EAST AFRICAN DEVELOPMENT BANK

Rising Higher, Looking Further.

ANNUAL REPORT & ACCOUNTS 2016

EAST AFRICAN DEVELOPMENT BANK

Corporate Profile of EADB

Establishment

The East African Development Bank (EADB) was established in 1967.

Shareholding

The shareholders of the EADB are Kenya, Uganda, Tanzania and Rwanda. Other shareholders include the African Development Bank (AfDB), the Netherlands Development Finance Company (FMO), German Investment and Development Company (DEG), SBIC-Africa Holdings, Commercial Bank of Africa, Nairobi, Nordea Bank of Sweden, Standard Chartered Bank, London, Barclays Bank Plc., London and Consortium of former Yugoslav Institutions.

Vision

To be the partner of choice in promoting sustainable socio-economic development.

Mission

To promote sustainable socio-economic development in East Africa by providing development finance, support and advisory services.

Our Core Values

Service
Integrity
Leadership
Innovation
Team Work

Contents

List of Tables & Figures

Tables

Figures

Abbreviations And Acronyms

ADF	African Development Fund
AfDB	African Development Bank
ALCO	Assets and Liabilities Committee
BADEA	Arab Bank for Economic Development in Africa
BIF	Burundian Franc
CDM	Clean Development Mechanism
DEG	German Investment and Development Company
EA	East Africa
EACDF	East African Community Development Fund
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
FMO	The Netherlands Development Finance Company
GDP	Gross Domestic Product
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFC	International Finance Corporation
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting System
IRENA	International Renewable Energy Agency
IUCEA	Inter-University Council for East Africa
KES	Kenyan Shilling
KfW	Kreditanstalt für Wiederaufbau
ODA	Overseas Development Assistance
OPEC	Organization of the Petroleum Exporting Countries
PWC	PricewaterhouseCoopers
RCC	Reginal Collaboration Centre (UNFCCC)
RWF	Rwandan Franc
SBIC-Africa	Standard Bank Investment Corporation - Africa
SIDA	Swedish International Development Cooperation
TZS	Tanzanian Shilling
UNFCCC	United Nations Framework Convention on Climate Change
UGX	Ugandan Shilling
US	United States of America
USD	United States Dollar
VAT	Value Added Tax
WEO	World Economic Outlook

Letter of Transmissal

The Cabinet Secretary, the National Treasury, The Republic of Kenya;

The Honourable Minister for Finance and Economic Planning, The Republic of Rwanda;

The Honourable Minister for Finance, The United Republic of Tanzania;

The Honourable Minister for Finance, Planning and Economic Development, The Republic of Uganda;

In accordance with Articles 26 and 35 of the Charter for the East African Development Bank (the "Bank"), the Board of Directors herewith submits to the Honourable Members of the Governing Council and to the Members of the Bank, the Annual Report of the Bank for the period from 1 January to 31 December, 2016.

This Report describes the activities of the Bank during the year and shows the Bank's financial position as at 31 December 2016. The Report also presents a review of the economic performance of the member states of EADB.

Honourable Members of the Governing Council, please accept the assurances of my highest consideration and esteem.

Dr. Kamau Thugge
Chairperson, Board of Directors

Board of Directors and Director General

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

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

Doto James
Permanent secretary, Pay Master General, Ministry of Finance,
United Republic of Tanzania
Member

Caleb Rwamuganza
Permanent secretary, Secretary to the Treasury, Ministry of Finance and Economic Planning,
Republic of Rwanda,
Member

Francis N. Karuiru
Private sector representative,
Republic of Kenya
Member

James Tumusiime
Private sector representative,
Republic of Uganda
Member

Board of Directors and Director General

Khadija I. Simba
Private sector representative, United Republic of Tanzania
Member

Mbundu Faustin
Private sector representative, Republic of Rwanda
Member

Trevor de Kock
African Development Bank Representative
Member

Vivienne Yeda
East African Development Bank
Director General

Chairperson's Statement

2016 has been a significant year for the Bank as it marks the beginning of a new strategic planning period. In the previous planning period the Bank saw significant business growth and in-depth restructuring as it reviewed its operations. This resulted in a strong financial position, endorsed by high credit ratings, and provided a sound platform for resource mobilization and business growth.

Under the new 5-year strategic plan, the Bank will position itself to become a medium-sized niche development financial specialist with a wide array of products to serve the region's development needs. Indeed, it is critical that the Bank demonstrates greater developmental outcomes and increased additionality, which the new strategic plan accounts for. The Bank will focus on projects with a high propensity to generate individuals' income and job creation, revenue generation for government, gender promotion and ultimately projects that address poverty alleviation. While doing so the Bank will ensure that all interventions are socially desirable and environmental friendly.

This transformation requires strong structures and systems, which are already in place at the Bank, as well as strong leadership and commitment. The Governing Council and the Board are committed to provide their unwavering support and oversight in order to ensure that the Bank is sufficiently resourced to deliver on its mandate.

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

Director General's Statement

Significant progress has been achieved in 2016. The Bank's financial position remains solid with strong liquidity. The Bank's assets and portfolio have increased in size and quality. Strategic partnerships have been strengthened and the Bank continues to sharpen its focus in areas of food security, infrastructure development, skills development and regional integration.

On the operational side, the Bank's portfolio has grown steadily throughout the recent period. In 2016, the portfolio grew by 15 percent, from USD 166 million in December 2015 to USD 190 million in December 2016, above the projected portfolio size for the year of USD 185 million. This growth translates into a 14 percent increase in comprehensive income, from USD 6.6 million in 2015 to USD 7.6 million in 2016.

At the same time, the Bank continues to rebalance its portfolio towards its core business of providing development finance. Strong support from the Governing Council, the Board of Directors and from our partners in development, such as KfW and BADEA amongst others, has been instrumental in our success.

2016 also saw the Bank giving back more to the community. The Bank has launched a number of initiatives critical in supporting social welfare, such as programmes to train over 600 East African physicians in the fields of oncology and neurology, to better educate our teachers and lecturers in the fields of science, technology, engineering and mathematics and to build capacity amongst our government's judges and lawyers in negotiating deals within the extractives industry. All of our training programmes are long-term and will continue into 2017.

EADB through its collaboration with the Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC) continues to support the Eastern and Southern African region through capacity building, regional and international partnerships to achieve impactful actions in the areas of sustainable development and climate change.

Going forward the Bank will focus on maintaining financial sustainability and growth by enhancing our operations, nurturing new relationships and expanding our portfolio.

All of our projects will display significant development outcomes, particularly in the fields of food security, climate change mitigation, skills development, infrastructure development and regional integration.

As we progress into our 50th year of operations, I am excited to see what the Bank will achieve for the people of East Africa.

Vivienne Yeda

East African Development Bank – Director General

Governing Council

Mr. Henry K. Rotich
Cabinet Secretary, National Treasury, Republic of Kenya

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

Hon. Dr. Philip Mpango
(Chairman)
Minister for Finance, United Republic of Tanzania

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

Advisory Panel

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

Mr. Toyoo Gyohten

President, Institute for International Monetary Affairs, Japan and Senior Adviser, Bank of Tokyo, Mitsubishi Limited

Mr. Lars Ekengren

Former Deputy Director General, SIDA

Mr. Jannik Lindbaek

Former Executive Vice President and CEO of the International Finance Corporation (IFC)

Auditors

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

Lawyers

Uganda
Sebalu and Lule Advocates
EADB Building
4 Nile Avenue
P. O. Box 2255,
Kampala, Uganda

Kenya
Kaplan and Stratton Advocates
4th Ngong Avenue
P. O. Box 40111,
Nairobi, Kenya

Tanzania
Adept Chambers
1st Floor, Peugeot House,
36 Ali Hassan Mwinyi Road,
P. O. Box 79651,
Dar es Salaam, Tanzania.

Registered Office & Principal Place of Business

Uganda (headquarters)
EADB Building
4 Nile Avenue
P. O. Box 7128,
Kampala, Uganda

Kenya
7th Floor, The Oval
Ring Road, Parklands,
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

Mount Kenya

The highest mountain in Kenya located in the Central region whose highest peak measures 5199 metres.

1. Economic Review

1.1 Recent Performance

1.1.1 Economic Growth

Global Macroeconomic and Financial Environment

Global economic activity in 2016 is estimated to have slowed down to 3.1 percent from 3.4 percent in 2015. This is the weakest performance since the global financial crisis. Low investment coupled with policy uncertainties in advanced economies and a slump in commodity prices mostly affecting Sub-Saharan Africa were key driving forces for weak performance. Economic activity gathered some pace in the second half of the year, particularly in emerging market economies. Political events particularly in the UK and the USA clouded global economic prospects. Global trade was weak in 2016, with the volume of world imports expanding by only 1.7 percent as compared to 2.1 percent in 2015. Global financing conditions remained favourable with central banks in advanced economies continuing their expansionary monetary policies while the US resumed its monetary policy normalisation by raising federal target range by 25 basis points in December 2016. Financial markets showed resilience in spite of political uncertainties. Global inflation continues to be influenced by low oil prices. On account of OPEC's decision to cut down on oil supply the price of oil recovered from a low of USD 33 per barrel at the end of January 2016 to USD 55 per barrel at the end of December 2016 thus putting some upward pressure on global inflation. Non-oil commodity prices (with the exception of food and metal) have also recovered over the year.

Regional Growth

*In major **advanced economies**, economic growth remained modest, especially considering the depth of the recession. Accommodative financing conditions and improving labour markets supported economic growth. Real GDP growth in the Euro area increased by 1.7 percent in 2016 driven mostly by growing domestic consumption. Falling oil prices was an important stimulus to growth as lower oil prices reduced cost for firms and boosted household disposable income.*

*Amongst advanced economies, the **United States** exhibited some modest expansion in the first half of the year following extreme winter, weak investor sentiment (particularly in the energy sector given the subdued price outlook) and a drawdown on inventories. Real GDP rebounded in the second half mainly driven by consumer spending, employment gains and strengthened household balance sheets. Overall GDP growth decelerated to 1.6 percent in 2016 as compared to 2.6 percent in 2015. The gains in the fourth quarter were partly offset by negative contribution from exports and increased imports. The rapid rise in the U.S. bond yield and appreciation of U.S. dollar towards the end of 2016 led to a tightening of financial conditions in emerging and developing economies and in some cases significant portfolio outflow. The outcome of US elections later in the year led to a bout of heightened political uncertainty.*

*The decision by the **United Kingdom** to leave the European Union has not affected its growth as earlier predicted; growth remained solid at 1.8 percent in 2016 and is expected to accelerate to 2 percent in 2017 mainly supported by robust private consumption.*

***Emerging markets and developing economies**, which accounts for more than 75 percent of global growth, grew moderately by 4.1 percent in 2016. Two factors particularly influence growth; continuing gradual deceleration of the Chinese economy and progressive easing of deep recession in major commodity exporting economies. Growth has become heterogeneous across different countries displaying a mix of standstills, vulnerability to capital flow reversal mainly on account of US monetary policies; and in the cases of commodity exporters, slow adjustment to lower revenues.*

*In **China**, growth stood at 6.7 percent in 2016, after 6.9 percent in 2015.*

Table 1: Real Economic Activity (Percentage Change)

						Projections						
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
World Output	4.2	3.5	3.4	3.5	3.4	3.1	3.5	3.6	3.7	3.7	3.7	3.8
Advanced Economies	1.7	1.2	1.3	2.0	2.1	1.7	2.0	2.0	1.9	1.7	1.7	1.7
Emerging Markets & Developing Economies	6.3	5.4	5.1	4.7	4.2	4.1	4.5	4.8	4.9	4.9	5.0	5.0
Middle East, North Africa, Afghanstan & Pakistan	4.3	5.4	2.3	2.8	2.7	3.9	2.6	3.4	3.5	3.6	3.7	3.8
Sub-Saharan Africa (Exc. South Africa & Nigeria)	5.0	4.3	5.3	5.1	3.4	1.4	2.6	3.5	3.6	3.7	3.7	3.9
EAC Partner States (Exc. Burundi & South Sudan)	7.2	5.3	5.4	6.3	6.6	5.8	5.8	6.3	6.6	6.7	6.9	7.1
Burundi	4.0	4.4	5.9	4.5	-4.0	-1.0	0.0	0.1	0.4	0.5	0.5	0.5
Kenya	6.1	4.6	5.7	5.3	5.6	6.0	5.3	5.8	6.2	6.5	6.5	6.5
Rwanda	7.8	8.8	4.7	7.6	8.9	5.9	6.1	6.8	7.3	7.5	7.5	7.5
South Sudan		-52.4	29.3	2.9	-0.2	-13.8	-3.5	-1.1	3.9	7.0	3.0	3.9
Tanzania	7.9	5.1	7.3	7.0	7.0	6.6	6.8	6.8	6.7	6.5	6.5	6.5
Uganda	6.8	2.6	4.0	5.2	5.0	4.7	5.0	5.8	6.2	6.4	7.0	8.1
Memorandum Items												
Commodity Price Index[1]	192.0	185.8	182.8	171.5	111.0	100.0	117.9	116.5	114.7	114.5	114.9	115.8
Change in Commodity Index	26.2	-3.3	-1.6	-6.2	-35.3	-9.9	17.9	-1.2	-1.5	-0.2	0.4	0.8
Crude Oil[2]	104.0	105.0	104.1	96.2	50.8	42.8	55.2	55.1	54.1	54.0	54.4	55.2
Change in Price of Oil	31.6	1.0	-0.9	-7.5	-47.2	-15.7	28.9	-0.3	-1.7	-0.4	0.8	1.5
Consumer Prices	2.7	2.0	1.4	1.4	0.3	0.8	2.0	1.9	2.1	2.0	2.0	2.1
Change in World Average Consumer Prices	5.0	4.1	3.7	3.2	2.8	2.8	3.5	3.4	3.3	3.3	3.3	3.3
Advanced Economies	2.7	2.0	1.4	1.4	0.3	0.8	2.0	1.9	2.1	2.0	2.0	2.1
Emerging Markets & Developing Economies	7.1	5.8	5.5	4.7	4.7	4.4	4.7	4.4	4.2	4.2	4.1	4.1
London Interbank Offered Rate (%)												
On USD Deposits (6 Months)	0.5	0.7	0.4	0.3	0.5	1.1	1.7	2.8				
Average Real Six Month Libor[3]				-1.5	-0.6	-0.4	-0.8	0.8	0.8	0.8		
On Euro Deposits (3 Months)	1.4	0.6	0.2	0.2	0.0	-0.3	-0.3	-0.2	N/a	N/a	N/a	N/a
On Japanese Yen Deposits (6 Months)	0.3	0.3	0.2	0.2	0.1	0.0	0.0	0.0	0.0			

source: IMF, January 2017 World Economic Outlook

Manufacturing investment remained weak; property investment picked up slightly in 2016 while import demand recovered from its low in 2015 but remained very low as compared to the past.

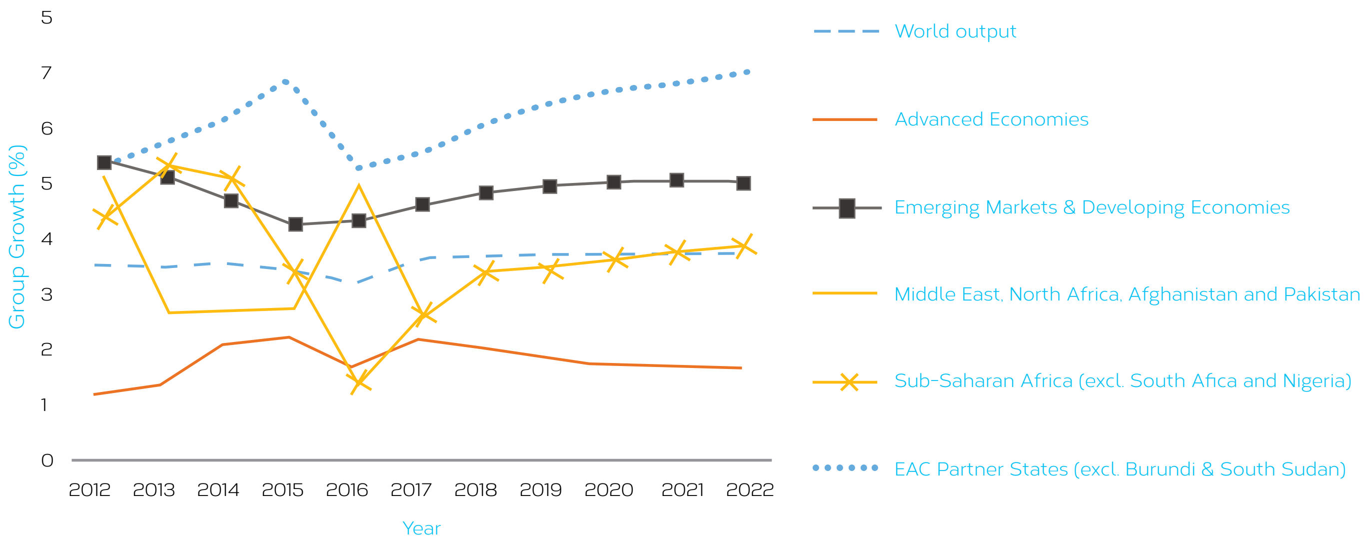
Economic activity in ***Sub-Saharan Africa*** *slowed considerably in 2016, to its lowest growth rate since 1993, as many sizeable economies in the region grappled with recession on account of low oil prices (Angola, Equatorial Guinea and Nigeria) or conflict (Burundi, Chad and South Sudan). However, oil importers in the region have benefitted from the low price environment amidst more relaxed financial conditions as investors' quest for a yield returns.*

Economic Growth in East Africa

East Africa has generally demonstrated very strong economic growth compared to other regional blocs, and is expected to do so going forward (Table 1 and Figure 1). Economic growth in East Africa (excluding Burundi and South Sudan) averaged 5.8 per cent in 2016, compared to just 1.4 per cent in Sub Saharan Africa. The economies in East Africa grew under reduced import prices and substantial public infrastructure investments, although the latter have also weighed on fiscal debt and thus treasury yields. Public investment, despite rising debt costs, is expected to keep supporting economic activity into 2017.

In 2016 the economies in Burundi and South Sudan declined by 1 percent and 13.8 percent respectively.

Figure 1: Economic Growth Comparison by Region



source: IMF WEO, April 2017 and EADB

1.1.2 Prices and Monetary Policy

Inflation

For many economies, the global price environment remained low in 2016 as advanced economies maintained near-zero interest rates and commodity prices stayed muted under high global output and reduced Chinese demand.

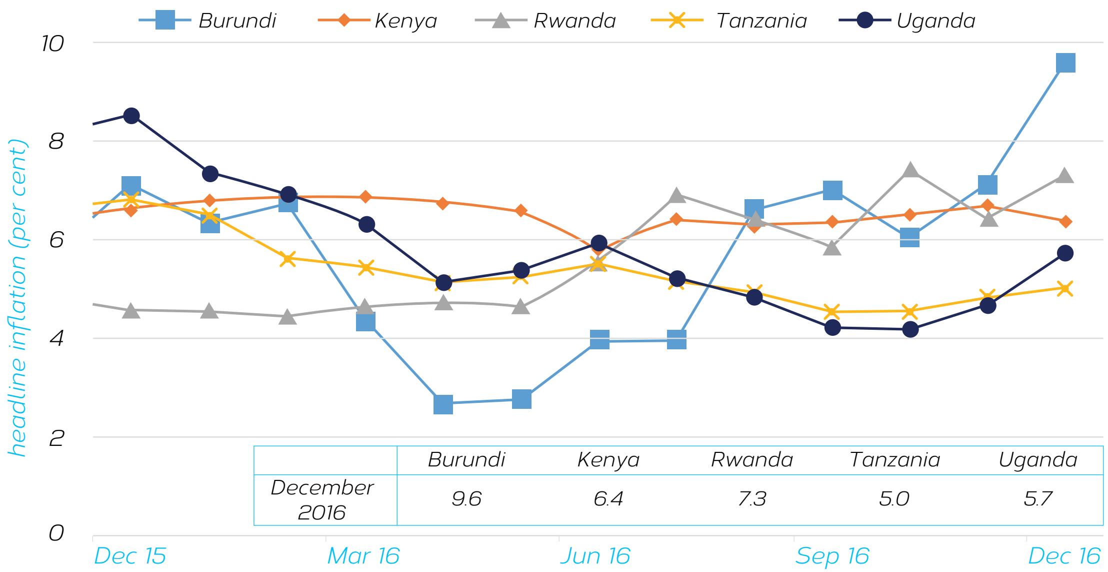
Throughout East Africa, low commodity prices supported domestic inflation (Figure 2) and, alongside low global interest rates, supported more expansionary monetary policy agendas. A slowing rate of depreciation over the year also suppressed inflation in Tanzania, whilst in Kenya and Uganda inflation was contained by exchange rate appreciations towards the end of the year. In the second half of 2016, inflation picked up in Rwanda as the country suffered its worst drought in decades, which pushed up food prices, and the currency depreciated at an increasing rate.

Inflation was less predictable in Burundi where there were conflicting inflationary pressures stemming from low domestic demand versus low goods supply and an increasing rate of currency depreciation. Meanwhile, inflation increased in South Sudan as conflict cut off market supplies and suspended imports from Kenya and Uganda. In 2017, inflation is expected to stabilise around 5 per cent in the core East African economies (Table 3), which is also the inflation target for many of the Central Banks in the region, as exchange rate and food price pressures subside. Amidst a low price environment, monetary policy is also expected to adopt an increasingly expansionary stance.

Exchange Rates

The first half of 2016 saw a continued depreciation (Table 2) for the

Figure 2: Annual Headline Inflation



	Burundi	Kenya	Rwanda	Tanzania	Uganda
December 2016	9.6	6.4	7.3	5.0	5.7

source: National Central Banks

currencies in many emerging market and developing economies due to low commodity prices, tighter financial conditions, rising fiscal debt and consequently fears over debt sustainability in many economies. Low commodity prices eroded capital account balances and fiscal revenues, causing governments to borrow more to finance their budgets, which in a tight financial environment pushed up government security yields unusually high and increased market anxiety over the sustainability of rising government debt and debt cost. Meanwhile currencies in many advanced economies, particularly the United States dollar and Japanese Yen saw sizeable appreciations under the safe haven effect.

Although the dollar index and Japanese Yen have continued to gain traction throughout 2016, the Euro lost the pace of appreciation achieved in the first half of the year, whilst the Great British Pound depreciated substantially following the Brexit vote – by 11 percent in one weekend.

A faster than expected pace of interest hikes in the United States could trigger a more rapid tightening in global financial conditions and sharp dollar appreciation.

Emerging market and developing economies have experienced differing exchange rate fundamentals, typically driven by domestic economic circumstances. Austerity measures in Brazil appear to have reassured markets. The Chinese Yuan was adopted into the IMF's basket of Special Drawing Right currencies (alongside the existing basket of the Euro, Great British Pound, Japanese Yen and US dollar), yet the currency experienced heightened depreciation in 2016 amidst increased capital outflows, probably due to reduced investor sentiment amidst a slowing economy

Table 2: Global Exchange Rate Movements

	Brazilian Real	Chinese Yuan Renminbi	Euro	Indian Rupee	Japanese Yen	Nigerian Naira	South African Rand	Great British Pound
Annual Average Exchange Rate (Domestic Currency/USD)								
2014	2.35	6.16	0.75	61.02	105.86	156.45	10.85	0.61
2015	3.33	6.28	0.90	64.10	121.02	192.64	12.76	0.65
2016	3.52	6.59	0.90	67.04	107.98	238.14	14.84	0.72
Annual Depreciation (Percent)								
2015	41.6	2.0	19.9	5.1	14.3	23.1	17.6	7.8
2016	5.7	4.9	-0.6	4.6	-10.8	23.6	16.3	10.7

source: National Central Banks

and market uncertainty surrounding policy interventions.

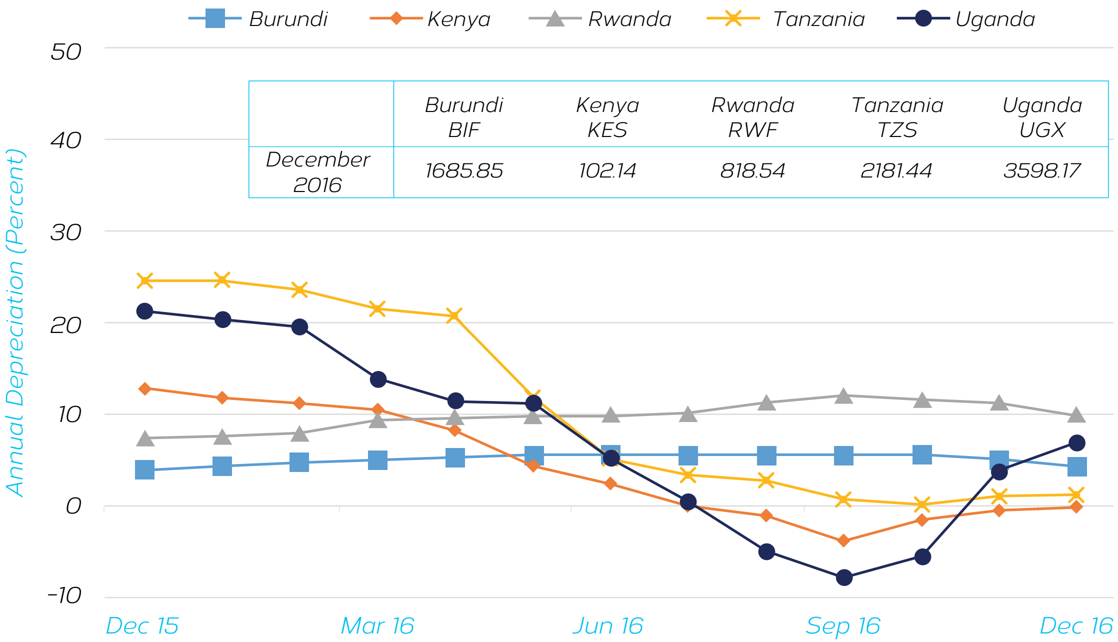
In Sub-Saharan Africa, the two largest economies (Nigeria and South Africa) continued to experience exchange rate depreciations under weak economic performance. After months of protecting the Nigerian economy against depreciation pressures under both reduced oil exports and low oil prices, the Central Bank of Nigeria switched to a floating currency regime in June. The Nigerian Naira subsequently depreciated by 42 per cent overnight.

In East Africa, the Kenyan, Tanzanian and Ugandan Shillings all reversed their depreciation trends experienced in 2015 (Figure 3). The reversal for the Kenyan and Ugandan Shillings was to the extent that the currencies began to appreciate towards the end of 2016. Kenya, Tanzania and Uganda stabilised their exchange rates by satisfying fears surrounding growing debt burdens and debt cost, thereby assuring international investors that they had achieved fiscal sustainability.

Interest Rates

Across East Africa, the cost of financing has steadily fallen throughout the year as greater macroeconomic stability, investor sentiment and political stability has affected the region.
Depressed interest rates amongst the advanced countries have revived the quest for a yield in financial markets and thus relieved some of the pressure on treasury yields in East Africa, where government securities have become more attractive to investors. Similarly, a more stable exchange

Figure 3: Annual Rate of Depreciation



	Burundi BIF	Kenya KES	Rwanda RWF	Tanzania TZS	Uganda UGX
December 2016	1685.85	102.14	818.54	2181.44	3598.17

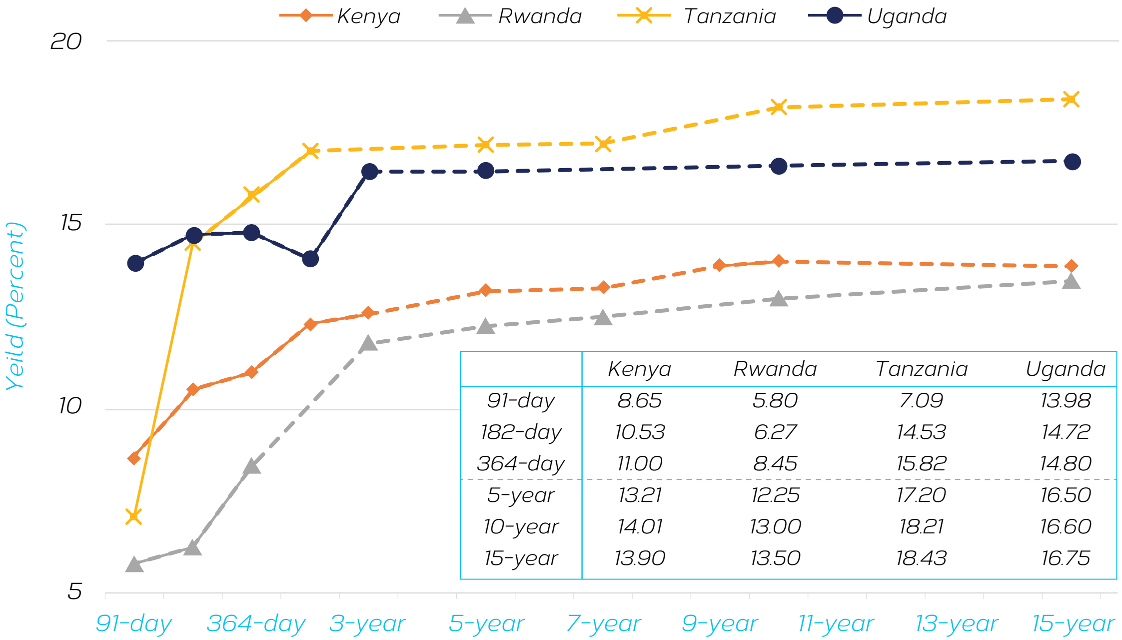
source: National Central Banks

rate has also increased the future value of many government securities.

Figure 4 shows the yield curves for government securities in East Africa. Rwanda continues to boast the lowest treasury yields and thus debt cost, owing to a combination of a slightly less developed financial market, and thus more autonomy to determine yields, but also high levels of investor confidence in the Rwandan economy and governance. Kenya also demonstrates relatively low treasury yields, which have come down significantly throughout the year as the government successfully reassured investors that its debt issuance was under control and sustainable.

Meanwhile, the cost of debt in Tanzania and Uganda remains higher than the EAC average. Tanzania's yield curve is unusually steep at the short end, due to a gap of 7.4 percentage points between the 91-day and 182-day Treasury bill yields. Perhaps one reason for the jump is that the 91-day treasury bills tend to have far fewer bidders (typically less than 5). However, government securities in Tanzania are undersubscribed, which is likely to maintain most yields at comparatively high levels. Finally, Uganda also suffers a high debt cost under elevated treasury yields, although they have fallen considerably since peaking in February under election related uncertainty (the 182-day yield rose over 20 per cent). Nonetheless, the debt cost in Uganda is significant, partly driven by high levels of government investment in high-cost infrastructure projects: the debt interest cost alone in the 2016/17 financial year is expected to cost 8 per cent of the Uganda budget, or almost USD 600 million. The government has committed to halving its debt issuance in 2016/17, which, if effective, will reduce Treasury yields further.

Figure 4: Yield Curves



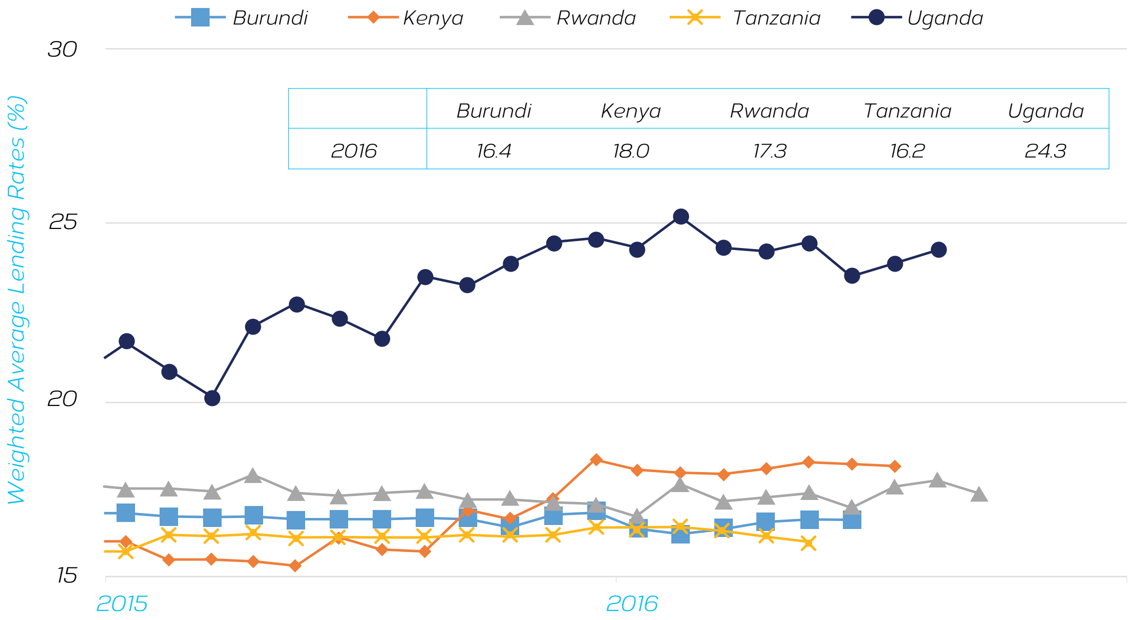
	Kenya	Rwanda	Tanzania	Uganda
91-day	8.65	5.80	7.09	13.98
182-day	10.53	6.27	14.53	14.72
364-day	11.00	8.45	15.82	14.80
5-year	13.21	12.25	17.20	16.50
10-year	14.01	13.00	18.21	16.60
15-year	13.90	13.50	18.43	16.75

source: National Central Banks

High government security yields, which present the risk-free lending interest rate, have naturally pushed up average private sector lending interest rates (Figure 5) and have consequently crowded out the private sector.

The effect of high government security yields is most obvious in Uganda, where interest rates were considerably higher than the rest of the region and averaged 24.3 per ent in 2016, compared to 22.6 percent in 2015. In the first half of 2016, Kenya had the second highest interest rates in the region, which increased from 16.2 percent in 2015 to 18.0 percent between January and June. However, in September, the Central Bank of Kenya introduced an interest rate cap, which limited lending rates to 400 basis points above the Central Bank Rate and deposit rates to 300 basis points below the Central Bank Rate. The full effects of the interest rate cap are yet to be seen; it will undoubtedly reduce commercial bank lending rates, but also risks exacerbating credit constraints. Indeed, Kenya's private sector credit growth has slowed considerably since the introduction of the interest rate cap. Other regional central banks, in particular the Bank of Uganda, have faced pressure to act similarly, but are so far resisting the move due to the potential market distortions an interest rate cap might trigger.

Figure 5: Weighted Average Commercial Bank Lending Interest Rates



	Burundi	Kenya	Rwanda	Tanzania	Uganda
2016	16.4	18.0	17.3	16.2	24.3

source: National Central Banks

1.1.3 Fiscal Sustainability

Throughout East Africa, fiscal budgets remained in deficit in 2016 (Figure 6), and for most economies the deficit was larger in 2016 than in 2015.

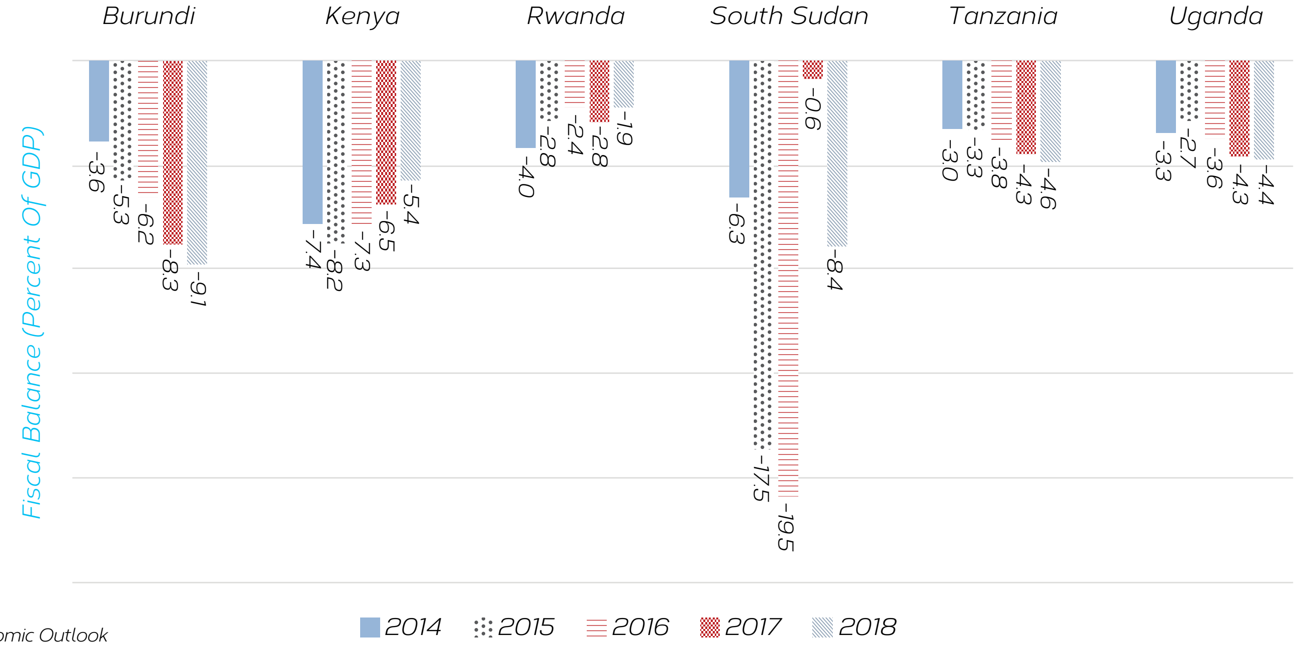
Kenya, Rwanda, Tanzania and Uganda have demonstrated a sustainable fiscal position. Both Kenya and Rwanda have a declining deficit as a percent of GDP, while Tanzania and Uganda have a growing fiscal deficit in relation to GDP. Both are expected to maintain the fiscal deficit as a percent of GDP of less than 5 percent in the medium term. South Sudan has a rather unsustainable fiscal position while in Burundi the deficit is growing over time.

Burundi's fiscal deficit has increased consistently over the years on account of declining government revenues. In 2016 the fiscal deficit as a percent of GDP was 6.3 percent and is likely to increase to 8.3 percent in 2017. Revenue prospects are likely to increase in 2017 supported by a gradually improving security situation. The increase will stay well below when Burundi was receiving budgetary aid from external donors. Expenditures are likely to increase at faster rate than domestic revenues.

In Kenya the fiscal deficit as a percent of GDP is expected to decline from 7.3 percent in 2016 to 6.5 percent in 2017 helped by improved revenue collections underpinned by robust economic growth and slightly stricter spending controls.

Rwanda expenditures are likely to increase more quickly than revenues in the light of election related spending thus widening the fiscal deficit as a

Figure 6: Fiscal Balance (Percent of GDP)



source: IMF April 2017 World Economic Outlook percent of GDP to 2.8 percent in 2017 as compared to 2.4 percent in 2016.

South Sudan's fiscal deficit rose significantly following failing government revenues and rising security-related spending on the back of domestic conflict and the collapse of oil prices among other factors. The deficit as a percent of GDP reached 19.5 percent in 2016-the highest ever. The deficit is expected to decline over in 2017 following improvements in government revenues, some recovery in oil prices and improvements in the security situation.

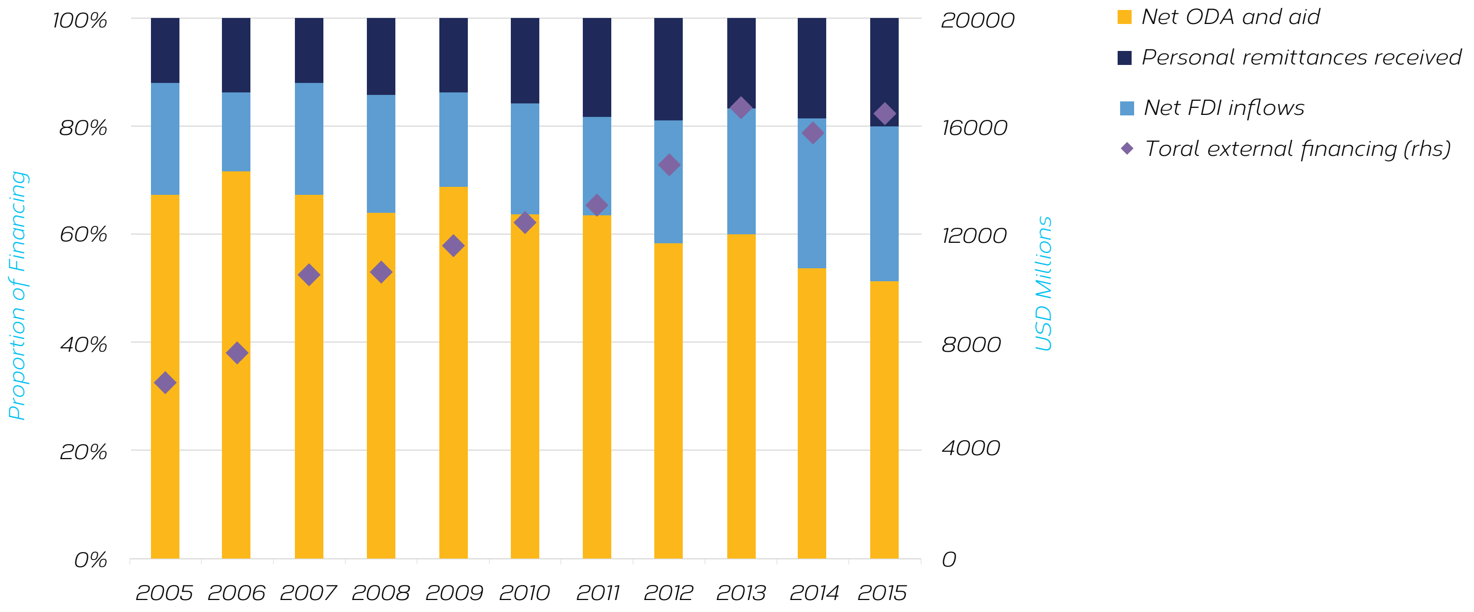
External Financing

External financial flows to East Africa have been steadily growing after the last decade, excluding a small blip in 2014 (Figure 7). This is particularly impressive given the global financial landscape of reduced investor sentiment and risk aversion. Furthermore, the composition of external financial inflows to the region is gradually changing, although to different extents in different countries. ODA and aid is slowly losing its central role in external financing as FDI and remittance inflows to the region grow (figure 7).

Kenya, Tanzania and Uganda receive the bulk of external financial flows to the region: in 2015 they attracted a total of USD 14,400 million from external sources, compared to USD 3,764 million in Burundi, Rwanda and South Sudan.

From the above, Kenya and Uganda have been successfully expanding

Figure 7: Total Financial Inflows to East Africa



source: World Bank

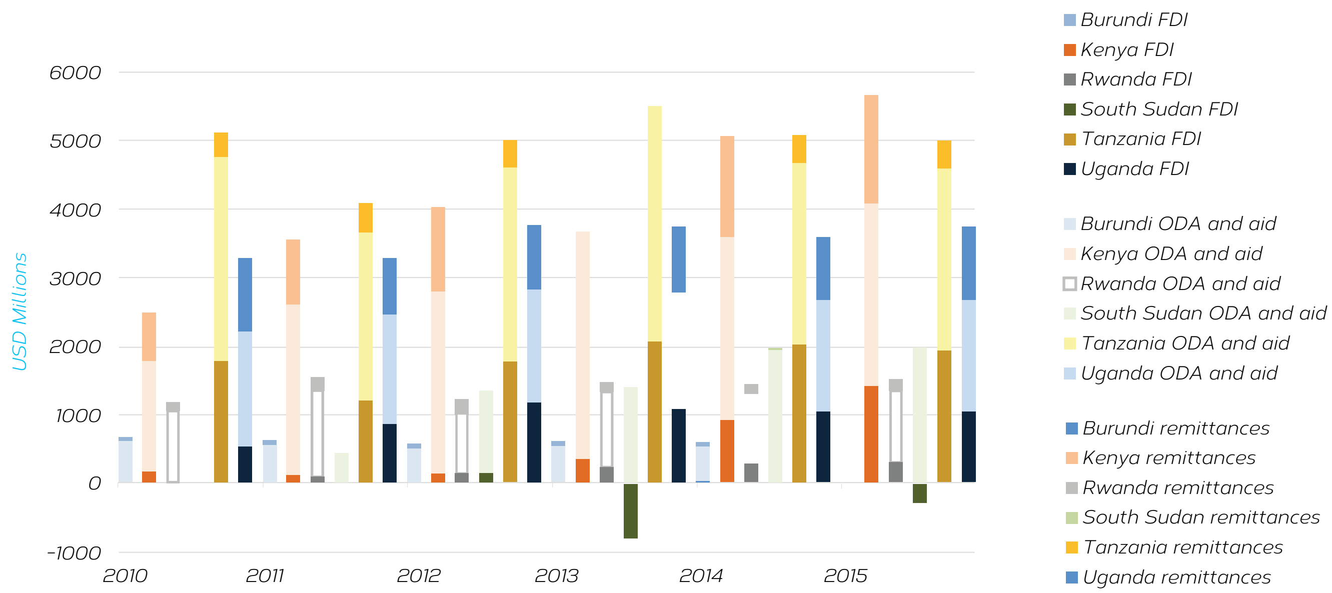
and diversifying their portfolio of external financing over the past 10 years, whilst Tanzania is still heavily reliant upon ODA and aid and FDI directed primarily at extractive industries. South Sudan's external financing has also been rising since the country gained independence, yet external financial flows to South Sudan are also heavily dependent upon ODA and aid: FDI has been negative or minimal over the past three years and remittance flows are very low.

To increase the sustainability of external financing, East African countries need to decrease their dependence on ODA and aid and attract greater FDI and remittance inflows. As mentioned earlier, the shifting dynamic is slowly evolving: ODA and aid accounted for 62 percent of total external financing in 2010 and just 58 percent by 2015. Yet dependence on ODA and aid varies considerably between countries, from 44 per cent of total external financing in Uganda to 90 per cent of total external financing in Burundi (figures 9 to 13).

Only Kenya and Uganda have reduced ODA and aid inflows to less than 50 per cent of the total, supported by very strong remittance inflows compared to the region: remittance inflows to both Kenya and Uganda accounted for 28 per cent of total external financing in 2015, compared to 11 per cent in Rwanda and 8 per cent in Tanzania. Kenya's efforts in attracting the diaspora through diaspora investment bonds will have certainly helped to increase remittance inflows.

Excluding Burundi, where external financing is over 90 per cent driven by

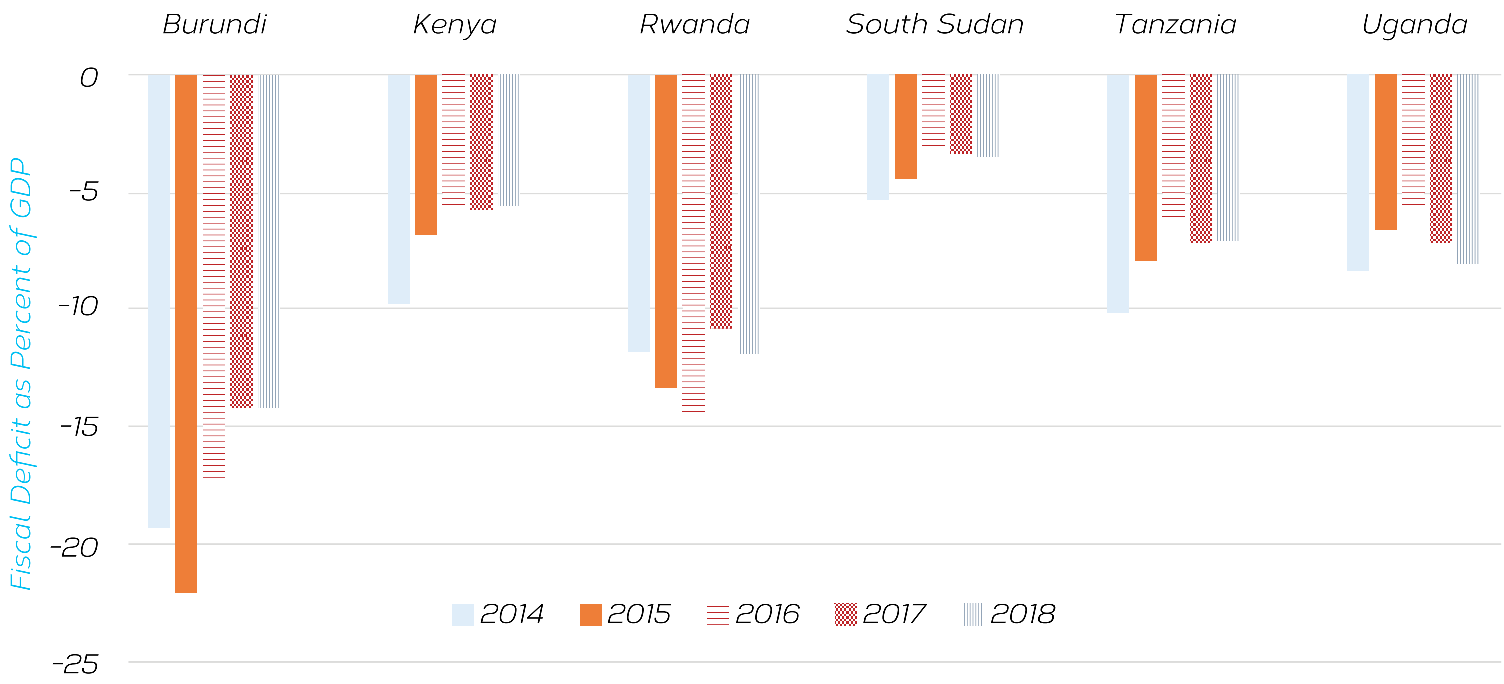
Figure 8: Financial Inflows to East African Countries



source: World Bank

ODA and aid, all East African countries have attracted a decent amount of FDI inflows. Kenya, Rwanda and Uganda have all attracted over 20 per cent of their external financing from FDI, which demonstrates sound growth and concentrated efforts to attract international investors. Tanzania, however, leads the region and brought almost USD 2 billion in FDI in 2015, amounting to 39 per cent of the country's total external financing.

Figure 9: Current Account Balances as Percent of GDP



source: IMF April 2017 World Economic Outlook and EADB

1.1.4 External Sector and Trade in East Africa

Current account balances remained in deficit throughout East Africa in 2016 (Figure 9), despite integrated policy efforts to boost regional trade.

Burundi: The trade deficit shrank markedly in the first half of 2016 on the back of a precipitous drop in imports of industrial and capital goods due to hard currency shortages. As a result the overall current account deficit as a percent of GDP declined to 17 percent in 2016 from 22 percent in 2015. A slight rise in exports will see the current account deficit narrow to 14 percent in 2017 and afterwards. The upward trend in exports will be supported by an increased nickel output, higher prices of tea and a rise in processed agricultural goods and cigarettes. Currency controls and the depreciation of the Burundian Franc will help curb imports.

In Kenya the current account deficit as a percent of GDP narrowed to 5.5 percent in 2016 down from 6.8 percent in 2015 supported mostly by an increase in the export of manufacturing goods and horticulture and a decline in the import of petroleum products, aircraft and associated equipment, motor vehicles, iron and steel. The current-account deficit/GDP ratio will remain stable at less than 5.8 percent in the medium term supported by a growth of earnings from export, servicing regional trade, tourism and remittances.

Rwanda had a slightly larger current account deficit in 2016 as compared to 2015. The current account as a percent of GDP was 14.4 percent in 2016 as compared to 13.3 percent in 2015. Improvements in trade balance was offset mainly by higher net services deficit, due to higher freight and insurance costs and improved accounting for travel spending by Rwandans abroad. The overall external balance remained healthy with high FDI and official financing projections. The current account will improve in the medium term as import demand diminishes and import substitution measures take hold. On the trade account, tea and coffee are expected to rebound in 2017.

Tanzania the external current account deficit declined in 2016 on account of lower imports of capital goods, oil, food and foodstuff and an increase in the export of goods and services particularly tourism, manufactured goods and gold. The current account to GDP was at 6.3 percent in 2016 as compared to 8 percent in 2015. The current account deficit is expected to increase gradually in the medium term as the import of capital goods increases.

Uganda: Both imports and exports fell in Uganda, yet imports fell by a greater extent to somewhat alleviate the current account deficit. The ratio of current account to GDP declined to 5.8 percent in 2016 down from 6.6 percent in 2015. The improvements in the current account deficit is owing mostly to a decline in private sector imports, which is largely attributed to low international crude oil prices, a slowdown in economic activities on account of delayed investment and a possible import substitution effect in the private sector. Indeed, private sector imports fell considerably, yet the full impact upon the trade deficit was to some degree offset by rising government imports. Ugandan exports remained subdued under the globally low commodity price environment. The current account deficit is projected to widen again in the medium term, reflecting higher investments in infrastructure projects.

1.1.5 Business Environment

Overall the business environment has improved across East Africa in 2016. However, note that whilst the business environment improved elsewhere, there is a wide variety in scores across the region. Figure 14 below presents the World Bank's 2017 ease of doing business rankings for the East African Community. Note that 2017 results refer to data collected in 2016. This section provides an overview of the results from th Worls Bank's 2017 rankings.

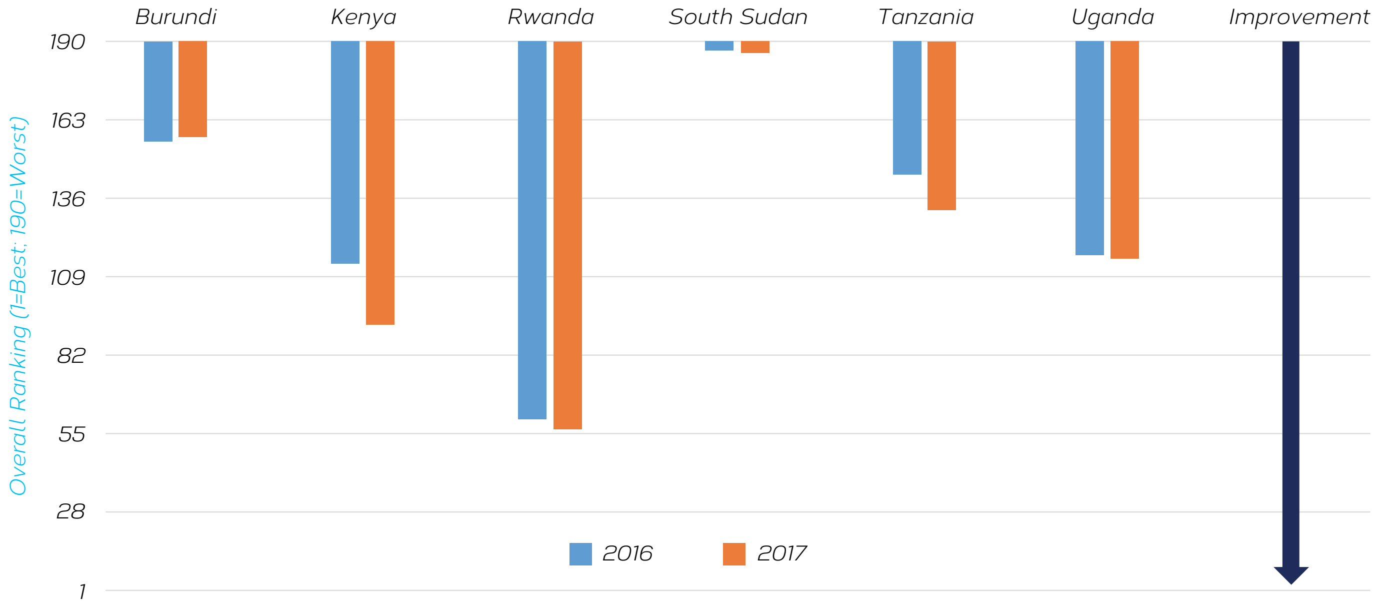
In East Africa, the worst performing business environment in the rankings was South Sudan, whose global ease of doing business ranking picked up by one position, but remained ranked 186 out of 191 countries. Meanwhile, Rwanda continued to be the best performing business environment in the region and increased its global ease of doing business ranking by 3 places to 56 out of 191 countries.

Whilst Kenya and Uganda were ranked similarly in 2016, at positions 113 and 116 respectively; Kenya initiated the most positive reforms to the business environment in 2017 and consequently increased its global ranking to 92 out of 191 countries.

Meanwhile, Uganda increased its business environment by only one position to 115 out of 191 countries.

Tanzania also demonstrated a significant improvement in its business environment, despite only one business friendly reform over the year, and increased its global position by 12 places to 132 out of 191 countries, which

Figure 10: Overall Ease of Doing Business Rankings



source: WB Ease of Doing Business 2017 Report

nonetheless remains below much of the region.

Burundi is now ranked 157 out of 191 countries in the 2017 Ease of Doing Business report.

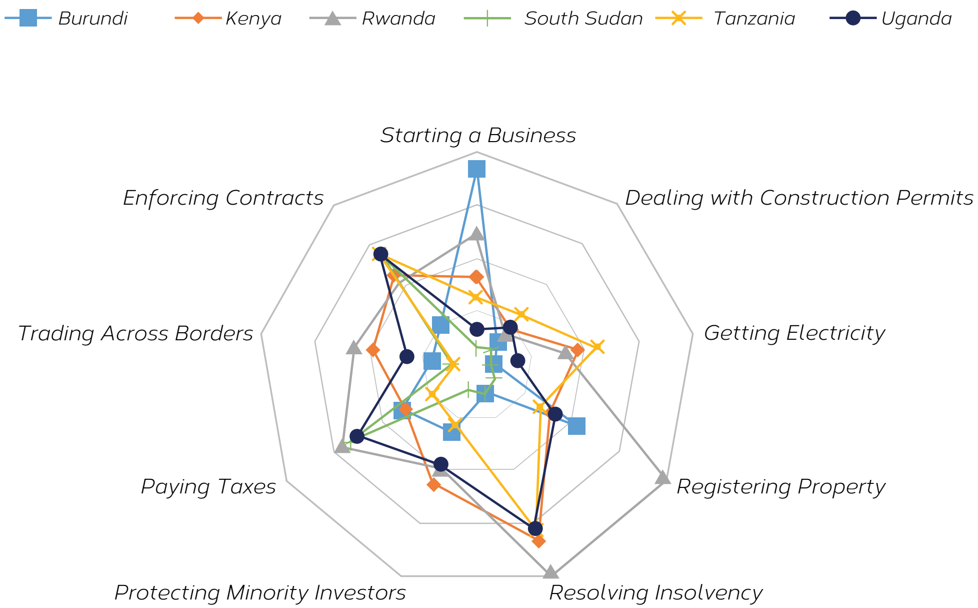
Figure 15 demonstrates how 'friendly' the East African business environments are in more detail, while table 6 details the exact business reforms made in each country over the year.

In the chart above the outer perimeter represents the most friendly business environment for each category and the nucleus the least friendly business environment.

Rwanda is ranked well, particularly with respect to getting credit and registering property, the latter being made simpler under a more transparent land registry system over the year. Reforms also targeted easing the procedures to start a business and enforce contracts, which are areas that Rwanda may improve upon. However, the biggest hindrances to the business environment in Rwanda are dealing with construction permits, getting electricity and protecting minority investors. Unfortunately, dealing with construction permits became more complicated in Rwanda over the year as permits became harder to obtain and quality standards were increased.

As mentioned earlier, Kenya made the most business friendly reforms in 2016 (in starting a business, getting electricity, registering property,

Figure 11: Ease of Doing Business Breakdown



source: WB Ease of Doing Business 2017 Report

protecting minority investors and resolving insolvency). Reassuringly, many of the reforms are in areas where Kenya scores less highly, indicating that they should produce larger gains to the business environment.

Tanzania initiated a positive reform to the business environment with respect to making credit availability more widespread, however this is an area where Tanzania already scored respectably. Tanzania has the least friendly environment in the rankings for paying taxes amongst the East African Community and the process was made even more costly to employers in 2016.

Finally, Uganda initiated positive reforms in easing the process to start a new business, eliminating the need for paper tax returns and constructing a one stop border post to ease trade, all of which may promise large efficiency gains given Uganda's current weaknesses in the above business areas. However, Uganda could increase its competitiveness significantly by easing access to electricity, an area in which the business environment scores poorly compared to much of East Africa..

CIMERWA integrated cement producer; The EADB partly financed the establishment of a new plant with installed capacity of 600,000 tonnes per annum in Mashyuza, Rwanda

Table 3: Business Reforms Undertaken

Category	Improvement	Reform
Burundi		
Paying Taxes	✓	Introduced a new tax return and eliminated the personalises VAT declaration form.
Kenya		
Starting a Business	✓	Removed stamp duty fees required for nominal capital, memorandum and articles of association. Kenya also eliminated requirements to sign compliance declarations before a commissioner of oaths.
	✗	However, Kenya also made starting a business more expensive by introducing a flat fee for company incorporation.
Getting Electricity	✓	Kenya streamlined the process of obtaining a new electricity connection by introducing the use of a Geographic Information System which eliminates the need to conduct a site visit and reduces the time taken to connect to electricity.
Registering a Property	✓	Increasing the transparency at its land registry and cadastre.
Protecting Minority Investors	✓	Clarifyig ownership and control structures, introducing greater requirements for disclosure of related-party ransactions to the board of directors by making it easier to sue directors in cases of prejudicial related-party transactions and allowing the rescission of related-party transactions that are shown to harm the company.
Resolving Insolvency	✓	Introducing a reorganisation procedure, facilitating continuation of the debtor's business during insolvency proceedings and introducing regulations for insolvency practioners.
Rwanda		
Starting a Business	✓	Improving the online registration one-stop shop and streamlining post registration procedures
Dealing With Construction	✗	Dealing with construction permits became more cumbersome and expensive under new requirements to obtain a building permit. Rwanda also strengthened the quality control index by implementing the qualifications required for architects and engineers.
Registering Property	✓	Introducing effective time limits and increasing the transparency of the land administration system.
Paying Taxes	✗	Paying taxes became more complicated under a new requirement that companies file and pay social security contributions monthly instead of quarterly.
Trading Across Borders	✓	Removing the mandatory pre-shipment inspection for imported products.
Enforcing Contracts	✓	introducing the electronic case management system for judges and lawyers.
South Sudan		
NONE		
Tanzania		
Getting Credit	✓	The credit bureau in Tanzania expanded credit bureau borrower coverage and began to distribute credit data rom retainers.
Paying Taxes	✗	Increasing the frequency of filing of the Skills Development Levy and more costly by introducing a workers' compensation tariff paid by employers.
Uganda		
Starting a Business	✓	Eliminating the requirement that a commissioner of oaths must sign compliance declarations.
Paying Taxes	✓	Eliminating a requirement for tax returns to be submitted in paper copy following online sumission. At the same time, Uganda increased the stamp duty for insurance contracts.
Trading Across Borders	✓	Constructing the Malaba One-Stop Border Post, which reduced border compliance time for exports.

source: WB Ease of Doing Business 2017 Report

1.2 Economic Prospects

Global economic activity started to pick up during the second half of 2016. The momentum will continue in 2017 with cyclical recovery in investment, manufacturing and trade. A moderate recovery of global economic growth is expected in 2017 with growth forecast to increase to 3.5 percent (Table 1) driven mostly by an improvement in emerging and developing economies. Higher commodity prices will provide some relief to commodity exporters and help lift global headline inflation.

Advance economies will experience modest recovery on the back of structural headwinds such as diminishing growth of the labour force as the population ages, and low productivity. The IMF macroeconomic projections forecast the Euro area real GDP growing by 1.7 percent in 2017 and 1.6 percent in 2018 mostly supported by growing demand and global recovery supported by expansionary fiscal policy and accommodative financial conditions. The US economy is projected to grow at a faster pace in 2017 and 2018 reflecting a momentum from the second half of 2016, driven by cyclical recovery in inventory accumulation, solid consumption growth supported by a looser fiscal policy stance. Increasingly protectionist policies may hurt the economy through trade and political upset. Growth in the United Kingdom proved to be resilient in the aftermath of Brexit. The GDP is expected to grow by 2 percent in 2017. In the medium term, growth prospects may diminish because of an expected increase in trade barriers and migration as well as downsizing of the finance services sector due to barriers to cross-border financial activity.

Growth in emerging and developing economies is expected to accelerate at a slow pace in 2017 and 2018: China's slowdown is expected to continue into 2017, exerting further downwards pressure on commodity prices as their aggressive construction expansion and consequently demand for commodities slows. This will also reduce international financial flows to commodity exporting countries, many of which continue to struggle against current account deficits amidst shrinking fiscal space to protect their economies. India activity is expected to pick up in 2017 after currency disruptions in 2016 while Brazil and Russia will come out of a ressession.

Sub-Saharan Africa is likely to recover slightly with growth projected to reach 2.6 per cent in 2017. Drought, conflict and an inability to react to low commodity prices are some of the main factors contributing to weak recovery. Nigeria, South Africa and Angola are seeing some rebound from the sharp slowdown in 2016, but the recovery will be slow due to insufficient adjustments to low commodity prices and political uncertainties. Other countries in Sub-Saharan Africa likely to exhibit resilience include Ivory Coast, Ethiopia, Mali and Senegal.

Economic activity in East Africa is expected to remain resilient to shocks that affect most of the region and grow well above the Sub-Saharan average in 2017 (Table 1 & 4). Excluding Burundi and South Sudan. East Africa is forecast to grow by an impressive 5.8 per cent in 2017, ranging from 5.0 per cent in Uganda to 6.8 per cent in Tanzania. Furthermore, all economies are forecast to experience a pick-up in growth in 2017 with the exception Burundi and South Sudan.

Expansionary monetary policy throughout 2016 and greater stability in global financial markets, which should encourage capital inflows, should support regional growth prospects.

However, lower oil prices may also curtail some external financing through reducing FDI inflows to develop the oil and gas sector, particularly in Kenya and Uganda, where new fields are under development.

Inflation is also expected to remain stable and in line with monetary policy targets across the core East African economies in 2017 as global inflation pressures remain muted. However, as economies grow and as the effects of low oil and food prices fall out of inflation baskets, inflation pressure is *likely to build towards the end of 2017.*

Exchange rates are also expected to remain stable throughout the region in 2017, depreciating marginally as is the general trend. However a slow normalisation of US monetary policy may also weaken regional currencies by reversing some capital inflows. Yet, on average exchange rates are forecast to depreciate by only 5 per cent, which is less than in 2015 and 2016.

Aircraft maintenance hangar near Entebbe Airport zone funded by the EADB. The project is critical for improving air transportation and aviation safety in the region.

Table 4: Economic Forecasts for East Africa

	GDP Growth			Average Inflation			Average Exchange Rates		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Burundi	-1.0	0.0	0.1	5.5	12.4	16.4	1669.0	2049.0	2275.0
Kenya	6.0	5.3	5.8	6.3	6.5	5.2	102.5	107.5	111.5
Rwanda	5.9	6.1	6.8	5.7	7.1	6.0	816.9	851.5	887.6
South Sudan	-13.8	-3.5	-1.1	479.7	119.9	20.0			
Tanzania	6.6	6.8	6.9	5.2	5.1	5.0	2177.1	2358.0	2540.7
Uganda	4.7	5.0	5.8	5.5	6.3	6.0	3420.1	3831.9	4166.9

source: IMF October 2016 WEO and Economic Intelligence Unit

1.3 Risks and Challenges

There exist structural impediments to stronger global recovery. Low productivity especially in the advanced world and high income inequalities mostly in emerging markets are key structural impediments to growth. A number of uncertainties point to downside risks:

Inward looking polices threaten global economic integration. There is palpable risk that legitimate equity concerns could trigger protectionist policy actions under the pressure of mounting skeptism towards trade, immigration and multilateral engagement. The current proposed review of trade agreements in the US if not well managed could lead to an increase in tariffs and other trade barriers thus harming the U.S. economy and its trading partners. There are signs of protectionism tendencies in Europe. Protectionism is likely to increase import costs and decrease global output. Higher import costs could do particular harm to the purchasing power of low –income groups in advanced economies, whose consumption baskets tend to skew towards heavily traded goods. Such an immediate adverse effect on demand could harm supply side potential. Curbing immigration flows could hinder opportunities for skill specialisation in advanced economies and limit productivity and income growth.

A faster than expected pace of interest hikes in the United States could tighten financial conditions and lead to further appreciation of the US dollar leading to balance sheet mismatch.

A dilution of financial regulations mostly in the USA may impact global financial stability and raise the risk of a costly financial crisis.

The rise of geopolitical tension and domestic strife in some regions have burdened the outlook for some regions. Most notable are the civil wars and domestic conflicts in parts of the Middle East and Africa and the tragic flight of refugees and migrants.

Risks to East African economies are significantly affected by the global economy, in particular a sharp increase in the US Federal Reserve rate may trigger capital outflows, depreciation and inflation, whilst less than expected global demand may reduce exports and equally harm existing balance of payments deficits. However, the greater risks perhaps originate from domestic factors.

For the East African economies, slow execution of public infrastructure projects, notably in Kenya and Uganda, risk reducing the growth that should be generated from such large-scale public investments. Although to some extent, slow execution may offer a little relief to substantial fiscal budgets that failed to generate sufficient revenue in 2016.
Kenya and Uganda also experienced a considerable slowdown in private sector credit growth towards the end of 2016, which in Kenya was exacerbated by the interest rate cap. The Central Banks of Kenya and Uganda have already expressed concern over the low growth in private sector credit and intend to support private sector credit growth in 2017. However, if private sector credit growth fails to pick up then it may prove a detrimental obstacle to economic growth.

In conclusion, economic policies have a critical role to play to starve the risks, domestic policies should support demand and balance sheet repair; boost productivity through structural reforms; well targeted infrastructural spending and support to those misplaced by structural transformation such as technological changes and globalisation. Emerging and developing economies need to put in place strategies to ensure public debt sustainability and adjustments to lower commodity prices and financial vulnerabilities.

Rwenzori Mountains

Also known as the mountains of the moon, they're located between the borders of Uganda and the DRC, with its highest peak towering at 5109 metres.

2. Overview of the Year's Activities

2.1 Lending Operations

2.1.1 Portfolio Status and Development Outcomes

The portfolio size has been on a growth trend over the years. 15% growth was witnessed in 2016 from USD 165.53 million in December 2015 to USD 190.06 million in December 2016 against a projected portfolio size of USD 185 million.

Long term loans remained the leading product at the Bank, accounting for 90.6% of the total portfolio with a gross exposure of USD 172.14 million compared to an exposure of 86.66% of the total portfolio.

The EADB's intervention has had significant development impact in the member states of the Bank such as employment creation, contribution to government revenues, delivery of community services, improvement of gender equality, food security, private sector development, regional integration and ultimately poverty reduction and improved social wellbeing (See some illustrations in box 1 and 2).

2.1.2 Approvals

During the year, some 11 projects totalling to USD 44.42 million were approved. The approvals included projects in all the four member states of the Bank and in various sectors of the economy.

Buseruka mini hydro power project in Hoima Uganda : Under support from the UNFCCC Regional Collaboration Centre (RCC Kampala), the project successfully underwent verification and issuance exercise in line with Clean Development Mechanism (CDM) modalities and procedures. RCC carried out an on-site visit and conducted trainings to project staff on data monitoring and data management aspects related to the CDM project activity.

Box 1: Promoting Social Sector Projects in Education, Health and Community Services

Students at Greenhill Academy in Rwanda

Rwanda: In efforts to improve access to education, the Bank has provided a long term facility of USD 620,630 to partly finance the extension and modernisation of Green Hills Academy in Rwanda. The modernisation program has been implemented successfully with an improvement in the quality of services and infrastructure at the school. EADB's intervention has been critical for improvement on enrolment rate and the quality of education.

Kenya: EADB is currently funding the construction of the Strathmore law school centre/building, this being the second project for the University to be financed by the Bank. In 2006 the bank part- financed the construction of the auditorium, hostel, library, and information technology building.

The financing is in line with EADB's sustained focus on skills development and capacity building for East Africa. The Strathmore law school centre targets to enroll an additional 1,200 students while various law professionals have taken up jobs at the centre. Overall, the University has an enrolment of 5,327 students in various courses from Diplomas to PhDs. The school serves both Kenyan students and students from as far as DR Congo and South Sudan, thus providing a good avenue for promoting regional integration.

Students Attending Lectures at Strathmore University in Kenya

Box 2: EADB's Support to Improve Health Facilities and Services

Kenya; Jumuia Friends Hospital, Kaimosi

The health sector in Kenya is faced with a number of challenges as evidenced in the performance of key indicators such as life expectancy, maternal and child health, HIV/AIDS and TB prevalence, malaria and emerging non-communicable diseases. The Bank has undertaken a number of interventions to support the acceleration of health facilities infrastructure development to improve access to health services and human resource development for the health sector through capacity building.

To achieve this the Bank is supporting the Kaimosi and Huruma Hospital projects as part of the premier healthcare facilities under a National Healthcare Intervention Plan, which was launched by the National Council of Churches of Kenya. The Bank has committed a total of USD 6.5 million and has already disbursed more than USD 3 million.

The planned facilities are sculpted on the Indian model and are expected to improve on service delivery across the spectrum from primary, secondary and tertiary healthcare provision for the benefit communities across Kenya. The financial support from EADB has contributed to the transformation of the facilities to an ultra-modern 100-bed hospital facility with state of the art medical equipment and provision of working capital for the operational needs.

The project once completed will contribute to improved equitable access to affordable and quality healthcare through a chain of hospitals to be developed across the country. Currently the bed capacity has grown from 10-20% per day to the current 40% on average. The hospital currently handles more than 3,000 patients per month from a low of less than 500 before the refurbishment.

State of the Art Theatre at Kaimosi Hospital Funded by the EADB

Box 3: EADB's Support to the Housing Sector

Nhc On-Going Housing Project in Kawe, Dar Es Salaam

Tanzania: The housing sector in Tanzania is characterized by a lack of adequate, affordable and decent housing options, low-level of home ownership (about 16%), extensive and inappropriate dwellings including slums and squatter settlements. Studies show that house demand is on average increasing at a rate of 200,000 units, far greater than the 15,000 houses made available (constructed) annually. This translates into an annual shortfall of about 92 percent. The mortgage market in Tanzania is among the smallest in East Africa with the ratio of outstanding mortgages to GDP at 0.46 percent. The EADB is working with the NHC to reduce the deficit in housing. In 2016 the Bank disbursed USD 10 million out of EADB's commitment of USD 30 million to NHC. The disbursement is one of the highest single disbursements per institution in one year.

Kenya: The annual housing requirement in Kenya is about 132,000 units. The government estimates the supply at 50,000 units leaving a recurrent deficit of about 82,000 units. The huge deficit indicates a dire need to increase housing investment. In addressing this challenge the Bank disbursed a total of USD 4.3 million to finance the construction of 236 units of housing complete with a commercial centre. The housing complex features rain water harvesting installations, a water treatment facility and installed solar works for the households.

Kahawa Downs Housing Estate Financed by the EADB

2.1.3 Disbursements

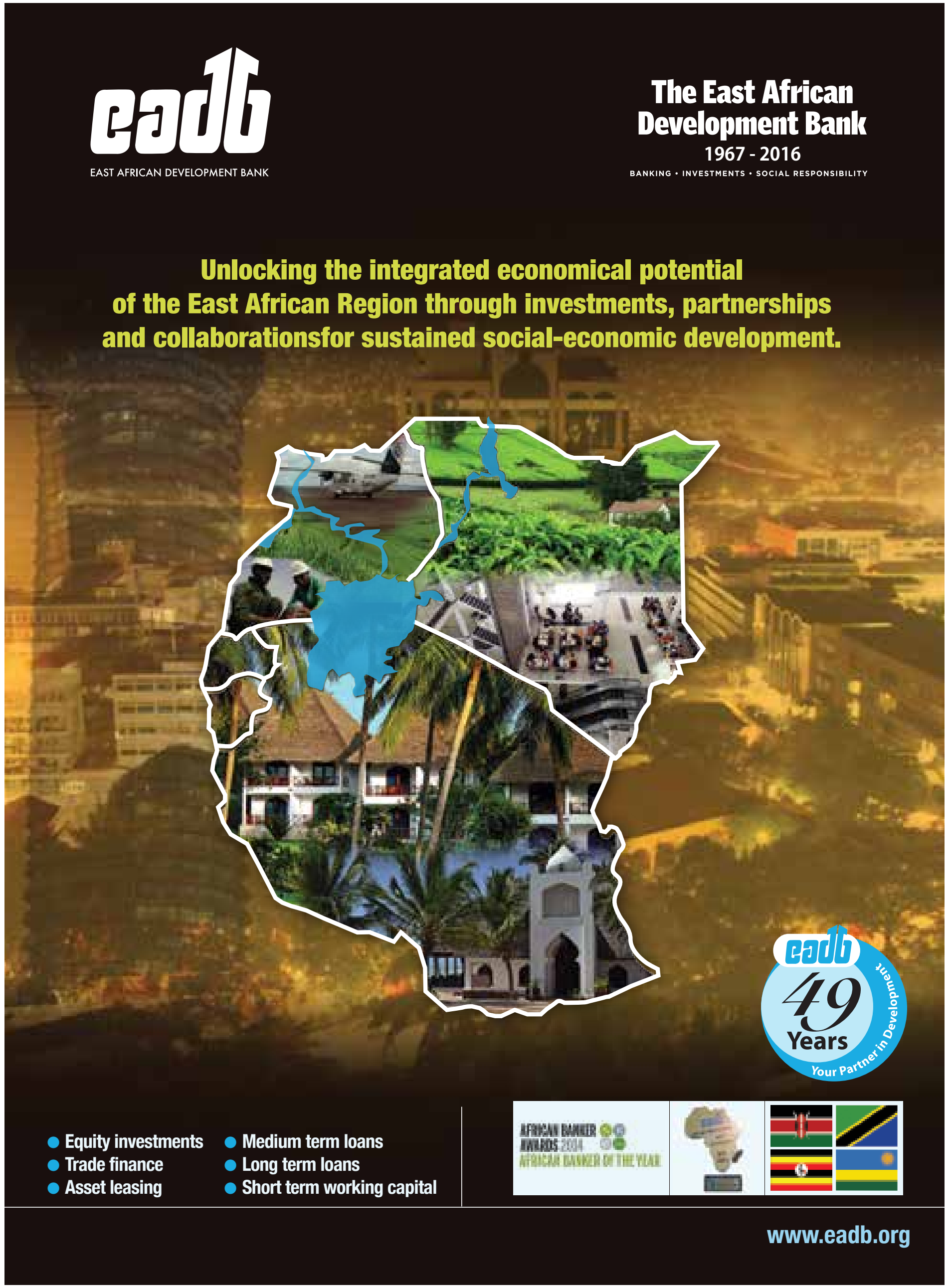
Disbursements during the year amounted to USD 62.04 million against an annual budget of USD 85.14 representing a performance of 72.8% against budget.

2.1.4 Collections

The budgeted collection targets for 2016 were achieved and exceeded. During the year, some USD 53.97 million was collected from projects against an annual budget of USD 35 million representing a performance of 54% above budget.

2.1.5 New Business Development

During the year, the Bank continued to build a credible pipeline of projects for consideration. As at 31st December 2016, there were some 16 projects worth USD 117.8 million in the pipeline.



2.2 Focus Areas

EADB lending operations were targeted on enterprises operating in the Bank's focus areas of food security, infrastructure, skills development, climate change and regional integration. Examples of EADB activities in each of these areas are provided in Box 4.

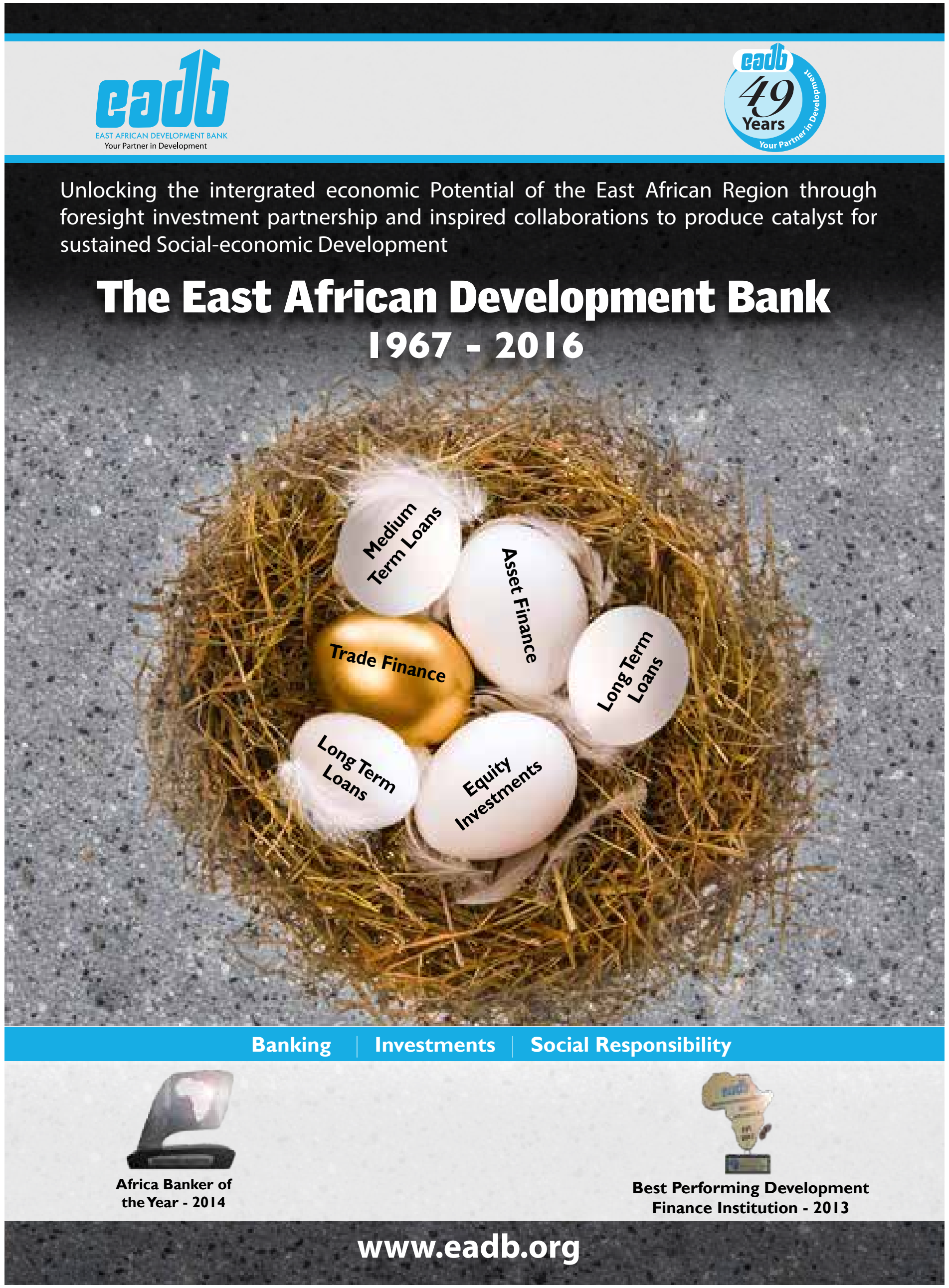
2.3 Partnerships

Partnership with Multilateral Financial Institutions

The Bank has well-established relationships with key development partners. During the year the Bank continued to implement projects funded by lines of credit from various development partners including:

- *European Investment Bank (EUR 25 million) and the OPEC Fund for International Development (USD 15 million). Both projects were provided to support EADB lending to SMEs.*
- *KfW for the purposes of supporting lending to MSMEs in rural areas.*
- *Arab Bank for Economic Development in Africa (BADEA) for a line of credit for USD 12 million to support private sector capital formation*

The Bank also entered into a cooperation agreement with the African Finance Corporation to collaborate in the promotion of trade finance in the EAC member states including the co-financing of transactions, financial risk sharing, project identification, preparation and appraisal, project monitoring and evaluation, and exchanging information on country risks and project analysis. Full details of the Bank's lines of credit are provided in Note 24 of the Financial Statements for the year ended 31st December 2016.



Box 4: EADB Focus Areas

Food Security:

Under funding provided by KfW, EADB entered into an EUR 8 million 'Rural Finance Enhancement Programme' targeted at providing medium to long-term loans to financial institutions for on-lending to farmers and MSMEs in rural areas of Uganda. Final beneficiaries under the scheme include farmers, agricultural traders, fishmongers, community social service providers, house builders, transport operators, communication service providers and general business services. These activities have created significant employment opportunities as well as contributing to higher disposable incomes and improved infrastructure in the targeted rural areas.

Infrastructure:

EADB continues to engage in regional infrastructure development, notably in the electricity sector, in which the Bank has significant exposure to the state-owned electricity utilities to support the extension of electricity supply and increased efficiency in electricity generation, particularly from renewable sources. The Bank has also engaged in the development of social infrastructure, such as the funding of schools and hospitals.

Skills Development:

EADB recognises the contribution of small and medium enterprises (SMEs) to economic growth, skills development and improved livelihoods. The Bank provides support to SMEs through lines of credit to financial intermediaries for on-lending to SME final beneficiaries. With its considerable experience of working with financial intermediaries in each of its member states, EADB is well placed to select partners with the capacity to support business and technical skills development as well as providing financial support.

Climate Change:

The Regional Collaboration Centre (RCC) Kampala, a collaboration between the United Nations Framework Convention on Climate Change (UNFCCC) and EADB was established at the EADB Headquarters in February 2013 as one of five global centres. The centre continues to operate as an UNFCCC/EADB partnership, working with governments, non-governmental organizations and private sector actors in Eastern and Southern African regarding the use of Clean Development Mechanism (CDM) tools. The centre also aims to increase the ability of these actors to participate effectively in the Paris Agreement through article 6 of the agreement and through implementation of climate change mitigation initiatives. In another climate change initiative, EADB commenced the application process to become an accredited Regional Implementing Entity (RIE) of the Green Climate Fund (GCF), which will enable the Bank to work with member country governments and private sector actors to access GCF funds for climate mitigation and adaptation activities.

Regional Integration:

EADB recognises the benefits of regional integration and supports trade reform efforts and regional infrastructure development as contributory measures towards increased intra-regional trade and balanced development. The Bank is involved in the financing of regional infrastructure projects and the promotion of mechanisms and institutions to support regional programmes and projects on behalf of its member states.

2.4 Corporate Social Responsibility Activities

Medical Scheme to Train 600 Physicians in Non-Communicable Diseases

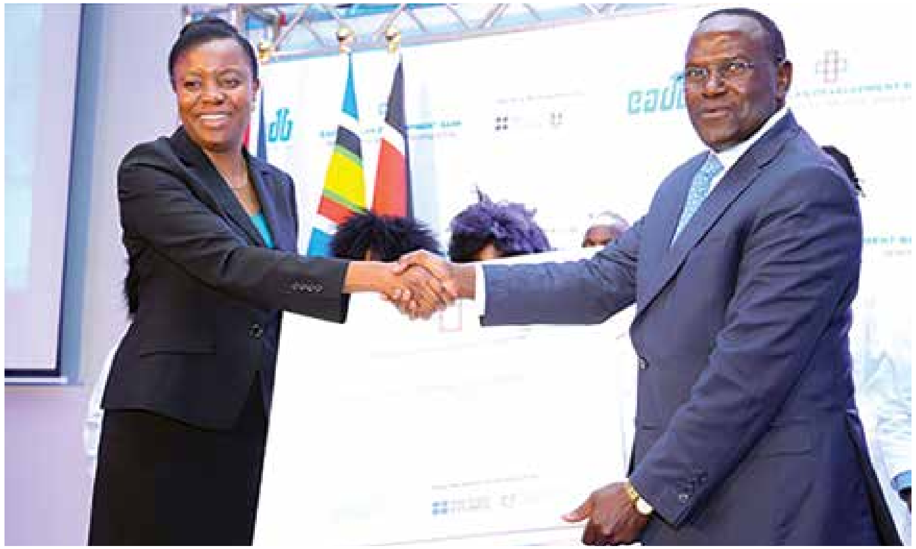
The EADB and the British Council in partnership with the Royal College of Physicians (RCP)-London, launched a Medical Training and Fellowships (METAF) Programme to train 600 specialists in areas of neurology and oncology for the period of four years from 2016 to 2020. The program was launched in August 2016 following a feasibility study that was conducted in January 2016. The program aims to increase 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. Funded by the EADB, the METAF is delivered by the British Council in partnership with the Royal College of Physicians (RCP) as the technical partner.

The current framework programme covers:

- Short clinical courses across Kenya, Tanzania, Uganda and Rwanda delivered by UK-based physicians alongside senior faculty based across East Africa
- A 2-year fellowship in the United Kingdom comprising of a 12-months Msc in Clinical Neurology and Clinical Oncology and a 12-month clinical treatment in an RCP approval training post in a National Health Service hospital.

The revised framework will seek to build on above and include the following:

- Program to enable Rwanda catch up with a bespoke training in each of the disciplines
- Oncology refresher training focused on building a new cohort
- An online distance learning option on Oncology and Neurology
- East African residences for medical professors from UK to teach in local medical schools in university-to-university partnership.



Director General of EADB, Vivienne Yeda and Cabinet Secretary, Ministry of Health Kenya celebrates the launch of the METAF programme

Since the launching of the program four impactful trainings for 78 physicians have been conducted in Kenya, Uganda and Tanzania. The training was able to train 98% of targeted 80 doctors in the first series of training.

Overall feedback of clinical courses was extremely positive. The participants provided positive feedback on overall organisation, course content and program areas.

EADB Math, Science, Technology and Engineering University Scholarship Program

The EADB created the EADB Math, Science, Technology and Engineering University Scholarship Program, in partnership with The Africa-America Institute, for experienced teachers and lecturers to earn a post-graduate degree in science, technology, engineering and mathematics (STEM) at

Rutgers University and New Jersey Institute of Technology in the United States. This program has already kick-started with 3 scholars from East Africa sent to the United States early September 2016.

The three scholarships were awarded to experienced East African teachers and lecturers with a bachelor's degree in a STEM field, who are actively teaching in an East African public university. The Scholars were selected from nearly 300 applicants from the East African countries of Rwanda, Kenya, Tanzania, and Uganda, who competed for a choice few slots.

The EADB scholarship aims to maximize the impact of EADB's investment into the higher education sector by granting scholarships to accomplished lecturers who have agreed to return to their East African universities and continue teaching after they have received their graduate degree at Rutgers University.

The fully-funded EADB graduate level scholarships will provide full tuition, room and living expenses within a stipulated budget.

Partnership with IUCEA and EABC on Academia Public Private Partnership Initiative

The East African Development Bank in collaboration with the Inter-University Council for East Africa (IUCEA) and the East African Business Council (EABC) organized the Academia-Public-Private Partnership Forum and Exhibitions, which was held under the theme "Quality Education, Research and Innovation as Drivers of New Economies in the EAC". The Forum demonstrated some of the practical outputs emanating from research and innovation in the region, in the form of innovative products and services to drive the new economies, focusing on ICT, tourism, agro-industry, financial services, and oil and gas. The Forum took place from 23-24th November 2016 at the Julius Nyerere International Convention Centre in Dar Es Salaam.

Work on Environment Management

The Bank participated in a High Level Strategic Retreat on Environment and Natural Resources Management in the EAC Region. The EAC Secretariat organised the July 28-29th 2016 retreat in Kigali.

During the retreat the Bank informed the participants on the on-going work by the UNFCCC Regional Collaboration Centre which is hosted at the East African Development Bank. The Centre offers technical support for capacity building in identification and development of potential mitigation activities including clean development mechanism, nationally appropriate mitigation actions and intended nationally determined contributions.

The Bank shared its experience in the application of the Green Climate fund (GCF) and encouraged others EAC institutions (LVBC, LVFO, IUCEA and EASTECO) to consider applying for accreditation as Regional Implementing Entity for GCF.

Building Capacity for Lawyers in Extractive Industry

EADB continues its partnership with DLA Piper, a global law firm, towards strengthening capacity related to extractive industry contract negotiations in East Africa. This partnership takes the form of co-hosting workshops to train public sector lawyers and law professors on structuring and negotiating international commercial contracts and agreements. Four workshops took place during 2015 in Kigali, Rwanda (March 2015), in Kampala, Uganda (June 2015), Dar es Salaam, Tanzania (September 2015) and Nairobi, Kenya (August 2016).

2.5 Regional Integration Activities

Efforts to Establish the East African Community Development Fund

The East African Development Bank is currently working with the East African Community Secretariat to put in place a legal framework for establishing the East African Community Development Fund (EACDF). The primary objective of the fund is to provide financing for infrastructure development projects within the community. The fund will leverage resources from the EAC Partner States to mobilize additional funding from external sources. The fund will serve as a platform to broker increased financing from multilateral development banks, bilateral and the private sector which are expected to play an increasing role in funding priority EAC projects given the high fiscal deficit in partner states and dwindling budget support and external aid. It will be instrumental in the support of upstream project activities such as feasibility studies, economic and financial viability as well as detailed design that would bring projects to 'bankable' stage. The fund will address one of the biggest constraints to infrastructure projects in Africa, namely the lack of adequate financing for project preparation and implementation. EACDF will act as a centre for the convergence of individual country efforts in implementation of regional infrastructure projects and in a way harmonise country specific interests, outlook and strategies in infrastructure development.

Apart from supporting the legal framework the EADB will be charged with day to day management of the fund without the burden of administrative overheads. Each single transaction will be analysed and developed by the fund manager into a bankable project.

Development of a Regional PPP Policy Framework

The Bank in collaboration with the East African Community undertook a study for establishment of a regional PPP policy framework. The key elements proposed for the framework include the establishment of the regional PPP resource centre and financing instruments.

The PPP regional resource centre, to be hosted and administered by the EADB and one of its own kinds in the region, will have a number of functions including:

- *Training and knowledge exchange: convening PPP units and line agencies on a regular basis, coordinating capacity building and training programs,*
- *developing databases and information on PPP, linking EAC countries to other PPP networks*
- *Regional PPP coordination and harmonization of EAC PPP market: project development and management of regional PPPs*
- *Advisory services to partner states: by offering help desk and more intensive bilateral advisory, focus on policy/program support*
- *Engaging with stakeholders: through dialogue with private sector, civil society and parliamentarians*

EADB's support to EAC Secretariat Business Continuity Plan

Since 2013, the East African Development Bank has been hosting the disaster recovery (data backup) site for the EAC Secretariat and Institutions. The site provides real time backup of all electronic information for the East African Secretariat, organs and institutions. It is mirrored site for data centre at the EAC headquarters in Arusha.

The data backup is critical for the survival and continued operation of the EAC. There is a robust plan for restoration of electronic information in case of data loss, corruption from hardware failure, human error, hacking or malwares.

The Bank is also hosting complementary equipment for the capital markets infrastructure. The equipment supports accessibility and linkage of all trading platforms as well as the Securities Central Depositories in the region and in a way link all East African financial markets with the aim of achieving a single market, for both the central banks and capital markets. The program is under the EAC Financial Sector Development and Regionalization Project 1 (EAC-FSDRP1).

Supporting Performance Management for Results at the EAC Secretariat

During its 21st Meeting of 1st December 2010, the Council of Ministers directed that all Professional Staff of the EAC Secretariat sign performance contracts based on their annual work plans, (EAC/CM 21 Directives 43 and 44). In response, the Secretary General, Amb. Richard Sezibera established a Perfomance Contracting and Evaluation Committee under the Chairmanship of Ms Vivienne Yeda -Director General (EADB), on 11th, January 2012. The committee's first task was to review the performance of Secretariat staff in respect to the 2011/2012 financial year. Under the Chairmanship of the DG, the committee was tasked to ensure that performance contracts were signed between the SG and Directors/Heads of Departments in a timely manner, evaluations were conducted twice a year and presentations made to the Committee for moderation and subsequent reporting. A performance contracting expert provided by the Bank facilitated the work of the committee ensuring that best practice standards were met in respect to the entire process and that the results reported to the SG were a true reflection of the Secretariat's achievements against the work plan. Some progress has been made against key EAC pillars as reported below:

Common Market

- *Enactment of new laws by the EAC Partner States to conform to the common market Protocol. Currently, Kenya, Rwanda and Uganda allow their respective citizens to enter and exit their territories using National IDs.*
- *Launching of the East African Electronic Passport during the 17th Summit of the Heads of State, held in March 2016 making room for all EAC Partner States to commence issuance of the same, starting January 2017.*
- *Easing the movement of labour across the region - Kenya and Rwanda now issue work permits to EAC citizens free of charge; while Uganda does the same on a reciprocal basis.*

Monetary Union

- *Establishment of an East African Payment and Settlement System and harmonization of policies necessary for a sustainable Monetary Union.*
- *The process to establish four (4) support institutions to support the monetary union as provided for in the Protocol is ongoing, namely; EAC Monetary Institute; EAC Statistics Bureau; EAC Financial Services Commission; and EAC Surveillance, Compliance and Enforcement Commission.*

Political Federation and Regional Stability

- *The Community continues to lay a firm foundation for political integration. EAC continues to promote peace, democracy and security across the region. Election Observer Missions in the Republics of Burundi, United Republic of Tanzania and Uganda in 2016 are examples.*
- *The Secretariat is continuing to facilitate the Inter-Burundi Dialogue resulting in the improvement of security in Burundi.*

Infrastructure and Energy Sectors

There have been several breakthroughs, including commencement of the construction of sections of the Arusha – Holili/Taveta – Voi road; enactment of the EAC Vehicle Load Control Act, 2016 and the EAC One Stop Border Posts Act, 2016, to reduce the destruction of roads by overloaded vehicles and ease the movement of persons and goods across the EAC borders respectively; construction of the Standard Gauge Railway (SGR) from Mombasa to Nairobi; and the launching of the East African Centre for Renewable Energy.

EAC EU Fiduciary Risk Assessment

The Secretariat passed in June 2016, the rigorous European Union Fiduciary Risk Assessment.

EAC is the Most Integrating REC in the Continent

- *In 2016, EAC emerged as the most integrating Regional Economic*

Community (REC) in the Continent according to the Africa Regional Integration Index Report 2016, jointly carried out by African Union Commission (AUC), African Development Bank (AfDB) and the United Nations Commission for Africa (UNECA).

- The Republic of South Sudan became a full member of the East African Community having deposited the instruments for ratification with the Secretary General in September 2016.

Promotion of Gender Equality - The 50 Million Women Speak Platform

In July 2015 the Bank worked with the African Development Bank and other stakeholders to develop a concept note proposing the 50 million African Women speak networking platform project.

The project intends to create a platform for exchanging ideas among women entrepreneurs. The platform will foster peer-to-peer learning amongst women, mentoring and sharing of information and knowledge within communities, improve access to financial services and market opportunities between urban and rural areas and across borders and between countries. The ultimate objective of the project is to contribute to the economic empowerment of women in the context of African Union Agenda 2063 and the Sustainable Development Goals (Agenda 2030).

Significant progress has been achieved in rolling out the project. The regional economic communities (RECS); the EAC, COMESA and ECOWAS have signed a memorandum of understanding to implement the 50 Million women speak platform. Under the MoU the RECs will establish a Project Implementation Unit (PIU) to coordinate the implementation of the project in respective regions. The African Development Bank will support the project with initial grant of USD 2.5 million with the RECs contributing administrative expenses such as office space, electricity, water, and fuel and project staff.

2.6 International Credit Rating

In June 2016, Moody's Investors Service maintained EADB's long-term issuer rating to Baa3 with a stable outlook (from Ba1 previously). The main drivers were

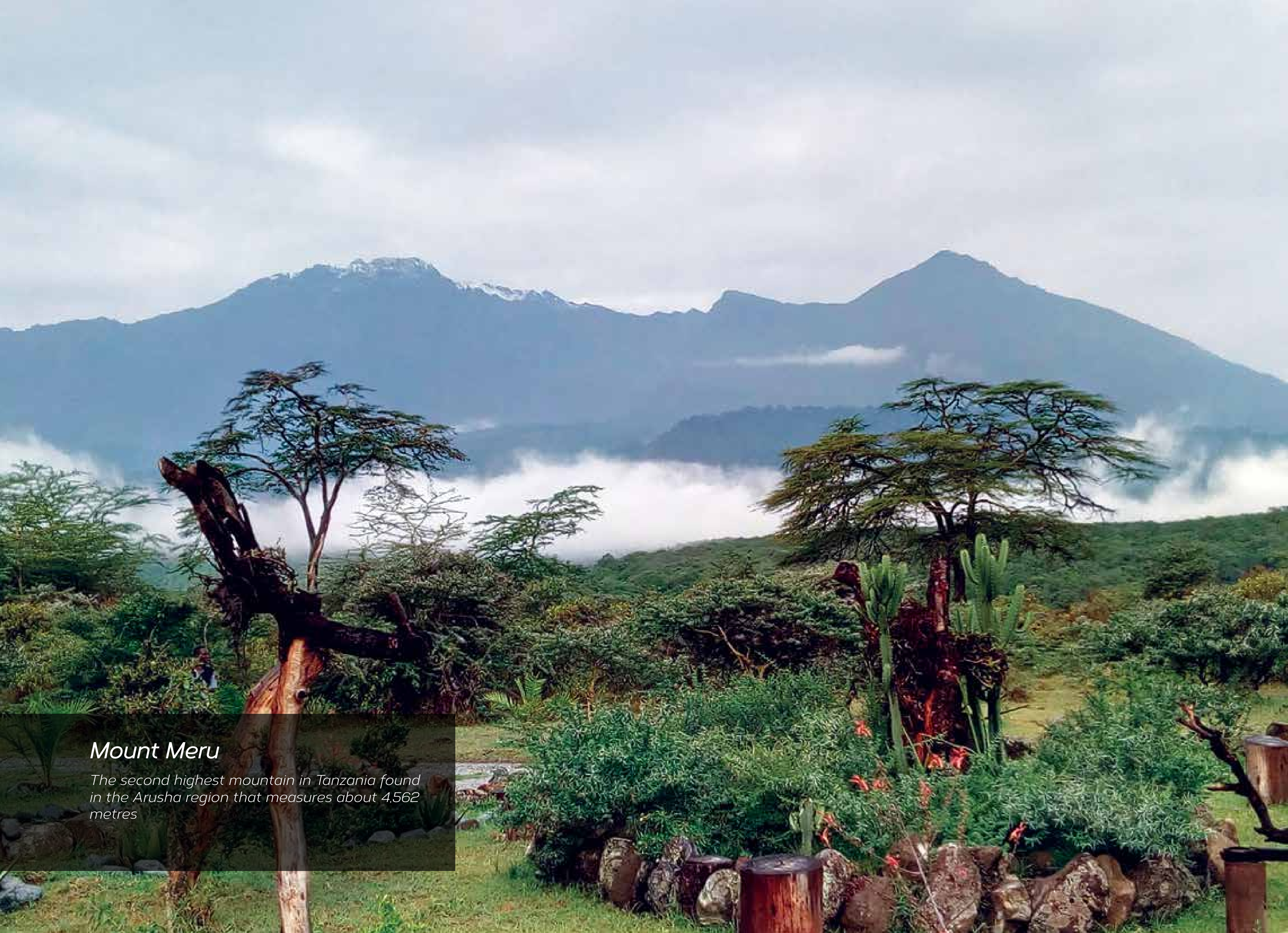
1. a significant improvement in the Bank's capital buffer due to a material increase in paid-in capital by the Bank's shareholders, and
2. a sharp decline in non-performing loans as a result of the Bank's sustained efforts to improve its loan portfolio quality.

2.7 Treasury Services and Management

During 2016, EADB implemented its treasury activities in accordance with the provisions of Treasury Policies and Procedures under the supervision of the Assets and Liabilities Committee (ALCO). These operations mainly included investments, resource mobilization and hedging of currency risk exposures arising from its financing operations.

2.8 Risk Management

The diversity of EADB's business model requires the Bank to identify, assess, measure and manage its risks. All material banking risks are managed via a framework of principles, organizational structures and measurement and monitoring processes that are closely aligned with the activities of the departments and business units.



Mount Meru

The second highest mountain in Tanzania found in the Arusha region that measures about 4,562 metres

3. Governance & Corporate Affairs

3.1 Governing Council

The Governing Council, comprising of the Ministers responsible for Finance from each of the Bank's member states, is the supreme governing authority of the Bank. The Governing Council met once, on 12th August 2016, to discharge its duties. During the meeting the Council undertook the following:

- *Adopted the EADB Annual Report for the year 2015 and commended management and staff for the good performance;*
- *Appointed PriceWaterhouseCoopers (PWC) as external auditors of the Bank for the year 2016;*
- *Approved the appointment of the Chairman and Vice Chairman of the EADB Board of Directors;*
- *Approved the amendment of Articles 14, 19, and 52 of the Charter.*

3.2 Advisory Panel

The Advisory Panel comprises of eminent persons in international finance who provide the Bank with strategic guidance during formal sessions held alongside the meetings of the Governing Council. The current Advisory Panel members are; Mr. Lars Ekengren, Mr. Mahesh K. Kotecha, Mr. Jannik Lindbaek and Mr. Toyoo Gyohten.

3.3 Board of Directors

The Bank's Board of Directors is required to meet at least once every quarter to conduct the business of the Bank. Indeed, the Board of Directors met four times in 2016 to undertake the following:

- *Congratulated the Bank's management and audit team on the excellent work done in assessing the Bank's internal controls and on their transparency in reporting areas of improvement;*

The Board also tabled recommendations to the Governing Council for approval:

- *The Bank's financial statements for the year ending 31st December 2015, as presented by Bank management and external auditors;*
- *The amendment of Articles 14, 19, and 52 of the Charter;*
- *Appointment of the recommended external auditors for 2016;*
- *Noted the equity subscription; as at 31st December 2015, the total shareholders' equity was USD.238 Million compared to USD.219 Million in 2014. The Government of Uganda and Kenya completed its capital subscription under programme II, whilst other countries' capital subscriptions were also recognised.*
- *The Bank rolled out a scholarship scheme for medical students in the field of neurology and this was done in partnership with the British council and Africa-America Institute; the Bank equally rolled up a scholarship scheme for science, mathematics and technology teachers*
- *The Board approved the Bank's budget for the year 2017; and*
- *The following policy documents: (a) Public Relations and Communications Policy (b) Enterprise-Wide Risk Management& compliance Policy (c) Disclosure and Access to Information Policy (d) Health and Safety Policy (e) Monitoring and Evaluation Policy (f) Procurement Regulations; and (g) Records Management Policy.*

Virunga Mountains

Volcanic range consisting of 8 major volcanoes that extend 80 km along the borders of the DRC, Rwanda and Uganda. Its highest peak measures 4507 metres.

4. Directors' Report & Financial Statements

For the Year Ended 31 December 2016

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2016, which disclose the state of affairs of East African Development Bank ("EADB" or "the Bank").

Incorporation

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

Principal Activity

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

Results

The results for the the year are set out on page 43 of the financial statement.

Dividend

The directors do not recommend the payment of dividends for the year (2015: Nil).

Directorate

The directors who served during the year are set out on page ix and x

Auditor

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

Approval Of Financial Statements

The financial statements were approved at a meeting of the Board of Directors and Governing Council held on 22nd December 2017.

Director

22nd December 2017

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:

- *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;*
- *Selecting suitable accounting policies and then apply them consistently; and*
- *Making judgements and accounting estimates that are reasonable in the circumstances.*

In preparing the financial statements, the directors have assessed the Bank's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of the going concern basis for 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.

The financial statements, as indicated above, were approved by the board of directors and Governing Council on 22 December 2017.

Chairman:

Director General:

Financial Statements

Report of the Independent Auditor to the Members of East African Development Bank

Report on the Audit of the Financial Statements

Our Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

What We Have Audited

The financial statements of the East African Development Bank set out on pages 43 to 97 comprise:

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

Basis for Opinion

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

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

Independence

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

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of 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 to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Certified Public Accountants, Kampala
10^{th} January 2018

Statement of Comprehensive Income

	Notes	2016 USD'000	2015 USD'000
Interest Income	3	25,244	17,572
Interest Expense	4	(8,699)	(3,817)
Net Interest Income		16,545	13,755
Fee and Commission Income	5	419	544
Net Foreign Exchange Gains/(Losses)	6	(353)	(971)
Other Operating Income	7	2,603	2,003
Net Fair Value (Loss)/Gain on Investment Property	21	(808)	50
Net Fair Value Gain/(Loss) on Financial Assets at Fair Value	18	5	(31)
Net Fair Value (Losses)/Gains on Equity Investments at Fair Value	19	4	(230)
Net Operating Income		18,415	15,120
Increase in Provisions for Impairment of Loans and Lease Receivables	16(a)	(1,946)	(1,038)
Operating Income After Impairment Charges		16,469	14,082
Employee Benefits Expense	8	(4,063)	(4,165)
Depreciation and Amortization	21	(732)	(671)
Other Operating Expenses	9	(4,094)	(2,569)
Profit Before Income Tax	10	7,580	6,677
Income Tax Expense	11	-	-
Profit for the Year		7,580	6,677
Other Comprehensive Income			
Revaluation Surplus on Land and Buildings	22	-	-
Total Comprehensive Income		7,580	6,677
Earnings Per Share - Basic	12	543	500
Earnings Per Share - Diluted	12	543	500

Statement of Financial Position

	Notes	2016 USD'000	2015 USD'000
Assets			
Cash at Bank	13	7,909	4,922
Deposits Due from Commercial Banks	14	166,755	177,491
Investment Security Held to Maturity	15	212	378
Loans and Lease Receivables	16	184,574	161,985
Equity Investments at Fait Value	19	487	483
Other Assets	20	692	1,122
Investment Property	21	19,069	19,185
Property, Plant and Equipment	22	14,455	15,146
Total Assets		394,153	380,712
Liabilities			
Other Liabilities	23	5,353	1,898
Derivative Financial Instruments	18	-	32
Borrowings	24	123,681	125,141
Special Funds	25	3,990	3,990
Grants	26	2,483	3,186
Capital Fund	27	7,479	7,479
Total Liabilities		142,986	141,726
Capital and Reserves			
Share Capital	28	189,824	185,787
Share Premium	28	3,874	3,309
Funda Awaiting Allotment	29	103	105
Special Reserve	30	12,358	11,783
Fair Value Reserve	31	505	497
Revaluation Reserves	33	7,980	8,002
Retained Earnings		36,523	29,503
Total Shareholders' Equity		251,167	238,986
Total Shareholders' Equity and Liabilities		394,153	380,712
Off Balance Sheet Items and Contingencies	38	30,399	5,606

The financial statements set out on pages 43 to 97 were approved by the Board of Directors on 22nd December 2017 and were signed on its behalf by:

Chairman:

Director General:

Statement of Changes in Equity

Year Ended 31 December 2016	Notes	Share Capital USD'000	Share Premium USD'000	Share Reserves USD'000	Funds Awaiting Allotment USD'000	Fair Value USD'000	Retained Earnings USD'000	Revaluation Reserve USD'000	Total Equity USD'000
At Start of Year		173,097	3,084	11,030	102	566	23,460	8,052	219,391
Comprehensive Income		-	-	-	-.	-	6,667	-	6,667
Profit for the Year		-	-	-	-	-	-	-	-
Total Comprehensive Income		-	-	-	-	-	6,667	-	6,667
Transactions with Owners Recoded Directly in Equity									
Transfers to Special Reserves		-	-	753	-	-	(753)	-	-
Receipts from Shareholders		-	-	-	12,918	-	-	-	12,918
Capitalisation of Contributions		12,690	225	-	(12,915)	-	-	-	-
Revaluation Reserve		-	-	-	-	-	50	(50)	-
Transfer to Fair Value Reserve		-	-	-	-	(70)	70	-	-
At End of Year		185,787	3,309	11,783	105	496	29,504	8,002	238,986
Year Ended 31 December 2016									
At Start of Year		185,787	3,309	11,783	105	496	29,504	8,002	238,986
Comprehensive Income									
Profit for the Year		-	-	-	-	-	7,580	-	7,580
Total Comprehensive Income		-	-	-	-	-	7,580	-	7,580
Transactions with Owners Recoded Directly in Equity									
Transfer of Special Reserve		-	-	575	-	-	(575)	-	-
Receipts from Shareholders		-	-	-	4,600	-	-	-	4,600
Capitalisation of Member Contributions		4,037	565	-	(4,602)	-	1	-	1
Revaluation Reserve		-	-	-	-	-	22	(22)	-
Transfer to Fair Value Reserve		-	-	-	-	9	(9)	-	-
Off Balance Sheet Items and Contingencies		189,824	5,606	-	103	505	36,523	7,980	251,167

Statement of Cash Flows

	Notes	2016 USD'000	2015 USD'000
Cash Flows from Operating Activities			
Interest Receipts		21,433	16,697
Interest Payments		(6,937)	(3,252)
Net Fee and Commission Receipts		874	1,075
Other Income Received		576	816
Payments to Employees and Suppliers		(7,754)	(10,293)
Cash Outflows from Operating Activities		8,192	5,043
Net Receipts from Loans and Advances		(23,758)	(57,290)
Net Other Reciepts from Customers		1,095	1,185
Settlement of Other Liabilities		(753)	(286)
Net Cash Generated from Operating Activities		(15,224)	(51,348)
Investing Activities			
Purchase of Property and Equipment		(734)	(3,543)
Deposits with Banks		(9,186)	(16,898)
Net Cash Used in Investing Activities		(9,920)	(20,441)
Financing Activities			
Receipts from Member States Towards Share Capital	29	4,600	12,918
Settlement of Medium And Long Term Borrowings		(48,006)	(17,000)
Proceeds from Borrowings		35,968	82,284
Net Cash Generated from Financing Activities		(7,438)	78,202
Net Increase in Cash and Cash Equivalents		(32,582)	6,413
Cash and Cash Equivalent at Start of Year		94,737	90,007
Exchange Losses on Cash and Cash Equivalents		(401)	(1,683)
At End of Year	32	61,754	94,737

Notes

1 Reporting Entity

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

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

For purposes of the Bank's Charter, the profit and loss statement is represented by the Statement of Comprehensive Income and the balance sheet by the Statement of Financial Position in these financial statements.

2 Principal Accounting Policies

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

A) Basis of Preparation

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

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

B) Changes in Accounting Policy and Disclosures

(I) New and Amended Standards Adopted by the Bank

The following standards and amendments have been applied by the bank for the first time for the financial year beginning 1 January 2016:

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

- *Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.*
- *Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.*
- *Notes – confirmation that the notes do not need to be presented in a*

particular order.

- *OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.*

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

Annual Improvements to IFRSs 2012-2014 Cycle.

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

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

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

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

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

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

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

(II) Standards, Amendments and Interpretations to Existing Standards That Are Not Yet Effective and Have Not Been Early Adopted by the Bank

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January

2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the bank, except the following set out below

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The bank is assessing the impact of IFRS 9 full impact and process should be completed by end of 2017.
IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The bank is assessing the impact of IFRS 15 full impact and process should be completed by end of 2017.

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

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

A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment.

This approach will result in a more faithful representation of a lessee's *assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.*

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

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

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

Changes in financial assets must be included in this disclosure if the cash flows were, or will be included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.
Entities may include changes in other items as part of this disclosure, for example, by providing a net debt reconciliation. However, in this case the changes in other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.
There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

C) Functional and Presentation Currency

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

Assets and liabilities expressed in various currencies are translated into US Dollars at rates of exchange ruling at the Statement of Financial Position date. Transactions during the year are converted at exchange rates ruling at the transaction date. The resulting differences from the conversion and translation of all transactions and balances are dealt with in the Statement of Comprehensive Income in the period in which they arise.

D) Segment Reporting

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

E) Revenue Recognition

(I) Interest Income and Expense

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

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

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

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

(II) Fees and Commission Income

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

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

(III) Dividend Income

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

(IV) Other Income

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

F) Property, Plant and Equipment

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

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

Revaluation Surplus

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

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

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

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

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

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

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

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

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

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

G) Intangible Assets

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

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

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

H) Leases

A) Bank is the Lessee

(I) Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases.

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

(Ii) Finance Leases

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

Bank Is The Lessor

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

I) Capital Work-In-Progress

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

J) Financial Assets and Financial Liabilities

(I) Financial Assets

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

(A) Financial Assets at Fair Value Through Profit or Loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.
A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

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

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

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

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

(B) Loans and Receivables

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

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

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

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

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

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

The bank assesses whether the fair value of the embedded derivative is material for bifurcation on initial recognition and at the reporting date. Where the fair value is deemed material, it is reflected in the financial statements. Otherwise no accounting entries are made.
The host contract is accounted for initially at fair value and subsequently at amortised cost using the market rate of interest applicable to similar instruments in similar currencies.

(C) Held-To-Maturity Investments

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

A. *those that the Bank upon initial recognition designates as at fair value through profit or loss;*

B. *those that the Bank designates as available-for-sale; and*

C. those that meet the definition of loans and receivables.

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

(II) Financial Liabilities

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

(III) Determination of Fair Value

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

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

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

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

For more complex instruments, the Bank uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models such as present value techniques are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The impact on net profit of financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in Note 35.

(IV) Derecognition

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

(V) Reclassification

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

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

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

(VI) Derivative Instruments

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

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

(VII) Offsetting

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

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

(VIII) Classes of Financial Instruments

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

K) Impairment of Non-Financial Assets

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

L) Identification and Measurement of Impairment

At each Statement of Financial Position date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.
The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been

Category (As Defined by IAS 39)		Class (As Determined by the Bank)		Subclasses
Financial Assets	*Financial Assets at Fair Value Through Profit or Loss*	*Financial Assets Held for Trading*	*Debt Securities*	
			Equity Securities	
			Derivatives - Non-hedging	
		Financial Assets Designated at Fair Value Through Profit or Loss	*Debt Securities*	
			Equity Securities	
			Loans and Advances to the Bank	
			Loans and Advances to Customers	
	Loans and Receivables	*Loans and Advances to the Banks*		
		Loans to Projects		*Large Corporate Customers*
				SMEs
				Others
	Held-to-maturity Investments	*Investment Securities - Debt Securities*		*Listed*
				Unlisted
				Unlisted
Financial Liabilities	*Financial Liabilities at Fair Value Through Profit or Loss*	*Financial Liabilities Held for Trading (Derivatives - Non Hedging Only)*		
		Designated at Fair Value Through Profit or Loss - Debt Securities in Issue		
	Financial Liabilities at Amortised Cost	*Deposits from Banks*		
		Debt Securities in Issue		
		Convertible Bonds		*These are Additional Classes of Financial Liabilities at Amortised Cost*
		Convertible Bonds		
		Subordinated Debt		
Off-balance Sheet Financial Instruments	*Loan Commitments*			
	Guarantees. Acceptances and other Financial Facilities			

incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

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

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

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

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

M) Fiduciary Assets

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

N) Offsetting

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

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

O) Borrowings

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

P) Provisions

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

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

Q) A) Retirement Obligations

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

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

A defined benefit plan is pensions plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.
The Bank's contributions to the scheme are charged to the Statement of Comprehensive Income in the year in which they are made. Costs relating to early retirement are charged to the Statement of Comprehensive Income in the year in which they are incurred.

B) Service Gratuity

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

C) Other Entitlements

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

R) Investment Properties

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

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

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

S) Grants

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

When the grant relates to an expense item, (revenue grant) it is recognised as income over periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, (capital grant) it is recognised in the Statement of Comprehensive Income on a systematic basis over the expected useful life of the relevant asset.

T) Cash And Cash Equivalents

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

U) Contingent Liabilities

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

V) Taxation

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

W) Dividends

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

X) Comparatives

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

3. Interest Income

	2016 USD'000	2015 USD'000
Interest Income on Loans to Projects		
Interest Income on Unimpaired Loans	13,148	16,697
Interest Income on Impaired Loans	2,248	(3,252)
Interest Income from Lease Rentals		
Interest Income on Unimpaired Lease Receivables	116	162
Interest Income on Impaired Lease Receivables	-	51
Interest from Investment Security Held on Maturity	42	66
Interest Income from Deposits with other Banks	9,690	6,473
	25,244	17,572

4 Interest Expense

	2016 USD'000	2015 USD'000
Interest on Loans from Banks	-	94
Interest on Medium and Long Term Borrowings	4,860	1,482
Interest on Lines of Credit with Banks	3,839	2,241
	8,699	3,817

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

5. Fee and Commission Income

	2016 USD'000	2015 USD'000
Gross Fees and Commission Income		
Appraisal Fees	575	753
Other Fees and Commission Income	42	153
Asset Leasing Income on Purchase Options & Penalties	18	7
Commitment Fees	47	113
Other Fees and Incomes	270	139
	952	1,166
Gross Fees and Commission Expense		
Commission Charges	(139)	(473)
Commitment Fees	(115)	(110)
Bond Issue Costs	(279)	-
Other Fees and Commission Expense	-	(39)
	(533)	(622)
Net Fee and Commission Income	419	544

6. Net Foreign Exchange Losses

	2016 USD'000	2015 USD'000
Net Gains/(Losses) on Foreign Currency Transctions and Revaluation	(353)	(971)

7. Other Operating Income

	2016 USD'000	2015 USD'000
Rent Income	653	673
Dividend Income	126	99
Recovery of Previously Written Loans	1,095	1,186
Gain/(Loss) on Disposal of Property and Equipment	-	(1)
Grant Income (Note 26)	703	56
Other Income on Asset Leasing	10	3
Write (Off)/Back of Other Liabilities	16	(14)
	2,603	2,003

8. Employee Benefits Expense

	2016 USD'000	2015 USD'000
Salaries and Wages	2,738	2,847
Pension and Gratuity (Note 36)	381	351
Other Staff Costs	944	967
	4,063	4,165

9. Other Operating Expenses

	2016 USD'000	2015 USD'000
Rental Expense	127	109
Staff Duty Travel	109	143
Directors Expenses	170	162
Insurance	354	305
Advertising and Publicity	101	94
Legal Fees	613	538
Staff Training, Seminars and Workshops	0	0
Repairs and Maintenance	136	78
Computer Software Expenses	225	170
Other it Related Expenses	33	9
Internal Audit Costs	306	60
Statutory Audit Fees	45	54
Consultancy Fees	576	192
Subscription to Professional Bodies	13	11
Scholarships	644	-
Other Administrative Expenses	642	644
	4,094	2,569

10. Profit Before Income Taxes

Profit before income tax is stated after charging the following:

	2016 USD'000	2015 USD'000
Directors Enrolments:		
- Fees and Allowances	82	70
- Other Expenses	88	92
Depreciation and Amortization of Intangible Assets and Grants	731	671
Impairment of Loans and Advances	1,946	1,038
Employee Benefits Expense (Note 8)	4,063	4,165
Auditors Remuneration	45	54

11. Taxation

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

12. Earnings Per Share – Basic and Diluted

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

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

	2016 USD'000	2015 USD'000
Net Profit Attributable to Ordinary Shareholders	7,580	6,677
Weighted Average Number of Ordinary Shares in Issue and Paid Up During the Year (Note 28)	13,954	13,347
Basic Earnings Per Share	543	500
Earnings Per Share - Basic and Diluted		
Dilutive Number of Ordinary Shares	8	8
Total Issued and Dilutive Shares	13,962	13,355
Diluted Earnings Per Share	543	500

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

13. Cash at Bank

	2016 USD'000	2015 USD'000
Bank Deposits	7,909	4,922

14. Deposits Due from Commercial Banks

	2016 USD'000	2015 USD'000
Deposits with Banks in Member States	166,755	177,491
	166,755	177,491
The Above Amount is Analyzed as Follows:		
Amounts Due Within 3 Months of Date of Acquisition	161,448	172,260
Amounts Due After 3 Months of Date of Acquisition	5,307	5,231
	166,755	177,491

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

15. Investment Security Held to Maturity

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

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

16. Loans And Lease Receivables

	2016 USD'000	2015 USD'000
Loans and Advances (Net)	183,710	160,350
Finance Lease Receivables (Net)	864	4,922
	184,574	161,985
Loans and Leases Receivable Comprise the Following:		
Loans to Projects	188,705	163,392
Finance Lease Receivables	877	1,659
Staff Loans	-	26
Gross Loans	**189,582**	**165,077**
Impairment Losses on Loans & Advances (Note 16a)	(5,008)	(3,092)
Net Carrying Amounts	**184,574**	**161,985**

Included within loans to projects is financing amounting to USD 1.81 million (2015: USD 1.80 million) extended to projects in exchange for shares in the borrower companies acquired at terms under which the shares are redeemable by the borrower company at the higher of valuation of the shares or the amount invested plus a guaranteed minimum annual rate of return. Such financing is accounted for as loans and receivables. The directors have assessed the fair value of the embedded equity derivative within these instruments and concluded that it is not material and as such it has not been accounted for in these financial statements.

General Provision Sensitivity Analysis

Percentage Provision	1.00% USD'000	1.50% USD'000	2% USD'000
Loans and Advances	1,470	2,588	2,940
Finance Lease Receivables	9	13	18
	1,479	2,601	2,958

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

(A) Loan Impairment Charges

	2016 USD'000			2015 USD'000		
	Identified Allowance for Impairment	Collective Allowance for Impairment	Total	Identified Allowance for Impairment	Collective Allowance for Impairment	Total
At Start of Year	683	2,409	3,092	4,456	1,564	6,020
Reversal of Impairment	(592)	(150)	(742)	(731)	(42)	(773)
Increase in Impairment Allowances	2,346	342	2,688	924	887	1,811
Loan Impairment Charge for the Year	1,754	192	1,946	193	845	1,038
Amounts Written Off During the Year	(30)	-	(30)	(3,966)	-	(3,966)
At End of Year	2,407	2,601	5,008	683	2,409	3,092

(B) Finance Lease Receivables

	2016 USD'000	2015 USD'000
Gross Lease Rentals within One Year	287	178
Gross Lease Rentals After One Year but Before 5 Years	677	1,684
	964	1,862
Unearned Future Finance Income on Finance Leases	(87)	(203)
	(877)	1,659
Less: Impairment Losses		
Collective Allowance	(13)	(25)
	864	1,634
The Net Investment in Finance Leases May Be Analysed as Follows:		
Not Later Than 1 Year	274	172
Later Than 1 Year and Not Later Than 5 Years	590	1,462
	864	1,634

17. Segment Information

Management has determined the operating segments based on information reviewed by the board of directors for the purpose of allocating resources and assessing performance.

The board of directors considers the business from both a geographic and product perspective. Geographically, the board considers the performance in Kenya, Uganda, Tanzania and Rwanda.

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

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

Box 5: Improving Food Security in the Region

Aponye Uganda's Modern Grain Processing Plant at Mubende

Food Security remains one of EADB's key focus areas. With two thirds of Africans dependent on farming for their livelihoods, boosting agriculture can create economic opportunities, reduce malnutrition and poverty, and generate faster, fairer growth. With this understanding the EADB is supporting agricultural value chain from the stages of production through to aggregation, processing and marketing. Agro marine and food processing account for close to 20 percent of EADB's portfolio. Some of the on-going projects in support of the agriculture sector include: Kayonza tea factory, Sugar Corporation Uganda, Aponye Uganda Ltd, Kakira Sugar Ltd and Uganda Tea Development Agency.

17. Segment Information (Continued)

The segment information provided to the board of directors for the reportable segments for the year ended 31 December 2016 is as follows:

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

Exposure by Product

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

Total Portfolio Quality

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

Approvals and Disbursements

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

Segment Statement of Comprehensive Income for Year Ended December 2016

	Uganda USD'000	Kenya USD'000	Tanzania USD'000	Rwanda USD'000	Head Office USD'000	Total USD'000
Interest Income	5,027	5,278	2,686	2,521	9,732	25,244
Interest Expense	-	-	-	-	8,978	8,978
Net Interest Income	5,027	5,278	2,686	2,521	753	16,266
Fee and Commission Income	330	283	189	128	(232)	698
Net Foreign Exchange Losses	(898)	(208)	(49)	19	783	(353)
Other Operating Income	1,166	20	2,314	-	(897)	2,603
Fair Value (Loss)/Gain on Investment Property	(953)	-	145	-	-	(808)
Net Gains/(Losses) on Equity Investments Held at Fair Value	-	47	(42)	-	-	4
Net Losses on Financial Assets Held at Fair Value	-	-	31	-	(26)	5
Total Operating Income	4,672	5,420	5,274	2,668	381	18,415
Reduction in Provision for Impairement of Loans and Lease Receivables	94	(910)	-	-	(1,130)	(1,946)
Operating Income after Impairment Charges	4,766	4,510	5,274	2,668	(749)	16,469
Employee Benefits Expense	(249)	(369)	(268)	(136)	(3,041)	(4,063)
Depreciation and Amortization	-	(5)	(35)	(20)	(672)	(732)
Other Operating Expenses	(2)	(126)	(152)	(94)	(3,720)	(4,094)
Profit Before Income Tax	4,515	4,010	4,819	2,418	(8,182)	7,580
Other Operating Expenses	-	-	-	-	-	-
Profit for the Year	4,515	4,010	4,819	2,418	(8,182)	7,580
Other Operating Expenses	-	-	-	-	-	-
Total Comprehensive Income	4,515	4,010	4,819	2,418	(8,182)	7,580

Segment Statement of Financial Position for Year Ended December 2016

Assets	Uganda USD'000	Kenya USD'000	Tanzania USD'000	Rwanda USD'000	Head Office USD'000	Total USD'000
Cash at Bank	320	519	26	59	6,985	7,909
Deposits Due from Commercial Banks	–	–	–	–	166,755	166,755
Investment Securities Held to Maturity	–	–	–	–	212	212
Loans and Lease Receivables	53,849	56,793	45,415	32,852	(4,335)	184,574
Derivative Financial Instruments	–	–	–	–	–	–
Equity Investments	–	147	340	–	–	487
Other Assets	168	19	70	19	416	692
Investment Properties	14,965	–	4,104	–	–	19,069
Property and Equipment	12,158	1,061	1,236	–	–	14,455
Total Assets	**81,460**	**58,539**	**51,191**	**32,930**	**170,033**	**394,153**
Liabilities						
Other Liabilities	3,159	–	–	–	2,194	5,353
Burrowings	–	–	–	–	123,681	123,681
Special Funds	–	–	–	–	3,990	3,990
Grants	–	–	–	–	2,483	2,483
Capital Fund	–	–	–	–	7,479	7,479
Total Liabilities	3,159	–	–	–	139,827	142,986
Capital and Reserves						
Share Capital	–	–	–	–	189,824	189,824
Share Premium	–	–	–	–	3,874	3,874
Funds Waiting Allotment	–	–	–	–	103	103
Special Reserve	–	–	–	–	12,358	12,358
Fair Value Reserve	–	–	–	–	505	505
Retained Earnings	–	–	–	–	36,523	36,523
Revaluation Reserves	–	–	–	,–	7,980	7,980
Total Shareholders' Equity	–	–	–	–	251,167	251,167
Total Shareholders' Equity and Liabilities	3,159	–	–	–	390,994	394,153

Segment Information (Continued)

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

Country	Gross Balances USD M	%	Net Balances USD M	%
Uganda	52	31%	51	31%
Kenya	53	32%	52	32%
Tanzania	30	19%	30	19%
Rwanda	30	18%	29	s18%
Total Region	**165**	**100%**	**162**	**100%**

Exposure by Product

Product	Gross Balances USD M	%	Net Balances USD M	%
Long Term Loans	147	89%	167	90%
Medium Term Loans	6	4%	9	5%
Short Term Loans	8	5%	6	3%
Loans Sub-total	**161**	**98%**	**182**	**98%**
Equity	2	1%	2	1%
Asset Lease	2	1%	2	1%
Total All Products	**165**	**100%**	**162**	**100%**

Total Portfolio Quality

Category	Gross Balances USD M	%	Net Balances USD M	%
Performing Portfolio				
Normal	149	90.15	147	90.50
Watch	15	9.10	14	8.93
	164	**99.25**	**161**	**99.43**
Non-performing Portfolio				
Substandard	1	0.73	1	0.57
Doubtful	-	-	-	-
Loss	0	0.02	0	-
	1	**0.75**	**1**	**0.57**
Total All Products	**165**	**100**	**162**	**100**

Segment Statement of Comprehensive Income for the Year Ended 31 December 2015

	Uganda USD'000	Kenya USD'000	Tanzania USD'000	Rwanda USD'000	Head Office USD'000	Total USD'000
Interest Income	3,939	4,076	1,535	1,484	6,538	17,572
Interest Expense	-	-	-	-	(3,817)	(3,817)
Net Interest Income	3,939	4,076	1,535	1,484	2,721	13,755
Fee and Commission Income	401	353	210	142	(561)	544
Net Foreign Exchange Losses	-	-	-	-	(971)	(971)
Other Operating Income	501	32	756	-	713	2,003
Fair Value (Loss)/Gain on Investment Property	13	-	37	-	-	50
Net Gains/(Losses) on Equity Investments Held at Fair Value	-	(51)	(179)	-	-	(230)
Net Losses on Financial Assets Held at Fair Value	-	-	-	-	(31)	(31)
Total Operating Income	4,854	4,410	2,359	1,626	1,871	15,120
Reduction in Provision for Impairment of Loans and Lease Receivables	341	(272)	(91)	-	(1,016)	(1,038)
Operating Income after Impairment Charges	5,195	4,138	2,268	1,626	855	14,082
Employee Benefits Expense	(246)	(360)	(274)	(133)	(3,152)	(4,165)
Depreciation and Amortization	-	(5)	(39)	(22)	(605)	(671)
Other Operating Expenses	(1)	(145)	(106)	(89)	(2,228)	(2,569)
Profit Before Income Tax	4,948	3,628	1,849	1,382	(5,130)	6,677
Other Operating Expenses	-	-	-	-	-	-
Profit for the Year	4,948	3,628	1,849	1,382	(5,130)	6,677
Other Operating Expenses	-	-	-	-	-	-
Total Comprehensive Income	4,948	3,628	1,849	1,382	(5,130)	6,677

Segment Statement of Financial Position for Year Ended 31 December 2015

Assets	Uganda USD'000	Kenya USD'000	Tanzania USD'000	Rwanda USD'000	Head Office USD'000	Total USD'000
Cash at Bank	-	1,272	22	9	3,619	4,922
Deposits Due from Commercial Banks	-	-	-	-	177,491	177,491
Investment Securities Held to Maturity	-	-	-	-	378	378
Loans and Lease Receivables	50,225	52,253	30,179	29,328	-	161,985
Equity Investments	-	100	383	-	-	483
Other Assets	-	-	12	42	1,068	1,122
Investment Properties	16,727	-	2,458	-	-	19,185
Property and Equipment	12,854	1,067	1,216	9	-	15,146
Total Assets	79,806	54,692	34,270	29,388	182,556	380,712
Liabilities						
Other Liabilities	-	11	-	-	1,887	1,898
Derivative Financial Instruments	-	-	-	-	32	32
Burrowings	-	-	-	-	125,141	125,141
Special Funds	-	-	-	-	3,990	3,990
Grants	-	-	-	-	3,186	3,186
Capital Fund	-	-	-	-	7,479	7,479
Total Liabilities	-	11	-	-	141,715	141,726
Capital and Reserves						
Share Capital	-	-	-	-	185,787	185,787
Share Premium	-	-	-	-	3,309	3,309
Funds Waiting Allotment	-	-	-	-	105	105
Special Reserve	-	-	-	-	11,783	11,783
Fair Value Reserve	-	-	-	-	496	496
Retained Earnings	-	-	-	-	29,504	29,504
Revaluation Reserves	-	-	-	,-	8,002	8,002
Total Shareholders' Equity	-	-	-	-	238,986	238,986
Total Shareholders' Equity and Liabilities	-	11	-	-	380,701	380,712

18. Derivative Financial Instruments

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. The entered into deposit transactions with counter parties which have been identified to have similar characteristics with derivative financial instruments.

The table below analyses the notional principal amounts and the positive (assets) and negative (liabilities) fair values of the Bank's derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

The fair values of derivative financial assets and financial liabilities at 31 December 2016 and 2015 were as follows:

	National Principal Amounts USD'000	Fair Value Assets USD'000	Fair Value Liabilities USD'000
Cross Currency Derivative Contracts – 31 December 2016	-	-	-
Cross Currency Derivative Contracts – 31 December 2015	1,536	1,525	1,557

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

	2016 USD'000	2015 USD'000
Derivative Asset	(32)	108
Fair Value Loss (Gain) on Embedded Financial Instruments	32	(140)
	-	(32)

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

	2016 USD'000	2015 USD'000
Fair Value (Loss)/Gains on Loans with Equity Options	5	109
Fair Value Loss (Gain) on Embedded Financial Instruments	32	(140)
Gains/(Losses) on Investments Exited	(32)	-
At End of Year	5	(31)

19. Equity Investments at Fair Value

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

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

	2016 USD'000	2015 USD'000
At Start of Year	483	713
Fair Value Gain/(Losses)	4	(230)
At End of Year	487	483

20. Other Assets

	2016 USD'000	2015 USD'000
Local Debtors	77	134
Deferred Bond Issue Costs	-	265
Other Receivables	615	723
	692	1,122

21. Investment Property

	2016 USD'000	2015 USD'000
Valuation at Start of Year	19,185	18,688
Additions	692	477
Net Fair Value Gains	(808)	50
Valuation at End of the Year	19,069	19,158

An independent valuation of the Bank's land and buildings was performed by professional valuers Knight Frank Limited to determine the fair value of the land and buildings as at 31 December 2016 based on estimated open market values.

Properties that are held by the Bank for generation of rental income have been classified under Investment property as per note 21 and 22. Land and buildings occupied by the Bank for administrative use is classified under the property, plant and equipment (Note 22).

Rental income from investment properties during the year ended 31 December 2016 totalled USD 599,775 (2015 USD 615,379). Direct operating expenses totalling USD 70,452 (2015: USD 27,992) which consisted of USD 65,452 (2015: USD 26,862) in expenses for rented and USD 5,000 (2015: USD 1,130) for unrented investment properties.

As at 31 December 2016, the Board had approved USD 75,416 (2015: USD 4,469,436) of future expenditure for the development and enhancement of investment property. USD 75,416 (2015: USD 3,626,984) is contractually committed.

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

- *Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).*
- *Inputs for the year ended 31 December 2016 other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).*
- *Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).*

	Quoted Prices in Active Markets for Identical Assets (Level 2) USD'000	Significant Other Observable Inputs (Level 2) USD'000	Significant Unobservable Inputs (Level 3) USD'000	Totals USD'000
At 31 December 2016				
Investment Property				
Land	-	13,840	-	13,840
Building	-	5,229	-	5,229
PPE				
Land	-	7,827	-	7,827
Building	-	5,295	-	5,295
Total Assets	-	32,191	-	32,191
At 31 December 2015				
Investment Property				
Land	-	13,967	-	13,967
Building	-	5,218	-	5,218
PPE				
Land	-	7,827	-	7,827
Building	-	5,295	-	5,295
Total Assets	-	32,307	-	32,307

Property, Plant & Equipment

	Land & Buildings USD'000	Capital Work In Progress USD'000	Office Equipmentt USD'000	Motor Vehicles USD'000	Furniture & Fittings USD'000	Total USD'000
At 1 January 2015						
Cost or Valuation	13,126	561	912	686	770	16,055
Accumulated Depreciation	(67)	-	(768)	(508)	(451)	(1,794)
Net Book Amount	13,059	561	144	178	319	14,261
Year Ended 31 December 2015						
Opening Net Book Amount	13,059	561	144	178	319	14,261
Additions	-	2,067	902	-	127	3,096
Transfers from Wip	-	(1,537)	-	-	-	(1,537)
Disposals/Retirement:	-	-	-	-	-	
Cost	-	-	(60)	-	(108)	(168)
Depreciation	-	-	57	-	108	165
Depreciation Chanrge	(448)	-	(53)	(110)	(60)	(671)
Closing Net Book Amount	12,611	1,091	990	68	386	15,146
At 31 December 2015						
Cost or Valuation	13,126	1,091	1,754	686	789	17,446
Accumulated Depreciation	(515)	-	(764)	(618)	(403)	(2,300)
Net Book Amount	12,611	1,091	990	68	386	15,146
Year Ended 31 December 2016						
Opening Net Book Amount	12,611	1,091	990	68	386	15,146
Additions	714	734	65	-	6	1,519
Transfers from Wip	-	(1,478)	-	-	-	(1,478)
Depreciation Charge	(448)	-	(153)	(58)	(73)	(732)
Closing Net Book Amount	12,877	347	902	10	319	14,455
At 31 December 2016						
Cost or Valuation	13,840	347	1,819	686	795	17,487
Accumulated Depreciation	(963)	-	(917)	(676)	(476)	(3,032)
Net Book Amount	12,877	347	902	10	319	14,455

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

	2016 USD'000	2015 USD'000
Cost	8,668	7,954
Accumulated Depreciation	(3,777)	(3,344)
Net Book Amount	4,897	4,610

23. Other Liabilities

	2016 USD'000	2015 USD'000
Deposits on Leased Assets	183	185
Advances from Customers	65	79
Staff Payables	1	10
Rent Received in Advance	39	27
Administrative Accruals	860	501
Deffered Income	164	535
Prepaid Rental Income	145	168
Kfw Managed Fund	3,159	-
Other Creditors	737	393
	5,353	1,898

23. Borrowings

	2016 USD'000	2015 USD'000
Borrowings		
Lines of Credit with Multi-lateral Development Banks	92,390	93,569
Lines of Credit with Other Financial Institutions	31,291	31,572
	123,681	125,141

	2016 USD'000	2015 USD'000
Maturity Analysis of Loans		
Amounts Payable Within One Year	29,462	30,372
Amounts Payable After One Year but Within Five Years	30,527	15,253
A Mounts Payable After Five Years	63,692	79,516
	123,681	125,141
Lender		
African Development Bank	30,000	30,000
Commercial Bank of Africa Limited	19,522	19,531
Commercial Bank of Africa Limited	9,761	9,766
African Development Bank	6,222	10,369
Arab Bank for Economic Development	2,247	-
DFCU Bank Limited	1,800	1,928
European Investment Bank	2,017	2,465
European Investment Bank	2,864	3,500
European Investment Bank	3,828	3,830
European Investment Bank	1,596	1,597
European Investment Bank	642	699
European Investment Bank	2,361	2,845
European Investment Bank	5,399	5,470
European Investment Bank	2,877	-
European Investment Bank	1,272	1,704
European Investment Bank	1,795	1,796
Nordic Development Bank	5,180	5,677
Opec Fund for International Development	13,636	15,000
Republic of Uganda - KFW	5,080	5,442
Republic of Uganda - KFW	1,547	1,657
Republic of Uganda - KFW	1,561	-
Development Bank of South Africa	-	1,064
Subtotal for Borrowings	121,206	124,340
Interest Payable	2,475	801
Total Borrowings	123,681	125,141

23. Borrowings (Continued)

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

The weighted average effective interest rate on borrowings was 6.94% (2015: 5.78%). The bank has not given any security for the borrowings and has not defaulted on any of them.

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

25. Special Funds (Norwegian /EADB Fund)

	2016 USD'000	2015 USD'000
At Start and End of Year	3,990	3,990

Norwegian/ EADB Fund

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

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

26. Grants

	2016 USD'000	2015 USD'000
At Start of Year	3,186	18,688
Grant Utilization	(703)	477
At the End of the Year	2,483	50
Grants Outstanding Relate to the Following:		
SIDA/EADB Fund for Technical Assistance	1,280	1,983
SWISS/EADB Fund for Technical Assistance	1,053	1,053
Housing Finance Feasibility Study Grant	150	150
	2,483	3,186

The SIDA/EADB Fund

The SIDA/ EADB fund for technical assistance was established following a grant from the Government of Sweden through SIDA. The funds were meant for EADB's institutional support and capacity building.

As at 31 December 2016 the Bank had utilised part of the grant amounting to USD 702,762, (2015: USD 59,000) in regional capacity building by training selected East African lawyers through the extractive industries seminar.

SWISS/ EADB Fund

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

Housing Finance Feasibility Study Grant

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

27. Capital Fund

	2016 USD'000	2015 USD'000
At Start and End of Year	7,479	7,479

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

28. Share Capital

Authorised Share Capital

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

Class A

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

Class B

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

Share premium

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

Callable capital

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

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

Share Capital

	Paid Up Share Capital Number	Callable Share Capital Number	Total Number	Paid Up Share USD000	Callable Share Capital USD'000	Total USD'000
Authorised Share Capital						
Class A	24,000	561	912	686	770	16,055
Class B	16,000	-	(768)	(508)	(451)	(1,794)
	40,000	561	144	178	319	14,261
Issued Share Capital						
Class A						
At 1 January 2016	11,981	2,067	902	–	127	3,096
Issue of Shares	299	(1,537)	–	–	–	(1,537)
At 31 December 2016	12,280	–	–	–	–	(1,537)
Class B						
At 1 January 2016	1,781	1,037	2,818	24,044	14,000	38,044
Issue of Shares	–	–	–	–	–	–
At 31 December 2016	1,781	1,037	2,818	24,044	14,000	38,044
Paid in Capital	Class A Number	Class B Number	Total Number	Class A USD'000	Class B USD'000	Total USD'000
At 1 January 2016	11,981	1,781	13,762	161,743	24,044	185,787
Issue of Shares	299	–	299	4,037	–	4,037
At 31 December 2016	12,280	1,781	14,061	165,780	24,044	189,824

Shareholding Position as at 31 December 2016

Shareholders	Number of Shares	Number of Shares	Amount	Shareholding
	As at 31 Decmeber 2015	As at 31 Decmeber 2016	As at 31 Decmeber 2016 Usd'000	(%)
Class A				
Government of Kenya	3,800	3,800	51,300	27.03%
Government of Tanzania	3,343	3,343	45,131	23.77%
Government of Uganda	3,800	3,800	51,300	27.03%
Government of Rwanda	1,038	1,337	18,050	9.51%
Total Class A	**11,981**	**12,280**	**165,781**	**87.33%**
Class B				
African Development Bank	1,240	1,240	16,740	8.82%
FMO - Netherlands	375	375	5,063	2.67%
DEG - Germany	100	100	1,350	0.71%
Yugoslavia Consortium	28	28	378	0.20%
SBIC - Africa Holdings	24	24	324	0.17%
Commercial Bank of Africa	5	5	68	0.04%
Nordea Bank Sweden	5	5	68	0.04%
Standard Chartered Bank	2	2	27	0.01%
Barclays Bank Plc., London	2	2	27	0.01%
Total Class B	**1,781**	**1,781**	**24,044**	**12.67%**
Total Class A & B	**13,770**	**14,061**	**189,824**	**100%**

29. Funds Awaiting Allotment

	2016 USD'000	2015 USD'000
At Start of Year	105	102
Cash Received from Shareholders	4,600	12,918
Shares Issued in the Year	(4,602)	(12,915)
At End of Year	103	105

30. Special Reserve

	2016 USD'000	2015 USD'000
At Start of Year	11,783	11,030
Transfer of Commission and Guarantee Fees from Retained Earnings	575	753
At End of Year	12,358	11,783

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

31. Fair Value Reserve

The fair value reserve includes the cumulative net change in the fair value of derivative financial instruments and equity investments measured at fair value through the profit and loss account.

The reserve represents an appropriation of unrealised fair value differences which are shown separately from retained earnings until realised. The movement in fair value reserve is shown along side:

	2016 USD'000	2015 USD'000
At Start of Year	496	566
Transfer from Retained Earnings	9	(70)
At End of Year	505	496

32. Cash and Cash Equivalents

	2016 USD'000	2015 USD'000
Cash and Bank Balances (Note 13)	7,909	4,922
Balances Due from Banks Originally Maturing Less Than 90 Days	53,845	89,815
	61,754	94,737

33. Revaluation Reserve

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

	2016 USD'000	2015 USD'000
At Start of Year	8,002	8,052
Transfer of Excess Depreciation to Retained Earnings	(22)	(50)
At End of Year	7,980	8,002

34. Use of Estimates and Judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Impairment Losses on Loans and Advances

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

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

Determining Fair Values

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

35. Financial Risk Management

(A) Introduction and Overview

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

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

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

Risk Management Framework

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

The Board of Directors Reports to the Governing Council.

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

The Bank's Audit and Governance Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad hoc 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 Bank does not invest in a single project more than 50% of the project's total cost except for construction projects where the bank can finance up to 70% of the total cost. However, total exposure on the project would not exceed 15% of the Bank's net assets. The Bank also endeavours to maintain a well-balanced loan portfolio distributed prudently among the sectors of the economy falling within its target activities. The Bank's total exposure to a single sector should not exceed 20% of the total investment portfolio. The Bank also limits the total outstanding loans to at least three times the aggregate of the unimpaired subscribed capital, reserves and surplus of the Bank.

Management of Credit Risk

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

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

The Portfolio Manager prepares regular reports for Management and the Board's consideration on the performance of the loan portfolio.

The Operations Department is required to implement the Bank's credit policies and procedures, and ensure that credit approval authorities delegated from the Bank's Project Committee are observed. The Operations Department is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolio, including those subject to Board approval.

The Regular audits of the Operations Department and the Bank's credit processes are undertaken by Internal Audit.

Management of Credit Risk (Continued)

	Loans and Advances to Projects		Other Loans and Advances	
	2016 USD'000	2015 USD'000	2016 USD'000	2015 USD'000
Individually Assessed				
Gross Amount	14,373	2,675	–	–
Allowance for Impairment	(1,389)	(683)	–	–
Carrying Amount	12,984	1,992	–	–
Collectively Assessed:				
Gross Amount	173,878	161,091	1,806	1,800
Allowances for Impairment	(2,601)	(2,409)	–	–
Carrying Amount	171,277	158,682	1,806	1,800
Total Carrying Amount	184,261	160,674	1,806	1,800
Past Due but Not Impaired Comprises:				
Watch (31 to 90 Days)	1,205	13,586	–	–
Substandard (91 to 180 Days)	–	–	–	–
Doubtful (181 to 360 Days)	–	–	–	–
Neither Past Due nor Impaired:				
Normal	172,674	147,505	1,806	1,800
Allowance for Impairment - Collectively Assessed	(2,601)	(2,409)	–	–
Total Carrying Amount	171,277	158,682	1,806	1,800

Impaired Loans and Advances

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

Past Due but Not Impaired Loans and Advances

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

(A). Credit Risk (Continued)

Loans with Renegotiated Terms

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

Allowances for Impairment

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

Distribution of Loans and Accrued Interest Receivable by Sector	2016 %	2015 %
Agriculture and Fisheries	1	1
Forestry and Paper	-	1
Agro-marine Food and Processing	5	5
Construction, Building Materials and Real Estate	16	11
Hotel, Tourism, Leisure and Entertainment	13	15
Transport and Storage	1	1
Financial Institutions	36	29
Electricity and Water	17	27
Education, Health and Other Community Services	11	10
	100%	100%

Write Off Policy

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

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

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

Legal Mortgage	2016 USD'000	2015 USD'000
Legal Mortgage Over Individually Impaired Assets	81,229	3,726
Legal Mortgage Over Assets Written Off	47,936	47,671
Legal Mortgage Held Over Other Loans and Advances to Customers	318,514	365,151
	447,679	416,548
Maximum Exposure to Credit Risk Before Collateral Held		
Credit Exposures Relating to Off-statement of Financial Position		
Letters of Credit	-	295
Loan Commitments	30,399	5,311
Letters of Credit	30,399	5,606

The above table represents the worst case scenario of credit risk exposure to the Bank as at 31 December 2016 and 2015, without taking account of any collateral held or other credit enhancements attached. For on-statement of financial position assets, their respective carrying amounts represent the bank's maximum exposure to credit risk.

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

- the Bank exercises stringent controls over the granting of new loans;
- 93% (2015: 99%) of the loans and advances portfolio are neither past due nor impaired;
- All loans and advances are backed by collaterals except loans to banks.

Settlement Risk

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

(C) Liquidity Risk

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

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

Exposure to Liquidity Risk

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

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

	2016 USD'000	2015 USD'000
Cash and Cash Equivalents as Per Liquidity Policy	129,574	97,722
Designated Liabilities	(58,792)	(58,624)
Surplus Per Liquidity Policy	70,782	39,098
Liquidity Ratio	2.20	1.67
Designated Liabilities		
Repayment of Term Loans	40,058	37,727
Interest on Borrowings	7,025	6,917
Acquisition of Fixed Assets	4,396	5,922
Staff and Administration Expenses	7,315	8,058
	58,792	58,624

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

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

The Bank registered a liquidity ratio of 2.20 (2015: 1.67), which exceeds the required liquidity ratio as per the policy of 1.33 x.

Liquidity Risk (Continued)

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2016 to the contractual maturity date.

	Matured USD'000	<6 Months USD'000	>6 Months <1 Year USD'000	>1 Year <3 Years USD'000	>3 Years <5 Years USD'000	>5 Years <7 Years USD'000	>7 Years USD'000	Total USD'000
Assets								
Cash at Bank	7,909							7,909
Deposits Due from Commercial Banks	-	165,375	1,380	-	-	-	-	166,755
Investment Securities Held to Maturity		83	79	74	-	-	-	236
Loans and Lease Receivables		26,481	22,984	82,334	61,435	31,975	11,005	236,214
Equity Investments		-	-	-	685	-	-	685
Other Assets Receivable	692	-	-	-	-	-	-	692
Total Assets	8,601	191,938	24,443	82,408	62,120	31,975	11,005	412,491
Liabilities and Shareholder Funds								
Other Accounts Payable	5,353	-	-	-	-	-	-	5,353
Medium and Long Term Loans	-	8,063	39,020	34,234	26,478	12,967	26,042	146,804
Total Liabilities and Shareholder Funds	5,353	8,063	39,020	34,234	26,478	12,967	26,042	152,157
Net Liquidity Gap at 31 December 2016	3,248	183,876	(14,577)	48,178	35,642	19,008	(15,037)	260,334
Net Liquidity Gap at 31 December 2015	4,146	186,754	(12,096)	39,561	24,679	10,000	(15,633)	237,382

The following table analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2015 to the contractual maturity date.

Derivative Assets

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

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

	2015			
	<6 Months	>6 Months <1 Year	>1 Year <3 Years	Total
Assets	USD'000			USD'000
Outflow	1,581	-	-	1,581
Inflow	1,536	-	-	1,536

Off Balance Sheet Items

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

	<6 Months USD'000	>6 Months <1 Year USD'000	>1 Year <3 Years USD'000	>3 Years <5 Years USD'000	>5 Years <7 Years USD'000	>7 Years USD'000	Total USD'000
Loan Commitments	253	26,594	3,426	-	126	-	30,399
Capital Commitments	-	75	-	-	-	-	75
Total	253	26,669	3,426	-	126	-	30,474

(D) Interest Rate Risk

In broad terms the interest rate risk is the sensitivity of the Bank's financial performance to changes in the interest rates. The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the Bank's business strategies. In order to minimize interest risk, the Bank has a policy where the approved lending commitments are matched to specific lines of credit or source of funds, including adopting the funding interest rate characteristics (fixed or variable) to its on lending activities.As at 31 December 2016, if interest rates on interest bearing assets and liabilities had been 10% higher/lower with all other variables held constant, impact on comprehensive income would be USD 1.01 million (2015: 1.3 million).

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 at Bank Balances	-	-	-	-	-	-	7,909	7,909
Deposits Due from Banks	68,308	91,762	3,910	-	-	-	1,366	165,346
Investment Security	-	-	-	-	208	-	4	212
Loans and Advances	5,180	133,671	15,305	12,652	4,688	11,554	1,524	184,575
Equity Investments at Fair Value	-	-	-	-	-	-	487	487
Other Assets Receivable	-	-	-	-	-	-	692	692
Total Assets	73,488	225,433	19,215	12,652	4,896	11,554	11,982	359,220
Liabilities and Shareholder Funds								
Other Accounts Payable	-	-	-	-	-	-	5,353	5,353
Medium and Long Term Loans	-	18,517	4,046	29,283	39,854	29,506	2,475	123,681
Total Liabilities and Shareholder Funds	-	18,517	4,046	29,283	39,854	29,506	7,828	129,034
Net Liquidity Gap at 31 December 2016	73,488	206,916	15,169	(16,631)	(34,958)	(17,952)	4,154	230,186
Net Liquidity Gap at 31 December 2015	72,456	141,490	13,727	(3,879)	5,965	(17,344)	6,881	219,297

(E) Currency Risk

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

Closing Rates At 31 December 2016	UGX 3,612	KES 102.45	TZS 2,178	RWF 815.30	EUR 0.9497	GBP 0.8144	SEK 9.1010	
Currency Position								
Assets	UGX USD'000	KES USD'000	TZS USD'000	RWF USD'000	EUR USD'000	GBP USD'000	SEK USD'000	Total USD'000
Cash at Bank Balances	320	519	26	59	3,615	23	-	4,562
Deposits Due from Banks	2,366	28,026	4,475	(0)	-	-	-	34,867
Investment Security Held to Maturity	208	-	-	-	-	-	-	208
Loans and Advances at Amortized Costs	14,392	15,055	2,499	621	5,584	-	-	38,151
Equity Investments - Available for Sale	-	147	340	-	-	-	-	487
Other Assets Receivable	-	7	45	-	-	-	-	52
Total Assets	17,286	43,754	7,385	680	9,199	23	-	78,327
Shareholders' Funds and Liabilities								
Other Accounts Payable	83	-	16	-	3,159	-	-	3,258
Medium and Long Term Loans	14,,638	39,800	5,539	655	5,185	-	-	65,817
Total Shareholders' Equity & Liabilities	14,721	39,800	5,555	655	8,344	-	-	69,075
Net Currency Position 31 December 2016	2,565	3,954	1,830	25	855	23	-	9,252
Net Currency Position 31 December 2015	1,887	2,945	3,156	7	357	11	1	8,364

Sensitivity Analysis

The 10% movement of USD against other currencies at 31 December 2016 would have increased or decreased comprehensive income by USD 0.84 million (2015: USD 0.78 million). This is assuming that all other variables, in particular interest rates remain constant.

(F) Fair Value of Financial Assets and Liabilities

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

(G) Fair Value of Financial Instruments

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

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

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

See note 22 for disclosures of the land and buildings that are measured at fair value.

	Level 2	Level 3	Total
31 December 2016			
Financial Assets at Fair Value Through Profit or Loss			
Derivative Financial Instruments	-	-	-
Equity Investments at Fair Value	-	487	487
Total Assets	-	487	487
31 December 2015			
Financial Assets at Fair Value Through Profit or Loss			
Derivative Financial Instruments	(32)	-	(32)
Equity Investments at Fair Value	-	483	483
Total Assets	(32)	483	451

Reconciliation of Level 3 Items

Financial assets at fair value through profit or loss

	2016 USD'000	2015 USD'000
At Start of Year	483	713
Investments Exited	-	-
Fair Value Gain	4	230
At End of Year	487	483

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

(H) Capital Management

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

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

The Bank's capital requirements are strictly observed under Article 11 of the Bank's Charter which requires that the bank's outstanding loans, equity investments and guarantees do not at any one time exceed three times the bank's unimpaired subscribed capital plus reserves and surplus relating to its ordinary capital resources but excluding the special reserve. The Bank was well within this limit as of
31 December 2016 computed on paid in capital alone, as shown in the table below:

	2016	2015
Ratio	0.80	0.73

	Note	2016 USD'000	2015 USD'000
Contribution to the Retirement Benefit Plan	(I)	295	288
Contribution to the Statutory Pension Scheme (NSSF)	(II)	4	4
Gratuity	(III)	82	59
		381	351

(I). The Bank operates a defined contribution retirement benefit scheme to which employees contribute 10% of their basic salary and the Bank contributes 10%, 12.5% or 15% of the employees' basic salary depending on his/her length of service. A Board of Trustees manages the scheme and Stanbic Investment Management Services.

(II). The Bank also makes contributions to a statutory pension scheme, the National Social Security Fund for its casual staff. The contributions and obligations under the scheme are limited to specific contributions legislated from time to time and the Bank's contribution is currently 10% of the employees' gross salary and Kenya Shillings 200 for Kenyan employees resident in Kenya.

(III). Gratuity is paid to the Director General at 20% of annual gross salary at the end of each year.

Other Staff Benefits

The Bank ensures proper welfare of its staff by providing welfare schemes such as car loan purchase scheme, educational assistance, housing and medical schemes. The Bank also pays for professional membership and subscription fees for staff that belong to professional bodies. In addition, employees are eligible for loans subject to prevailing policies and the Bank operates a medical insurance scheme for all its employees. Costs associated with proving these benefits are expensed as and when incurred and reported under employee benefits expense (Note 8).

37. Capital Commitments

	2016 USD'000	2015 USD'000
Authorised but not Contracted for	-	4,662
Authorised and Contracted for	75	5,699
Gratuity	75	10,361

38. Off Balance Sheet Items and Contingencies

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

	Note	2016 USD'000	2015 USD'000
Letters of Credit	a)	-	295
Un-disturused Commitments	b)	30,399	5,311
		30,399	5,606

Nature of Contingent Liabilities

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

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

The Bank is a litigant in several cases which arise from normal day to day banking activities. The directors and management believe the bank has strong grounds for success and are confident that they should get rulings in their favor in matters before court. In cases where the Bank may not be successful, directors and management are confident that such cases would not significantly impact the bank's operations either individually or in aggregate. Management has also carried out an assessment of all the cases outstanding as at 31 December 2016 and did not find any that warranted a provision. This position is supported by independent professional legal advice.

39. Related Party Transactions

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

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits with banks, borrowings and capital contributions by the member states. The volumes of related-party transactions and outstanding balances at year-end, for the year are as follows:

	2016 USD'000	2015 USD'000
Staff Loans and Advances (Note 16)	-	26
Loans and Advances to Directors	202	36
Loans to Government of United Republic of Tanzania	8,330	12,679
Deposits Held with Banks that are Shareholders of the Bank and Related Entities	36,567	29,457
Interest Income Earned on All of the Above	2,197	1,823
Borrowings Payable by the Bank to Shareholders	66,319	69,776
Interest Expense as Paid to Shareholders	5,001	2,005

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

Staff Loans and Advances (Note 16)	2016 USD'000	2015 USD'000
Salaries and Other Employee Benefits	385	374
Loans and Advances to Directors	82	59
	467	433
Directors' Remuneration		
Fees and Allowances	82	70
Salaries and Other Short-term Employee Benefit (Included within Key Management Compensation Above}	467	433
Other Expenses	88	92
	637	595

EAST AFRICAN DEVELOPMENT BANK

East African Development Bank Building. 4 Nile Avenuee, P. O. Box 7128 Kampala, Uganda
Tel: + 256 41 4230021/5, Fax: +256 41 4259763, Telex: 61074 EADEVBANK, Email: admin@eadb.org

www.eadb.org