

East African Development Bank

Directors' Report and Financial Statements

For the year ended 31 December 2021

**East African Development Bank
Director's Report and Financial Statements
For the year ended 31 December 2021**

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CORPORATE INFORMATION

Registered office and principal place of business

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

Country offices

Kenya

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

Rwanda

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

Tanzania

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

Bankers

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

Auditor

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

DIRECTORS' REPORT

1. Introduction

The Directors hereby submit their report together with the Bank's audited financial statements for the year ended 31 December 2021, 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.

The Bank's strategy is anchored on Member States' national development strategies as well as the East African Community's Vision 2050.

Due to unprecedented uncertainties emanating from the ongoing COVID-19 pandemic, the Bank concluded that it is not feasible to approve medium term strategy and instead approved annual plans taking into consideration the prevailing circumstances. The annual plans are drawn from the following four strategic choices in the strategy:

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DIRECTORS' REPORT (continued)

- i. Improvement in Financial Performance through aspirational balance sheet growth supported by adequate funding and optimal management of our real estate investments,
- ii. Creation of an environment that fosters high performance and innovation. This will be achieved through automation of systems and processes improvements,
- iii. Increasing awareness of EADB services through branding, marketing, improved customer service and engagement with partners
- iv. Improvement in Enterprise Risk Management.

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

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

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

DIRECTORS' REPORT (continued)

b) Board of Directors and sub-committees

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

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

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

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

On the other hand, the Human Resources Committee met once to deliberate various personnel related issues.

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

	Name	Details
1	Mr Keith Muhakanizi (Chairman) (Up to July 2021)	Permanent Secretary and Secretary to the Treasury, Ministry of Finance, Planning and Economic Development, Republic of Uganda
2	Dr. Ramathan Ggoobi (From July 2021)	Permanent Secretary and Secretary to the Treasury, Ministry of Finance, Planning and Economic Development, Republic of Uganda
3	Dr Julius Muia, CBS	Principal Secretary, the National Treasury, Republic of Kenya
4	Mr. Eric Rwigamba (From November 2021)	Head Financial Sector Development Ministry of Finance and Economic Planning, Republic of Rwanda
5	Mr James Doto (Up to 3 April 2021)	Permanent Secretary, Ministry of Finance and Planning, United Republic of Tanzania
6	Emmanuel Tutuba (From 4 April 2021)	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

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:

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DIRECTORS' REPORT (continued)

c) Advisory panel (continued)

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 comprised of 160,000 shares with a par value of USD 13,500 each.

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

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 repurchased 80 shares from two class B shareholders (FMO & DEG) par value of USD 1,080,000. 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. This reduced the Class B paid up share capital to USD 22,963,500 from USD 24,043,500 in 2020.

The Bank's Class A and Class B shareholders as at 31 December 2021 and 2020, respectively, were as follows:

Name	2021			2020		
	Shares	Value	%	Shares	Value	%
Class A		USD'000			USD'000	
Government of Kenya	3,800	51,300	26.32%	3,800	51,300	26.17%
Government of United Republic of Tanzania	3,800	51,300	26.32%	3,800	51,300	26.17%
Government of Uganda	3,800	51,300	26.32%	3,800	51,300	26.17%
Government of Rwanda	1,337	18,050	9.26%	1,337	18,050	9.21%
Total Class A	12,737	171,950	88.22%	12,737	171,950	87.72%

Name	2021			2020		
	Shares	Value	%	Shares	Value	%
Class B		USD'000			USD'000	
African Development Bank	1,240	16,740	8.59%	1,240	16,740	8.54%
FMO – Netherlands Development Finance Company	312	4,212	2.16%	375	5,062	2.58%

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DIRECTORS' REPORT (continued)

7. Capital and Shareholding (continued)

DEG – Deutsche Investitions- und Entwicklungsgesellschaft	83	1,121	0.57%	100	1,350	0.69%
Yugoslavia Consortium	28	378	0.19%	28	378	0.19%
SBIC - Africa Holdings	24	324	0.17%	24	324	0.17%
NCBA Bank Kenya Ltd (Previously Commercial Bank of Africa)	5	67.5	0.03%	5	68	0.03%
Nordea Bank Sweden	5	67.5	0.03%	5	68	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	1,701	22,964	11.78%	1,781	24,044	12.27%
Total Class A & B	14,438	194,914	100%	14,518	195,994	100%

8. Financial Performance

Despite challenges emanating from the COVID-19 pandemic and impact of measures taken by Member States to contain it, the Bank recorded 23% growth in profitability from 2020 with 2021 profit amounting to USD 7.87 million. The Bank maintained consistency by recording not only growth in profitability but also growth in assets, notably the level of loans outstanding. This good performance has been achieved despite operating in a challenging environment due to the ongoing global health pandemic which has caused continued slowdown of economic activities.

The financial results of the Bank are summarised below.

Performance highlights

Performance indicator	Formula	2021	2020
Profit for the year (USD '000')	NA	7,866	6,365
Total assets (USD '000')	NA	390,234	375,863
Equity	NA	283,932	278,949
Return on Assets	(Profit/Total assets) *100%	2.02%	1.69%
Return on Equity	(Profit/Total equity) *100%	2.77%	2.28%
Operating expenses to Operating Income	(Operating expense/Net interest income + non-interest income) *100	36.93%	54.49%
Non-Performing Loans ratio	Non-performing (Stage 3) loans/Gross loans and advances) *100%	3.24%	5.92%
Total Capital ratio	(Total capital/Risk weighted assets including Off balance sheet items) *100	72%	70.2%
Earnings per share (USD)	Profit attributable to ordinary shares/Weighted average number of ordinary shares outstanding during the year	542.55	450.26

Credit rating

The Moody's rating report released on 1st October 2021 re-affirmed the Bank's Baa3 rating with stable outlook. According to Moody's the rating results were a result of robust capital buffers and prudent liquidity levels. Supporting the stable outlook, the rating report states that it reflects their 'expectation that EADB will only expand its balance sheet slowly, which will contain the risks associated with its regionally concentrated lending portfolio and a challenging operating environment'.

DIRECTORS' REPORT (continued)

8. Financial Performance (continued)

Similarly rating report by the Global Credit Rating (GCR) also released in October 2021 maintained the Bank's long-term issuer and short-term credit ratings of BBB- and A3 respectively with stable outlook.

Providing rationale for stable outlook, the report states that *'outlook is stable reflecting our opinion that the Bank has capacity to carry out its mandate considering the pandemic, supported by a strong balance sheet. We also factor in the relevance and importance of the Bank to its shareholders which we think remains supportive of the ratings. Sustained low credit losses, coupled with capital and liquidity managed within adequate to strong levels also supports a stable outlook'*.

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

The Bank continued to operate in a constrained environment as emergence of new COVID-19 variants hampered economic recovery expectations held at the beginning of the year. Member States continued to take measures to safeguard the populations including mobility restrictions which in turn continued to affect people and businesses.

Specific effects to the Bank during the reporting period included continued volatility in financial markets which affected strength of local currencies leading to foreign exchange loss. In addition, because of continued uncertainties the level of credit risk also increased and in recognition of this the Bank booked higher impairment provisions.

Bank staff were also directly impacted as some fell sick from the disease in addition to indirect effect where customers and other stakeholders also got infected hence affecting operations.

In response to the heightened risk profile from the effects of the pandemic the Bank remained pro-active and took necessary steps to limit extent of the impact. Safety and wellbeing of Bank's staff, clients and stakeholders remained the top priority and as such the Bank continued with remote working for staff and introduced rotational program for those working physically in office.

The Bank continued to support clients who experienced difficulties as a result of measures imposed in Member States to curb the spread of the disease. Fortunately, all customers who benefitted from repayment deferrals eventually performed well and did not need extension of the reliefs.

The Bank will continue to monitor the situation and review its response as impact of the pandemic to specific sectors become clearer.

10. 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 2021 at 5.83 times compared to 5.67 times in 2020 which is above the target ratio of 1.33 times.

The Bank's cash and cash equivalents reduced by USD 19 million by year end (2020: reduction of USD 16 million).

There was net cash outflow in operating activities amounting to USD 23 million (2020: net cash inflow of USD 24 million) as loan disbursements outpaced repayments.

Meanwhile, net cash outflow of USD 3 million in investing activities (2020: outflow of USD 36 million) was fully covered by net inflow of USD 6 million from financing activities (2020: net outflow of USD 4 million) as Bank's borrowing increased.

DIRECTORS' REPORT (continued)

11. Market overview

Despite continued challenges emanating from the global health and financial crisis triggered by emergence of the COVID-19 pandemic, there was remarkable improvement in terms of economic growth rates in the Member States. While in 2020 only one Member State recorded growth, in 2021 all Member States recorded GDP growth.

The economic outcome was consistent with the realities in the economies as there was relaxation or total removal of mobility restrictions in Member States. This helped some businesses to re-open and economic activities to take place albeit at lower-than-expected rates.

Emergence of new COVID-19 variants as well as lower vaccination levels meant that the economic recovery expectations could not be met. However, the improvements recorded during the year provide a strong starting point for 2022 performance.

The market trend provide positive operating environment for the Bank as more businesses are expected to re-open and new ones created.

The rebuilding efforts also provide opportunities as Member States seek to implement infrastructure related and other projects to address setbacks brought by the pandemic and create employment opportunities to the growing number of youthful jobseekers.

These prospects are not without dangers as the Bank considers issues around emergence of new COVID-19 variants and supply chain disruptions to be part of the headwind that may slow the progress.

In addition, 2022 is an election year in Kenya and there is possibility that business may slow down although it is not expected that there will be repeat of election related violence experienced in previous elections.

The Bank will therefore continue to carefully assess the operating environment and take appropriate actions where necessary to avoid negative impact.

12. Future Plans

As the global and Member States' economies continue recovering, the Bank will also continue to support both the private and public sectors to facilitate attainment of growth aspirations.

Special attention will be given to risk management to ensure that unnecessary pitfalls are avoided when the Bank approves new projects and programs to ensure sustainability.

Climate change and biodiversity management will continue to feature prominently in the Bank's agenda, ensuring that approved projects do not negatively impact the current or future generations.

The Bank is at an advanced stage of Green Climate Fund accreditation which will facilitate mobilization of green funds which will in turn be used to finance climate friendly projects.

At the same time the Bank will continue to provide practical support to the United Nations Framework Convention on Climate Change (UNFCCC) and its Kyoto protocol by hosting the Regional Collaboration Centre (RCC) in Kampala, Uganda; the Bank has been hosting RCC since 2013.

Long term planning has been further complicated by the emergence of COVID-19 pandemic and in response the Bank has opted to work based on yearly plans until the situation stabilizes and it is possible again to make medium and long term plans with some degree of certainty.

DIRECTORS' REPORT (continued)

12. Future Plans (continued)

For the year 2022 the Bank has identified seven strategic objectives picked from the four corporate objectives namely:

- i. Improvement in financial performance through aspirational balance sheet growth supported by adequate funding and optimal management of real estate investments.
- ii. Creation of an environment that fosters high performance and innovation through automation of systems and processes improvements.
- iii. Increasing awareness of EADB services through branding, marketing, improved customer service and engagement with stakeholders.
- iv. Improvement in enterprise risk management.

The Bank will continuously monitor its strategy and make improvements as circumstances demand.

13. Risk and Risk Management

The Bank continued with implementation of its Enterprise-wide risk management policy during the year and introduced some adjustments to address COVID-19 related demands which was not envisaged at the time of preparation.

The Bank retained its three pillars risk management philosophy with business units being the first line of defence and risk champions appointed in each risk-taking department to coordinate efforts at that level. Risk and Compliance function is the second line of defence and co-ordinate organization-wide risk management with at least quarterly risk management reports to the Board. Finally, the Bank's Internal Audit function independently assess effectiveness of the Bank's risk management and recommend improvements. Detailed financial risk management disclosures are provided in Note 37 of the financial statements.

14. Solvency

The Board of Directors confirm that the financial statements have been prepared based on International Financial Reporting Standards (IFRS) 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.

15. Resources

The Bank hold numerous resources required 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.

DIRECTORS' REPORT (continued)

16. 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 40 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.

17. Related Party Transactions

The Bank's related party transactions are concluded at arm's length basis. Details of related party transactions at the end of the year are shown on Note 41.

18. Social and Environmental controls

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

The Bank requires submission of report on environmental impact assessment on all projects with potential impact to environment before financing decision is made. The Bank also requires clearance of such projects by competent authorities in Member States.

19. 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.

20. Dividends

The Directors do not recommend the payment of dividends for the year 2021 (2020: Nil). This is in line with shareholders' strategy to build up the capital of the Bank.

21. Events after reporting date

There are no other events after the reporting period.

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DIRECTORS' REPORT (continued)

22. Auditor

The Bank's 2022 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



Chairman – Board of Directors



Director

27th July 2022

Date

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

Approval of the financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 9th May 2022 and the Governing Council on 14th July 2022 and were signed on their behalf by:

Chairman – Board of Directors

Director General



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

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of East African Development Bank ("the Bank") as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The financial statements of East African Development Bank set out on pages 18 to 81 comprise:

- the statement of financial position as at 31 December 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in *the Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

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

*PricewaterhouseCoopers Certified Public Accountants, Communications House, 1 Colville Street, P. O. Box 882,
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Partners: C Mpobusingye D Kalemba F Kamulegeya P Natamba U Mayanja

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

Report on the audit of the financial statements (continued)

Key audit matter

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

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of loans and advances</p> <p>As disclosed in Note 15 of the financial statements, the Directors have estimated provisions for expected credit losses on loans and advances of USD 6.7 million at 31 December 2021 (2020: USD 4 million).</p> <p>The Directors have exercised significant judgment in estimating expected credit losses over the remaining lifetime of loans and advances whose credit risk increased significantly since origination and loans in default; and, for the next 12 months for all other loans and advances as follows:</p> <ul style="list-style-type: none">defining both default and significant increase in credit risk, based on quantitative and qualitative factors taking into consideration the effects of Corona Virus 2019 (COVID – 19) pandemic; andin estimating probabilities of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") over the relevant period being either 12 months or remaining lifetime of the relevant loans and advances.	<p>Our audit procedures are summarised as follows:</p> <p>We evaluated the appropriateness of the methodology applied by management in the calculation of expected credit losses for consistency with IFRS 9;</p> <p>We evaluated management controls over the staging of loans and advances between default (Stage 3), significant increase in credit risk (Stage 2) and others (Stage 1) and tested, on a sample basis, the staging of loans and advances;</p> <p>We tested, on a sample basis, the reasonableness of PDs used by management as well as the accuracy of the underlying historical data applied by management in deriving PDs;</p> <p>We evaluated the suitability of forward looking data used in estimating PDs together with the accuracy of its application in the PD estimation process. We also checked the reasonableness of the evidence available to support overlays applied in response to uncertainty arising from the adverse effects of the COVID-19;</p> <p>We tested, on a sample basis the reasonableness of the EAD for on and off balance sheet items;</p> <p>We tested, on a sample basis, the reasonableness of the present values of expected future cashflows of loans and advances used by management in the calculation of LGD; and</p> <p>We recomputed, on a sample basis, expected credit losses for loans and advances and assessed the overall reasonableness of provisions for loans and advances made by management as at 31 December 2021.</p>



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

Report on the audit of the financial statements (continued)

Other information

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

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

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

Responsibilities of the Directors for the financial statements

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

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

The Directors are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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



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

Report on the audit of the financial statements (continued)

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



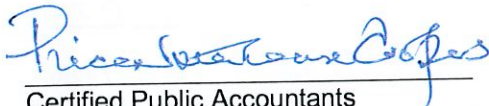
**REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF
EAST AFRICAN DEVELOPMENT BANK (continued)**

Report on the audit of the financial statements (continued)

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

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

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

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', written over a horizontal line.

Certified Public Accountants
Kampala

5 AUGUST 2022

A handwritten signature in blue ink, appearing to read 'Uthman Mayanja', written over a horizontal line.

CPA Uthman Mayanja

East African Development Bank
Annual Report and Financial Statements
For the year ended 31 December 2021

Statement of comprehensive income

	Notes	2021 USD'000	2020 USD'000
Interest income	3	18,213	18,092
Interest expense	4	<u>(3,555)</u>	<u>(4,209)</u>
Net interest income		14,658	13,883
Fee and commission income	5	364	330
Other operating income	6	3,352	1,978
Other losses	7	(587)	(649)
Net fair value losses on investment property	20	<u>(31)</u>	<u>(254)</u>
Net operating income		17,756	15,288
Net impairment losses on financial assets	15(a)	<u>(3,332)</u>	<u>(593)</u>
Operating income after impairment charges		14,424	14,695
Employee benefits expense	8	(3,417)	(3,634)
Depreciation and amortization	21 22, 23	(822)	(909)
Other operating expenses	9	<u>(2,319)</u>	<u>(3,787)</u>
Profit before income tax	10	7,866	6,365
Income tax expense	11	<u>-</u>	<u>-</u>
Profit for the year		7,866	6,365
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income		<u>7,866</u>	<u>6,365</u>
Earnings per share – basic (Expressed in USD per share)	12	<u>542.55</u>	<u>450.26</u>

**East African Development Bank
Annual Report and Financial Statements
For the year ended 31 December 2021**

Statement of financial position

	Notes	2021 USD'000	2020 USD'000
Assets			
Cash at bank	13	22,266	17,223
Placements with commercial banks	14	175,381	195,752
Loans and lease receivables	15	159,817	129,045
Equity investments	18	848	1,112
Other assets	19	540	526
Intangible assets	22	5	25
Property and equipment	21	12,436	13,089
Right of use assets	23	316	435
Investment property	20	18,625	18,656
Total assets		390,234	375,863
Liabilities			
Other liabilities	24	7,776	9,461
Derivative financial instruments	17	141	-
Borrowings	25	84,631	75,337
Lease liabilities	26	388	458
Special funds	27	3,990	3,990
Grants	28	1,897	189
Capital fund	30	7,479	7,479
Total liabilities		106,302	96,914
Capital and reserves			
Share capital	29	194,914	195,994
Share premium	29	3,874	3,874
Funds waiting allotment	31	80	80
Special reserve	32	12,683	12,602
Fair value reserve	33	263	382
Revaluation reserves	35	9,314	9,355
Retained earnings		62,804	56,662
Total shareholders' equity		283,932	278,949
Total shareholders' equity and liabilities		390,234	375,863

The financial statements set out on pages 18 to 81 were approved and authorised for issue by the Board of Directors on 9th May 2022 and the Governing Council on 14th July 2022 and were signed on their behalf by:

Chairman – Board of Directors

Director General

East African Development Bank
Annual Report and Financial Statements
For the year ended 31 December 2021

Statement of changes in equity

	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
Year ended 31 December 2021		195,994	3,874	12,602	80	382	56,662	9,355	278,949
At start of year		-	-	-	-	-	7,866	-	7,866
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	33	-	-	81	-	-	(81)	-	-
Transfer from the revaluation reserve	36	-	-	-	-	-	41	(41)	-
Transfer from fair value reserve	34	-	-	-	-	(119)	119	-	-
Share repurchase	29	(1,080)	-	-	-	-	(74)	-	(1,154)
Discount on share repurchase	28	-	-	-	-	-	(1,731)	-	(1,731)
At end of year		194,914	3,874	12,683	80	263	62,804	9,314	283,932

East African Development Bank
Annual Report and Financial Statements
For the year ended 31 December 2021

Statement of changes in equity (continued)

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

East African Development Bank
Annual Report and Financial Statements
For the year ended 31 December 2021

Statement of cash flows

	Notes	2021 USD'000	2020 USD'000
Cash flows from operating activities			
Interest receipts		14,127	13,798
Interest payments	25	(2,180)	(3,298)
Net fee and commission receipts		705	354
Other income received		487	580
Payments to employees and suppliers		<u>(6,035)</u>	<u>(6,573)</u>
Cash inflows from operating activities		7,104	4,861
Net change in loans and advances	15	(31,634)	18,916
Net other receipts from customers		2,859	1,032
Settlement of other liabilities	24	<u>(648)</u>	<u>(757)</u>
Net cash flows generated from operating activities		(22,319)	24,052
Investing activities			
Purchase of property and equipment	21	(31)	(50)
Placements with commercial banks	14	<u>(3,442)</u>	<u>(36,003)</u>
Net cash used in investing activities		(3,473)	(36,053)
Financing activities			
Settlement of medium and long term borrowings	25	(14,228)	(14,605)
Proceeds from borrowings	25	22,359	3,980
Receipt from member states towards share capital	31	-	6,167
Share repurchase	29	<u>(1,154)</u>	<u>-</u>
Net cash used in financing activities		6,977	(4,458)
Net decrease in cash and cash equivalents		(18,815)	(16,459)
Cash and cash equivalent at start of year	34	137,559	153,800
Foreign exchange losses/(gains)		<u>(184)</u>	<u>218</u>
At end of year	34	<u>118,560</u>	<u>137,559</u>

**East African Development Bank
Annual Report and Financial Statements
For the year ended 31 December 2021**

Notes

1. Reporting entity

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

The Bank's principal office address is:

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

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

2. Principal accounting policies

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

A) Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions are changed. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 36.

3) Changes in accounting policy and disclosures

l) New and amended standards adopted by the Bank

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

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

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

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

Notes (continued)

2. Principal accounting policies (continued)

B) Changes in accounting policy and disclosures

(I) New and amended standards adopted by the Bank

Annual improvements cycle 2018 -2020

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

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

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

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

C) Functional and presentation currency

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

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

D) Segment reporting

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

E) Revenue recognition

(I) Interest income and expense

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

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

Notes (continued)

2. Principal accounting policies (continued)

E) Revenue recognition (continued)

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.

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

(iii) Dividend income

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

F) Property, plant and equipment

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

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

Revaluation surplus

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

Notes (continued)

2. Principal accounting policies (continued)

F) Property, plant and equipment

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

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

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

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

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

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

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

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

G) Intangible assets

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

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

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

Notes (continued)

2. Principal accounting policies (continued)

H) Capital work-in-progress

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

I) Financial assets and liabilities

Measurement methods

Amortized cost and effective interest rate

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

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

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

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

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

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

Notes (continued)

2. Principal accounting policies (continued)

l) Financial assets and liabilities (continued)

(a) Financial Assets

(i) Classification and subsequent measurement

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

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

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

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

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

Notes (continued)

2. Principal accounting policies (continued)

l) Financial assets and liabilities (continued)

(i) Classification and subsequent measurement (continued)

Debt instruments (continued)

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

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

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

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

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

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

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

Equity instruments

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

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

Notes (continued)

2. Principal accounting policies (continued)

I) Financial assets and liabilities (continued)

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

(ii) Impairment

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

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

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

(iii) Modification of loans

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

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

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

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

Notes (continued)

2. Principal accounting policies (continued)

iii) Modification of loans (continued)

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

(iv) Derecognition other than modification

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

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

(b) Financial liabilities

(i) Classification and subsequent measurement

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

(ii) Derecognition

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

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

(J) Derivative instruments

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

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

Notes (continued)

2. Principal accounting policies (continued)

(J) Derivative instruments (continued)

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

K) Impairment of non-financial assets

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

L) Fiduciary assets

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

M) Leases

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

i. Bank acting as a lessee

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

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

Notes (continued)

2. Principal accounting policies (continued)

M) Leases (continued)

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

Short-term leases and leases of low-value assets

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

ii. Bank acting as a lessor

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

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

N) Offsetting

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

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

During the year there was no offsetting transaction (2020: 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.

Notes (continued)

2. Principal accounting policies (continued)

P) Employees benefits

i) Retirement obligations

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

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

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

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

ii) Service gratuity

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

iii) Other entitlements

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

Q) Investment properties

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

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

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

Notes (continued)

2. Principal accounting policies (continued)

R) Grants

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

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

S) Cash and cash equivalents

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

T) Contingent liabilities – Financial guarantees and loan commitments

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

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

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

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

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

U) Taxation

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

V) Dividends

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

W) Comparatives

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

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Notes (continued)

3 Interest income	2021	2020
	USD '000	USD '000
Interest income on loans to projects	12,140	12,124
Interest income on lease receivables	20	-
Interest income on deposits with other Banks	<u>6,053</u>	<u>5,968</u>
	<u>18,213</u>	<u>18,092</u>
4 Interest expense		
Interest expense on borrowings	2,890	3,414
Interest expense on lines of credit	447	752
Other fees and commission charges	218	-
Lease interest expense	<u>-</u>	<u>43</u>
	<u>3,555</u>	<u>4,209</u>
5 Fee and commission income		
Gross fees and commission income		
Appraisal fees	81	44
Other fees and commission income	269	300
Commitment fees	<u>14</u>	<u>49</u>
	<u>364</u>	<u>393</u>
6 Other operating income		
Rental income	422	489
Dividend income	-	10
Recovery of previously written off loans	2,860	1,032
Grant income (Note 28)	23	389
Write back of other liabilities	<u>47</u>	<u>58</u>
	<u>3,352</u>	<u>1,978</u>
7 Other losses		
Net foreign exchange gain/(losses)	(466)	(581)
Net fair value (losses) on equity investments at fair value and derivatives (Note 34)	<u>(121)</u>	<u>(68)</u>
	<u>(587)</u>	<u>(649)</u>
8 Employee benefits expense		
Salaries and wages	2,382	2,525
Pension and gratuity (Note 40)	329	336
Other staff costs	<u>706</u>	<u>773</u>
	<u>3,417</u>	<u>3,634</u>

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Notes (continued)

9 Other operating expenses	2021	2020
	USD '000	USD '000
Staff duty travel	36	36
Directors expenses	26	48
Insurance	262	293
Advertising and publicity	85	38
Legal fees	455	1,288
Computer software expenses	138	157
Internal audit costs	46	68
Statutory audit fees	55	55
Consultancy fees	112	174
Project insurance	-	274
Utilities	55	60
Communication costs	113	117
Establishments expenses	326	323
Subscription to professional bodies	19	42
Provision on receivables	471	401
Scholarships	-	312
Other administrative expenses	120	101
	<u>2,319</u>	<u>3,787</u>

10 Expenses by nature

Profit before income tax is stated after charging the following:

Directors emoluments:		
- Fees and allowances	26	41
- Other Board expenses	-	7
Depreciation on property and equipment (note 21)	683	712
Depreciation of right-of-use asset (note 23)	119	119
Amortization of intangible assets (note 22)	20	79
Impairment of loans and advances (note 15)	3,332	593
Employee benefits expense (Note 8)	3,417	3,634
Auditors remuneration	55	55
Operating expenses	<u>2,319</u>	<u>3,684</u>

11 Taxation

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

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Notes (continued)

12 Earnings per share – basic and diluted (continued)	2021	2020
	USD '000	USD '000
Net profit attributable to ordinary shareholders	<u>7,866</u>	<u>6,365</u>
Weighted average number of ordinary shares in issue and paid up during the year (Note 29)	<u>14,498</u>	<u>14,137</u>
Basic earnings per share	<u>542.55</u>	<u>450.26</u>
Diluted Earnings per share		
Dilutive number of ordinary shares	6	6
Total issued and dilutive shares	<u>14,504</u>	<u>14,143</u>
Diluted earnings per share	<u>542.32</u>	<u>450.07</u>

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

13 Cash at bank	2021	2020
	USD '000	USD '000
Cash at bank	<u>22,266</u>	<u>17,223</u>

14 Placements with commercial banks		
Placements with banks in member states		
Principal	146,626	164,790
Interest receivable	1,254	946
Placements with other banks		
Principal	27,500	30,000
Interest receivable	<u>1</u>	<u>16</u>
	<u>175,381</u>	<u>195,752</u>
The above amount is analyzed as follows:		
Amounts due within 3 months of date of acquisition	170,819	120,336
Amounts due after 3 months of date of acquisition	<u>4,562</u>	<u>75,416</u>
	<u>175,381</u>	<u>195,752</u>

The weighted average effective interest rate on deposits due from banks was 3.44 % (2020: 3.42 %).

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Notes (continued)

15 Loans and lease receivables	2021	2020
	USD'000	USD'000
Loans to projects (Gross)		
Principal	162,443	129,780
Interest receivable	<u>4,086</u>	<u>3,246</u>
Gross loans	<u>166,529</u>	<u>133,026</u>
Gross loans and leases receivable comprise the following:		
Loans to projects	166,074	133,026
Finance lease receivables	<u>455</u>	<u>-</u>
Total gross loans and receivables	166,529	133,026
Impairment losses on loans and advances (Note 15a)	<u>(6,712)</u>	<u>(3,981)</u>
Net carrying amounts	<u>159,817</u>	<u>129,045</u>

15 (a) Credit impairment losses

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

	2021	2020
	USD'000	USD'000
Loss allowance at end of year	6,712	3,981
Less: provisions at start of the year as above	<u>(3,981)</u>	<u>(3,388)</u>
Increase in provision for expected credit losses	2,731	593
Loss on loan transferred to other financial institutions	<u>601</u>	<u>-</u>
Total charge for the year	<u>3,332</u>	<u>593</u>
Distribution of loans and receivables by sector		
Agro, marine and food processing	8%	6%
Construction companies, building materials and real estate	16%	22%
Financial Institutions	26%	40%
Education, health and other community services	11%	13%
Transport and storage	30%	0%
Electricity and Electricity and water	7%	13%
Hotels, tourism, leisure and entertainment	<u>2%</u>	<u>6%</u>
	<u>100%</u>	<u>100%</u>

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Notes (continued)

16 Segment information

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

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

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

The segment information provided to the Board of Directors for the reportable segments for the year ended 31 December 2021 and 2020 respectively is as follows:

Loan exposure by country

Year ended 31 December 2021

Loan exposure by country	Gross Balances USD'000	%	Net Balances USD'000	%
Country				
Uganda	37,520	23%	36,897	23%
Kenya	30,485	18%	25,517	16%
Tanzania	87,670	53%	86,556	54%
Rwanda	10,854	7%	10,848	7%
Total	166,529	100%	159,817	100%

Exposure by product				%
Country				
Long term loans	157,438	95%	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%

Year ended 31 December 2020

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

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Notes (continued)

16 Segment information (continued)

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

Year ended 31 December 2021

Portfolio quality (Gross)

Country	Performing portfolio USD'000	%	Non performing portfolio USD'000	%	Totals USD'000
Kenya	25,457	15%	5,028	3%	30,485
Rwanda	10,854	7%	-	0%	10,854
Tanzania	87,299	52%	371	0%	87,670
Uganda	37,520	23%	-	0%	37,520
Totals	161,130	97%	5,399	3%	166,529

Portfolio quality (Net)

Country	Performing portfolio USD'000	%	Non performing portfolio USD'000	%	Totals USD'000
Kenya	22,555	14%	2,962	2%	25,517
Rwanda	10,848	7%	-	0%	10,848
Tanzania	86,259	54%	297	0%	86,556
Uganda	36,897	23%	-	0%	36,897
Totals	156,559	98%	3,259	2%	159,817

Year ended 31 December 2020

Portfolio quality (Gross)

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

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Notes (continued)

16 Segment information (continued)

Portfolio quality (Net)

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

Approvals and disbursements

	Approvals		Disbursements	
	USD'000	USD'000	USD'000	USD'000
By country				
Uganda	14,664	8,346	8,486	9,168
Kenya	1,688	2,469	1,189	2,221
Tanzania	55,000	-	50,000	-
Rwanda	600	600	-	-
	71,953	11,415	59,675	11,389
By product				
Loans	71,953	10,874	59,193	11,389
Leases	-	541	482	-

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	3,879	3,463	3,904	914	6,053	18,213
Interest expense	(779)	(715)	(265)	(18)	(1,778)	(3,555)
Net interest income	3,100	2,748	3,639	896	4,275	14,658
Fee and commission income	122	57	127	56	2	364
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

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Notes (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
Credit impairment gain/(loss)	121	(2,088)	(768)	4	-	(2,731)
Operating income after impairment charges	5,963	572	3,152	1,002	4,336	15,025
Employee benefits expense	(433)	(206)	(199)	(81)	(2,498)	(3,417)
Depreciation and amortization	-	(78)	(20)	(56)	(668)	(822)
Other operating expenses	(584)	(584)	(584)	(292)	(876)	(2,920)
Profit before income tax	4,946	(296)	2,349	573	294	7,866
Income tax expense	-	-	-	-	-	-
Profit for the year	4,946	(296)	2,349	573	294	7,866
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	4,946	(296)	2,349	573	294	7,866

Segment statement of profit or loss for year ended December 2020

	Uganda USD'000	Kenya USD'000	Tanzania USD'000	Rwanda USD'000	Head Office USD'000	Total USD'000
Interest income	3,579	3,444	4,002	1,100	5,967	18,092
Interest expense	(912)	(837)	(311)	(22)	(2,084)	(4,166)
Net interest income	2,667	2,607	3,691	1,078	3,883	13,926
Fee and commission income	149	54	124	67	(64)	330
Other operating income	3	989	3	1	982	1,978
Other gains /(losses)	347	(1,159)	11	15	94	(692)
Net fair value gain/(loss) investment property	-	-	(154)	-	(100)	(254)
Total operating income	3,166	2,491	3,675	1,161	4,795	15,288
Credit impairment gain/(loss)	(401)	(249)	41	16	-	(593)
Operating income after impairment charges	2,765	2,242	3,716	1,177	4,795	14,695
Employee benefits expense	(552)	(211)	(191)	(90)	(2,590)	(3,634)
Depreciation and amortization	-	(79)	(19)	(57)	(754)	(909)
Other operating expenses	(757)	(757)	(757)	(379)	(1,137)	(3,787)
Profit before income tax	1,456	1,195	2,749	651	314	6,365
Income tax expense	-	-	-	-	-	-
Profit for the year	1,456	1,195	2,749	651	314	6,365
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	1,456	1,195	2,749	651	314	6,365

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16 Segment information (continued)

Segment statement of financial position for year ended December 2021

	Uganda USD'000	Kenya USD'000	Tanzania USD'000	Rwanda USD'000	Head office USD'000	Total USD'000
Assets						
Cash at bank	15,777	2,615	11	58	3,805	22,266
Deposits due from commercial banks	-	-	-	-	175,381	175,381
Loans and lease receivables	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 shareholders' equity and liabilities	77,672	29,866	92,286	11,108	179,302	390,234

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16 Segment information (continued)

Segment statement of financial position for year ended December 2020

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

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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 entered into deposit transactions with counter parties which have been identified to have similar characteristics with derivative financial instruments.

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 2021 were as follows:

	Notional principal amounts USD' 000	Fair value Assets USD' 000	Fair value Liabilities USD' 000
Cross currency derivative contracts – 31 December 2021	<u>5,000</u>	<u>4,963</u>	<u>5,104</u>
Cross currency derivative contracts – 31 December 2020	<u>-</u>	<u>-</u>	<u>-</u>

The table below shows the movement in fair value of financial assets during the year and fair value included in the statement of comprehensive income

Derivative financial instruments

	2021 USD '000	2020 USD '000
Derivative asset/(Liability)	-	-
Fair value (loss)/ gain on embedded financial instruments	<u>(141)</u>	<u>-</u>
	<u>(141)</u>	<u>-</u>

The net fair value losses/gains on financial assets held at fair value in the statement of comprehensive is analysed as follows:

	2021 USD '000	2020 USD '000
Fair value (loss)/ gains on equity investments	(264)	(88)
Fair value (losses)/gain on derivative financial instruments	<u>(141)</u>	<u>-</u>
At end of year	<u>(405)</u>	<u>(88)</u>

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.

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18 Equity investments at fair value

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

	2021 USD '000	2020 USD '000
At start of year	1,112	1,200
Less:		
Provisions	(284)	(20)
Fair value gain/(loss)	<u>20</u>	<u>(68)</u>
At end of year	<u>848</u>	<u>1,112</u>

19 Other assets

Prepayments	144	142
Value Added Tax receivable	428	405
Fees and commission receivable	58	60
Tenants rent receivable	70	42
Project receivables	-	1,048
Other receivables	<u>444</u>	<u>345</u>
	1,144	2,042
Provision on other receivables	<u>(604)</u>	<u>(1,516)</u>
	<u>540</u>	<u>526</u>

20 Investment property

At start of year	18,656	18,910
Net fair value losses	<u>(31)</u>	<u>(254)</u>
At end of year	<u>18,625</u>	<u>18,656</u>

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 2021 based on estimated open market values.

Properties that are held by the Bank for generation of rental income have been classified under investment property as per Note 20. 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:

	2021 USD '000	2020 USD '000
Rental income from investment property	389	421
Direct operating expenses: Rented properties	25	53
Direct operating expenses: Unrented properties	7	15
Approved capital commitment	<u>-</u>	<u>-</u>

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Notes (continued)

20 Investment property (continued)

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 2021 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	(Level 2) USD'000
2021	
Land	21,772
Buildings	9,795
2020	
Land	21,831
Buildings	9,901

21 Property and equipment

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)
Net book amount	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)
Depreciation	-	-	-	-	-	-
YTD Depreciation charge	(479)	-	(153)	-	(51)	(683)
Closing net book amount	12,120	-	316	-	-	12,436

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Notes (continued)

21 Property and equipment (continued)

Year ended	Land and buildings	Capital work in progress	Office equipment	Motor Vehicles	Furniture & fittings	Total
31 December 2021						
Cost or valuation	13,078	31	2,015	686	800	16,580
Accumulated depreciation	(958)	-	(1,169)	(686)	(800)	(4,144)
Net book amount	12,120	-	316	-	-	12,436
Year ended 31 December 2020						
At 1 January 2020						
Cost or valuation	13,076	352	1,886	686	798	16,798
Accumulated depreciation	-	-	(1,374)	(686)	(688)	(2,748)
Net book amount	13,076	352	512	-	110	14,050
Year ended 31 December 2020						
Opening net book amount	13,076	352	512	-	110	14,050
Revaluation gain	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
Additions	-	20	-	-	-	20
Transfers from work in progress	-	(105)	101	-	2	(2)
Disposals:						
Cost	-	(267)	-	-	-	(267)
Accumulated depreciation	-	-	-	-	-	-
Depreciation charge	(479)	-	(172)	-	(61)	(712)
Closing net book amount	12,597	-	441	-	51	13,089
Year ended 31 December 2020						
Cost or valuation	13,076	-	1,987	686	800	16,549
Accumulated depreciation	(479)	-	(1,546)	(686)	(749)	(3,460)
Net book amount	12,597	-	441	-	51	13,089

The revaluation model under IAS 16 – Property, plant and equipment has been applied to land and buildings under own-use (this includes residential properties rented out to staff). An independent valuation was performed by a professional valuer (Knight Frank Limited and Africa Property Limited) to determine the fair value of land and buildings as at 31 December 2021. The fair value of land and buildings is usually determined from market-based evidence by appraisal that is done by professionally qualified valuers after every three to five years, therefore, no fair value revaluation gain has been recognised in the year.

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Notes (continued)

21 Property and equipment (continued)

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

	2021 USD'000	2020 USD'000
Cost	8,759	8,759
Accumulated depreciation	<u>(6,000)</u>	<u>(5,562)</u>
Net book amount	<u>2,759</u>	<u>3,197</u>

22 Intangible assets

Cost		
At start of year	1,965	1,963
Additions during the year	<u>-</u>	<u>2</u>
	<u>1,965</u>	<u>1,965</u>
Amortization		
At start of year	(1,940)	(1,861)
Amortization charge for the year	<u>(20)</u>	<u>(79)</u>
	<u>(1,960)</u>	<u>(1,940)</u>
At end of year	<u>5</u>	<u>25</u>

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.

	2021 USD'000	2020 USD'000
Cost at start and end of year	677	677
Less:		
Accumulated depreciation	(242)	(123)
Depreciation charge for the year	<u>(119)</u>	<u>(119)</u>
At end of year	<u>316</u>	<u>435</u>

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24 Other liabilities	2021	2020
	USD'000	USD'000
Advances from customers	593	16
Rent received in advance	26	28
Accrued expenses	667	535
Deferred fee income	722	408
Deposits from tenants	98	67
KFW line of credit	4,187	6,752
Other creditors	<u>1,483</u>	<u>1,655</u>
	<u>7,776</u>	<u>9,461</u>

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

25 Borrowings	2021	2020
	USD'000	USD'000
Lines of credit with multi-lateral development banks	82,126	69,553
Lines of credit with other financial Institutions	<u>2,505</u>	<u>5,784</u>
	<u>84,631</u>	<u>75,337</u>

Maturity analysis of borrowings

Amounts payable within one year	11,456	16,468
Amounts payable after one year but within five years	42,139	45,245
Amounts payable after five years	<u>43,477</u>	<u>24,977</u>
	<u>97,072</u>	<u>86,690</u>

Borrowings movement analysis

At start of year	75,337	86,082
Proceeds from borrowings	22,359	3,980
Interest incurred during the year	3,500	4,166
Principal payments within the year	(14,228)	(14,605)
Interest payments within the year	(2,180)	(3,298)
Foreign exchange differences	<u>(157)</u>	<u>(988)</u>
At end of year	<u>84,631</u>	<u>75,337</u>

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

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

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25 Borrowings

The weighted average effective interest rate on borrowings was 5.28% (2020: 5.30%).

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

In the table below is a list of all lenders as well as the tenor, interest rates, currency and outstanding balances of the facilities the Bank held with each lender as at 31 December 2021 and 31 December 2020.

Lender	Tenor	Rate Type	Interest Rate %	Currency	2021 USD'000	2020 USD'000
Nordic Development Fund	30	Fixed	0.75	EUR	4,020	4,697
European Investment Bank	7	Fixed	9.16	KES	346	1,080
Republic of Uganda-KFW	10	Fixed	6.00	UGX	5,577	5,423
Republic of Uganda-KFW	7	Fixed	6.00	UGX	1,591	1,547
European Investment Bank	6	Fixed	9.31	UGX	-	252
European Investment Bank	7	Fixed	9.41	KES	295	614
European Investment Bank	7	Fixed	9.39	KES	263	546
European Investment Bank	7	Fixed	8.26	RWF	94	193
Republic of Uganda-KFW	7	Fixed	6.00	UGX	1,576	1,533
Republic of Uganda-KFW	4	Fixed	6.00	UGX	463	450
European Investment Bank	7	Fixed	9.84	KES	601	1,041
Republic of Uganda-KFW	7	Fixed	6.00	UGX	5,177	5,034
Republic of Uganda-KFW	8	Fixed	6.00	UGX	1,724	1,677
Republic of Uganda-KFW	8	Fixed	6.00	UGX	1,156	1,124
Republic of Uganda-KFW	3	Fixed	6.00	UGX	1,236	588
Republic of Uganda-KFW	3	Fixed	6.00	UGX	1,232	1,198
European Investment Bank	7	Libor_6m	2.46	USD	-	224
Opec Fund For International Development	7	Libor_6m	3.27	USD	-	2,728
European Investment Bank	6	Libor_6m	2.43	USD	-	318
African Development Bank	10	Libor_6m	3.77	USD	15,000	18,750
Arab Bank For Economic Development	10	Libor_6m	3.99	USD	6,854	8,568
KFW-Agricultural Financing Kenya	13	Fixed	5.00	KES	1,047	1,088
KFW-Agricultural Financing Kenya	13	Fixed	5.00	KES	3,041	3,160
KFW-Agricultural Financing Kenya	12	Fixed	5.00	KES	2,100	2,182
Republic of Uganda-KFW	6	Fixed	6.00	UGX	562	-
Opec Fund For International Development	7	Libor_6m	3.16	USD	20,000	-
KFW-Agricultural Financing Kenya	11	Fixed	5.00	KES	1,132	-
NCBA BANK	3	Fixed	10.00	KES	2,484	5,733
Total Borrowings					77,573	69,748
Interest payable					7,059	5,589
					84,632	75,337

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26 Lease liabilities (continued)	2021 USD'000	2020 USD'000
Current	86	102
Non-current	<u>302</u>	<u>356</u>
	<u>388</u>	<u>458</u>

Below is an analysis of the movements in lease liabilities:

At start of year	458	554
Payments of principal portion of lease liability	(108)	(138)
Interest charge for the year (recognized in profit or loss)	<u>38</u>	<u>42</u>
At end of year	<u>388</u>	<u>458</u>

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

27 Special funds	2021 USD'000	2020 USD'000
At start and end of year	<u>3,990</u>	<u>3,990</u>

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.

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-2021					
At start of year	34	150	5	-	189
Additions	-	-	-	1,731	1,731
Grant utilisation	<u>(18)</u>	<u>-</u>	<u>(5)</u>	<u>-</u>	<u>(23)</u>
At end of year	<u>16</u>	<u>150</u>	<u>-</u>	<u>1,731</u>	<u>1,897</u>

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28 Grants (continued)

	SWISS/ EADB fund for technical assistance USD'000	Housing Finance Bank feasibility study grant USD'000	AfDB Credit Knowledge Management System USD'000	Total USD'000
Year ended 31-December-2020				
At start of year	371	150	57	578
Grant utilisation	(337)	-	(52)	(389)
At end of year	34	150	5	189

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 2021, the Bank utilised part of the grant amounting to USD 18,000 (2020: USD 337,000).

Housing Finance Feasibility study grant

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

AfDB (Credit knowledge management system grant)

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

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 2020	24,000	120,000	144,000	324,000	1,620,000	1,944,000
At 31 December 2020	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

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29 Share capital (continued)

	Paid up share capital Number	Callable share capital Number	Total Number	Paid up share capital USD'000	Callable share capital USD'000	Total USD'000
Class B						
At 1 January 2020	4,000	12,000	16,000	54,000	162,000	216,000
At 31 December 2020	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
Totals Authorised (Class A&B) As at December 2020 & 2021	28,000	132,000	160,000	378,000	1,782,000	2,160,000
(2) Issued share capital						
Class A						
At 1 January 2020	12,280	661,400	73,680	165,780	8828,901	994,681
Issue of shares	457	2,285	2,742	6,170	30,848	37,018
At 31 December 2020	12,737	663,685	76,422	171,950	859,749	1,031,699
At 31 December 2021	12,737	63,685	76,422	171,950	859,749	1,031,699
Class B						
At 1 January 2020	1,781	1,037	2,818	24,044	14,000	38,044
At 31 December 2020	1,781	1,037	2,818	24,044	14,000	38,044
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
Total (Class A&B)	14,438	64,722	79,160	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 2020	12,280	1,781	14,061	165,780	24,044	189,824
Issue of shares	457	-	457	6,170	-	6,170
At 31 December 2020	12,737	1,781	14,518	171,950	24,044	195,994
Issue of shares	-	-	-	-	-	-
Share repurchase	-	(80)	(80)	-	(1,080)	(1,080)
At 31 December 2021	12,737	1,701	14,438	171,950	22,964	194,914

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29 Share capital (continued)

Name	2021			2020		
	Shares	Value USD'000	%	Shares	Value USD'000	%
Class A						
Government of Kenya	3,800	51,300	26.32%	3,800	51,300	26.17%
Government of United Republic of Tanzania	3,800	51,300	26.32%	3,800	51,300	26.17%
Government of Uganda	3,800	51,300	26.32%	3,800	51,300	26.17%
Government of Rwanda	1,337	18,050	9.26%	1,337	18,050	9.21%
Total Class A	12,737	171,950	88.22%	12,737	171,950	87.72%
Name	2021			2020		
	Shares	Value USD'000	%	Shares	Value USD'000	%
Class B						
African Development Bank	1,240	16,740	8.59%	1,240	16,740	8.54%
FMO – Netherlands Development Finance Company	312	4,212	2.16%	375	5,063	2.59%
DEG – Deutsche Investitions- und Entwicklungsgesellschaft	83	1,121	0.57%	100	1,350	0.69%
Yugoslavia Consortium	28	378	0.19%	28	378	0.19%
SBIC - Africa Holdings	24	324	0.17%	24	324	0.18%
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	1,701	22,964	11.78%	1,781	24,044	12.27%
Total Class A & B	14,438	194,914	100%	14,518	195,994	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, (2020: 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.

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Notes (continued)

29 Share capital (continued)

Class B

The authorised number of Class B ordinary shares is 16,000 (2020: 16,000) at a par value of USD 13,500 each. Class B ordinary shares are available for subscription to members other than member states. All issued Class B shares are fully paid up.

Share premium

Share premium arose on the shares issued to the Republic of Rwanda on admission at a value of USD 17,913 per share. The total number of shares issued and paid for by the Republic of Rwanda on the admission program is 878 (2020: 878). Share premium therefore amounts to USD 4,413 per share which is equivalent to USD 3.9 million (2020: USD 3.9 million).

Callable capital

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

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

Dividends

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

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 partly bought 80 shares from two class B shareholders (FMO & DEG) with a par value of USD 1,080,000 at a price of USD 1,153,759. 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. This sale of FMO and DEG shares reduced the Class B paid up share capital to USD 22,963,500 from USD 24,043,500 in 2020.

30 Capital fund

	2021 USD '000	2020 USD '000
At start and end of year	<u>7,479</u>	<u>7,479</u>

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

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31 Funds awaiting allotment	2021	2020
	USD'000	USD'000
At start of year	80	83
Cash received towards share capital	-	6,167
Share allotment within the year	-	<u>(6,170)</u>
At end of year	<u>80</u>	<u>80</u>

32 Special reserve

At start of year	12,602	12,557
Transfer of commission and guarantee fees	<u>81</u>	<u>45</u>
At end of year	<u>12,683</u>	<u>12,602</u>

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

33 Fair value reserve

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

	2021	2020
	USD '000	USD '000
At start of year	382	450
Transfer to/(from) retained earnings (Note 7)	<u>(119)</u>	<u>(68)</u>
At end of year	<u>263</u>	<u>382</u>

34 Cash and cash equivalents

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

	2021	2020
	USD '000	USD '000
Cash and bank balances (Note 13)	22,266	17,223
Balances due from banks originally maturing within 90 days	<u>96,294</u>	<u>120,336</u>
	<u>118,560</u>	<u>137,559</u>

Notes (continued)

35 Revaluation reserve

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

	2021 USD '000	2020 USD '000
At start of year	9,355	9,396
Fair value revaluation gain	-	-
Transfer of excess depreciation to retained earnings	<u>(41)</u>	<u>(41)</u>
At end of year	<u>9,314</u>	<u>9,355</u>

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.

Measurement of expected credit loss allowance

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

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

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

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

A 10% change in probability of default results in a USD 0.184 million change in expected credit losses, a 10% increase in loss given default results in a USD 0.452 million change in expected credit losses and a 10% change in exposure at default results in a USD 0.582 million change in expected credit losses.

Notes (continued)

36 Use of estimates and judgments (continued)

Determining fair values

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

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

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

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

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

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

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 (continued)

37 Financial risk management (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 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.

Notes (continued)

37 Financial risk management (continued)

(b) Credit risk (continued)

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

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

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

Notes (continued)

37 Financial risk management (continued)

(b) Credit risk (continued)

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'.
- 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

Recognition of expected credit losses		ECL determination	Revenue recognition
Staging	Characteristics		
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 (continued)

37 Financial risk management (continued)

(b) Credit risk (continued)

The 3 stages are as detailed below:

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

Stage 2: includes financial instruments that *have had a significant increase in credit risk* since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are 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.

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.

Notes (continued)

37 Financial risk management (continued)

(b) Credit risk (continued)

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

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

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

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

Forward-looking information incorporated in the ECL models

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

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.

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Notes (continued)

37 Financial risk management (continued)

(b) Credit risk (continued)

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

Maximum exposure to credit risk — Financial instruments subject to impairment

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

Loans and lease receivables

	Kenya USD'000	Uganda USD'000	Tanzania USD'000	Rwanda USD'000	Total USD'000
At 31 December 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
	Kenya USD'000	Uganda USD'000	Tanzania USD'000	Rwanda USD'000	Total USD'000
At 31 December 2020					
Stage 1	20,670	32,740	44,151	14,022	111,583
Stage 2	8,290	5,226	-	-	13,516
Stage 3	4,627	2,966	334	-	7,927
Gross amount	33,587	40,932	44,485	14,022	133,026

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 2021 and noted that the impact is not material to the financial statements.

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

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Notes (continued)

37 Financial risk management (continued)

(b) Credit risk (continued)

	2021 USD'000	2020 USD'000
Cash at bank	22,266	17,223
Placements with commercial banks	<u>175,381</u>	<u>195,752</u>
	<u>197,647</u>	<u>212,975</u>

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

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

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

	Stage 1 12- Month ECL USD'000	Stage 2 Lifetime ECL USD'000	Stage 3 Lifetime ECL USD'000	Total USD'000
Year ended 31 December 2021				
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	<u>147,649</u>	<u>13,481</u>	<u>5,399</u>	<u>166,529</u>

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Notes (continued)

37 Financial risk management (continued)	12-Month ECL USD'000	Lifetime ECL USD'000	Lifetime ECL USD'000	USD'000
(b) Credit risk (continued)				
Year ended 31 December 2021				
Provision for impairment				
As at 1 January 2021	967	1,911	1,103	3,981
Increase/ (decrease) in impairment provisions	824	870	1,037	2,731
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

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

Geographical concentration of financial assets

	Uganda USD'000	Tanzania USD'000	Kenya USD'000	Rwanda USD'000	Overseas USD'000	Totals USD'000
Year ended December 2021						
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	10,848	-	159,817
Equity investments held at fair value	-	591	257	-	-	848
	89,953	94,197	134,399	10,906	28,858	358,312

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Notes (continued)

37 Financial risk management (continued)

(b) Credit risk (continued)

	Uganda	Tanzania	Kenya	Rwanda	Overseas	Totals
Year ended December 2020	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Financial assets						
Cash and bank balances	8,112	49	7,427	68	1,567	17,223
Placements with banks	43,272	13,073	109,392	-	30,015	195,752
Loans and advances	40,931	44,486	33,587	14,022	-	133,026
Equity investments held at fair value	-	585	527	-	-	1,112
	92,315	58,193	150,933	14,090	31,582	347,113

Write off policy

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

Collateral and other credit enhancements

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

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

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
At December 2021	5,399	(2,140)	3,259	14,141
At December 2020	7,927	(1,103)	6,824	26,054
Credit exposures relating to off-statement of financial position			2021 USD '000	2020 USD '000
Loan commitments			<u>2,893</u>	<u>3,330</u>

Settlement risk

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

Notes (continued)

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:

	2021 USD '000	2020 USD '000
Cash and cash equivalents as per liquidity policy	179,610	187,583
Designated liabilities as per liquidity policy	<u>(30,833)</u>	<u>(44,139)</u>
Surplus per liquidity policy	<u>148,777</u>	<u>143,444</u>
Liquidity ratio	<u><u>5.83</u></u>	<u><u>5.67</u></u>

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Notes (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 2021 to the contractual maturity date.

Assets	Matured USD '000	>6 Months		> 1 Year < 3		> 3 Years < 5		> 5 Years < 7		> 7 Years		Total		Amount as per Statement of Financial Position USD '000
		< 6 Months USD '000	Year USD '000	Year USD '000	Years USD '000	Years USD '000	Years USD '000	Years USD '000	Years USD '000	USD '000	USD '000	USD '000	USD '000	
Cash at bank	22,266	-	-	-	-	-	-	-	-	-	-	22,266	22,266	22,266
Deposits due from commercial banks	-	172,022	4,071	-	-	-	-	-	-	-	-	176,093	176,093	175,381
Loans and lease receivables	5,060	20,561	30,704	68,790	42,662	23,995	10,681	-	-	-	-	202,453	202,453	159,817
Equity investments at fair value	-	-	848	-	-	-	-	-	-	-	-	848	848	848
Derivative financial instrument-inflow	-	4,963	-	-	-	-	-	-	-	-	-	4,963	4,963	4,963
Other assets receivable	540	-	-	-	-	-	-	-	-	-	-	540	540	540
Total assets	27,866	197,546	34,775	69,638	42,662	23,995	10,681	407,163	407,163	407,163	407,163	407,163	407,163	363,815
Liabilities and shareholder funds														
Lease Liability	-	72	72	207	37	-	-	-	-	-	-	388	388	388
Other accounts payable	7,776	-	-	-	-	-	-	-	-	-	-	7,776	7,776	7,776
Derivative financial instrument-Outflow	-	5,104	-	-	-	-	-	-	-	-	-	5,104	5,104	5,104
Medium and long term loans	-	6,447	5,009	31,742	10,397	32,448	11,029	97,072	97,072	97,072	97,072	97,072	97,072	84,631
Total liabilities and shareholder funds	7,776	11,623	5,081	31,949	10,434	32,448	11,029	110,340	110,340	110,340	110,340	110,340	110,340	97,899
Net liquidity gap -31 December 2021	20,090	180,960	29,694	37,689	32,228	(8,453)	(348)							
Net liquidity gap -31 December 2021	20,090	201,050	230,744	268,433	300,661	292,208	291,860							
Net liquidity gap -31 Dec 2020	15,206	209,125	17,273	34,958	10,741	(5,421)								
Cumulative gap- 31 Dec 2020	15,206	224,331	241,604	276,562	287,303	281,882								

Notes (continued)

37 Financial risk management (continued)

(c) Liquidity risk (continued)

Off balance sheet items

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

	< 6 Months USD '000	> 6 Months < 1 Year USD '000	> 1 Year < 3 Years USD '000	> 3 Years < 5 Years USD '000	> 5 Years 7 Years USD '000	> 7 Years USD'000	Total USD '000
Loan commitments	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 2021 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 2.5 million (2020: loss of USD 2.6 million), which is 0.90 percent of the total shareholders' equity (2020: 0.94 percent). This is shown in the table below.

	2021 USD'000	2020 USD'000
Total assets repricing within 6 months	296,863	293,418
Total liabilities repricing within 6 months	42,609	31,225
Interest gap	254,254	262,193
Impact of interest fall by 200 bps	(2,543)	(2,625)
Impact on total shareholders' equity	<u>0.90%</u>	<u>0.94%</u>

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Notes (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.

	Up to 1 month USD '000	1 to 3 months USD '000	3 to 6 months USD '000	6 to 12 months USD '000	1 to 5 years USD '000	Over 5 years USD '000	Non- interest bearing		Total
							USD '000	USD '000	
Assets									
Cash at bank	-	-	-	-	-	-	-	22,266	22,266
Placement with commercial banks	67,449	103,370	561	4,001	-	-	-	175,381	175,381
Loans and lease receivables	1,795	68,247	55,440	11,249	9,371	20,485	-	166,587	166,587
Equity investments	-	-	-	-	-	-	848	848	848
Other assets	-	-	-	-	-	-	540	540	540
Total assets	69,245	171,617	56,001	15,250	9,371	20,485	23,654	365,623	
Liabilities and shareholders' funds									
Other liabilities	-	-	-	-	-	-	7,776	7,776	7,776
Borrowings	20,127	15,583	6,899	3,173	15,957	22,696	198	84,631	84,631
Derivative financial instruments	-	-	-	-	-	-	141	141	141
Total liabilities and shareholder funds	20,127	15,583	6,899	3,173	15,957	22,696	8,115	92,548	
Interest sensitivity gap at 31 Dec 2021	49,118	156,034	49,103	12,077	(6,585)	(2,212)	15,539	273,075	
Cumulative gap at 31 Dec 2021	49,118	205,152	254,254	266,332	259,746	257,535	273,075		
Interest sensitivity gap at 31 Dec 2020	52,162	186,180	24,109	575	(12,464)	2,896	9,383	262,841	
Cumulative gap at 31 Dec 2020	52,162	238,342	262,451	263,026	250,562	253,458	262,841		

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Notes (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. However, due to KES exposure from loans in arrears, the Bank hedged the position by taking a KES forward deal reported under derivatives whose final maturity is on 31st March 2022

ASSETS (Figures in USD)	UGX '000	KES '000	TZS '000	RWF '000	EUR '000	GBP '000	SEK '000	Total '000	Amount as per
									Statement of Financial Position (USD '000)
Cash at bank	12,303	2,045	1	50	4,620	10	1	19,030	22,266
Placements with commercial banks	-	2,499	-	-	-	-	-	2,499	175,381
Loans and lease receivables	14,298	21,684	-	110	3,648	-	-	39,739	159,817
Equity investments	-	162	596	-	-	-	-	848	848
Other assets	156	217	59	20	-	-	-	452	540
TOTAL ASSETS	26,757	26,607	656	180	8,268	10	1	62,478	358,416
LIABILITIES									
Other liabilities	2	-	-	-	4,187	-	-	4,189	7,776
Borrowings	26,457	11,603	-	96	4,024	-	-	42,180	84,631
TOTAL LIABILITIES	26,459	11,603	-	96	8,211	-	-	46,369	92,407
Net currency position Dec 2021	298	15,004	656	84	57	10	1	16,109	266,009
Closing exchange rate Dec 2021	3,544.43	113.20	2,304.72	1,014.63	0.8837	0.7408	9.053		
Net currency position Dec 2020	572	7,729	692	77	126	627	1	9,824	
Closing exchange rate Dec 2020	3,645.00	108.95	2,319.00	986.69	0.8145	0.7389	8.174		

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Notes (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 2021 would have decreased profit by USD 1.48 million (2020: decrease of USD 0.893 million). This is assuming that all other variables, in particular interest rates remain constant.

	2021 USD'000	2020 USD'000
FX denominated assets	62,612	61,018
FX denominated liabilities	46,369	51,194
Net open position	16,243	9,824
Impact of a 10% appreciation of USD exchange rate	<u>1,477</u>	<u>893</u>

(f) Fair value of financial assets and liabilities

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

(g) Fair value of financial instruments

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

- Level 1 – Fair value is determined using unadjusted quoted prices in an active market for identical assets and liabilities. Types of financial assets include: actively traded government and other agency securities, listed derivative instruments and listed equities. Types of financial liabilities include listed derivative instruments.
- Level 2 – Fair value is determined using valuation models with direct or indirect market observable inputs. Types of financial assets include: corporate and other government bonds and loans, and over-the-counter (OTC) derivatives. Types of financial liabilities include over-the-counter (OTC) derivatives.
- Level 3 – Fair value is determined using Valuation models using significant non- market observable inputs. Types of financial assets include: highly structured OTC derivatives with unobservable parameters and corporate bonds in illiquid markets. Types of financial liabilities include highly structured OTC derivatives with unobservable parameters.
- 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 2021 and 2020, 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.

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Notes (continued)

37 Financial risk management (continued)

(e) Currency risk (continued)

	Level 2	Level 3	Total
31 December 2021			
Financial assets at fair value through profit or loss			
Derivative financial instruments	(141)	-	(141)
Equity investments at fair value	-	848	848
	<u>(141)</u>	<u>848</u>	<u>707</u>
Total assets	(141)	848	707

31 December 2020

Financial assets at fair value through profit or loss

Derivative financial instruments	-	-	-
Equity investments at fair value	-	1,112	1,112
	<u>-</u>	<u>1,112</u>	<u>1,112</u>
Total assets	-	1,112	1,112

	2021 USD'000	2020 USD'000
Financial assets		
At fair value		
Equity investments	<u>848</u>	<u>1,112</u>
At amortised cost		
Loans and advances	159,817	129,045
Other assets receivable	540	526
Placements with commercial banks	175,381	195,752
Cash at bank	<u>22,266</u>	<u>17,223</u>
	<u>358,004</u>	<u>343,658</u>

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

Liabilities as per balance sheet – at amortised cost

	2021 USD'000	2020 USD'000
Other liabilities	7,776	9,461
Lease liability	388	458
Medium and long term borrowing	<u>84,631</u>	<u>75,337</u>
Total	<u>92,795</u>	<u>85,256</u>

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Notes (continued)

37 Financial risk management (continued)

(g) Fair value of financial instruments (continued)

Reconciliation of level 3 items

Equity investments	Level 3 USD '000	Total USD '000
At start of year	1,112	1,200
Additions	-	-
Investments exited	-	-
Fair value gain/ (loss)	<u>(264)</u>	<u>(88)</u>
At end of year	<u>848</u>	<u>1,112</u>

(h) Capital management

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

- To comply with the capital requirements set under the Bank's Charter;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Bank's capital requirements are strictly observed under Article 11 of the Bank's Charter which requires that the Bank's outstanding loans, equity investments and guarantees do not at any one time exceed three times the Bank's unimpaired subscribed capital plus reserves and surplus relating to its ordinary capital resources but excluding the special reserve. The Bank was well within this limit as of 31 December 2021. The ratio is computed as a ratio of loans, equities and lease receivables divided by shareholders equity less special reserves.

	2021 USD '000	2020 USD '000
Gross loans and lease receivables	166,529	133,026
Shareholders' equity	283,932	278,990
Special reserve	<u>(12,683)</u>	<u>(12,602)</u>
	<u>271,249</u>	<u>266,388</u>
Ratio	<u>0.61</u>	<u>0.50</u>

The Capital adequacy ratio is calculated based on the Basel Accord as Capital divided by Risk Weighted Asset. The ratio of 72% (2020: 70%) 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%.

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Notes (continued)

37 Financial risk management (continued)

(h) Capital management (continued)

	2021 USD'000'	2020 USD'000'
Capital structure		
Tier 1 Capital	274,228	269,594
Tier 2 Capital	9,704	9,355
Tier 3 Capital	-	-
	<u>283,932</u>	<u>278,949</u>
Total risk-weighted assets (including credit risk and Operational risk)	394,836	398,766
Capital adequacy ratio	<u>72%</u>	<u>70%</u>

Net debt reconciliation

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

	2021 USD'000	2020 USD'000
Cash and cash equivalents (Note 35)	118,560	137,559
Borrowings (Notes 25)	(84,631)	(75,337)
Lease liabilities (Note 26)	<u>(388)</u>	<u>(458)</u>
Net debt	<u>33,541</u>	<u>61,764</u>

	Borrowings USD'000	Lease liabilities USD'000	Liquid assets USD'000	Total USD'000
At 1 January 2020	(86,082)	(554)	153,800	67,164
Acquisitions	(3,980)	-	-	(3,980)
Repayments	17,903	138	-	18,041
Net foreign exchange difference	988	-	218	1,206
Other adjustments/ movements	(4,166)	(42)	(16,459)	(20,667)
At 31 December 2020	<u>(75,337)</u>	<u>(458)</u>	<u>137,559</u>	<u>61,764</u>
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)	(38)	(18,815)	(22,352)
At 31 December 2021	<u>(84,631)</u>	<u>(388)</u>	<u>118,560</u>	<u>33,541</u>

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Notes (continued)

38 Employee retirement benefit plans and gratuity	Note	2021 USD '000	2020 USD '000
Contribution to the retirement benefit plan	(i)	253	261
Contribution to the statutory pension scheme (NSSF)	(ii)	4	3
Gratuity	(iii)	<u>72</u>	<u>72</u>
		<u><u>329</u></u>	<u><u>336</u></u>

(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).

39 Capital commitments

There were no approved capital commitments outstanding at the end of year (2020: 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.

	2021 USD '000	2020 USD '000
Un-disbursed commitments	<u>2,893</u>	<u>3,330</u>

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Notes (continued)

40 Off balance sheet items and contingencies (continued)

Nature of contingent liabilities

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

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

Management has also carried out an assessment of all the cases outstanding as at 31 December 2021 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 88.22% of the total number of shares (2020: 87%) which is 100% of the ordinary class A shares. The remaining 11.78% (2020: 13%) 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:

	2021 USD '000	2020 USD '000
Loans and advances to Directors		
Green Hills Academy Ltd	110	197
Loan to Government of United Republic of Tanzania	57,679	11,122
Interest income earned on the above	1,683	823

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

	2021 USD '000	2020 USD '000
NCBA Bank Limited	55,179	57,262
Standard Chartered Bank PLC	27,501	30,962
Interest income earned on the above	<u>1,935</u>	<u>1,824</u>

Borrowings payable by the Bank to shareholders

African Development Bank	15,288	19,046
NCBA Bank Limited	<u>2,506</u>	<u>5,754</u>
Interest expense on borrowings as paid to shareholders	<u>1,023</u>	<u>1,708</u>

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Notes (continued)

41 Related party transactions (continued)

As at 31 December 2021, provision on loans and advances to related parties amounted to USD 927,297 for Government of United Republic of Tanzania and 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) and members of senior management. The compensation paid or payable to key management for employee services is shown below:

	2021 USD '000	2020 USD '000
Salaries and other employee benefits	379	379
Other short-term employee benefits - Gratuity	72	72
Other expenses	<u>38</u>	<u>40</u>
	<u>489</u>	<u>491</u>
Directors' emoluments		
- Fees and allowances	26	41
- Salaries and other short-term employee benefits (included within key management compensation above)	451	451
- Other expenses	<u>-</u>	<u>7</u>
	<u>477</u>	<u>499</u>

