) |
| **Net fee and commission income** | **416** | 424 |

### 6 Other operating income

| | 2019 USD '000 | 2018 USD '000 |
|---|---|---|
| Rent income | **592** | 673 |
| Dividend income | **-** | 40 |
| Recovery of previously written off loans | **472** | 987 |
| Grant income (Note 27) | **455** | 1,241 |
| Other income on asset leasing | **8** | 7 |
| Write back of other liabilities | **16** | 19 |
| | **1,543** | 2,967 |

## Notes (continued)

### 7 Other losses

| | 2019<br>USD '000 | 2018<br>USD '000 |
|---|---|---|
| Net foreign exchange gain/(losses) | **29** | (155) |
| Finance costs (lease interest expense) | **(38)** | - |
| Net fair value (losses)/gain on equity investments at fair value (Note 17) | **(74)** | 44 |
| | **(83)** | (111) |

### 8 Employee benefits expense

| | 2019<br>USD '000 | 2018<br>USD '000 |
|---|---|---|
| Salaries and wages | **2,455** | 2,556 |
| Pension and gratuity (Note 37) | **327** | 349 |
| Other staff costs | **735** | 785 |
| | **3,517** | 3,690 |

### 9 Other operating expenses

| | 2019<br>USD '000 | 2018<br>USD '000 |
|---|---|---|
| Rental expense | **-** | 114 |
| Staff duty travel | **166** | 127 |
| Directors expenses | **58** | 96 |
| Insurance | **235** | 243 |
| Advertising and publicity | **225** | 383 |
| Legal fees | **453** | 501 |
| Repairs and maintenance | **103** | 114 |
| Computer software expenses | **144** | 178 |
| Other IT related expenses | **1** | 1 |
| Internal audit costs | **27** | 75 |
| Statutory audit fees | **52** | 57 |
| Consultancy fees | **202** | 159 |
| Project insurance | **354** | 405 |
| Subscription to professional bodies | **9** | 2 |
| Scholarships (Note 27) | **236** | 1,121 |
| Other administrative expenses | **816** | 830 |
| | **3,081** | 4,406 |

## Notes (continued)

### 10 Expenses by nature

Profit before income tax is stated after charging the following:

| | 2019 USD '000 | 2018 USD '000 |
|---|---|---|
| Directors emoluments: | | |
| - Fees and allowances | **28** | 37 |
| - Other expenses | **30** | 58 |
| Depreciation (note 20) | **702** | 702 |
| Depreciation of Right-of-use asset (note 22) | **123** | - |
| Amortization of intangible assets (note 21) | **78** | 73 |
| Impairment of loans and advances (note 16) | **156** | 2,809 |
| Employee benefits expense (Note 8) | **3,517** | 3,690 |
| Auditors remuneration | **52** | 57 |

### 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.

| | 2019 USD '000 | 2018 USD '000 |
|---|---|---|
| Net profit attributable to ordinary shareholders | **8,731** | 6,506 |
| Weighted average number of ordinary shares in issue and paid up during the year (Note 28) | **14,061** | 14,061 |
| **Basic earnings per share** | **621** | 463 |

## Notes (continued)

| 12 Earnings per share – basic and diluted (continued) | 2019 | 2018 |
| --- | --- | --- |
| **Earnings per share – basic and diluted** | | |
| Dilutive number of ordinary shares | **6** | 6 |
| Total issued and dilutive shares | **14,067** | 14,067 |
| **Diluted earnings per share** | **621** | 463 |

Dilutive shares represent the number of shares generated from the balance of funds awaiting allotment (Note 30).

| 13 Cash at bank | 2019<br>USD '000 | 2018<br>USD '000 |
| --- | --- | --- |
| Cash at bank | **12,971** | 10,867 |

**14 Placements with commercial banks**

| | 2019 | 2018 |
| --- | --- | --- |
| Placements with banks in member states | **151,469** | 130,406 |
| Placements with overseas banks | **26,074** | 35,113 |
| | **177,543** | 165,519 |
| The above amount is analyzed as follows: | | |
| Amounts due within 3 months of date of acquisition | **140,829** | 163,302 |
| Amounts due after 3 months of date of acquisition | **36,714** | 2,217 |
| | **177,543** | 165,519 |

The weighted average effective interest rate on deposits due from Banks was 3.53 % (2018: 3.76 %).

## Notes (continued)

### 15 Loans and lease receivables

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| Loans and advances (net) | **148,638** | 156,206 |
| Finance lease receivables (net) | **-** | 238 |
| | **148,638** | 156,444 |
| Loans to projects | **152,026** | 159,438 |
| Finance lease receivables | **-** | 238 |
| **Gross loans** | **152,026** | 159,676 |
| Impairment losses on loans and advances (Note 15a) | **(3,388)** | (3,232) |
| **Net carrying amounts** | **148,638** | 156,444 |

### (a) Credit impairment losses

| | 2019 | 2018 |
|---|---|---|
| Impairment charge to profit of loss – Loans and advances | **156** | 2,809 |
| Impairment charge to profit of loss – Other financial assets | **-** | - |
| | **156** | 2,809 |

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

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| At start of year, as previously stated | **3,232** | 7,718 |
| IFRS 9 first time adoption adjustment | **-** | 11,713 |
| At start of year as restated | **3,232** | 19,431 |
| Movement in profit or loss: | | |
| Increase in provision for expected credit losses | **156** | 2,809 |
| Impairment charge to profit or loss | **156** | 2,809 |
| Less: impairment on written off projects | **-** | (19,012) |
| Loss allowance at end of year | **3,388** | 3,232 |

## Notes (continued)

### 16 Segment information (continued)

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 also 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 2019 and 2018 respectively is as follows:

**Loan exposure by country**

**Year ended 31 December 2019**
**Loan exposure by country**

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

## Notes (continued)

### 16 Segment information (continued)

**Year ended 31 December 2018**

**Loan exposure by country**

| Country | | | | |
|---|---|---|---|---|
| Uganda | 40,597 | 25 | 40,236 | 26 |
| Kenya | 39,789 | 25 | 37,364 | 24 |
| Tanzania | 56,803 | 36 | 56,390 | 36 |
| Rwanda | 22,487 | 14 | 22,454 | 14 |
| **Total Region** | **159,676** | 100 | **156,444** | 100 |

**Exposure by product**

| Product | Gross Balances USD'000 | % | Net Balances USD'000 | % |
|---|---|---|---|---|
| Long term loans | 144,502 | 90 | 142,022 | 91 |
| Medium term loans | 8,745 | 5 | 8,099 | 5 |
| Short term loans | 6,191 | 4 | 6,090 | 4 |
| **Loans sub-total** | **159,438** | 100 | **156,211** | **100** |
| Equity | | | | |
| Asset Lease | 238 | - | 233 | - |
| **Total All Products** | **159,676** | **100** | **156,444** | **100** |

**Year ended 31 December 2019**

**Total portfolio quality**

| **Category** | **Gross portfolio USD'000** | **%** | **Net Portfolio USD'000** | **%** |
|---|---|---|---|---|
| **Performing Portfolio** | | | | |
| Normal (Stage 1 & 2) | 144,806 | 95 | 142,124 | 96 |
| | 144,806 | | 142,124 | |
| Non-Performing Portfolio | | | | |
| Stage 3 | 7,220 | 5 | 6,514 | 4 |
| Total | 152,026 | 100 | 148,638 | 100 |

## Notes (continued)

### 16 Segment information (continued)

**Year ended 31 December 2018**

**Total portfolio quality**

| Category | Gross portfolio | % | Net Portfolio | % |
|---|---|---|---|---|
| Performing Portfolio | USD'000 | | USD'000 | |
| Normal (Stage 1 & 2) | 145,176 | 91% | 143,927 | 92% |
| | 145,176 | 91% | 143,927 | 92% |
| Non-Performing Portfolio | | | | |
| Stage 3 | 14,500 | 9% | 12,517 | 8% |
| | 14,500 | 9% | 12,517 | 8% |
| Total | 159,676 | 100% | 156,444 | 100% |

**Approvals and disbursements**

| | Approvals | | Disbursements | |
|---|---|---|---|---|
| | Actual 2019 | Actual 2018 | Actual 2019 | Actual 2018 |
| | USD'000 | USD'000 | USD'000 | USD'000 |
| **By country** | | | | |
| Uganda | 13,075 | 17,562 | 7,716 | 4,521 |
| Kenya | 3,659 | 8,742 | 3,598 | 3,897 |
| Tanzania | 10,000 | - | 10,000 | - |
| Rwanda | 6,000 | - | - | - |
| | **32,734** | **26,304** | **21,314** | **8,418** |
| **By product** | | | | |
| **Loans** | **32,734** | **26,304** | **21,314** | **8,418** |

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

| Distribution of loans and receivables by sector | 2019 | 2018 |
|---|---|---|
| Agriculture and Fisheries | - | 1% |
| Agro, Marine and Food Processing | **7%** | 7% |
| Construction Companies, Building Materials & Real estate | **26%** | 26% |
| Financial Institutions | **39%** | 39% |
| Education, Health and other Community Services | **8%** | 8% |
| Electricity | **15%** | 12% |
| Hotels, Tourism, Leisure and Entertainment | **5%** | 7% |
| | **100%** | **100%** |

## Notes (continued)

### 16 Segment information (continued)

#### Segment statement of comprehensive income 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** | **3,226** | **4,629** | **1,564** | **3,956** | **16,387** |
| Credit impairment gain/(loss) | 18 | (209) | 26 | 9 | - | (156) |
| **Operating income after impairment charges** | **3,031** | **3,016** | **4,655** | **1,573** | **3,956** | **16,231** |
| Employee benefits expense | (845) | (920) | (659) | (282) | (811) | (3,517) |
| Depreciation and amortization | - | (82) | (20) | (56) | (743) | (902) |
| Other operating expenses | (616) | (616) | (616) | (308) | (924) | (3,081) |
| **Profit before income tax** | **1,569** | **1,398** | **3,359** | **927** | **1,478** | **8,731** |
| Income tax expense | | | | | | - |
| **Profit for the year** | **1,569** | **1,398** | **3,359** | **927** | **1,478** | **8,731** |
| Other comprehensive income | - | - | - | - | - | - |
| **Total comprehensive income** | **1,569** | **1,398** | **3,359** | **927** | **1,478** | **8,731** |

## Notes (continued)

### 16 Segment information (continued)

**Segment statement of comprehensive income for year ended December 2018**

| | Uganda USD'000 | Kenya USD'000 | Tanzania USD'000 | Rwanda USD'000 | Head Office USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|
| Interest income | 3,993 | 4,929 | 5,102 | 2,065 | 5,448 | 21,537 |
| Interest expense | (1,475) | (1,354) | (503) | (36) | (3,002) | (6,370) |
| **Net interest income** | **2,518** | **3,575** | **4,599** | **2,029** | **2,446** | **15,167** |
| Fee and commission income | 157 | 156 | 156 | 113 | (156) | 426 |
| Other operating income | 245 | 782 | - | - | 1,939 | 2,966 |
| Other gains /(losses) | (362) | 287 | (49) | (13) | 25 | (112) |
| Net fair value gain/(loss) investment property | - | - | - | - | (261) | (261) |
| **Total operating income** | **2,558** | **4,800** | **4,706** | **2,129** | **3,993** | **18,186** |
| Reduction in provision for impairment of loans and lease receivables | (405) | (2,485) | 46 | 35 | - | (2,809) |
| **Operating income after impairment charges** | **2,153** | **2,315** | **4,752** | **2,164** | **3,993** | **15,377** |
| Employee benefits expense | (859) | (968) | (696) | (281) | (886) | (3,690) |
| Depreciation and amortization | - | (14) | (20) | (10) | (731) | (775) |
| Other operating expenses | (884) | (884) | (884) | (442) | (1,312) | (4,406) |
| **Profit before income tax** | **410** | **449** | **3,152** | **1,431** | **1,064** | **6,506** |
| Income tax expense | - | - | - | - | - | - |
| **Profit for the year** | **410** | **449** | **3,152** | **1,431** | **1,064** | **6,506** |
| **Total comprehensive income** | **410** | **449** | **3,152** | **1,431** | **1,064** | **6,506** |

## 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 | USD'000 |
|---|---|---|---|---|---|---|
| Cash at bank | 4,144 | 7,743 | 1 | 96 | 987 | 12,971 |
| Deposits due from commercial 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 Asset | - | 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)

## 16 Segment information (continued)

### Segment statement of financial position for year ended December 2018

| | Uganda USD'000 | Kenya USD'000 | Tanzania USD'000 | Rwanda USD'000 | Head office USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash at bank | 4,572 | 3,292 | 2,014 | 83 | 906 | 10,867 |
| Placements with commercial Banks | - | - | - | - | 165,519 | 165,519 |
| Loans and lease receivables | 41,167 | 48,397 | 46,715 | 20,165 | - | 156,444 |
| Equity investments | - | 508 | 765 | - | - | 1,273 |
| Other assets | 165 | 81 | 71 | 19 | 229 | 565 |
| Investment properties | - | - | 4,205 | - | 14,668 | 18,873 |
| Property and equipment | 11,361 | 839 | 910 | 1 | - | 13,111 |
| Intangible assets | - | - | - | - | 180 | 180 |
| **Total assets** | **57,265** | **53,117** | **54,680** | **20,268** | **181,502** | **366,832** |
| **Liabilities** | - | - | - | - | - | |
| Other liabilities | - | 4,974 | - | - | 1,745 | 6,719 |
| Borrowings | 18,112 | 20,540 | 10,000 | 435 | 42,371 | 91,458 |
| Special funds | - | - | - | - | 3,990 | 3,990 |
| Grants | - | - | 150 | - | 883 | 1,033 |
| Capital fund | - | - | - | - | 7,479 | 7,479 |
| **Total liabilities** | **18,112** | **25,514** | **10,150** | **435** | **56,468** | **110,679** |
| **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 | - | - | - | - | 12,507 | 12,507 |
| Fair value reserve | - | - | - | - | 525 | 525 |
| Revaluation reserves | - | - | - | - | 7,901 | 7,901 |
| Retained earnings | 14,621 | 15,330 | 9,644 | 7,069 | (5,225) | 41,439 |
| **Total shareholders' equity** | **35,744** | **39,886** | **43,735** | **16,683** | **120,105** | **256,153** |
| **Total shareholders' equity and liabilities** | **53,856** | **65,400** | **53,885** | **17,118** | **176,573** | **366,832** |

## Notes (continued)

### 17 Equity investments at fair value

The Bank has advanced 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 but 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 | 2019 USD '000 | 2018 USD '000 |
|---|---|---|
| At start of year | **1,273** | 436 |
| Additions (Reclassified from loans) | **-** | 1,591 |
| | **1,273** | 2,027 |
| Less: | | |
| Investments that matured during the year | **-** | (798) |
| Fair value (loss)/gain | **(73)** | 44 |
| At end of year | **1,200** | 1,273 |

### 18 Other assets

| | 2019 USD '000 | 2018 USD '000 |
|---|---|---|
| Prepayments | **147** | 73 |
| VAT receivable | **368** | 336 |
| Fees and commission Receivable | **109** | 34 |
| Tenants rent receivable | **23** | 94 |
| Other receivables | **350** | 28 |
| | **997** | 565 |

### 19 Investment property

| | 2019 USD '000 | 2018 USD '000 |
|---|---|---|
| At start of year | **18,873** | 19,134 |
| Net fair value gain/(loss) | **37** | (261) |
| **At end of the year** | **18,910** | 18,873 |

**Notes (continued)**

## 19 Investment property (continued)

An independent valuation of the Bank's land and buildings was performed by professional valuers Knight Frank Limited and Africa Property Limited to determine the fair value of the land and buildings as at 31 December 2019 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:

| | 2019 USD '000 | 2018 USD '000 |
|---|---|---|
| Rental income from investment property | **540** | 628 |
| Direct operating expenses: Rented properties | **57** | 70 |
| Direct operating expenses: Unrented properties | **17** | 19 |
| Approved capital commitment | **305** | 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 2019 other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

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

**Notes (continued)**

**20 Property and equipment**

| **Year ended 31 December 2019** | **Land and buildings USD 000'** | **Capital work in progress USD 000'** | **Office equipment USD 000'** | **Motor vehicles USD 000'** | **Furniture & fittings USD 000'** | **Total USD 000'** |
|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | |
| Cost or valuation | 13,933 | 305 | 1,835 | 686 | 799 | 17,558 |
| Accumulated depreciation | (1,914) | - | (1,229) | (685) | (619) | (4,447) |
| Net book amount | 12,019 | 305 | 606 | 1 | 180 | 13,111 |
| **Year ended 31 December 2019** | | | | | | |
| Opening net book amount | 12,019 | 305 | 606 | 1 | 180 | 13,111 |
| Revaluation gain | 1,533 | - | - | - | - | 1,533 |
| Additions | | 108 | - | - | - | 108 |
| Transfers from WIP | - | (61) | 61 | - | - | - |
| **Disposals/retirement:** | | | | | | |
| Cost | - | - | (10) | - | (1) | (11) |
| 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)

| Year ended 31 December 2018 | 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 2018** | | | | | | |
| Cost or valuation | 13,933 | 267 | 1,831 | 686 | 795 | 17,512 |
| Accumulated depreciation | (1,438) | - | (1,074) | (685) | (548) | (3,745) |
| Net book amount | 12,495 | 267 | 757 | 1 | 247 | 13,767 |
| **Year ended 31 December 2018** | | | | | | |
| Opening net book amount | 12,495 | 267 | 757 | 1 | 247 | 13,767 |
| Additions | - | 46 | - | - | - | 46 |
| Transfers from work in progress | - | (8) | 4 | - | 4 | - |
| Depreciation charge | (476) | | (155) | - | (71) | (702) |
| Closing net book amount | 12,019 | 305 | 606 | 1 | 180 | 13,111 |
| **At 31 December 2018** | | | | | | |
| Cost or valuation | 13,933 | 305 | 1,835 | 686 | 799 | 17,558 |
| Accumulated depreciation | (1,914) | - | (1,229) | (685) | (619) | (4,447) |
| Net book amount | 12,019 | 305 | 606 | 1 | 180 | 13,111 |

**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) to determine the fair value of land and buildings as at 31 December 2019.

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

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| Cost | **8,759** | 8,759 |
| Accumulated depreciation | **(5,125)** | (4,649) |
| Net book amount | **3,634** | 4,110 |

## 21 Intangible assets

| | 2019 | 2018 |
|---|---|---|
| **Cost** | | |
| At start of year | **1,963** | 1,934 |
| Additions during the year | **-** | 29 |
| | **1,963** | 1,963 |
| **Amortization** | | |
| At start of year | **(1,783)** | (1,710) |
| Amortization charge for the year | **(78)** | (73) |
| | **(1,861)** | (1,783) |
| **At end of year** | **102** | 180 |

## 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 has been 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.

Additional information on the effect of the change in accounting policy is disclosed under Note 2B(I)(i).

## 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** |

### 23 Other liabilities

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| Deposits on leased assets | **-** | 122 |
| Advances from customers | **15** | 34 |
| Rent received in advance | **35** | 48 |
| Accrued expenses | **530** | 633 |
| Deferred income | **429** | 238 |
| Prepaid rental income | **89** | 74 |
| KFW line of credit | **7,846** | 4,974 |
| Other creditors | **921** | 596 |
| | **9,865** | 6,719 |

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 and West Kenya Sugar.

### 24 Borrowings

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| Lines of credit with multi-lateral development Banks | **76,761** | 81,632 |
| Lines of credit with other Financial Institutions | **9,321** | 9,826 |
| | **86,082** | 91,458 |
| **Maturity analysis of borrowings** | | |
| Amounts payable within one year | **18,558** | 26,421 |
| Amounts payable after one year but within five years | **54,839** | 55,283 |
| Amounts payable after five years | **28,446** | 26,796 |
| | **101,843** | 108,500 |

## Notes (continued)

### 24 Borrowings (continued)

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| **Borrowings movement analysis** | | |
| At start of year | **91,458** | 109,518 |
| Proceeds from borrowings | **6,049** | 1,744 |
| Interest incurred during the year | **5,404** | 6,370 |
| Principle payments within the year | **(12,390)** | (19,922) |
| Interest payments within the year | **(4,607)** | (5,710) |
| Revaluation gain/ (loss) | **168** | (542) |
| At end of year | **86,082** | 91,458 |

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 6.51% (2018: 6.45%).

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 2019 and 31 December 2018.

## Notes (continued)

| Lender | Tenor | Rate Type | Interest Rate % | Currency | 2019 USD'000' | 2018 USD'000' |
|---|---|---|---|---|---|---|
| African Development Bank | 10 | Variable | 5.65 | USD | **22,500** | 26,250 |
| Commercial Bank of Africa Limited | 3 | Fixed | 10 | KES | **9,240** | - |
| Arab Bank for Economic Development | 9 | Variable | 5.68 | USD | **10,282** | 11,997 |
| European Investment Bank | 7 | Variable | 4.25 | USD | **672** | 1,121 |
| European Investment Bank | 6 | Variable | 4.23 | USD | **955** | 1,591 |
| European Investment Bank | 7 | Fixed | 9.16 | KES | **1,936** | 2,697 |
| European Investment Bank | 7 | Fixed | 9.39 | KES | **881** | 1,168 |
| European Investment Bank | 7 | Fixed | 8.26 | RWF | **305** | 426 |
| European Investment Bank | 7 | Fixed | 9.84 | KES | **1,567** | 2,005 |
| European Investment Bank | 6 | Fixed | 9.31 | UGX | **502** | 743 |
| European Investment Bank | 7 | Fixed | 9.41 | KES | **991** | 1,314 |
| Republic Of Uganda-KFW | 6 | Fixed | 6 | UGX | **5,013** | 4,946 |
| Republic Of Uganda- KFW | 6 | Fixed | 6 | UGX | **1,527** | 1,506 |
| Republic Of Uganda- KFW | 6 | Fixed | 6 | UGX | **1,541** | 1,520 |
| Republic Of Uganda- KFW | 10 | Fixed | 6 | UGX | **5,400** | 5,328 |
| Republic Of Uganda- KFW | 8 | Fixed | 6 | UGX | **1,120** | - |
| Republic Of Uganda- KFW | 8 | Fixed | 6 | UGX | **1,670** | - |
| KFW -Agricultural Financing Kenya | 13 | Fixed | 5 | KES | **2,320** | 1,164 |
| KFW -Agricultural Financing Kenya | 13 | Fixed | 5 | KES | **2,251** | 569 |
| Republic Of Uganda- KFW | 4 | Fixed | 6 | UGX | **449** | - |
| Nordic Development Fund | 30 | Fixed | 0.75 | EUR | **4,595** | 4,997 |
| NCBA Bank Kenya Limited | 2 | Fixed | 10.5 | KES | **-** | 9,824 |
| OPEC Fund For International Development | 7 | Variable | 5.06 | USD | **5,455** | 8,182 |
| **Total Principal Borrowings** | | | | | **81,172** | 87,347 |
| Interest payable | | | | | **4,910** | 4,111 |
| **Total borrowings plus Interest** | | | | | **86,082** | 91,458 |

## Notes (continued)

### 25 Lease liabilities

| | 31 December 2019 USD'000 | 1 January 2019 USD'000 |
|---|---|---|
| Current | **125** | 123 |
| Non-current | **429** | 554 |
| | **554** | 677 |

Below is an analysis of the movements in lease liabilities:

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| At start of year, as previously stated | - | |
| Adoption of IFRS 16 adjustment | **677** | - |
| At start of year, as restated | **677** | - |
| Payments of principal portion of lease liability | **(161 )** | - |
| Interest charge for the year (recognized in profit or loss) | **38** | |
| At end of year | **554** | - |

The incremental borrowing rate applied was 9.5% and 6% for leases denominated in Kenya Shillings and United States Dollars respectively. The amount that has been expensed based on the exemptions under IFRS 16 amounts to USD 17,664.

### 26 Special funds (Norwegian/ EADB fund)

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| At start and end of year | **3,990** | 3,990 |

**Norwegian/ EADB fund**

This fund was created out of a 1986/7 grant of NOK 30 million by the Norwegian Government to the Government of Uganda towards rehabilitation of Ugandan industries. Under the grant agreement, the Bank was allowed to use a portion of interest paid on the 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 | 2019 USD '000 | 2018 USD '000 |
|---|---|---|
| At start of year | **1,033** | 2,274 |
| Grant utilization | **(455)** | (1,241) |
| | **578** | 1,033 |

The table below shows the counter parties from whom the grants were obtained.

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| SWISS/ EADB fund for technical assistance | **371** | 774 |
| Housing Finance feasibility study grant | **150** | 150 |
| AfDB credit knowledge management system grant | **57** | 109 |
| | **578** | 1,033 |

**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.

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. Masters 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 selected East African lawyers through the extractive industries seminars and medical training. During the year ended 31 December 2019, the Bank utilised part of the grant amounting to USD 403,000 (2018: USD 331,000)

**Housing Finance Feasibility study grant**

The grant represents funds received from the Government of Tanzania to fund the housing finance 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 comprehensive income 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.

### 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 | 24,000 | 120,000 | 144,000 | 324,000 | 1,620,000 | 1,944,000 |
| Class B | 16,000 | 1,037 | 17,037 | 216,000 | 14,000 | 230,000 |
| | 40,000 | 121,037 | 161,037 | 540,000 | 1,634,000 | 2,174,000 |

Notes (continued)

## 28 Share capital (continued)

| | 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 |
|---|---|---|---|---|---|---|
| **Issued share capital** | | | | | | |
| **Class A** | | | | | | |
| At 1 January 2018, 31 December 2018 and 2019 | 12,280 | 61,400 | 73,680 | 165,780 | 828,901 | 994,681 |
| **Class B** | | | | | | |
| At 1 January 2018, 31 December 2018 and 2019 | 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 2018, 31 December 2018 and 2019 | **12,280** | **1,781** | **14,061** | **165,780** | **24,044** | **189,824** |

| **Shareholders** | Number of shares as at 31 December 2018 and 2019 | Amount as at 31 December 2018 and 2019 USD'000 | Share-holding % |
|---|---|---|---|
| **Class A** | | | |
| Government of Kenya | 3,800 | 51,300 | 27.03% |
| Government of Tanzania | 3,343 | 45,130 | 23.77% |
| Government of Uganda | 3,800 | 51,300 | 27.03% |
| Government of Rwanda | 1,337 | 18,050 | 9.51% |
| **Total Class A** | **12,280** | **165,780** | **87.33%** |
| **Class B** | | | |
| African Development Bank | 1,240 | 16,740 | 8.82% |
| FMO – Netherlands | 375 | 5,062 | 2.67% |
| DEG – Germany | 100 | 1,350 | 0.71% |
| Yugoslavia Consortium | 28 | 378 | 0.20% |
| SBIC - Africa Holdings | 24 | 324 | 0.17% |
| NCBA Bank Kenya Ltd (previously Commercial Bank of Africa) | 5 | 68 | 0.04% |
| Nordea Bank Sweden | 5 | 68 | 0.04% |
| Standard Chartered Bank | 2 | 27 | 0.01% |
| Barclays Bank Plc., London | 2 | 27 | 0.01% |
| **Total Class B** | **1,781** | **24,044** | **12.67%** |
| **Total Class A & B** | **14,061** | **189,824** | **100%** |

## Notes (continued)

### 28 Share capital (continued)

#### 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, (2018: 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 (2018: 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.

#### 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 (2018: 878). Share premium therefore amounts to USD 4,413 per share which is equivalent to USD 3.9 million (2018: 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.

Notes (continued)

## 28 Share capital (continued)

### Dividends

Payment of dividends is made to subscribers of Class B shareholders in proportion to the number of shares held by such members. Dividends to Class A shares holders are paid in proportion to the number of shares paid in by each member but only after Class B dividend is paid.

## 29 Capital fund

| | 2019<br>USD '000 | 2018<br>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. In 2012, the Bank initiated the process of obtaining approval from the donors to close the fund and transfer the outstanding balance to the Bank's capital to be allotted amongst member states. During 2013, the Bank received a response from the donor requesting that the capitalisation of the fund be put on hold until the Norwegian Government completes its consultations.

## 30 Funds awaiting allotment

| | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|
| At start and end of year | **83** | 83 |

## 31 Special reserve

| | 2019 | 2018 |
|---|---|---|
| At start of year | **12,507** | 12,443 |
| Transfer of commission and guarantee fees from Statement of Comprehensive Income | **50** | 64 |
| At end of year | **12,557** | 12,507 |

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. The special reserve is non distributable and serves the purpose of enabling the Bank meet its liabilities on borrowings or guarantees chargeable.

## Notes (continued)

### 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:

| | 2019<br>USD '000 | 2018<br>USD '000 |
|---|---|---|
| At start of year | **525** | 455 |
| Transfer (from)/to retained earnings | **(74)** | 70 |
| At end of year | **451** | 525 |

### 33 Cash and cash equivalents

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

| | 2019<br>USD '000 | 2018<br>USD '000 |
|---|---|---|
| Cash and bank balances (Note 13) | **12,971** | 10,867 |
| Balances due from banks originally maturing within 90 days | **140,829** | 163,302 |
| | **153,800** | 174,169 |

### 34 Revaluation reserve

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

| | 2019<br>USD '000 | 2018<br>USD '000 |
|---|---|---|
| At start of year | **7,901** | 7,939 |
| Fair value revaluation gain | **1,533** | - |
| Transfer of excess depreciation to retained earnings | **(38)** | (38) |
| At end of year | **9,396** | 7,901 |

**Notes (continued)**

## 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 0.67 million change in expected credit losses, a 10% increase in loss given default results in a USD 1.8 million change in expected credit losses and a 10% change in exposure at default results in a USD 1.4 million change in expected credit losses.

### Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

## Notes (continued)

## 36 Financial risk management

### (a) Introduction and overview

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

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

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

### Risk management framework

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

### (a) Introduction and overview

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 Audit and Governance Committee 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 Audit Committee 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 Audit Committee.

## Notes (continued)

## 36 Financial risk management

### Financial risk management (continued)

### (b) Credit risk

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

In the normal course of its business, the Bank incurs 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 local 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 is responsible for oversight of the Bank's credit risk, including, formulating credit policies, covering collateral requirements and credit assessments, risk grading and reporting.

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

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

## Notes (continued)

## 36 Financial risk management

### b) Credit risk (continued)

#### Management of credit risk (continued)

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

#### Loans and advances (including loan commitments and guarantees)

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

#### Credit risk grading

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

#### Expected credit loss measurement

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

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

- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.

Notes (continued)

## 36 Financial risk management

### b) Credit risk (continued)

**Expected credit loss measurement (continued)**

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

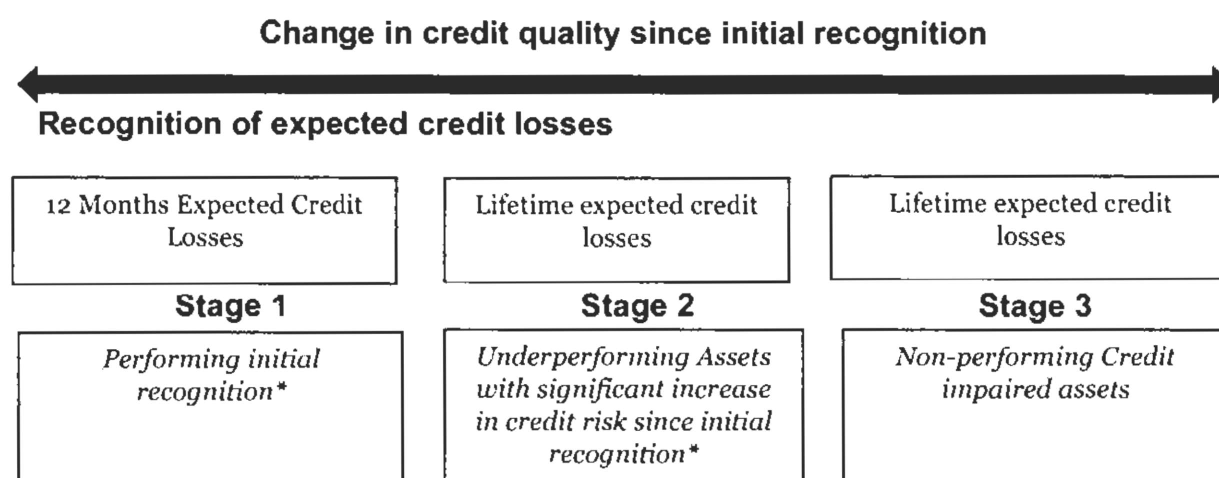
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information.

- Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

**Change in credit quality since initial recognition**

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




**Except for purchased or originated credit impaired assets*

## Notes (continued)

## 36 Financial risk management (continued)

### (b) Credit risk (continued)

**The 3 stages are as detailed below:**

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

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

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

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

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

## Notes (continued)

## 36 Financial risk management (continued)

### (b) Credit risk (continued)

***Significant increase in credit risk (SICR)***

***Measuring ECL – Explanation of inputs, assumptions and estimation techniques***

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

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

- Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

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

## Notes (continued)

### 36 Financial risk management (continued)

#### (b) Credit risk (continued)

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

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

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

***Forward-looking information incorporated in the ECL models***

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

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

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

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

Analysis is then made to determine how such changes are likely going to affect the probabilities of default as well as loss given default. Determination of such impact is made after consideration of input given by consultants including actuaries.

The table below shows the weightings for each scenario as applied by the Bank.

*Macro-economic scenarios*

| | Base case | Downside | Optimistic |
|---|---|---|---|
| Probability | 80% | 10% | 10% |
| PD overlay | 0 | 0.1 | (0.05) |

Notes (continued)

## 36 Financial risk management (continued)

### (b) Credit risk (continued)

*Maximum exposure to credit risk — Financial instruments subject to impairment*

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

**Loans and lease receivables**

| At 31 December 2019 | Kenya USD'000 | Uganda USD'000 | Tanzania USD'000 | Rwanda USD'000 | Total USD'000 |
|---|---|---|---|---|---|
| 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** |
| **At 31 December 2018** | | | | | |
| Stage 1 | 27,849 | 37,321 | 37,529 | 22,487 | 125,186 |
| Stage 2 | - | 716 | 19,274 | - | 19,990 |
| Stage 3 | 11,940 | 2,560 | - | - | 14,500 |
| **Gross amount** | 39,789 | 40,597 | 56,803 | 22,487 | 159,676 |

*Maximum exposure to credit risk — Financial instruments not subject to impairment*

The Company assessed its other financial assets for impairment as shown in Note 2 (a) and found them not to be impaired. In arriving at the conclusion, the Bank assessed, among others, the credit standing of the counterparties and probability of default of its placements and bank balances. The table below shows the other financial assets not subject to impairment.

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| Cash at bank | **12,971** | 10,867 |
| Placements with commercial Banks | **177,543** | 165,519 |
| | **190,514** | 176,386 |

**Notes (continued)**

## 36 Financial risk management (continued)

### (b) Credit risk (continued)

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 loss allowance between the beginning and the end of the annual period due to these factors:

| **Year ended 31 December 2019** | **Stage 1 12-Month ECL USD'000** | **Stage 2 Lifetime ECL USD'000** | **Stage 3 Lifetime ECL USD'000** | **Others USD'000** | **Total USD'000** |
|---|---|---|---|---|---|
| **Loans and receivables** | | | | | |
| **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 (continued)

| Year ended 31 December 2018 | Stage 1 12-Month ECL USD'000 | Stage 2 Lifetime ECL USD'000 | Stage 3 Lifetime ECL USD'000 | Others USD'000 | Total USD'000 |
|---|---|---|---|---|---|
| **Loans and receivables** | | | | | |
| **Gross carrying amount as at 1 January 2018** | **143,944** | **20,467** | **31,730** | - | **196,141** |
| **Transfers** | | | | | |
| Transfer from Stage 1 to Stage 2 | 811 | (811) | - | - | - |
| Financial assets derecognised during the period other than write offs | (38,029) | (2,773) | (981) | - | (41,783) |
| New financial assets originated | 8,418 | - | - | - | 8,418 |
| Changes in interest accruals | 10,042 | 3,107 | 2,763 | - | 15,912 |
| Write offs | - | - | (19,012) | - | (19,012) |
| **Gross carrying amount as at 31 December 2018** | **125,186** | **19,990** | **14,500** | - | **159,676** |
| **Expected Credit Loss** | | | | | |
| As at 1 January 2018 | 1,435 | 228 | 17,768 | - | **19,431** |
| Increase/(decrease) in impairment | (410) | (4) | 3,223 | 4 | **2,813** |
| Write offs | - | - | (19,012) | - | **(19,012)** |
| As at 31 December 2018 | **1,025** | **224** | **1,979** | **4** | **3,232** |
| **Net carrying amount as at 31 December 2018** | **125,690** | **18,237** | **12,521** | **(4)** | **156,444** |

## 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 2019 | 7,220 | (706) | 6,514 | 47,691 |
| At December 2018 | 14,500 | (1,979) | 12,521 | 23,506 |

| Credit exposures relating to off-statement of financial position | 2019 USD '000 | 2018 USD '000 |
|---|---|---|
| Loan commitments | 1,580 | 6,207 |

#### 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)

### (b) Credit risk Measurement (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:

| | 2019<br>USD '000 | 2018<br>USD '000 |
|---|---|---|
| Cash and cash equivalents as per liquidity policy | **159,952** | 154,246 |
| Designated liabilities | **(53,437)** | (51,359) |
| Surplus per liquidity policy | **106,515** | 102,887 |
| **Liquidity ratio** | **3.9** | 4.0 |
| **Designated liabilities** | | |
| Repayment of term loans | **20,854** | 21,602 |
| Interest on borrowings | **4,040** | 4,819 |
| Acquisition of fixed assets | **4,396** | 2,132 |
| Staff and administration expenses | **10,788** | 9,966 |
| | **40,078** | 38,519 |

**Notes (continued)**

**Financial risk management (continued)**

**(c) Liquidity risk (continued)**

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2019 to the contractual maturity date.

| | Matured | < 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 | USD '000 |
| **Assets** | | | | | | | | |
| Cash at bank | 12,971 | - | - | - | - | - | - | 12,971 |
| Deposits due from commercial banks | - | 177,295 | - | 248 | - | - | - | 177,543 |
| Loans and lease receivables | 9,281 | 23,357 | 23,313 | 75,000 | 38,768 | 9,508 | 4,801 | 184,028 |
| Equity investments at fair value | - | - | - | 1,200 | - | - | - | 1,200 |
| Other assets receivable | 997 | - | - | - | - | - | - | 997 |
| **Total assets** | **23,249** | **200,652** | **23,313** | **76,448** | **38,768** | **9,508** | **4,801** | **376,739** |
| **Liabilities and shareholder funds** | | | | | | | | |
| Other accounts payable | 9,828 | - | - | - | - | - | - | 9,828 |
| Medium and long term loans | - | 9,484 | 9,074 | 29,100 | 25,739 | 6,849 | 21,597 | 101,843 |
| **Total liabilities and shareholder funds** | **9,828** | **9,484** | **9,074** | **29,100** | **25,739** | **6,849** | **21,597** | **111,671** |
| **Net liquidity gap -31 Dec 2019** | **13,421** | **191,168** | **14,239** | **47,348** | **13,029** | **2,659** | **(16,796)** | **265,068** |
| **Cumulative gap- 31 Dec 2019** | **13,421** | **204,589** | **218,828** | **266,176** | **279,205** | **281,864** | **265,068** | |
| Net liquidity gap -31 Dec 2018 | 5,363 | 181,908 | 10,772 | 48,191 | 20,627 | (986) | (9,981) | 255,894 |
| Cumulative gap- 31 Dec 2018 | 5,363 | 187,271 | 198,043 | 246,234 | 266,861 | 265,875 | 255,894 | |

## 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 | 458 | 1,122 | - | - | - | - | 1,580 |
| Capital commitments | - | - | 352 | - | - | - | 352 |
| Total | **458** | **1,122** | **352** | **-** | **-** | **-** | **1,932** |

### (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 2019, 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 comprehensive income would be USD 2.6 million (2018: 2.5 million), which is 1.05% percent of the total shareholders' equity. This is shown in the table below.

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| Total assets repricing within 6 months | 296,895 | 300,454 |
| Total liabilities repricing within 6 months | 40,590 | 50,089 |
| Interest gap | 256,305 | 250,366 |
| Impact of interest rise by 200 bps | 2,563 | 2,504 |
| Impact on total shareholders' equity | 0.96% | 0.98% |

## 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 an interest rate risk on off balance sheet items.

| Interest sensitivity gap | 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 | - | - | - | - | - | - | 12,971 | 12,971 |
| Deposits due from banks | 53,897 | 120,176 | 3,222 | - | 248 | - | - | 177,543 |
| Loans and advances | 2,680 | 83,325 | 33,595 | 3,471 | 15,076 | 13,880 | - | 152,026 |
| Equity investments | - | - | - | - | - | - | 1,200 | 1,200 |
| Other assets receivable | - | - | - | - | - | - | 997 | 997 |
| **Total assets** | **56,577** | **203,501** | **36,817** | **3,471** | **15,324** | **13,880** | **15,168** | **344,737** |
| **Liabilities and shareholders' funds** | | | | | | | | |
| Other accounts payable | - | - | - | - | - | - | 9,865 | 9,865 |
| Medium and long term loans | - | 30,210 | 10,380 | - | 26,932 | 18,559 | 73 | 86,154 |
| **Total liabilities and shareholder funds** | **-** | **30,210** | **10,380** | **-** | **26,932** | **18,559** | **9,938** | **96,019** |
| **Interest sensitivity gap at 31 Dec 2019** | **56,577** | **173,290** | **26,438** | **3,471** | **(11,608)** | **(4,679)** | **5,230** | **248,718** |
| **Cumulative gap at 31 Dec 2019** | **56,577** | **229,867** | **256,305** | **259,775** | **248,167** | **243,488** | **248,718** | |
| Interest sensitivity gap at 31 Dec 2018 | 71,981 | 177,844 | (6,560) | 7,203 | 575 | (13,612) | 12,372 | 249,801 |
| Cumulative gap at 31 Dec 2018 | 71,981 | 249,825 | 243,264 | 250,467 | 251,042 | 237,430 | 249,801 | |

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 | 3,134 | 1,005 | 7 | 67 | 8,017 | 20 | 1 | **12,251** |
| Deposits due from banks | 2,179 | 5,035 | 59 | - | - | - | - | **7,273** |
| Loans and advances | 18,331 | 19,902 | 347 | 297 | 4,649 | - | - | **43,526** |
| Equity investments | - | 154 | 672 | - | - | - | - | **826** |
| Other assets receivable | 184 | 140 | 65 | 15 | - | 158 | - | **563** |
| **TOTAL ASSETS** | **23,828** | **26,236** | **1,150** | **379** | **12,666** | **178** | **1** | **64,438** |
| LIABILITIES | | | | | | | | |
| Other accounts payable | 1 | - | - | - | 7,846 | - | - | **7,847** |
| Medium and long term borrowings | 21,033 | 19,548 | - | 311 | 4,599 | - | - | **45,491** |
| **TOTAL LIABILITIES** | **21,034** | **19,548** | **1** | **311** | **12,445** | **-** | **-** | **53,338** |
| **Net currency position Dec 2019** | **2,794** | **6,688** | **1,149** | **67** | **220** | **179** | **1** | **11,099** |
| Net currency position Dec 2018 | 2,532 | 3,869 | 3,570 | 49 | 327 | 16 | 2 | 10,366 |

Notes (continued)

## 36 Financial risk management (continued)

### (e) Currency risk (continued)

***Sensitivity analysis***

The 10% movement of USD against other currencies at 31 December 2019 would have increased or decreased comprehensive income by USD 1.0 million (2018: USD 0.94 million). This is assuming that all other variables, in particular interest rates remain constant.

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| FX denominated assets | **64,438** | 58,779 |
| FX denominated liabilities | **53,338** | 46,604 |
| Net open position | **11,099** | 12,175 |
| Impact of a 10% movement in exchange rate | **1,009** | 1,107 |

### (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. Refer to note 20 for disclosures of the land and buildings that are measured at fair value.

| | Level 3 USD '000 | Total USD '000 |
|---|---|---|
| **31 December 2019** | | |
| Financial assets at fair value through profit or loss | | |
| Equity investments at fair value | **1,200** | **1,200** |
| **31 December 2018** | | |
| Financial assets at fair value through profit or loss | | |
| Equity investments at fair value | 1,273 | 1,273 |

**Reconciliation of level 3 items**

| **Equity investments** | **2019 USD '000** | **2018 USD '000** |
|---|---|---|
| At start of year | **1,273** | 436 |
| Additions | **-** | 1,591 |
| Investments exited | **-** | (798) |
| Fair value gain/ (loss) | **(73)** | 44 |
| **At end of year** | **1,200** | 1,273 |

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).

**Notes (continued)**

## 36 Financial risk management (continued)

### (g) Fair value of financial instruments (continued)

- Inputs for the year ended 31 December 2019 other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

### (h) Capital management

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

- To comply with the capital requirements set under the Bank's Charter
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- 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 2019. The ratio is computed as a ratio of loans, equities and lease receivables divided by shareholders equity less special reserves.

| | **2019**<br>**USD '000** | **2018**<br>**USD '000** |
|---|---|---|
| Gross loans and lease receivables | **152,026** | 159,676 |
| Shareholders' equity | **266,417** | 256,153 |
| Special reserve | **(12,557)** | (12,507) |
| | **253,860** | 243,646 |
| **Ratio** | **0.60** | 0.66 |

The Bank's capital adequacy ratio (Capital/Risk weighted assets) at 31 December 2019 was 67.1% (2018: 67%)

**Notes (continued)**

## 36 Financial risk management (continued)

### (h) Capital management (continued)

**Net debt reconciliation**

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

| | 2019 USD'000 | 2018 USD'000 |
|---|---|---|
| Cash and cash equivalents (Note 33) | **153,800** | 174,169 |
| Borrowings (Notes 24) | **(86,082)** | (91,458) |
| Lease liability (Note 25) | **(554)** | - |
| Net debt | **67,164** | 82,711 |

| | Borrowings USD'000 | Lease liability USD'000 | Liquid assets USD'000 | Total USD'000 |
|---|---|---|---|---|
| At 1 January 2018 | (109,518) | - | 159,326 | 49,808 |
| Acquisitions | (1,744) | - | - | (1,744) |
| Repayments | 25,632 | - | - | 25,632 |
| Net foreign exchange difference | 542 | - | (281) | 261 |
| Other adjustments/ movements | (6,370) | - | 15,124 | 8,754 |
| **At 31 December 2018** | **(91,458)** | **-** | **174,169** | **82,711** |
| IFRS 16 adjustment | - | (677) | - | (677) |
| 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** |

## Notes (continued)

### 37 Employee retirement benefit plans and gratuity

| | Note | 2019 USD '000 | 2018 USD '000 |
|---|---|---|---|
| Contribution to the retirement benefit plan | (i) | **252** | 272 |
| Contribution to the statutory pension scheme (NSSF) | (ii) | **3** | 5 |
| Gratuity | (iii) | **72** | 72 |
| | | **327** | 349 |

(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.

(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 proving these benefits are expensed as and when incurred and reported under employee benefits expense (Note 8).

### 38 Capital commitments

| | 2019 USD '000 | 2018 USD '000 |
|---|---|---|
| Authorised and contracted for | **352** | 305 |

**Notes (continued)**

## 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.

| | Note | 2019<br>USD '000 | 2018<br>USD '000 |
|---|---|---|---|
| Un-disbursed commitments | | **1,580** | 6,207 |

**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 2019 and did not find any that warranted a provision. This position is supported by independent professional legal advice.

## 40 Related party transactions

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

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

| **Loans and advances to Directors** | 2019<br>USD '000 | 2018<br>USD '000 |
|---|---|---|
| -Green Hills Academy Ltd | **297** | 405 |
| -Loan to Government of United Republic of Tanzania | **13,048** | 4,646 |

## Notes (continued)

### 40 Related party transactions (continued)

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

| | 2019 USD '000 | 2018 USD '000 |
|---|---|---|
| - NCBA Bank Limited | **35,503** | 35,024 |
| - Standard Chartered Bank PLC | **26,074** | 35,113 |
| - Interest income earned on all of the above | **3,358** | 2,612 |

**Borrowings payable by the Bank to shareholders**

| | 2019 USD '000 | 2018 USD '000 |
|---|---|---|
| - African Development Bank | **23,040** | 26,917 |
| - NCBA Bank Limited | **9,321** | 9,826 |
| **Interest expense on borrowings as paid to shareholders** | **2,467** | 2,618 |

As at 31 December 2019, provision on loans and advances to related parties amounted to USD 71,193 for Government of United Republic of Tanzania and USD 368 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. Outstanding balances are usually settled in cash.

**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:

| | 2019 USD '000 | 2018 USD '000 |
|---|---|---|
| Salaries and other employee benefits | **379** | 379 |
| Other short-term employee benefits - Gratuity | **72** | 72 |
| Other expenses | **58** | 95 |
| | **509** | 546 |

## Notes (continued)

### 40 Related party transactions (continued)

| | 2019<br>USD '000 | 2018<br>USD '000 |
|---|---|---|
| **Directors' emoluments** | | |
| - Fees and allowances | **28** | 37 |
| - Salaries and other short-term employee benefits (included within key management compensation above) | **451** | 451 |
| - Other expenses | **30** | 58 |
| | **509** | 546 |

### 41 Events after the balance sheet date

Since January 2020, the world has been faced with a serious health emergency related to the Novel Corona Virus 2019, also known as COVID-19.

In response to the pandemic, some Governments of the Member States have imposed restrictions on private travel, public travel, international travel and the operation of many businesses where it was not deemed possible to maintain social distancing.

The Bank recognises the gravity of this situation and has put in place measures to support and care for customers, staff, communities and all stakeholders to ensure business continuity. The Bank has invoked its Business Continuity Plan and continues to watch and address the challenges of doing business as Governments of the Member States provide guidance on how to address the situation. Whereas the overall impact of the pandemic is difficult to determine at the moment, management and the Board of Directors believe that the going concern of the Bank will be sustained.

Management also reviewed the possible impact on the Bank's financial statements particularly in respect of impairment of financial and non-financial assets and concluded that there would be no material adverse impact on the carrying amounts of recognised assets.