East African Development Bank

Annual Report and Financial Statements

For the year ended 31 December 2018

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Company Information

Registered office and principal place of business

Uganda (Headquarters)

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

Country offices

Kenya

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

Rwanda

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

Tanzania

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

Bankers

Standard Chartered Bank–London
Standard Chartered Bank– New York
Standard Chartered Bank - Frankfurt
Citibank – London
Citibank – New York
Standard Chartered Bank - Uganda
Citibank Uganda Limited
Stanbic Bank Uganda Limited
Standard Chartered Bank - Kenya
Bank of Kigali
Standard Chartered Bank - Tanzania

Auditor

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

DIRECTORS' REPORT

1. Introduction

The directors submit their report together with the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of East African Development Bank ("EADB" or "the Bank").

2. Incorporation

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

3. Mission and Vision

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

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

4. Principal activity

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

The Bank's Principle activity is achieved through following:

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

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

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

(d) Promotion of the development of the region;

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

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

DIRECTORS' REPORT (continued)

5. Business Objectives and Strategies

The main objective of the Bank is to bring economic development in Member States through different interventions mainly medium and long term lending.

The Bank's strategy is anchored on member states' national development strategies as well as the East African Community. Currently the Bank is operating under its 2016-2020 strategy which, among other things, focuses on five key areas in the region namely:

- food security covering agriculture, agribusiness and forestation;
- social development covering education, health and housing;
- infrastructure development covering energy, water, transport, manufacturing and ICT;
- regional integration covering trade and cross border projects; and
- Climate Change covering environmental protection, biodiversity and green investments.

The Board gets progress reports of the strategy implementation on quarterly basis as well as an annual review when approving the annual budget and plans.

6. Governance

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

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

a) Governing Council

The Governing Council is comprised of Ministers responsible for Finance in Member States and meets regularly to receive and consider reports from the Board of Directors. Governing Council Members who served during the year end to the date of this report were:

	Name	Details
1	Hon. Dr. Philip Mpango - Member	Minister for Finance and Planning, United Republic of Tanzania
2	Mr. Henry K. Rotich – Member (Up to 24 July 2019)	Cabinet Secretary, The National Treasury, Republic of Kenya

DIRECTORS' REPORT (continued)

6. Governance

b) Governing Council

	Name	Details
3	Hon. Amb. Claver Gatete – Member (Up to April 2018)	Minister for Finance and Economic Planning, Republic of Rwanda
4	Dr. Uzziel Ndagijimana-Member (From April 2018)	Minister for Finance and Economic Planning, Republic of Rwanda
5	Hon. Matia Kasaija - Member	Minister for Finance, Planning and Economic Development, Republic of Uganda
6	Ukur Yatani – Member (From 25 July 2019)	Cabinet Secretary, The National Treasury, Republic of Kenya

During the year, the Governing Council held one meeting to deliberate on the Bank's financial performance and other issues from the Board of Directors.

c) Board of Directors and sub-committees

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

The Board has two committees namely the Board Human Resources Committee which is responsible for all staffing issues in the Bank and the Board Audit Committee which is responsible for all internal control issues. The Audit committee currently is also responsible for Bank's risk management.

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

The Board Human Resources committee and the Audit Committee met twice during the year and deliberated on various staffing issues, Internal Audit reports and Risk management reports respectively.

DIRECTORS' REPORT (continued)

6. Governance (continued)

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

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

	Name	Details
1	Dr Kamau Thugge – Chairma (Up to 24 July 2019)	Principal Secretary, the National Treasury, Republic of Kenya
2	Mr Keith Muhakanizi - Member	Permanent Secretary and Secretary to the Treasury, Ministry of Finance, Planning and Economic Development, Republic of Uganda
3	Mr Caleb Rwamuganza - Member	Permanent Secretary, Secretary to the Treasury, Ministry of Finance and Economic Planning, Republic of Rwanda
4	Mr James Doto - Member	Permanent Secretary, Ministry of Finance and Planning, United Republic of Tanzania
5	Dr Julius Muia – From 25 July 2019	Principal Secretary, the National Treasury, Republic of Kenya
6	Mr Francis N. Karuiru - Member	Private Sector Representative, Republic of Kenya
7	Mrs Khadija I. Simba - Member	Private Sector Representative, Republic of Tanzania
8	Mr Mbundu Faustin - Member	Private Sector Representative, Republic of Rwanda
9	Mr. James Tumusiime - Member	Private Sector Representative, Republic of Uganda
10	Mr Trevor De Kock – Member (Up to September 2018)	African Development Bank – Class B shareholders Representative
11	Dr. Abdu Mukhtar – Member (from September 2018)	African Development Bank - Class B shareholders Representative
12	Ms Vivienne Yeda - Member	Director General, East African Development Bank

c) Advisory Panel

The Advisory panel is comprised of eminent personalities with extensive experience in international and development financing and they advise the Bank on best practises and effective strategies to pursue. The current members of the Advisory panel are:

Members of the Advisory Panel

	Name	Details
1	Mr Mahesh K. Kotecha	Former Managing Director Capital Markets Assurance Corporation, New York and Capital Markets Assurance Corporation, Asia and former Managing Director of Mbia Insurance Corporation
2	Mr Toyoo Gyohten	President, Institute for International Monetary Affairs, Japan and Senior Adviser, Bank of Tokyo, Mitsubishi Limited
3	Mr Lars Ekengren	Former Deputy Director General, SIDA
4	Mr Jannik Lindbaek	Former Executive Vice president and CEO of the International Finance Corporation (IFC)

7. Capital and Shareholding

The Bank's Authorised Share capital is USD 2,160,000,000 comprised of 160,000 shares with a par value of USD 13,500 each. The authorized shares are classified into Class A shares (144,000) which are available for subscription to only member states and in equal proportion and Class B (16,000) which are available for subscription to members other than member states.

The paid up share capital amounted to USD 189,823,500 comprised of 12,280 Class A shares valued at USD 165,780,000 and 1,781 class B shares valued at USD 24,043,500.
The shareholders at the end of year were as follows:

Bank's Shareholders

Name	2018 and 2017		
	Shares	**Value**	**%**
Class A		**USD'000**	
Government of Kenya	3,800	51,300	27.03%
Government of the United Republic of Tanzania	3,343	45,130	23.77%
Government of Uganda	3,800	51,300	27.03%
Government of Rwanda	1,337	18,050	9.51%
Total Class A	**12,280**	**165,780**	**87.33%**
Class B			
African Development Bank	1,240	16,740	8.82%
FMO – Netherlands	375	5,062	2.67%
DEG – Germany	100	1,350	0.71%
Yugoslavia Consortium	28	378	0.20%
SBIC - Africa Holdings	24	324	0.17%
Commercial Bank of Africa	5	68	0.04%
Nordea Bank Sweden	5	68	0.04%
Standard Chartered Bank	2	27	0.01%
Barclays Bank Plc., London	2	27	0.01%
Total Class B	**1,781**	**24,044**	**12.67%**
Total Class A & B	**14,061**	**189,824**	**100%**

DIRECTORS' REPORT (continued)

8. Financial Performance

The Bank remained strong during the year and the credit rating agencies (the Moodys and Global Credit Rating) confirmed the Bank's investment grade rating with stable outlook.

The Moodys rating report released in July 2018 re-affirmed the Bank's Baa3 rating with stable outlook sighting, among other things, '*the Bank's strong capital and liquidity balanced against the low average credit quality of its shareholders and concentration risk of its loan portfolio*'.

On the other hand the Global Credit Rating report released in November 2018 also re-affirmed the Bank's BB+ rating with stable outlook sighting, among other things, '*a strong financial profile balancing a concentrated funding structure with a very strong liquidity position, very strong capital and leverage, and a moderate risk position*'.

More importantly, the Bank continued to register solid performance with yet another year with profitable results despite a slight fall in profitability and total assets due to the operating environment which limited the growth of its lending program.

The financial results of the Bank are summarised below and are contained in full on pages 20-95.

Performance highlights

Performance Measure	**2018 USD'000**	**2017 USD'000**	**Change USD'000**	**% Change**
Net operating income	15,377	18,023	(2,646)	(15%)
Operating expenses	8,871	7,495	(1,061)	14%
Profit before income tax	**6,506**	**10,213**	**(3,707)**	**(36%)**
Total assets	366,832	390,411	(23,579)	(6%)
Net loans	156,444	190,025	(33,581)	(18 %)
Equity	256,153	261,360	(5,207)	(2 %)
Return on Assets	1.77%	2.62%	(0.84%)	(32 %)
Return on Equity	2.54%	3.91%	(1.37 %)	(35 %)

DIRECTORS' REPORT (continued)

9. Cash flow and Liquidity Management

The Bank places significant importance on liquidity management and the detailed liquidity risk management report is contained on note 35 (c).

There was net cash inflow during the year as a result of positive generation from operating activities as well as investing activities the sum of which surpassed cash outflow in financing activities. Cash generation from operations amounted to USD 27.30 million compared to USD 2.07 million in 2017 mainly due to higher collection from loans and lower new disbursements.

Cash flow from investing activities amounted to USD 6.00 million compared to USD 3.37 million as a result of maturing placements with commercial Banks.

On the other hand, there was a net cash outflow of USD 18.18 million on financing activities compared to USD 15.34 million in 2017 as a result of higher repayments from previous borrowings.

During the year the Bank maintained adequate liquidity and the actual liquidity ratio at the end of 2018 was 4.00 times compared to 3.14 in 2017 and both are above the target ratio of 1.33 times.

10. Market overview

During the year the Bank's operating environment was characterised by slow growth of credit as well as high non-performing loans. This was more evident in Kenya and Tanzania. This forced the Bank to adopt a prudent approach and made very few new disbursements out of the approved facilities which, as a result of continued collections from the existing loan portfolio led to net decline in the loan portfolio.

According to the International Monetary Fund (IMF)'s world economic update for July 2019, the global economic growth is estimated at 3.6% which is lower than 3.8% recorded in 2017. The same report forecasts 2019 growth to slow down further to 3.2% sighting escalation in trade tension, uncertainties around Brexit and China slowdown.

The IMF's economic outlook for sub-Saharan Africa estimates the economy to have grown at 3.1% in 2018 but expects the growth to improve to 3.4% in 2019.

On the other hand the African Development Bank (AfDB)'s African Economic Outlook for 2019 estimates growth in African economies in 2018 at 3.5%, about the same level in 2017 and project it to grow at 4% in 2019.

The report estimate East Africa GDP growth at 5.7% and consider it to be the highest growing region in the continent. The report projects growth in East Africa to improve to 5.9% in 2019.

DIRECTORS' REPORT (continued)

10. Market overview (continued)

Overall conclusion is that there is positive trend in the region indicating recovery from slow down and growth of credit both of which are important elements for the Bank's successful operations.

11. Future Plans

The Bank's core strategy remains the promotion of the social economic growth in member states. The positive economic indicators in the member states provide a conducive environment for growth.

It can be noted that all member states have ambitious plans in infrastructure development as well as industrialization agenda and the Bank views these as growth opportunities in its loan portfolio. Intervention in promotion of small and medium enterprises and in the offering of social services, notably education, health and housing will feature prominently in the Bank's agenda.

The Bank will continue to mobilize appropriately priced credit facilities in order to fund the growth of operations in the member states, building on the good progress registered so far.

In order to maintain its investment grade rating the Bank will continue to improve its risk management strategies to ensure that the pursuit of growth does not in any way compromise its good risk management record.

The Bank will continue to engage key stakeholders with a view to build effective and efficient alliances to facilitate growth of its projects in the region.

12. Risk and Risk Management

The Bank has robust risk management program documented in its Enterprise-wide risk management policy.

The Bank adopts three pillars risk management philosophy where business units act as first line of defence with risk champions in each risk taking department taking leading roles. Risk and Compliance function act as the second line of defence and co-ordinate organization-wide risk management with periodic risk management reports to the Board. Audit function independently assess effectiveness of the Bank's risk management and recommend improvements. Detailed risk management activities are contained on Note 35.

DIRECTORS' REPORT (continued)

13. Solvency

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

14. Resources

The Bank is endowed with immense resources enabling it to operate efficiently and they are expected to continue being available to support the operations.

The resources which the Bank prides in include its motivated and highly skilled human capital. This is the bedrock of the Bank's performance and more efforts will be deployed to ensure that staff are well equipped to continue delivering on the Bank's mandate.

In addition, the Bank has a modern technology operating platform which facilitates operations across the region. The Bank will continue to improve and enhance its technology platform while at the same time making sure that required risk management safeguards are implemented to avoid disruptions.

The Bank also takes pride in its very committed shareholders who, in addition to provision of the capital, stand ready to provide even more resources through their callable capital commitments which at the end of the 2018 stood at USD 842,899,500. Efforts will continue to be made to ensure that delivery is made to their expectations at all times.

15. Employee Welfare

Employees are the most important resource of the Bank and therefore deliberate efforts are made to maintain harmonious relationship in order to improve performance.

The Bank ensures that employees are well remunerated based on their actual performance and results achieved. The Bank operates a defined contribution retirement benefit scheme to which employees contribute 10% of their basic salary and the Bank contributes 10%, 12.5% or 15% of the employee's basic salary depending on the length of service. The scheme is independently managed by a professional fund manager who provides periodic reports to a committee nominated by staff.

The Bank also makes contribution to the statutory pension schemes for the employees.

The Bank provides medical insurance cover for employees, their spouses and up to four qualifying dependants through a reputable medical insurance provider. Continuous monitoring on the services offered by the insurance cover is undertaken to guarantee quality service is provided to staff.

DIRECTORS' REPORT (continued)

15. Employee Welfare (continued)

The Bank also provide continuous training to staff in various, need driven areas, to ensure that their performance is improved. The Bank will continue to innovate and improve staff welfare.

The Bank is an equal employer and staff are offered equal opportunities based on their merits and not based on gender, disability or any similar attributes.

16. Related Party Transactions

The Bank's related party transactions are concluded at arm's length basis. Details of related party transactions at the end of the year are shown on Note 39.

17. Social and Environmental controls

The Bank is an ardent advocate of sustainable development and ensures that all its projects do not negatively affect the people aimed to benefit or their environment.

The Bank's Environmental and Social policy provides guidance on day to day operations to ensure that safeguards are provided in all financed projects. Periodic reports are provided as part of monitoring process to assess the potential social or environmental impact.

The Bank does not finance projects with potential impact to environment before environmental impact assessment report approved by competent authorities in member states is submitted showing their support for the project.

18. Stakeholders

Cordial relationship was maintained with all key stakeholders including shareholders, fund providers, customers, employees, service providers and the public at large. The Bank values contribution and support of all its stakeholders and implement strategies to assess the stakeholders expectations and how they will be met. The Bank will continue to actively engage with its stakeholders with the view to improve the value creation process.

19. Dividends

The Directors do not recommend the payment of dividends for the year (2017: Nil). This is in line with shareholders' strategy to build up the capital of the Bank.

DIRECTORS' REPORT (continued)

20. Events after reporting date

There are no any events after the reporting period that warrant reporting.

21. Auditor

The current Bank's external auditor, PricewaterhouseCoopers Certified Public Accountants, has indicated willingness to continue in office. Appointment of the auditor for the year ending 31 December 2019 will be done by the Governing council in accordance with article 2 (d) of the charter.

By order of the Board

Chairman – Board of Directors

30-12-19

Date

Director

30/12/2019

Date

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 were approved by the Board of Directors on 5 August 2019 and the Governing Council on 20 December 2019 and were signed on their behalf by:

Chairman – Board of Directors ______________________

Director General ______________________

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

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of East African Development Bank ("the Bank") as at 31 December 2018, 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 20 to 95 comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

We are independent of the Bank in accordance with the International 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.

PricewaterhouseCoopers Certified Public Accountants, Communications House, 1 Colville Street, P. O. Box 882, Kampala Uganda. Registration Number 113042
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Partners: C Mpobusingye D Kalemba F Kamulegeya P Natamba U Mayanja

PricewaterhouseCoopers CPA is regulated by the Institute of Certified Public Accountants of Uganda (ICPAU), ICPAU No. AF0004

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

Key audit matter

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

Key audit matter	***How our audit addressed the key audit matter***
Impairment of loans and advances to customers The Bank made provisions for expected credit losses on loans and advances of USD 3 million at 31 December 2018 (1 January 2018: USD 19 million) and a first-time adoption adjustment to retained earnings of USD 12 million as at 1 January 2018. In arriving at the expected credit loss as at 1 January 2018, The Directors have taken into account substantial negative developments on certain key borrowers resulting in significant additional provisions as of that date. We refer you to Note 16 of the financial statements for further information. The Directors exercised significant judgment in estimating expected credit losses over the remaining lifetime of loans and advances whose credit risk increased significantly since origination and loans in default; and, for the next 12 months for all other loans and advances.	*Our audit procedures are summarised as follows:* We evaluated the appropriateness of the methodology applied by management in the estimation of expected credit losses for consistency with IFRS 9; We validated management's basis for staging of loans and advances between default (Stage 3), significant increase in credit risk (Stage 2) and others (Stage 1); We tested, on a sample basis, the reasonableness of PDs used by management and the accuracy of the underlying historical data applied by management in deriving PDs; We tested, on a sample basis the reasonableness of EAD for both on and off-balance sheet items; We tested, on a sample basis, the reasonableness of the present values of expected future cash flows of loans and advances used by management in the estimation of LGD; and

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

Key audit matter (continued)

Key audit matter	How our audit addressed the key audit matter
Specifically, significant judgement has been exercised in: • defining both default and significant increase in credit risk, based on quantitative and qualitative factors; and • estimating probabilities of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") over the relevant period being either 12 months or remaining lifetime of the relevant loans and advances.	We recomputed, on a sample basis, expected credit losses for loans and advances and assessed the overall reasonableness of provisions for loans and advances made by management as at 1 January and 31 December 2018, also focused on the following: - The appropriateness of the methodology used to estimate the components of expected credit losses, being PD, LGD and EAD for consistency with IFRS 9; - the relevance and application of historical and forward-looking data used to estimate probabilities of default; - the reasonableness of the timing and amount of the present value of expected future cash flows on loans and advances, which is the key driver for LGD; and - the estimates made by management in deriving EAD for on and off statement of financial position exposures, and We assessed the reasonableness of additional provisions made as at 1 January 2018 on first time adoption of IFRS 9 for compliance with the standard with specific reference to forward looking information incorporated into ECL calculations by management in respect of major developments on certain key borrowers.

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

Other information

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

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

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

Responsibilities of the Directors for the financial statements

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

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

The Directors are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

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

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

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.

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

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

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

- 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.

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

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

Certified Public Accountants
Kampala

CPA Uthman Mayanja

10 January 2020

Statement of Comprehensive Income

	Notes	2018 USD'000	2017 USD'000
Interest income	3	**21,537**	24,831
Interest expense	4	**(6,370)**	(8,555)
Net interest income		**15,167**	16,276
Fee and commission income	5	**424**	581
Other operating income	6	**2,967**	3,884
Other gains/(losses)	7	**(111)**	(12)
Net fair value gain on investment property	20	**(261)**	4
Net operating income		**18,186**	20,733
Credit impairment losses	16(a)	**(2,809)**	(2,711)
Operating income after impairment charges		**15,377**	18,022
Employee benefits expense	8	**(3,690)**	(3,591)
Depreciation and amortization	10	**(775)**	(770)
Other operating expenses	9	**(4,406)**	(3,448)
Profit before income tax	10	**6,506**	10,213
Income tax expense	11	**-**	-
Profit for the year		**6,506**	10,213
Other Comprehensive income		**-**	-
Total comprehensive income		**6,506**	10,213
Earnings per share – basic and diluted (Expressed in USD per share)	12	**463**	726

Statement of financial position

	Notes	2018 USD'000	2017 USD'000
Assets			
Cash at Bank	13	**10,867**	14,006
Placements with commercial banks	14	**165,519**	151,974
Investment securities held to maturity	15	-	70
Loans and lease receivables	16	**156,444**	190,025
Equity investments	18	**1,273**	436
Other assets	19	**565**	775
Property and equipment	21	**13,111**	13,767
Investment property	20	**18,873**	19,134
Intangible assets	22	**180**	224
Total assets		**366,832**	390,411
Liabilities			
Other liabilities	23	**6,719**	5,790
Borrowings	24	**91,458**	109,518
Special funds	25	**3,990**	3,990
Grants	26	**1,033**	2,274
Capital fund	28	**7,479**	7,479
Total liabilities		**110,679**	129,051
Capital and reserves			
Share capital	27	**189,824**	189,824
Share premium	27	**3,874**	3,874
Funds waiting allotment	29	**83**	83
Special reserve	30	**12,507**	12,443
Fair value reserve	31	**525**	455
Revaluation reserves	33	**7,901**	7,939
Retained earnings		**41,439**	46,742
Total shareholders' equity		**256,153**	261,360
Total shareholders' equity and liabilities		**366,832**	390,411

The financial statements set out on pages 20 to 95 were approved by the Board of Directors on 5 August 2019 and the Governing Council on 20 December 2019 and were signed on their behalf by:

Chairman – Board of Directors: **Director General:**

Statement of Changes in Equity

Year ended 31 December 2017	Notes	Share capital USD '000	Share premium USD '000	Special reserves USD '000	Funds awaiting allotment USD '000	Fair value reserve USD '000	Retained earnings USD '000	Revaluation reserve USD '000	Total equity USD '000
At start of year		**189,824**	**3,874**	**12,358**	**103**	**505**	**36,523**	**7,980**	**251,167**
Comprehensive income									
Profit for the year		-	-	-	-	-	10,213	-	**10,213**
Other comprehensive income		-	-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	10,213	-	**10,213**
Transactions with owners									
Transfer to special reserve	30	-	-	85	-	-	(85)	-	-
Reclassification to special funds/capital and grants	29	-	-	-	(20)	-	-	-	**(20)**
Revaluation reserve	33	-	-	-	-	-	41	(41)	-
Transfer to fair value reserve	31	-	-	-	-	(50)	50	-	-
At end of year		**189,824**	**3,874**	**12,443**	**83**	**455**	**46,742**	**7,939**	**261,360**
Year ended 31 December 2018									
At start of year as previously stated		189,824	3,874	12,443	83	455	46,742	7,939	261,360
Changes on initial application of IFRS 9	16a	-	-	-	-	-	(11,713)	-	(11,713)
At start of year as restated		189,824	3,874	12,443	83	455	35,029	7,939	249,647
Comprehensive income									
Profit for the year		-	-	-	-	-	6,506	-	**6,506**
Other comprehensive income		-	-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	**6,506**	-	**6,506**

Statement of Changes in Equity (continued)

	Notes	Share capital USD '000	Share premium USD '000	Special reserves USD '000	Funds awaiting allotment USD '000	Fair value reserve USD '000	Retained earnings USD '000	Revaluation reserve USD '000	Total equity USD '000
Transactions with owners									
Transfer to special reserve	30	-	-	64		-	(64)	-	-
Transfer from the revaluation reserve	33	-	-	-	-	-	38	(38)	-
Transfer to fair value reserve	31	-	-	-	-	70	(70)	-	-
At end of year		**189,824**	**3,874**	**12,507**	**83**	**525**	**41,439**	**7,901**	**256,153**

Statement of cash flows

Statement of cash flows	**Note**	**2018 USD'000**	**2017 USD'000**
Cash flows from operating activities			
Interest receipts		18,781	20,095
Interest payments	24	(5,710)	(7,584)
Net fee and commission receipts		446	256
Other income received		664	632
Payments to employees and suppliers		(7,387)	(6,989)
Cash outflows from operating activities		6,794	6,410
Net change in loans and advances		20,056	(5,848)
Net other receipts from customers		986	2,456
Settlement of other liabilities		(538)	(951)
Net cash generated from operating activities		27,298	2,067
Investing activities			
Purchase of property and equipment	20 & 21	(46)	(90)
Purchase of computer software	22	(29)	(72)
Placements with commercial Banks		6,079	3,534
Net cash used in investing activities		6,004	3,372
Financing activities			
Settlement of medium and long term borrowings		(19,922)	(30,580)
Proceeds from borrowings	24	1,744	15,237
Net cash generated from financing activities		(18,178)	(15,343)
Net increase in cash and cash equivalents		15,124	(9,904)
Cash and cash equivalent at the start of the year		159,326	169,357
Foreign exchange losses		(281)	(127)
At end of year	32	174,169	159,326

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 years applied, unless otherwise stated.

A) Basis of preparation

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Additional information required by the Charter is included where appropriate. The financial statements have been prepared under the historical cost convention, except where otherwise stated in these accounting policies. The financial statements have been presented in United States dollars rounded off to the nearest thousand (USD '000).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions are changed. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 34.

Notes (continue)

2. Principal accounting policies (continued)

B) Changes in accounting policy and disclosures

(I) New and amended standards adopted by the Bank

(i) IFRS 9: Financial Instruments

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements.

The Bank did not early adopt any of IFRS 9 in previous periods. As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of the financial assets at the date of transition were recognised in opening retained earnings of the current period. Further details on the transition adjustment is described in more detail under Note 2 (i(b)).

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Bank. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail under (j) financial assets and liabilities.

(a) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

Financial assets	Measurement category under IAS 39	Carrying amount USD'000	IFRS 9 Measurement category	Carrying amount USD'000
Cash at Bank	Amortized cost	14,006	Amortized cost	14,006
Placements with commercial Banks	Amortized cost	151,974	Amortized cost	151,974
Loans and lease receivables	Amortized cost	190,025	Amortized cost	178,312
Investment securities held to maturity	Amortized cost (Held to Maturity)	70	Amortized cost	70
Equity investments	Fair Value through Profit or Loss (Designated)	436	FVPL (Designated)	2,036
		356,511		**346,398**

2. Principal accounting policies (continued)

B) Changes in accounting policy and disclosures (continued)

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

(i) IFRS 9: Financial Instruments (Continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Bank performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. The following table reconciles the carrying amounts of financial assets and liabilities, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

Financial assets	IAS 39 carrying amount at 31 December 2017 USD'000	Changes in classification USD'000	IFRS 9 impairment change USD'000	IFRS 9 Carrying amount at 1 January 2018 USD'000
Cash at Bank	14,006	-	-	14,006
Placements with commercial Banks	151,974	-	-	151,974
Loans and lease receivables	190,025	-	(11,713)	178,312
Investment securities held to maturity	70	-	-	70
Equity investments	436	-	-	436
	356,511	-	**(11,713)**	**344,798**
Financial Liabilities				
Other Liabilities	5,790	-	-	5,790
Borrowings	109,518	-	-	109,518
	115,308	-	-	**115,308**

There have been no changes in the classification measurement basis and carrying amounts of the Banks holdings of, borrowings and other liabilities.

The table below explains the changes in the loss allowance on loans and advances to customers at amortised cost between 31 December 2017 and 1 January 2018.

	At 31 December 2017 USD'000	Additional IFRS 9 Impairment allowance USD'000	At 1 January 2018 USD'000
Loans and lease receivable	7,718	11,713	19,431

Notes (continue)

2. Principal accounting policies (continued)

(ii) IFRS 15

This standard replaces IAS 11: Construction Contracts, IAS 18: Revenue, IFRIC 13: Customer Loyalty Programs, IFRIC 15: Agreements for the Construction of Real Estate, IFRIC 18: Transfer of Assets from Customers and SIC-31: Revenue – Barter Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when the Bank will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

There was no material impact of application of IFRS 15 and no adjustment to retained earnings was required.

(II) New and amended standards yet to be adopted by the Bank

(a) IFRS 16 Leases - Effective date 1st January 2019
(b) IFRS 17 Insurance Contracts - Effective date 1st January 2021
(c) IFRIC 23 – Uncertainty over tax - Effective date 1st January 2019

IFRS 16, Leases

IFRS 16 was published in January 2016 and becomes effective on 1st January 2019. It replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. The Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor') and it removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts with an exemption for short-term and low-value leases.

The Bank is still assessing the impact of the standard and adoption will be made in the financial statements starting 1st January 2019.

Notes (continue)

2. Principal accounting policies (continued)

B) Changes in accounting policies and disclosures (continued)

IFRIC 23 – Uncertainty over tax

The International Accounting Standard Board (IASB) issued IFRIC Interpretation 23 – Uncertainty over Income Tax treatment on 7 June 2017 which clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments and is effective for annual periods beginning 1st January 2019.

The adoption of the Interpretation is not expected to impact the Bank's financial statements as it only clarifies existing guidance.

IFRS 17 Insurance Contracts

IFRS 17 replaces IFRS 4 and is effective for annual periods beginning January 2021. It provides a comprehensive guidance for insurance contracts including recognition, measurement, presentation and disclosure.

The standard applies to all types of insurance contracts (i.e life, non-life, direct insurance and re-insurance), as well as to certain guarantees and financial instruments with discretionary participation features.

C) Functional and presentation currency

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

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

Notes (continued)

2. Principal accounting policies (continued)

E) Revenue recognition

(i) Interest income and expense

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

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

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expense presented in the statement of 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 contractual service is performed per requirement of IRFS 15.

(iii) Dividend income

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

Notes (continued)

2. Principal accounting policies (continued)

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.

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.

Notes (continued)

2. Principal accounting policies (continued)

F) Property, plant and equipment (continued)

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

(g) 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.

Notes (continued)

2. Principal accounting policies (continued)

H) Leases

- **Bank is the lessee (continued)**

This treatment will change once the Bank adopt IFRS 16 in 2019 which, among other things, require booking of right of use asset.

(ii) Finance leases

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

- **Bank is the lessor**

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

I) Capital work-in-progress

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

J) Financial assets and liabilities

Measurement methods

Amortized cost and effective interest rate

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

Notes (continued)

2. Principal accounting policies (continued)

J) Financial assets and liabilities (continued)

Measurement methods (continued)

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

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

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

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

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Notes (continued)

2. Principal accounting policies (continued)

J) Financial assets and liabilities (continued)

(a) Financial Assets

(i) Classification and subsequent measurement

From 1 January 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

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

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

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

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

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

Notes (continued)

2. Principal accounting policies (continued)

J) Financial assets and liabilities (continued)

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

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

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

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

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

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

Notes (continued)

2. Principal accounting policies (continued)

J) Financial assets and liabilities (continued)

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

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

Equity instruments

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

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

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

(ii) Impairment

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

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

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and

Notes (continued)

2. Principal accounting policies (continued)

J) Financial assets and liabilities (continued)

(ii) Impairment (continued)

- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Previous accounting policy for 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.

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.

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.

Notes (continued)

2. Principal accounting policies (continued)

J) Financial assets and liabilities (continued)

(iii) Modification of loans

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

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

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

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

Notes (continue)

2. Principal accounting policies (continued)

J) Financial assets and liabilities (continued)

(iv) Derecognition other than modification

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

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

(b) Financial liabilities

(i) Classification and subsequent measurement

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

(ii) Derecognition

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

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

Notes (continued)

2. Principal accounting policies (continued)

J) Financial assets and liabilities (continued)

(K) 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.

L) 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.

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.

During the year there was no offsetting transaction (2017: Nil).

Notes (continued)

2. Principal accounting policies (continued)

O) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where the Bank expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

P) Employees benefits

i) Retirement obligations

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

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

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

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

ii) Service gratuity

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

Notes (continued)

2. Principal accounting policies (continued)

P) Employees benefits (continued)

iii) Other entitlements

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

Q) Investment properties

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

R) Grants

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

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

S) Cash and cash equivalents

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

Notes (continued)

2. Principal accounting policies (continued)

T) Contingent liabilities – Financial guarantees and loan commitments

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

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

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

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

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

U) Taxation

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

V) Dividends

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

W) Comparatives

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

Notes (continued)

3	**Interest income**	**Notes**	**2018 USD '000**	**2017 USD '000**
	Interest income on loans to projects		**15,884**	17,243
	Interest income on lease receivables		**27**	51
	Interest income on investment security held to maturity		**3**	21
	Interest income on deposits with other Banks		**5,623**	7,516
			21,537	24,831

4	**Interest expense**		
	Interest on medium and long term borrowings	**5,227**	5,798
	Interest on lines of credit	**1,143**	2,757
		6,370	8,555

5	**Fee and commission income-Net**		
	Gross fees and commission income		
	Appraisal fees	**64**	85
	Other fees and commission income	**494**	464
	Commitment fees	**23**	113
		581	662
	Gross fees and commission expense		
	Commission charges	**(62)**	(24)
	Commitment fees	**(54)**	(57)
	Other fees and commission expense	**(41)**	-
		(157)	(81)
	Net fee and commission income	**424**	581

6	**Other Operating Income**		
	Rent income	**673**	630
	Dividend income	**40**	123
	Recovery of previously written off loans	**987**	2,456
	Grant income	**1,241**	418
	Other income on asset leasing	**7**	19
	Write (off)/back of other liabilities	**19**	238
		2,967	3,884

Notes (continued)

7 Other gains/(losses)	Notes	2018 USD '000	2017 USD '000
Net foreign exchange gain/(losses)		**(155)**	38
Net fair value gains/(losses) on equity investments at fair value	18	**44**	(50)
		(111)	(12)

8 Employee benefits expense

	2018	2017
Salaries and wages	**2,556**	2,561
Pension and gratuity (Note 36)	**349**	360
Other staff costs	**785**	670
	3,690	3,591

9 Other operating expenses

	2018	2017
Rental expense	**114**	109
Staff duty travel	**127**	143
Directors expenses	**96**	139
Insurance	**243**	262
Advertising and publicity	**383**	144
Legal fees	**501**	346
Repairs and maintenance	**114**	138
Computer software expenses	**178**	177
Other IT related expenses	**1**	3
Internal audit costs	**75**	91
Statutory Audit fees	**57**	47
Consultancy fees	**159**	445
Project insurance	**405**	315
Subscription to professional bodies	**2**	32
Scholarships (Note 26)	**1,121**	336
Other administrative expenses	**830**	721
	4,406	3,448

10 Profit before income taxes

Profit before income tax is stated after charging the following:

	2018	2017
Directors emoluments:		
- Fees and allowances	**37**	55
- Other expenses	**58**	84
Depreciation (note 21)	**702**	713
amortization of intangible assets (note 22)	**73**	57
Impairment of loans and advances	**2,809**	2,711
Employee benefits expense (Note 8)	**3,690**	3,591
Auditors remuneration	**57**	47

Notes (continued)

11 Taxation

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

12 Earnings per share – basic and diluted

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

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

	2018 USD '000	2017 USD '000
Net profit attributable to ordinary shareholders	**6,506**	10,213
Weighted average number of ordinary shares in issue and paid up during the year (Note 27)	**14,061**	14,061
Basic earnings per share	**463**	726
Earnings per share – basic and diluted		
Dilutive number of ordinary shares	**6**	6
Total issued and dilutive shares	**14,067**	14,067
Diluted earnings per share	**463**	726

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

13 Cash at Bank

	2018 USD '000	2017 USD '000
Cash at Bank	**10,867**	14,006

14 Placements with commercial Banks

	2018	2017
Placements with Banks in member states	**130,406**	131,947
Placements with overseas Banks	**35,113**	20,027
	165,519	151,974
The above amount is analyzed as follows:		
Amounts due within 3 months of date of acquisition	**163,302**	146,677
Amounts due after 3 months of date of acquisition	**2,217**	5,297
	165,519	151,974

Notes (continue)

14 Placements with commercial Banks (continued)

The weighted average effective interest rate on deposits due from Banks was 3.76 % (2017: 4.68%).

15 Equity investments at fair value

	2018 USD '000	2017 USD '000
UGX corporate bond – Housing Finance Bank Uganda Limited	-	70

The interest rate for the bond, which was denominated in Uganda Shillings, was fixed at 13.5% per annum, it matured in 2018.

16 Loans and lease receivables

	2018 USD'000	2017 USD'000
Loans and advances (net)	**156,206**	189,616
Finance lease receivables (net)	**238**	409
	156,444	190,025
Loans to projects	**159,438**	197,328
Finance lease receivables	**238**	415
Gross loans	**159,676**	197,743
Impairment losses on loans and advances (Note 16a)	**(3,232)**	(7,718)
Net carrying amounts	**156,444**	190,025

Included within loans to projects is financing amounting to Nil (2017: USD 1.60 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. The portion of USD 1.60 Million was transferred to equity investments valued at fair value (Note 18). The Directors have assessed the fair value of the embedded equity derivative within these instruments and concluded that it is not material and as such it has not been accounted for in these financial statements.

Notes (continued)

16 Loans and lease receivables

(a) Loan impairment charges

Year ended 31 December 2018

Loans and receivables

	USD'000
Opening loss allowance as at 1 January 2018 (Calculated under IFRS 9)	**19,431**
Less Impairment on written off projects	(19,012)
Increase in allowance recognized in profit/loss for the year	2,813
Closing loss allowance as at 31 December 2018	**3,232**

Year ended 31 December 2017	Allowance for identified impairment USD'000	Allowance for unidentified impairment USD'000	Total USD'000
At start of year	2,407	2,601	5,008
Increase in impairment allowances	2,998	228	3,226
Reversal of impairment	(385)	(130)	(515)
Loan impairment charge for the year	2,613	98	2,711
Amounts written off during the year	(1)	-	(1)
At end of year	**5,019**	**2,699**	**7,718**

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.

Notes (continued)

17 Segment information (continued)

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 2018 and 2017 respectively is as follows:

Loan exposure by country

Year ended 31 December 2018
Loan exposure by country

Country	Gross Balances USD'000	%	Net Balances USD'000	%
Uganda	40,597	25%	40,236	26%
Kenya	39,789	25%	37,364	24%
Tanzania	56,803	36%	56,390	36%
Rwanda	22,487	14%	22,454	14%
Total Region	**159,676**	100%	**156,444**	100%

Exposure by product

Product				%
Long term loans	144,502	90%	142,022	91%
Medium term loans	8,745	5%	8,099	5%
Short term loans	6,191	4%	6,090	4%
Loans sub-total	**159,438**	100%	**156,211**	**100%**
Asset Lease	238	0%	233	0%
Total All Products	**159,676**	**100%**	**156,444**	**100%**

Year ended 31 December 2017

Loan exposure by country

Country				
Uganda	49,047	25%	47,937	25%
Kenya	54,763	28%	49,731	26%
Tanzania	63,595	32%	62,473	33%
Rwanda	30,338	15%	29,884	16%
Total Region	**197,743**	100%	**190,025**	100

Notes (continued)

17 Segment information (continued)

Year ended 31 December 2017 (continued)

Exposure by product

Product	Gross Balances USD'000	%	Net Balances USD'000	%
Long term loans	181,317	92%	174,181	92%
Medium term loans	5,276	3%	5,197	3%
Short term loans	9,098	4%	8,637	4%
Loans sub-total	**195,691**	**99%**	**188,015**	**99%**
Equity	1,601	1%	1,601	1%
Asset Lease	451	0%	409	0%
Total All Products	**197,743**	**100%**	**190,025**	**100%**

Year ended 31 December 2018

Total portfolio quality

Category	Gross portfolio	%	Net Portfolio	%
Performing Portfolio	USD'000		USD'000	
Normal (Stage 1 & 2)	145,176	91%	143,927	92%
	145,176	**91%**	**143,927**	**92%**
Non-Performing Portfolio				
Stage 3	14,500	9%	12,517	8%
	14,500	**9%**	**12,517**	**8%**
Total	**159,676**	**100%**	**156,444**	**100%**

Notes (continued)

17 Segment information (continued)

Year ended 31 December 2017

Total portfolio quality

Category	Gross portfolio	%	Net Portfolio	%
Performing Portfolio	USD'000		USD'000	
Normal	150,200	76%	147,891	78%
Watch	29,497	15%	29,054	15%
	179,697	**91%**	**176,945**	**93%**
Non-Performing Portfolio				
Substandard	1,862	1%	1,706	1%
Doubtful	1,419	1%	957	1%
Loss	14,765	7%	10,417	5%
	18,046	**9%**	**13,080**	**7%**
	197,743	**100%**	**190,025**	**100%**

Approvals and disbursements

	Approvals		Disbursements	
	Actual 2018 USD'000	Actual 2017 USD'000	Actual 2018 USD'000	Actual 2017 USD'000
By country				
Uganda	17,562	12,670	4,521	5,780
Kenya	8,742	9,370	3,897	2,503
Tanzania	-	-	-	21,575
Rwanda	-	-	-	5,000
	26,304	**22,040**	**8,418**	**34,858**
By product				
Loans	**26,304**	**22,040**	**8,418**	**34,858**

The table below shows the distribution of loans and receivables by sector

Distribution of loans and receivables by sector	2018	2017
Agriculture and Fisheries	1%	2%
Agro, Marine and Food Processing	7%	7%
Construction Companies, Building Materials & Real estate	26%	23%
Financial Institutions	39%	35%
Education, Health and other Community Services	8%	7%
Electricity	12%	13%
Hotels, Tourism, Leisure and Entertainment	7%	13%
	100%	**100%**

Notes (continued)

17 Segment information (continued)

Segment statement of comprehensive income for year ended December 2018

	Uganda	Kenya	Tanzania	Rwanda	Head Office	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Interest income	3,993	4,929	5,102	2,065	5,448	21,537
Interest expense	(1,475)	(1,354)	(503)	(36)	(3,002)	(6,370)
Net interest income	**2,518**	**3,575**	**4,599**	**2,029**	**2,446**	**15,167**
Fee and commission income	157	156	156	113	(156)	426
Other operating income	245	782	-	-	1,939	2,966
Other gains /(losses)	(362)	287	(49)	(13)	25	(112)
Net fair value gain/(loss) investment property	-	-	-	-	(261)	(261)
Total operating income	**2,558**	**4,800**	**4,706**	**2,129**	**3,993**	**18,186**
Reduction in provision for impairment of loans and lease receivables	(405)	(2,485)	46	35	-	(2,809)
Operating income after impairment charges	**2,153**	**2,315**	**4,752**	**2,164**	**3,993**	**15,377**
Employee benefits expense	(859)	(968)	(696)	(281)	(886)	(3,690)
Depreciation and amortization	-	(14)	(20)	(10)	(731)	(775)
Other operating expenses	(884)	(884)	(884)	(442)	(1,312)	(4,406)
Profit before income tax	**410**	**449**	**3,152**	**1,431**	**1,064**	**6,506**
Income tax expense	-	-	-	-	-	-
Profit for the year	**410**	**449**	**3,152**	**1,431**	**1,064**	**6,506**
Total comprehensive income	**410**	**449**	**3,152**	**1,431**	**1,064**	**6,506**

Notes (continued)

17 Segment information (continued)

Segment statement of comprehensive income for year ended December 2017

	Uganda	Kenya	Tanzania	Rwanda	Head Office	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Interest income	4,887	5,690	4,301	2,417	7,536	24,831
Interest expense	(1,684)	(1,960)	(1,482)	(833)	(2,596)	(8,555)
Net interest income	**3,203**	**3,730**	**2,819**	**1,584**	**4,940**	**16,276**
Fee and commission income	111	164	194	150	(37)	582
Other operating income	292	15	2,293	-	1,284	3,884
Other gains and losses	(53)	573	(66)	(16)	(450)	(12)
Net fair value gain/(loss) investment property	-	-	129	-	(125)	4
Total operating income	**3,553**	**4,482**	**5,369**	**1,718**	**5,612**	**20,734**
Reduction in provision for impairment of loans and lease receivables	-	(1,094)	-	-	(1,617)	(2,711)
Operating income after impairment charges	**3,553**	**3,388**	**5,369**	**1,718**	**3,995**	**18,023**
Employee benefits expense	(231)	(295)	(230)	(41)	(2,793)	(3,591)
Depreciation and amortization	-	(5)	(20)	(20)	(726)	(770)
Other operating expenses	(690)	(690)	(690)	(689)	(690)	(3,449)
Profit before income tax	**2,632**	**2,398**	**4,429**	**968**	**(214)**	**10,213**
Income tax expense	-	-	-	-	-	-
Profit for the year	**2,632**	**2,398**	**4,429**	**968**	**(214)**	**10,213**
Total comprehensive income	**2,632**	**2,398**	**4,429**	**968**	**(214)**	**10,213**

Notes (continued)

17 Segment information (continued)

Segment statement of financial position for year ended December 2018

	Uganda USD'000	Kenya USD'000	Tanzania USD'000	Rwanda USD'000	Head office USD'000	Total USD'000
Assets						
Cash at Bank	4,572	3,292	2,014	83	906	10,867
Placements with commercial Banks	-	-	-	-	165,519	165,519
Loans and lease receivables	41,167	48,397	46,715	20,165	-	156,444
Equity investments	-	508	765	-	-	1,273
Other assets	165	81	71	19	229	565
Investment properties	-	-	4,205	-	14,668	18,873
Property and equipment	11,361	839	910	1	-	13,111
Intangible assets	-	-	-	-	180	180
Total assets	**57,265**	**53,117**	**54,680**	**20,268**	**181,502**	**366,832**
Liabilities	-	-	-	-	-	
Other liabilities	-	4,974	-	-	1,745	6,719
Borrowings	18,112	20,540	10,000	435	42,371	91,458
Special funds	-	-	-	-	3,990	3,990
Grants	-	-	150	-	883	1,033
Capital fund	-	-	-	-	7,479	7,479
Total liabilities	**18,112**	**25,514**	**10,150**	**435**	**56,468**	**110,679**
Capital and reserves						
Share capital	21,123	24,556	34,091	5,740	104,314	189,824
Share premium	-	-	-	3,874		3,874
Funds waiting allotment	-	-	-	-	83	83
Special reserve	-	-	-	-	12,507	12,507
Fair value reserve	-	-	-	-	525	525
Revaluation reserves	-	-	-	-	7,901	7,901
Retained earnings	14,621	15,330	9,644	7,069	(5,225)	41,439
Total shareholders' equity	**35,744**	**39,886**	**43,735**	**16,683**	**120,105**	**256,153**
Total shareholders' equity and liabilities	**53,856**	**65,400**	**53,885**	**17,118**	**176,573**	**366,832**

Notes (continued)

17 Segment information (continued)

Segment statement of financial position for year ended December 2017

	Uganda USD'000	Kenya USD'000	Tanzania USD'000	Rwanda USD'000	Head office USD'000	Total USD'000
Assets						
Cash at Bank	4,175	6,416	114	188	3,113	14,006
Deposits due from commercial Banks	-	-	-	-	151,974	151,974
Investment securities held to maturity	-	-	-	-	70	70
Loans and lease receivables	48,962	52,937	63,741	30,339	(5,953)	190,025
Equity investments	-	110	326	-	-	436
Other assets	133	45	54	16	527	775
Investment properties	14,840	-	4,294	-	-	19,134
Property and equipment	11,503	1,053	1,211	-	-	13,767
Intangible assets	-	-	-	-	224	224
Total assets	**79,613**	**60,561**	**69,740**	**30,543**	**149,955**	**390,411**
Liabilities						
Other liabilities	4,603	-	-	-	1,187	5,790
Borrowings	15,679	16,952	20,412	9,715	46,760	109,518
Special funds	-	-	-	-	3,990	3,990
Grants	-	-	-	-	2,274	2,274
Capital fund	-	-	-	-	7,479	7,479
Total liabilities	**20,282**	**16,952**	**20,412**	**9,715**	**61,690**	**129,051**
Capital and reserves						
Share capital	21,123	24,556	34,091	5,740	104,314	189,824
Share premium	-	-	-	3,874	-	3,874
Funds waiting allotment	-	-	-	-	83	83
Special reserve	-	-	-	-	12,443	12,443
Fair value reserve	-	-	-	-	455	455
Retained earnings	-	-	-	-	46,750	46,750
Revaluation reserves	-	-	-	-	7,931	7,931
Total shareholders' equity	**21,123**	**24,556**	**34,091**	**9,614**	**171,976**	**261,360**
Total shareholders' equity and liabilities	**41,405**	**41,508**	**54,503**	**19,329**	**233,666**	**390,411**

Notes (continued)

18 Equity investments at fair value

The Bank has advanced financing in the form of equity in exceptional cases where the project is assessed to have a 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.

Equity investments	**2018 USD '000**	**2017 USD '000**
At start of year	**436**	487
Additions (Reclassified from loans)	**1,591**	-
	2,027	487
Less:		
Investments that matured during the year	**(798)**	-
Fair value gain/(loss)	**44**	(51)
At end of year	**1,273**	436

19 Other assets

	2018	2017
Prepayments	**73**	95
VAT Receivable	**336**	250
Fees and commission Receivable	**34**	136
Tenants receivable	**94**	95
Other receivables	**28**	199
	565	775

20 Investment property valuation

	2018	2017
At start of year	**19,134**	19,069
Additions	-	61
Net fair value gain/(losses)	**(261)**	4
At end of the year	**18,873**	19,134

Notes (continued)

20 Investment property valuation (continued)

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 2018 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 property, plant and equipment (Note 21).

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

	2018 USD '000	2017 USD '000
Rental income from investment property	**628**	582
Direct operating expenses: Rented properties	**57**	54
Direct operating expenses: Unrented properties	**2**	1
Approved capital commitment	**305**	267

Notes (continued)

21 Property, plant & equipment (continued)

	Land and buildings USD 000'	Capital work in progress USD 000'	Office equipment USD 000'	Motor Vehicle USD 000'	Furniture & fittings USD 000'	Total USD 000'
At 1 January 2017						
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
Year ended 31 December 2017						
Opening net book amount	12,877	347	902	10	319	14,455
Additions		30				30
Transfers from WIP	93	(110)	19	-	-	2
Disposals						
Cost	-	-	(7)			(7)
Depreciation charge	(475)	-	(157)	(9)	(72)	(713)
Closing net book amount	12,495	267	757	1	247	13,767
At 31 December 2017						
Cost or valuation	13,933	267	1,831	686	795	17,512
Accumulated depreciation	(1,438)	-	(1,074)	(685)	(548)	(3,745)
Net book amount	12,495	267	757	1	247	13,767

Notes (continued)

21 Property, plant & equipment (continued)

	Land and buildings USD 000'	Capital work in progress USD 000'	Office equipment USD 000'	Motor Vehicle USD 000'	Furniture & fittings USD 000'	Total USD 000'
Year ended 31 December 2018						
Opening net book amount	12,495	267	757	1	247	13,767
Revaluation surplus						
Additions		46				46
Transfers from WIP		(8)	4	-	4	-
Depreciation charge	(476)	-	(155)	-	(71)	(702)
Closing net book amount	12,019	305	606	1	180	13,111
Year ended 31 December 2018						
Cost or valuation	13,933	305	1,835	686	799	17,558
Accumulated depreciation	(1,914)	-	(1,229)	(685)	(619)	(4,447)
Net book amount	**12,019**	**305**	**606**	**1**	**180**	**13,111**

Notes (continued)

21 Property, plant & equipment (continued)

The revaluation model under IAS 16 – Property, plant and equipment has been applied to land and buildings under own-use (this includes residential properties rented out to staff). An independent valuation was performed by a professional valuer (Knight Frank Limited) to determine the fair value of land and buildings as at 31 December 2014.

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

	2018 USD'000	2017 USD'000
Cost	**8,759**	8,759
Accumulated depreciation	**(4,649)**	(4,211)
Net book amount	**4,110**	4,548

22 Intangible assets

	2018 USD'000	2017 USD'000
Cost		
At start of year	**1,934**	1,653
Additions during the year	**29**	281
	1,963	1,934
Amortization		
At start of year	**(1,710)**	(1,653)
Amortization charge for the year	**(73)**	(57)
	(1,783)	(1,710)
At end of year	**180**	224

23 Other liabilities

	2018 USD'000	2017 USD'000
Deposits on leased assets	**122**	122
Advances from customers	**34**	34
Rent received in advance	**48**	43
Administrative accruals	**633**	196
Deferred Income	**238**	209
Prepaid rental income	**74**	122
KFW line of credit	**4,974**	4,603
FAPA-AfDB grant funds	**-**	52
Other creditors	**596**	409
	6,719	5,790

Notes (continued)

23 Other liabilities (continued)

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

24 Borrowings

	2018 USD'000	2017 USD'000
Lines of credit with multi-lateral development Banks	**81,632**	98,352
Lines of credit with other Financial Institutions	**9,826**	11,166
	91,458	109,518
Maturity analysis of borrowings		
Amounts payable within one year	-	13,262
Amounts payable after one year but within five years	**39,631**	30,556
Amounts payable after five years	**51,827**	65,700
	91,458	109,518

24 Borrowings movement analysis

	2018 USD'000	2017 USD'000
Opening balance	**109,518**	123,681
Additional borrowing	**1,744**	15,237
Interest incurred during the year	**6,370**	8,555
Principle payments within the year	**(19,922)**	(30,580)
Interest payments within the year	**(5,710)**	(7,584)
Revaluation gain/ (loss)	**(542)**	209
Net Balance	**91,458**	109,518

Notes (continued)

24 Borrowings (continued)

Lender	Tenor	Rate type	Interest rate %	Currency	2018 USD'000	2017 USD'000
Nordic Development fund	30	Fixed	0.75	EUR	**4,997**	5,552
European Investment Bank	7	Fixed	9.16	KES	**2,697**	3,422
Republic of Uganda-KFW	9	Fixed	6	UGX	**5,328**	5,453
Republic of Uganda-KFW	9	Fixed	6	UGX	**1,520**	1,556
European Investment Bank	6	Fixed	9.30	UGX	**743**	1,014
European Investment Bank	7	Fixed	9.41	KES	**1,314**	1,621
European Investment Bank	7	Fixed	9.38	KES	**1,168**	1,441
European Investment Bank	5	Fixed	8.56	UGX	**-**	1,764
European Investment Bank	7	Fixed	10.25	TZS	**-**	4,773
European Investment Bank	7	Fixed	8.26	RWF	**426**	569
Republic of Uganda-KFW	9	Fixed	6	UGX	**1,506**	1,541
European Investment Bank	7	Fixed	9.84	KES	**2,005**	2,418
Republic of Uganda-KFW	9	Fixed	6	UGX	**4,946**	5,062
African Development Bank	14	Variable	2.56	USD	**-**	2,074
European Investment Bank	7	Variable	4.78	USD	**1,121**	1,569
Opec Fund for International Development	7	Variable	5.59	USD	**8,182**	10,909
European Investment Bank	7	Variable	4.75	USD	**1,591**	2,227
African Development Bank	10	Variable	5.98	USD	**26,250**	30,000
Arab Bank for Economic Development	9	Variable	6.53	USD	**11,997**	11,997
KFW-agricultural financing Kenya	15	Fixed	5	KES	**1,164**	-
KFW-agricultural financing Kenya	15	Fixed	5	KES	**569**	-
Commercial Bank of Africa	2	Fixed	10.5	KES	**9,823**	9,695
dfcu Bank limited	3	Variable	8.97	UGX	**-**	1,379
					87,347	106,036
Accrued interest payable					**4,111**	3,482
					91,458	109,518

Notes (continued)

24 Borrowings (continued)

The KFW lines of credit include the Rural Finance Enhancement Programme and Agri Finance Enhancement Programme for on-lending to selected Partnering Financial Institutions (PFIs) in local currency. EADB has a contractual obligation to repay principal and accumulated interest in Uganda shillings to Ministry of Finance, Planning & Economic Development (the recipient) on maturity.

The weighted average effective interest rate on borrowings was 6.45% (2017: 7.11%). 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)

	2018 USD '000	2017 USD '000
At start and end of year	**3,990**	3,990

Norwegian/ EADB fund

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

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

26 Grants

	2018 USD '000	2017 USD '000
At start of year	**2,274**	2,483
Additions	-	209
Grant utilization	**(1,241)**	(418)
	1,033	2,274

Notes (continued)

26 Grants (continued)

The table below shows the counter parties from whom the grants were obtained.

SIDA / EADB fund for technical assistance	-	910
SWISS/ EADB fund for technical assistance	**774**	1,053
Housing Finance feasibility study grant	**150**	150
AfDB credit knowledge management system grant	**109**	161
	1,033	2,274

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.

During the year ended 31 December 2018, the Bank utilised part of the grant amounting to USD 910,000 (2017: USD 418,100) on 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) Program

The East African Development Bank (EADB) Medical Training and Fellowship (METAF) program is a four-year program (2017-2020) 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 program is delivered by the British Council as the Program Manager in partnership with the Royal College of Physicians (RCP) as the technical partner.

Medical Training and Fellowship (METAF) Program (continued)

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)

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 degrees in mathematics, 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 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. The Bank began utilising this grant for capacity building through offering scholarships. During the year ended 31 December 2018, the Bank utilised part of the grant amounting to USD 331,000 (2017: Nil)

Housing Finance Feasibility study grant

The grant represents funds received from the Government of Tanzania to fund the housing finance feasibility study.

AfDB (Credit knowledge management system grant)

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

Notes (continued)

27 Share capital

	Paid up share capital Number	Callable share capital Number	Total Number	Paid up share capital USD'000	Callable share capital USD'000	Total USD'000
Authorised share capital						
Class A	24,000	120,000	144,000	324,000	1,620,000	1,944,000
Class B	16,000	1,037	17,037	216,000	14,000	230,000
	40,000	121,037	161,037	540,000	1,634,000	2,174,000
Issued share capital						
Class A						
At 1 January 2017, 31 December 2017 and 2018	12,280	61,400	73,680	165,780	828,901	994,681
Class B						
At 1 January 2017, 31 December 2017 and 2018	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 2017, 31 December 2017 and 2018	**12,280**	**1,781**	**14,061**	**165,780**	**24,044**	**189,824**

Notes (continued)

27 Share capital (continued)

Shareholders	Number of shares as at 31 December 2018	Number of shares as at 31 December 2017	Amount as at 31 December 2017 and 2018 USD'000	Share-holding %
Class A				
Government of Kenya	3,800	3,800	51,300	27.03%
Government of the United Republic of Tanzania	3,343	3,343	45,130	23.77%
Government of Uganda	3,800	3,800	51,300	27.03%
Government of Rwanda	1,337	1,337	18,050	9.51%
Total Class A	**12,280**	**12,280**	**165,780**	**87.33%**
Class B				
African Development Bank	1,240	1,240	16,740	8.82%
FMO – Netherlands	375	375	5,062	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	**14,061**	**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. In addition, a resolution was passed in 2013 approving African Development Bank (AfDB), a class B shareholder, to subscribe for a further 740 class B paid up shares and 1,037 class B callable shares at USD 13,500 each.

Class A

The authorised number of Class A ordinary shares is 144,000, (2017: 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.

Notes (continued)

27 Share capital (continued)

Class B

The authorised number of Class B ordinary shares is 16,000, (2017: 16,000) at a par value of USD 13,500 each. Class B ordinary shares are available for subscription to members other than member states. All issued Class B shares are fully paid up.

Share premium

Share premium arose on the shares issued to the Republic of Rwanda on admission at a value of USD 17,913 per share. The total number of shares issued and paid for by the Republic of Rwanda on the admission program is 878 (2017: 878). Share premium therefore amounts to USD 4,413 per share which is equivalent to USD 3.9 million (2017: USD 3.9 million).

Callable capital

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

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

Dividends

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.

28 Capital fund

	2018 USD '000	2017 USD '000
At start and end of year	7,479	7,479

Notes (continued)

28 Capital fund (continued)

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.

29 Funds awaiting allotment

	2018 USD '000	2017 USD '000
At start of year	**83**	103
Amounts reclassified (to)/from grants, special funds and capital fund	-	(20)
At end of year	**83**	83

30 Special reserve

At start of year	**12,443**	12,358
Transfer of commission and guarantee fees from Statement of Comprehensive Income	**64**	85
At end of year	**12,507**	12,443

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 non distributable and serves the purpose of enabling the Bank meet its liabilities on borrowings or guarantees chargeable.

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:

Fair value reserve	2018 USD '000	2017 USD '000
At start of year	**455**	505
Transfer from retained earnings	**70**	(50)
At end of year	**525**	455

Notes (continued)

32 Cash and cash equivalents

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

	2018 USD '000	2017 USD '000
Cash and Bank balances (Note 13)	**10,867**	14,006
Balances due from Banks originally maturing less than 3 months	**163,302**	145,320
	174,169	159,326

33 Revaluation reserve

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

	2018 USD '000	2017 USD '000
At start of year	**7,939**	7,980
Transfer of excess depreciation to retained earnings	**(38)**	(41)
At end of year	**7,901**	7,939

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.

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

Measurement of expected credit loss allowance

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

Notes (continued)

34 Use of estimates and judgments

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

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for measuring the ECL;

Establishing groups of similar financial assets for the purpose of measuring ECL.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of 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 Asset and Liability Committee (ALCO), Project Committee and the Risk Management Unit 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 while the board of Directors reports to the Governing council.

Notes (continued)

35 Financial risk management

(a) Introduction and overview

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

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

(b) Credit risk

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

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

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

Management of credit risk

The risk 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.

Notes (continued)

35 Financial risk management

(b) Credit risk (continued)

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 team which 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 team prepares regular reports for Management and the Board's consideration on the performance of the loan portfolio.

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

Loans and advances (incl. loan commitments and guarantees)

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

Credit risk grading

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

Notes (continued)

35 Financial risk management (continued)

(b) Credit risk (continued)

Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Change in credit quality since initial recognition

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets)

Change in credit quality since initial recognition

Recognition of expected credit losses

12 Months Expected Credit Losses	Lifetime expected credit losses	Lifetime expected credit losses
Stage 1	**Stage 2**	**Stage 3**
*Performing initial recognition**	*Underperforming Assets with significant increase in credit risk since initial recognition**	*Non-performing Credit impaired assets*

**Except for purchased or originated credit impaired assets*

Notes (continued)

35 Financial risk management (continued)

(b) Credit risk (continued)

The 3 stages are as detailed below:

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

Stage 2: includes financial instruments that *have had a significant increase in credit risk* since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Stage 3: includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

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

1. Qualitative factors
   - The client's risk rating
2. Quantitative factors
   - The facilities arrears status
   - Number of restructures, if any
   - Reasons for restructure
   - Change in client rating over the past 12 months
3. The indicators of Significant Increase in Credit Risk (SICR) are:
   - Is the facility more than 30 days past due
   - Has it been restructured due to cash flow difficulties
   - Has there been an increase in rating of the facility

Notes (continued)

35 Financial risk management (continued)

(b) Credit risk (continued)

Significant increase in credit risk (SICR)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

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

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

- Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

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

Notes (continued)

35 Financial risk management (continued)

(b) Credit risk (continued)

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

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

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

Forward-looking information incorporated in the ECL models

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

These macroeconomic overlays and the probability of each economic scenario occurring were set using management judgement.

The main factors considered while assessing the possible impact of the economic scenario are:

- expected trend of the gross domestic product (GDP),
- expected trend of the consumer price index and
- growth of credit to private sector

Analysis is then made to determine how such changes are likely going to affect the probabilities of default as well as loss given default. Determination of such impact is made after consideration of input given by consultants including actuaries.

The table below shows the weightings for each scenario as applied by the bank

Macro-economic scenarios

	Base case	Downside	Optimistic
Probability	80%	10%	10%
PD overlay	0	0.1	(0.05)

Notes (continued)

35 Financial risk management (continued)

(b) Credit risk (continued)

Maximum exposure to credit risk — Financial instruments subject to impairment

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

Loans and lease receivables

At 31 December 2018	Kenya USD'000	Uganda USD'000	Tanzania USD'000	Rwanda USD'000	Total USD'000
Stage 1	27,849	37,321	37,529	22,487	125,186
Stage 2	-	716	19,274	-	19,990
Stage 3	11,940	2,560	-	-	14,500
Carrying amount	39,789	40,597	56,803	22,487	159,676
At 1 January 2018					
Stage 1	28,263	44,451	40,873	30,339	143,926
Stage 2	-	-	20,467	-	20,467
Stage 3	26,106	3,762	1,862	-	31,730
Carrying amount	54,369	48,213	63,202	30,339	196,123

Maximum exposure to credit risk — Financial instruments not subject to impairment

The Company assessed its other financial assets for impairment as shown in Note 2 (a) and found them not to be impaired. In arriving at the conclusion the Bank assessed, among others, the credit standing of the counterparties and probability of default of its placements and bank balances.

The table below shows the other financial assets not subject to impairment

	2018 USD'000	2017 USD'000
Cash at Bank	**10,867**	14,006
Placements with commercial Banks	**165,519**	151,974
Investment securities held to maturity	-	70
	176,386	166,050

Notes (continued)

35 Financial risk management (continued)

(b) Credit risk (continued)

Loss allowance (continued)

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

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;

- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;

- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
Impacts on the measurement of ECL due to changes made to models and assumptions;

- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;

- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and

- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

Notes (continued)

35 Financial risk management (continued)

(b) Credit risk Measurement (continued)

Loss allowance (continued)

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

Year ended 31 December 2018

	Stage 1 12-Month ECL USD'000	Stage 2 Lifetime ECL USD'000	Stage 3 Lifetime ECL USD'000	Others USD'000	Total USD'000
Loans and receivables					
Gross carrying amount as at 1 January 2018	**143,944**	**20,467**	**31,730**	-	**196,141**
Transfers					-
Transfer from Stage 1 to Stage 2	811	(811)	-	-	-
Financial assets derecognised during the period other than write offs	(38,029)	(2,773)	(981)	-	(41,783)
					-
New financial assets originated	8,418	-	-	-	8,418
Changes in interest accruals	11,571	1,578	2,763	-	15,912
Write offs	-	-	(19,012)	-	(19,012)
Gross carrying amount as at 31 December 2018	**126,715**	**18,461**	**14,500**	-	**159,676**
Expected Credit Loss					
As at 1 January 2018	1,435	228	17,768	-	**19,431**
Increase/(Decrease) in impairment	(410)	(4)	3,223	4	**2,813**
Write offs	-	-	(19,012)	-	**(19,012)**
As at 31 December 2018	**1,025**	**224**	**1,979**	**4**	**3,232**
Net carrying amount as at 31 December 2018	**125,690**	**18,237**	**12,521**	**(4)**	**156,444**

Notes (continued)

35 Financial risk management (continued)

(b) Credit risk Measurement (continued)

Credit risk as presented under IAS 39

Year ended 31 December 2017	loans and advances to projects	Other loans and advances
	USD '000	USD '000
Individually assessed		
Gross amount	18,046	-
Allowance for impairment	(2,481)	-
Carrying amount	15,565	-
Collectively assessed:		
Gross amount	177,368	1,601
Allowance for impairment	(2,908)	-
Carrying amount	174,460	1,601
Total carrying amount	190,025	1,601
Past due but not impaired:		
Watch (31 to 90 days)	29,497	-
Substandard (91 to 180) days	-	-
Doubtful (181 to 360) days	-	-
Neither past due nor impaired:		
Normal	147,871	1,601
Allowance for impairment – collectively assessed	(2,908)	-
Total carrying amount	174,460	1,601

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.

Notes (continued)

35 Financial risk management (continued)

(b) Credit risk Measurement (continued)

Credit risk as presented under IAS 39 (continued)

Past due but not impaired loans and advances

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

Loans with renegotiated terms

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

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio taking 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.

Write off policy

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

Notes (continued)

35 Financial risk management (continued)

(b) Credit risk Measurement (continued)

Collateral and other credit enhancements

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

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

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Loans and lease receivables	31,730	(17,768)	13,962	51,228
Loans and lease receivables	14,500	(1,979)	12,521	23,506

Credit exposures relating to off-statement of financial position	2018 USD '000	2017 USD '000
Loan commitments	**6,207**	1,902

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.

Notes (continued)

35 Financial risk management (continued)

(c) Liquidity risk (liquidity risk continued)

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

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

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

	2018 USD '000	2017 USD '000
Cash and cash equivalents	**174,169**	159,326
Less		
	(18,720)	(13,280)
Designated liabilities	**(51,359)**	(61,355)
Cash and cash equivalents as per liquidity policy	**104,090**	84,691
Liquidity ratio	**4.00**	3.14
Budgeted designated liabilities		
Repayment of term loans	**21,602**	24,758
Interest on borrowings	**4,819**	5,341
Acquisition of fixed assets	**2,132**	4,396
Staff and administration expenses	**9,966**	11,521
	38,519	46,016

Cash and cash equivalents as per liquidity policy is arrived at after deducting loan disbursement commitments of USD 18.72 million (2017: USD 13.28 million).

The liquidity policy of the Bank defines cash and cash equivalents as its operational and strategic liquidity pool which comprises cash and placements with commercial banks with original maturity periods not exceeding 3 months.

The Bank registered a liquidity ratio of 4.0 (2017: 3.14) which exceeds the minimum liquidity ratio as per the policy of 1.33.

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 2018 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	10,867	-	-	-	-	-	-	10,867
Placements	-	165,774	495	-	-	-	-	166,269
Loans and lease receivables	648	24,259	28,573	74,963	47,865	11,682	4,147	192,137
Equity Investments	-	-	-	1,273	-	-	-	1,273
Other assets receivable	567	-	-	-	-	-	-	567
Total assets	**12,082**	**190,033**	**29,068**	**76,236**	**47,865**	**11,682**	**4,147**	**371,113**
Liabilities								
Other accounts payable	6,719	-	-	-	-	-	-	6,719
Medium and long term loans	-	8,125	18,296	28,045	27,238	12,668	14,128	108,500
Total liabilities	**6,719**	**8,125**	**18,296**	**28,045**	**27,238**	**12,668**	**14,128**	**115,219**
Net liquidity gap -31 Dec 2018	**5,363**	**181,908**	**10,772**	**48,191**	**20,627**	**(986)**	**(9,981)**	**255,894**
Cumulative gap - 31 Dec 2018	**5,363**	**187,271**	**198,043**	**246,234**	**266,861**	**265,875**	**255,894**	
Net liquidity gap -31 Dec 2017	**9,954**	**168,818**	**10,141**	**58,301**	**36,926**	**894**	**(11,662)**	**273,372**
Cumulative gap -31 Dec 2017	**9,954**	**178,772**	**188,913**	**247,214**	**284,140**	**285,034**	**273,372**	

Notes (continued)

35 Financial risk management (continued)

(c) Liquidity risk (continued)

Off balance sheet items

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

	< 6 Months	> 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	3,365	2,716	-	126	-	-	6,207
Capital commitments	-	305	-	-	-	-	305
Total	**3,365**	**3,021**	-	**126**	-	-	**6,512**

(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 2018, if interest rates on interest bearing assets and liabilities had been higher/lower by 200 bps, with all other variables held constant, the impact on comprehensive income would be USD 2.5 million (2017: 2.4 million), which is 0.98 percent of the total shareholders' equity. This is shown in the table below.

	2018 (USD'000)	2017 (USD'000)
Total Assets repricing within 6 months	300,454	335,687
Total liabilities repricing within 6 months	50,089	92,423
Interest gap	250,366	243,264
Impact of interest rise by 200 bps	2,504	2,433
Impact on total shareholders' equity	0.98%	0.93%

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 USD '000	1 to 3 Months USD '000	3 to 6 Months USD '000	6 to 12 Months USD '000	1 to 5 Years USD '000	Over 5 Years USD '000	Non-interest bearing USD '000	Total USD '000
Assets								
Cash and Bank balances	-	-	-	-	-	-	10,867	10,867
Placements	45,252	118,050	1,722	495	-	-	-	165,519
Loans and advances	4,679	125,303	5,448	5,212	12,994	6,040	-	159,676
Equity investments	-	-	-	-	-	-	1,273	1,273
Other assets receivable	-	-	-	-	-	-	567	567
Total assets	**49,931**	**243,353**	**7,170**	**5,707**	**12,994**	**6,040**	**12,707**	**337,902**
Liabilities								
Other accounts payable	-	-	-	-	-	-	6,718	6,718
Medium and long term loans	-	37,962	12,127	-	28,586	12,758	25	91,458
Total liabilities	**-**	**37,962**	**12,127**	**-**	**28,586**	**12,758**	**6,743**	**98,176**
Interest sensitivity gap at 12/31/2018	**49,931**	**205,391**	**(4,957)**	**5,707**	**(15,592)**	**(6,718)**	**5,964**	**239,726**
Cumulative gap at 31 Dec 2018	**49,931**	**255,322**	**250,365**	**256,072**	**240,480**	**233,762**	**239,726**	
Interest sensitivity gap at 12/31/2017	**71,981**	**177,844**	**(6,560)**	**7,203**	**575**	**(13,612)**	**12,372**	**249,801**
Cumulative gap at 12/31/2017	**71,981**	**249,825**	**243,264**	**250,467**	**251,042**	**237,430**	**249,801**	

Notes (continued)

35 Financial risk management (continued)

(e) Currency risk

The Bank does not actively engage in dealing and trading operations in currencies and so the Bank's exposure to currency risk mainly involves the risk of foreign exchange losses or gains arising on the retranslation of monetary assets, liabilities and off balance sheet items denominated in foreign currency. To minimize currency risk in a multi-currency environment, the Bank matches it's funding in one currency with assets in the same currency.

ASSETS (Figures in USD)	UGX '000	KES '000	TZS '000	RWF '000	EUR '000	GBP '000	SEK '000	Total
Cash and Bank balances	2,427	599	2,011	80	5,001	16	2	10,136
Placements with Banks	1,464	6,981	119	-	-	-	-	8,564
Loans and advances at amortized costs	15,719	15,088	691	404	5,302	-	-	37,204
Equity investments - Available for sale	-	134	764	-	-	-	-	899
Other assets receivable	-	7	-	-	-	-	-	7
TOTAL ASSETS	**19,610**	**22,809**	**3,585**	**484**	**10,303**	**16**	**2**	**56,810**
LIABILITIES (Figures in USD)								
Other accounts payable	100	11	15	-	4,974	-	-	5,100
Medium and long term borrowings	16,978	18,929	-	435	5,002	-	-	41,344
TOTAL LIABILITIES	**17,078**	**18,940**	**15**	**435**	**9,976**	-	-	**46,444**
Net Currency position current month	**2,532**	**3,869**	**3,570**	**49**	**327**	**16**	**2**	**10,366**
Net Currency position Dec 2017	**2,720**	**4,438**	**1,957**	**28**	**1,143**	**22**	**2**	**10,311**

Notes (continued)

35 Financial risk management (continued)

(e) Currency risk (continued)

Sensitivity analysis

The 10% movement of USD against other currencies at 31 December 2018 would have increased or decreased comprehensive income by USD 0.94 million (2017: USD 0.94 million). This is assuming that all other variables, in particular interest rates remain constant.

	2018 (USD'000)	2017 (USD'000)
FX denominated assets	**58,779**	64,862
FX denominated liabilities	**46,604**	54,551
Net open position	**12,175**	10,311
Impact of a 10% movement in exchange rate	**1,107**	937

(f) Fair value of financial assets and liabilities

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

(g) Fair value of financial instruments

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

- Level 1 – Fair value is determined using unadjusted quoted prices in an active market for identical assets and liabilities. Types of financial assets include: actively traded government and other agency securities, listed derivative instruments and listed equities. Types of financial liabilities include listed derivative instruments.

- Level 2 – Fair value is determined using valuation models with direct or indirect market observable inputs. Types of financial assets include: corporate and other government bonds and loans, and over-the-counter (OTC) derivatives. Types of financial liabilities include over-the-counter (OTC) derivatives.

- Level 3 – Fair value is determined using Valuation models using significant non-market observable inputs. Types of financial assets include: highly structured OTC derivatives with unobservable parameters and corporate bonds in illiquid markets. Types of financial liabilities include highly structured OTC derivatives with unobservable parameters.

Notes (continued)

35 Financial risk management (continued)

(g) Fair value of financial instruments (continued)

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. Refer to note 21 for disclosures of the land and buildings that are measured at fair value.

	Level 3 USD '000	Total USD '000
31 December 2018		
Financial assets at fair value through profit or loss		
Equity investments at fair value	**1,273**	1,273
31 December 2017		
Financial assets at fair value through profit or loss		
Equity investments at fair value	**436**	436

Reconciliation of level 3 items

Equity investments	2018 USD '000	2017 USD '000
At start of year	**436**	487
Additions (Reclassified from loans)	**1,591**	-
Investments exited (Reclassified to loans)	**(798)**	-
Fair value gain/ (loss)	**44**	(51)
At end of year	**1,273**	436

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

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).

Notes (continued)

35 Financial risk management (continued)

(g) Fair value of financial instruments (continued)

- Inputs for the year ended 31 December 2018 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).

(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 2018. The ratio is computed as a ratio of loans, equities and lease receivables divided by shareholders equity less special reserves.

	2018 USD '000	2017 USD '000
Gross loans and lease receivables	**159,676**	197,743
Shareholders' equity	**256,153**	261,360
Special reserve	**(12,507)**	(12,443)
	403,322	446,660
Ratio	**0.66**	0.79

The Bank's capital adequacy ratio (Capital/Risk weighted assets) at 31 December 2018 was 67% (2017: 67%)

Notes (continued)

36 Employee retirement benefit plans and gratuity

	Note	2018 USD '000	2017 USD '000
Contribution to the retirement benefit plan	(i)	272	284
Contribution to the statutory pension scheme (NSSF)	(ii)	5	4
Gratuity	(iii)	72	72
		349	360

(i) The Bank operates a defined contribution retirement benefit scheme to which employees contribute 10% of their basic salary and the Bank contributes 10%, 12.5% or 15% of the employees' basic salary depending on his/her length of service. A Board of Trustees manages the scheme, the scheme administrator is Alexander Forbes, custodian Standard Chartered Bank Uganda and Fund manager Sanlam Investments ltd.

(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

	2018 USD '000	2017 USD '000
Authorized and contracted for	305	347

Notes (continued)

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	2018 USD '000	2017 USD '000
Un-disbursed commitments		6,207	1,902

Nature of contingent liabilities

a) 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 2018 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:

Notes (continued)

39 Related party transactions (continued)

	2018 USD '000	2017 USD '000
Loans and advances to Directors-		
-Eddron Communications Limited	-	220
-Green Hills Academy Ltd	**405**	532
-Loan to government of United Republic of Tanzania	**4,646**	6,485
Deposits held with Banks that are shareholders of the Bank and related entities:		
-Commercial Bank of Africa ltd	**35,024**	35,033
-Standard Chartered Bank PLC	**35,113**	20,027
-Interest income earned on all of the above	**2,612**	2,094
Borrowings payable by the Bank to shareholders		
-African Development Bank	**26,917**	32,722
-Commercial Bank of Africa ltd	**9,826**	9,770
Interest expense on borrowings as paid to shareholders	**2,618**	4,099

As at 31 December 2018, full provision and write off of USD 0.243 million was made (2017 USD 0.09 million) for impairment against the loan to Eddron Communications Limited. No provision has been made for any other loans to related parties. Loans to employees are given at concessionary rates.

Key management compensation	2018 USD '000	2017 USD '000
Salaries and other employee benefits	**379**	376
Other short-term employee benefits - Gratuity	**72**	72
	451	448
Directors' remuneration		
- Fees and allowances	**37**	55
- Salaries and other short-term employee benefits (included within key management compensation above)	**451**	448
- Other expenses	**60**	84
	548	587