East African Development Bank

Directors' Report and Financial Statements

For the year ended 31 December 2017

Table of contents **Page**

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

Governing Council

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

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

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

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

Directors

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

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

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

- Mr James Doto
  Permanent Secretary, Ministry of Finance, United Republic of Tanzania

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

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

- Mr Mbundu Faustin
  Private Sector Representative, Republic of Rwanda

- Mr. James Tumusiime
  Private Sector Representative, Republic of Uganda

- Mr Trevor De Kock
  African Development Bank Representative

- Ms Vivienne Yeda
  Director General, East African Development Bank

Advisory Panel

- Mr Mahesh K. Kotecha

- Mr Toyoo Gyohten

- Mr Lars Ekengren

- Mr Jannik Lindbaek

Auditor

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

Registered office and principal place of business

Uganda (Headquarters)	Kenya	Rwanda	Tanzania
Plot 4 Nile Avenue EADB Building P. O. Box 7128 Kampala, Uganda	Country office, Kenya 7th Floor, The Oval Office Ring Road, Parklands, Westland P.O Box 47685, Nairobi	Ground Floor, Glory House Kacyiru P.O. Box 6225 Kigali, Rwanda	349 Lugalo/ Urambo Street Upanga P.O. Box 9401, Dar es Salaam, Tanzania

The directors submit their report together with the audited financial statements for the year ended 31 December 2017, which disclose the state of affairs of East African Development Bank ("EADB" or "the Bank").

Incorporation

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

Principal activity

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

Results

The results for the year are set out from page 9 of the financial statements.

Dividend

The directors do not recommend the payment of dividends for the year (2016: Nil).

Directorate

The directors who served during the year and to the date of this report are set out on page 1.

Auditor

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

Approval of financial statements

The financial statements were approved by the Board of Directors on ....4 April..........2018 and the Governing Council on ....4 May..........2018.

By order of the Board

Director

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

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

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

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

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

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

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

Approval of the financial statements

The financial statements were approved by the Board of Directors on ....4 April..........2018 and the Governing Council on ....4 May..........2018 and were signed on their behalf by:

Chairman – Board of Directors : ____________________

Director General : ____________________

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

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 East African Development Bank ("the Bank") as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The financial statements of East African Development Bank set out on pages 9 to 66 comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Key audit matter

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

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Partners: C Mpobusingye D Kalemba F Kamulegeya P Natamba U Mayanja

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

Report on the audit of the financial statements (continued)

Key audit matter (continued)

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans and advances We refer to note 16 of the financial statements which sets out total provisions for impairment of loans and advances of USD 7.718 million comprised of provisions on non-performing loans of USD 5.019 million and provisions on performing loans of USD 2.699 million. We focused on this area because the process of estimating impairment provisions involves the exercise of significant judgement by the directors to estimate the amount and timing of expected future cash flows on non-performing loans. In addressing this area our attention was focused on the following: • the reasonableness of the timing and amount of the present value of expected future cash flows from individually assessed loans; and • the extent to which the model used to estimate provisions for loans assessed collectively is based on actual historical experience of the Bank.	Our audit procedures are summarised as follows: • We evaluated the design effectiveness of controls implemented by management over the identification of non-performing loans and automated controls over the core banking system. • We tested that relevant computer controls were designed and operated effectively during the year. We also tested the accuracy of the automated loan arrears report of the Bank. • For loans that management assessed individually for impairment, we selected a sample and tested the accuracy of inputs into the calculation to supporting documentation. We also tested whether the computation was accurate with respect to discounted cash flow workings. • For the collective assessment of impairment, we evaluated the appropriateness of the methodology management applied in their calculation.

Other information

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

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

Report on the audit of the financial statements (continued)

Other information (continued)

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

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

Responsibilities of the directors for the financial statements

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

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

The directors are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

Report on the audit of the financial statements (continued)

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

- 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.

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

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

PricewaterhouseCoopers

Certified Public Accountants
Kampala

20 July 2018

CPA Uthman Mayanja

Statement of comprehensive income

	Notes	2017 USD'000	2016 USD'000
Interest income	3	**24,831**	25,244
Interest expense	4	**(8,555)**	(8,699)
Net interest income		**16,276**	16,545
Fee and commission income - net	5	**267**	419
Other operating income	7	**3,884**	2,603
Other gains and losses	6	**(12)**	(344)
Net fair value gain/ (loss) on investment property	20	**4**	(808)
Net operating income		**20,419**	18,415
Impairment expense of loans and lease receivables	16(a)	**(2,711)**	(1,946)
Operating income after impairment charges		**17,708**	16,469
Employee benefits expense	8	**(3,591)**	(4,063)
Depreciation and amortization expense	21 & 22	**(770)**	(732)
Other operating expenses	9	**(3,134)**	(4,094)
Profit before income tax	10	**10,213**	7,580
Income tax expense	11	**-**	-
Profit for the year		**10,213**	7,580
Earnings per share - basic	12	**726**	543
Earnings per share- diluted	12	**726**	543

Statement of financial position

	Notes	2017 USD'000	2016 USD'000
Assets			
Cash at bank	13	**14,006**	7,909
Deposits due from commercial banks	14	**151,974**	166,755
Investment security held to maturity	15	**70**	212
Loans and lease receivables	16	**190,025**	184,574
Equity investments at fair value	18	**436**	487
Other assets	19	**775**	692
Investment property	20	**19,134**	19,069
Property, plant and equipment	21	**13,767**	14,455
Intangible assets	22	**224**	-
Total assets		**390,411**	394,153
Liabilities			
Other liabilities	23	**5,790**	5,353
Borrowings	24	**109,518**	123,681
Special funds	25	**3,990**	3,990
Grants	26	**2,274**	2,483
Capital fund	28	7,479	7,479
Total liabilities		**129,051**	142,986
Capital and reserves			
Share capital	27	**189,824**	189,824
Share premium	27	**3,874**	3,874
Funds awaiting allotment	29	**83**	103
Special reserve	30	**12,443**	12,358
Fair value reserve	31	**455**	505
Revaluation reserves	33	**7,939**	7,980
Retained earnings		**46,742**	36,523
Total shareholders' equity		**261,360**	251,167
Total shareholders' equity and liabilities		**390,411**	394,153
Off balance sheet items and contingencies	38	**1,902**	30,399

Statement of changes in equity

Year ended 31 December 2016	Notes	Share capital USD '000	Share premium USD '000	Special reserves USD '000	Funds awaiting allotment USD '000	Fair value reserve USD '000	Retained earnings USD '000	Revaluation reserve USD '000	Total equity USD '000
At start of year		185,787	3,309	11,783	105	496	29,504	8,002	238,987
Comprehensive income:									
Profit for the year		-	-	-	-	-	7,580	-	7,580
Total comprehensive income		-	-	-	-	-	7,580	-	7,580
Transactions with owners recorded directly in equity:									
Transfer to special reserve	30	-	-	575	-	-	(575)	-	-
Receipts from shareholders	29	-	-	-	4,600	-	-	-	4,600
Capitalisation of contributions	29	4,037	565	-	(4,602)	-	1	-	1
Revaluation reserve	33	-	-	-	-	-	22	(22)	-
Transfer to fair value reserve	31	-	-	-	-	9	(9)	-	-
At end of year		**189,824**	**3,874**	**12,358**	**103**	**505**	**36,523**	**7,980**	**251,167**
Year ended 31 December 2017									
At start of year		189,824	3,874	12,358	103	505	36,523	7,980	251,167
Comprehensive income:									
Profit for the year		-	-	-	-	-	10,213	-	10,213
Total comprehensive income		-	-	-	-	-	10,213	-	10,213
Transactions with owners recorded directly in equity:									
Transfer to special reserve	30	-	-	85		-	(85)	-	-
Receipts from shareholders	29	-	-	-	-	-	-	-	-
Reclassification to special funds/capital and grants	29	-	-	-	(20)	-	-	-	(20)
Revaluation reserve	33	-	-	-	-	-	41	(41)	-
Transfer to fair value reserve	31	-	-	-	-	(50)	50	-	-
At end of year		**189,824**	**3,874**	**12,443**	**83**	**455**	**46,742**	**7,939**	**261,360**

Statement of cash flows

	Note	2017 USD'000	Restated 2016 USD'000
Cash flows from operating activities			
Interest receipts		**20,095**	21,433
Interest payments		**(7,584)**	(7,019)
Net fee and commission receipts		**256**	874
Other income received		**632**	576
Payments to employees and suppliers		**(6,989)**	(7,754)
Cash outflows from operating activities		**6,410**	8,110
Net receipts from loans and advances		**(5,848)**	(23,758)
Net other receipts from customers		**2,456**	1,095
Settlement of other liabilities		**(951)**	(753)
Net cash generated from operating activities		**2,067**	(15,306)
Investing activities			
Purchase of property and equipment	20 & 21	**(90)**	(734)
Purchase of computer software	22	**(72)**	-
Deposits with Banks		**3,534**	(7,098)
Proceeds from sale of property and equipment		**-**	-
Net cash used in investing activities		**3,372**	6,364
Financing activities			
Receipts from member states towards share capital	29	**-**	4,600
Settlement of medium and long term borrowings		**(30,580)**	(8,613)
Proceeds from borrowings		**15,237**	6,685
Net cash (utilized)/ generated from financing activities		**(15,343)**	2,672
Net (decrease)/ increase in cash and cash equivalents		**(9,904)**	(6,270)
Cash and cash equivalent at the start of the year		**169,357**	176,028
Exchange losses on cash and cash equivalents		**(127)**	(401)
At end of year	32	**159,326**	169,357

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 2017:

Disclosure Initiative – Amendment to IAS 7, 'Cash flow statements': In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.

Notes (continued)

2 Principal accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

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

Entities are 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.

Recognition of deferred tax asset for unrealised losses - Amendment to IAS 12, 'Income taxes': Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets.

Annual improvements to IFRSs 2014-2016. The latest annual improvements, effective 1 January 2017, clarify:

- IFRS 12, 'Disclosure of interests in other entities' regarding clarification of the scope of the standard. The amendment clarified that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of IFRS 12). Previously, it was unclear whether all other IFRS 12 requirements were applicable for these interests. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017.

(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 2017, and have not been applied in preparing these financial statement. None of these is expected to have a significant effect on the financial statements of the bank, except the following set out below:

Notes (continued)

2 Principal accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

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

IFRS 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.

Management with the help of an external consultant has performed an impact assessment of the transition impact to the new standard and concluded that the impact would be a reduction in shareholders' equity ranging between 1% and 10% on 1 January 2018. A significant portion of this is driven by the adoption of the Expected Credit Loss model while other minor changes are due to classification and measurement changes. Management and the directors will continue to refine the impairment model to take into account more economic factors and forward looking information, bank specific credit conversion rates and improvements in data quality. These refinements may lead to a change in the overall impact of adopting the standard. As at the date of this report, the IFRS 9 model/ workings were still under review.

In the table below is a comparison of the indicative loan provisions determined in accordance with IFRS 9 and the provisions established under IAS 39.

As at 31 December 2017	**IAS 39 USD '000**	**IFRS 9 USD '000**
Specific provision/ IFRS 9 – Stage 3	5,019	12,662
General provision/ IFRS 9 – Stage 1 and 2	2,699	4,560
	7,718	**17,222**

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.

Notes (continued)

2 Principal accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

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

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

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

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

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

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

Amendment to IAS 40 'Investment Property' – Transfers of investment property: These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence. The amendment is effective for annual periods beginning on or after 1 January 2018.

Annual improvements to IFRSs 2014-2016. The latest annual improvements, effective 1 January 2018, clarify:

- IFRS 1,' First-time adoption of IFRS', regarding the deletion of shortterm exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018.
- IAS 28,'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value. IAS 28 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL). The Board clarified that this election should be made separately for each associate or joint venture at initial recognition. Effective 1 January 2018.

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

Notes (continued)

2 Principal accounting policies (continued)

c) Functional and presentation currency

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

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

d) Segment reporting

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

e) Revenue recognition

(i) Interest income and expense

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

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

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

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

(ii) Fees and commission income

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

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

Notes (continued)

2 Principal accounting policies (continued)

e) Revenue recognition (continued)

(iii) Dividend income

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

(iv) Other income

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

f) Property, plant and equipment

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

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

Revaluation surplus

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

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

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

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

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

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

Notes (continued)

2 Principal accounting policies (continued)

f) Property, plant and equipment (continued)

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

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

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

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

g) Intangible assets

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

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

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

h) Leases

a) Bank is the lessee

(i) Operating leases

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

(ii) Finance leases

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

Notes (continued)

2 Principal accounting policies (continued)

h) Leases (continued)

Bank is the lessor

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

i) Capital work-in-progress

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

j) Financial assets and financial liabilities

(i) Financial assets

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

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

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

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

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

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

Notes (continued)

2 Principal accounting policies (continued)

j) Financial assets and financial liabilities (continued)

(b) Loans and receivables

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

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

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

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

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

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

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

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

(c) Held-to-maturity investments

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

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

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

(ii) Financial liabilities

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

Notes (continued)

2 Principal accounting policies (continued)

j) Financial assets and financial liabilities (continued)

(iii) Determination of fair value

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

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

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

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

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

(iv) Derecognition

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

(v) Reclassification

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

Notes (continued)

2 Principal accounting policies (continued)

j) Financial assets and financial liabilities (continued)

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

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

(vi) Derivative instruments

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

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

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

(vii) Offsetting

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

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

Notes (continued)

2 Principal accounting policies (continued)

j) Financial assets and financial liabilities (continued)

(viii) Classes of financial instruments

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

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

k) Impairment of non-financial assets

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

Notes (continued)

2 Principal accounting policies (continued)

l) Identification and measurement of impairment

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

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

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

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

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

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.

Notes (continued)

2 Principal accounting policies (continued)

l) Identification and measurement of impairment (continued)

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) i) Retirement obligations

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

Notes (continued)

2 Principal accounting policies (continued)

q) i) Retirement obligations (continued)

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

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

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

ii) Service gratuity

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

iii) Other entitlements

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

r) 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.

Notes (continued)

2 Principal accounting policies (continued)

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

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.

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

	2017 USD '000	2016 USD '000
Interest income on loans to projects	**17,243**	15,396
Interest income on lease receivables	**51**	116
Interest income on investment security held to maturity	**21**	42
Interest income on deposits with other banks	**7,516**	9,690
	24,831	25,244

4 Interest expense

Interest expense on medium and long term borrowings	**5,798**	4,860
Interest expense on lines of credit with banks	**2,757**	3,839
	8,555	8,699

5 Fee and commission income - net

Gross fees and commission income		
Appraisal fees	**85**	575
Other fees and commission income	**464**	312
Asset leasing income on purchase options and penalties	**-**	18
Commitment fees	**113**	47
	663	952

Notes (continued)

	2017 USD '000	2016 USD '000
5 Fee and commission income - net (continued)		
Gross fees and commission expense		
Commission charges	**(24)**	(139)
Commitment fees	**(57)**	(115)
Project insurance	**(315)**	-
Guarantee fees	**-**	(279)
	(396)	(533)
Net fee and commission income	**267**	419
6 Other gains and losses		
Net foreign exchange gains/ (losses)	**38**	(353)
Net fair value gains on financial assets at fair value	**-**	5
Net fair value (losses)/ gains on equity investments at fair value (Note 18)	**(50)**	4
	(12)	(344)
7 Other operating income		
Rental income from investment properties	**582**	600
Rental income from other properties	**48**	53
Dividend income	**123**	126
Recovery of previously written off loans	**2,456**	1,095
Grant income (Note 26)	**418**	703
Other income on asset leasing	**19**	10
Miscellaneous income	**238**	16
	3,884	2,603
8 Employee benefits expense		
Salaries and wages	**2,561**	2,738
Pension and gratuity (Note 36)	**360**	381
Other staff costs	**670**	944
	3,591	4,063
9 Other operating expenses		
Rental expense	**109**	127
Staff duty travel	**143**	109
Directors expenses	**139**	170
Insurance	**262**	354
Advertising and publicity	**144**	87
Legal fees	**349**	613
Repairs and maintenance	**138**	136
Computer software expenses	**177**	225
Other IT related expenses	**3**	33
Internal audit costs	**91**	306
Audit fees	**47**	45
Consultancy fees	**445**	576
Subscription to professional bodies	**32**	13
Scholarships (Note 26)	**336**	644
Other administrative expenses	**721**	656
	3,134	4,094

Notes (continued)

10 Profit before income taxes

Profit before income tax is stated after charging the following:

	2017 USD '000	2016 USD '000
Directors emoluments:		
- Fees and allowances	**55**	82
- Other expenses	**84**	88
Depreciation and amortization of intangible assets and grants	**770**	731
Impairment of loans and advances	**2,711**	1,946
Employee benefits expense (Note 8)	**3,591**	4,063
Auditor's remuneration – external audit fees	**47**	45

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.

	2017 USD '000	2016 USD '000
Net profit attributable to ordinary shareholders	**10,213**	7,580
Weighted average number of ordinary shares in issue and paid up during the year (Note 27)	**14,061**	13,954
Basic earnings per share	**726**	543
Earnings per share – basic and diluted		
Dilutive number of ordinary shares	**6**	8
Total issued and dilutive shares	**14,067**	13,962
Diluted earnings per share	**726**	543

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

13 Cash at bank

	2017 USD '000	2016 USD '000
Cash at bank	**14,006**	7,909

14 Deposits due from commercial banks

	2017	2016
Deposits with banks in member states	**131,947**	166,755
Deposits with banks out of member states	**20,027**	-
	151,974	166,755

Notes (continued)

14 Deposits due from commercial banks (continued)

	2017 USD '000	2016 USD '000
The above amount is analyzed as follows:		
Amounts due within 3 months of date of acquisition	**146,677**	161,448
Amounts due after 3 months of date of acquisition	**5,297**	5,307
	151,974	166,755

The weighted average effective interest rate on deposits due from banks was 4.68 % (2016: 5.71%).

15 Investment security held to maturity

	2017 USD '000	2016 USD '000
UGX corporate bond – Housing Finance Bank Uganda Limited	**70**	212

The interest rate for the bond, which is denominated in Uganda Shillings, is fixed at 13.5% per annum with a remaining maturity period of 0.5 years (2016: 1.5 years).

16 Loans and lease receivables

	2017 USD'000	2016 USD'000
Loans and advances (net)	**189,616**	183,710
Finance lease receivables (net)	**409**	864
	190,025	184,574
Gross loans and leases receivable comprise the following:		
Loans to projects	**197,328**	188,705
Finance lease receivables	**415**	877
	197,743	189,582
Impairment losses on loans and lease receivables (Note 16a)	**(7,718)**	(5,008)
Net carrying amounts	**190,025**	184,574

Included within loans to projects is financing amounting to USD 1.60 million (2016: USD 1.81 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.

Notes (continued)

16 Loans and lease receivables

(a) Loan impairment charges

	Allowance for identified impairment USD'000	Allowance for unidentified impairment USD'000	Total USD'000
Year ended 31 December 2017			
At start of year	2,407	2,601	5,008
Increase in impairment allowances	2,998	228	3,226
Reversal of impairment	(385)	(130)	(515)
Loan impairment charge for the year	2,613	98	2,711
Amounts written off during the year	(1)	-	(1)
At end of year	**5,019**	**2,699**	**7,718**
Year ended 31 December 2016			
At start of year	682	2,409	3,092
Increase in impairment allowances	2,346	342	2,688
Reversal of impairment	(592)	(150)	(742)
Loan impairment charge for the year	1,754	192	1,946
Amounts written off during the year	(30)	-	(30)
At end of year	**2,407**	**2,601**	**5,008**

(b) Finance lease receivables

	2017 USD '000	2016 USD '000
Gross lease rentals within one year	**2**	287
Gross lease rentals after one year but before five years	**449**	677
	451	964
Unearned future finance income on finance leases	**(36)**	(87)
	415	877
Less: impairment losses		
Identified impairment	**-**	-
Unidentified impairment	**(6)**	(13)
	409	864

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

	2017 USD '000	2016 USD '000
Not later than 1 year	**2**	274
Later than 1 year and not later than 5 years	**407**	590
	409	864

Notes (continued)

16 Loans and lease receivables (continued)

An increase or decrease of the unidentified impairment rate by 0.5% would have increased or decreased comprehensive income, as at 31 December 2017, by USD 0.90 million (2016: USD 0.80 million). This is assuming that all other variables remain constant. The unidentified impairment rate was 1.5% (2016: 1.5%).

17 Segment information

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

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

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

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

The segment information provided to the board of directors for the reportable segments for the year ended 31 December 2017 is as follows:

Loan exposure by country

Country	**Gross Balances USD'000**	**%**	**Net Balances USD'000**	**%**
Uganda	49,047	25%	47,937	25%
Kenya	54,763	28%	49,731	26%
Tanzania	63,595	32%	62,473	33%
Rwanda	30,338	15%	29,884	16%
Total Region	**197,743**	100%	**190,025**	100

Exposure by product

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

Notes (continued)

17 Segment information (Continued)

Total portfolio quality

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

Approvals and disbursements

	Approvals		Disbursements	
	Actual 2017 USD'000	**Actual 2016 USD'000**	**Actual 2017 USD'000**	**Actual 2016 USD'000**
COUNTRY				
Uganda	12,670	5,770	5,780	11,025
Kenya	9,370	31,650	2,503	22,368
Tanzania	-	2,000	21,575	20,512
Rwanda	-	5,000	5,000	8,136
	22,040	**44,420**	**34,858**	**62,041**
PRODUCT				
Loans	22,040	44,420	34,858	62,041
Asset leasing	-	-	-	-
Equity	-	-	-	-
	22,040	**44,420**	**34,858**	**62,041**

Notes (continued)

17 Segment information (continued)

Segment statement of comprehensive income for year ended December 2017

	Uganda USD'000	Kenya USD'000	Tanzania USD'000	Rwanda USD'000	Head Office USD'000	Total USD'000
Interest income	4,887	5,690	4,301	2,417	7,536	24,830
Interest expense	-	-	-	-	8,555	8,555
Net interest income	**4,887**	**5,690**	**4,301**	**2,417**	**(1,019)**	**16,275**
Fee and commission income	111	164	194	150	(352)	267
Other operating income	292	15	2,293	-	1,284	3,884
Other gains and losses	(53)	573	(66)	(16)	(450)	(11)
Net fair value gain/(loss) investment property	-	-	129	-	(125)	4
Total operating income	**5,236**	**6,442**	**6,851**	**2,552**	**(661)**	**20,418**
Reduction in provision for impairment of loans and lease receivables	-	(1,094)	-	-	(1,617)	(2,711)
Operating income after impairment charges	**5,236**	**5,348**	**6,851**	**2,552**	**(2,278)**	**17,708**
Employee benefits expense	231	295	230	41	2,793	3,591
Depreciation and amortization	-	5	20	20	726	770
Other operating expenses	-	144	139	95	2,755	3,134
Profit before income tax	**5,004**	**4,904**	**6,462**	**2,396**	**(8,553)**	**10,213**
Income tax expense						
Profit for the year	**5,004**	**4,904**	**6,462**	**2,396**	**(8,553)**	**10,213**
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	**5,004**	**4,904**	**6,462**	**2,396**	**(8,553)**	**10,213**

Notes (continued)

17 Segment information (continued)

Segment statement of financial position for year ended December 2017

	Uganda USD'000	Kenya USD'000	Tanzania USD'000	Rwanda USD'000	Head office USD'000	Total USD'000
Assets						
Cash at bank	4,175	6,416	114	187	3,113	14,006
Deposits due from commercial banks	-	-	-	-	151,974	151,974
Investment securities held to maturity	-	-	-	-	70	70
Loans and lease receivables	48,962	52,937	63,741	30,339	(5,953)	190,025
Equity investments	-	110	326	-	-	436
Other assets	133	45	54	18	527	775
Investment properties	14,840	-	4,294	-	-	19,134
Property and equipment	11,503	1,053	1,211	-	-	13,767
Intangible assets	-	-	-	-	224	224
Total assets	**79,613**	**60,561**	**69,740**	**30,544**	**149,955**	**390,411**
Liabilities						
Other liabilities	4,603	-	-	-	1,187	5,790
Borrowings	-	-	-	-	109,518	109,518
Special funds	-	-	-	-	3,990	3,990
Grants	-	-	-	-	2,274	2,274
Capital fund	-	-	-	-	7,479	7,479
Total liabilities	**4,603**	**-**	**-**	**-**	**124,448**	**129,051**
Capital and reserves						
Share capital	-	-	-	-	189,824	189,824
Share premium	-	-	-	-	3,874	3,874
Funds waiting allotment	-	-	-	-	83	83
Special reserve	-	-	-	-	12,443	12,443
Fair value reserve	-	-	-	-	455	455
Retained earnings	-	-	-	-	46,750	46,750
Revaluation reserves	-	-	-	-	7,931	7,931
Total shareholders' equity	**-**	**-**	**-**	**-**	**261,360**	**261,360**
Total shareholders' equity and liabilities	**4,603**	**-**	**-**	**-**	**385,810**	**390,411**

Notes (continued)

17 Segment information (continued)

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

Country	**Gross Balances USD'000**	**%**	**Net Balances USD'000**	**%**
Uganda	53,423	28%	52,379	29%
Kenya	57,668	30%	54,871	30%
Tanzania	45,638	24%	44,965	24%
Rwanda	32,851	17%	32,359	17%
Total region	**189,582**	100%	**184,574**	100

Exposure by product

Product	**Gross Balances USD'000**	**%**	**Net Balances USD'000**	**%**
Long Term Loan	171,666	91%	166,893	90%
Medium Term Loan	8,941	5%	8,807	5%
Short Term Loan	5,805	3%	5,717	3%
Loans sub-total	**186,412**	**98%**	**181,417**	**98%**
Equity	2,293	1%	2,293	1%
Asset Lease	877	-	864	1%
Total all products	**189,582**	**100%**	**184574**	**100%**

Total portfolio quality

Category	**Gross portfolio USD'000**	**%**	**Net Portfolio USD'000**	**%**
Performing portfolio				
Normal	174,005	92%	171,410	93%
Watch	2,357	1%	2,086	1%
	176,362	**93%**	**173,496**	**94%**
Non-performing portfolio				
Substandard	856	0%	597	0%
Doubtful	12,364	7%	10,481	6%
	13,220	**7%**	**11,078**	**6%**
	189,582	**100%**	**184,574**	**100%**

Notes (continued)

17 Segment information (continued)

Segment statement of comprehensive income for year ended December 2016

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

Notes (continued)

17 Segment information (continued)

Segment statement of financial position for year ended December 2016

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
Borrowings	-	-	-	-	123,681	123,681
Special funds	-	-	-	-	3,990	3,990
Grants	-	-	-	-	2,483	2,483
Capital fund	-	-	-	-	7,479	7,479
Total liabilities	**3,159**	**-**	**-**	**-**	**139,827**	**142,986**
Capital and reserves						
Share capital	-	-	-	-	189,824	189,824
Share premium	-	-	-	-	3,874	3,874
Funds waiting allotment	-	-	-	-	103	103
Special reserve	-	-	-	-	12,358	12,358
Fair value reserve	-	-	-	-	505	505
Retained earnings	-	-	-	-	36,523	36,523
Revaluation reserves	-	-	-	-	7,980	7,980
Total shareholders' equity	**-**	**-**	**-**	**-**	**251,167**	**251,167**
Total shareholders' equity and liabilities	**3,159**	**-**	**-**	**-**	**390,994**	**394,153**

Notes (continued)

18 Equity investments at fair value

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

	2017 USD '000	2016 USD '000
At start of year	**487**	483
Fair value (losses)/ gain	**(51)**	4
At end of year	**436**	487

19 Other assets

Prepayments	**95**	77
VAT receivable	**250**	259
Fees and commission	**136**	97
Rent receivable	**95**	102
Other receivables	**199**	157
	775	692

20 Investment property

At start of year	**19,069**	19,185
Additions	**61**	692
Net fair value gains/(loss)	**4**	(808)
At end of the year	**19,134**	19,069

An independent valuation of the Bank's land and buildings was performed by professional valuers Knight Frank Limited and Africa Property Limited to determine the fair value of the land and buildings as at 31 December 2017 based on estimated open market values.

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

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

	2017 USD '000	2016 USD '000
Rental income from investment property	**582**	600
Direct operating expenses: Rented properties	**54**	65
Direct operating expenses: Unrented properties	**1**	5
Approved capital commitment	**267**	75

Notes (continued)

21 Property, plant & equipment (continued)

	Land and buildings USD 000'	Capital work in progress USD 000'	Office equipment USD 000'	Motor Vehicles USD 000'	Furniture & fittings USD 000'	Total USD 000'
At 1 January 2016						-
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	903	10	320	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
Year ended 31 December 2017						
Opening net book amount	12,877	347	902	10	319	14,455
Revaluation surplus						
Additions	-	30	-	-	-	30
Transfers from WIP	91	(110)	19	-	-	-
Disposals/Retirement:						
Cost	-	-	(7)	-	-	(7)
Depreciation	-	-	0	-	-	0
Depreciation charge	(475)	-	(157)	(9)	(72)	(713)
Closing net book amount	12,493	267	757	1	247	13,765
Year ended 31 December 2017						
Cost or valuation	13,931	267	1,831	686	795	17,510
Accumulated depreciation	(1,438)	-	(1,074)	(685)	(548)	(3,745)
Net book amount	**12,493**	**267**	**757**	**1**	**247**	**13,765**

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

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

	2017 USD'000	**2016 USD'000**
Cost	**8,759**	8,668
Accumulated depreciation	**(4,211)**	(3,777)
Net book amount	**4,548**	4,891

Notes (continued)

22 Intangible assets

	2017 USD'000	2016 USD'000
Cost		
At start of year	**1,653**	1,653
Additions during the year	**281**	-
	1,934	1,653
Amortisation		
At start of year	**(1,653)**	(1,653)
Amortisation charge for the year	**(57)**	-
	(1,710)	(1,653)
At end of year	**224**	-

The additions to intangible assets include a capital grant of USD 209,000 from African Development Bank. The Bank acquired customized web based credit knowledge management software which was partly financed through the above mentioned capital grant. For purposes of the statement of cash flows, the amount in respect of the purchase of software excludes this capital grant.

23 Other liabilities

	2017 USD'000	2016 USD'000
Deposits on leased assets	**122**	183
Advances from customers	**34**	65
Staff payables	**0**	1
Rent received in advance	**43**	39
Administrative accruals	**196**	860
Deferred income	**209**	164
Prepaid rental income	**122**	145
KFW line of credit	**4,603**	3,159
FAPA-AfDB grant funds	**52**	52
Other creditors	**409**	685
	5,790	5,353

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

24 Borrowings

	2017 USD 000'	2016 USD 000'
Lines of credit with multi-lateral development banks	**98,352**	92,390
Lines of credit with other Financial Institutions	**11,166**	31,291
	109,518	123,681
Maturity analysis of borrowings		
Amounts payable within one year	**13,262**	29,462
Amounts payable after one year but within five years	**30,556**	30,527
Amounts payable after five years	**65,700**	63,692
	109,518	123,681

Notes (continued)

24 Borrowings (continued)

Lender	Tenor Years	Interest rate (%)	Rate type	Currency	2017 USD'000	2016 USD'000
Republic Of Uganda-Kfw	9	9	Fixed	UGX	**5,453**	-
Republic Of Uganda-Kfw	9	9	Fixed	UGX	**1,556**	1,561
Republic Of Uganda-Kfw	9	9	Fixed	UGX	**1,541**	1,547
Republic Of Uganda-Kfw	12	9	Fixed	UGX	**5,062**	5,080
Nordic Development Fund	30	0.75	Fixed	EUR	**5,552**	5,180
European Investment Bank	7	9.16	Fixed	KES	**3,422**	3,828
European Investment Bank	6	9.31	Fixed	UGX	**1,014**	1,272
European Investment Bank	7	9.41	Fixed	KES	**1,621**	1,795
European Investment Bank	7	9.39	Fixed	KES	**1,441**	1,596
European Investment Bank	5	8.56	Fixed	UGX	**1,764**	2,361
European Investment Bank	7	10.25	Fixed	TZS	**4,773**	5,399
European Investment Bank	7	8.26	Fixed	RWF	**569**	642
European Investment Bank	7	9.84	Fixed	KES	**2,418**	2,877
African Development Bank	14	2.56	Variable	USD	**2,074**	6,222
European Investment Bank	7	3.69	Variable	USD	**1,569**	2,017
Opec Fund For International Development	7	4.51	Variable	USD	**10,909**	13,636
European Investment Bank	7	3.67	Variable	USD	**2,227**	2,864
African Development Bank	10	4.91	Variable	USD	**30,000**	30,000
Arab Bank For Economic Development	9	5.33	Variable	USD	**11,997**	2,247
Commercial Bank Of Africa	1	10.5	Fixed	KES	**9,695**	9,761
dfcu Bank Limited	3	8.97	Variable	UGX	**1,379**	1,800
Commercial Bank Of Africa	1	10.5	Fixed	KES	**-**	19,522
					106,036	121,206
Accrued interest/fees payable					**3,482**	2,475
					109,518	123,681

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

The weighted average effective interest rate on borrowings was 7.11% (2016: 6.94%). The bank has not given any security for the borrowings and has not defaulted on any of them. More information regarding the currency, maturity and contractual repricing rates for the bank's borrowings are shown in Note 35.

Notes (continued)

25 Special funds (Norwegian /EADB fund)

	2017 USD '000	2016 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

	2017 USD '000	2016 USD '000
At start of year	**2,483**	3,186
Additions	**209**	-
Grant utilization	**(418)**	(703)
	2,274	2,483
SIDA / EADB fund for technical assistance	**910**	1,280
SWISS/ EADB fund for technical assistance	**1,053**	1,053
Housing Finance feasibility study grant	**150**	150
AfDB Credit knowledge management system grant	**161**	-
	2,274	2,483

The SIDA/EADB fund

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

During the year ended 31 December 2017, the Bank utilised part of the grant amounting to USD 370,205 (2016: USD 702,762) on regional capacity building by training selected East African lawyers through the extractive industries seminars, medical training and teacher graduate scholarships.

Medical Training and Fellowship (METAF) Programme

The East African Development Bank (EADB) Medical Training and Fellowship (METAF) programme is a four-year programme (2017-2020) that aims to increase the early detection, research and treatment of cancer and neurological disorders in East Africa, especially in communities and areas where access to qualified professionals remains a challenge. The programme is delivered by the British Council as the Programme Manager in partnership with the Royal College of Physicians (RCP) as the technical partner.

Notes (continued)

26 Grants (continued)

Medical Training and Fellowship (METAF) Programme (continued)

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

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

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

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

SWISS/ EADB fund

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

Housing Finance Feasibility study grant

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

AfDB (Credit knowledge management system grant)

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

Notes (continued)

27 Share capital

	Paid up share capital Number	Callable share capital Number	Total Number	Paid up share capital USD'000	Callable share capital USD'000	Total USD'000
Authorised share capital						
Class A						
At 1 January 2016	24,000	120,000	144,000	324,000	1,620,000	1,944,000
Additional authorised	-	-	-	-	-	-
At 31 December 2016	**24,000**	**120,000**	**144,000**	**324,000**	**1,620,000**	**1,944,000**
Additional authorised	-	-	-	-	-	-
At 31 December 2017	24,000	120,000	144,000	324,000	1,620,000	1,944,000
Class B						
At 1 January 2016	16,000	1,037	17,037	216,000	14,000	230,000
Additional authorised	-	-	-	-	-	-
At 31 December2016	16,000	1,037	17,037	216,000	14,000	230,000
Additional authorised	-	-	-	-	-	-
At 31 December 2017	**16,000**	**1,037**	**17,037**	**216,000**	**14,000**	**230,000**
Issued share capital						
Class A						
At 1 January 2016	11,981	59,905	71,886	161,743	808,718	970,461
Issue of shares	299	1,495	1,794	4,037	20,183	24,220
At 31 December2016	12,280	61,400	73,680	165,780	828,901	994,681
Issue of shares	-	-	-	-	-	-
At 31 December 2017	**12,280**	**61,400**	**73,680**	**165,780**	**828,901**	**994,681**
Class B						
At 1 January 2016	1,781	1,037	2,818	24,044	14,000	38,044
Issue of shares	-	-	-	-	-	-
At 31 December2016	1,781	1,037	2,818	24,044	14,000	38,044
Issue of shares	-	-	-	-	-	-
At 31 December 2017	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 December2016	12,280	1,781	14,061	165,780	24,044	189,824
Issue of shares	-	-	-	-	-	-
At 31 December 2017	**12,280**	**1,781**	**14,061**	**165,780**	**24,044**	**189,824**

Notes (continued)

27 Share capital (continued)

Shareholding position as at 31 December 2017

Shareholders	Number of shares as at 31 December 2016	Number of shares as at 31 December 2017	Amount as at 31 December 2016 and 2017 USD'000	Shareholding %
Class A				
Government of Kenya	3,800	3,800	51,300	27.03%
Government of Tanzania	3,343	3,343	45,130	23.77%
Government of Uganda	3,800	3,800	51,300	27.03%
Government of Rwanda	1,337	1,337	18,050	9.51%
Total Class A	**12,280**	**12,280**	**165,780**	**87.33%**
Class B				
African Development Bank	1,240	1,240	16,740	8.82%
FMO – Netherlands	375	375	5,063	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	**14,061**	**14,061**	**189,824**	**100%**

Authorised share capital

In 2015 the authorized capital stock was increased from USD 1,080,000,000 to USD 2,160,000,000 consisting of 80,000 additional shares being 100% increase in capital stock of the Bank with a par value of USD 13,500 each. This was to enable admission of new members into the Bank. In addition, a resolution was passed in 2013 approving African Development Bank (AfDB), a class B shareholder, to subscribe for a further 740 class B paid up shares and 1,037 class B callable shares at USD 13,500 each.

Class A

The authorised number of Class A ordinary shares is 144,000, (2016: 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, (2016: 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.

Notes (continued)

27 Share capital (continued)

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 878 (2016: 878). Share premium therefore amounts to USD 4,413 per share which is equivalent to USD 3.9 million (2016: USD 3.9 million).

Callable capital

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

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

Dividends

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

28 Capital fund

	2017 USD '000	2016 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.

29 Funds awaiting allotment

	2017 USD '000	2016 USD '000
At start of year	**103**	105
Cash received	**-**	4,600
Amounts reclassified (to)/from grants, special funds and capital fund	**(20)**	-
Shares issued in the year		(4,602)
At end of year	**83**	103

Notes (continued)

30 Special reserve

	2017 USD '000	2016 USD '000
At start of year	**12,358**	11,783
Transfer of commission and guarantee fees from retained earnings	**85**	575
At end of year	**12,443**	12,358

The transfer to the special reserve is made in accordance with Article 17 of the Bank's Charter, the reserve being credited with commissions earned. The special reserve is non distributable and serves the purpose of enabling the Bank meet its liabilities on borrowings or guarantees chargeable.

31 Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of derivative financial instruments and equity investments measured at fair value through the profit and loss account. The reserve represents an appropriation of unrealised fair value differences which are shown separately from retained earnings until realised. The movement in fair value reserve is shown below:

	2017 USD '000	2016 USD '000
At start of year	**505**	496
Transfer from retained earnings	**(50)**	9
At end of year	**455**	505

32 Cash and cash equivalents

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

	2017 USD '000	2016 USD '000
Cash and bank balances (Note 13)	**14,006**	7,909
Balances due from banks originally maturing less than 3 months	**145,320**	161,448
	159,326	169,357

33 Revaluation reserve

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

	2017 USD '000	2016 USD '000
At start of year	**7,980**	8,002
Transfer of excess depreciation to retained earnings	**(41)**	(22)
At end of year	**7,939**	7,980

Notes (continued)

34 Use of estimates and judgments

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

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

Impairment losses on loans and advances

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

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

Determining fair values

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

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.

Notes (continued)

35 Financial risk management (continued)

Risk management framework

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

The board of directors reports to the Governing council.

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

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

(b) Credit risk

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

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

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 the Project Committee (PROCO) and the Director General 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.

Notes (continued)

35 Financial risk management (continued)

(b) Credit risk (continued)

Management of credit risk (continued)

Documentary, legal procedures and compliance with regulatory and statutory requirements undertaken in consultation with the Bank's legal Department, establishing the authorization structure for the approval and renewal of credit facilities with concurrence of the board of directors, reviewing and assessing credit risk. The Bank assesses all credit exposures, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process, limiting concentrations of exposure to counterparties, products and industries (for loans and advances). New loan project requests are subject to Bank's risk grading in order to ensure that only viable projects are taken into the books.

The Bank also has a Portfolio team which is responsible for monitoring the credit quality of loans and ensuring appropriate corrective action is taken. The credit administration also provides advice, guidance and specialist skills to Operations Department to promote best practice in the management of credit risk. The Portfolio team prepares regular reports for Management and the Board's consideration on the performance of the loan portfolio.

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

	Loans and advances to projects		**Other loans and advances**	
	2017	**2016**	**2017**	**2016**
	USD '000	**USD '000**	**USD '000**	**USD '000**
Individually assessed				
Gross amount	18,047	14,373	-	-
Allowance for impairment	(2,481)	(1,389)	-	-
Carrying amount	**15,565**	**12,984**	**-**	**-**
Collectively assessed:				
Gross amount	177,368	174,191	1,601	1,806
Allowance for impairment	(2,908)	(2,601)	-	-
Carrying amount	**174,460**	**171,590**	**1,601**	**1,806**
Total carrying amount	**190,025**	**184,574**	**1,601**	**1,806**
Past due but not impaired:				
Watch (31 to 90 days)	29,497	1,205	-	-
Substandard (91 to 180) days	-	-	-	-
Doubtful (181 to 360) days	-	-	-	-
Neither past due nor impaired:				
Normal	147,871	172,987	1,601	1,806
Allowance for impairment – collectively assessed	(2,908)	(2,601)	-	-
Total carrying amount	**174,460**	**171,590**	**1,601**	**1,806**

Notes (continued)

35 Financial risk management (continued)

(b) Credit risk (continued)

Impaired loans and advances

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

Past due but not impaired loans and advances

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

Loans with renegotiated terms

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

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio taking 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	**2017**	**2016**
	%	**%**
Agriculture and fisheries	**1**	1
Forestry and paper	**-**	-
Agro-marine food and processing	**7**	5
Construction, building materials and real estate	**23**	16
Hotel, tourism, leisure and entertainment	**13**	13
Transport and storage	**0**	1
Financial Institutions	**35**	36
Electricity and water	**13**	17
Education, health and other community services	**7**	11
	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.

Notes (continued)

35 Financial risk management (continued)

(a) Credit risk (continued)

Write off policy (continued)

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	**2017 USD '000**	**2016 USD '000**
Legal mortgage over individually impaired assets	**51,228**	81,229
Legal mortgage over assets written off	**11,180**	47,936
Legal mortgage held over other loans and advances to customers	**348,891**	318,514
	411,299	447,679

Credit exposures relating to off-statement of financial position

Loan commitments	**1,902**	30,399
	1,902	30,399

The table above represents the worst case scenario of credit risk exposure to the Bank as at 31 December 2017 and 2016, 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;
- 91% (2016: 93%) 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.

Notes (continued)

35 Financial risk management (continued)

(c) Liquidity risk (continued)

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

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:

	2017 USD '000	2016 USD '000
Cash and cash equivalents as per liquidity policy	**144,490**	129,574
Designated liabilities	**(61,355)**	(58,794)
Surplus per liquidity policy	**83,135**	70,782
Liquidity ratio	**3.14**	2.20
Designated liabilities		
Repayment of term loans	**24,758**	40,058
Interest on borrowings	**5,341**	7,025
Acquisition of fixed assets	**4,396**	4,396
Staff and administration expenses	**11,521**	7,315
	46,016	58,794

Cash and cash equivalents as per liquidity policy is arrived at after deducting loan disbursement commitments of USD 13.28 million (2016: USD 36.54 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 3.14 (2016: 2.20) which exceeds the required liquidity ratio as per the policy of 1.33 x.

Notes (continued)

35 Financial risk management (continued)

(c) Liquidity risk (continued)

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2017 to the contractual maturity date.

	Matured	< 6 Months	> 6 Months< 1 Year	> 1 Year < 3 Years	>3 Years < 5 Years	>5 Years < 7 Years	> 7 Years	Total
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
Assets								
Cash at bank	14,006							14,006
Deposits due from commercial banks	781	149,823	1,370	-	-	-	-	151,974
Investment securities held to maturity	74	-	-	-	-	-	-	74
Loans and lease receivables		29,596	28,270	90,797	60,638	27,074	8,107	244,482
Equity investments		-	-	436	-	-	-	436
Other assets receivable	1,044	-	-	-	-	-	-	1,044
Total assets	**15,905**	**179,419**	**29,640**	**91,233**	**60,638**	**27,074**	**8,107**	**412,016**
Liabilities and shareholder funds								
Other accounts payable	5,951	-	-	-	-	-	-	5,951
Medium and long term loans	-	10,601	19,499	32,932	23,712	26,180	19,769	132,693
Total liabilities and shareholder funds	**5,951**	**10,601**	**19,499**	**32,932**	**23,712**	**26,180**	**19,769**	**138,644**
Net liquidity gap at 31 December 2017	**9,954**	**168,818**	**10,141**	**58,301**	**36,926**	**894**	**(11,662)**	**273,372**
Net liquidity gap at 31 December 2016	**3,248**	**183,876**	**(14,577)**	**48,174**	**35,642**	**19,008**	**(15,037)**	**260,334**

Notes (continued)

35 Financial risk management (continued)

(c) Liquidity risk (continued)

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2017 to the contractual maturity date.

Off balance sheet items

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

	< 6 Months	> 6 Months < 1 Year	> 1 Year < 3 Years	> 3 Years < 5 Years	> 5 Years < 7 Years	> 7 Years	Total
	USD '000	USD '000	USD '000	USD '000	USD '000	USD'000	USD '000
Loan commitments	194	1,708	-	-	-	-	1,902
Capital commitments	-	347	-	-	-	-	347
Total	**194**	**2,055**	**-**	**-**	**-**	**-**	**2,249**

Notes (continued)

35 Financial risk management (continued)

(d) Interest rate risk

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

As at 31 December 2017, 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 1.093 million (2016: 1.01 million).

Notes (continued)

35 Financial risk management (continued)

(d) Interest rate risk (continued)

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

	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 5 Years	Over 5 Years	Non-interest bearing	Total
	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
Assets								
Cash and bank balances	-	-	-	-	-	-	14,006	14,006
Deposits due from banks	42,065	103,848	3,910	1,370	-	-	781	151,974
Investment security	-	-	69	-	-	-	1	70
Loans and advances	29,916	147,491	8,388	5,833	575	-	5,537	197,740
Equity investments at fair value	-	-	-	-	-	-	436	436
Other Assets receivable	-	-	-	-	-	-	1,044	1,044
Total assets	**71,981**	**251,339**	**12,367**	**7,203**	**575**	**-**	**21,805**	**365270**
Liabilities and shareholders' funds								
Other accounts payable	-	-	-	-	-	-	5,951	5,951
Medium and long term loans	-	73,495	18,928	-	-	13,612	3,483	109,518
Total liabilities and shareholder funds	**-**	**73,495**	**18,928**	**-**	**-**	**13,612**	**9,434**	**115,469**
Interest sensitivity gap at 31 December 2017	**71,981**	**177,844**	**(6,560)**	**7,203**	**575**	**(13,612)**	**12,372**	**249,801**
Interest sensitivity gap at 31 December 2016	**73,488**	**206,916**	**15,169**	**(16,631)**	**(34,958)**	**(17,952)**	**4,154**	**230,186**

Notes (continued)

35 Financial risk management (continued)

(e) Currency risk

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

Closing rates at 31 December 2017

	UGX	KES	TZS	RWF	EUR	GBP	SEK
	3,625	**103.15**	**2,240**	**836.46**	**0.8368**	**0.7429**	**8.2388**

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 and bank balances	3,640	465	97	76	5,123	22	2	9,425
Deposits due from banks	2,531	8,044	2,994	-	-	-	-	13,569
Investment security held to maturity	69	-	-	-	-	-	-	69
Loans and advances at amortized costs	16,486	14,634	2,980	532	6,190	-	-	40,822
Equity investments - Available for sale	-	110	735	-	-	-	-	845
Other assets receivable	-	69	63	-	-	-	-	132
Total Assets	**22,726**	**23,322**	**6,869**	**608**	**11,313**	**22**	**2**	**64,862**
Shareholders' Funds And Liabilities								
Other accounts payable	122	-	16	-	4,612	-	-	4,750
Medium and long term borrowings	19,883	18,884	4,896	580	5,558	-	-	49,801
Total Shareholders' Equity & Liabilities	**20,005**	**18,884**	**4,912**	**580**	**10,170**	**-**	**-**	**54,551**
Net Currency Position 31 December 2017	**2,720**	**4,438**	**1,957**	**28**	**1,143**	**22**	**2**	**10,311**
Net Currency Position 31 December 2016	2,565	3,954	1,830	25	855	23	-	9,252

Notes (continued)

35 Financial risk management (continued)

(e) Currency risk (continued)

Sensitivity analysis

The 10% movement of USD against other currencies at 31 December 2017 would have increased or decreased comprehensive income by USD 0.94 million (2016: USD 0.84 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. Refer to note 21 for disclosures of the land and buildings that are measured at fair value.

	Level 3 USD '000	Total USD '000
31 December 2017		
Financial assets at fair value through profit or loss		
Equity investments at fair value	**436**	**436**
Total assets	**436**	**436**
31 December 2016		
Financial assets at fair value through profit or loss		
Equity investments at fair value	487	487
Total assets	487	487

Notes (continued)

35 Financial risk management (continued)

(g) Fair value of financial instruments (continued)

Reconciliation of level 3 items

Financial assets at fair value through profit or loss

	2017 USD '000	2016 USD '000
At start of year	**487**	483
Fair value (loss)/gain	**(51)**	4
At end of year	**436**	487

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

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs for the year ended 31 December 2017 other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

		Quoted prices in active markets for identical assets (Level 1) USD'000	Significant other observable inputs (Level 2) USD'000	Significant unobservable inputs (Level 3) USD'000	Totals USD'000
At December 2017					
Investment property	Land	-	13,822	-	13,822
	Buildings	-	5,312	-	5,312
PPE	Land	-	7,827	-	7,827
	Buildings	-	5,295	-	5,295
Total assets		**-**	**32,256**	**-**	**32,256**
At December 2016					
Investment property	Land	-	13,840	-	13,840
	Buildings	-	5,229	-	5,229
PPE	Land	-	7,827	-	7,827
	Buildings	-	5,295	-	5,295
Total assets		**-**	**32,191**	**-**	**32,191**

Notes (continued)

35 Financial risk management (continued)

(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 2017. The ratio is computed as a ratio of loans, equities and lease receivables divided by shareholders equity less special reserves.

	2017 USD '000	2016 USD '000
Gross loans and lease receivables	**197,743**	189,582
Shareholders' equity	**261,361**	251,167
Special reserve	**(12,443)**	(12,358)
	248,918	238,809
Ratio	**0.79**	0.79

36 Employee retirement benefit plans and gratuity

	Note	2017 USD '000	2016 USD '000
Contribution to the retirement benefit plan	(i)	**284**	295
Contribution to the statutory pension scheme (NSSF)	(ii)	**4**	4
Gratuity	(iii)	**72**	82
		360	381

(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.

Notes (continued)

36 Employee retirement benefit plans and gratuity (continued)

(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

	2017 USD '000	2016 USD '000
Authorized but not contracted for	-	-
Authorized and contracted for	347	75
	347	75

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	2017 USD '000	2016 USD '000
Un-disbursed commitments	b)	1,902	30,399
		1,902	30,399

Nature of contingent liabilities

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

The Bank is a litigant in several cases which arise from normal day to day banking activities. The directors believe the Bank has strong grounds for success and are confident that they should get rulings in their favor in matters before court. In cases where the Bank may not be successful, directors and management are confident that such cases would not significantly impact the bank's operations either individually or in aggregate.

Management has also carried out an assessment of all the cases outstanding as at 31 December 2017 and did not find any that warranted a provision. This position is supported by independent professional legal advice.

Notes (continued)

39 Related party transactions

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

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

	2017 USD '000	**2016 USD '000**
Loans and advances to Directors:		
- Eddron Communications Limited	**220**	202
- Green Hills Academy limited	**532**	621
- Loan to government of United Republic of Tanzania	**6,485**	8,330
Deposits held with banks that are shareholders of the Bank and related entities:		
- Commercial Bank of Africa ltd	**35,033**	36,567
- Standard Chartered Bank PLC	**20,027**	-
- Interest income earned on all of the above	**2,094**	2,197
Borrowings payable by the Bank to shareholders:		
- African Development bank	**32,722**	36,857
- Commercial Bank of Africa ltd	**9,770**	29,462
Interest expense on borrowings as paid to shareholders	**4,099**	5,001

As at 31 December 2017, a provision for impairment has been made against the loan to Eddron Communications Limited, amounting to USD 0.09 million. No provision has been made for any other loans to related parties.

Loans to employees are given at concessionary rates.

Key management compensation	**2017 USD '000**	**2016 USD '000**
Salaries and other employee benefits	**376**	385
Other short-term employee benefits – Gratuity	**72**	82
	448	467

Directors' remuneration		
- Fees and allowances	**55**	82
- Salaries and other short-term employee benefits (included within key management compensation above)	**448**	467
- Other expenses	**84**	88
	587	637

Notes (continued)

40 Effects of prior year adjustment

For purposes of the statement of cash flows, cash and cash equivalents as at 31 December 2016 have increased by USD 107.6 million to include all balances due from banks originally maturing in less than one month. In the prior year, management considered balances due from banks originally maturing in less than 91 days. In 2017, management has reassessed it’s position and considered balances due from banks originally maturing in less than 96 days, to ensure that all “three month” short term investments are taken into account in arriving at the cash and cash equivalents balance i.e. “3 month” placements whose duration was greater than 91 days but less than 96 days.

The impact of the adjustment is summarised in the table below:

Statement of cash flows (extract)	**31 December 2016**	**Change**	**31 December 2016 (Restated)**	**31 December 2015 (Restated)**
	USD’000	**USD’000**	**USD’000**	**USD’000**
Cash and cash equivalents	61,754	107,603	169,357	176,028