East African Development Bank

Directors' Report and Financial Statements

For the year ended 31 December 2015

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

Governing Council

- Hon. Henry K. Rotich
  Cabinet Secretary, The National Treasury, Republic of Kenya-**(Chairman)**

- Amb. Claver Gatete
  Minister for Finance and Economic Planning, Republic of Rwanda

- Hon. Maria Kiwanuka
  Minister for Finance, Planning and Economic Development, Republic of Uganda (Up to 2 February 2015)

- Hon. Matia Kisaija
  Minister for Finance, Planning and Economic Development, Republic of Uganda (from 1 March 2015)

- Hon. Saada Mkuya Salum
  Minister for Finance, United Republic of Tanzania

Directors

- Kampeta Pitchette Sayinzoga
  Permanent Secretary, Secretary to the Treasury, Ministry of Finance and Economic Planning, Republic of Rwanda **(Chairperson)**

- Keith Muhakanizi
  Permanent Secretary and Secretary to the Treasury, Ministry of Finance, Planning and Economic Development, Republic of Uganda

- Dr. Kamau Thugge
  Principal Secretary, the National Treasury, Republic of Kenya

- Dr. Servacius Likwelile
  Permanent Secretary, Ministry of Finance, United Republic of Tanzania

- Francis N. Karuiru
  Private Sector Representative, Republic of Kenya

- Khadija I. Simba
  Private Sector Representative, Republic of Tanzania

- Mbundu Faustin
  Private Sector Representative, Republic of Rwanda

- Trevor De Kock
  African Development Bank Representative (from 10 August 2015)

- Vivienne Yeda
  Director General, East African Development Bank

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 office and principal place 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 2015, 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.

Dividend

The directors do not recommend the payment of dividends for the year (2015: 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 financial statements

The financial statements were approved at a meeting of the Board of Directors and Governing Council held on ...20th March... 2016.

By order of the Board

....
Director

2016

The directors are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position at 31 December 2015, statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards, and in the manner required by the Bank's Charter.

The directors accept responsibility for the financial statements set out on pages 6 to 67 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 financial position of the Bank and of its performance for the year ended 31 December 2015. 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 made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the Bank will not be a going concern for the 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 and Governing Council on 20th March 2016 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 67. These financial statements comprise the statement of financial position at 31 December 2015, 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 of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Treaty and Charter of the East African Development Bank (the "Bank's Charter"), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 2015 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

15 June 2016

Statement of comprehensive income

	Notes	2015 USD'000	2014 USD'000
Interest income	3	**17,572**	15,142
Interest expense	4	**(3,817)**	(2,753)
Net interest income		**13,755**	12,389
Fee and commission income	5	**544**	772
Net foreign exchange gains/(losses)	6	**(971)**	(656)
Other operating income	7	**2,003**	3,713
Net fair value gain on investment property	21	**50**	1,472
Net fair value gain on financial assets at fair value	18	**(31)**	201
Net fair value (losses)/ gains on equity investments at fair value	19	**(230)**	2
Net operating income		**15,120**	17,893
Increase in provision for impairment of loans and lease receivables	16(a)	**(1,038)**	(332)
Operating income after impairment charges		**14,082**	17,561
Employee benefits expense	8	**(4,165)**	(4,119)
Depreciation and amortization	21	**(671)**	(613)
Other operating expenses	9	**(2,569)**	(3,009)
Profit before income tax	10	**6,677**	9,820
Income tax expense	11	**-**	-
Profit for the year		**6,677**	9,820
Other comprehensive income			
Revaluation surplus on land and buildings	22	**-**	8,052
Total comprehensive income		**6,677**	17,872
Earnings per share-Basic	12	**500**	788
Earnings per share-diluted	12	**500**	787

Statement of financial position

	Notes	2015 USD'000	2014 USD'000
Assets			
Cash at bank	13	**4,922**	10,306
Deposits due from commercial banks	14	**177,491**	142,095
Investment security held to maturity	15	**378**	644
Loans and lease receivables	16	**161,985**	106,750
Derivative financial instruments	18	**-**	108
Equity investments at fair value	19	**483**	713
Other assets	20	**1,122**	860
Investment property	21	**19,185**	18,688
Property, plant and equipment	22	**15,146**	14,261
Total assets		**380,712**	294,425
Liabilities			
Derivative financial instruments	18	**32**	-
Other liabilities	23	**1,898**	2,039
Borrowings	24	**125,141**	58,282
Special funds	25	**3,990**	3,990
Grants	26	**3,186**	3,244
Capital fund	27	**7,479**	7,479
Total liabilities		**141,726**	75,034
Capital and reserves			
Share capital	28	**185,787**	173,097
Share premium	28	**3,309**	3,084
Funds awaiting allotment	29	**105**	102
Special reserve	30	**11,783**	11,030
Fair value reserve	31	**496**	566
Revaluation reserves	33	**8,002**	8,052
Retained earnings		**29,504**	23,460
Total shareholders' equity		**238,986**	219,391
Total shareholders' equity and liabilities		**380,712**	294,425
Off balance sheet items and contingencies	38	**5,606**	6,229

The financial statements set out on pages 6 to 66 were approved by the Board of Directors on ...20th ...March..... 2016 and were signed on its behalf by:

Chairman: ______________ **Director General:** ______________

Statement of changes in equity

Year ended 31 December 2014	Share capital USD '000	Share premium USD '000	Special reserves USD '000	Funds awaiting allotment USD '000	Fair value reserve USD '000	Retained earnings USD '000	Revaluation reserve USD '000	Total equity USD '000
At start of year	**152,159**	**2,532**	**10,624**	**2,081**	**475**	**14,137**	**-**	**182,007**
Comprehensive income								
Profit for the year	-	-	-	-	-	9,820	-	**9,820**
Other comprehensive income								
Revaluation surplus on land and buildings	-	-	-	-	-	-	8,052	**8,052**
Total comprehensive income	-	-	-	-	-	9,820	8,052	**17,872**
Transactions with owners recorded directly in equity								
Transfer to special reserve	-	-	406	-	-	(406)	-	-
Receipts from shareholders	-	-	-	19,511	-	-	-	**19,511**
Issue of shares	20,938	552	-	(21,490)	-	-	-	-
Transfer to fair value reserve	-	-	-	-	91	(91)	-	-
At end of year	173,097	3,084	11,030	102	566	23,460	8,052	**219,391**
Year ended 31 December 2015								
At start of year	173,097	3,084	11,030	102	566	23,460	8,052	**219,391**
Comprehensive income								
Profit for the year	-	-	-	-	-	6,677	-	**6,677**
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	6,677	-	**6,677**
Transactions with owners recorded directly in equity								
Transfer to special reserve	-	-	753	-	-	(753)	-	-
Receipts from shareholders	-	-	-	12,918	-	-	-	**12,918**
Issue of shares	12,690	225	-	(12,915)	-	-	-	-
Revaluation reserve	-	-	-	-	-	50	(50)	-
Transfer to fair value reserve	-	-	-	-	(70)	70	-	-
At end of year	**185,787**	**3,309**	**11,783**	**105**	**496**	**29,504**	**8,002**	**238,986**

Statement of cash flows

	Note	2015 USD'000	2014 USD'000
Cash flows from operating activities			
Interest receipts		**15,538**	13,161
Interest payments		**(3,252)**	(2,743)
Net fee and commission receipts		**1,075**	1,150
Other income received		**816**	1,590
Payments to employees and suppliers		**(10,293)**	(8,426)
Cash outflows from operating activities		**3,884**	4,732
Net receipts from loans and advances		**(57,290)**	(9,063)
Net other receipts from customers		**1,185**	2,877
Settlement of other liabilities		**(286)**	(537)
Settlement of medium and long term borrowings		**(17,000)**	(7,860)
Exchange gains		**1,683**	1,427
Net cash generated from operating activities		**(67,824)**	(8,424)
Investing activities			
Purchase of property and equipment		**(8,433)**	(2,024)
Deposits with Banks		**62,898**	(21,882)
Proceeds from sale of property and equipment		**-**	16
Net cash used in investing activities		**54,465**	(23,890)
Financing activities			
Receipts from member states towards share capital	28,29	**12,918**	19,511
Borrowings		**82,284**	15,808
Net cash generated from financing activities		**95,202**	35,319
Net increase in cash and cash equivalents		**81,843**	3,005
Cash and cash equivalent at the start of the year		**90,007**	88,429
Exchange losses		**(1,683)**	(1,427)
At end of year	32	**170,167**	90,007

Notes

1 Reporting entity

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

The Bank's principal office address is:

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

For purposes of the Bank's Charter, the profit and loss statement is represented by the Statement of Comprehensive Income and the balance sheet 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 34.

Notes (continued)

2 Principal accounting policies (continued)

b) Changes in accounting policy and disclosures

(i) New and amended standards adopted by the bank

The following standards and amendments have been applied by the bank for the first time for the financial year beginning 1 January 2015:

Annual Improvements to IFRSs 2010-2012 and 2011-2013 cycles. The following amendments are effective 1 July 2014:-

- IFRS 2 – clarifies the definition of 'vesting condition' and now distinguishes between 'performance condition' and 'service condition'
- IFRS 3 – clarifies that an obligation to pay contingent consideration is classified as financial liability or equity under the principles in IAS 32 and that all non-equity contingent consideration (financial and non-financial) is measured at fair value at each reporting date.
- IFRS 3 – clarifies that IFRS 3 does not apply to the accounting for the formation of any joint arrangement
- IFRS 8 – requires disclosure of the judgements made by management in aggregating operating segments and clarifies that a reconciliation of segment assets must only be disclosed if segment assets are reported.
- IFRS 13 confirms that short-term receivables and payables can continue to be measured at invoice amounts if the impact of discounting is immaterial.
- IFRS 13 – clarifies that the portfolio exception in IFRS 13 (measuring the fair value of a group of financial assets and financial liabilities on a net basis) applies to all contracts within the scope of IAS 39 or IFRS 9
- IAS 16 and IAS 38 – clarifies how the gross carrying amount and accumulated depreciation are treated where an entity measures its assets at revalued amounts
- IAS 24 – where an entity receives management personnel services from a third party (a management entity), the fees paid for those services must be disclosed by the reporting entity, but not the compensation paid by the management entity to its employees or directors.
- IAS 40 – clarifies that IAS 40 and IFRS 3 are not mutually exclusive when distinguishing between investment property and owner-occupied property and determining whether the acquisition of an investment property is a business combination.

Amendments to IAS 19,'Defined Benefit Plans: Employee Contributions'. Effective 1 July 2014. The amendments clarify the accounting for defined benefit plans that require employees or third parties to contribute towards the cost of the benefits. Under the previous version of IAS 19, most entities deducted the contributions from the cost of the benefits earned in the year the contributions were paid. However, the treatment under the 2011 revised standard was not so clear. It could be quite complex to apply, as it requires an estimation of the future contributions receivable and an allocation over future service periods. To provide relief, changes were made to IAS 19. These allow contributions that are linked to service, but that do not vary with the length of employee service (eg a fixed % of salary), to be deducted from the cost of benefits earned in the period that the service is provided. Therefore many entities will be able to (but not be required) continue accounting for employee contributions using their existing accounting policy.

The adoption of the improvements made in the 2012-2012 cycle has required additional disclosures in the segment note. Other than that, the adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

Notes (continued)

2 Principal accounting policies (continued)

b) Changes in accounting policy and disclosures

(ii) New standards and interpretations early adopted

(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 2015, and have not been applied in preparing these financial statement. None of these is expected to have a significant effect on the financial statements of the bank, except the following set out below.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

IFRS 9 – 'Financial Instruments' (continued): For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The bank is assessing IFRS 9's full impact and the process should be complete by the end of 2016.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The bank is assessing the impact of IFRS 15 and should complete this process by the end of 2016.

IAS 16, 'Property, plant and equipment', and IAS 41, 'Agriculture',. These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The amendments are effective for annual periods beginning on or after 1 January 2016. This amendment will not impact the financial statements of the Bank.

Notes (continued)

IAS 27, 'Separate financial statements'. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. This amendment will not impact the financial statements of the Bank.

IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures'. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are effective for annual periods beginning on or after 1 January 2016.

IAS 1, 'Presentation of financial statements' These amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports. Effective for annual periods beginning on or after 1 January 2016.

Annual improvements 2014. These set of amendments, effective 1 January 2016, impacts 4 standards:

- IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
- IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts.
- IAS 19, 'Employee benefits' regarding discount rates.
- IAS 34, 'Interim financial reporting' regarding disclosure of information

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.

Notes (continued)

2 Principal accounting policies (continued)

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

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.

Notes (continued)

2 Principal accounting policies (continued)

e) Revenue recognition (Continued)

(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.

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

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

Revaluation surplus

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

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

Notes (continued)

2 Principal accounting policies (continued)

f) Property, plant and equipment (Continued)

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

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

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

Depreciation is calculated on the straight-line basis, at annual rates estimated to write off the cost or valuation of the assets over their estimated useful lives.

Management and directors review the residual value and useful life of an asset at the year end and any change considered to be appropriate in accounting estimate is recorded through the Statement of Comprehensive Income.

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

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

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

g) Intangible assets

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

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

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

Notes (continued)

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.

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.

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.

Notes (continued)

2 Principal accounting policies (continued)

j) Financial assets and financial liabilities (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'.
(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

Notes (continued)

the market rate of interest applicable to similar instruments in similar 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.

(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 35.

(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

Notes (continued)

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.

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.

Notes (continued)

2 Principal accounting policies (continued)

j) Financial assets and financial liabilities (continued)

(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:

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

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)

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)

2 Principal accounting policies (continued)

l) 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) a) 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.

b) 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.

c) Other entitlements

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

r) Investment properties

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

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

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

Notes (continued)

2 Principal accounting policies (continued)

s) 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.

t) Cash and cash equivalents

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

u) 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.

v) Taxation

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

w) 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.

x) Comparatives

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

Notes (continued)

3 Interest income

	2015 USD '000	2014 USD '000
Interest income on loans to projects		
Interest income on unimpaired loans	**10,422**	9,179
Interest income on impaired loans	**398**	144
Interest income from lease rentals		
Interest income on unimpaired lease receivables	**162**	237
Interest income on impaired lease receivables	**51**	15
Income on loans to banks	**3**	10
Income from investment security held to maturity	**66**	107
Interest income from short term deposits	**6,470**	5,449
	17,572	15,142

4 Interest expense

Interest on loans from banks	**94**	445
Interest on medium and long term borrowings	**1,482**	571
Interest on letters of credit	**2,241**	1,737
	3,817	2,753

5 Net fee and commission income

Gross fees and commission income

Appraisal fees	**753**	406
Other fees and commission income	**154**	212
Asset leasing income on purchase options & penalties	**7**	204
Commission from letters of credit	**2**	11
Commitment fees	**113**	101
Other fees	**137**	106
	1,166	1,040
Gross fees and commission expense		
Commission charges	**(473)**	(102)
Commitment fees	**(110)**	(166)
Other fees and commission expense	**(39)**	-
	(622)	(268)
Net fee and commission income	**544**	772

6 Net foreign exchange losses

Net losses on foreign currency transactions and revaluation	**(971)**	(656)

Notes (continued)

7 Other operating income

	2015 USD '000	2014 USD '000
Rental income	**673**	654
Dividend income	**99**	67
Recovery of previously written off loans	**1,186**	2,877
(Loss)/gain on disposal of property and equipment (Note 22)	**(1)**	9
Grant income (Note 26)	**56**	218
Other income on asset leasing	**3**	17
Write (off)/back of other liabilities	**(14)**	(129)
	2,003	3,713

8 Employee benefits expense

	2015 USD '000	2014 USD '000
Salaries and wages	**2,847**	2,844
Pension and gratuity (Note 36)	**348**	346
Other staff costs	**970**	929
	4,165	4,119

9 Other operating expenses

	2015 USD '000	2014 USD '000
Rental expense	**109**	136
Staff duty travel	**143**	119
Directors expenses	**162**	130
Insurance	**305**	338
Advertising and publicity	**94**	375
Legal fees	**538**	305
Staff training, seminars and workshops	**-**	17
Repairs and maintenance	**78**	263
Computer software expenses	**170**	136
Other IT related expenses	**9**	16
Internal/special audit costs	**60**	66
Statutory audit fees	**54**	42
Consultancy fees	**192**	366
Subscription to professional bodies	**11**	19
Other administrative expenses	**644**	681
	2,569	3,009

10 Profit before income taxes

Profit before income tax is stated after charging the following:

	2015 USD '000	2014 USD '000
Directors emoluments:		
- Fees and allowances	**70**	62
- Other expenses	**92**	68
Depreciation and amortization of intangible assets and grants	**671**	673
Impairment of loans and advances	**1,038**	332
Employee benefits expense (Note 8)	**4,165**	4,119
Auditors remuneration	**54**	42

Notes (continued)

11 Taxation

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

12 Earnings per share – basic and diluted

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares for the number of shares not yet issued but for which payments have been received by the Bank.

	2015 USD '000	2014 USD '000
Net profit attributable to ordinary shareholders	**6,677**	9,820
Weighted average number of ordinary shares in issue and paid up during the year (Note 28)	**13,347**	12,461
Basic earnings per share	**500**	788
Earnings per share – basic and diluted		
Dilutive number of ordinary shares	**8**	8
Total issued and dilutive shares	**13,355**	12,469
Diluted earnings per share	**500**	787

Dilutive shares represent the number of shares generated from funds awaiting allotment (Note 29).

13 Cash at bank

	2015 USD '000	2014 USD '000
Bank deposits	**4,922**	10,306

14 Deposits due from commercial banks

Deposits with banks in member states	**177,491**	142,095
	177,491	142,095
The above amount is analyzed as follows:		
Amounts due within 3 months	**172,260**	113,958
Amounts due after 3 months	**5,231**	28,137
	177,491	142,095

The weighted average effective interest rate on deposits due from banks was 4.72 % (2014: 4.22%).

Notes (continued)

15 Investment security held to maturity

	2015 USD '000	2014 USD '000
UGX Corporate bond – Housing Finance Bank Uganda Limited	**378**	644

The interest rate for the bond, which is denominated in Uganda Shillings, is fixed at 13.5% per annum with remaining maturity period of 2.5 years.

16 Loans and lease receivables

	2015 USD'000	2014 USD'000
Loans and advances (net)	**160,350**	104,951
Finance lease receivables (net)	**1,635**	1,799
	161,985	106,750
Loans to projects	**163,392**	110,326
Finance lease receivables	**1,659**	2,418
Staff loans	**26**	26
Gross loans	**165,077**	112,770
Impairment losses on loans and advances (Note 16a)	**(3,092)**	(6,020)
Net carrying amounts	**161,985**	106,750

Included within loans to projects is financing amounting to USD 1.8 million (2014: USD 2.027 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.

Notes (continued)

16 Loans and lease receivables (continued)

(a) Loan impairment charges

	Identified allowance for impairment	Collective allowance for impairment	Total	Identified allowance for impairment	Collective allowance for impairment	Total
			2015 USD' 000			2014 USD' 000
At start of year	4,456	1,564	6,020	4,336	1,418	5,754
Reversal of impairment	(731)	(42)	(773)	(651)	(35)	(686)
Increase in impairment allowances	924	887	1,811	837	181	1,018
Other adjustments			-		-	-
Loan impairment charge for the year	**193**	**846**	**1,038**	**186**	**146**	**332**
Amounts written off during the year	(3,966)	-	(3, 966)	(66)	-	(66)
Other adjustments	-	-	-	-	-	-
At end of year	**683**	**2,409**	**3,092**	**4,456**	**1,564**	**6,020**

(b) Finance lease receivables

	2015 USD '000	2014 USD '000
Gross lease rentals within one year	**178**	784
Gross lease rentals after one year but before five years	**1,684**	1,865
	1,862	2,649
Unearned future finance income on finance leases	**(203)**	(228)
	1,659	2,421
Less: impairment losses		
Identified	**-**	(595)
Unidentified	**(25)**	(26)
	1,634	1,800

The net investment in finance leases may be analysed as follows:

	2015 USD '000	2014 USD '000
Not later than 1 year	**172**	189
Later than 1 year and not later than 5 years	**1,462**	1,611
	1,634	1,800

Notes (continued)

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.

The segment information provided to the board of directors for the reportable segments for the year ended 31 December 2015 is as follows:

Loan exposure by country

Country	Gross Balances	%	Net Balances	%
	USD M		USD M	
Uganda	52	31%	50	31%
Kenya	53	32%	52	32%
Tanzania	31	19%	30	19%
Rwanda	30	18%	29	18%
Total region	**165**	100%	**162**	100

Exposure by product

Product	Gross Balances	%	Net Balances	%
	USD M		USD M	
Long term loans	147	89%	145	89%
Medium term loans	6	4%	6	4%
Short term loans	8	5%	8	5%
Loans sub-total	**162**	**98%**	**159**	**98%**
Loans with equity features	2	1%	2	1%
Asset Lease	2	1%	2	1%
Total all products	**165**	**100%**	**162**	**100%**

Notes (continued)

17 Segment information (Continued)

Total portfolio quality

Category	Gross portfolio USD M	%	Net Portfolio USD M	%
Performing Portfolio				
Normal	149	90.15	147	90.50
Watch	15	9.10	15	8.93
	164	**99.25**	**161**	**99.43**
Non-Performing Portfolio				
Substandard	1	0.73	1	0.57
Doubtful	-	-	-	-
Loss	0	0.02	0	-
	1	**0.75**	**1**	**0.57**
	165	**100**	**162**	**100**

Approvals and disbursements

	Approvals		Disbursements	
	2015 Actual (USD M)	2014 Actual (USD M)	2015 Actual (USD M)	2014 Actual (USD M)
COUNTRY				
Uganda	52	23	19	10
Kenya	47	40	31	20
Tanzania	56	13	20	-
Rwanda	29	-	13	8
	184	**76**	**82**	**38**
PRODUCT				
Loans	183	76	81	38
Asset leasing	1	-	1	-
Equity	-	-	-	-
	184	**76**	**82**	**38**

Notes (continued)

17 Segment information (continued)

Segment statement of comprehensive income For the year ended 31 December 2015	**Uganda USD'000**	**Kenya USD'000**	**Tanzania USD'000**	**Rwanda USD'000**	**Head Office USD'000**	**Total USD'000**
Interest income	3,939	4,076	1,535	1,484	6,538	17,572
Interest expense	-	-	-	-	(3,817)	(3,817)
Net interest income	**3,939**	**4,076**	**1,535**	**1,484**	**2,721**	**13,755**
Fee and commission income	401	353	210	142	(561)	544
Net foreign exchange losses	-	-	-	-	(971)	(971)
Other operating income	501	32	756	-	713	2,003
Fair value gain on investment property	13	-	37	-	-	50
Net gains/(losses) on equity investments held at fair value	-	(51)	(179)	-	-	(230)
Net losses on financial assets held at fair value	-	-	-	-	(31)	(31)
Total operating income	**4,854**	**4,410**	**2,359**	**1,626**	**1,871**	**15,120**
Reduction in provision for impairment of loans and lease receivables	341	(272)	(91)	-	(1,016)	(1,038)
Operating income after impairment charges	**5,195**	**4,138**	**2,268**	**1,626**	**855**	**14,082**
Employee benefits expense	(246)	(360)	(274)	(133)	(3,152)	(4,165)
Depreciation and amortization	-	(5)	(39)	(22)	(605)	(671)
Other operating expenses	(1)	(145)	(106)	(89)	(2,228)	(2,569)
Profit before income tax	**4,948**	**3,628**	**1,849**	**1,382**	**(5,130)**	**6,677**
Income tax expense	-	-	-	-	-	-
Profit for the year	**4,948**	**3,628**	**1,849**	**1,382**	**(5,130)**	**6,677**
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	**4,948**	**3,628**	**1,849**	**1,382**	**(5,130)**	**6,677**

Notes (continued)

17 Segment information (continued)

Segment statement of financial position For the year ended 31 December 2015	Uganda USD'000	Kenya USD'000	Tanzania USD'000	Rwanda USD'000	Head office USD'000	Total USD'000
Assets						
Cash at bank	-	1,272	22	9	3,619	4,922
Deposits due from commercial banks	-	-	-	-	177,491	177,491
Investment securities held to maturity	-	-	-	-	378	378
Loans and lease receivables	50,225	52,253	30,179	29,328	-	161,985
Equity investments	-	100	383	-	-	483
Other assets	-	-	12	42	1,068	1,122
Investment properties	16,727	-	2,458	-	-	19,185
Property and equipment	12,854	1,067	1,216	9	-	15,146
Total assets	**79,806**	**54,692**	**34,270**	**29,388**	**182,556**	**380,712**
Liabilities						
Other liabilities	-	11	-	-	1,887	1,898
Derivative financial instruments	-	-	-	-	32	32
Borrowings	-	-	-	-	125,141	125,141
Special funds	-	-	-	-	3,990	3,990
Grants	-	-	-	-	3,186	3,186
Capital fund	-	-	-	-	7,479	7,479
Total liabilities	**-**	**11**	**-**	**-**	**141,715**	**141,726**
Capital and reserves						
Share capital	-	-	-	-	185,787	185,787
Share premium	-	-	-	-	3,309	3,309
Funds waiting allotment	-	-	-	-	105	105
Special reserve	-	-	-	-	11,783	11,783
Fair value reserve	-	-	-	-	496	496
Retained earnings	-	-	-	-	29,504	29,504
Revaluation reserves	-	-	-	-	8,002	8,002
Total shareholders' equity	**-**	**-**	**-**	**-**	**238,986**	**238,986**
Total shareholders' equity and liabilities	**-**	**11**	**-**	**-**	**380,701**	**380,712**

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 2014 is as follows:

Loan exposure by country	**Gross Balances USD M**	**%**	**Net Balances USD M**	**%**
Country				
Uganda	41	36	39	36
Kenya	30	27	29	27
Tanzania	20	18	17	16
Rwanda	22	19	22	21
Total region	**113**	100	**107**	100

Exposure by product

Product	**Gross Balances USD M**	**%**	**Net Balances USD M**	**%**
Loan LT	93	83	88	82
Loan MT	11	10	11	10
Loan ST	4	3	4	4
Loans sub-total	**108**	**96**	**103**	**96**
Equity	2	2	2	2
Asset Lease	2	2	2	2
Total All Products	**113**	**100**	**107**	**100**

Notes (continued)

17 Segment information (continued)

Total portfolio quality

Category Performing portfolio	Gross portfolio USD M	%	Net Portfolio USD M	%
Normal	105	93	103	97
Watch	6	6	3	3
	111	**99**	**107**	**100**
Non-performing portfolio				
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss/Receivership	2	1	-	-
	2	**1**	**-**	**-**
	113	**100**	**107**	**100**

Approvals and disbursements

	Approvals		Disbursements	
	2014 Actual (USD M)	**2013 Actual (USD M)**	**2014 Actual (USD M)**	**2013 Actual (USD M)**
COUNTRY				
Uganda	23	20	10	9
Kenya	40	39	20	5
Tanzania	13	13	-	10
Rwanda	-	20	8	14
	76	**92**	**38**	**39**
PRODUCT				
Loans	76	92	38	38
Asset leasing	-	-	-	1
Equity	-	-	-	-
	76	**92**	**38**	**39**

Notes (continued)

17 Segment information (continued)

Segment statement of comprehensive income For the year ended 31 December 2014	**Uganda USD'000**	**Kenya USD'000**	**Tanzania USD'000**	**Rwanda USD'000**	**Head Office USD'000**	**Total USD'000**
Interest income	3,576	2,843	1,593	1,563	5,567	15,142
Interest expense	-	-	-	-	(2,753)	(2,753)
Net interest income	**3,576**	**2,843**	**1,593**	**1,563**	**2,814**	**12,389**
Fee and commission income	321	312	177	225	(263)	772
Net foreign exchange losses	266	(650)	(359)	(1)	88	(656)
Other operating income	1,427	33	59	(1)	2,195	3,713
Fair value gain in investment property	-	-	442	-	1,030	1,472
Net gains /(losses) on financial assets held at fair value	147	116	12	-	(72)	203
Total operating income	**5,737**	**2,654**	**1,924**	**1,786**	**5,792**	**17,893**
Reduction in provision for impairment of loans and lease receivables	204	30	(594)	250	(222)	(332)
Operating income after impairment charges	**5,941**	**2,684**	**1,330**	**2,036**	**5,570**	**17,561**
Employee benefits expense	(232)	(279)	(246)	(130)	(3,232)	(4,119)
Depreciation and amortization	-	(18)	(60)	(28)	(507)	(613)
Other operating expenses	(2)	(124)	(135)	(91)	(2,657)	(3,009)
Profit before income tax	**5,707**	**2,263**	**889**	**1,787**	**(826)**	**9,820**
Income tax expense						
Profit for the year	**5,707**	**2,263**	**889**	**1,787**	**(826)**	**9,820**
Other comprehensive income	-	805	1,610	-	5,637	8,052
Total comprehensive income	**5,707**	**3,068**	**2,499**	**1,787**	**4,811**	**17,872**

Notes (continued)

17 Segment information (continued)

Segment statement of financial position
For the year ended 31 December 2014

	Uganda USD'000	Kenya USD'000	Tanzania USD'000	Rwanda USD'000	Head office USD'000	Total USD'000
Assets						
Cash at bank	-	31	-	-	10,275	10,306
Deposits due from commercial banks	-	-	-	-	142,095	142,095
Investment securities held to maturity	-	-	-	-	644	644
Loans and lease receivables	38,996	29,557	16,285	21,912	-	106,750
Derivative financial instruments	-	-	-	-	108	108
Equity investments	-	151	562	-	-	713
Investment properties	-	-	3,947	-	14,741	18,688
Other assets	-	-	-	-	860	860
Property and equipment	-	1,120	2,834	5	10,302	14,261
Total assets	**38,996**	**30,859**	**23,628**	**21,917**	**179,025**	**294,425**
Liabilities						
Other liabilities	-	-	-	-	2,039	2,039
Borrowings	-	-	-	-	58,282	58,282
Special funds	-	-	-	-	3,990	3,990
Grants	-	-	-	-	3,244	3,244
Capital fund	-	-	-	-	7,479	7,479
Total liabilities	**-**	**-**	**-**	**-**	**75,034**	**75,034**
Capital and reserves						
Share capital	-	-	-	-	173,097	173,097
Share premium	-	-	-	-	3,084	3,084
Funds awaiting allotment	-	-	-	-	102	102
Special reserve	-	-	-	-	11,030	11,030
Fair value reserve	-	-	-	-	566	566
Revaluation reserves	-	-	-	-	8,052	8,052
Accumulated profit	-	-	-	-	23,460	23,460
Total shareholders' equity	**-**	**-**	**-**	**-**	**219,391**	**219,391**
Total shareholders' equity and liabilities	**-**	**-**	**-**	**-**	**294,425**	**294,425**

Notes (continued)

18 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 fair values of derivative financial assets and financial liabilities at 31 December 2015 and 2014 were as follows:

	Notional principal amounts USD' 000	Fair value Assets USD' 000	Fair value Liabilities USD' 000
Cross currency derivative contracts – 31 December 2015	**1,536**	**1,525**	**1,557**
Cross currency derivative contracts – 31 December 2014	5,267	192	84

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

Derivative financial instruments

	2015 USD '000	2014 USD '000
Derivative asset	**108**	72
Fair value loss (gain) on embedded financial instruments	**(140)**	36
	(32)	108

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

	2015 USD '000	2014 USD '000
Fair value (loss)/ gains on loans with equity options	**109**	163
Fair value (losses)/gain on derivative financial instruments	**(140)**	36
Gains/(losses) on investments exited	**-**	2
At end of year	**(31)**	201

Notes (continued)

19 Equity investments at fair value

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

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

	2015 USD '000	2014 USD '000
At start of year	**713**	711
Fair value (loss) / gain	**(230)**	2
At end of year	**483**	713

20 Other assets

Local debtors	**134**	65
Deferred bond issue costs	**265**	254
Other receivables	**723**	540
	1,122	860

21 Investment property

Valuation at start of year	**18,688**	17,216
Additions	**447**	-
Net fair value gains	**50**	1,472
Valuation at end of the year	**19,185**	18,688

An independent valuation of the bank's land and buildings was performed by professional valuers Knight Frank Limited and Africa Property Limited to determine the fair value of the land and buildings as at 31 December 2015 based on estimated open market values. Properties that are held by the bank for generation of rental income have been classified under Investment property as per note 21 and 22. Land and buildings occupied by the bank for administrative use is classified under the property, plant and equipment (Note 22).

Rental income from investment properties during the year ended 31 December 2015 totalled USD 615,379 (2014 USD 589,291). Direct operating expenses totalling USD 27,992 (2014: USD 22,692) which consisted of USD 26,862 (2014: USD 4,538) in expenses for rented and USD 1,130 (2014: USD 18,154) for unrented investment properties.

As at 31 December 2015, the Board had approved USD 4,469,436 (2014: USD 3,019,001) of future expenditure for the development and enhancement of investment property. Of this, USD 3,626,984 (2014: USD 2,271,549) is contractually committed. The majority of this was spent in year ended 31 December 2015.

Notes (continued)

21 Investment property (continued)

The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs for the year ended 31 December 2015 other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

		Quoted prices in active markets for identical assets (Level 1) USD'000	Significant other observable inputs (Level 2) USD'000	Significant unobservable inputs (Level 3) USD'000	Totals USD'000
December 2015					
Investment property	-Land	-	**13,967**	-	**13,967**
	-Building	-	**5,218**	-	**5,218**
PPE	-Land	-	**7,827**	-	**7,827**
	-Buildings	-	**5,295**	-	**5,295**
Total assets		-	**32,307**	-	**32,307**
December 2014					
Investment property	-Land		- 13,820		- 13,820
	-Building		- 4,868		- 4,868
PPE	-Land		- 7,827		- 7,827
	-Buildings		- 5,295		- 5,295
Total assets			- 31,811		- 31,811

Notes (continued)

22 Property, plant & equipment

	Land and building	Capital Work in progress	Office equipment	Motor vehicles	Furniture & fittings	Total
Year ended December 2014	**USD'000**	**USD '000**	**USD '000**	**USD '000**	**USD '000**	**USD '000**
Opening net book value	2,044	2,249	95	307	212	4,906
Additions	20	2,024	12	-	261	2,317
Revaluation surplus	8,052	-	-	-	-	8,052
Transfers from WIP	3,317	(3,712)	110	-	-	(285)
Depreciation charge	(373)	-	(50)	(129)	(61)	(613)
Retirements:						-
Cost	-	-	(527)	-	(291)	(818)
Depreciation	-	-	504	-	199	703
Disposals:						-
Cost	-	-	(6)	-	(25)	(31)
Depreciation	-	-	6	-	24	30
Net Book Value as at 31 December 2014	**13,059**	**561**	**144**	**178**	**319**	**14,261**
Year ended December 2015						
Opening net book value	13,059	561	144	178	319	14,261
Additions	-	2,067	902	-	127	3,096
Transfers from WIP	-	(1,537)	-	-	-	(1,537)
Depreciation charge	(448)	-	(53)	(110)	(60)	(671)
Retirement:						-
Cost	-	-	(60)	-	(108)	(168)
Depreciation	-	-	57	-	108	165
NBV as at 31 December 2015	**12,611**	**1,091**	**990**	**68**	**386**	**15,146**
NBV as at 31 December 2014	**13,059**	**561**	**144**	**178**	**319**	**14,261**

Notes (continued)

22 Property, plant and equipment (continued)

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

	2015 USD'000	2014 USD'000
Cost	**7,954**	7,954
Accumulated depreciation	**(3,344)**	(2,946)
Net book amount	**4,610**	5,008

23 Other liabilities

	2015	2014
Deposits on leased assets	**185**	78
Advances from customers	**79**	166
Staff payables	**10**	28
Rent received in advance	**27**	25
Administrative accruals	**501**	497
Deferred income	**535**	606
Tenant deposits	**168**	187
Other creditors	**393**	452
	1,898	2,039

24 Borrowings

	2015	2014
Lines of credit with multi-lateral development banks	**93,569**	40,445
Lines of credit with other Financial Institutions	**31,572**	17,818
Loans with commercial banks	**-**	19
	125,141	58,282
Maturity analysis of loans		
Amounts payable within one year	**30,372**	18,014
Amounts payable after one year but within five years	**15,253**	17,709
Amounts payable after five years	**79,516**	22,559
	125,141	58,282

Notes (continued)

24 Borrowings (continued)

Lender	2015 USD'000	2014 USD'000
African Development Bank	**30,000**	-
Commercial Bank Of Africa Limited	**19,531**	-
Commercial Bank Of Africa Limited	**9,766**	-
African Development Bank	**10,369**	14,517
Development Bank Of South Africa	**1,064**	3,192
Dfcu Bank Limited	**1,928**	-
European Investment Bank	**2,465**	2,913
European Investment Bank	**3,500**	3,500
European Investment Bank	**3,830**	-
European Investment Bank	**1,597**	-
European Investment Bank	**699**	-
European Investment Bank	**2,845**	-
European Investment Bank	**5,470**	-
European Investment Bank	**1,704**	-
KfW	**5,442**	-
KfW	**1,657**	-
European Investment Bank	**1,796**	-
Nordic Development Fund	**5,677**	6,645
Opec Fund For International Develop	**15,000**	9,500
Development Bank Of Kenya Ltd	**-**	2,144
Commercial Bank Of Africa Limited	**-**	11,038
Dfcu Bank Limited	**-**	4,505
Subtotal for borrowings	**124,340**	57,954
Interest payable	**801**	328
Total borrowings	**125,141**	58,282

Notes (continued)

24 Borrowings (continued)

Lender	Tenor (years)	Interest rate (%)	Fixed/ variable	Currency
African Development Bank	10	4.1	Variable	USD
Commercial Bank Of Africa Limited	1	11.5	Fixed	KES
Commercial Bank Of Africa Limited	1	20.0	Fixed	KES
African Development Bank	14	1.6	Variable	USD
Development Bank Of South Africa	10	2.6	Variable	USD
dfcu Bank Limited	3	18.0	Variable	UGX
European Investment Bank	7	2.7	Variable	USD
European Investment Bank	7	2.7	Variable	USD
European Investment Bank	7	9.2	Fixed	KES
European Investment Bank	7	9.4	Fixed	KES
European Investment Bank	7	8.3	Fixed	RWF
European Investment Bank	5	8.6	Fixed	UGX
European Investment Bank	7	10.3	Fixed	TZS
European Investment Bank	6	9.3	Fixed	UGX
KfW	9	8.0	Fixed	UGX
KfW	9	8.0	Fixed	UGX
European Investment Bank	7	9.4	Fixed	KES
Nordic Development Fund	30	0.8	Fixed	EUR
Opec Fund For International Develop	7	3.5	Variable	USD
Development Bank Of Kenya Ltd	1	1.0	Fixed	USD
Commercial Bank Of Africa Limited	2	12	Fixed	KES
dfcu Bank Limited	3	15	Variable	UGX

The weighted average effective interest rate on borrowings was 5.78% (2014: 5.42%). The bank has not given any security for the borrowings and has not defaulted on any of them.

More information regarding the currency, maturity and contractual repricing rates for the bank's borrowings are shown in Note 35.

Notes (continued)

25 Special funds (Norwegian /EADB fund)

	2015 USD '000	2014 USD '000
At start and end of year	**3,990**	3,990

Norwegian/ EADB fund

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

26 Grants

	2015 USD '000	2014 USD '000
At start of year	**3,245**	3,373
Grant utilization	**(59)**	(129)
	3,186	3,244
SIDA / EADB fund for technical assistance	**1,983**	2,041
SWISS/ EADB fund for technical assistance	**1,053**	1,053
Housing Finance feasibility study grant	**150**	150
	3,186	3,244

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 institutional support and capacity building.

As at 31 December 2015 the bank had utilised part of the grant amounting to USD 59,000, (2014: USD 129,000) in regional capacity building by training selected East African lawyers through the extractive industries seminar.

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.

Housing Finance Feasibility study grant

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

Notes (continued)

27 Capital fund

	2015 USD '000	2014 USD '000
At start and end of year	7,479	7,479

This represents the balance of funds received from the Norwegian Government, in 1982 and 1987 for the Norwegian/ EADB fund on a grant basis. In 2012, the Bank initiated the process of obtaining approval from the donors to close the fund and transfer the outstanding balance to the Bank's capital to be allotted amongst member states. 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, the funds were subsequently transferred to capital funds in 2013.

28 Share capital

	Paid up share capital Number	Callable share capital Number	Total Number	Paid up share capital USD'000	Callable share capital USD'000	Total USD'000
Authorised share capital						
At 1 January 2015- Class A	12,000	60,000	72,000	162,000	810,000	972,000
Additional authorised	12,000	60,000	72,000	162,000	810,000	972,000
Total Class A	**24,000**	**120,000**	**144,000**	**324,000**	**1,620,000**	**1,944,000**
At 1 January 2015- Class B	8,000	1,037	9,037	108,000	14,000	122,000
Additional authorised	8,000	-	8,000	108,000	-	108,000
Total Class B	**16,000**	**1,037**	**17,037**	**216,000**	**14,000**	**230,000**
Total class A&B	**40,000**	**121,037**	**282,074**	**540,000**	**1,634,000**	**2,174,000**
Issued share capital Class A						
At 1 January 2015	11,041	55,205	66,246	149,054	745,268	894,322
Issue of shares	940	4,700	5,640	12,690	63,450	76,140
At 31 December 2015	11,981	59,905	71,886	161,744	808,718	970,462
Class B						
At 1 January 2015	1,781	1,037	2,818	24,044	14,000	38,044
Issue of shares	-	-	-	-	-	-
At 31 December 2015	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 2015	11,041	1,781	12,822	149,054	24,043	173,097
Issue of shares	940	-	940	12,690	-	12,690
At 31 December 2015	**11,981**	**1,781**	**13,762**	**161,744**	**24,043**	**185,787**

Notes (continued)

28 Share capital (continued)

Authorised share capital

In 2015 the authorized capital stock was increased from USD 1,080,000,000 to USD 2,160,000,000 consisting of 80,000 additional shares being 100% increase in capital stock of the bank with a par value of USD 13,500 each. This was to enable admission of new members into the bank.

Class A

The authorised number of Class A ordinary shares is 144,000, (2014: 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 16,000, (2014: 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.

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 750 (2014: 699).

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.

In March 2012 the charter of EADB was amended to allow class B shareholders to subscribe to callable capital of the bank. In 2013, the governing council passed a special waiver on article 4(2)b of the treaty which sets out that for every four shares subscribed every one share is fully paid in and allotted class B callable shares to African Development Bank amounting to 1,037 in number

Dividends

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

29 Funds awaiting allotment

	2015 USD '000	2014 USD '000
At start of year	**102**	2,081
Cash received	**12,918**	19,511
Shares issued in the year	**(12,915)**	(21,490)
At end of year	**105**	102

Notes (continued)

30 Special reserve

	2015 USD '000	2014 USD '000
At start of year	**11,030**	10,624
Transfer of commission and guarantee fees from retained earnings	**753**	406
At end of year	**11,783**	11,030

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.

31 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

	2015 USD '000	2014 USD '000
At start of year	**566**	475
Fair value gain on derivative financial instruments	**52**	11
Fair value (loss)/gain on equity investments at fair value	**(122)**	80
At end of year	**496**	566

32 Cash and cash equivalents

Cash and bank balances (Note 13)	**4,922**	10,306
Balances due from banks within 3 months	**165,245**	79,701
	170,167	90,007

33 Revaluation reserve

The revaluation surplus arose from the revaluation of land and buildings as at 31 December 2014 and is non distributable.

	2015 USD '000	2014 USD '000
At start of year	**8,052**	8,052
Transfer of excess depreciation to retained earnings	**(50)**	-
At end of year	**8,002**	8,052

Notes (continued)

34 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.

General provision sensitivity analysis

Percentage provision	**1%**	**1.50%**	**2%**
	USD'000	**USD'000**	**USD'000**
Loans and advances	17	25	33
Finance lease receivables	1,589	2,384	3,179
	1,606	**2,409**	**3,212**

The unidentified impairment rate for 2015 was 1.5%, if the rate was reduced to 1% the impact on the balance sheet would have been USD 1.6 million and if increased to 2% the impact would have been USD 3.2 million.

Notes (continued)

35 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)

35 Financial risk management

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)

35 Financial risk management (continued)

(b) Credit risk (continued)

Management of credit risk (continued)

	Loans and advances to projects		Other loans and advances	
	2015 USD '000	2014 USD '000	2015 USD '000	2014 USD '000
Individually assessed				
Gross amount	2,675	6,236	-	-
Allowance for impairment	(683)	(4,455)	-	-
Carrying amount	**1,992**	**1,781**	**-**	**-**
Collectively assessed:				
Gross amount	161,091	104,237	1,800	2,027
Allowance for impairment	(2,409)	(1,563)	-	-
Carrying amount	**158,682**	**102,674**	**1,800**	**2,027**
Total carrying amount	**160,674**	**104,455**	**1,800**	**2,027**
Past due but not impaired comprises:				
Watch (31 to 90 days)	13,586	1,398	-	-
Substandard (91 to 180) days	-	-	-	-
Doubtful (181 to 360) days	-	-	-	-
Neither past due nor impaired:				
Normal	147,505	102,840	1,800	2,027
Allowance for impairment – collectively assessed	(2,409)	(1,564)	-	-
Total carrying amount	**158,682**	**102,674**	**1,800**	**2,027**

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.

Notes (continued)

35 Financial risk management (continued)

(a) Credit risk (continued)

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.

Distribution of loans and accrued interest receivable by sector

	2015	**2014**
	%	%
Agriculture and fisheries	**1**	2
Forestry and paper	**1**	3
Agro-marine food and processing	**5**	17
Construction, building materials and real estate	**11**	13
Hotel, tourism, leisure and entertainment	**15**	8
Transport and storage	**1**	2
Financial Institutions	**29**	29
Electricity and water	**27**	23
Oil and gas	**0**	-
Education, health and other community services	**10**	3
	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:

Notes (continued)

35 Financial risk management (continued)

(b) Credit risk (continued)

Legal Mortgage

	2015 USD '000	2014 USD '000
Legal mortgage over individually impaired assets	**3,726**	155,226
Legal mortgage over assets written off	**47,671**	28,212
Legal mortgage held over other loans and advances to customers	**365,151**	191,278
	416,548	374,716

Maximum exposure to credit risk before collateral held

Credit exposures relating to off-statement of financial position

	2015 USD '000	2014 USD '000
Letters of credit	**295**	-
Loan commitments	**5,311**	6,229
	5,606	6,229

The above table represents the worst case scenario of credit risk exposure to the Bank as at 31 December 2015 and 2014, without taking account of any collateral held or other credit enhancements attached. For on-statement of financial position assets, their respective carrying amounts represent the bank's maximum exposure to credit risk.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio:

- the Bank exercises stringent controls over the granting of new loans;
- 99% (2014: 98%) of the loans and advances portfolio are neither past due nor impaired;
- All loans and advances are backed by collaterals except loans to banks.

Settlement risk

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

Notes (continued)

35 Financial risk management (continued)

(c) Liquidity risk

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

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

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

	2015 USD '000	2014 USD '000
Cash and cash equivalents as per liquidity policy	**97,722**	85,199
Designated liabilities	**(58,624)**	(59,624)
Surplus per liquidity policy	**39,098**	25,575
Liquidity ratio	**1.67**	1.91
Designated liabilities		
Repayment of term loans	**37,727**	30,431
Interest on borrowings	**6,917**	2,902
Acquisition of fixed assets	**5,922**	3,484
Staff and administration expenses	**8,058**	7,901
	58,624	44,718

Cash and cash equivalents as per liquidity policy is arrived at after deducting loan disbursement commitments of USD 77 million (2014: USD 60 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 1.67 (2014: 1.91) which exceeds the required liquidity ratio as per the policy of 1.33 x.

Notes (continued)

35 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 2015 to the contractual maturity date.

	Matured	< 6 Months	> 6 Months < 1 Year	> 1 Year < 3 Years	>3 Years < 5 Years	>5 Years < 7 Years	> 7 Years	Total
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
Assets								
Cash at bank	4,922							4,922
Deposits due from commercial banks	-	176,107	-	1,384	-	-	-	177,491
Investment securities held to maturity	-	99	94	252	-	-	-	445
Loans and lease receivables	-	15,782	27,265	71,059	50,973	28,323	12,407	205,809
Equity investments	-	-	-	-	645	-	-	645
Derivative financial instruments-Inflow	-	1,536	-	-	-	-	-	1,536
Other assets receivable	1,122	-	-	-	-	-	-	1,122
Total assets	**6,044**	**193,524**	**27,359**	**72,695**	**51,618**	**28,323**	**12,407**	**391,970**
Liabilities and shareholder funds								
Derivative financial instruments-outflow	-	1,581	-	-	-	-	-	1,581
Other accounts payable	1,898	-	-	-	-	-	-	1,898
Medium and long term loans	-	5,189	39,455	33,134	26,939	18,323	28,070	151,109
Total liabilities and shareholder funds	**1,898**	**6,770**	**39,455**	**33,134**	**26,939**	**18,323**	**28,070**	**154,588**
Net liquidity gap at 31 December 2015	**4,146**	**186,754**	**(12,096)**	**39,561**	**24,679**	**10,000**	**(15,663)**	**237,382**
Net liquidity gap at 31 December 2014	8,446	140,884	10,776	31,421	22,233	8,158	(3,018)	218,900

Notes (continued)

35 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 2015 to the contractual maturity date.

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	Total
Assets	**USD '000**	**USD '000**
Outflow	1,581	**1,581**
Inflow	1,536	**1,536**

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	407	2,525	2,210	169	-	-	5,311
Capital commitments	-	-	10,361	-	-	-	10,361
Total	**407**	**2,525**	**12,571**	**169**	**-**	**-**	**15,672**

Notes (continued)

35 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 2015, 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 1.3 million (2014: 0.8 million).

Notes (continued)

35 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	1 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 5 Years	Over 5 Years	Non-interest bearing	Total
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
Assets								
Cash and bank balances	-	-	-	-	-	-	4,922	4,922
Deposits due from banks	66,358	101,998	6,342	-	1,384	-	1,409	177,491
Investment security	-	-	-	-	371	-	7	378
Loans and advances	6,098	100,872	9,313	26,482	7,055	10,528	1,637	161,985
Equity investments at fair value	-	-	-	-	-	-	483	483
Derivative financial instruments	-	1,536	-	-	-	-	-	1,536
Other Assets receivable	-	-	-	-	-	-	1,122	1,122
Total assets	**72,456**	**204,406**	**15,655**	**26,482**	**8,810**	**10,528**	**9,580**	**347,917**
Liabilities and shareholders' funds								
Other accounts payable	-	-	-	-	-	-	1,898	1,898
Medium and long term loans	-	61,335	1,928	30,361	2,845	27,872	801	125,141
Derivative financial instruments	-	1,581	-	-	-	-	-	1,581
Total liabilities and shareholder funds	**-**	**62,916**	**1,928**	**30,361**	**2,845**	**27,872**	**2,699**	**128,620**
Interest sensitivity gap at 31 December 2015	**72,456**	**141,490**	**13,727**	**(3,879)**	**5,965**	**(17,344)**	**6,881**	**219,297**
Interest sensitivity gap at 31 December 2014	**47,693**	**88,485**	**50,501**	**7,979**	**5,492**	**(5,511)**	**11,921**	**206,559**

Notes (continued)

35 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.

Assets	UGX USD'000	KES USD'000	TZS USD'000	RWF USD'000	EUR USD'000	GBP USD'000	SEK USD'000	Total USD'000
Cash and bank balances	440	1,272	22	9	257	11	1	2,012
Deposits due from banks	4,678	23,691	5,783	702	-	-	-	34,854
Investment security held to maturity	373	-	-	-	-	-	-	373
Loans and advances at amortized costs	10,415	14,693	2,387	-	5,602	-	-	33,097
Equity investments - Available for sale	-	100	383	-	-	-	-	483
Other assets receivable	1	2	41	-	1	-	-	45
Total Assets	**15,907**	**39,758**	**8,616**	**711**	**5,860**	**11**	**1**	**70,864**
Shareholders' Funds And Liabilities								
Other accounts payable	27	9	16	-	-	-	-	53
Medium and long term borrowings	13,993	36,804	5,444	704	5,503	-	-	62,447
Total Shareholders' Equity & Liabilities	**14,020**	**36,813**	**5,460**	**704**	**5,503**	**-**	**-**	**62,500**
Net Currency Position 31 December 2015	**1,887**	**2,945**	**3,156**	**7**	**357**	**11**	**1**	**8,364**
Net Currency Position 31 December 2014	**1,386**	**2,834**	**4,475**	**9**	**287**	**12**	**1**	**9,005**

Notes (continued)

35 Financial risk management (continued)

(e) Currency risk (continued)

Sensitivity analysis

The 10% movement of USD against other currencies at 31 December 2015 would have increased or decreased comprehensive income by USD 0.78 million (2014: USD 0.82 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.
See note 22 for disclosures of the land and buildings that are measured at fair value.

	Level 2	Level 3	Total
31 December 2015			
Financial assets at fair value through profit or loss			
Derivative financial instruments	**(32)**	**-**	**(32)**
Equity investments at fair value	**-**	**483**	**483**
Total assets	**(32)**	**483**	**451**
31 December 2014			
Financial assets at fair value through profit or loss			
Derivative financial instruments	108	-	108
Equity investments at fair value	-	713	713
Total assets	108	713	821

Notes (continued)

35 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 2015	**713**
Investments exited	**-**
Fair value gain	**(230)**
At 31 December 2015	**483**
At 1 January 2014	711
Investments exited	-
Fair value gain	2
At 31 December 2014	713

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 2015 computed on paid in capital alone, as shown in the table below:

	2015	2014
Ratio	**0.73**	0.53

Notes (continued)

36 Employee retirement benefit plans and gratuity

	Note	2015 USD '000	2014 USD '000
Contribution to the retirement benefit plan	(i)	**288**	269
Contribution to the statutory pension scheme (NSSF)	(ii)	**4**	4
Gratuity	(iii)	**59**	73
		351	346

(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 annual gross salary at the end of the year.

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.

37 Capital commitments

	2015 USD '000	2014 USD '000
Authorized but not contracted for	**4,662**	2,924
Authorized and contracted for	**5,699**	4,531
	10,361	7,455

38 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	2015 USD '000	2014 USD '000
Letters of credit	a)	**295**	-
Un-disbursed commitments	b)	**5,311**	6,229
		5,606	6,229

Notes (continued)

38 Off balance sheet items and contingencies (continued)

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.

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 and are confident that they should get rulings in their favor in matters before court. In cases where the Bank may not be successful, directors and management are confident that such cases would not significantly impact the bank's operations either individually or in aggregate. Management has also carried out an assessment of all the cases outstanding as at 31 December 2015 and did not find any that warranted a provision. This position is supported by independent professional legal advice.

39 Related party transactions

The Bank is jointly controlled by four East African Community member states of Kenya, Tanzania, Uganda and Rwanda who collectively own 87% of the ordinary shares. The remaining 13% 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:

	2015 **USD '000**	**2014** **USD 000**
Staff loans and advances (Note 16)	**26**	26
Loans and advances to Directors	**36**	-
Loan to government of United Republic of Tanzania	**12,679**	5,869
Deposits held with banks that are shareholders of the Bank and related entities	**29,457**	85,657
Interest income earned on all of the above	**1,823**	3,625
Borrowings payable by the Bank to shareholders	**69,776**	25,555
Interest expense as paid to shareholders	**2,005**	1,307

No provision has been made for any loans to related parties. Loans to employees are given at concessionary rates.

Notes (continued)

39 Related party transactions (continued)

Key management compensation	**2015 USD '000**	**2014 USD '000**
Salaries and other employee benefits	**374**	382
Other short-term employee benefits - Gratuity	**59**	73
	433	455
Directors' remuneration		
- Fees and allowances	**70**	62
- Salaries and other short-term employee benefits (included within key management compensation above)	**433**	455
- Other expenses	**92**	68
	595	585