East African Development Bank

Directors' Report and Financial Statements

For the year ended 31 December 2013

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East African Development Bank
Governing Council, Advisory Panel, Directors, Officers and Administration

GOVERNING COUNCIL

- Amb. Claver Gatete

  Minister for Finance and Economic Planning, Republic of Rwanda-**Chairman (**appointed 24 February 2013)

- Hon. Maria Kiwanuka

  Minister for Finance and Economic Development, Republic of Uganda

- Hon. Henry K. Rotich

  Cabinet Secretary, The National Treasury, Republic of Kenya - (appointed 15 May 2013)

- Hon. Saada Mkuya Salum

  Minister for Finance, United Republic of Tanzania - (appointed 19 January 2014)

- Hon. Robinson Njeru Githae

  Minister for Finance, Republic of Kenya - (until 15 May 2013)

- The Late Hon. William Mgimwa (RIP)

  Minister for Finance, United Republic of Tanzania - (until 31 December 2013)

- Hon. John Rwangombwa

  Minister for Finance and Economic Planning, Republic of Rwanda - (retired 24 February 2013)

DIRECTORS :

- Keith Muhakanizi

  Permanent Secretary and Secretary to the Treasury, Ministry of Finance, Planning and Economic Development, Republic of Uganda - Chairman (appointed 25 May 2013)

- Alhaj. Ramadhan M.Khijjah

  Permanent Secretary, Ministry of Finance, United Republic of Tanzania - (until 22 August 2013)

- Dr. Kamau Thugge

  Principal Secretary, the National Treasury, Republic of Kenya - (appointed 27 June 2013)

- Kampeta Pitchette Sayinzoga

  Permanent Secretary, Secretary to the Treasury, Ministry of Finance and Economic Planning, Republic of Rwanda

- Vivienne Yeda

  Director General, East African Development Bank

- Mr James Mulwana (RIP)

  Private Sector Representative, Republic of Uganda - (until 15 January 2013)

- Francis N. Karuiru

  Private Sector Representative, Republic of Kenya

- Khadija I. Simba

  Private Sector Representative, Republic of Tanzania

DIRECTORS :

- Timo Teinila
  African Development Bank Representative
- Mbundu Faustin
  Private Sector Representative, Republic of Rwanda
- Joseph Kinyua
  Permanent Secretary, Secretary to the Treasury, Ministry of Finance, Republic of Kenya - (retired 27 June 2013)
- Dr. Servacius Likwelile
  Permanent Secretary, Ministry of Finance, United Republic of Tanzania (appointed 22 August 2013)
- Christopher M. Kassami
  Permanent Secretary and Secretary to the Treasury, Ministry of Finance, Planning and Economic Development, Republic of Uganda - (retired 24 May 2013)

ADVISORY PANEL

- Mahesh K. Kotecha
- Toyoo Gyohten
- Lars Ekengren
- Jannik Lindbaek

AUDITOR

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

REGISTERED OFFICES & PRINCIPAL PLACES OF BUSINESS

Uganda (Headquarters)	Kenya	Rwanda	Tanzania
Plot 4 Nile Avenue EADB Building P O Box 7128 Kampala, Uganda	2nd Floor Rahimtulla Tower Upper Hill Road P O Box 47685-00100 Nairobi, Kenya	Ground Floor, Glory House Kacyiru P.O.Box 6225,Kigali, Rwanda	349 Lugalo/ Urambo street Upanga P.O Box 9401, Dar es Salaam, Tanzania

The directors submit their report together with the audited financial statements for the year ended 31 December 2013, which disclose the state of affairs of East African Development Bank ("EADB" or "the Bank").

INCORPORATION

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

PRINCIPAL ACTIVITY

The principal activity of the Bank is development finance lending under the Bank's Charter.

RESULTS

The results for the year are set out on page 6 of the financial statements.

DIVIDENDS

The directors do not recommend the payment of dividends for the year (2012: Nil).

DIRECTORATE

The Directors who served during the year are set out on page 1.

AUDITOR

The Bank's auditor, PricewaterhouseCoopers, has indicated willingness to continue in office.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved at a meeting of the Directors held on 21 February 2014.

BY ORDER OF THE BOARD

Director

13 March 2014

The Bank's Charter requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the financial year end and of its profit or loss. It also requires the directors to ensure that the Bank keeps proper accounting records that disclose, with reasonable accurate, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The directors accept responsibility for the financial statements set out on pages 6 to 61 which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the Bank's Charter. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its performance for the year ended 31 December 2013. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, 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.

The directors have assessed the Bank's ability to continue as a going concern and concluded that there's nothing 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, as indicated above, were approved by the board of directors on 13 March 2014 and were signed on its behalf by:

Chairman : ....

Director General : ....

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

Report on the Financial Statements

We have audited the accompanying financial statements of East African Development Bank ("the Bank") as set out on pages 6 to 61. These financial statements comprise the statement of financial position at 31 December 2013 and the the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements 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.

Auditors' responsibility

Our responsibility is to express an independent opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank at 31 December 2013 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers
Certified Public Accountants
Kampala, Uganda

17 April 2014

Statement of comprehensive income

	Notes	2013 USD'000	2012 USD'000
Interest income	3	**11,549**	14,517
Interest expense	4	**(2,281)**	(4,408)
Net interest income		**9,268**	10,109
Fee and commission income	5	**472**	780
Net foreign exchange gains/(losses)	6	**41**	1,192
Other operating income	7	**4,818**	3,934
Net fair value losses on financial assets at fair value	19	**661**	(1,137)
Net fair value gains on equity investments at fair value	18	**(32)**	296
Net operating income		**15,228**	15,174
Reduction in provision for impairment of loans and lease receivables	16(a)	**(823)**	698
Operating income after impairment charges		**14,405**	15,872
Employee benefits expense	8	**(4,402)**	(3,735)
Depreciation and amortization	21	**(596)**	(541)
Other operating expenses	9	**(2,378)**	(4,281)
Profit before income tax	10	**7,029**	7,315
Income tax expense	11	**-**	-
Profit for the year		**7,029**	7,315
Other comprehensive income		**-**	-
Total comprehensive income		**7,029**	7,315
Earnings per share - basic	12	**840**	989
Earnings per share- diluted	12	**825**	702

Statement of financial position

	Notes	2013 USD'000	2012 USD'000
Assets			
Cash at bank	13	**4,463**	5,532
Deposits due from commercial banks	14	**124,537**	112,396
Investment security held to maturity	15	**909**	931
Loans and lease receivables	16	**99,910**	80,267
Derivative financial instruments	19	**72**	398
Equity investments at fair value	18	**711**	743
Other assets	20	**1,176**	599
Property, plant and equipment	21	**6,165**	4,104
Total assets		**237,943**	204,970
Liabilities			
Other liabilities	22	**4,931**	6,408
Borrowings	23	**52,120**	54,031
Special funds	24	**3,990**	-
Grants	25	**3,373**	150
Capital fund	26	**7,479**	-
Total liabilities		**71,893**	60,589
Capital and reserves			
Share capital	27	**152,159**	99,900
Share premium	27	**2,532**	1,425
Funds awaiting allotment	28	**2,081**	40,807
Special reserve	29	**10,624**	10,313
Fair value reserve	30	**475**	(180)
Accumulated losses		**(1,821)**	(7,884)
Total shareholders' equity		**166,050**	144,381
Total shareholders' equity and liabilities		**237,943**	204,970
Off balance sheet items and contingencies	36	**5,054**	14,636

The financial statements set out on pages 6 to 61 were approved by the Board of Directors on ..15 - March -..2014 and were signed on its behalf by:

Chairman: ______________________ **Director General:** ______________________

Statement of changes in equity

Year ended 31 December 2012	**Notes**	**Share Capital USD '000**	**Share premium USD '000**	**Special reserves USD '000**	**Funds awaiting allotment USD '000**	**Fair value reserve USD '000**	**Accumulated losses USD '000**	**Total equity USD '000**
At start of year		99,900	1,425	9,970	14,702	(71)	(14,965)	110,961
Comprehensive income								
Profit for the year		-	-	-	-	-	7,315	7,315
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	7,315	7,315
Transactions with owners recorded directly in equity								
Transfer to special reserve		-	-	343	-	-	(343)	-
Receipts from member countries		-	-	-	4,875	-	-	4,875
Conversion of Special Funds					21,230			21,230
Transfer to fair value reserve		-	-	-	-	(109)	109	-
At end of year		99,900	1,425	10,313	40,807	(180)	(7,884)	144,381
Year ended 31 December 2013								
At start of year		99,900	1,425	10,313	40,807	(180)	(7,884)	144,381
Comprehensive income								
Profit for the year		-	-	-	-	-	7,029	7,029
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	7,029	7,029
Transactions with owners recorded directly in equity								
Transfer to special reserve		-	-	311	-	-	(311)	-
Receipts from shareholders		3,389	1,107	-	24,838	-	-	29,334
Capitalisation of contributions from shareholders		42,282	-	-	(42,282)	-	-	-
Conversion of special funds to share capital		6,588	-	-	(6,588)	-	-	-
Reclassification to capital/special funds and grants		-	-	-	(14,694)	-	-	(14,694)
Transfer to fair value reserve		-	-	-	-	655	(655)	-
At end of year		**152,159**	**2,532**	**10,624**	**2,081**	**475**	**(1,821)**	**166,050**

Statement of cash flows

	Note	2013 USD'000	2012 USD'000
Cash flows from operating activities			
Interest receipts		**10,048**	13,967
Interest payments		**(1,989)**	(4,003)
Net fee and commission receipts		**368**	774
Other income received		**1,373**	617
Payments to employees and suppliers		**(6,271)**	(6,939)
Cash outflows from operating activities		**3,529**	4,416
Net receipts from loans and advances		**(21,524)**	(13,666)
Net other receipts from customers		**2,796**	756
Settlement of other liabilities		**(801)**	(404)
Settlement of medium and long term borrowings		**(14,986)**	(16,482)
EADB bond payments		**-**	(2,805)
Net cash generated from operating activities		**(30,986)**	(28,185)
Investing activities			
Purchase of property and equipment		**(2,664)**	(1,005)
Deposits with Banks		**(15,224)**	-
Proceeds from sale of property and equipment		**50**	-
Net cash used in investing activities		**(17,838)**	(1,005)
Financing activities			
Receipts from shareholders towards share capital	27,28	**29,334**	4,785
Borrowings		**12,439**	-
Net cash generated from financing activities		**41,773**	4,785
Net increase in cash and cash equivalents		**(7,051)**	(24,405)
Cash and cash equivalent at the start of the year		**95,480**	119,885
At end of year	31	**88,429**	95,480

Notes

1 Reporting entity

East African Development Bank (the "Bank") is a regional bank established under the Bank's Charter of 1980 with its current membership comprising the four East African Countries of Uganda, Kenya, Tanzania and Rwanda with its head office in Kampala, Uganda. The Bank is primarily involved in development finance lending and the provision of related services as stipulated under its Charter.

The Bank's principal office address is:
Plot 4 Nile Avenue
EADB Building
P. O. Box 7128
Kampala, Uganda

For purposes of the EADB Charter, the profit and loss statement is represented by the statement of comprehensive income and the balance sheet 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 the years presented, unless otherwise stated.

a) Basis of preparation

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Additional information required by the Charter is included where appropriate. The financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss, all derivative contracts and investment properties, which have been measured at fair value. The financial statements have been presented in United States dollars rounded off to the nearest thousand (USD '000).

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 32.

b) Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Bank

The amendments to existing standards below which are each appropriate for reporting periods beginning on or after 1 January 2013 are relevant to the Bank's operations:

Standard	Title
IAS 1	Presentation of financial statements
IFRS 7	Financial Instruments: Disclosures
IFRS 13	Financial Instruments: Disclosures
IAS 36	Impairment of assets

Notes (continued)

2 Principal accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

Amendment to IAS 1, 'Presentation of Financial Statements ' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment only affects presentation on the face of the statement of comprehensive income.

Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting. This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. The impact has been increased disclosure in the financial statements.

IFRS 13, ‘Fair value measurement’, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The adoption of IFRS 13 has increased the extent of fair value disclosures in the financial statements.

Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash generating units (CGUs) which had been included in IAS 36 by the issue of IFRS 13.

There are no other new or revised standards or interpretations issued and effective that would be expected to have a material impact on the Bank.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements.

IFRS 9, ‘Financial instruments’, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. The Bank is yet to assess IFRS 9’s full impact. The Bank will also consider the impact of the remaining phases of IFRS 9 when completed by the International Accounting Standards Board (IASB).

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Bank is not currently subjected to significant levies so the impact on the Bank is not material.

Notes (continued)

2 Principal accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank (continued)

Annual improvements 2010-2012 and 2011-2013 cycles – These are collections of 7 and 4 amendments to standards respectively as part of the IASB's programme to annual improvements. The amendments are all effective for annual periods beginning on or after 1 July 2014 and the directors are currently assessing the impact of these improvements on their financial statements.

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

c) Functional and presentation currency

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability

Notes (continued)

2 Principal accounting policies (continued)

e) Revenue recognition

Interest income and expense presented in the Statement of Comprehensive Income includes interest on financial assets and liabilities at amortised cost on an effective interest rate basis.

(ii) Fees and commission income

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

Other fees and commission income including account servicing fees are recognized as the service is performed.

e) Revenue recognition (continued)

(iii) Dividend income

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

(iv) Other income

Other income comprises of gains less loss related to trading assets and liabilities, and includes all realised and unrealized fair value changes, and interest.

f) Property, plant and equipment

Property, plant and equipment are stated at cost 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.

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.

Subsequent expenditure is recognised in the carrying amount of property and equipment if it is probable that the future economic benefits embodied within the asset will flow to the Bank and its costs can be measured reliably. The cost of day-to-day running of the asset is recognised in profit or loss as incurred.

Notes (continued)

2 Principal accounting policies (continued)

g) Intangible assets

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

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

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

h) Leases

a) Bank is the lessee

(i) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including pre-payments, made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The total payments made under operating leases are charged to 'other operating expenses' on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) Finance leases

Leases of assets where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement, at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

b) Bank is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

The leases entered into by the Bank are primarily finance leases.

i) Capital work-in-progress

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

Notes (continued)

2 Principal accounting policies (continued)

j) Financial assets and financial liabilities

(i) Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and held-to-maturity financial assets. The directors determine the classification of its financial assets at initial recognition. The Bank uses trade date accounting for regular way contracts when recording financial asset transactions.

(a) Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.

(i) Financial assets (continued)

(a) Financial assets at fair value through profit or loss (continued)

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Bank designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed and can only be applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis or
- the financial assets consist of debt host and an embedded derivatives that must be separated.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss and are reported as 'Net gains/(losses) on financial instruments classified as held for trading'. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income' or 'Dividend income', respectively. Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in 'Net gains on financial instruments designated at fair value through profit or loss'.

Notes (continued)

2 Principal accounting policies (continued)

j) Financial assets and financial liabilities (continued)

(i) Financial assets (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

a. those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;

b. those that the Bank upon initial recognition designates as available-for-sale; or

c. those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method.

Advances to projects in exchange for shares in the project Company that are recoverable at the higher of amounts advanced plus a fixed rate of return or a valuation of the shares are classified as loans and advances with embedded equity derivatives.

The bank assesses whether the fair value of the embedded derivative is material for bifurcation on initial recognition and at the reporting date. Where the fair value is deemed material, it is reflected in the financial statements. Otherwise no accounting entries are made.

The host contract is accounted for initially at fair value and subsequently at amortised cost using the market rate of interest applicable to similar instruments and currencies.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the directors have the positive intention and ability to hold to maturity, other than:

a. those that the Bank upon initial recognition designates as at fair value through profit or loss;
b. those that the Bank designates as available-for-sale; and
c. those that meet the definition of loans and receivables.

Held-to-maturity investments are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

(ii) Financial liabilities

The Bank's holding in financial liabilities represents mainly medium and long term borrowings and other liabilities. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

Notes (continued)

2 Principal accounting policies (continued)

j) Financial assets and financial liabilities (continued)

(iii) Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial instruments is based on quoted market prices or dealer price quotations.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the reporting dates.

The Bank uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

For more complex instruments, the Bank uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models such as present value techniques are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The impact on net profit of financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in Note 33.

(iv) Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

(v) Reclassification

The Bank may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Notes (continued)

2 Principal accounting policies (continued)

j) Financial assets and financial liabilities (continued)

(vi) Reclassification(continued)

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

On reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives are re-assessed and, if necessary, separately accounted for.

(vi) Derivative instruments

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

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

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

(vii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs.

(viii) Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table as follows:

Notes (continued)

2 Principal accounting policies (continued)

j) Financial assets and financial liabilities (continued)

(viii) Classes of financial instruments(continued)

<table>
<tr><th colspan="2">Category (as defined by IAS 39)</th><th colspan="2">Class (as determined by the Bank)</th><th>Subclasses</th></tr>
<tr><td rowspan="14">Financial assets</td><td rowspan="7">Financial assets at fair value through profit or loss</td><td rowspan="3">Financial assets held for trading</td><td>Debt securities</td><td></td></tr>
<tr><td>Equity securities</td><td></td></tr>
<tr><td>Derivatives – non-hedging</td><td></td></tr>
<tr><td rowspan="4">Financial assets designated at fair value through profit or loss</td><td>Debt securities</td><td></td></tr>
<tr><td>Equity securities</td><td></td></tr>
<tr><td>Loans and advances to banks</td><td></td></tr>
<tr><td>Loans and advances to customers</td><td></td></tr>
<tr><td rowspan="4">Loans and receivables</td><td colspan="2">Loans and advances to banks</td><td></td></tr>
<tr><td colspan="2" rowspan="3">Loans to projects</td><td>Large corporate customers</td></tr>
<tr><td>SMEs</td></tr>
<tr><td>Others</td></tr>
<tr><td rowspan="3">Held-to-maturity Investments</td><td rowspan="3">Investment securities - debt securities</td><td rowspan="3"></td><td>Listed</td></tr>
<tr><td>Unlisted</td></tr>
<tr><td>Unlisted</td></tr>
<tr><td rowspan="5">Financial liabilities</td><td rowspan="2">Financial liabilities at fair value through profit or loss</td><td colspan="2">Financial liabilities held for trading (derivatives - non hedging only)</td><td></td></tr>
<tr><td colspan="2">Designated at fair value through profit or loss - Debt securities in issue</td><td></td></tr>
<tr><td rowspan="3">Financial liabilities at armortised cost</td><td colspan="2">Deposits from banks</td><td></td></tr>
<tr><td colspan="2">Debt securities in issue</td><td></td></tr>
<tr><td colspan="2">Convertible bonds</td><td>These are additional classes of financial liabilities at amortised cost</td></tr>
<tr><td rowspan="2"></td><td rowspan="2"></td><td colspan="2">Convertible bonds</td><td rowspan="2"></td></tr>
<tr><td colspan="2">Subordinated debt</td></tr>
<tr><td rowspan="2">Off-balance sheet financial Instruments</td><td colspan="3">Loan commitments</td><td></td></tr>
<tr><td colspan="2">Guarantees, acceptances and other financial facilities</td><td colspan="2"></td></tr>
</table>

k) Impairment of non-financial assets

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

Notes (continued)

2 Principal accounting policies (continued)

l) Identification and measurement of impairment

At each Statement of Financial Position date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

- objective evidence that financial assets (including equity securities) are impaired can include:
- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal repayments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrowers financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    - adverse changes in the payment status of borrowers in the group; or
    - National or local economic conditions that correlate with defaults on the assets in the group.

In assessing collective impairment, the Bank determines a loss ratio using historical financial information. Loss ratio is determined as total impairment as a fraction of total loans and lease receivables. This loss ratio maybe adjusted depending on management's judgement of the current economic and credit conditions. The loss ratio is then applied to those loans and lease receivables that have not been assessed for specific impairment.

Notes (continued)

Principal accounting policies (continued)

Identification and measurement of impairment (continued)

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognised in the Statement of Comprehensive Income and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the Statement of Comprehensive Income.

Loans and advances are shown at gross amount adjusted for any provision for impairment losses. A provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contract terms of the loans. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount. When a loan is deemed uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited to the provision for loan losses in the Statement of Comprehensive Income.

m) Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Bank in the Statement of Financial Position.

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.

o) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method
Charges on borrowings are accrued when they are incurred.

p) 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)

q) 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 Comprehensive Income in the year in which they are made. Costs relating to early retirement are charged to the Statement of Comprehensive Income in the year in which they are incurred.

ii) Service gratuity

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

iii) Other entitlements

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

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 less than 90 days maturity from the Statement of Financial Position date.

t) Contingent liabilities

Letters of credit acceptances and guarantees are accounted for as Off Balance Sheet items and described as contingent liabilities. Estimation of the outcome and financial effect of contingent liabilities is made by management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to the statement of comprehensive income.

Notes (continued)

2 Principal accounting policies (continued)

u) Taxation

No provision is made for taxation as the Bank is exempt from income tax under Article 49 of the Bank's Charter.

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.

3 Interest income

	2013 USD '000	2012 USD '000
Interest income on loans to projects		
Interest income on unimpaired loans	**6,864**	6,153
Interest income on impaired loans	**450**	1,214
Interest income from lease rentals		
Interest income on unimpaired lease receivables	**206**	266
Interest income on impaired lease receivables	**-**	20
Income on loans to banks	**152**	239
Interest on deposits		
Interest income from short term deposits	**3,877**	6,625
	11,549	14,517

4 Interest expense

	2013	2012
Interest on loans from banks	**844**	2,407
Interest on bonds	**-**	285
Interest on medium and long term borrowings	**603**	771
Interest on letters of credit	**834**	891
Bond issue costs - amortisation	**-**	54
	2,281	4,408

5 Fee and commission income

	2013	2012
Net commission received	**535**	463
Commission from letters of credit	**55**	70
Commitment fee expense	**(200)**	-
Commitment fee income	**52**	245
Other fees (net)	**30**	2
	472	780

Notes (continued)

6 Net foreign exchange losses

	2013 USD '000	2012 USD '000
Net gains/(losses) on foreign currency transactions and revaluation	**41**	1,192

7 Other Operating Income

	2013	2012
Rent income	**689**	695
Dividend income	**87**	122
Recovery of previously written off loans	**3,152**	3,117
Gain on disposal of property and equipment	**50**	-
Recovery from pension fund	**730**	-
Write back of other liabilities	**110**	-
	4,818	3,934

8 Employee benefits expense

	2013	2012
Salaries and wages	**2,896**	3,099
Pension and gratuity (Note 34)	**534**	222
Other staff costs	**972**	414
	4,402	3,735

9 Other operating expenses

	2013	2012
Rental expense	**97**	107
Staff duty travel	**119**	187
Directors expenses	**121**	169
Insurance	**311**	274
Advertising and publicity	**65**	134
Legal fees	**442**	711
Staff training, seminars and workshops	**16**	59
Repairs and maintenance	**141**	110
Computer software expenses	**104**	119
Other IT related expenses	**9**	17
Internal audit costs	**60**	12
Audit fees	**39**	52
Consultancy fees	**246**	192
Subscription to professional bodies	**10**	15
Other administrative expenses	**598**	2,123
	2,378	4,281

Notes (continued)

10 Profit before income taxes

	2013 USD '000	2012 USD '000
Profit before income tax is stated after charging the following:		
Directors emoluments:		
- Fees and allowances	**60**	81
- Other expenses	**61**	88
Depreciation and amortization of intangible assets and grants	**596**	541
Impairment of loans and advances	**823**	(1,137)
Employee benefits expense (Note 8)	**4,402**	3,735
Auditors remuneration	**39**	52

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.

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.

	2013 USD '000	2012 USD '000
Net profit attributable to ordinary shareholders	**7,029**	7,315
Weighted average number of ordinary shares in issue and paid up during the year (note 27)	**8,368**	7,400
Basic earnings per share	**840**	989
Dilutive number of ordinary shares	**154**	3,023
Total issued and dilutive shares	**8,522**	10,423
Diluted earnings per share	**825**	702

Dilutive shares represent the number of shares generated from funds awaiting allotment (Note 28).

13 Cash at bank

	2013 USD '000	2012 USD '000
Bank deposits	**4,463**	5,532

Notes (continued)

14 Deposits due from commercial banks

	2013 USD '000	2012 USD '000
Deposits with banks in member states	**123,930**	111,179
Deposits with overseas banks	**607**	1,217
	124,537	112,396
The above amount is analyzed as follows:		
Amounts due within 3 months	**83,964**	89,948
Amounts due after 3 months	**40,573**	22,448
	124,537	112,396

The weighted average effective interest rate on deposits due from banks was 3.4 % (2012: 5.51%).

15 Investment security held to maturity

	2013 USD '000	2012 USD '000
Corporate bond – Housing Finance Bank Uganda Limited	909	931

The interest rate for the bond, which is denominated in Uganda Shillings is fixed at 13.5% per annum with maturity period of 7 years.

16 Loans and lease receivables

	2013 USD'000	2012 USD '000
Loans and advances (net)	**97,935**	78,573
Finance lease receivables (net)	**1,975**	1,694
	99,910	80,267
Loans to other banks	**-**	2,082
Loans to projects	**103,070**	83,374
Finance lease receivables	**2,565**	2,345
Staff loans	**29**	58
Gross loans	**105,664**	87,859
Impairment losses on loans and advances (Note 16a)	**(5,754)**	(7,592)
Net carrying amounts	**99,910**	80,267

Notes (continued)

16 Loans and lease receivables

Included within loans to projects is financing amounting to USD 2.075 million (2012: USD 2.294 million) extended to projects in exchange for shares in the borrower companies acquired at terms under which the shares are redeemable by the borrower company at the higher of a valuation of the shares or the amount invested plus a guaranteed minimum annual rate of return. Such financing is accounted for as loans and receivables. The directors have assessed the fair value of the embedded equity derivative within these instruments and concluded that it is not material and as such it has not been accounted for in these financial statements.

(a) Loan impairment charges

	2013 USD' 000			2012 USD' 000		
	Identified allowance for impairment	**Unidentified (Collective) allowance for impairment**	**Total**	**Identified allowance for impairment**	**Unidentified (Collective) allowance for impairment**	**Total**
At start of year	6,164	1,428	7,592	9,997	2,336	12,333
Reversal of impairment	(1,187)	(10)	(1,197)	(1,556)	(908)	(2,464)
Increase in impairment allowances	2,020	-	2,020	1,766	-	1,766
Loan impairment charge for the year	**833**	**(10)**	**823**	210	(908)	(698)
Amounts written off during the year	(2,661)	-	(2,661)	(4,043)	-	(4,043)
At end of year	**4,336**	**1,418**	**5,754**	**6,164**	**1,428**	**7,592**

Notes (continued)

16 Loans and lease receivables (continued)

(b) **Finance lease receivables**

	2013 USD '000	2012 USD '000
Gross lease rentals within one year	**69**	1,537
Gross lease rentals after one year but before five years	**2,845**	994
	2,914	2,531
Unearned future finance income on finance leases	**(326)**	(186)
	2,588	2,345
Less: impairment losses		
Identified	**(561)**	(623)
Unidentified	**(38)**	(28)
	1,989	1,694
The net investment in finance leases may be analysed as follows:		
Not later than 1 year	**2**	630
Later than 1 year and not later than 5 years	**1,987**	1,064
	1,989	1,694

17 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 also excludes the effects of unrealised gains/ 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.

Notes (continued)

17 Segment information (continued)

The segment information provided to the board of directors for the reportable segments for the year ended 31 December 2013 is as follows:

Loan exposure by country

Country	Gross Balances USD M	%	Net Balances USD M	%
Uganda	38.3	36.3	36.7	36.8
Kenya	25.1	23.7	24.3	24.3
Tanzania	24.9	23.6	22.1	22.1
Rwanda	17.3	16.4	16.8	16.8
Total Region	**105.6**	**100**	**99.9**	**100**

Exposure by product

Product	Gross Balances USD M	%	Net Balances USD M	%
Loan (Long term)	94.3	89.3	89.9	90
Loan (Medium term)	0.7	0.7	0.5	0.5
Loan (Short term)	4.9	4.6	4.4	4.4
Asset Lease	2.9	2.8	2.3	2.3
Loans sub-total	**102.8**	**97.4**	**97.1**	**97.2**
Equity	2.8	2.6	2.8	2.8
Total All Products	**105.6**	**100**	**99.9**	**100**

Total portfolio quality

Category	Gross portfolio	%	Net Portfolio	%
Performing Portfolio	**USD M**		**USD M**	
Normal	97.87	92.7	95.9	96.4
Watch	5.98	5.7	3.6	3.6
	103.85	**98.4**	**99.5**	**100**
Non-Performing Portfolio				
Substandard	-	-	-	-
Doubtful	0.9	0.9	0.2	-
Loss/Receivership	0.8	0.7	0.1	-
	1.7	**1.6**	**0.3**	**-**
	105.6	**100**	**99.8**	**100**

Notes (continued)

17 Segment information (continued)

Approvals and disbursements

	Approvals		Disbursements	
	2013 Actual (USD M)	2012 Actual (USD M)	2013 Actual (USD M)	2012 Actual (USD M)
COUNTRY				
Uganda	20.2	2.6	9.4	22.4
Kenya	39.1	20.3	5.3	15.1
Tanzania	13.1	9.5	10	-
Rwanda	20	13.5	14.1	-
	92.4	45.9	**38.8**	37.5
PRODUCT				
Loans	92.1	44.4	37.7	37.5
Asset leasing	0.3	1.5	1.1	-
Equity	-	-	-	-
	92.4	45.9	**38.8**	37.5

Notes (continued)

Segment statement of comprehensive income For the year ended 31 December 2013	**Uganda USD'000**	**Kenya USD'000**	**Tanzania USD'000**	**Rwanda USD'000**	**Head Office USD'000**	**Total USD'000**
Interest income	3,751	2,211	1,097	470	4,020	11,549
Interest expense	-	-	-	-	(2,281)	(2,281)
Net interest income	**3,751**	**2,211**	**1,097**	**470**	**1,739**	**9,268**
Fee and commission income	125	67	80	207	(112)	367
Net foreign exchange losses	287	(45)	17	0	(216)	43
Other operating income	90	41	61	9	1,570	1,771
Net losses on financial assets held at fair value	-	-	-	-	92	92
Net gains on equity investments held at fair value	386	124	27	-	-	537
						-
Total operating income	**4,639**	**2,398**	**1,282**	**686**	**3,073**	**12,078**
Reduction in provision for impairment of loans and lease receivables	(165)	381	89	(250)	2,273	2,328
Operating income after impairment charges	**4,474**	**2,779**	**1,371**	**436**	**5,346**	**14,406**
Employee benefits expense	(159)	(342)	(250)	(146)	(3,506)	(4,403)
Depreciation and amortization	-	(19)	(61)	(31)	(485)	(596)
Other operating expenses	(7)	(136)	(116)	(97)	(2,022)	(2,378)
Profit before income tax	4,308	2,282	944	162	(667)	7,029
Income tax expense	-	-	-	-	-	-
Profit for the year	**4,308**	**2,282**	**944**	**162**	**(667)**	**7,029**
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	**4,308**	**2,282**	**944**	**162**	**(667)**	**7,029**

Notes (continued)

17 Segment information (continued)

Segment statement of financial position
For the year ended 31 December 2013

	Uganda	Kenya	Tanzania	Rwanda	Head office	Total
Assets						
Cash at bank	-	-	3	-	4,460	4,463
Deposits due from commercial banks	-	-	-	-	124,537	124,537
Investment securities held to maturity	-	-	-	-	909	909
Loans and lease receivables	39,478	24,677	21,002	14,753	-	99,910
Derivative financial instruments	-	-	-	-	72	72
Equity investments	-	117	594	-	-	711
Other assets	-	-	-	-	1,176	1,176
Property and equipment	4	-	29	34	6,098	6,165
Total assets	**39,482**	**24,794**	**21,628**	**14,787**	**137,252**	**237,943**
Liabilities						
Other liabilities	-	-	-	-	(4,931)	(4,931)
Borrowings	-	-	-	-	(52,120)	(52,120)
Special funds	-	-	-	-	(3,990)	(3,990)
Grants	-	-	(150)	-	(3,223)	(3,373)
Capital fund	-	-	-	-	(7,479)	(7,479)
Total liabilities	**-**	**-**	**(150)**	**-**	**(71,743)**	**(71,893)**

The segment information provided to the board of directors for the reportable segments for the year ended 31 December 2012 is as follows:

Loan exposure by country

Country	Gross balances (US$ M)	%	Net balances (US$ M)	%
Uganda	36.4	41.4	33.8	42.0
Kenya	29.8	33.9	27.0	33.6
Tanzania	17.8	20.3	15.6	19.5
Rwanda	3.9	4.4	3.9	4.9
	87.9	**100**	**80.3**	**100**

Notes (continued)

17 Segment information (continued)

Loan exposure by product

Product	Gross balances (US$ M)	%	Net balances (US$ M)	%
Long term loans	78.9	89.8	72.4	90.2
Medium term loans	0.7	0.8	0.6	0.7
Short term loans	3	3.4	2.5	3.1
	82.6	**94**	**75.5**	**94**
Equity backed investments	3.1	3.5	3.2	4
Asset leasing	2.2	2.5	1.6	2
	87.9	**100**	**80.3**	**100**

Total portfolio quality

Category	Gross portfolio (USD M)	%	Net portfolio (USD M)	%
Performing portfolio				
Normal	76.9	87.5	74.8	93.2
Watch	5.9	6.7	3.9	4.8
	82.8	**94.2**	**78.7**	**98**
Non-performing portfolio				
Sub standard	0.9	1	0.3	0.4
Doubtful	2.2	2.6	0.6	0.8
Loss/ receivership	2	2.2	0.7	0.8
	5.1	**5.8**	**1.6**	**2**
	87.9	**100**	**80.2**	**100**

Notes (continued)

Segment statement of comprehensive income For the year ended 31 December 2012	**Uganda USD' 000**	**Kenya USD '000**	**Tanzania USD '000**	**Rwanda USD '000**	**Head office USD '000**	**Total USD '000**
Interest income	3,236	2,758	1,324	260	6,939	14,517
Interest expense	-	-	-	-	(4,408)	(4,408)
Net interest income	**3,236**	**2,758**	**1,324**	**260**	**2,531**	**10,109**
Fee and commission income	220	19	24	-	517	780
Net foreign exchange (losses)/gains	(749)	322	37	9	1,573	1,192
Other operating income	272	27	293	-	3,342	3,934
Net losses on financial assets held at fair value	-	-	-	-	(1,137)	(1,137)
Net gains on equity investments held at fair value	-	-	-	-	296	296
Total operating income	**2,979**	**3,126**	**1,678**	**269**	**7,122**	**15,174**
Reduction in provision for impairment of loans and receivables	820	331	(702)	-	249	698
Operating income after impairment charges	**3,799**	**3,457**	**976**	**269**	**7,371**	**15,872**
Employee benefits expense	(229)	(366)	(270)	(131)	(2,739)	(3,735)
Depreciation and amortisation	-	-	-	-	(541)	(541)
Other operating expenses	(44)	(193)	(207)	(144)	(3,693)	(4,281)
Profit before income tax	**3,526**	**2,898**	**499**	**(6)**	**398**	**7,315**
Income tax expense	-	-	-	-	-	-
Profit for the year	**3,526**	**2,898**	**499**	**(6)**	**398**	**7,315**
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	**3,526**	**2,898**	**499**	**(6)**	**398**	**7,315**

Notes (continued)

17 Segment information (continued)

The table below shows total assets and liabilities by segment for the year ended 31 December 2012.

All amounts are in USD thousands

	Uganda	Kenya	Tanzania	Rwanda	Head office	Total
Assets						
Cash at bank	1,157	947	-	148	3,280	5,532
Deposits due from commercial banks	37,718	73,461	-	-	1,217	112,396
Investment security held to maturity	931	-	-	-	-	931
Loans and lease receivables	33,786	26,989	15,594	3,898	-	80,267
Derivative financial instruments	-	398	-	-	-	398
Equity investments at fair value	-	106	637	-	-	743
Other assets	-	-	-	-	599	599
Property, plant and equipment	2,271	8	482	-	1,343	4,104
Total assets	**75,863**	**101,909**	**16,713**	**4,046**	**6,439**	**204,970**
Liabilities						
Other liabilities	-	-	-	-	6,408	6,408
Borrowings	7,072	4,102	-	-	42,857	54,031
Grants	-	-	-	-	150	150
Total liabilities	**7,072**	**4,102**	**-**	**-**	**49,415**	**60,589**

18 Equity investments at fair value

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

The table below shows the movement in fair values of equity investments:

	2013	**2012**
	USD '000	**USD '000**
At start of year	**743**	519
Investments exited	**-**	(72)
Fair value (loss) / gain	**(32)**	296
At end of year	**711**	743

Notes (continued)

19 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. In previous years, these transactions had been recognised in the financial statements as deposits and lending.

In the current year, the directors have estimated the fair value of all derivatives, with all fair value gains and losses recognised in the statement of comprehensive income. 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 contractual amounts and fair values of derivative financial assets and financial liabilities at 31 December 2013 and 2012 were as follows:

	Notional principal amounts USD' 000	Fair value Assets USD' 000	Fair value Liabilities USD' 000
Cross currency derivative contracts – 31 December 2013	**8,824**	**167**	**95**
Cross currency derivative contracts – 31 December 2012	10,548	398	-

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 instrument

	2013 USD '000	2012 USD '000
Derivative financial assets	**398**	1,535
Fair value loss on embedded financial instruments	**(326)**	(1,137)
	72	398

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

	2013 USD '000	2012 USD '000
Fair value gains on loans with equity options	**435**	117
Fair value losses on derivative financial instruments	**(326)**	(1,212)
Exchange gains on swaps (as above)	**422**	76
Gains/(losses) on investments exited	**130**	(118)
At end of year	**661**	(1,137)

Notes (continued)

20 Other assets

	2013 USD '000	2012 USD '000
Local debtors	**106**	124
AfDB Information Technology grant receivable	**193**	193
Deferred bond issue costs	**250**	-
Other receivables	**627**	282
	1,176	599

21 Property, plant and equipment

	Land and buildings USD'000	Capital Work in progress USD '000	Office equipment USD '000	Motor vehicles USD '000	Furniture & fittings USD '000	Total USD '000
Cost						
At start of year	11,409	742	1,388	278	688	14,505
Additions	-	416	1	355	121	893
Transfers	528	(528)	-	-	-	-
Adjustments	4	-	-	69	28	101
At 31 December 2012	11,941	630	1,389	702	837	15,499
Additions	928	1,638	26	79	5	2,676
Disposals	-	(19)	(92)	(95)	(17)	(223)
At 31 December 2013	**12,869**	**2,249**	**1,323**	**686**	**825**	**17,952**
Depreciation						
At start of year	8,427	-	1,075	218	513	10,233
Adjustments	385	-	138	65	33	621
Charge for the year	368	-	60	71	42	541
At 31 December 2012	9,180	-	1,273	354	588	11,395
Disposals	-	-	(92)	(95)	(17)	(204)
Charge for the year	387	-	47	120	42	596
At 31 December 2013	**9,567**	**-**	**1,228**	**379**	**613**	**11,787**
Net book value: At 31 December 2013	**3,302**	**2,249**	**95**	**307**	**212**	**6,165**
At 31 December 2012	**2,761**	**630**	**116**	**348**	**249**	**4,104**

Notes (continued)

22 Other liabilities

	2013 USD '000	2012 USD'000
Advances from customers	**3,526**	5,320
Administrative accruals	**509**	301
Other creditors	**896**	787
	4,931	6,408

23 Borrowings

	2013	2012
Lines of credit with multi-lateral development banks	**36,236**	42,671
Lines of credit with other Financial Institutions	**15,835**	11,259
Loans with commercial banks	**49**	101
	52,120	54,031
Maturity analysis of loans		
Amounts payable within one year	**11,427**	16,309
Amounts payable after one year but within five years	**29,194**	31,956
Amounts payable after five years	**11,499**	5,766
	52,120	54,031

The weighted average effective interest rate on borrowings was 4.9% (2012: 7.69%).

Further information regarding the currency, maturity and contractual repricing rates for the Bank's borrowings are shown in Note 33. All other borrowings are denominated in USD.

All borrowings by the Bank attract interest at variable rates pegged to the respective Libor benchmark.

24 Special funds

	Norwegian /EADB fund	
	2013 USD '000	**2012 USD '000**
At start of year	**-**	3,990
Transfer to funds awaiting allotment	**-**	(3,990)
Transfer from funds awaiting allotment	**3,990**	-
At end of year	**3,990**	**-**

Notes (continued)

24 Special funds (continued)

Norwegian/ EADB fund

This fund was created out of a 1986/7 grant of NOK 30 million by the Norwegian Government to the Government of Uganda towards rehabilitation of Ugandan industries. Under the grant agreement, the bank was allowed to use a portion of interest paid on the loans to cover administrative expenses. Any balance of interest on loans and other interest earned on funds made available under the agreement was to accrue to a special fund to be managed by the Bank. The special fund was to be used for certain expenditure including; a) payments to consultants and experts, b) strengthening the bank's administrative capacity, c) technical assistance, d) loans on concessionary terms, e) or any other purpose agreed by the government of Norway and the Bank. The agreement is silent on the use of capital repayments. In 2012, the Bank initiated the process of obtaining approval from the donors to close the fund and transfer the outstanding balance to the Bank's capital to be allotted amongst member states. As at 31 December 2012, the balance on the fund was transferred to funds awaiting allotment pending receipt of a no objection from the Norwegian Government regarding the treatment proposed by management. During 2013, the Bank received a response requesting that the capitalisation of the fund be put on hold until the Norwegian Government completes its consultations. Consequently, the balance on this fund has been reclassified from funds awaiting allotment within equity back to special funds as at 31 December 2013.

25 Grants

	2013 USD '000	2012 USD '000
At start of year	**150**	150
Transfer from funds awaiting allotment	**3,223**	-
At end of year	**3,373**	150

The grants are comprised as follows:

SIDA / EADB fund for technical assistance	**2,170**	-
SWISS/ EADB fund for technical assistance	**1,053**	-
Housing Finance feasibility study grant	**150**	150
	3,373	150

The SIDA/EADB fund

The SIDA/ EADB fund for technical assistance was established following a grant from the Government of Sweden through SIDA. The funds were meant for EADB's institution building support and capacity building. In 2012, the Bank initiated the process of obtaining approval from the donors to close the fund and transfer the outstanding balance to the Bank's capital to be allotted amongst member states. As at 31 December 2012, the balance on the fund was transferred to funds awaiting allotment pending receipt of a no objection from the Swedish Government regarding the treatment proposed by management.

The balance had been allocated to a venture capital fund as special funds for on lending as equity participation in start-up companies. The equity portfolio has since been undertaken as part of the Banks' lending and therefore the bank decided to reallocate the balances to their originally intended purpose.

Notes (continued)

25 Grants (continued)

The 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. In 2012, the balance on the fund was reclassified from special funds into equity as funds awaiting allotment. This was on the basis of communication that the Bank had initiated with the donors indicating the course of action (conversion to share capital) that the Bank intended to undertake with respect to these funds. The balance on the Swiss fund was previously reported under the DANIDA/EADB special fund, however, following a reconciliation exercise undertaken by management in 2013, these funds have been separately identified and accordingly distinctly disclosed. As a result of this distinct classification, the Bank has reclassified the balance on this fund to special funds pending engagement with the donors on the future use of the fund.

Housing Finance Feasibility study grant

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

26 Capital fund

	2013 USD '000	2012 USD '000
At start of year	-	7,479
Transfer to funds awaiting allotment	-	(7,479)
Reclassified from funds awaiting allotment	7,479	-
At end of year	**7,479**	**-**

This represents the balance of funds received from the Norwegian Government, in 1982 and 1987 for the Norwegian/ EADB fund on a grant basis. In 2012, the Bank initiated the process of obtaining approval from the donors to close the fund and transfer the outstanding balance to the Bank's capital to be allotted amongst member statements. As at 31 December 2012, the balance on the fund was transferred to funds awaiting allotment pending receipt of a no objection from the Norwegian Government regarding the treatment proposed by management. During 2013, the Bank received a response from the donor requesting that the capitalisation of the fund be put on hold until the Norwegian Government completes its consultations. Consequently, the balance on this fund has been reclassified from funds awaiting allotment within equity back to capital funds as at 31 December 2013.

Notes (continued)

27 Share capital

	Paid up share capital Number	Callable share capital Number	Total Number	Paid up share capital USD'000	Callable share capital USD'000	Total USD'000
Authorised share capital						
Class A	12,000	60,000	72,000	162,000	810,000	972,000
Class B	8,000	-	8,000	108,000	-	108,000
	0,000	60,000	80,000	270,000	810,000	1,080,000
Issued share capital						
Class A						
At 1 January 2013	6,359	31,795	38,154	85,847	429,233	515,080
Issue of shares	3,131	15,655	18,786	42,269	211,342	253,611
At 31 December 2013	9,490	47,450	56,940	128,116	640,575	768,691
Class B						
At 1 January 2013	1,041	-	1,041	14,054	-	14,054
Issue of shares	740	1,037	1,777	9,990	14,000	23,990
At 31 December 2013	1,781	1,037	2,818	24,044	14,000	38,044

Paid in capital	**Class A Number**	**Class B Number**	**Total Number**	**Class A USD'000**	**Class B USD'000**	**Total USD'000**
At 1 January 2013	6,359	1,041	7,400	85,847	14,053	99,900
Issue of shares	3,131	740	3,871	42,269	9,990	52,259
At 31 December 2013	**9,490**	**1,781**	**11,271**	**128,116**	**24,043**	**152,159**

Class A

The authorised number of Class A ordinary shares is 72,000 at a par value of USD 13,500 each. Class A ordinary shares are available for subscription to only member states and in equal proportion.

Class B

The authorised number of Class B ordinary shares is 8,000 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. In the current year, the Bank received contributions for additional Class B shares from African Development Bank (AfDB) amounting to USD 9,990,000. In addition, the AfDB also approved USD 14 million for 1,037 callable shares.

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 programme is 574 (2012: 323).

Notes (continued)

27 Share capital (continued)

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 EADB 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.

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

Capital contributions

In July 2007, the Class A shareholders of the Bank: Kenya, Uganda and Tanzania, agreed to new capital commitments of USD 90 million over five years (Programme II). In 2008, the Governing Council resolved to admit the Republic of Rwanda to membership of EADB. As a result, the program for contributions of USD 90 million adjusted and divided equally among 4 member states with each contributing USD 22.5 million. Rwanda would pay its contributions to initial capital on admission and additional share capital in 10 years starting in 2009, while the other members would maintain their payment schedule for the additional shares in 5 years.

Contributions received from member states towards Programme II are classified within funds awaiting allotment pending finalisation of resolutions to allot share capital and issue share certificates to the Member States in accordance with the Bank's Charter. Funds received from the Government of Rwanda towards initial capital on admission are capitalised directly to share capital. The movement in funds awaiting allotment is shown below.

28 Funds awaiting allotment

	2013 USD '000	**2012 USD '000**
At start of year	**40,807**	14,702
Cash received	**24,838**	4,785
Amounts reclassified (t0)/from grants, special funds and capital fund	**(14,694)**	21,320
Conversion to share capital	**(6,588)**	-
Share issued in the year	**(42,282)**	-
At end of year	**2,081**	40,807

29 Special reserve

	2013 USD '000	**2012 USD '000**
At start of year	**10,313**	9,970
Transfer of commission and guarantee fees from Statement of Comprehensive Income	**311**	343
At end of year	**10,624**	10,313

The transfer to the special reserve is made in accordance with Article 17 of the Bank's Charter, the reserve being credited with commissions earned. The special reserve is to enable the Bank meet its liabilities on borrowings or guarantees chargeable. The reserve is not available for distribution.

Notes (continued)

30 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.

	2013 USD '000	2012 USD '000
At start of year	**(180)**	(71)
Fair value gains on derivative financial instruments	**96**	258
Fair value gains / (losses) on equity investments	**565**	(1)
Other movements	**(6)**	-
At end of year	**475**	(180)

31 Cash and cash equivalents

	Note	2013 USD '000	2012 USD '000
Cash and bank balances	13	**4,463**	5,532
Balances due from banks within 3 months	14	**83,966**	89,948
		88,429	95,480

Notes (continued)

32 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.

The Bank regularly reviews its assets and makes judgments in determining whether an impairment loss should be recognized in respect of observable data that may impact on future estimated cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment losses on loans and advances

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation. Each impaired asset is assessed on its merits, and the workout unit estimates of cash flows considered recoverable are independently reviewed by the Management Committee.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well the estimated future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Determining fair values

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

Notes (continued)

33 Financial risk management

(a) Introduction and overview

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

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

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

Risk management framework

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

The board of directors reports to the Governing council.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank through its procedures aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

(b) Credit risk

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

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

Notes (continued)

33 Financial risk management (continued)

(a) Introduction and overview (continued)

Risk management framework (continued)

(b) Credit risk (continued)

The Bank does not invest in a single project more than 50% of the project's total cost except for construction projects where the bank can finance up to 70% of the total cost. However, total exposure on the project would not exceed 15% of the Bank's net assets. The Bank also endeavours to maintain a well-balanced loan portfolio distributed prudently among the sectors of the economy falling within its target activities. The Bank's total exposure to a single sector should not exceed 20% of the total investment portfolio. The Bank also limits the total outstanding loans to at least three times the aggregate of the unimpaired subscribed capital, reserves and surplus of the Bank.

Management of credit risk

The board of directors has partly delegated responsibility for the management of credit risk to its project committee for credit exposures below USD 1 million. The Board is involved directly for loan exposure above USD 1 million and any equity investments above USD 700,000. The management committee is responsible for oversight of the Bank's credit risk, including, formulating credit policies, covering collateral requirements and credit assessments, risk grading and reporting. Documentary, legal procedures and compliance with regulatory and statutory requirements undertaken in consultation with the Bank's legal Department, establishing the authorization structure for the approval and renewal of credit facilities with concurrence of the board of directors, reviewing and assessing credit risk. The Bank assesses all credit exposures, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process, limiting concentrations of exposure to counterparties, products and industries (for loans and advances). New loan project requests are subject to Bank's risk grading in order to ensure that only viable projects are taken into the books.

The Bank also has a Portfolio Manager who is responsible for monitoring the credit quality of loans and ensuring appropriate corrective action is taken. The credit administration also provides advice, guidance and specialist skills to Operations Department to promote best practice in the management of credit risk.

The Portfolio Manager 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 delegated from the Bank's Project Committee 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.

Notes (continued)

33 Financial risk management (continued)

(b) Credit risk (continued)

Management of credit risk (continued)

Exposure to credit risks

	Loans and advances to projects		Other loans and advances	
	2013	2012	2013	2012
	USD '000	USD '000	USD '000	USD '000
Individually assessed				
Gross amount	9,009	10,055	-	-
Allowance for impairment	(4,336)	(6,164)	-	-
Carrying amount	**4,673**	3,891	**-**	-
Collectively assessed:				
Gross amount	94,581	75,722	2,075	2,082
Allowance for impairment	(1,418)	(1,428)	-	-
Carrying amount	**93,163**	74,294	**2,075**	2,082
Total carrying amount	**97,836**	78,185	**2,075**	2,082

	2013	2012	2013	2012
	USD '000	USD '000	USD '000	USD '000
Past due but not impaired comprises:				
Watch (31 to 90 days)	26	111	-	-
Substandard (91 to 180) days	-	-	-	-
Doubtful (181 to 360) days	-	-	-	-
Neither past due nor impaired:				
Normal	94,555	74,747	2,075	2,082
Allowance for impairment – collectively assessed	(1,418)	(1,428)	-	-
Total carrying amount	**93,163**	73,430	**2,075**	2,082

Notes (continued)

33 Financial risk management (continued)

(b) Credit risk (continued)

Impaired loans and advances

Impaired loans and advances are those for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s). These loans are internally classified as substandard, doubtful or loss accounts.

Past due but not impaired loans and advances

Loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank. These loans are internally classified as watch, when the account is 31 to 90 days in arrears, substandard if the account is between 91 and 180 days in arrears, doubtful for loans between 181 and 360 days in arrears and loss for loans over 361 days in arrears.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category for monitoring purposes independent of satisfactory performance after restructuring, for at least two scheduled payments as a way of demonstrating positive performance.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio taking to account prudential guidelines of International Financial Reporting Standards (IFRS). The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred on a collective basis.

Notes (continued)

33 Financial risk management (continued)

(b) Credit risk (continued)

Distribution of loans, accrued interest and loan charges receivable by sector

	2013 %	2012 %
Agriculture and fisheries	**1**	-
Forestry and paper	**4**	5
Mining and quarrying	**-**	-
General industrial manufacturing	**-**	2
Agro-marine food and processing	**18**	19
Construction, building materials and real estate	**15**	13
Hotel, tourism, leisure and entertainment	**7**	12
Transport and storage	**1**	1
Telecommunication services and information technology	**-**	-
Financial Institutions	**23**	16
Electricity and water	**18**	11
Oil and gas	**-**	2
Education, health and other community services	**13**	19
General trading (wholesale, retail and repairs)	**-**	-
	100	100

Write off policy

The Bank writes off a loan balance and any related allowances for impairment losses when the Bank's Project committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that the proceeds from collateral will not be sufficient to pay back the entire exposure. All loan write offs are approved by the board of directors.

The Bank holds collateral against loans and advances to customers in the form of mortgages over property. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to Banks.

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

Legal Mortgage	2013 USD '000	2012 USD '000
Legal mortgage over individually impaired assets	**186,453**	136,356
Legal mortgage over assets written off	**21,675**	12,825
Legal mortgage held over other loans and advances to customers	**138,232**	115,882
	346,360	265,063

Notes (continued)

33 Financial risk management (continued)

(b) Credit risk (continued)

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.

(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.

Management of liquidity risk

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.

(c) Liquidity risk (continued)

Exposure to Liquidity risk

The Bank maintains a minimum of 1.33 times coverage of designated liabilities for the next twelve months in liquid assets. 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:

	2013	**2012**
	USD '000	**USD '000**
Cash and cash equivalents as per liquidity policy	**70,345**	72,998
Designated liabilities	**(42,862)**	(39,175)
Surplus per liquidity policy	**27,483**	33,823
Liquidity ratio	**2.19**	2.48

Designated liabilities		
Repayment of term loans	**18,495**	16,386
Interest on borrowings	**2,266**	2,425
Acquisition of fixed assets	**3,484**	3,249
Staff and administration expenses	**7,901**	7,322
	32,146	29,382

Notes (continued)

33 Financial risk management (continued)

(c) Liquidity risk (continued)

Cash and cash equivalents as per liquidity policy is arrived at after deducting loan disbursement commitments of USD 51 million (2012: USD 32 million).

The liquidity policy of the bank defines cash and cash equivalents as its operational and strategic liquidity pool which comprises cash and bank deposits with maturity periods not exceeding 3 months.

The Bank registered a liquidity ratio of 2.19 (2012: 2.48) which is well above the required liquidity ratio as per the policy of 1.33 x.

Notes (continued)

33 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 2013 to the contractual maturity date.

	Matured USD '000	< 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
Assets								
Cash at bank	4,463	-	-	-	-	-	-	4,463
Deposits due from commercial banks	-	121,296	3,241	-	-	-	-	124,537
Investment securities held to maturity	-	159	153	543	337	-	-	1,192
Loans and lease receivables	-	21,694	11,782	42,332	25,085	17,111	4,221	122,225
Equity investments	-	-	-	-	-	711	-	711
Other assets receivable	1,177	-	-	-	-	-	-	1,177
Total assets	**5,640**	**143,149**	**15,176**	**42,875**	**25,422**	**17,822**	**4,221**	**254,305**
Liabilities and shareholder funds								
Other accounts payable	4,931	-	-	-	-	-	-	4,931
Medium and long term loans	-	11,507	14,828	19,699	8,453	2,057	5,991	62,535
Total liabilities and shareholder funds	**4,931**	**11,507**	**14,828**	**19,699**	**8,453**	**2,057**	**5,991**	**67,466**
Net liquidity gap at 31 December 2013	**709**	**131,642**	**348**	**23,176**	**16,969**	**15,765**	**(1,770)**	**186,839**
Net liquidity gap at 31 December 2012	(88)	115,748	8,811	30,913	7,506	15,700	16,844	195,434

Notes (continued)

Derivative assets

The table below analyses the Bank's derivative financial instruments that are settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cash flows on all derivatives. Cash flows for those derivatives could occur earlier than the contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows.

	< 6 Months	>6 Months< 1 Year	>1 Year< 3 Years	Total
Assets	**USD '000**	**USD '000**	**USD '000**	**USD '000**
Outflow	4,912	1,760	2,472	**9,144**
Inflow	4,644	1,671	2,503	**8,818**

Off balance sheet items

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

	< 6 Months	> 6 Months < 1 Year	> 1 Year < 3 Years	> 3 Years < 5 Years	> 5 Years < 7 Years	> 7 Years	Total
	USD '000	**USD '000**	**USD '000**	**USD '000**	**USD '000**	**USD'000**	**USD '000**
Loan commitments	25	1,913	1,274	7	-	742	3,961
Letters of credit	1,093	-	-	-	-	-	1,093
Capital commitments	-	-	5,743	-	-	-	5,743
Total	**1,118**	**1,913**	**7,017**	**7**	**-**	**742**	**10,797**

Notes (continued)

33 Financial risk management (continued)

(d) Interest rate risk

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

As at 31 December 2013, if interest rates on interest bearing assets and liabilities had been 10% higher/lower with all other variables held constant, impact on comprehensive income would be USD 1.2 million (2012: USD 0.9 million).

Notes (continued)

33 Financial risk management (continued)

(d) Interest rate risk (continued)

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

	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 USD '000	Total USD '000
Assets								
Cash and bank balances	-	-	-	-	-	-	4,463	4,463
Deposits due from banks	35,826	47,548	40,387	-	-	-	776	124,537
Investment security	-	-	-	-	891	-	18	909
Loans and advances	5,304	85,352	6,603	-	5,464	1,506	1,477	105,706
Equity investments at fair value	-	-	-	-	-	-	711	711
Derivative financial instruments	-	5,833	-	-	-	-	-	5,833
Total assets	**41,130**	**138,733**	**46,990**	**-**	**6,355**	**1,506**	**7,445**	**242,159**
Liabilities and shareholders' funds								
Other accounts payable	-	-	-	-	-	-	4,931	4,931
Medium and long term loans	7,428	22,428	4,949	9,298	-	7,725	292	52,120
Derivative financial instruments	-	5,459	-	-	-	-	-	5,459
Total liabilities and shareholder funds	**7,428**	**27,887**	**4,949**	**9,298**	**-**	**7,725**	**5,223**	**62,510**
Interest sensitivity gap at 31 December 2013	**33,702**	**110,846**	**42,041**	**(9,298)**	**6,355**	**(6,219)**	**2,222**	**179,649**
Interest sensitivity gap at 31 December 2012	23,731	60,786	65,619	3,877	(2,546)	(6,548)	2,466	147,385

Notes (continued)

33 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 it's funding in one currency with assets in the same currency.

	UGX	KES	TZS	RWF	EUR	GBP	SEK	Total
Assets	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and bank balances	159	1,402	143	4	117	15	4	1,844
Deposits due from banks	1,001	5,801	-	-	7,802	-	607	15,211
Investment security held to maturity	891	-	-	-	-	-	-	891
Loans and advances at amortized costs	2,869	9,344	3,245	-	74	-	-	15,532
Equity investments - Available for sale	28	117	1,171	-	-	-	-	1,316
Other assets receivable	1	-	-	-	-	-	-	1
Total Assets	**4,949**	**16,664**	**4,559**	**4**	**7,993**	**15**	**611**	**34,795**
Shareholders' Funds And Liabilities								
Other accounts payable	1	1,151	665	-	-	-	-	1,817
Loans with banks	-	5,508	-	-	-	-	-	5,508
Medium and long term borrowings	5,031	8,692	-	-	7,733	-	623	22,079
Total Shareholders' Equity & Liabilities	**5,032**	**15,351**	**665**	**-**	**7,733**	**-**	**623**	**29,404**
Net Currency Position 31 December 2013	**(83)**	**1,313**	**3,894**	**4**	**260**	**15**	**(12)**	**5,391**
Net Currency Position 31 December 2012	907	1,933	1,355	17	176	39	6	4,433

Notes (continued)

33 Financial risk management (continued)

(e) Currency risk (continued)

Sensitivity analysis

The 10% movement of USD against other currencies at 31 December 2013 would have increased or decreased comprehensive income by USD 0.5 million (2012: USD 0.4 million). This is assuming that all other variables, in particular interest rates remain constant.

(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 directly or indirectly 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.

	Level 2	Level 3	Total
31 December 2013			
Financial assets at fair value through profit or loss			
Derivative financial instruments	72	-	**72**
Equity investments at fair value	-	711	**711**
Total assets	**72**	**711**	**783**
31 December 2012			
Financial assets at fair value through profit or loss			
Derivative financial instruments	398	-	398
Equity investments at fair value	-	743	743
Total assets	398	743	1,141

Notes (continued)

33 Financial risk management (continued)

(g) Fair value of financial instruments (continued)

Reconciliation of level 3 items

Financial assets at fair value through profit or loss

	Equity investments USD'000
At 1 January 2013	**743**
Investments exited	-
Fair value gain	(32)
At 31 December 2013	**711**
At 1 January 2012	519
Investments exited	(72)
Fair value gain	296
At 31 December 2012	743

The movement in fair value of equity investments has been analysed in Note 18.

(h) Capital management

The Bank's objectives when managing capital, which is a broader concept that the '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 2013 computed on paid in capital alone, as shown in the table below:

	2013	**2012**
Ratio	**0.68**	0.61

Notes (continued)

34 Employee retirement benefit plans and gratuity

	Note	2013 USD ‘000	2012 USD ‘000
Contribution to the retirement benefit plan	(i)	**433**	209
Contribution to the statutory pension scheme (NSSF)	(ii)	**4**	6
Gratuity	(iii)	**101**	13
		538	228

(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 and Stanbic Investment Management Services.

(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 the gross salary.

Other staff benefits

The Bank ensures proper welfare of its staff by providing welfare schemes such as car loan purchase scheme, educational assistance, housing and medical schemes. The Bank also pays for professional membership and subscription fees for staff that belong to professional bodies. In addition, employees are eligible for loans subject to prevailing polices and the Bank operates a medical insurance scheme for all its employees.

35 Capital commitments

	2013 USD ‘000	2012 USD ‘000
Authorized but not contracted for	**1,370**	354
Authorized and contracted for	**4,373**	2,616
	5,743	2,970

Notes (continued)

36 Off balance sheet items and contingencies

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

	Note	2013 USD '000	2012 USD '000
Letters of credit	a)	**1,093**	1,565
Un-disbursed commitments	b)	**3,961**	13,071
		5,054	14,636

Nature of contingent liabilities

a) Letters of credit commit the Bank to make payments to suppliers of equipment to approved projects, on presentation of shipping documents.

b) 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.

Litigation

The Bank is a litigant in several cases which arise from normal day to day banking activities. The directors and management believe the bank has strong grounds for success in majority of them and are confident that they should get a ruling in their favour and none of the cases individually or in aggregate would have a significant impact on the banks operations. Management has carried out an assessment of all the cases outstanding as at 31 December 2013 and did not find any that warranted a provision.

37 Related party transactions

The Bank is jointly controlled by four East African Community member states of Kenya, Tanzania, Uganda and Rwanda who collectively own 90% of the ordinary shares. The remaining 10% of the shares are widely held.

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:

	2013 USD '000	2012 USD '000
Staff loans and advances (Note 16)	**29**	58
Loan to government of United Republic of Tanzania	**9,222**	10,060
Loan to government of the Republic of Kenya	**10,170**	10,181
Deposits held with banks that are shareholders of the Bank and related entities	**64,967**	53,058
Interest income earned on all of the above	**3,229**	2,362
Borrowings payable by the Bank to shareholders	**32,799**	25,668
Interest expense paid to shareholders	**1,134**	444

Notes (continued)

37 Related party transactions

No provision has been made for any loans to related parties. Loans to employees are given at concessionary rates. There are no loans to companies in which the Bank's directors have an interest.

Key management compensation

	2013 USD '000	2012 USD '000
Salaries and other employee benefits	**296**	200
Other short-term employee benefits - Gratuity	**101**	13
	397	213

Directors' remuneration

	2013	2012
- Fees and allowances	**60**	81
- Salaries and other short-term employee benefits (included within key management compensation above)	**397**	213
- Other expenses	**61**	88
	518	382