East African Development Bank

Directors' Report and Financial Statements

For the year ended 31 December 2016

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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

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

- Hon. Matia Kisaija
  Minister for Finance, Planning and Economic Development, Republic of Uganda

- Hon. Dr. Philip Mpango (**Chairman**, appointed 11 August 2016)
  Minister for Finance, United Republic of Tanzania

- Hon. Saada Mkuya Salum
  Minister for Finance, United Republic of Tanzania (resigned 10 August 2016)

Directors

- Mr Caleb Rwamuganza (appointed 20 February 2016)
  Permanent Secretary, Secretary to the Treasury, Ministry of Finance and Economic Planning, Republic of Rwanda

- Ms Kampeta Pitchette Sayinzoga (resigned 19 February 2016)
  Permanent secretary, Secretary to the Treasury, Ministry of Finance and Economic Planning, Republic of Rwanda

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

- Dr Kamau Thugge **(Chairman)**
  Principal Secretary, the National Treasury, Republic of Kenya

- Dr Servacius Likwelile (resigned 2 August 2016)
  Permanent Secretary, Ministry of Finance, United Republic of Tanzania

- Mr Doto James (appointed 31 August 2016)
  Permanent Secretary, Ministry of Finance, United Republic of Tanzania

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

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

- Mr Mbundu Faustin
  Private Sector Representative, Republic of Rwanda

- Mr Trevor De Kock
  African Development Bank Representative

- Ms Vivienne Yeda
  Director General, East African Development Bank

Advisory Panel

- Mr Mahesh K. Kotecha

- Mr Toyoo Gyohten

- Mr Lars Ekengren

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

East African Development Bank
Directors' Report
For the year ended 31 December 2016

The directors submit their report together with the audited financial statements for the year ended 31 December 2016, 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 8 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 and to the date of this report are set out on page 1.

Auditor

The Bank's auditor, PricewaterhouseCoopers Certified Public Accountants, 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 22 December 2017.

By order of the Board

Director

2017

East African Development Bank
Statement of Directors' Responsibilities
For the year ended 31 December 2016

The Charter requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank at the end of the financial year and its financial performance for the year then ended. The directors are responsible for ensuring that the Bank keeps proper accounting records that are sufficient to show and explain the transactions of the Bank; disclose with reasonable accuracy at any time the financial position of the Bank; and that enables them to prepare financial statements of the Bank that comply with prescribed financial reporting standards and the requirements of the Charter. They are also responsible for safeguarding the assets of the Bank and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

(i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

(ii) Selecting suitable accounting policies and then apply them consistently; and

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

In preparing the financial statements, the directors have assessed the Banks's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the directors to indicate that the Bank will not remain a going concern for at least the next twelve months from the date of this statement.

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

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors and Governing Council on 22 December 2017 and were signed on their behalf by:

Chairman : ....

Director General : ....

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

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the state of the financial affairs of East African Development Bank ("the Bank") as at 31 December 2016, and of its profit and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The financial statements of East African Development Bank set out on pages 8 to 68 comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("the IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

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

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

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

Report on the audit of the financial statements (continued)

Other information (continued)

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

Responsibilities of the directors for the financial statements

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

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

The directors are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

Report on the audit of the financial statements (continued)

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Certified Public Accountants
Kampala

CPA Uthman Mayanja

10 January 2018

Statement of comprehensive income

	Notes	2016 USD'000	2015 USD'000
Interest income	3	25,244	17,572
Interest expense	4	(8,699)	(3,817)
Net interest income		16,545	13,755
Fee and commission income	5	419	544
Other operating income	7	2,603	2,003
Net fair value (loss)/gain on investment property	21	(808)	50
Other gains and losses	6	(344)	(1,232)
Net operating income		18,415	15,120
Increase in provision for impairment of loans and lease receivables	16(a)	(1,946)	(1,038)
Operating income after impairment charges		16,469	14,082
Employee benefits expense	8	(4,063)	(4,165)
Depreciation and amortization	22	(732)	(671)
Other operating expenses	9	(4,094)	(2,569)
Profit before income tax	10	7,580	6,677
Income tax expense	11	-	-
Profit for the year		7,580	6,677
Other comprehensive income			
Revaluation surplus on land and buildings	22	-	-
Total comprehensive income		7,580	6,677
Earnings per share - basic	12	543	500
Earnings per share- diluted	12	543	500

Statement of financial position

	Notes	2016 USD'000	2015 USD'000
Assets			
Cash at bank	13	7,909	4,922
Deposits due from commercial banks	14	166,755	177,491
Investment security held to maturity	15	212	378
Loans and lease receivables	16	184,574	161,985
Equity investments at fair value	19	487	483
Other assets	20	692	1,122
Investment property	21	19,069	19,185
Property, plant and equipment	22	14,455	15,146
Total assets		394,153	380,712
Liabilities			
Other liabilities	23	5,353	1,898
Derivative financial instruments	18	-	32
Borrowings	24	123,681	125,141
Special funds	25	3,990	3,990
Grants	26	2,483	3,186
Capital fund	27	7,479	7,479
Total liabilities		142,986	141,726
Capital and reserves			
Share capital	28	189,824	185,787
Share premium	28	3,874	3,309
Funds awaiting allotment	29	103	105
Special reserve	30	12,358	11,783
Fair value reserve	31	505	496
Revaluation reserves	33	7,980	8,002
Retained earnings		36,523	29,504
Total shareholders' equity		251,167	238,986
Total shareholders' equity and liabilities		394,153	380,712
Off balance sheet items and contingencies	38	30,399	5,606

The financial statements set out on pages 8 to 68 were approved by the Board of Directors and Governing Council on 22 December 2017 and were signed on their behalf by:

Chairman: **Director General:**

Statement of Changes in Equity

	Notes	Share capital	Share premium	Special reserves	Funds awaiting allotment	Fair value reserve	Retained earnings	Revaluation reserve	Total equity
Year ended 31 December 2015		USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
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
Total comprehensive income		-	-	-	-	-	6,677	-	6,677
Transactions with owners recorded directly in equity									
Transfer to special reserve	30	-	-	753	-	-	(753)	-	-
Receipts from shareholders	29	-	-	-	12,918	-	-	-	12,918
Capitalisation of contributions	29	12,690	225	-	(12,915)	-	-	-	-
Revaluation reserve	33	-	-	-	-	-	50	(50)	-
Transfer to fair value reserve	31	-	-	-	-	(70)	70	-	-
At end of year		185,787	3,309	11,783	105	496	29,504	8,002	238,986
Year ended 31 December 2016									
At start of year		185,787	3,309	11,783	105	496	29,504	8,002	238,986
Comprehensive income									
Profit for the year		-	-	-	-	-	7,580	-	7,580
Total comprehensive income		-	-	-	-	-	7,580	-	7,580
Transactions with owners recorded directly in equity									
Transfer to special reserve	30	-	-	575	-	-	(575)	-	-
Receipts from shareholders	29	-	-	-	4,600	-	-	-	4,600
Capitalisation of member contributions	29	4,037	565	-	(4,602)	-	1	-	1
Revaluation reserve	33	-	-	-	-	-	22	(22)	-
Transfer to fair value reserve	31	-	-	-	-	9	(9)	-	-
At end of year		189,824	3,874	12,358	103	505	36,523	7,980	251,167

Statement of cash flows

	Note	2016 USD'000	2015 USD'000
Cash flows from operating activities			
Interest receipts		21,433	16,697
Interest payments		(7,019)	(3,252)
Net fee and commission receipts		874	1,075
Other income received		576	816
Payments to employees and suppliers		(7,754)	(10,293)
Cash outflows from operating activities		8,110	5,043
Net receipts from loans and advances		(23,758)	(57,290)
Net other receipts from customers		1,095	1,185
Settlement of other liabilities		(753)	(286)
Net cash generated from operating activities		(15,306)	(51,348)
Investing activities			
Purchase of property and equipment	22	(734)	(3,543)
Deposits with Banks		(19,214)	(16,898)
Net cash used in investing activities		(19,948)	(20,441)
Financing activities			
Receipts from member states towards share capital	29	4,600	12,918
Settlement of medium and long term borrowings		(8,613)	(17,000)
Proceeds from borrowings		6,685	82,284
Net cash generated from financing activities		2,672	78,202
Net increase in cash and cash equivalents		(32,582)	6,413
Cash and cash equivalents at start of year		94,737	90,007
Exchange losses on cash and cash equivalents		(401)	(1,683)
Cash and cash equivalents at end of year	32	61,754	94,737

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.

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 2016:

Amendments to IAS 1, 'Presentation of Financial Statements': The amendments are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments, effective 1 January 2016, provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.

Notes (continued)

2 Principal accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

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

- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.
- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

Annual Improvements to IFRSs 2012-2014 Cycle.

The latest annual improvements, effective 1 January 2016, clarify:

- IFRS 5 – when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such.
- IFRS 7 – specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement' and, therefore, whether the asset qualifies for de recognition.
- IFRS 7 – that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34.
- IAS 34 – what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report' and adds a requirement to cross-reference from the interim financial statements to the location of that information and make the information available to users on the same terms and at the same time as the interim financial statements.

Amendment to IAS 27;The IASB has made amendments to IAS 27 Separate Financial Statements which will allow entities to use the equity method in their separate financial statements to measure investments in subsidiaries, joint ventures and associates.

IAS 27 currently allows entities to measure their investments in subsidiaries, joint ventures and associates either at cost or as a financial asset in their separate financial statements. The amendments introduce the equity method as a third option. The election can be made independently for each category of investment (subsidiaries, joint ventures and associates). Entities wishing to change to the equity method must do so retrospectively.

Amendments to IAS 16 and IAS 38; The IASB has amended IAS 16 Property, Plant and Equipment to clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment.

Notes (continued)

2 Principal accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

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

IAS 38 Intangible Assets now includes a rebuttable presumption that the amortisation of intangible assets based on revenue is inappropriate. This presumption can be overcome if either

- The intangible asset is expressed as a measure of revenue (i.e where a measure of revenue is the limiting factor on the value that can be derived from the asset), or
- It can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated.

(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 2016, 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. 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 the impact of IFRS 9 full impact and process should be completed by end of 2017.

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 full impact and process should be completed by end of 2017.

Notes (continued)

2 Principal accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

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

IFRS 16,'Leases' After ten years of joint drafting by the IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard.

The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).

A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment.
This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.

One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios).

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standards is effective for annual periods beginning 1 January 2019. Early adoption is permitted only if IFRS 15 is adopted at the same time.

Disclosure Initiative – Amendments to IAS 7; Effective 1 January 2017, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (eg drawdowns and repayments of borrowings) and on cash changes such as acquisitions, disposals, accretion of interest and unrealized exchange differences.

Changes in financial assets must be included in this disclosure if the cash flows were, or will be included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.

Entities may include changes in other items as part of this disclosure, for example, by providing a net debt reconciliation. However, in this case the changes in other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.

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.

(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.

Notes (continued)

2 Principal accounting policies (continued)

e) Revenue recognition (continued)

(iii) Dividend income

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

(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

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.

Notes (continued)

2 Principal accounting policies (continued)

f) Property, plant and equipment (continued)

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

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

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

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

g) Intangible assets

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

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

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

h) 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.

Notes (continued)

2 Principal accounting policies (continued)

h) Leases (continued)

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.

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

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

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

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

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

Notes (continued)

2 Principal accounting policies (continued)

j) Financial assets and financial liabilities (continued)

(b) Loans and receivables

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

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

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

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

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

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

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

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

Notes (continued)

2 Principal accounting policies (continued)

j) Financial assets and financial liabilities (continued)

(iii) Determination of fair value

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

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

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

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

For more complex instruments, the Bank uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models such as present value techniques are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The impact on net profit of financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in Note 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 rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

(v) Reclassification

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

Notes (continued)

2 Principal accounting policies (continued)

j) Financial assets and financial liabilities (continued)

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)

2 Principal accounting policies (continued)

l) Identification and measurement of impairment

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

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

Objective evidence that financial assets (including equity securities) are impaired can include:

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

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

Notes (continued)

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.

3 Interest income

	2016 USD '000	2015 USD '000
Interest income on loans to projects	**15,396**	10,820
Interest income on lease receivables	**116**	213
Interest income on investment security held to maturity	**42**	66
Interest income on deposits with other banks	**9,690**	6,473
	25,244	17,572

Notes (continued)

4 Interest expense

	2016 USD '000	2015 USD '000
Interest on loans from banks	-	94
Interest on medium and long term borrowings	4,860	1,482
Interest on lines of credit with banks	3,839	2,241
	8,699	3,817

The total interest expense paid in 2016 was USD 8.7 million, which is above interest paid in 2015 of USD 3.8 million. The increase is mainly from additional lines of credit from Arab Bank for Economic Development (BADEA) (USD 2.3M), European Investment Bank EIB (USD 2.9M), and KfW (USD 1.6M). The increased interest expense is also attributed to additional lines of credit from Africa Development Bank (AfDB) (USD 30 million) and Commercial bank of Africa (USD 19.53 million) which were received towards the end of 2015.

5 Fee and commission income

	2016 USD '000	2015 USD '000
Gross fees and commission income		
Appraisal fees	575	753
Asset leasing income on purchase options & penalties	18	7
Commitment fees	47	113
Other fees and commission income	312	293
	952	1,166
Gross fees and commission expense		
Commission charges	(139)	(473)
Commitment fees	(115)	(110)
Bond issue costs	(279)	-
Other fees and commission expense	-	(39)
	(533)	(622)
Net fee and commission income	419	544

6 Other gains and losses

	2016	2015
Net foreign exchange losses	(353)	(971)
Net fair value gains/(losses) on financial assets at fair value (Note 18)	5	(31)
Net fair value gains/(losses) on equity investments at fair value (Note 19)	4	(230)
	(344)	(1,232)

7 Other operating income

	2016	2015
Rent income	653	673
Dividend income	126	99
Recovery of previously written off loans	1,095	1,186
Gain/(loss) on disposal of property and equipment	-	(1)
Grant income (Note 26)	703	56
Other income on asset leasing	10	3
Write (off)/back of other liabilities	16	(13)
	2,603	2,003

Notes (continued)

8 Employee benefits expense

	2016 USD '000	2015 USD '000
Salaries and wages	**2,738**	2,847
Pension and gratuity (Note 36)	**381**	351
Other staff costs	**944**	967
	4,063	4,165

9 Other operating expenses

	2016 USD '000	2015 USD '000
Rental expense	**127**	109
Staff duty travel	**109**	143
Directors expenses	**170**	162
Insurance	**354**	305
Advertising and publicity	**101**	94
Legal fees	**613**	538
Staff training, seminars and workshops	**0**	0
Repairs and maintenance	**136**	78
Computer software expenses	**225**	170
Other IT related expenses	**33**	9
Internal audit costs	**306**	60
Statutory Audit fees	**45**	54
Consultancy fees	**576**	192
Subscription to professional bodies	**13**	11
Scholarships	**644**	-
Other administrative expenses	**642**	644
	4,094	2,569

10 Profit before income taxes

Profit before income tax is stated after charging the following:

	2016 USD '000	2015 USD '000
Directors emoluments:		
- Fees and allowances	**82**	70
- Other expenses	**88**	92
Depreciation and amortization of intangible assets and grants	**731**	671
Impairment of loans and advances	**1,946**	1,038
Employee benefits expense (Note 8)	**4,063**	4,165
Auditors remuneration	**45**	54

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.

Notes (continued)

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.

	2016 USD '000	2015 USD '000
Net profit attributable to ordinary shareholders	7,580	6,677
Weighted average number of ordinary shares in issue and paid up during the year (Note 28)	13,954	13,347
Basic earnings per share	543	500
Earnings per share – basic and diluted		
Dilutive number of ordinary shares	8	8
Total issued and dilutive shares	13,962	13,355
Diluted earnings per share	543	500

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

13 Cash at bank

	2016 USD '000	2015 USD '000
Cash at bank	7,909	4,922

14 Deposits due from commercial banks

Deposits with banks in member states	166,755	177,491
	166,755	177,491
The above amount is analyzed as follows:		
Amounts due within 3 months of date of acquisition	161,448	172,260
Amounts due after 3 months of date of acquisition	5,307	5,231
	166,755	177,491

The weighted average effective interest rate on deposits due from banks was 5.71 % (2015: 4.72%).

15 Investment security held to maturity

	2016 USD '000	2015 USD '000
UGX Corporate bond – Housing Finance Bank Uganda Limited	212	378

The interest rate for the bond, which is denominated in Uganda Shillings, is fixed at 13.5% per annum with remaining maturity period of 1.5 years.

Notes (continued)

16 Loans and lease receivables

	2016 USD'000	2015 USD'000
Loans and advances (net)	183,710	160,350
Finance lease receivables (net)	864	1,635
	184,574	161,985
Loans and leases receivable comprise the following:		
Loans to projects	188,705	163,392
Finance lease receivables	877	1,659
Staff loans	-	26
Gross loans	189,582	165,077
Impairment losses on loans and advances (Note 16a)	(5,008)	(3,092)
Net carrying amounts	184,574	161,985

Included within loans to projects is financing amounting to USD 1.81 million (2015: USD 1.80 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 valuation of the shares or the amount invested plus a guaranteed minimum annual rate of return. Such financing is accounted for as loans and receivables. The directors have assessed the fair value of the embedded equity derivative within these instruments and concluded that it is not material and as such it has not been accounted for in these financial statements.

(a) Loan impairment charges

	2016 USD' 000			2015 USD' 000		
	Identified allowance for impairment	Collective allowance for impairment	Total	Identified allowance for impairment	Collective allowance for impairment	Total
At start of year	683	2,409	3,092	4,456	1,564	6,020
Reversal of impairment	(592)	(150)	(742)	(731)	(42)	(773)
Increase in impairment allowances	2,346	342	2,688	924	887	1,811
Loan impairment charge for the year	1,754	192	1,946	193	845	1,038
Amounts written off during the year	(30)	-	(30)	(3,966)	-	(3,966)
At end of year	2,407	2,601	5,008	683	2,409	3,092

Notes (continued)

16 Loans and lease receivables (continued)

(b) Finance lease receivables	2016 USD '000	2015 USD '000
Gross lease rentals within one year	287	178
Gross lease rentals after one year but before five years	677	1,684
	964	1,862
Unearned future finance income on finance leases	(87)	(203)
	877	1,659
Less: impairment losses		
Collective allowance for impairment	(13)	(25)
	864	1,634
The net investment in finance leases may be analysed as follows:		
Not later than 1 year	274	172
Later than 1 year and not later than 5 years	590	1,462
	864	1,634

General provision sensitivity analysis

Percentage provision	1.00%	1.50%	2%
	USD'000	USD'000	USD'000
Loans and advances	1,470	2,588	2,940
Finance lease receivables	9	13	18
	1,479	2,601	2,958

The unidentified impairment rate for 2016 was 1.5%, if the rate was reduced to 1% the impact on the balance sheet would have been USD 1.48 million and if increased to 2% the impact would have been USD 2.96 million.

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 2016 is as follows:

Loan exposure by country

Country	**Gross Balances USD M**	**%**	**Net Balances USD M**	**%**
Uganda	54	28%	53	29%
Kenya	58	30%	55	30%
Tanzania	45	24%	45	24%
Rwanda	33	17%	32	17%
Total Region	**190**	100%	**185**	100

Exposure by product

Product	**Gross Balances USD M**	**%**	**Net Balances USD M**	**%**
Long Term Loan	172	91%	167	90%
Medium Term Loan	9	5%	9	5%
Short Term Loan	6	3%	6	3%
Loans sub-total	**187**	**98%**	**182**	**98%**
Equity	2	1%	2	1%
Asset Lease	1	-	1	1%
Total All Products	**190**	**100%**	**185**	**100%**

Notes (continued)

17 Segment information (Continued)

Total portfolio quality

Category	Gross portfolio USD M	%	Net Portfolio USD M	%
Performing Portfolio				
Normal	175	92%	172	93%
Watch	2	1%	2	1%
	177	93%	174	94%
Non-Performing Portfolio				
Substandard	1	0%	1	0%
Doubtful	12	7%	10	6%
	13	7%	11	6%
	190	100%	185	100%

Approvals and disbursements

	Approvals		Disbursements	
	Actual 2016 (USD M)	Actual 2015 (USD M)	Actual 2016 (USD M)	Actual 2015 (USD M)
COUNTRY				
Uganda	6	52	11	19
Kenya	32	47	22	31
Tanzania	2	56	21	20
Rwanda	5	29	8	13
	45	184	62	83
PRODUCT				
Loans	45	183	62	81
Asset leasing	-	1	-	1
Equity	-	-	-	-
	45	184	62	83

Notes (continued)

17 Segment information (continued)

Segment statement of comprehensive income for year ended December 2016

	Uganda	Kenya	Tanzania	Rwanda	Head Office	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Interest income	5,027	5,278	2,686	2,521	9,732	25,244
Interest expense	-	-	-	-	(8,979)	(8,979)
Net interest income	**5,027**	**5,278**	**2,686**	**2,521**	**753**	**16,265**
Fee and commission income	330	283	189	128	(232)	698
Net foreign exchange losses	(898)	(208)	(49)	19	783	(353)
Other operating income	1,166	20	2,314	-	(897)	2,603
Fair value (loss)/gain on investment property	(953)	-	145	-	-	(808)
Net gains/(losses) on equity investments held at fair value	-	47	(42)	-	-	4
Net losses on financial assets held at fair value	-	-	31	-	(26)	5
Total operating income	**4,672**	**5,420**	**5,274**	**2,668**	**381**	**18415**
Reduction in provision for impairment of loans and lease receivables	94	(910)	-	-	(1,130)	(1,946)
Operating income after impairment charges	**4,766**	**4,510**	**5,274**	**2,668**	**(749)**	**16,469**
Employee benefits expense	(249)	(369)	(268)	(136)	(3,041)	(4,063)
Depreciation and amortization	-	(5)	(35)	(20)	(672)	(732)
Other operating expenses	(2)	(126)	(152)	(94)	(3,720)	(4,094)
Profit before income tax	**4,515**	**4,010**	**4,819**	**2,418**	**(8,182)**	**7,580**
Income tax expense	-	-	-	-	-	-
Profit for the year	**4,515**	**4,010**	**4,819**	**2,418**	**(8,182)**	**7,580**
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	**4,515**	**4,010**	**4,819**	**2,418**	**(8,182)**	**7,580**

Notes (continued)

17 Segment information (continued)

Segment statement of financial position for year ended December 2016

	Uganda USD'000	Kenya USD'000	Tanzania USD'000	Rwanda USD'000	Head office USD'000	Total USD'000
Assets						
Cash at bank	320	519	26	59	6,985	7,909
Deposits due from commercial banks	-	-	-	-	166,755	166,755
Investment securities held to maturity	-	-	-	-	212	212
Loans and lease receivables	53,849	56,793	45,415	32,852	(4,335)	184,574
Derivative financial instruments	-	-	-	-		-
Equity investments	-	147	340	-	-	487
Other assets	168	19	70	19	416	692
Investment properties	14,965	-	4,104	-	-	19,069
Property and equipment	12,158	1,061	1,236	-	-	14,455
Total assets	**81,460**	**58,539**	**51,191**	**32,930**	**170,033**	**394,153**
Liabilities						
Other liabilities	3,159	-	-	-	2,194	5,353
Borrowings	-	-	-	-	123,681	123,681
Special funds	-	-	-	-	3,990	3,990
Grants	-	-	-	-	2,483	2,483
Capital fund	-	-	-	-	7,479	7,479
Total liabilities	**3,159**	**-**	**-**	**-**	**139,827**	**142,986**
Capital and reserves						
Share capital	-	-	-	-	189,824	189,824
Share premium	-	-	-	-	3,874	3,874
Funds waiting allotment	-	-	-	-	103	103
Special reserve	-	-	-	-	12,358	12,358
Fair value reserve	-	-	-	-	505	505
Retained earnings	-	-	-	-	36,523	36,523
Revaluation reserves	-	-	-	-	7,980	7,980
Total shareholders' equity	**-**	**-**	**-**	**-**	**251,167**	**251,167**
Total shareholders' equity and liabilities	**3,159**	**-**	**-**	**-**	**390,994**	**394,153**

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 2015 is as follows:

Country	Gross Balances USD M	%	Net Balances USD M	%
Uganda	52	32%	51	31%
Kenya	53	32%	52	32%
Tanzania	30	18%	30	19%
Rwanda	30	18%	29	18%
Total region	**165**	100%	**162**	100
Exposure by product				
Product				
Long term loans	147	89%	144	89%
Medium term loans	6	4%	6	4%
Short term loans	8	5%	8	5%
Loans sub-total	**161**	**98%**	**158**	**98%**
Loans with equity features	2	1%	2	1%
Asset Lease	2	1%	2	1%
Total all products	**165**	**100%**	**162**	**100%**

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	14	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**

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 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)

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.

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 2016 and 2015 were as follows:

	Notional principal amounts USD' 000	Fair value Assets USD' 000	Fair value Liabilities USD' 000
Cross currency derivative contracts – 31 December 2016	-	-	-
Cross currency derivative contracts – 31 December 2015	1,536	1,525	1,557

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

	2016 USD '000	2015 USD '000
Derivative asset	(32)	108
Fair value loss (gain) on embedded financial instruments	32	(140)
	-	(32)

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

	2016 USD '000	2015 USD '000
Fair value (loss)/ gains on loans with equity options	5	109
Fair value (losses)/gain on derivative financial instruments	32	(140)
Gains/(losses) on investments exited	(32)	-
At end of year	5	(31)

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.

Notes (continued)

19 Equity investments at fair value (continued)

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

	2016 USD '000	2015 USD '000
At start of year	483	713
Fair value gains/(losses)	4	(230)
At end of year	487	483

20 Other assets

Local debtors	77	134
Deferred bond issue costs	-	265
Other receivables	615	723
	692	1,122

21 Investment property

Valuation at start of year	19,185	18,688
Additions	692	447
Net fair value gains	(808)	50
Valuation at end of the year	19,069	19,185

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 2016 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. Land and buildings occupied by the Bank for administrative use is classified under the property, plant and equipment (Note 22).

The table below shows revenue, costs and capital commitments related to investment property:

	2016 USD '000	2015 USD '000
Rental income from investment property	600	615
Direct operating expenses: Rented	65	27
Direct operating expenses: Unrented	5	1
Approved capital commitment	75	4,469

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 2016 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)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Totals
		USD'000	USD'000	USD'000	USD'000
At 31 December 2016					
Investment property	-Land	-	**13,840**	-	**13,840**
	-Building	-	**5,229**	-	**5,229**
PPE	-Land	-	**7,827**	-	**7,827**
	-Buildings	-	**5,295**	-	**5,295**
Total assets		-	**32,191**	-	**32,191**
At 31 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

Notes (continued)

22 Property, plant & equipment

	Land and buildings USD '000	Capital work in progress USD '000	Office equipment USD '000	Motor Vehicles USD' 000	Furniture & fittings USD '000	Total USD '000
At 1 January 2015						-
Cost or valuation	13,126	561	912	686	770	16,055
Accumulated depreciation	(67)	-	(768)	(508)	(451)	(1,794)
Net book amount	13,059	561	144	178	319	14,261
Year ended 31 December 2015						
Opening net book amount	13,059	561	144	178	319	14,261
Additions	-	2,067	902	-	127	3,096
Transfers from WIP	-	(1,537)	-	-	-	(1,537)
Disposals/Retirement:	-	-	-	-	-	
Cost	-	-	(60)	-	(108)	(168)
Depreciation	-	-	57	-	108	165
Depreciation charge	(448)	-	(53)	(110)	(60)	(671)
Closing net book amount	12,611	1,091	990	68	386	15,146
At 31 December 2015						
Cost or valuation	13,126	1,091	1,754	686	789	17,446
Accumulated depreciation	(515)	-	(764)	(618)	(403)	(2,300)
Net book amount	12,611	1,091	990	68	386	15,146
Year ended 31 December 2016						
Opening net book amount	12,611	1,091	990	68	386	15,146
Additions	714	734	65	-	6	1,519
Transfers from WIP	-	(1,478)	-	-	-	(1,478)
Depreciation charge	(448)	-	(153)	(58)	(73)	(732)
Closing net book amount	12,877	347	902	10	319	14,455
At 31 December 2016						
Cost or valuation	13,840	347	1,819	686	795	17,487
Accumulated depreciation	(963)	-	(917)	(676)	(476)	(3,032)
Net book amount	**12,877**	**347**	**902**	**10**	**319**	**14,455**

The revaluation model under IAS 16 – Property, plant and equipment has been applied to properties under own-use and residential properties rented out to staff even though those members of staff are paying market rates.

An independent valuation was performed by a professional valuer (Knight Frank Limited) to determine the fair value of land and buildings as at 31 December 2014. The standard states that for items of property, plant and equipment whose fair value is not significantly volatile, an entity may revalue every three or five years. As a result, the Bank has not performed a revaluation of property, plant and equipment as at 31 December 2016.

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:

	2016 USD'000	2015 USD'000
Cost	**8,668**	7,954
Accumulated depreciation	**(3,777)**	(3,344)
Net book amount	**4,891**	4,610

23 Other liabilities

	2016 USD'000	2015 USD'000
Deposits on leased assets	**183**	185
Advances from customers	**65**	79
Staff payables	**1**	10
Rent received in advance	**39**	27
Administrative accruals	**860**	501
Deferred income	**164**	535
Prepaid rental income	**145**	168
KFW Managed fund	**3,159**	-
Other creditors	**737**	393
	5,353	1,898

24 Borrowings

	2016 USD'000	2015 USD'000
Lines of credit with multi-lateral development banks	**92,390**	93,569
Lines of credit with other Financial Institutions	**31,291**	31,572
	123,681	125,141
Maturity analysis of loans		
Amounts payable within one year	**29,462**	30,372
Amounts payable after one year but within five years	**30,527**	15,253
Amounts payable after five years	**63,692**	79,516
	123,681	125,141

Notes (continued)

24 Borrowings (continued)

Lender	2016 USD'000	2015 USD'000
African Development Bank	**30,000**	30,000
Commercial Bank Of Africa Limited	**19,522**	19,531
Commercial Bank Of Africa Limited	**9,761**	9,766
African Development Bank	**6,222**	10,369
Arab Bank For Economic Development	**2,247**	-
Dfcu Bank Limited	**1,800**	1,928
European Investment Bank	**2,017**	2,465
European Investment Bank	**2,864**	3,500
European Investment Bank	**3,828**	3,830
European Investment Bank	**1,596**	1,597
European Investment Bank	**642**	699
European Investment Bank	**2,361**	2,845
European Investment Bank	**5,399**	5,470
European Investment Bank	**2,877**	-
European Investment Bank	**1,272**	1,704
European Investment Bank	**1,795**	1,796
Nordic Delopment Fund	**5,180**	5,677
Opec Fund For International Develop	**13,636**	15,000
Republic Of Uganda-Kfw	**5,080**	5,442
Republic Of Uganda-Kfw	**1,547**	1,657
Republic Of Uganda-Kfw	**1,560**	-
Development Bank Of South Africa	-	1,064
Subtotal for borrowings	**121,206**	124,340
Interest payable	**2,475**	801
Total borrowings	**123,681**	125,141

Notes (continued)

24 Borrowings (continued)

Lender	Tenor (Years)	Interest rate (%)	Fixed/ Variable	Currency
African Development Bank	14	2.07	Variable	USD
African Development Bank	10	4.56	Variable	USD
Arab Bank For Economic Development	9	4.65	Variable	USD
Commercial Bank of Africa Limited	1	10.50	Fixed	KES
Commercial Bank of Africa Limited	1	10.50	Fixed	KES
Dfcu Bank Limited	3	15.08	Variable	UGX
European Investment Bank	7	9.16	Fixed	KES
European Investment Bank	6	9.31	Fixed	UGX
European Investment Bank	7	9.41	Fixed	KES
European Investment Bank	7	9.39	Fixed	KES
European Investment Bank	5	8.56	Fixed	UGX
European Investment Bank	7	10.25	Fixed	TZS
European Investment Bank	7	8.26	Fixed	RWF
European Investment Bank	7	9.84	Fixed	KES
European Investment Bank	7	3.42	Variable	USD
European Investment Bank	7	3.40	Variable	USD
Nordic Development Fund	30	0.75	Fixed	EUR
Opec Fund For International Development	7	4.23	Variable	USD
Republic Of Uganda-Kfw	9	9.00	Fixed	UGX
Republic Of Uganda-Kfw	9	9.00	Fixed	UGX
Republic Of Uganda-Kfw	9	9.00	Fixed	UGX

The weighted average effective interest rate on borrowings was 6.94% (2015: 5.78%). 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.

25 Special funds (Norwegian /EADB fund)

	2016 USD '000	2015 USD '000
At start and end of year	3,990	3,990

Norwegian/ EADB fund

This fund was created out of a 1986/7 grant of NOK 30 million by the Norwegian Government to the Government of Uganda towards rehabilitation of Ugandan industries. Under the grant agreement, the bank was allowed to use a portion of interest paid on the loans to cover administrative expenses. Any balance of interest on loans and other interest earned on funds made available under the agreement was to accrue to a special fund to be managed by the Bank.

The special fund was to be used for certain expenditure including; a) payments to consultants and experts, b) strengthening the bank's administrative capacity, c) technical assistance, d) loans on concessionary terms, e) or any other purpose agreed by the government of Norway and the Bank. The agreement is silent on the use of capital repayments. Consultations are underway with the Norwegian Government to determine the utilisation/disposition of the remaining balance.

Notes (continued)

26 Grants

	2016 USD '000	2015 USD '000
At start of year	3,186	3,245
Grant utilization	(703)	(59)
At end of year	2,483	3,186

Grants outstanding relate to the following:

SIDA / EADB fund for technical assistance	1,280	1,983
SWISS/ EADB fund for technical assistance	1,053	1,053
Housing Finance feasibility study grant	150	150
	2,483	3,186

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 2016 the Bank had utilised part of the grant amounting to USD 702,762, (2015: USD 59,000) in regional capacity building by training selected East African lawyers through the extractive industries seminars, medical training and teacher graduate scholarships.

Medical Training and Fellowship (METAF) Programme
Programme background and model

The East African Development Bank (EADB) Medical Training and Fellowship (METAF) programme is a four-year programme (2016-2020) that aims to increase the early detection, research and treatment of cancer and neurological disorders in East Africa, especially in communities and areas where access to qualified professionals remains a challenge. The programme is delivered by the British Council as the Programme Manager in partnership with the Royal College of Physicians (RCP) as the technical partner.

The programme was developed in response to the growing burden of non-communicable diseases, especially cancer and neurological disorders in member states of the EADB – Kenya, Tanzania, Rwanda and Uganda. Premised on British Council's expertise in managing training programmes and the RCP's expertise in improving medical care across the globe, the programme is a high impact sustainable training model employing a twin approach of short-term clinical trainings within East Africa and long-term fellowships tenable in the United Kingdom (UK).

Notes (continued)

26 Grants (continued)

EADB Math, Science, Technology and Engineering University Scholarship Program(STEM)
Programme background and model

The EADB Math, Science, Technology and Engineering University Scholarship Program was launched in partnership with The Africa-America Institute. The multiple fast-track, 12 month scholarships are available to experienced teachers and lecturers with bachelor's degree in math, science, technology and engineering with an interest in pursuing a graduate degree in those fields in the United States at Rutgers University.

The STEM scholarship aims to maximize the impact of EADB's investment into the higher education sector by granting scholarships to accomplished lecturers who have agreed to return to their East African universities and continue teaching after they have received their graduate degree at Rutgers University. The fully-funded EADB graduate level scholarships will provide full tuition, room and living expenses within a stipulated budget. Masters degrees include, Math Education, Science Education, Cell and development biology, Chemical and Biochemical Engineering, Industrial and Systems Engineering and Materials Science and Engineering.

SWISS/ EADB fund

The SWISS fund for technical assistance was established following a grant from the Swiss Government. The funds were to be utilised for EADB's institution building support, staff training, corporate strategy and restructuring study.

Housing Finance Feasibility study grant

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

27 Capital fund

	2016 USD '000	2015 USD '000
At start and end of year	7,479	7,479

This represents the balance of funds received from the Norwegian Government, in 1982 and 1987 for the Norwegian/ EADB fund on a grant basis. In 2012, the Bank initiated the process of obtaining approval from the donors to close the fund and transfer the outstanding balance to the Bank's capital to be allotted amongst member states. During 2013, the Bank received a response from the donor requesting that the capitalisation of the fund be put on hold until the Norwegian Government completes its consultations.

Notes (continued)

28 Share capital

	Paid up share capital Number	Callable share capital Number	Total Number	Paid up share capital USD'000	Callable share capital USD'000	Total USD'000
Authorised share capital						
Class A						
At 1 January 2015	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
At 31 December 2015	**24,000**	**120,000**	**144,000**	**324,000**	**1,620,000**	**1,944,000**
Additional authorised	-	-	-	-	-	-
At 31 December 2016	24,000	120,000	144,000	324,000	1,620,000	1,944,000
Class B						
At 1 January 2015	8,000	1,037	9,037	108,000	14,000	122,000
Additional authorised	8,000	-	8,000	108,000	-	108,000
At 31 December2015	16,000	1,037	17,037	216,000	14,000	230,000
Additional authorised	-	-	-	-	-	-
At 31 December 2016	**16,000**	**1,037**	**17,037**	**216,000**	**14,000**	**230,000**
Issued share capital						
Class A						
At 1 January 2015	11,041	55,205	66,246	149,055	745,268	894,322
Issue of shares	940	4,700	5,640	12,690	63,450	76,140
At 31 December2015	11,981	59,905	71,886	161,743	808,718	970,461
Issue of shares	299	1,495	1,794	4,037	20,183	24,220
At 31 December2016	**12,280**	**61,400**	**73,680**	**165,780**	**828,901**	**994,681**
Class B						
At 1 January 2015	1,781	1,037	2,818	24,044	14,000	38,044
Issue of shares	-	-	-	-	-	-
At 31 December2015	1,781	1,037	2,818	24,044	14,000	38,044
Issue of shares	-	-	-	-	-	-
At 31 December 2016	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 December2015	11,981	1,781	13,762	161,744	24,043	185,787
Issue of shares	299	-	299	4,037	-	4,037
At 31 December 2016	**12,280**	**1,781**	**14,061**	**165,780**	**24,044**	**189,824**

Notes (continued)

28 Share capital (continued)

Shareholding position as at 31 December 2016

Shareholders	Number of shares As at 31 December 2015	Number of shares As at 31 December 2016	Amount As at 31 December 2016 USD'000	Shareholding %
Class A				
Government of Kenya	3,800	3,800	51,300	27.03%
Government of Tanzania	3,343	3,343	45,130	23.77%
Government of Uganda	3,800	3,800	51,300	27.03%
Government of Rwanda	1,038	1,337	18,050	9.51%
Total Class A	**11,981**	**12,280**	**165,780**	**87.33%**
Class B				
African Development Bank	1,240	1,240	16,740	8.82%
FMO – Netherlands	375	375	5,063	2.67%
DEG – Germany	100	100	1,350	0.71%
Yugoslavia Consortium	28	28	378	0.20%
SBIC - Africa Holdings	24	24	324	0.17%
Commercial Bank of Africa	5	5	68	0.04%
Nordea Bank Sweden	5	5	68	0.04%
Standard Chartered Bank	2	2	27	0.01%
Barclays Bank Plc., London	2	2	27	0.01%
Total Class B	**1,781**	**1,781**	**24,044**	**12.67%**
Total Class A & B	**13,762**	**14,061**	**189,824**	**100%**

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, (2015: 144,000) at a par value of USD 13,500 each. Class A ordinary shares are available for subscription to only member states and in equal proportion.

Class B

The authorised number of Class B ordinary shares is 16,000, (2015: 16,000) at a par value of USD 13,500 each. Class B ordinary shares are available for subscription to members other than member states. All issued Class B shares are fully paid up.

Share premium

Share premium arose on the shares issued to the Republic of Rwanda on admission at a value of USD 17,913 per share. The total number of shares issued and paid for by the Republic of Rwanda on the admission programme is 1,049 (2015: 750).

Notes (continued)

28 Share capital (continued)

Callable capital

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

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

Dividends

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

	2016 USD '000	2015 USD '000
At start of year	**105**	102
Cash received from shareholders	**4,600**	12,918
Shares issued in the year	**(4,602)**	(12,915)
At end of year	**103**	105

30 Special reserve

At start of year	**11,783**	11,030
Transfer of commission and guarantee fees from retained earnings	**575**	753
At end of year	**12,358**	11,783

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:

	2016 USD '000	2015 USD '000
At start of year	**496**	566
Transfer from retained earnings	**9**	(70)
At end of year	**505**	496

Notes (continued)

32 Cash and cash equivalents

	2016 USD '000	2015 USD '000
Cash and bank balances (Note 13)	7,909	4,922
Balances due from banks originally maturing less than 90 days	53,845	89,815
	61,754	94,737

33 Revaluation reserve

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

	2016 USD '000	2015 USD '000
At start of year	8,002	8,052
Transfer of excess depreciation to retained earnings	(22)	(50)
At end of year	7,980	8,002

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.

Notes (continued)

34 Use of estimates and judgments (continued)

Determining fair values

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

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.

Notes (continued)

35 Financial risk management (continued)

(b) Credit risk

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

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

The Bank 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	
	2016 USD '000	2015 USD '000	2016 USD '000	2015 USD '000
Individually assessed				
Gross amount	14,373	2,675	-	-
Allowance for impairment	(1,389)	(683)	-	-
Carrying amount	**12,984**	**1,992**	-	-
Collectively assessed:				
Gross amount	173,878	161,091	1,806	1,800
Allowance for impairment	(2,601)	(2,409)	-	-
Carrying amount	**171,277**	**158,682**	**1,806**	**1,800**
Total carrying amount	**184,261**	**160,674**	**1,806**	**1,800**
Past due but not impaired comprises:				
Watch (31 to 90 days)	1,205	13,586	-	-
Substandard (91 to 180) days	-	-	-	-
Doubtful (181 to 360) days	-	-	-	-
Neither past due nor impaired:				
Normal	172,674	147,505	1,806	1,800
Allowance for impairment – collectively assessed	(2,601)	(2,409)	-	-
Total carrying amount	**171,277**	**158,682**	**1,806**	**1,800**

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 into 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	2016	2015
	%	%
Agriculture and fisheries	1	1
Forestry and paper	-	1
Agro-marine food and processing	5	5
Construction, building materials and real estate	16	11
Hotel, tourism, leisure and entertainment	13	15
Transport and storage	1	1
Financial Institutions	36	29
Electricity and water	17	27
Education, health and other community services	11	10
	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	**2016 USD '000**	**2015 USD '000**
Legal mortgage over individually impaired assets	**81,229**	3,726
Legal mortgage over assets written off	**47,936**	47,671
Legal mortgage held over other loans and advances to customers	**318,514**	365,151
	447,679	416,548

Credit exposures relating to off-statement of financial position

Letters of credit	-	295
Loan commitments	**30,399**	5,311
	30,399	5,606

The table on page 54 represents the worst case scenario of credit risk exposure to the Bank as at 31 December 2016 and 2015, 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;
- 93% (2015: 99%) 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.

(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

Notes (continued)

35 Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to Liquidity risk

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

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

	2016 USD '000	2015 USD '000
Cash and cash equivalents as per liquidity policy	129,574	97,722
Designated liabilities	(58,792)	(58,624)
Surplus per liquidity policy	70,782	39,098
Liquidity ratio	2.20	1.67
Designated liabilities		
Repayment of term loans	40,058	37,727
Interest on borrowings	7,025	6,917
Acquisition of fixed assets	4,396	5,922
Staff and administration expenses	7,315	8,058
	58,794	58,624

Cash and cash equivalents as per liquidity policy is arrived at after deducting loan disbursement commitments of USD 36.54 million (2015: USD 51.58 million).

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

The Bank registered a liquidity ratio of 2.20 (2015: 1.67) 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 2016 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	7,909							7,909
Deposits due from commercial banks	-	165,375	1,380	-	-	-	-	166,755
Investment securities held to maturity		83	79	74	-	-	-	236
Loans and lease receivables		26,481	22,984	82,334	61,435	31,975	11,005	236,214
Equity investments		-	-	-	685	-	-	685
Other assets receivable	692	-	-	-	-	-	-	692
Total assets	**8,601**	**191,939**	**24,443**	**82,408**	**62,120**	**31,975**	**11,005**	**412,491**
Liabilities and shareholder funds								
Other accounts payable	5,353	-	-	-	-	-	-	5,353
Medium and long term loans	-	8,063	39,020	34,234	26,478	12,967	26,042	146,804
Total liabilities and shareholder funds	**5,353**	**8,063**	**39,020**	**34,234**	**26,478**	**12,967**	**26,042**	**152,157**
Net liquidity gap at 31 December 2016	**3,248**	**183,876**	**(14,577)**	**48,174**	**35,642**	**19,008**	**(15,037)**	**260,334**
Net liquidity gap at 31 December 2015	**4,146**	**186,754**	**(12,096)**	**39,561**	**24,679**	**10,000**	**(15,663)**	**237,382**

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.

2016	< 6 Months	>6 Months< 1Year	> 1 Year< 3 Years	Total
Assets	USD '000			USD '000
Outflow	-	-	-	-
Inflow	-	-	-	-

2015	< 6 Months	>6 Months< 1Year	> 1 Year< 3 Years	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	253	26,594	3,426	-	126	-	30,399
Capital commitments	-	75	-	-	-	-	75
Total	**253**	**26,669**	**3,426**	**-**	**126**	**-**	**30,474**

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 2016, 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 1.01 million (2015: 1.3 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	-	-	-	-	-	-	7,909	7,909
Deposits due from banks	68,308	91,762	3,910	-	-	-	1,366	165,346
Investment security	-	-	-	-	208	-	4	212
Loans and advances	5,180	133,671	15,305	12,652	4,688	11,554	1,524	184,574
Equity investments at fair value	-	-	-	-	-	-	487	487
Other Assets receivable	-	-	-	-	-	-	692	692
Total assets	**73,488**	**225,433**	**19,215**	**12,652**	**4,896**	**11,554**	**11,982**	**359,220**
Liabilities and shareholders' funds								
Other accounts payable	-	-	-	-	-	-	5,353	5,353
Medium and long term loans	-	18,517	4,046	29,283	39,854	29,506	2,475	123,681
Total liabilities and shareholder funds	**-**	**18,517**	**4,046**	**29,283**	**39,854**	**29,506**	**7,828**	**129,034**
Interest sensitivity gap at 31 December 2016	**73,488**	**206,916**	**15,169**	**(16,631)**	**(34,958)**	**(17,952)**	**4,154**	**230,186**
Interest sensitivity gap at 31 December 2015	**72,456**	**141,490**	**13,727**	**(3,879)**	**5,965**	**(17,344)**	**6,881**	**219,297**

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.

Closing rates at 31 December 2016	UGX	KES	TZS	RWF	EUR	GBP	SEK
	3,612	102.45	2,178	815.30	0.9497	0.8144	9.1010

Currency Position

	UGX	KES	TZS	RWF	EUR	GBP	SEK	Total
Assets	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and bank balances	320	519	26	59	3,615	23	-	4,562
Deposits due from banks	2,366	28,026	4,475	(0)	-	-	-	34,867
Investment security held to maturity	208	-	-	-	-	-	-	208
Loans and advances at amortized costs	14,392	15,055	2,499	621	5,584	-	-	38,151
Equity investments - Available for sale	-	147	340	-	-	-	-	487
Other assets receivable	-	7	45	-	-	-	-	52
Total Assets	**17,286**	**43,754**	**7,385**	**680**	**9,199**	**23**	**-**	**78,327**
Shareholders' Funds And Liabilities								
Other accounts payable	83	-	16	-	3,159	-	-	3,258
Medium and long term borrowings	14,638	39,800	5,539	655	5,185	-	-	65,817
Total Shareholders' Equity & Liabilities	**14,721**	**39,800**	**5,555**	**655**	**8,344**	**-**	**-**	**69,075**
Net Currency Position 31 December 2016	**2,565**	**3,954**	**1,830**	**25**	**855**	**23**	**-**	**9,252**
Net Currency Position 31 December 2015	1,887	2,945	3,156	7	357	11	1	8,364

Notes (continued)

35 Financial risk management (continued)

(e) Currency risk (continued)

Sensitivity analysis

The 10% movement of USD against other currencies at 31 December 2016 would have increased or decreased comprehensive income by USD 0.84 million (2015: USD 0.78 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 2016			
Financial assets at fair value through profit or loss			
Derivative financial instruments	-	-	-
Equity investments at fair value	-	487	487
Total assets	-	487	487
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

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

	2016 USD '000	2015 USD '000
At the start of the year	483	713
Investments exited	-	-
Fair value gain	4	230
At the end of the year	487	483

The movement in fair value of equity investments has been analysed in Note 19.

(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 2016. The ratio is computed as a ratio of loans, equities and lease receivables divided by shareholders equity less special reserves.

	2016 USD '000	2015 USD '000
Gross loans and lease receivables	189,582	165,077
Shareholders' equity	251,167	238,986
Special reserve	(12,358)	(11,783)
	238,809	227,203
Ratio	0.79	0.73

Notes (continued)

36 Employee retirement benefit plans and gratuity

	Note	2016 USD '000	2015 USD '000
Contribution to the retirement benefit plan	(i)	295	288
Contribution to the statutory pension scheme (NSSF)	(ii)	4	4
Gratuity	(iii)	82	59
		381	351

(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 each 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 policies and the Bank operates a medical insurance scheme for all its employees. Costs associated with proving these benefits are expensed as and when incurred and reported under employee benefits expense (Note 8).

37 Capital commitments

	2016 USD '000	2015 USD '000
Authorized but not contracted for	-	4,662
Authorized and contracted for	75	5,699
	75	10,361

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	2016 USD '000	2015 USD '000
Letters of credit	a)	-	295
Un-disbursed commitments	b)	30,399	5,311
		30,399	5,606

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 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 2016 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 owned by four East African Community member states of Kenya, Tanzania, Uganda and Rwanda who collectively own 87% of the total number of shares, which is 100% of the ordinary class A shares. The remaining 13% is widely held by class B shareholders.

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:

	2016 USD '000	2015 USD '000
Staff loans and advances (Note 16)	-	26
Loans and advances to Directors:		
-Eddron Communications Limited	202	36
Loan to government of United Republic of Tanzania	8,330	12,679
Deposits held with banks that are shareholders of the Bank and related entities:		
-Commercial bank of Africa ltd	36,567	29,457
Interest income earned on all of the above	2,197	1,823
Borrowings payable by the Bank to shareholders:	66,319	69,776
-African Development bank	36,857	40,468
-Commercial bank of Africa ltd	29,462	29,308
Interest expense on borrowings as paid to shareholders	5,001	2,005

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	2016 USD '000	2015 USD '000
Salaries and other employee benefits	**385**	374
Other short-term employee benefits – Gratuity	**82**	59
	467	433

Directors' remuneration	2016 USD '000	2015 USD '000
- Fees and allowances	**82**	70
- Salaries and other short-term employee benefits (included within key management compensation above)	**467**	433
- Other expenses	**88**	92
	637	595