East African Development Bank

Financial Statements

For the year ended 31 December 2022

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CORPORATE INFORMATION

Registered office and principal place of business

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

Country offices

Kenya	Rwanda	Tanzania
7th Floor, The Oval Office Ring Road, Parklands Westland P.O Box 47685 Nairobi, Kenya	Ground Floor, Glory House Kacyiru P.O. Box 6225 Kigali, Rwanda	349 Lugalo/ Urambo Street Upanga P.O. Box 9401 Dar es Salaam Tanzania

Bankers

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

Auditor

KPMG
Certified Public Accountants,
3rd Floor, Rwenzori Courts
Plot 2 & 4A, Nakasero Road
P.O. Box 3509
Kampala, Uganda

DIRECTORS' REPORT

1. Introduction

The Directors hereby submit their report together with the Bank's audited financial statements for the year ended 31 December 2022, which disclose the state of affairs of East African Development Bank ("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 ('The Bank's Charter") in 1980.

3. Mission and Vision

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

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

4. Principal activity

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

(a) Provision of financial assistance through loans to promote the development of Member States;

(b) Provision of consulting, promotion, agency and other similar services for the region;

(c) Promotion of economic development in the Member States, in such fields as industry, tourism, agriculture, telecommunications and other fields of development;

(d) Joint financing operations and technical assistance to national development agencies of the Member States and use of such agencies as channels for financing specific projects; and

(e) Co-operation with other institutions and organizations, public or private, national or international, which are interested in the development of the Member States.

5. Business Objectives and Strategies

The Bank supports economic development in Member States through medium and long-term lending of financially viable and socially sustainable projects.

During the year 2022 the Bank operated on the basis of one year business plan as it was difficult to prepare comprehensive strategy due to unprecedented uncertainties. Preparation of the Bank's 2023-2027 strategic plan is ongoing.

6. Governance

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

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

The key elements of the governance structure comprise: the Governing Council which is the supreme organ of the Bank; the Board of Directors which reports to the Governing Council, and the Advisory Panel.

DIRECTORS' REPORT (continued)

6. Governance (continued)

Further information about each of these organs of the Bank is provided below:

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. Mwigulu Nchemba	Minister of Finance and Planning, United Republic of Tanzania
3	Hon. Amb. Ukur Yatani, EGH (up to 26th October 2022)	Cabinet Secretary, The National Treasury and Planning, Republic of Kenya
4	Prof. Njuguna Ndung'u (From 27th October 2022)	Cabinet Secretary, The National Treasury and Planning, Republic of Kenya
5	Dr. Uzziel Ndagijimana	Minister of Finance and Economic Planning, Republic of Rwanda

b) Board of Directors and sub-committees

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

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

	Name	Details
1	Dr. Ramathan Ggoobi	Permanent Secretary and Secretary to the Treasury, Ministry of Finance, Planning and Economic Development, Republic of Uganda
2	Dr Julius Muia, CBS (Up to 31st November 2022)	Principal Secretary, the National Treasury, Republic of Kenya
3	Dr. Chris Kiptoo (From 1st December 2022)	Principal Secretary, the National Treasury, Republic of Kenya
4	Mr. Eric Rwigamba (Up to 2nd August 2022)	Head Financial Sector Development Ministry of Finance and Economic Planning, Republic of Rwanda
5	Emmanuel Tutuba (Up to 7th January 2023)	Permanent Secretary, Ministry of Finance and Planning, United Republic of Tanzania
6	Dr. Natu Mwamba (From 7th January 2023)	Permanent Secretary, Ministry of Finance and Planning, United Republic of Tanzania
7	Dr Abdu Mukhtar	African Development Bank - Class B shareholders Representative
8	Mr Francis N. Karuiru	Private Sector Representative, Republic of Kenya
9	Mrs Khadija I. Simba	Private Sector Representative, United Republic of Tanzania
10	Mr Faustin Mbundu	Private Sector Representative, Republic of Rwanda
11	Mr James Tumusiime	Private Sector Representative, Republic of Uganda
12	Ms Vivienne Yeda	Director General, East African Development Bank

DIRECTORS' REPORT (continued)

6. Governance (continued)

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

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

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

The Board Audit Committee held three meetings during the year and deliberated on Internal and external Audit reports.

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:

Members of the Advisory Panel

	Name	**Details**
1	Mr Mahesh Kotecha, CFA	President, Structured Credit International Corp. (SCIC), New York
2	Mr Toyoo Gyohten	President, Institute for International Monetary Affairs, Japan and Senior Adviser, Bank of Tokyo, Mitsubishi Limited
3	Mr Lars Ekengren	Former Deputy Director General, Swedish International Development Agency ("SIDA")
4	Mr Jannik Lindbaek	Former Executive Vice president and CEO of the International Finance Corporation ("IFC")

7. Capital and Shareholding

The Bank's authorised share capital is USD 2,160,000,000 comprising 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.

Class A shareholders do not have option to exit the Bank but the Charter provide basis on which class B shareholders may exit/sale their shares. During the year the Bank continued to buy FMO and DEG shares where 160 shares were bought from the two class B shareholders. The sale of FMO and DEG shares is part of their strategy which, among other things, provides that once the investee institution is on good footing they exit and promote other initiatives.

The Bank's Class A and Class B shareholders as at 31 December 2022 and 2021, respectively, were as follows:

Name	**2022**			**2021**		
	Shares	**Value**	**%**	**Shares**	**Value**	**%**
Class A		**USD'000**			**USD'000**	
Government of Kenya	3,800	51,300	25.01%	3,800	51,300	26.32%
Government of United Republic of Tanzania	3,800	51,300	25.01%	3,800	51,300	26.32%
Government of Uganda	3,800	51,300	25.01%	3,800	51,300	26.32%
Government of Rwanda	2,253	30,416	14.83%	1,337	18,050	9.26%
Total Class A	**13,653**	**184,316**	**89.86%**	**12,737**	**171,950**	**88.22%**

DIRECTORS' REPORT (continued)

7. Capital and Shareholding (continued)

Name	2022			2021		
	Shares	Value	%	Shares	Value	%
Class B		**USD'000**			**USD'000**	
African Development Bank	1,240	16,740	8.17%	1,240	16,740	8.60%
FMO – Netherlands Development Finance Company	186	2,511	1.23%	312	4,212	2.16%
DEG – Deutsche Investitions- und Entwicklungsgesellschaft	49	662	0.32%	83	1,121	0.58%
Yugoslavia Consortium	28	378	0.18%	28	378	0.19%
SBIC - Africa Holdings	24	323	0.16%	24	324	0.17%
NCBA Bank Kenya Ltd	5	68	0.03%	5	67.5	0.03%
Nordea Bank Sweden	5	68	0.03%	5	67.5	0.03%
Standard Chartered Bank London	2	27	0.01%	2	27	0.01%
Barclays Bank Plc., London	2	27	0.01%	2	27	0.01%
Total Class B	**1,541**	**20,804**	**10.14%**	**1,701**	**22,964**	**11.78%**
Total Class A & B	**15,194**	**205,120**	**100.00%**	**14,438**	**194,914**	**100%**

8. Financial Performance

Performance highlights

Performance indicator	Formula	2022	2021
Profit for the year (USD '000')	NA	6,594	7,866
Total assets (USD '000')	NA	415,998	390,234
Equity	NA	303,229	283,932
Return on Assets	(Profit/Total assets) *100%	1.58%	2.02%
Return on Equity	(Profit/Total equity) *100%	2.17%	2.77%
Operating expenses to Operating Income	(Operating expense/Net interest income + non-interest income) *100	41.38%	36.93%
Non-Performing Loans ratio	Non-performing (Stage 3) loans/Gross loans and advances) *100%	3.85%	3.24%
Total Capital ratio	(Total capital/Risk weighted assets including Off balance sheet items) *100	77%	72%
Earnings per share (USD)	Profit attributable to ordinary shares/ Weighted average number of ordinary shares outstanding during the year	443	543

The Bank continued to record profitable results and growth in assets.

Credit rating

The Moody's rating report released on 2nd August 2022 re-affirmed the Bank's Baa3 rating with stable outlook sighting the fact that although the Bank's clients operate in a challenging environment, there is no expectation of any significant deterioration of asset quality.

Similarly rating report by the GRC also released in July 2022 also maintained the Bank's long-term issuer and short-term credit ratings of BBB- and A3 respectively with stable outlook.

DIRECTORS' REPORT (continued)

9. Cash flow and Liquidity Management

Liquidity management continued to be one of the top Bank priorities. Detailed liquidity risk management report is contained on Note 37(c) of the financial statements.

During the year the Bank maintained adequate liquidity with actual liquidity ratio at the end of 2022 at 8.11 times compared to 5.83 times in 2021 which was above the target ratio of 1.33 times.

The Bank's cash and cash equivalents at the end of year amounted to USD 162.89 million and was above USD 118.56 million recorded in 2021 partly due to lower loan disbursements.

10. Market overview

EADB Member States, like the rest of the world, started the year 2022 with the optimism of unwinding from Covid-19 and steering faster growth. However, the operating environment changed fast: the Russia-Ukraine war triggered hikes in global commodity prices; Central Banks, including those of EADB Member States, tightened monetary policy to fight back inflation; and aggregate demand slackened. In Kenya, the Presidential elections conducted in August 2022 were peaceful but associated with slowdown in economic activity. Overall, EADB Member States' economies remained resilient with GDP growth rates above the world and Sub-Saharan averages. Annual average inflation was elevated but within the EAC benchmark in Kenya, Tanzania, and Uganda while it crossed in Rwanda. Due to global interest rate hikes coupled with local currency depreciation, USD-denominated interest rates rose more sharply than local currency-denominated interest rates, more especially in Kenya and Uganda.

Even though there are uncertainties surrounding effects of the Russia-Ukraine war in 2023, coupled with concerns about the possibility of a global recession, there are also positive signs of an improving market environment. Global commodity prices started declining in the third quarter of 2022, global monetary tightening is expected to peak by mid-2023, and inflation is projected to decline substantially during the year. The rise in lending rates experienced during 2022 is also expected to subside in 2023. With the entry of the Democratic Republic of the Congo into the EAC in 2022, and the renewed bid of Somalia joining, the EAC market size is expanding. These market trends provide a promising operating environment for the Bank to support projects with ambitions to serve emerging market needs or grow across the EAC region. There are also opportunities for supporting strategic public projects as Member States are looking for ways to optimize public debt. The Bank will therefore continue to carefully assess the operating environment and to invest prudently.

11. Future Plans

Economies of the Member States are steadily recovering from the difficulties emanating from the global pandemic despite uncertainties partly from impact of Russia- Ukraine war and heightened inflation across the globe.

Some sectors that were greatly impacted by the lockdowns imposed to curb spread of the Covid-19 virus are recovering and that presents opportunity in the market.

The Bank will continue to engage Member States and business community in each Member State to identify appropriate interventions needed to support continued recovery.

Lessons from global supply chain during the pandemic and Russia-Ukraine war call for more effort and support to the business community in the region to enhance local supply of quality products and services.

Unfortunately the existing uncertainties imply higher risk and the Bank will ensure that as efforts are made to increase and broaden the intervention, the same is done within the acceptable risk parameters.

DIRECTORS' REPORT (continued)

12. Risk and Risk Management

With the final roll-out of key Enterprise-wide Risk Management policies completed in 2022, and Covid-19 impact tapering off, the Bank's Risk exposures started trending back towards normalcy.

Strategy deployed towards managing financial risks yielded fruit as the bank registered no adverse exposures. Compliance and operational risks were managed to low exposures ensuring the Bank was not subjected to any reputational risks.

Adherence to prudent Environmental and Social guidelines yielded positive sustainable outcomes on exposures taken.

Focus into the coming years revolve around further entrenching the risk strategies approved by the Board through Avoidance, Acceptance, Reduction and Transfer of the risks encountered by the Bank.

13. Solvency

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

14. Resources

The Bank hold sufficient resources to advance its vision and mission.

Key among those resources is a dedicated and highly skilled human capital which has been the bedrock of the Bank's performance. The Bank will continue to implement different strategies to improve its employee value proposition and make the Bank a dream employer to all professionals.

Equally important are committed shareholders who not only continued to provide required capital, but also remained engaged and provided guidance throughout the year. The Bank's management and staff will continue to work tirelessly to deliver aspirations of the shareholders.

The Bank continued to earn trust of fund providers who provided needed funding as efforts continued to implement projects in Member States. The Bank's strong liquidity position is a testament of dependability of the fund providers. The Bank will not only make sure that repayments of maturing obligations are made on timely basis, but also further improve the financial performance to safeguard sustainability.

15. Employee Welfare

Cordial and harmonious working relationship continued during the year and this facilitated achievements recorded. The Bank continued to implement various initiatives to improve staff welfare.

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 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. More details on employee welfare are included in note 38 of the accounts.

Various training opportunities were provided to staff during the year in order to improve their performance.

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.

DIRECTORS' REPORT (continued)

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 41.

17. Environmental, Social and Governance

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

The aim of the Bank's sustainable development approach to environmental, social and governance (ESG) issues is to help tackle some of society's greatest challenges in the communities where EADB operates in accordance with the key focus areas, of which Climate Change is on top of the agenda. Sustainable finance is key to how EADB helps its clients thrive and communities flourish. As the apex financial institution for the East African Community, and one of the oldest regional development bank, EADB can have an impact by shaping the way capital is deployed. EADB also sees sustainable finance as a significant growth opportunity for its clients and business.

18. Stakeholders

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. Cordial relationship continued with all stakeholders during the year. 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 2022 (2021: Nil). This is in line with shareholders' strategy to build up the capital of the Bank.

20. Events after reporting date

There are no other events after the reporting period.

21. Auditor

The Bank's external auditor, KPMG Certified Public Accountants, was appointed by the Board of Directors during the year. KPMG has expressed willingness to continue in office. The Bank's 2023 external auditors shall be appointed by the Governing Council in accordance with Article 26 (d) of the Bank's Charter.

By order of the Board

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Chairman – Board of Directors	**Director**
17th July 2023	17th July 2023
Date	**Date**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Bank's directors are responsible for the preparation of financial statements that give a true and fair view of East African Development Bank comprising the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies, in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards), and in the manner required by the Treaty and Charter of East African Development Bank ("the Bank's Charter").

The directors are also responsible 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, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the Bank to continue as going concern and have no reason to believe that the business will not be a going concern for at least the next twelve months from the date of this statement.

The auditor is responsible for reporting on whether the financial statements give a true and fair view in accordance with the IFRS Standards, and in the manner required by the Treaty and Charter of East African Development Bank ("the Bank's Charter").

Approval of the financial statements

The financial statements of East African Development Bank, as identified in the first paragraph, were approved and authorised for issue by the Board of Directors on 31st March 2023 and the Governing Council on 2nd June 2023 and were signed on their behalf by:

Chairman – Board of Directors

Director General

KPMG
Certified Public Accountant of Uganda
3rd Floor, Rwenzori Courts
Plot 2 & 4A, Nakasero Road
P O Box 3509
Kampala, Uganda
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Email info@kpmg.co.ug
Internet www.kpmg.com/eastafrica

Independent auditor's report

TO THE MEMBERS OF THE EAST AFRICAN DEVELOPMENT BANK

Report on the audit of the financial statements

Opinion

We have audited the financial statements of East African Development Bank (the Bank), as set out on pages 15 to 84 which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards) and in the manner required by the Treaty and Charter of East African Development Bank ("the Bank's Charter").

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG

Independent auditor's report

TO THE MEMBERS OF THE EAST AFRICAN DEVELOPMENT BANK

Report on the audit of the financial statements (Continued)

Key audit matters (Continued)

<table>
<tr><th colspan="2">Expected credit losses on loans and advances to customers</th></tr>
<tr><td colspan="2">Refer to Notes 2l(ii),15, 36 and 37(b) of the financial statements</td></tr>
<tr><td>Key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Impairment of Loans and advances to customers is considered a Key Audit Matter because the directors make complex and significant judgments over both timing of recognition of impairment and the estimation of the amount of any such impairment.

The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Bank's determination of expected credit losses (ECL) are:

Model estimations

Inherently, judgmental modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD') and ultimately the Expected Credit Loss (ECL).

Economic scenarios

IFRS 9 Financial Instruments requires the Bank to measure Expected Credit Loss (ECL) on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determining the economic scenarios used such as the expected trend of the gross domestic product, growth of credit to the private sector and expected trend of consumer price index and the probability weightings applied to them and the associated impact on ECL.</td><td>Our audit procedures in this area included:

— Obtaining an understanding of the credit management processes and performing end to end process assessments to identify the controls used in the determination of ECL. This includes testing the design and operating effectiveness of the general IT controls in the ECL process.

— Selecting a sample of facilities from the Bank's loan book and evaluated whether loan facilities sampled are correctly staged/classified by comparing the credit risk information for each facility against the bank's staging criteria for each stage.

— Evaluating the appropriateness of the Bank's ECL methodologies (including the SICR criteria used) and assessing the appropriateness of the Bank's methodology for determining the economic scenarios by assessing the qualitative factors such as the borrower's financial performance by reviewing latest financial reports submitted to the bank and correspondences between the borrower and the bank and quantitative factors such as days past due used in the staging process by checking the repayment history and the last repayment date .

— Obtaining a sample and evaluating key inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecasts, weights, loss given default, exposure at default and PD assumptions applied.

— Involving our Financial Risk Management specialists in the review of the ECL methodology including PD, LGD, EAD modelling, macroeconomic overlay and the ECL computation with respect to theoretical foundation, input data and mathematical accuracy.

— Involving our FRM specialists to assess the key economic variables used to develop the forward-looking inputs as well as the overall reasonableness of the economic forecasts used by
• Inspecting of the Forward-Looking Information model data inputs for completeness and accuracy by comparing with externally published data as well as output for bias
• Testing the model's mathematical soundness</td></tr>
</table>

TO THE MEMBERS OF THE EAST AFRICAN DEVELOPMENT BANK

Report on the audit of the financial statements (Continued)

Expected credit losses on loans and advances to customers	
Refer to Notes 2l(ii),15, 36 and 37(b) of the financial statements	
Key audit matter	**How the matter was addressed in our audit**
Significant Increase in Credit Risk ('SICR') For the loans to customers, the criteria selected to identify a significant increase in credit risk is a key area of judgement within the Bank's ECL calculation as these criteria include application of quantitative factors such as days past due and qualitative factors such as financial performance, and internal and external market factors which determine whether a 12- month or lifetime expected credit loss is assessed	• Challenging key assumptions made by the bank in determining forward looking information by involving our internal financial modeling specialist to assess the completeness of the macro-economic variables considered, the relationship and correlation between the bank's probability of default parameters and the macro-economic variables, reasonableness of the overlays made to macro-economic variables to model the economic scenarios and probability weightings made to economic scenarios. — Assessing the accuracy of the ECL by reperforming the ECL calculations using the parameters, PD, LGD, EAD and management's assumptions to determine the consistence of the methodology adopted by management. — Assessing the adequacy of disclosures in the financial statements, especially whether the disclosures appropriately disclose the key assumptions and judgements used in determining the expected credit losses in accordance with IFRS 7 *Financial Instruments: Disclosures*.

Other matter relating to comparative information

The financial statements of the Bank as at and for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those statements on 5 August 2022.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the *East African Development Bank Directors' Report and Financial Statements for the year ended 31 December 2022* but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information 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.

Independent auditor's report

TO THE MEMBERS OF THE EAST AFRICAN DEVELOPMENT BANK

Report on the audit of the financial statements (Continued)

Directors' responsibilities for the financial statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS Standards and in the manner required by 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's 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 Bank's 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.

KPMG

Independent auditor's report

TO THE MEMBERS OF THE EAST AFRICAN DEVELOPMENT BANK

Report on the audit of the financial statements (Continued)

Auditors' responsibilities for the audit of the financial statements (continued)

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

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

The engagement partner on the audit resulting in this independent auditor's report is CPA Stephen Ineget – P0401.

KPMG

KPMG
Certified Public Accountants
3rd Floor, Rwenzori Courts
Plot 2 & 4A Nakasero road
P.O Box 3509
Kampala, Uganda

Date: 18 July 2023

CPA Stephen Ineget

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 USD'000	2021 USD'000
Interest income	3	**19,407**	18,308
Interest expense	4	**(4,108)**	(3,555)
Net interest income		**15,299**	**14,753**
Fee and commission income	5	**240**	269
Other operating income	6	**676**	3,352
Other losses	7	**(1,375)**	(587)
Net fair value gains/(losses) on investment property	20	**148**	(31)
Net operating income		**14,988**	**17,756**
Net impairment losses on financial assets	15(a)	**(2,255)**	(3,332)
Operating income after impairment charges		**12,733**	**14,424**
Employee benefits expense	8	**(3,260)**	(3,417)
Depreciation and amortization	21,22, 23	**(774)**	(822)
Other operating expenses	9	**(2,105)**	(2,319)
Profit before income tax	10	**6,594**	**7,866**
Income tax expense	11	**-**	-
Profit for the year		**6,594**	**7,866**
Other comprehensive income		**-**	-
Total comprehensive income		**6,594**	**7,866**
Earnings per share – basic (Expressed in USD per share)	12	**443**	**543**

The notes set out on pages 20 to 84 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Notes	2022 USD'000	2021 USD'000
Assets			
Cash at bank	13	**22,041**	22,266
Placements with commercial banks	14	**235,373**	175,381
Loans and advances to customers	15	**126,626**	159,817
Equity investments	18	**718**	848
Other assets	19	**427**	540
Intangible assets	22	**-**	5
Property and equipment	21	**11,842**	12,436
Right of use assets	23	**198**	316
Investment property	20	**18,773**	18,625
Total assets		**415,998**	**390,234**
Liabilities			
Other liabilities	24	**4,141**	7,776
Derivative financial instruments	17	**-**	141
Borrowings	25	**94,962**	84,631
Lease liabilities	26	**316**	388
Special funds	27	**3,990**	3,990
Grants	28	**1,881**	1,897
Capital fund	30	**7,479**	7,479
Total liabilities		**112,769**	**106,302**
Capital and reserves			
Share capital	29	**205,120**	194,914
Share premium	29	**6,530**	3,874
Funds waiting allotment	31	**69**	80
Special reserve	32	**12,785**	12,683
Fair value reserve	33	**-**	263
Revaluation reserves	35	**9,273**	9,314
Retained earnings		**69,452**	62,804
Total shareholders' equity		**303,229**	**283,932**
Total equity and liabilities		**415,998**	**390,234**

The financial statements set out on pages 15 to 84 were approved and authorised for issue by the Board of Directors on 31st March 2023 and the Governing Council on 2nd June 2023 and were signed on their behalf by:

Chairman – Board of Directors

Director General

The notes set out on pages 20 to 84 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

		Share Capital	Share premium	Special reserves	Funds awaiting allotment	Fair value reserve	Retained earnings	Revaluation reserve	Total equity
Year ended 31 December 2022	**Notes**	**USD '000**	**USD '000**	**USD '000**	**USD '000**	**USD '000**	**USD '000**	**USD '000**	**USD '000**
At start of year		**194,914**	**3,874**	**12,683**	**80**	**263**	**62,804**	**9,314**	**283,932**
Comprehensive income									
Profit for the year		-	-	-	-	-	6,594	-	6,594
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**6,594**	**-**	**6,594**
Transactions with owners									
Additional capital	29	12,366	2,656	-	(11)	-	-	-	**15,011**
Transfer to special reserve	32	-	-	102	-	-	(102)	-	**-**
Transfer from the revaluation reserve	35	-	-	-	-	-	41	(41)	**-**
Transfer from fair value reserve	33	-	-	-	-	(263)	263	-	**-**
Share repurchase	29	(2,160)	-	-	-	-	-	-	**(2,160)**
Discount on share repurchase	28	-	-	-	-	-	-	-	**-**
Discount on par value		-	-	-	-	-	(148)	-	**(148)**
At end of year		**205,120**	**6,530**	**12,785**	**69**	**-**	**69,452**	**9,273**	**303,229**

The notes set out on pages 20 to 84 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022 (CONTINUED)

Year ended 31 December 2021	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		**195,994**	**3,874**	**12,602**	**80**	**382**	**56,664**	**9,355**	**278,951**
Comprehensive income									
Profit for the year		-	-	-	-	-	7,866	**-**	**7,866**
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**7,866**	**-**	**7,866**
Transactions with owners recorded directly in equity									
Transfer to special reserve	32	-	-	81		-	(81)	-	-
Transfer from the revaluation reserve	35	-	-	-	-	-	41	(41)	-
Transfer from fair value reserve	33	-	-	-	-	(119)	119	-	-
Share repurchase	29	(1,080)	-	-	-	-	-	-	(1,080)
Discount on share repurchase	28	-	-	-	-	-	(1,731)	-	(1,731)
Discount on par value		-	-	-	-	-	(74)	-	(74)
At end of year		**194,914**	**3,874**	**12,683**	**80**	**263**	**62,804**	**9,314**	**283,932**

The notes set out on pages 20 to 84 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 USD'000	2021 USD'000
Cash flows from operating activities			
Interest receipts		**18,658**	14,127
Interest payments	25	**(1,937)**	(2,180)
Net fee and commission receipts		**328**	705
Other income received		**479**	487
Payments to employees and suppliers		**(5,398)**	(6,035)
Cash inflows from operating activities		**12,130**	**7,104**
Net change in loans and advances	15	**29,777**	(31,634)
Net other receipts from customers		**149**	2,859
Settlement of other liabilities		**(4,093)**	(648)
Net cash flows generated from operating activities		**37,963**	**(22,319)**
Investing activities			
Purchase of property and equipment	21	**(57)**	(31)
Placements with commercial banks	14	**(15,634)**	(3,442)
Net cash used in investing activities		**(15,691)**	**(3,473)**
Financing activities			
Settlement of medium- and long-term borrowings	25	**(9,508)**	(14,228)
Proceeds from borrowings	25	**20,357**	22,359
Receipt from member states towards share capital	31	**15,011**	-
Share repurchase	29	**(2,307)**	(1,154)
Net cash used in financing activities		**23,553**	**6,977**
Net decrease in cash and cash equivalents		**45,825**	**(18,815)**
Cash and cash equivalent at start of year	34	**118,560**	137,559
Effect of exchange rates on cash held		**(1,497)**	(184)
At end of year	34	**162,888**	**118,560**

The notes set out on pages 20 to 84 form an integral part of these financial statements.

Notes to the financial statements

1. Reporting entity

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

The Bank's principal office address is:

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

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

2. Principal accounting policies

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

A. Basis of preparation

The Bank's financial statements are prepared in compliance with IFRS Standards as issued by the International Accounting Standards Board ("IFRS Standards"). 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 Standards 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 36.

B. Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Bank

The following new or revised standards, amendments and interpretations are effective for the year ended 31 December 2022 and have been applied in preparing these financial statements where applicable.

Description	**Effective date**
Newly effective standards for 01 Jan 2022 to 31 Dec 2022	
Onerous Contracts – Cost of Fulfilling a contract (Amendments to IAS 37)	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)	1 January 2022

All standards and Interpretations will be adopted at their effective date (except for those standards and Interpretations that are not applicable to the entity).

Notes to the financial statements (continued)

2 Principal accounting policies (continued)

B. Changes in accounting policy and disclosures (continued)

(i) New and amended standards adopted by the Bank(continued)

COVID-19-Related Rent Concessions (Amendments to IFRS 16)

The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession.

The practical expedient will only apply if:
- the revised consideration is substantially the same or less than the original consideration.
- the reduction in lease payments relates to payments due on or before 30 June 2022; and
- no other substantive changes have been made to the terms of the lease.

Lessees applying the practical expedient are required to disclose:
- that fact, if they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and
- the amount recognised in profit or loss for the reporting period arising from application of the practical expedient.

The adoption of these amendments did not have a significant impact on the financial statements of the Bank.

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated.

Following the withdrawal of IAS 11 Construction Contracts, companies apply the requirements in IAS 37 when determining whether a contract is onerous. These requirements specify that a contract is 'onerous' when the unavoidable costs of meeting the contractual obligations – i.e. the lower of the costs of fulfilling the contract and the costs of terminating it – outweigh the economic benefits.

While IAS 11 specified which costs were included as a cost of fulfilling a contract, IAS 37 did not, which led to diversity in practice. The International Accounting Standards Board's amendments address this issue by clarifying those costs that comprise the costs of fulfilling a contract.

The amendments clarify that the 'costs of fulfilling a contract' comprise both:

- the incremental costs – e.g. direct labour and materials; and
- an allocation of other direct costs – e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract.

This clarification did not have any impact on the financial statements of the Bank.

Annual Improvements to IFRS Standards 2018-2020

As part of its process to make non-urgent but necessary amendments to IFRS® Standards, the International Accounting Standards Board (the Board) has issued the Annual Improvements to IFRS Standards 2018–2020. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 with earlier application permitted.

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

B. Changes in accounting policy and disclosures (continued)

(i) New and amended standards adopted by the Bank(continued)

Annual Improvements to IFRS Standards 2018-2020 (continued)

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment simplifies the application of IFRS 1 for a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent – i.e. if a subsidiary adopts IFRS Standards later than its parent and applies IFRS 1.D16(a), then a

  subsidiary may elect to measure cumulative translation differences for all foreign operations at amounts included in the consolidated financial statements of the parent, based on the parent's date of transition to IFRS Standards.
- IFRS 9 Financial Instruments: This amendment clarifies that – for the purpose of performing the '10 per cent test' for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
- IFRS 16 Leases: The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, this example is not clear as to why such payments are not a lease incentive.
- IAS 41 Agriculture: This amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13 Fair Value Measurement.

This clarification did not have any impact on the financial statements of the Bank.

Definition of Accounting Estimate (Amendments to IAS 8)

The Board has now issued amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to clarify how companies should distinguish changes in accounting policies from changes in accounting estimates, with a primary focus on the definition of and clarifications on accounting estimates. The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty.

The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. Developing an accounting estimate includes both:

- selecting a measurement technique (estimation or valuation technique) – e.g. an estimation technique used to measure a loss allowance for expected credit losses when applying IFRS 9 Financial Instruments; and
- choosing the inputs to be used when applying the chosen measurement technique – e.g. the expected cash outflows for determining a provision for warranty obligations when applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The effects of changes in such inputs or measurement techniques are changes in accounting estimates. The definition of accounting policies remains unchanged.

The amendment did not have a significant impact on the financial statements of the Bank.

IFRS 3 amendment reference to the conceptual framework -

IFRS 3 "Business Combinations" outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

B. Changes in accounting policy and disclosures (continued)

(i) New and amended standards adopted by the Bank(continued)

IFRS 3 amendment reference to the conceptual framework (continued)

Originally, IFRS 3 required an entity to refer to the version of the Conceptual Framework that existed when IFRS 3 was developed. The purpose of this project was to update IFRS 3 to require an entity to refer instead to a later version issued in March 2018. The amendments updated the reference to the Conceptual Framework. They also added to IFRS 3 an exception to its requirement for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 and to asset acquisitions that occur on or after the beginning of that period. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier. The amendment did not have a significant impact on the financial statements of the Bank.

IAS 16 Property, Plant and Equipment: Proceeds before Intended Use

IAS 16 provides guidance on what shall be considered as the initial cost of Property Plant and Equipment (PPE) in particular it gives examples of directly attributable costs. Those directly attributable costs include costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment).

Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16) amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted. An entity applies the amendments retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The amendment did not have a significant impact on the financial statements of the Bank.

(ii) New and amended standards and interpretations issued but not yet effective.

The following new International Financial Reporting Standards together with their Interpretations had been published at the date of preparation of the accompanying Financial Statements but are not mandatory as of December 31, 2022. Although in some cases the International Accounting Standards Board ("IASB") allows early adoption before their effective date, the Bank has not proceeded with this option for any such new standards.

Standards available for early adoption	
Definition of Accounting Estimate (Amendments to IAS 8)	01 January 2023
Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes	01 January 2023
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	01 January 2023
IFRS 17 Insurance Contracts	01 January 2023
Lease liability in a Sale and Leaseback (Amendments to IFRS 16)	01 January 2024
Classification of Liabilities as current or Non-current, and Non-current Liabilities with Covenants (Amendments to IAS 1, Presentation of Financial Statements	01 January 2024

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

B. Changes in accounting policy and disclosures (continued)

(ii) New and amended standards and interpretations issued but not yet effective. (continued)

All standards and Interpretations will be adopted at their effective date (except for those standards and Interpretations that are not applicable to the entity).

Classification of Liabilities as current or Non-current, and Non-current Liabilities with Covenants (Amendments to IAS 1, Presentation of Financial Statements Annual periods beginning on or after 1 January 2023)

Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement for at least 12 months after the reporting date. The International Accounting Standards Board (IASB) has removed the requirement for a right to be unconditional and instead now requires that a right to defer settlement must exist at the reporting date and have substance.

Similar to existing requirements in IAS 1, the classification of liabilities is unaffected by management's intentions or expectations about whether the company will exercise its right to defer settlement or will choose to settle early.

A company will classify a liability as non-current if it has a right to defer settlement for at least 12 months after the reporting date. This right may be subject to a company complying with conditions (covenants) specified in a loan arrangement.

After reconsidering certain aspects of the 2020 amendments1, the IASB reconfirmed that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current.

Covenants with which the company must comply after the reporting date (i.e. future covenants) do not affect a liability's classification at that date. However, when non-current liabilities are subject to future covenants, companies will now need to disclose information to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date.

The amendments apply retrospectively for annual reporting periods beginning on or after 1 January 2024, with early application permitted. They also specify the transition requirements for companies that may have early-adopted the previously issued but not yet effective 2020 amendments.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

In May 2020, the IASB issued an Exposure Draft proposing to defer the effective date of the amendments to 1 January 2023.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

In October 2018, the Board refined its definition of material to make it easier to understand and apply. This definition is now aligned across IFRS Standards and the Conceptual Framework.

"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 refined definition of material complements the non-mandatory IFRS Practice Statement 2 guidance the Board issued in 2017, which outlines a four-step process that preparers can use to help them make materiality judgements and provides guidance and examples on how to make materiality judgements in preparing their financial statements.

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

B. Changes in accounting policy and disclosures (continued)

(ii) New and amended standards and interpretations issued but not yet effective (continued)

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) (continued)

The Board has recently issued amendments to IAS 1 Presentation of Financial Statements and an update to IFRS Practice Statement 2 Making Materiality Judgements to help companies provide useful accounting policy disclosures.

The key amendments to IAS 1 include:

- requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed;
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The Board also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures.

The amendments are consistent with the refined definition of material:

"Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements".

The amendments are effective from 1 January 2023 but may be applied earlier.

Definition of Accounting Estimate (Amendments to IAS 8)

The Board has now issued amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to clarify how companies should distinguish changes in accounting policies from changes in accounting estimates, with a primary focus on the definition of and clarifications on accounting estimates

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty.

The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

Developing an accounting estimate includes both:

- selecting a measurement technique (estimation or valuation technique) – e.g. an estimation technique used to measure a loss allowance for expected credit losses when applying IFRS 9 Financial Instruments; and
- choosing the inputs to be used when applying the chosen measurement technique – e.g. the expected cash outflows for determining a provision for warranty obligations when applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The effects of changes in such inputs or measurement techniques are changes in accounting estimates.

The definition of accounting policies remains unchanged.

The amendments are effective for periods beginning on or after 1 January 2023, with earlier application permitted, and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the company applies the amendments.

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

B. Changes in accounting policy and disclosures (continued)

(ii) New and amended standards and interpretations issued but not yet effective (continued)

Lease liability in a Sale and Leaseback (Amendments to IFRS 16)

Amendments to IFRS 16 Leases impact how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction. The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered into since 2019.

The amendments confirm the following.

On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.

After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted.

Under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, a seller-lessee will need to apply the amendments retrospectively to sale-and-leaseback transactions entered into or after the date of initial application of IFRS 16. This means that it will need to identify and re-examine sale-and-leaseback transactions entered into since implementation of IFRS 16 in 2019, and potentially restate those that included variable lease payments

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.

E. Revenue recognition

(i) Interest income and expense

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

E. Revenue recognition (continued)

(i) Interest income and expense (continued)

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 profit or loss includes interest on financial assets and liabilities at amortised cost on an effective interest rate basis.

(ii) Fees and commission income

Fees and commission income that are integral to the effective interest rate on a financial asset or liability are included in the measurement of effective interest rate ad are recognised over time as the related services are performed.

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

(iii) Dividend income

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

F. Property, plant and equipment

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

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

Revaluation surplus

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

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

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

F. Property, plant and equipment (continued)

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

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

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

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

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

Buildings	5%
Motor vehicles	25%
Office equipment	10% - 25%
Furniture	12.5%

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

G. Intangible assets

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

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

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

H. Capital work-in-progress

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

I. Financial assets and liabilities

Measurement methods

Amortized cost and effective interest rate

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

I. Financial assets and liabilities (continued)

Measurement methods (continued)

Amortized cost and effective interest rate (continued)

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

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

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

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

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

(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 (FVTPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortized cost.

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

(i) The Bank's business model for managing the asset; and

(ii) The cash flow characteristics of the asset.

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

I) Financial assets and liabilities (continued)

(a) Financial Assets (continued)

(i) Classification and subsequent measurement (continued)

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

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through Other Comprehensive Income (OCI), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss.

  When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
  - ***Business model:*** the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL.

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

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

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

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

I) Financial assets and liabilities (continued)

(a) Financial Assets (continued)
(i) Classification and subsequent measurement (continued)

Debt instruments (continued)

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's 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 recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value.

Dividends, when representing a return on such investments, continue to be recognized 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 amortized cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognizes 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.

Significant Increase in Credit Risk (SICR)

At each reporting date, the Bank performs both qualitative and quantitative assessments whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors.

- The common assessments for SICR are largely determined by the macroeconomic outlook, management judgement, and delinquency and monitoring.

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

I) Financial assets and liabilities (continued)

(a) Financial Assets (continued)

(ii) Impairment (continued)

Significant Increase in Credit Risk (SICR) (continued)

- Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. Examples of situations include a significant departure from the primary source of repayment, changes in adjudication criteria for a particular group of borrowers; changes in portfolio composition; and legislative changes impacting certain portfolios.

(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.
- 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 derecognizes 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 recognized 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 recognized 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 recognizes a modification gain or loss in profit or loss.

Financial assets, or a portion thereof, are de-recognized 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.

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

I) Financial assets and liabilities (continued)

(b) Financial liabilities

i) Classification and subsequent measurement

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

ii) Derecognition

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

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration.

iii) Modification of loans

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 profit or loss.

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 profit or loss.

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.

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

M. Leases

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

i. Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component. The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate. The Bank determines its incremental borrowing rate by analyzing 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 amortized 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 recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii. Bank acting as a lessor

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

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

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

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 (2021: Nil).

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.

i) Retirement obligations

The Bank operates a defined contribution retirement benefit scheme to which employees contribute 10% of their basic salary and the Bank contributes 10%, 12.5% or 15% of the employees' basic salary depending on his/her length of service. The Bank complies with Member States regulations with respect to social security contributions where applicable. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The Bank's contributions to the scheme are charged to the statement of profit or loss in the year in which they are made. Costs relating to early retirement are charged to the statement of profit or loss in the year in which they are incurred.

ii) Service gratuity

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

iii) Other entitlements

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

P. 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.

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

Q. 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.

R. 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.

S. Contingent liabilities – Financial guarantees and loan commitments

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

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

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

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

T. 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.

U. 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.

V. Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. Refer to notes 3 and 5 for details of the reclassifications made in the financial statements. The classifications have had an impact on the respective comparative balances in the statement of comprehensive income, statement of financial position and the statement of cashflows respectively.

W. Share capital

Class A and Class B Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

Class A shareholders do not have option to exit the Bank, but the Charter provide basis on which class B shareholders may exit/sale their shares. The sale of Class B shares is represented by the share repurchase.

Notes to the financial statements (continued)

3. Interest income

	2022 USD '000	2021 USD '000 Restated
Interest income on loans to projects	**12,146**	12,235
Interest income on lease receivables	**31**	20
Interest income on deposits with other Banks	**7,230**	6,053
	19,407	**18,308**

The comparative balance for loan appraisal and commitment fees has been reclassified from fees and commission income and presented within interest income on loans to projects. Interest income is derived using the effective interest method.

4. Interest expense

	2022 USD '000	2021 USD '000
Interest expense on borrowings	**3,925**	3,108
Interest expense on lines of credit	**183**	447
	4,108	**3,555**

Interest expense is derived using the effective interest method.

5. Fee and commission income

	2022 USD '000	2021 USD '000 Restated
Other fees and commission income	**240**	269
	240	**269**

The prior year comparative balance for loan appraisal and commitment fees has been reclassified from fees and commission income to interest income because this is interest income derived using the effective interest method.

6. Other operating income

	2022 USD '000	2021 USD '000
Rental income	**441**	422
Recovery of previously written off loans	**38**	2,860
Grant income (Note 28)	**16**	23
Write back of other liabilities	**181**	47
	676	**3,352**

7. Other losses

	2022 USD '000	2021 USD '000
Net foreign exchange gain/(losses)	**(1,497)**	(468)
Net fair value (losses)/gain on equity investments at fair value (Note 17 and note 18)	**(33)**	22
Net fair value gain/(loss) on derivative instruments (Note 17)	**155**	(141)
	(1,375)	**(587)**

Notes to the financial statements (continued)

8. Employee benefits expense

	2022 USD '000	2021 USD '000
Salaries and wages	**2,335**	2,382
Pension and gratuity (Note 38)	**324**	329
Other staff costs	**601**	706
	3,260	**3,417**

9. Other operating expenses

	2022 USD '000	2021 USD '000
Staff duty travel	**87**	36
Directors' expenses	**67**	26
Insurance	**264**	262
Advertising and publicity	**207**	85
Legal fees	**338**	455
Computer software expenses	**140**	138
Internal audit costs	**24**	46
Statutory audit fees	**51**	55
Consultancy fees	**138**	112
Project insurance	**-**	-
Utilities	**56**	55
Communication costs	**103**	113
Establishments expenses	**337**	326
Subscription to professional bodies	**45**	19
Provision on receivables	**133**	471
Scholarships	**-**	-
Other administrative expenses	**115**	120
	2,105	**2,319**

10. Expenses by nature

Profit before income tax is stated after charging the following:

	2022 USD '000	2021 USD '000
Directors' emoluments:		
- Fees and allowances	**54**	26
- Other Board expenses	**13**	-
Depreciation on property and equipment (note 21)	**651**	683
Depreciation of right-of-use asset (note 23)	**118**	119
Amortization of intangible assets (note 22)	**5**	20
Impairment of loans and advances (note 15)	**2,255**	3,332
Employee benefits expense (Note 8)	**3,260**	3,417
Auditor's remuneration	**51**	55
Operating expenses	**2,105**	2,319

Notes to the financial statements (continued)

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 States.

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.

	2022	2021
	USD	USD
Net profit attributable to ordinary shareholders	**6,594,000**	7,866,000
Weighted average number of ordinary shares in issue and paid up during the year	**14,878**	14,498
Basic earnings per share	**443**	**543**
Diluted Earnings per share		
Dilutive number of ordinary shares	**5**	6
Total issued and dilutive shares	**14,883**	14,504
Diluted earnings per share	**443**	**542**

Dilutive shares represent the number of shares generated from the balance of funds awaiting allotment (Note 31).

13. Cash at bank

	2022	2021
	USD '000	USD '000
Cash at bank	**22,041**	**22,266**

14. Placements with commercial banks

	2022	2021
	USD '000	USD '000
Placements with banks in member states		
Principal	**164,826**	146,626
Interest receivable	**951**	1,254
Placements with other banks		
Principal	**68,900**	27,500
Interest receivable	**696**	1
	235,373	**175,381**
The above amount is analyzed as follows:		
Amounts due within 3 months of date of acquisition	**140,847**	96,294
Amounts due after 3 months of date of acquisition	**94,526**	79,087
	235,373	**175,381**

The weighted average effective interest rate on deposits due from banks was 3.52 % (2021: 3.44 %).

Notes to the financial statements (continued)

15. Loans and advances to customers

	2022 USD'000	2021 USD'000
Loans to projects (Gross)		
Principal	**132,465**	162,443
Interest receivable	**2,714**	4,086
Gross loans	**135,179**	**166,529**

Gross loans and leases receivable comprise the following:

Loans to projects	**134,835**	166,074
Finance lease receivables	**344**	455
Total gross loans and receivables	**135,179**	**166,529**
Impairment losses on loans and advances (Note 15a)	**(8,553)**	**(6,712)**
Net carrying amounts	**126,626**	**159,817**

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

	2022 USD'000	2021 USD'000
Loss allowance at end of year	**8,553**	6,712
Less: provisions at start of the year as above	**(6,712)**	(3,981)
Increase in provision for expected credit losses	**1,841**	2,731
Direct write-offs	**414**	601
Total charge for the year	**2,255**	**3,332**

Distribution of loans and receivables by sector

Agro, marine and food processing	**10%**	8%
Financial Institutions	**24%**	26%
Construction companies, building materials and real estate	**8%**	16%
Education, health and other community services	**13%**	11%
Transport and storage	**38%**	30%
Electricity and water	**6%**	7%
Hotels, tourism, leisure and entertainment	**1%**	2%
	100%	**100%**

Notes to the financial statements (continued)

16. Segment information

Management has determined the operating segments based on information reviewed by the Board of Directors for the purpose of allocating resources and assessing performance. The Board of Directors considers the business from both a geographic and product perspective. Geographically, the Board considers the performance in Kenya, Uganda, Tanzania and Rwanda. The reportable operating segments derive their revenue primarily from lending to foster development through various products such as project loans, leases and equity. The Board assesses the performance of the operating segments based on a measure of gross loans and advances to customers, portfolio quality, approvals, disbursements and profit. The measure excludes the effects of unrealised gains or losses on financial instruments. Interest expenditure is allocated to segments based on agreed formular reflecting total funds deployed. The segment information provided to the Board of Directors for the reportable segments for the year ended 31 December 2022 and 2021 respectively is as follows:

Year ended 31 December 2022

Loan exposure by country	**Gross Balances USD'000**	**%**	**Net Balances USD'000**	**%**
Country				
Uganda	33,965	25%	33,181	26%
Kenya	26,531	20%	19,847	16%
Tanzania	69,125	51%	68,057	54%
Rwanda	5,558	4%	5,541	4%
Total	**135,179**	**100%**	**126,626**	**100%**

Exposure by product				
Country				
Long term loans	128,353	95%	122,263	97%
Medium term loans	6,715	5%	4,266	3%
Short term loans	111	0%	97	0%
Total	**135,179**	**100%**	**126,626**	**100%**

Year ended 31 December 2021

Loan exposure by country	**Gross Balances USD'000**	**%**	**Net Balances USD'000**	**%**
Country				
Uganda	37,520	22%	36,897	23%
Kenya	30,485	18%	25,517	16%
Tanzania	87,670	53%	86,556	54%
Rwanda	10,854	7%	10,847	7%
Total	**166,529**	**100%**	**159,817**	**100%**

Exposure by product				**%**
Country				
Long term loans	157,438	94%	150,777	94%
Medium term loans	2,547	2%	2,531	2%
Short term loans	6,544	4%	6,509	4%
Total	**166,529**	**100%**	**159,817**	**100%**

Notes to the financial statements (continued)

16. Segment information (continued)

Year ended 31 December 2022

Country	Performing portfolio	%	Non-performing portfolio	%	Total
Portfolio quality (Gross)	**USD'000**		**USD'000**		**USD'000**
Uganda	33,965	25%	-	0%	33,965
Kenya	21,328	16%	5,203	4%	26,531
Tanzania	69,124	51%	-	0%	69,124
Rwanda	5,558	4%	-	0%	5,559
Totals	**129,975**	**96%**	**5,203**	**4%**	**135,179**
Portfolio quality (Net)					
Country					
Uganda	33,181	26%	-	0%	33,181
Kenya	17,076	13%	2,771	2%	19,847
Tanzania	68,057	54%	-	0%	68,057
Rwanda	5,541	4%	-	0%	5,541
Totals	**123,855**	**97%**	**2,771**	**2%**	**126,626**

Year ended 31 December 2021

Country	Performing portfolio	%	Non-performing portfolio	%	Total
Portfolio quality (Gross)	**USD'000**		**USD'000**		**USD'000**
Uganda	37,520	23%	-	0%	37,520
Kenya	25,457	15%	5,028	3%	30,485
Tanzania	87,299	52%	371	0%	87,670
Rwanda	10,854	7%	-	0%	10,854
Totals	**161,130**	**97%**	**5,399**	**3%**	**166,529**
Portfolio quality (Net)					
Country					
Uganda	36,897	23%	-	0%	36,897
Kenya	22,555	14%	2,962	2%	25,517
Tanzania	86,259	54%	297	0%	86,556
Rwanda	10,848	7%	-	0%	10,847
Totals	**156,559**	**98%**	**3,259**	**2%**	**159,817**

Approvals and disbursements 2022

	Approvals		**Disbursements**	
	USD'000	**USD'000**	**USD'000**	**USD'000**
By country	**2022**	**2021**	**2022**	**2021**
Uganda	7,860	14,664	5,437	8,486
Kenya	-	1,688	558	1,189
Tanzania	-	55,000	-	50,000
Rwanda	557	600	-	-
	8,417	**71,952**	**5,995**	**59,675**
By product				
Loans	8,417	71,952	5,995	59,193
Leases	-	-	-	482
	8,417	**71,952**	**5,995**	**59,675**

Notes to the financial statements (continued)

16 Segment information (continued)

Segment statement of profit or loss for year ended December 2022

	Uganda USD'000	Kenya USD'000	Tanzania USD'000	Rwanda USD'000	Head Office USD'000	Total USD'000
Interest income	3,083	2,518	6,047	528	7,231	19,407
Interest expense	(1,029)	(786)	(2,121)	(172)	-	(4,108)
Net interest income	**2,054**	**1,732**	**3,926**	**356**	**7,231**	**15,299**
Fee and commission income	89	45	61	44	1	240
Other operating income	410	35	33	0	198	676
Other gains /(losses)	(570)	(2,012)	(16)	42	1,181	(1,375)
Net fair value gain/(loss) investment property	90	-	58	-	-	148
Net operating income	**2,073**	**(200)**	**4,062**	**442**	**8,611**	**14,988**
Credit impairment gain/(loss)	(160)	(1,874)	(368)	(11)	158	(2,255)
Operating income after impairment charges	**1,913**	**(2,074)**	**3,694**	**431**	**8,769**	**12,733**
Employee benefits expense	(269)	(138)	(194)	(78)	(2,581)	(3,260)
Depreciation and amortization	-	(78)	(19)	(56)	(621)	(774)
Other operating expenses	(421)	(421)	(421)	(210)	(632)	(2,105)
Profit before income tax	**1,223**	**(2,711)**	**3,060**	**87**	**4,935**	**6,594**
Income tax expense	-	-	-	-	-	-
Profit for the year	**1,223**	**(2,711)**	**3,060**	**87**	**4,935**	**6,594**
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	**1,223**	**(2,711)**	**3,060**	**87**	**4,935**	**6,594**

Notes to the financial statements (continued)

16 Segment information (continued)

Segment statement of profit or loss for year ended December 2021

	Uganda USD'000	Kenya USD'000	Tanzania USD'000	Rwanda USD'000	Head Office USD'000	Total USD'000
Interest income	3,901	3,470	3,963	921	6,053	18,308
Interest expense	(779)	(715)	(265)	(18)	(1,778)	(3,555)
Net interest income	**3,122**	**2,755**	**3,698**	**903**	**4,275**	**14,753**
Fee and commission income	100	50	68	49	2	269
Other operating income	1,869	992	-	-	491	3,352
Other gains /(losses)	751	(1,137)	123	46	(370)	(587)
Net fair value gain/(loss) investment property	-	-	31	-	(62)	(31)
Net operating income	**5,842**	**2,660**	**3,920**	**998**	**4,336**	**17,756**
Credit impairment gain/(loss)	148	(2,547)	(937)	4	-	(3,332)
Operating income after impairment charges	**5,990**	**113**	**2,983**	**1,002**	**4,336**	**14,424**
Employee benefits expense	(433)	(206)	(199)	(81)	(2,498)	(3,417)
Depreciation and amortization	-	(78)	(20)	(56)	(668)	(822)
Other operating expenses	(611)	(125)	(415)	(293)	(875)	(2,319)
Profit before income tax	**4,946**	**(296)**	**2,349**	**572**	**295**	**7,866**
Income tax expense						
Profit for the year	**4,946**	**(296)**	**2,349**	**572**	**295**	**7,866**
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	**4,946**	**(296)**	**2,349**	**572**	**295**	**7,866**

Notes to the financial statements (continued)

16 Segment information (continued)

Segment statement of financial position for year ended December 2022

	Uganda	Kenya	Tanzania	Rwanda	Head office	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Assets						
Cash at bank	16,530	3,076	(2)	47	2,390	22,041
Placements	-	-	-	8,727	226,646	235,373
Loans and advances to customers	32,504	17,828	68,056	5,541	2,697	126,626
Equity investments	159	320	203	-	36	718
Other assets	109	49	38	70	161	427
Investment properties	15,014	-	3,759	-	-	18,773
Property and equipment	9,020	1,328	1,145	110	239	11,842
Right of use Asset	-	74	-	124	-	198
Total assets	**73,336**	**22,675**	**73,199**	**14,619**	**232,169**	**415,998**
Liabilities						
Other liabilities	313	1,286	-	36	2,506	4,141
Derivative financial instrument	-	-	-	-	-	-
Borrowings	24,205	15,258	6,843	48	48,608	94,962
Lease liabilities	-	155	-	161	-	316
Special funds	-	-	-	-	3,990	3,990
Grants	-	-	150	-	1,731	1,881
Capital fund	-	-	-	-	7,479	7,479
Total liabilities	**24,518**	**16,699**	**6,993**	**245**	**64,314**	**112,769**
Capital and reserves						
Share capital	51,300	51,300	51,300	30,416	20,804	205,120
Share premium	-	-	-	-	6,530	6,530
Funds waiting allotment	-	-	-	-	69	69
Special reserve	-	-	-	-	12,785	12,785
Revaluation reserves	-	-	-	-	9,273	9,273
Retained earnings	(2,482)	(45,324)	14,906	(16,042)	118,394	69,452
Total shareholders' equity	**48,818**	**5,976**	**66,206**	**14,374**	**167,855**	**303,229**
Total equity and liabilities	**73,336**	**22,675**	**73,199**	**14,619**	**232,169**	**415,998**

Notes to the financial statements (continued)

16 Segment information (continued)

Segment statement of financial position for year ended December 2021

	Uganda	Kenya	Tanzania	Rwanda	Head office	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Assets						
Cash at bank	15,777	2,615	11	58	3,805	22,266
Placements	-	-	-	-	175,381	175,381
Loans and advances to customers	36,897	25,517	86,556	10,847	-	159,817
Equity investments	-	257	591	-	-	848
Other assets	156	203	51	19	111	540
Investment properties	14,547	-	4,078	-	-	18,625
Property and equipment	10,295	1,138	999	4	-	12,436
Right of use Asset	-	136	-	180	-	316
Intangible assets	-	-	-	-	5	5
Total assets	**77,672**	**29,866**	**92,286**	**11,108**	**179,302**	**390,234**
Liabilities						
Other liabilities	3,621	566	-	-	3,589	7,776
Derivative financial instrument	-		-	-	141	141
Borrowings	26,355	20,136	28,948	9,192	-	84,631
Lease liabilities	-	223	-	165	-	388
Special funds	-	-	-	-	3,990	3,990
Grants	-	-	150	-	1,747	1,897
Capital fund	-	-	-	-	7,479	7,479
Total liabilities	**29,976**	**20,925**	**29,098**	**9,357**	**16,946**	**106,302**
Capital and reserves						
Share capital	51,300	51,300	51,300	18,050	22,964	194,914
Share premium	-	-	-	-	3,874	3,874
Funds waiting allotment	-	-	-	-	80	80
Special reserve	-	-	-	-	12,683	12,683
Fair value reserve	-	-	-	-	263	263
Revaluation reserves	-	-	-	-	9,314	9,314
Retained earnings	(3,604)	(42,359)	11,888	(16,299)	113,178	62,804
Total shareholders' equity	**47,696**	**8,941**	**63,188**	**1,751**	**162,356**	**283,932**
Total equity and liabilities	**77,672**	**29,866**	**92,286**	**11,108**	**179,302**	**390,234**

Notes to the financial statements (continued)

17. Derivative financial instruments

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. The table below analyses the notional principal amounts and the positive (assets) and negative (liabilities) fair values of the Bank's derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date. The fair values of derivative financial assets and financial liabilities at 31 December 2022 were as follows:

	2022 USD'000	2021 USD'000
Notional principal amounts	-	5,000
Fair value Assets	-	4,963
Fair value Liabilities	-	5,104

The table below shows the movement in fair value of financial assets during the year and fair value included in the profit or loss.

	2022 USD '000	2021 USD '000
Derivative asset/(Liability) at the start of the year	**(141)**	-
Fair value loss during the year	**(14)**	-
Fair value gain/(loss) realized during the year	**155**	(141)
	-	**(141)**

18. Equity investments at fair value

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

The movement in equity investments during the year was as follows:

	2022 USD '000	2021 USD '000
At start of year	**848**	1,110
Less:		
Provisions	**(90)**	(284)
Foreign exchange loss	**(21)**	-
Fair value (loss)/gain	**(19)**	22
At end of year	**718**	**848**

Notes to the financial statements (continued)

19. Other assets

	2022 USD '000	2021 USD '000
Prepayments	**129**	144
Value Added Tax receivable	**421**	428
Fees and commission receivable	**18**	58
Tenants rent receivable	**56**	70
Other receivables	**407**	444
	1,031	**1,144**
Provision on other receivables	(604)	(604)
	427	**540**

20. Investment property

	2022 USD '000	2021 USD '000
At start of year	**18,625**	18,656
Net fair value gains (losses)	**148**	(31)
At end of year	**18,773**	**18,625**

An independent valuation of the Bank's land and buildings was performed by professional valuers Knight Frank Limited for locations in Uganda and Kenya and Africa Property Limited for locations in Tanzania, to determine the fair value of the land and buildings as at 31 December 2022 based on estimated open market values. Properties that are held by the Bank for generation of rental income have been classified under investment property. Land and buildings to the extent occupied by the Bank for administrative use are classified under property, plant and equipment (Note 21). The table below shows revenue, costs and capital commitments related to investment property:

	2022 USD '000	2021 USD '000
Rental income from investment property	**391**	368
Direct operating expenses: Rented properties	**20**	25
Direct operating expenses: Unrented properties	**11**	7
Approved capital commitment	**-**	-

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 2022 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

External valuers are involved for valuation of significant assets, such as investment properties. Involvement of external valuers is determined annually by the Management team after discussion with and approval by the Board of Directors. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

Notes to the financial statements (continued)

20. Investment property (continued)

Fair value measurements (continued)

Investment properties were measured based on Fair value of the properties as was determined using the market comparable and investment method. The valuations have been performed by an independent expert based on a collation and analysis of appropriate comparable transactions, together with evidence of demand within the vicinity of the subject property. With the benefit of such transactions, they applied these to the property, taking into account size, location, aspect and other material factors.

As at the dates of fair valuation on 31 December 2022, the properties' fair values are based on valuations performed by Knight Frank Uganda Limited and Africa Property Limited, registered independent valuers who have valuation experience for similar office properties in Uganda, Kenya and Tanzania. A net gain from the fair valuation of the investment properties of USD 148,000 in 2022 was recognised in profit or loss.

Methodology

Comparative method

In undertaking the valuation of the property, the valuers made their assessment on the basis of a collation and analysis of appropriate comparable transactions, together with evidence of demand within the vicinity of the subject property. With the benefit of such transactions, they then applied these to the property, taking into account size, location, aspect and other material factors.

Depreciation replacement cost

The valuation was undertaken using the Depreciated Replacement Cost (DRC) method. The DRC method is based on an estimate of the Market Value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation. The DRC method is used for certain types of properties which are rarely, if ever, sold in the open market, except by way of a sale of the business of which they are a part (called the business in occupation), due to their uniqueness arising from the specialised nature and design of the buildings, their configuration, size, location or otherwise.

Fair Value was used as a basis of value in the valuation in line with International Financial Reporting Standards (IFRS) and the RICS Valuation Practice Guidance Application (VPGA 1), which give guidance on valuations for inclusion in financial statements. Both RICS Professional Valuation Standards and International Valuation Standards (IVS) indicate that the definition of Fair Value in IFRS is consistent with Market Value.

Land and buildings are usually traded in the market as a single unit -the land supports the buildings, and the buildings cannot be used independently of the land. Therefore, the valuation process did not differentiate between the two elements. Nevertheless, the International Financial Reporting Standards (IFRS) treats land and buildings as 'separable' which leads to a requirement for separate valuations of the two elements hence the apportionment when ascertaining Fair Values for financial reporting. However, it should be noted that whilst the split was possible as a hypothetical exercise, it was emphasized that the resultant figures were informal apportionments and that the individual figures did not themselves represent the Fair Value of the elements involved, since the true valuation could only be the figure taken as a whole.

Fair value measurements

Fair value measurements as per valuation reports	**2022**	**2021**
	USD'000	**USD'000**
Land	13,923	13,839
Buildings	4,850	4,786
Total	**18,773**	**18,625**

Notes to the financial statements (continued)

21. Property and equipment

Year ended December 2022	**Land and buildings**	**Capital work in progress**	**Office equipment**	**Motor Vehicles**	**Furniture & fittings**	**Total**
	USD 000'	**USD 000'**	**USD 000'**	**USD 000'**	**USD 000'**	**USD 000'**
Cost or valuation	13,078	-	2,015	686	800	16,579
Accumulated depreciation	(958)	-	(1,699)	(686)	(800)	(4,143)
Closing net book amount 2021	**12,120**	**-**	**316**	**-**	**-**	**12,436**
Year ended 31 December 2022						
Opening net book amount	12,120	-	316	-	-	12,436
Additions	-	54	3	-	-	57
YTD Depreciation charge	(476)	-	(151)	-	(24)	(651)
Closing net book amount 2022	**11,644**	**54**	**168**	**-**	**(24)**	**11,842**

Year ended December 2021	**Land and buildings**	**Capital work in progress**	**Office equipment**	**Motor Vehicles**	**Furniture & fittings**	**Total**
	USD 000'	**USD 000'**	**USD 000'**	**USD 000'**	**USD 000'**	**USD 000'**
Cost or valuation	13,076	-	1,987	686	800	16,549
Accumulated depreciation	(479)	-	(1,546)	(686)	(749)	(3,460)
Closing net book amount 2020	**12,597**	**-**	**441**	**-**	**51**	**13,089**
Year ended 31 December 2021						
Opening net book amount	12,597	-	441	-	51	13,089
Additions	-	31	-	-	-	31
Transfers from WIP	2	(31)	29	-	-	-
Disposals/Retirement:						
Cost	-	-	(1)	-	-	(1)
YTD Depreciation charge	(479)	-	(153)	-	(51)	(683)
Closing net book amount 2021	**12,120**	**-**	**316**	**-**	**-**	**12,436**

Notes to the financial statements (continued)

22. Intangible assets

	2022 USD'000	2021 USD'000
Cost		
At start of year	**1,965**	1,965
Additions during the year	**-**	-
	1,965	**1,965**
Amortization		
At start of year	**(1,960)**	(1,940)
Amortization charge for the year	**(5)**	(20)
	(1,965)	**(1,960)**
At end of year	**-**	**5**

23. Right-of-use assets

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

	2022 USD'000	2021 USD'000
Cost at start and end of year	**677**	**677**
Less:		
Accumulated depreciation	**(361)**	(242)
Depreciation charge for the year	**(118)**	(119)
At end of year	**198**	**316**

24. Other liabilities

	2022 USD'000	2021 USD'000
Advances from customers	**204**	593
Rent received in advance	**33**	26
Accrued expenses	**616**	667
Deferred fee income	**667**	722
Deposits from tenants	**115**	98
KFW line of credit	**148**	4,187
KFW Managed Fund-Annual Interest	**859**	573
Deposits prior to remittance	**1,349**	750
Other creditors	**150**	160
	4,141	**7,776**

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 as at the end of 2022 were Brac Bank Uganda, Centenary Bank, DFCU Bank, Finance Trust Bank, Finca Uganda, Mercantile Bank, Opportunity Bank, Housing Finance Bank, Kenya Women Bank and Sidian Bank.

Notes to the financial statements (continued)

25. Borrowings

	2022 USD'000	2021 USD'000
Lines of credit with multi-lateral development banks	**86,780**	82,126
Lines of credit with other financial Institutions	**8,182**	2,505
	94,962	**84,631**
Maturity analysis of borrowings		
Amounts payable within one year	**37,540**	11,456
Amounts payable after one year but within five years	**38,791**	42,139
Amounts payable after five years	**36,100**	43,477
	112,431	**97,072**
Borrowings movement analysis		
At start of year	**84,631**	75,337
Proceeds from borrowings	**20,357**	22,359
Interest incurred during the year	**4,023**	3,500
Principal payments within the year	**(9,508)**	(14,228)
Interest payments within the year	**(1,937)**	(2,180)
Foreign exchange differences	**(2,604)**	(157)
At end of year	**94,962**	**84,631**

The KFW lines of credit relate to an agricultural financing programme and a financing program to improve access to sustainable and demand-driven financial services for the population and Micro, Small and Medium Enterprises (MSMEs) in rural areas under the German Financial Cooperation in Kenya and Uganda meant for on-lending to selected Partnering Financial Institutions (PFIs) in local currency short term, medium and long-term facilities. The beneficiaries of the above funds as at the end of 2022 were Brac Bank Uganda, Centenary Bank, DFCU Bank, Finance Trust Bank, Finca Uganda, Mercantile Bank, Opportunity Bank, EFC Uganda Ltd, Kenya Women Bank and Sidian Bank

The weighted average effective interest rate on borrowings was 5.21% (2021: 4.92%). 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 37. 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 2022 and 31 December 2021.

Notes to the financial statements (continued)

25. Borrowings (continued)

Lender	Tenor	Rate Type	Interest Rate %	CCY	2022 USD'000	2021 USD'000
Nordic Development Fund	30	Fixed	0.75	EUR	3,498	4,020
European Investment Bank	7	Fixed	9.16	KES	-	346
Republic of Uganda-KFW	10	Fixed	6	UGX	5,295	5,577
Republic of Uganda-KFW	7	Fixed	6	UGX	1,511	1,591
European Investment Bank	6	Fixed	9.31	UGX	-	-
European Investment Bank	7	Fixed	9.41	KES	-	295
European Investment Bank	7	Fixed	9.39	KES	-	263
European Investment Bank	7	Fixed	8.26	RWF	-	94
Republic of Uganda-KFW	7	Fixed	6	UGX	1,497	1,576
Republic of Uganda-KFW	4	Fixed	6	UGX	440	463
European Investment Bank	7	Fixed	9.84	KES	184	601
Republic of Uganda-KFW	7	Fixed	6	UGX	4,916	5,177
Republic of Uganda-KFW	8	Fixed	6	UGX	1,637	1,724
Republic of Uganda-KFW	8	Fixed	6	UGX	1,098	1,156
Republic of Uganda-KFW	3	Fixed	6	UGX	1,174	1,236
Republic of Uganda-KFW	3	Fixed	6	UGX	1,169	1,232
European Investment Bank	7	Libor_6m	2.46	USD	-	-
Opec Fund For International Development	7	Libor_6m	3.27	USD	-	-
European Investment Bank	6	Libor_6m	2.43	USD	-	-
African Development Bank	10	Libor_6m	3.77	USD	11,250	15,000
Arab Bank for Economic Development	10	Libor_6m	3.99	USD	5,139	6,854
KFW-Agricultural Financing Kenya	13	Fixed	5	KES	960	1,047
KFW-Agricultural Financing Kenya	13	Fixed	5	KES	2,790	3,041
KFW-Agricultural Financing Kenya	12	Fixed	5	KES	1,927	2,100
Republic of Uganda-KFW	6	Fixed	7	UGX	938	-
Republic of Uganda-KFW	6	Fixed	7	UGX	268	-
Republic of Uganda-KFW	6	Fixed	6	UGX	1,066	562
Opec Fund For International Development	7	Libor_6m	3.16	USD	20,000	20,000
KFW-Agricultural Financing Kenya	11	Fixed	5	KES	1,553	1,132
NCBA BANK	3	*	*	KES	8,105	2,484
Arab Bank For Economic Development	8	Fixed	4.75	USD	10,000	-
Total Borrowings					**86,415**	**77,571**
Interest payable					8,547	7,060
					94,962	**84,631**

* 2021 Borrowing was at fixed rate of 10% and matured in 2022. New borrowing drawn in December 2022 was at KES Base rate plus a margin of 1.10%

Notes to the financial statements (continued)

26. Lease liabilities

	2022 USD'000	2021 USD'000
Current	**16**	86
Non-current	**300**	302
	316	**388**

Below is an analysis of the movements in lease liabilities:

	2022	2021
At start of year	**388**	458
Payments of principal portion of lease liability	**(110)**	(108)
Interest charge for the year (recognized in profit or loss)	**38**	38
At end of year	**316**	**388**

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

At 31 December 2022, the future minimum lease payments under non-cancellable operating leases were payable as follows

2022	**<6 month**	**6-12 months**	**1-5 years**	**Over 5 years**
Leases	76,622	69,177	95,868	-
2021				
Leases	73,505	74,025	241,667	-

Amounts recognised in the profit or loss

	2022 USD'000	2021 USD'000
Interest on lease liabilities	**38**	**38**
Depreciation on right of use asset	**118**	**118**

27. Special funds

	2022 USD'000	2021 USD'000
At start and end of year	**3,990**	**3,990**

This relates to the Norwegian/ EADB fund which was created out of a 1986/7 grant of NOK 30 million by the Norwegian Government to the Government of Uganda to provide loans for the rehabilitation of Ugandan industries. Under the grant agreement, the Bank was allowed to use a portion of interest paid on those loans to cover administrative expenses. Any balance of interest on loans and other interest earned on funds made available under the agreement was to accrue to a special fund to be managed by the Bank. The special fund was to be used for certain expenditure including; a) payments to consultants and experts, b) strengthening the Bank's administrative capacity, c) technical assistance, d) loans on concessionary terms, e) or any other purpose agreed by the government of Norway and the Bank. The agreement is silent on the use of capital repayments. Consultations are underway with the Norwegian Government to determine the utilisation/ disposition of the remaining balance.

Notes to the financial statements (continued)

28. Grants

	SWISS/ EADB fund for technical assistance USD'000	Housing Finance Bank feasibility study grant USD'000	AfDB Credit Knowledge Management System USD'000	Share repurchase grant USD'000	Total USD'000
Year ended 31 December 2022					
At start of year	16	150	-	1,731	**1,897**
Additions	-	-	-	-	**-**
Grant utilisation	(16)	-	-	-	**(16)**
At end of year	**-**	**150**	**-**	**1,731**	**1,881**
Year ended 31 December 2021					
At start of year	34	150	5	-	189
Additions	-	-	-	1,731	1,731
Grant utilisation	(18)	-	(5)	-	(23)
At end of year	**16**	**150**	**-**	**1,731**	**1,897**

The share re-purchase grant was created during the year ended 31 December 2021 out of the discount offered by FMO and DEG from the real value of shares at the time of their exit. The difference between the market value and agreed settlement value is used to create grants which will be used to either support new Class A shareholder or create an SME fund as may be approved by the Governing Council.

SWISS/ EADB Fund

The SWISS fund for technical assistance was established following a grant from the Swiss Government. The funds were to be utilised for EADB's institution building support, staff training, corporate strategy and restructuring study. The Bank began utilising this grant for capacity building through offering scholarships and training for selected East African lawyers through the extractive industries seminars and medical training. During the year ended 31 December 2022, the Bank utilised part of the grant amounting to USD 16,000 (2021: USD 18,000).

Housing Finance Feasibility study grant

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

AfDB (Credit knowledge management system grant)

This relates to the capital grant received from African Development Bank for the purchase of customised web-based credit knowledge management software amounting to USD 209,000. Grant income is recognised in the statement of profit or loss on a straight-line basis over the life of the expected useful life of the software which management has estimated as four years. Final amount of USD 5,000 was recognised in 2021.

Notes to the financial statements (continued)

29. 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
(1) Authorised share capital						
Class A						
At 1 January 2021	24,000	120,000	144,000	324,000	1,620,000	1,944,000
At 31 December 2021	24,000	120,000	144,000	324,000	1,620,000	1,944,000
At 31 December 2022	**24,000**	**120,000**	**144,000**	**324,000**	**1,620,000**	**1,944,000**
Class B						
At 1 January 2021	4,000	12,000	16,000	54,000	162,000	216,000
At 31 December 2021	4,000	12,000	16,000	54,000	162,000	216,000
At 31 December 2022	**4,000**	**12,000**	**16,000**	**54,000**	**162,000**	**216,000**
Total authorised (Class A&B) 2022	**28,000**	**132,000**	**160,000**	**378,000**	**1,782,000**	**2,160,000**
Total authorised (Class A&B) 2021	**28,000**	**132,000**	**160,000**	**378,000**	**1,782,000**	**2,160,000**
(2) Issued share capital						
Class A						
At 1 January 2021	12,737	663,685	676,422	171,950	859,749	1,031,699
Issue of shares	-	-	-	-	-	-
At 31 December 2021	**12,737**	**663,685**	**676,422**	**171,950**	**859,749**	**1,031,699**
Issue of shares	916	4,580	5,496	12,366	61,830	74,196
At 31 December 2022	**13,653**	**668,265**	**681,918**	**184,316**	**921,579**	**1,105,895**
Class B						
At 1 January 2021	1,781	1,037	2,818	24,044	14,000	38,044
Issue of shares	-	-	-	-	-	-
Share repurchase at par	(80)	-	(80)	(1,080)	-	(1,080)
At 31 December 2021	**1,701**	**1,037**	**2,738**	**22,964**	**14,000**	**36,964**
Issue of shares	-	-	-	-	-	-
Share repurchase at par	(160)	-	(160)	(2,160)	-	(2,160)
At 31 December 2022	**1,541**	**1,037**	**2,578**	**20,804**	**14,000**	**34,804**
Total (Class A&B) 2022	**15,194**	**669,302**	**684,496**	**205,120**	**935,579**	**1,140,699**
Total (Class A&B) 2021	**14,438**	**664,722**	**679,160**	**194,914**	**873,749**	**1,068,663**

(3) 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 2021	12,737	1,781	14,518	171,950	24,044	195,994
Share repurchase	-	(80)	(80)	-	(1,080)	(1,080)
At 31 December 2021	**12,737**	**1,701**	**14,438**	**171,950**	**22,964**	**194,914**
Issue of shares	916	-	916	12,366	-	12,366
Share repurchase	-	(160)	(160)	-	(2,160)	(2,160)
At 31 December 2022	**13,653**	**1,541**	**15,194**	**184,316**	**20,804**	**205,120**

Notes to the financial statements (continued)

29. Share capital (continued)

Name	2022 Shares	2022 Value	2022 %	2021 Shares	2021 Value	2021 %
Class A		**USD'000**			**USD'000**	
Government of Kenya	3,800	51,300	25.01%	3,800	51,300	26.32%
Government of United Republic of Tanzania	3,800	51,300	25.01%	3,800	51,300	26.32%
Government of Uganda	3,800	51,300	25.01%	3,800	51,300	26.32%
Government of Rwanda	2,253	30,416	14.83%	1,337	18,050	9.26%
Total Class A	**13,653**	**184,316**	**89.86%**	**12,737**	**171,950**	**88.22%**
Class B						
African Development Bank	1,240	16,740	8.17%	1,240	16,740	8.59%
FMO – Netherlands Development Finance Company	186	2,511	1.22%	312	4,212	2.16%
DEG – Deutsche Investitions- und Entwicklungsgesellschaft	49	662	0.33%	83	1,121	0.59%
Yugoslavia Consortium	28	378	0.18%	28	378	0.19%
SBIC - Africa Holdings	24	324	0.16%	24	324	0.17%
NCBA Bank Kenya Ltd (Previously Commercial Bank of Africa)	5	67.5	0.03%	5	67.5	0.03%
Nordea Bank Sweden	5	67.5	0.03%	5	67.5	0.03%
Standard Chartered Bank London	2	27	0.01%	2	27	0.01%
Barclays Bank Plc., London	2	27	0.01%	2	27	0.01%
Total Class B	**1,541**	**20,804**	**10.14%**	**1,701**	**22,964**	**11.78%**
Total Class A & B	**15,194**	**205,120**	**100%**	**14,438**	**194,914**	**100%**

Authorised share capital

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

Class A

The authorised number of Class A ordinary shares is 144,000, (2021: 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 (2021: 16,000) at a par value of USD 13,500 each. Class B ordinary shares are available for subscription to members other than member states. All issued Class B shares are fully paid up.

Notes to the financial statements (continued)

29. Share capital (continued)

Share premium

Share premium arose on the shares issued to the Republic of Rwanda on admission at a value of USD 17,913 per share. The total number of shares issued and paid for by the Republic of Rwanda on the admission program is 1,480 (2021: 878). Share premium therefore amounts to USD 4,413 per share which is equivalent to USD 6.53 million (2021: USD 3.87 million).

Callable capital

The capital stock of paid-in and callable Class A shares shall be available for subscription by member states in such proportion that, for every six shares subscribed, one share shall be fully paid-in with the remaining being callable. The Bank's Charter provides that the Bank may make calls on its callable share capital in the event that it is unable to repay borrowings and any other eligible payments due out of pre-existing resources. In March 2012, the Bank's Charter was amended to allow class B shareholders to subscribe to callable capital of the Bank. In 2013, the Governing Council passed a special waiver on article 4(2)b of the Bank's Charter which sets out that for every four shares subscribed every one share is fully paid in. Following the waiver, 1,037 class B callable shares were allotted to African Development Bank.

Dividends

In accordance with the Bank's Charter, Class B shareholders have priority in respect of distributions to members over Class A shareholders. Dividends are payable to shareholders based on the number of shares held by each member. The Bank has, however, not declared dividend (2021: NIL).

Share repurchase

Class A shareholders do not have option to exit the Bank but the Charter provide basis on which class B shareholders may exit/sale their shares. During the year the Bank continued buying shares from two class B shareholders (FMO & DEG) where 160 shares were bought (2021: 80 shares) at cost of USD 2,307,518 (2021: USD 1,153,759). This sale of FMO and DEG shares reduced the Class B paid up share capital to USD 20,803,500 from USD 22,963,500 in 2021.

30. Capital fund

	2022	**2021**
	USD '000	**USD '000**
At start and end of year	**7,479**	**7,479**

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

31. Funds awaiting allotment

	2022	**2021**
	USD'000	**USD'000**
At start of year	**80**	80
Cash received towards share capital	**15,011**	-
Share allotment within the year	**(15,022)**	-
At end of year	**69**	**80**

Notes to the financial statements (continued)

32. Special reserve

	2022 USD'000	2021 USD'000
At start of year	**12,683**	12,602
Transfer of appraisal fees	**102**	81
At end of year	**12,785**	**12,683**

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

33. Fair value reserve

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:

	2022 USD '000	2021 USD '000
At start of year	**263**	382
Transfer in retained earnings	**(263)**	(119)
At end of year	**-**	**263**

34. Cash and cash equivalents

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

	2022 USD '000	2021 USD '000
Cash and bank balances (Note 13)	**22,041**	22,266
Balances due from banks originally maturing within 90 days	**140,847**	96,294
	162,888	**118,560**

35. Revaluation reserve

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

	2022 USD '000	2021 USD '000
At start of year	**9,314**	9,355
Fair value revaluation gain	**-**	-
Transfer of excess depreciation to retained earnings	**(41)**	(41)
At end of year	**9,273**	**9,314**

36. Use of estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Notes to the financial statements (continued)

36. Use of estimates and judgments (continued)

Measurement of expected credit loss allowance

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

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

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

Determining fair values

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

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

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

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

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

Level 3: Valuation techniques using significant unobservable inputs. The fair value disclosures are included in Note 33.

37. Financial risk management

(a) Introduction and overview

The Bank continues to be exposed 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 such risks and the Bank’s management of its capital.

Risk management framework

The Bank recognizes that development financing is a combination of servicing clients and managing resultant risks. The Bank assumes various kinds of risks in the process of providing financial products and services in the Member States.

The Bank’s enterprise risk management (ERM) defines the bank-wide risk objectives, philosophy, approach, appetite/tolerance and control environment framework and includes both the broader risk areas and emerging risks. The Bank has a Board approved ERM policy which defines its risk management framework and it requires that all Bank employees assume a culture of recognizing an in-depth understanding of various risks that have bearing on the operations of the Bank and specific risks associated with each line of business.

Notes to the financial statements (continued)

37. Financial risk management (Continued)

(a) Introduction and overview (continued)

Risk management framework (continued)

The Objectives of the Bank's ERM policy are:

i) To establish management structure that adequately identifies, measures, monitors and controls inherent and emerging risks in the Bank's various products, operations and lines of business.
ii) To recognize the importance of sound risk management and the need for prudent risk taking.
iii) To communicate Board's risk appetite.
iv) To establish minimum risk management guidelines for the entire spectrum of risk taking in the Bank.
v) To establish scope of responsibilities

Risk Management at EADB starts from the top and is fully integrated into existing management process with structures established to ensure that each business area, management and staff have a clear understanding of risks inherent in their business area and that adequate systems and controls are in place to manage the risks.

The Board of directors have the overall responsibility of risk management and it delegated operational implementation to Management, but it sets the risk appetite statement, supporting policies and monitors their implementation. The Board retains responsibility for financial results of the Bank and for ensuring that required corporate governance structures, culture, practices and systems of internal control are in place and serving the purpose.

Management team is charged with day to day oversight of the risk management process, implementation and integrity of the risk management system. This is achieved through various committees including the Assets and Liabilities Management Committee (ALCO) and the Project Committee (PROCO).

Operational oversight, monitoring and policy control functions are delegated to the Risk and Compliance department.

The risk taking departments are supposed to understand the inherent risks in their areas and manage them at that point while the internal audit department provides independent review of the Bank's risk management framework

(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 obligor default risk and sector risk.

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

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

Management of credit risk

Management's 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.

Notes to the financial statements (continued)

37. Financial risk management (Continued)

(b) Credit risk (continued)

Management of credit risk (continued)

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

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

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

Loans and advances (including loan commitments and guarantees)

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

Credit risk grading

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

Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

Notes to the financial statements (continued)

37. Financial risk management (Continued)

(b) Credit risk (continued)

Expected credit loss measurement (continued)

- 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.
- IFRS 9 framework requires that forward looking information be considered in measuring ECL.

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)

Change in credit quality since initial recognition

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 recognized and interest revenue is calculated on the net carrying amount (that is, net of credit allowance). 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.

Recognition of expected credit losses

Staging	Characteristics	ECL determination	Revenue recognition
Stage 1	Not experienced significant increase in credit risk since initial recognition. Performing at initial recognition*	12 Months Expected Credit Losses	Interest revenue based on gross exposure
Stage 2	Underperforming Assets with significant increase in credit risk since initial recognition*	Lifetime expected credit losses	Interest revenue based on net carrying amount (net of impairment)
Stage 3	Have objective evidence of impairment at reporting date. Non-performing Credit impaired assets	Lifetime expected credit losses	Interest revenue based on net carrying amount (net of impairment)
**Except for purchased or originated credit impaired assets*			

Notes to the financial statements (continued)

37. Financial risk management (Continued)

(b) Credit risk (continued)

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

1. Qualitative factors
   - The client's risk rating
   - Internal and external market factors
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:
   - If the facility has more than 30 days past due
   - If the facility has been restructured due to cash flow difficulties

If there has been an increase in rating of the facility

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

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

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

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

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

Notes to the financial statements (continued)

37. Financial risk management (Continued)

(b) Credit risk (continued)

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

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.

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 advances to customers

	Kenya USD'000	Uganda USD'000	Tanzania USD'000	Rwanda USD'000	Total USD'000
At 31 December 2022					
Stage 1	12,269	24,293	69,125	5,558	**111,245**
Stage 2	9,059	9,672	-	-	**18,731**
Stage 3	5,203	-	-	-	**5,203**
Gross amount	**26,531**	**33,965**	**69,125**	**5,558**	**135,179**

	Kenya USD'000	Uganda USD'000	Tanzania USD'000	Rwanda USD'000	Total USD'000
At 31 December 2021					
Stage 1	16,543	32,953	87,299	10,854	**147,649**
Stage 2	8,914	4,567	-	-	**13,481**
Stage 3	5,028	-	371	-	**5,399**
Gross amount	**30,485**	**37,520**	**87,670**	**10,854**	**166,529**

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

In relation to other financial assets such as balances with other banks and other receivables, the Bank considers the following factors while assessing significant increase in credit risk: payment delays and past due information (30 -day rule); and indicators of counterparty financial distress such as cash flow or liquidity issues. The key inputs in determining ECL are PD, LGD and EAD. Management performed as assessment of ECL as at 31 December 2022 and noted that the impact is not material to the financial statements.

Notes to the financial statements (continued)

37. Financial risk management (Continued)

(b) Credit risk (continued)

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

	2022	2021
	USD'000	USD'000
Cash at bank	**22,041**	22,266
Placements with commercial banks	**235,373**	175,381
Total	**257,414**	197,647

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.

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

	Stage 1 12-Month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Year ended 31 December 2022	**USD'000**	**USD'000**	**USD'000**	**USD'000**
Loans and advances to customers				
Gross carrying amount as at 1 January 2022	**147,649**	**13,481**	**5,399**	**166,529**
Transfers				
Transfer from Stage 1 to Stage 2				
Transfer from Stage 2 to stage 1	-	-	-	**-**
Financial assets derecognised during the period other than write offs	(44,429)	(2,364)	(154)	**(46,947)**
Financial assets written off			(415)	**(415)**
New financial assets originated	5,995			**5,995**
Changes in interest accruals	2,030	7,614	373	**10,017**
Gross carrying amount as at 31 December 2022	**111,245**	**18,731**	**5,203**	**135,179**

Notes to the financial statements (continued)

37. Financial risk management (Continued)

(b) Credit risk (continued)

	12-Month ECL USD'000	Lifetime ECL USD'000	Lifetime ECL USD'000	Total USD'000
Provision for impairment				
As at 1 January 2022	1,791	2,781	2,140	**6,712**
New Financial Assets Originated	108	-	-	**108**
Transfers	-	-	-	**-**
Financial Assets written off	-	-	(74)	**(74)**
Movements for the period	(96)	1,537	366	**1,807**
As at 31 December 2022	**1,803**	**4,318**	**2,432**	**8,553**
Net carrying amount as at 31 December 2022	**109,442**	**14,413**	**2,771**	**126,626**

Year ended 31 December 2021	**Stage 1 12-Month ECL USD'000**	**Stage 2 Lifetime ECL USD'000**	**Stage 3 Lifetime ECL USD'000**	**Total USD'000**
Loans and receivables				
Gross carrying amount as at 1 January 2021	**111,584**	**13,514**	**7,928**	**133,026**
Transfers				
Transfer from Stage 1 to Stage 2	(1,390)	1,390	-	-
Transfer from Stage 2 to stage 1	-	-		-
Financial assets derecognised during the period other than write offs	(31,830)	(2,274)	(3,464)	**(37,568)**
New financial assets originated	59,675	-	-	**59,675**
Changes in interest accruals	9,610	851	935	**11,396**
Gross carrying amount as at 31 December 2021	**147,649**	**13,481**	**5,399**	**166,529**
Provision for impairment				
As at 1 January 2021	967	1,911	1,103	**3,981**
New Financial Assets Originated	37	-	-	**37**
Transfers from stage 1 to stage 2	(55)	55	-	**-**
Financial Assets written off	-	-	(290)	**(290)**
Movements for the period	842	815	1,327	**2,984**
As at 31 December 2021	**1,791**	**2,781**	**2,140**	**6,712**
Net carrying amount as at 31 December 2021	**145,858**	**10,700**	**3,259**	**159,817**

Notes to the financial statements (continued)

37. Financial risk management (Continued)

(b) Credit risk (continued)

Geographical concentration of financial assets

Year ended December 2022	Uganda USD'000	Tanzania USD'000	Kenya USD'000	Rwanda USD'000	Overseas USD'000	Total USD'000
Financial assets						
Cash and bank balances	16,711	151	3,076	47	2,232	**22,217**
Placements with banks	48,805	16,571	100,400	-	69,597	**235,373**
Loans and advances	33,181	68,057	19,847	5,541	-	**126,626**
Other assets excluding prepayments	123	60	100	15	-	**298**
	98,820	**84,839**	**123,423**	**5,603**	**71,829**	**384,514**

Year ended December 2021	Uganda USD'000	Tanzania USD'000	Kenya USD'000	Rwanda USD'000	Overseas USD'000	Total USD'000
Financial assets						
Cash and bank balances	18,225	11	2,615	58	1,357	22,266
Placements with banks	34,831	7,039	106,010	-	27,501	175,381
Loans and advances	36,897	86,556	25,517	10,847	-	159,817
Other assets excluding prepayments	163	80	133	20	-	396
	90,116	**93,686**	**134,275**	**10,925**	**28,858**	**357,860**

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

2022	PD ranges	12-month ECL (Stage 1)	Lifetime ECL Not Credit Impaired (Stage 2)	Lifetime ECL Credit Impaired (Stage 3)	Total 31 December
Loans and advances to Customers at amortised cost					
Grade 1-6: Strong	0-0.59	5,885	-	-	5,885
Grade 7-9: Satisfactory	0.06-11.34	99,194	1,895	-	101,089
Grade 10: Higher risk	11.35-99.9	6,166	6,746	-	12,912
Grade 11-12: Credit impaired	100	-	10,090	5,203	15,293
Gross carrying amount		**111,245**	**18,731**	**5,203**	**135,179**
Loss allowance		(1,803)	(4,318)	(2,432)	(8,553)
Carrying amount		**109,442**	**14,413**	**2,771**	**126,626**

Notes to the financial statements (continued)

37. Financial risk management (Continued)

(b) Credit risk (continued)

2021	PD ranges	12-month ECL (Stage 1)	Lifetime ECL Not Credit Impaired (Stage 2)	Lifetime ECL Credit Impaired (Stage 3)	Total 31 December
Loans and advances to Customers at amortised cost					
Grade 1-6: Strong	0-0.59	7,811	-	-	7,811
Grade 7-9: Satisfactory	0.06-11.34	131,654	1,364	-	133,018
Grade 10: Higher risk	11.35-99.9	8,814	4,855	-	13,039
Grade 11-12: Credit impaired	100	-	7,262	5,399	12,661
Gross carrying amount		**147,649**	**13,481**	**5,399**	**166,529**
Loss allowance		1,791	2,781	2,140	6,712
Carrying amount		**145,858**	**10,700**	**3,259**	**159,817**

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. During the year a loan amounting to USD 0.41 million was written off (2021: NIL). 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 (amounts in USD '000'):

	Gross exposure USD'000	Impairment allowance USD'000	Carrying amount USD'000	Fair value of collateral held USD'000
At December 2022	5,203	(2,432)	2,771	4,012
At December 2021	5,399	(2,140)	3,259	14,141

Credit exposures relating to off-statement of financial position	**2022**	**2021**
Loan commitments	**361**	2,893

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 to the financial statements (continued)

37. Financial risk management (Continued)

(c) Liquidity risk

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

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

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

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

	2022 USD '000	2021 USD '000
Cash and cash equivalents as per liquidity policy	**242,448**	179,610
Designated liabilities as per liquidity policy	**(29,912)**	(30,833)
Surplus per liquidity policy	**212,536**	**148,777**
Liquidity ratio	**8.11**	**5.83**

Notes to the financial statements (continued)

37. 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 2022 to the contractual maturity date.

2022	Matured	< 6 Months	>6 Months <1 Year	> 1 Year < 5 Years	> 5 Years	Total	Amount per SFP
	USD '000	USD '000	USD '000		USD '000	USD '000	USD '000
Assets							
Cash at bank	22,041	-	-	-	-	**22,041**	**22,041**
Deposits due from commercial banks	4,041	233,202	-	-	-	**237,243**	**235,373**
Loans and advances to customers	245	28,261	23,271	99,815	22,005	**173,597**	**126,626**
Equity investments at fair value	-	-	-	718	-	**718**	**718**
Other assets receivable excluding prepayments	77	-	-	-	-	**77**	**427**
Total assets	**26,404**	**261,463**	**23,271**	**100,533**	**22,005**	**433,676**	**385,185**
Liabilities and shareholder funds							
Lease Liability	-	69	69	276	-	**414**	**316**
Other accounts payable	4,141	-	-	-	-	**4,141**	**4,141**
Medium- and long-term borrowing	-	17,008	20,532	38,791	36,100	**112,431**	**94,962**
Total liabilities and shareholder funds	**4,141**	**17,077**	**20,601**	**39,067**	**36,100**	**116,986**	**99,419**
Net liquidity gap -31 Dec 2022	**22,263**	**244,386**	**2,670**	**61,466**	**(14,095)**	**316,690**	
Cumulative net liquidity gap -31 Dec 2022	**22,263**	**266,870**	**269,319**	**330,785**	**316,690**		

Notes to the financial statements (continued)

37. Financial risk management (Continued)

(c) Liquidity risk (continued)

2021	Matured	< 6 Months	>6 Months <1 Year	> 1 Year < 5 Years	> 5 Years	Total	Amount per SFP
	USD '000	USD '000	USD '000		USD '000	USD '000	USD '000
Assets							
Cash at bank	22,266	-	-	-	-	**22,266**	**22,266**
Deposits due from commercial banks	-	172,022	4,071	-	-	**176,093**	**175,381**
Loans and advances to customers	5,060	20,561	30,704	111,452	34,676	**202,453**	**159,817**
Equity investments at fair value	-	-	-	848	-	**848**	**848**
Other assets receivable excluding prepayments	540	-	-	-	-	**540**	**540**
Total assets	**27,866**	**192,583**	**34,775**	**112,300**	**34,676**	**402,200**	**363,815**
Liabilities and shareholder funds							
Lease Liability	-	72	72	244	-	**388**	**388**
Other accounts payable	7,776	-	-	-	-	**7,776**	**7,776**
Derivative financial liability	-	141	-	-	-	**141**	**141**
Medium- and long-term borrowing	-	6,447	5,009	42,139	43,477	**97,072**	**84,631**
Total liabilities and shareholder funds	**7,776**	**6,660**	**5,081**	**42,383**	**43,477**	**105,377**	**92,936**
Net liquidity gap -31 Dec 2022	**20,090**	**185,923**	**29,694**	**69,917**	**(8,801)**	**296,823**	
Cumulative net liquidity gap -31 Dec 2022	**20,090**	**206,013**	**235,707**	**305,624**	**296,823**		

Notes to the financial statements (continued)

37. Financial risk management (Continued)

(c) Liquidity risk (continued)

Off balance sheet items

The Bank's off-balance sheet items comprise 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 < 5 Years	> 5 Years	Total
	USD '000	USD '000	USD '000	USD'000	USD '000
Loan commitments - 2022	361	-	-	-	361
Loan commitments - 2021	743	2,150	-	-	2,893

(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 initiatives 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 of natural hedge 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 2022 if interest rates on interest bearing assets and liabilities had been lower by 200 bps, with all other variables held constant, the impact on statement of profit or loss would be a loss of USD 3.0 million (2021: loss of USD 2.5 million), which is 0.98 percent of the total shareholders' equity (2021: 0.90 percent). The bank is tax exempt and there is no impact of tax. Therefore, the impact of movement in interest rates on the profit or loss equals to the impact on equity. This is shown in the table below.

	2022	2021
	USD'000	USD'000
Total assets repricing within 6 months	**327,293**	296,863
Total liabilities repricing within 6 months	**30,753**	42,609
Interest gap	**296,540**	254,254
Impact of interest fall by 200 bps	**(2,965)**	(2,543)
Impact on total shareholders' equity	**0.98%**	0.90%

Notes to the financial statements (continued)

37. Financial risk management (Continued)

(d) Interest rate risk (continued)

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

2022	Up to 1 month USD '000	1 - 3 months USD '000	3 - 6 months USD '000	6 - 12 months USD '000	1 - 5 years USD '000	Over 5 years USD '000	Non-interest bearing USD '000	Total USD '000
Assets								
Cash at bank	-	-	-	-	-	-	22,041	**22,041**
Placement with commercial banks	88,132	103,362	43,879	-	-	-	-	**235,373**
Loans and advances to customers	387	9,636	76,081	3,858	23,400	13,263	-	**126,625**
Equity investments	-	-	-	-	-	-	718	**718**
Other assets	-	-	-	-	-	-	77	**77**
Total assets	**88,519**	**112,998**	**119,960**	**3,858**	**23,400**	**13,263**	**22,836**	**384,834**
Liabilities and shareholders' funds								
Lease liability	-	-	51	70	195	-	-	**316**
Other liabilities	-	-	-	-	-	-	4,141	**4,141**
Borrowings	53	25,028	1,160	16,704	24,049	27,488	-	**94,482**
Total liabilities and shareholder funds	**53**	**25,028**	**1,211**	**16,774**	**24,244**	**27,488**	**4,141**	**98,939**
Interest sensitivity gap at 31 Dec 2022	**88,466**	**87,970**	**118,749**	**(12,916)**	**(844)**	**(14,225)**	**18,695**	**285,895**
Cumulative gap 31 Dec 2022	**88,466**	**176,436**	**295,185**	**282,269**	**281,425**	**267,200**	**285,895**	

Notes to the financial statements (continued)

37. Financial risk management (Continued)

(d) Interest rate risk (continued)

2021	Up to 1 month USD '000	1 - 3 months USD '000	3 - 6 months USD '000	6 - 12 months USD '000	1 - 5 years USD '000	Over 5 years USD '000	Non-interest bearing USD '000	Total USD '000
Assets								
Cash at bank	-	-	-	-	-	-	22,266	22,266
Placement with commercial banks	67,449	103,370	561	4,001	-	-	-	175,381
Loans and advances to customers	1,722	65,473	53,187	10,792	8,990	19,653	-	159,817
Equity investments	-	-	-	-	-	-	848	848
Other assets	-	-	-	-	-	-	540	540
Total assets	**69,171**	**168,843**	**53,748**	**14,793**	**8,990**	**19,653**	**23,654**	**358,852**
Liabilities and shareholders' funds								
Other liabilities	-	-	-	-	-	-	7,776	7,776
Borrowings	20,127	15,583	6,899	3,173	15,957	22,694	198	84,631
Lease liability	-	-	72	72	244	-	-	388
Derivative financial instruments	-	-	-	-	-	-	141	141
Total liabilities and shareholder funds	**20,127**	**15,583**	**6,971**	**3,245**	**16,201**	**22,694**	**8,115**	**92,936**
Interest gap at 31 Dec 2021	**49,044**	**153,260**	**46,777**	**11,548**	**(7,211)**	**(3,041)**	**15,539**	**265,916**
Cumulative gap at 31 Dec 2021	**49,044**	**202,304**	**249,081**	**260,629**	**253,418**	**250,377**	**265,916**	

Notes to the financial statements (continued)

37. 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. Balances below show exposure at the end of December 2022.

ASSETS (Figures in USD)	UGX '000	KES '000	TZS '000	RWF '000	EUR '000	GBP '000	SEK '000	Total '000	Amount SFP (USD '000)
Cash at bank	16,153	3,072	10	40	669	5	-	**19,949**	**22,041**
Placements with commercial banks	-	5,091	-	-	-	-	-	**5,091**	**235,373**
Loans and advances to customers	11,697	20,282	-	26	2,993	-	-	**34,998**	**126,626**
Equity investments	-	122	596	-	-	-	-	**718**	**718**
Other assets	123	229	60	15	-	-	-	**427**	**427**
TOTAL ASSETS	**27,973**	**28,796**	**666**	**81**	**3,662**	**5**	**-**	**61,183**	**385,185**
LIABILITIES									
Other liabilities	22	-	-	-	148	-	-	**170**	**4,141**
Lease liability	-	-	-	-	-	-	-	**-**	**316**
Borrowings	28,058	15,842	-	-	3,501	-	-	**47,401**	**94,962**
TOTAL LIABILITIES	**28,080**	**15,842**	**-**	**-**	**3,649**	**-**	**-**	**47,571**	**99,419**
Net currency position Dec 2022	**(107)**	**12,954**	**666**	**81**	**13**	**5**	**-**	**13,612**	
Cumulative position Dec 2022	**(107)**	**12,847**	**13,513**	**13,594**	**13,607**	**13,612**	**13,612**		
Closing exchange rate Dec 2022	**3,733.03**	**123.38**	**2,332.89**	**1,076.57**	**0.94**	**0.83**	**10.45**		
Net currency position Dec 2021	**298**	**15,004**	**656**	**84**	**57**	**10**	**1**		
Cumulative position Dec 2021	**298**	**15,302**	**15,958**	**16,042**	**16,099**	**16,109**	**16,110**		
Closing exchange rate Dec 2021	**3,544.43**	**113.20**	**2,304.72**	**1,014.63**	**0.88**	**0.74**	**9.05**		

Notes to the financial statements (continued)

37. Financial risk management (Continued)

(e) Currency risk (continued)

Sensitivity analysis

Since the bank is long other currencies, a 10% appreciation of USD against other currencies at 31 December 2022 would have reduced profit by USD 7.33 million (2021: reduction of USD 1.48 million) and impact shareholders equity by 2.42% (2021: 0.52%). The bank is tax exempt and there is no impact of tax. Therefore, the impact of movement in currency exchange rates on the profit or loss equals to the impact on equity. This is assuming that all other variables, in particular interest rates remain constant.

	2022 USD'000	2021 USD'000
FX denominated assets	**61,182**	62,612
FX denominated liabilities	**47,571**	46,369
Net open position	**13,610**	16,243
Impact of a 10% appreciation of USD exchange rate	**7,334**	1,477

(f) Fair value of financial instruments

IFRS 13 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.
- Fair value of the unquoted ordinary shares has been estimated using the net asset value of the investments. Based on the published result of the investment, the directors compute the value of the investment based on the number of shares in issue and the value per share.
- This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. As at 31 December 2022 and 2021, fair values of the financial instruments held by the Bank were as follows:

See note 20 for disclosures of the land and buildings that are measured at fair value.

Notes to the financial statements (continued)

37. Financial risk management (Continued)

(f) Fair value of financial instruments (continued)

	Level 2 USD'000	Level 3 USD'000	Total USD'000	Carrying Amount USD'000
31 December 2022				
Financial assets at fair value through profit or loss				
Derivative financial instruments	-	-	-	
Equity investments at fair value	-	718	718	718
Total assets	**-**	**718**	**718**	**718**

31 December 2021	Level 2 USD'000	Level 3 USD'000	Total USD'000	Carrying amount USD'000
Financial assets at fair value through profit or loss				
Derivative financial instruments	(141)	-	(141)	(141)
Equity investments at fair value	-	848	848	848
Total assets	**(141)**	**848**	**707**	**707**

31 December 2022	Level 2 USD'000	Level 3 USD'000	Total USD'000	Carrying amount USD'000
At amortised cost				
Loans and advances	173,597	-	**173,597**	**126,626**
Other assets receivable	77	-	**77**	**77**
Placements with commercial banks	235,373	-	**235,373**	**235,373**
Cash at bank	22,041	-	**22,041**	**22,041**
Total assets	**431,088**	**-**	**431,088**	**384,117**

31 December 2021	Level 2 USD'000	Level 3 USD'000	Total USD'000	Carrying amount USD'000
At amortised cost				
Loans and advances	202,453	-	202,453	159,817
Other assets receivable	540	-	540	540
Placements with commercial banks	175,381	-	175,381	175,381
Cash at bank	22,266	-	22,266	22,266
Total assets	**400,640**		**400,640**	**358,004**

The fair values of the Bank's financial assets and financial liabilities measured at amortised cost approximate their carrying amounts in the statement of financial position and are categorised under level 2 of the fair value hierarchy.

Notes to the financial statements (continued)

37. Financial risk management (Continued)

(f) Fair value of financial instruments (continued)

Liabilities as per balance sheet – at amortised cost

31 December 2022	Level 2 USD'000	Level 3 USD'000	Total USD'000	Carrying amount USD'000
At amortised cost				
Other liabilities	3,474	-	3,474	3,474
Borrowings	112,431	-	112,431	94,962
Lease liabilities	316		316	316
Special funds	3,990		3,990	3,990
Grants	1,881	-	1,881	1,881
Capital fund	7,479	-	7,479	7,479
Total assets	**129,571**	**-**	**129,571**	**112,102**

31 December 2021	Level 2 USD'000	Level 3 USD'000	Total USD'000	Carrying amount USD'000
At amortised cost				
Other liabilities	7,054	-	**7,054**	**7,054**
Derivative financial instruments	-	-	**-**	**141**
Borrowings	97,072	-	**97,072**	**84,631**
Lease liabilities	316		**316**	**388**
Special funds	3,990		**3,990**	**3,990**
Grants	1,881	-	**1,881**	**1,897**
Capital fund	7,479	-	**7,479**	**7,479**
Total assets	**117,792**	**-**	**117,792**	**105,580**

Reconciliation of level 3 financial assets

The bank holds shares in the following entities highlighted below:

- 931,812 shares (2021: 931,812 shares) in Azania Corporation at a share price of 1000 Tz shs each (2021: 1000 Tz shs).
- 50,000 shares (2021: 50,000) in Central Depository and Settlement Corporation at a share price of 100 Kshs each (2021:100 Kshs)
- 650,000 preference shares (2021: 650,000 shares) in NCBA Bank Tanzania Limited at a share price of 1000 Tz shs (2021:1000 Tz shs)

The share price above was determined based on net assets and total number of shares for each of the entities. The value of net assets has been obtained from the audited financial statements as at 31 December 2021.

The bank also invested USD 500,000 in Catalyst EA Investment Limited. A full provision for this investment has been recognised in the profit or loss.

Notes to the financial statements (continued)

37. Financial risk management (Continued)

(f) Fair value of financial instruments (continued)

Reconciliation of level 3 financial assets (continued)

The following table shows the reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy:

2022

Equity investments	**Azania USD '000**	**CDSC USD '000**	**NCBA USD '000**	**Catalyst USD '000**	**Total USD '000**
At start of year	**413**	**162**	**183**	**90**	**848**
Additions	**-**	**-**	-	-	-
Investments exited	**-**	**-**	-	-	-
Provisions	**-**	**-**	**-**	**(90)**	**(90)**
Revaluation gain/(loss)	**(6)**	**(13)**	**(2)**	**-**	**(21)**
Fair value gain/ (loss)	**8**	**(27)**	**-**	**-**	**(19)**
At end of year	**415**	**122**	**181**	**-**	**718**

2021

Equity investments	**Azania USD '000**	**CDSC USD '000**	**NCBA USD '000**	**Catalyst USD '000**	**Total USD '000**
At start of year	393	153	192	374	1,112
Additions	-	-	-	-	-
Investments exited	-	-	-	-	-
Provisions	-	-	-	(284)	(284)
Fair value gain/ (loss)	20	9	(9)	-	20
At end of year	**413**	**162**	**183**	**90**	**848**

(g) 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 2022. The ratio is computed as a ratio of loans, equities and lease receivables divided by shareholders equity less special reserves.

Notes to the financial statements (continued)

37. Financial risk management (Continued)

(g) Capital management (continued)

	2022	2021
	USD '000	USD '000
Gross Loans and advances to customers	**135,179**	166,529
Shareholders' equity	**303,229**	283,932
Special reserve	**(12,785)**	(12,683)
	290,444	**271,249**
Ratio	**0.46**	**0.61**

The Capital adequacy ratio is calculated based on the Basel Accord as Capital divided by Risk Weighted Asset. The ratio of 77% (2021: 72%) is above the limit widely used by regulators of 15%.

The Weighted Risk is determined by applying the following weights on various asset categories: Loans with less than 90 days in arrears 70%-250%, loans with more than 90 days in arrears 100%-150%, line of credit to rated banks 20%-100%, line of credit to non-rated banks 100%, placements with rated banks 50%, placements with non-rated banks 100%, equity investments 300%-400% and other receivables 100%.

Capital structure

	2022	2021
	USD'000'	USD'000'
Tier 1 Capital	**293,544**	274,228
Tier 2 Capital	**9,685**	9,704
Tier 3 Capital	**-**	-
	303,229	**283,932**
Total risk-weighted assets (including credit risk and Operational risk)	**395,909**	**394,836**
Capital adequacy ratio	**77%**	**72%**

Net debt reconciliation

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

	2022	2021
	USD'000	USD'000
Cash and cash equivalents (Note 34)	**162,888**	118,560
Borrowings (Notes 25)	**(94,962)**	(84,631)
Lease liabilities (Note 26)	**(316)**	(388)
Net debt	**67,610**	**33,541**

Notes to the financial statements (continued)

37. Financial risk management (Continued)

(g) Capital management (continued)

Net debt reconciliation (continued)

	Borrowings USD'000	Lease liabilities USD'000	Liquid assets USD'000	Total USD'000
At 1 January 2021	(75,337)	(458)	137,559	**61,764**
Acquisitions	(22,359)	-	-	**(22,359)**
Repayments	16,408	107	-	**16,515**
Net foreign exchange difference	157	-	(184)	**(27)**
Other adjustments/ movements	(3,500)	(37)	(18,815)	**(22,352)**
At 31 December 2021	**(84,631)**	**(388)**	**118,560**	**33,541**
At 1 January 2022	(84,631)	(388)	118,560	**33,541**
Acquisitions	(20,357)	-	-	**(20,357)**
Repayments	11,445	110	-	**11,555**
Net foreign exchange difference	2,605	-	(1,497)	**1,108**
Other adjustments/ movements	(4,024)	(38)	45,825	**41,763**
At 31 December 2022	**(94,962)**	**(316)**	**162,888**	**67,610**

38. Employee retirement benefit plans and gratuity

	Note	2022 USD '000	2021 USD '000
Contribution to the retirement benefit plan	(i)	**246**	253
Contribution to the statutory pension scheme (NSSF)	(ii)	**6**	4
Gratuity	(iii)	**72**	72
		324	329

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

Notes to the financial statements (continued)

39. Capital commitments

There were no approved capital commitments outstanding at the end of year (2021: NIL).

40. 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.

	2022 USD '000	2021 USD '000
Un-disbursed commitments	**361**	2,893

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 2022 and did not find any that warranted a provision. This position is supported by independent professional legal advice.

41. Related party transactions

The Bank is owned by four East African Community member states of Kenya, Tanzania, Uganda and Rwanda who collectively own 90% of the total number of shares (2021: 88%) which is 100% of the ordinary class A shares. The remaining 10% (2021: 12%) is widely held by class B shareholders as disclosed in note 29.

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

	2022 USD '000	2021 USD '000
Green Hills Academy Ltd	**26**	110
Loan to Government of United Republic of Tanzania	**55,127**	57,679
Interest income earned on the above	**4,008**	1,683

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

	2022 USD '000	2021 USD '000
NCBA Bank Limited	**34,418**	55,179
Standard Chartered Bank PLC	**62,582**	27,501
Interest income earned on the above	**1,061**	1,935
Borrowings payable by the Bank to shareholders		
African Development Bank	**11,575**	15,288
NCBA Bank Limited	**8,181**	2,506
Interest expense on borrowings as paid to shareholders	**812**	1,023

Notes to the financial statements (continued)

41. Related party transactions (continued)

As at 31 December 2022, provision on loans and advances to related parties amounted to USD 886,940 (2021: USD 927,297) for Government of United Republic of Tanzania and USD 3 (2021: USD 38) for The Green Hills Academy. The two loans were classified under stage one. None of the transactions incorporate special terms and conditions and no guarantees were given or received on these loans.

Key management compensation

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

	2022 USD '000	2021 USD '000
Salaries and other employee benefits	**379**	379
Other short-term employee benefits - Gratuity	**72**	72
Other expenses	**48**	38
	499	489
Directors' emoluments		
- Fees and allowances	**67**	26
- Salaries and other employee benefits (included within key management compensation above)	**451**	451
- Other expenses	**-**	-
	518	477

42. Events after the balance sheet date

There were no events after the balance sheet date for the year ended 31 December 2022.