ANNUAL REPORT & FINANCIAL STATEMENTS 2016

TDB

TRADE & DEVELOPMENT BANK

OUR VISION

To be a world class African financial institution advancing the economic development, intergration and prosperity of the region.

OUR MISSION

To be at the forefront of extending reliable financial and non-financial services to advance trade, development and regional economic integration through customer-focused and innovative instruments.

CORE VALUES

Client orientation | Integrity
Innovation | Teamwork |
Adaptability

STRATEGIC GOAL

To be preferred and leading regional development financial institution in Eastern and Southern Africa

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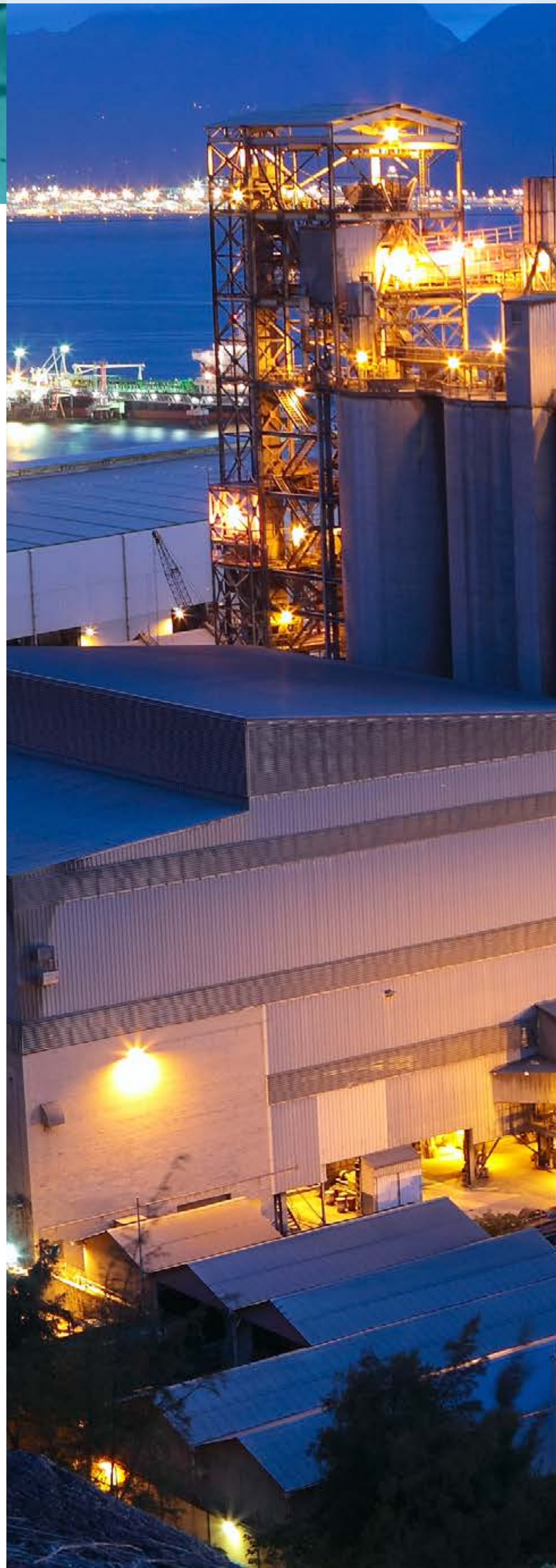
LETTER OF TRANSMITTAL



The Chairman

Board of Governors

Eastern and Southern African Trade and Development Bank

Dear Mr. Chairman,

In accordance with Article 35(2) of the Bank's Charter, I have the honour, on behalf of the Board of Directors, to submit herewith the Annual Report of the Bank for the financial period 1 January to 31 December 2016.

The report covers the year's activities and audited financial statements for the period.

Mr. Chairman, please accept the assurances of my highest consideration.

MOHAMED KALIF
Chairman, Board of Directors

CHAIRMAN'S STATEMENT

Foreword

On behalf of the Board of Directors, I am delighted to present the Bank's Annual Report and financial statements for the year ended 31 December, 2016. This is the first Annual Report under the Bank's new brand name, TDB.

International Economic Environment

The world economy faced yet another challenging year in 2016 driven by a slow-down in global trade, investments, and heightened policy uncertainty. The year saw external surprises including the decision by the United Kingdom to exit the European Union with a consequent decline in the relative value of the Pound Sterling, the China stock market crash as well as the new political climate in the United States. The global economy grew 2.2%, the lowest since the 2008-2009 global recession, underpinned by global investment weakness, low productivity and a drop in world trade.

Sub-Saharan Africa was hard hit, with the region's Gross Domestic Product (GDP) growth dropping to 1.3%, the lowest level in 20 years. The continued slump in commodity prices affected the continent's largest economies of Angola, Nigeria and South Africa, which depend heavily on commodity exports, and which together, account for 60% of Sub Saharan Africa's GDP. In addition, most of the Eastern and Southern African countries experienced severe drought in 2016, negatively affecting agriculture and hydro-power generation in countries like Ethiopia, Mozambique, Uganda and Zimbabwe. This put downward pressure on the rate of economic growth.

Despite the above headwinds, the IMF reported that some African economies recorded relatively stable growth in 2016 above the 5% level, with Tanzania, Ethiopia, Rwanda and Kenya, recording 7.1%, 6.5%, 6.0% and 5.9% respectively. A marginal rebound to 2.5% in Sub-Saharan Africa region is expected in 2017 given recent improvements in commodity prices and as the region starts to recover from the aftermaths of the drought.

The global economy is expected to grow moderately to 3.4% in 2017, supported by ongoing efforts to stimulate investment and productivity. However, the forecast is still vulnerable to geopolitical imbalances and major policy shifts, and especially if the United States implements fiscal stimulus.

Bank Performance Highlights

Notwithstanding the pressures on the global and regional economy, the Bank had yet another exciting and strong year, with operational and financial performance continuing its upward trajectory. Big strides were made in aligning the Bank's overall performance with its 5th Corporate Plan (2013 – 2017) targets and aspirations. Loan assets grew by 11%, increasing from USD 2.91B in 2014 to USD 3.24B in 2016. The Bank's total assets grew by 4% to close at USD 4.26B from USD 4.09B in 2015. Buoyed by strong profitability and new equity subscriptions, shareholders' capital increased by 16% to USD 856.5M from USD 736.3M the previous year. 2016 also saw continued improvement in overall loan asset quality with the non-performing loan ratio edging lower to 2.85% from 2.87% in 2015. Overall, the Bank recorded a net profit of USD 101.5M, a 7% increase over the USD 94.7M achieved in the previous year. Given the continued profitability, the Board has recommended a dividend distribution.

Corporate Governance

During the year, and in line with the reforms that were set out in the 5th Corporate Plan, the Bank continued to enhance its corporate governance. Quarterly board meetings were held along with specialised board committees in the areas of Audit and Risk;

The global economy is expected to grow moderately to 3.4% in 2017, supported by efforts in policy-making that stimulate investment and productivity.

Investment and Credit; and Remuneration and Nomination, the latter two board committees were recently introduced. Two Independent Non-Executive Directors were recruited in 2016, building on from 2014 when the first independent Non-Executive Director assumed office. In addition, four new Non-Executive Directors representing Member States assumed office in 2016. According to the provisions of the Charter, the board seat representing institutional shareholders (All Other Shareholders Group) was filled in 2016.

2016 also saw the elevation of the Mauritius regional office to a second Principal Office, alongside the Bujumbura Principal Office. The decision was taken in order to leverage on Mauritius' well regarded domicilium for funds and financial institutions in the COMESA region. The Mauritius principal office will serve as a centre for regional operations in the Indian Ocean Area, fundraising, funds management as well as corporate support and business continuity. Additionally, this has enhanced the risk profile of the Bank which is now also formally domiciled in an investment grade Member State.

Acknowledgements

On behalf of the Board of Directors, I wish to recognize the many contributions made by all stakeholders towards the Bank's strong performance. Much appreciation goes to our performing clients, lenders and shareholders for the continued interest and confidence. I also wish to salute my fellow Directors on the Board for their enduring and conscientious leadership of the Bank. I also wish to take this opportunity to congratulate and thank the President and CEO of the Bank, Mr. Admassu Tadesse, for the enormous progress made in passionately steering the Bank and leading the Management Team and Staff to achieve yet another year of outstanding results. The results and achievement would not have been possible without the commitment, professionalism, teamwork, enthusiasm and diligence of the high calibre TDB team in faithfully serving the Bank's clients and building a myriad of strong strategic and funding partnerships.

As we continue driving the Bank towards a 'World Class African Development Finance Institution' amidst the blurred world economic outlook, we look forward, with optimism, to yet another successful year.

MOHAMED KALIF

Chairman, Board of Directors

PRESIDENT'S STATEMENT

Strategic Overview

2016 was the penultimate year of the current Five Year Corporate Plan (FYCP): 2013 – 2017. It is in this context that the Bank's operational and financial performance is reviewed and reported.

Moderate growth and consolidation continued to be a key strategic theme in 2016. It was also the theme for 2015, given the strong growth in the Bank's equity capital and loan assets in the first two years of the current FYCP period. Another theme was continued reforms, institutional strengthening and repositioning of the Bank as a higher grade African financial institution, with re-emphasis on portfolio diversification across countries and sectors; maintenance of asset quality, close attention to infrastructure and industrial projects; while maintaining cost-effectiveness in the Bank's operations.

Consequently, the Bank grew its loan asset book by 11% to USD 3.24B from USD 2.91B in the previous year. The Bank in 2016 grew its balance sheet by 4% to USD 4.26B from USD 4.09B in 2015.The rate of growth in the loan book was in line with the rate of growth of the Bank's equity capital, which grew by 16% from USD 736.3M in 2015 to USD 856.5M. The Bank registered strong profitability, posting a net profit of USD 101.5M, 7% above the 2015 achievement. This yielded a return on equity ratio of 12.89%. Asset quality also improved slightly over the previous year, with non-performing loans edging lower from 2.87% in 2015 to 2.85%.

These remarkable results were achieved in a volatile global economy that was adverse to business and characterised by the lowest GDP growth in Sub-Saharan Africa in twenty years. Auspiciously, several of the East African economies where the Bank has strong operations have continued to grow strongly, given their relatively more diversified economies and robust investments in infrastructure. As such, the Bank continued to grow its offerings in both trade and infrastructure/corporate financing in areas such as power and transport, with an increased focus on lower exposure economies such as Kenya, Uganda, Tanzania and Rwanda, where our funding partners have strong appetite.

Despite growing and remaining profitable, the Bank's performance was dampened by the adverse economic developments in 2016, eroding fee income considerably due to the sustained decline in

the Bank grew its loan asset book by 11% to USD 3.24B from USD 2.91B in the previous year. The rate of growth in the loan book was in line with the rate of growth of the Bank's equity capital, which grew by 16% from USD 736.3M in 2015 to USD 856.5M.

oil prices and other commodity prices, which have had adverse effects across much of the continent, though many oil importing economies have also benefitted. Several Member States were also adversely affected by depreciation of exchange rates and reductions in foreign exchange and reserves.

Following the retreat of a number of international banks from many African economies, and smaller banks, the Bank has positioned itself to step up to bridge some of the correspondent banking gaps in the area of finance, letters of credit in particular. As such, the Bank is strengthening its correspondent banking partnership and relationship with central banks in the region, including Mauritius, TDB's additional principal office. This will deepen financial cooperation between the Bank and various financial institutions in the region.

Following the entry of the Republic of Mozambique into the Bank's membership in 2015, its south western neighbour, the Kingdom of Swaziland followed by signing the accession agreement in 2016. Swaziland is well known for tourism due to its rich Swazi cultural heritage and the Lebombo Mountains, Mlawula Nature Reserve's hiking trails and the Hlane Royal National Park. Swaziland has hydropower, forests, small gold and diamond deposits, quarry stone, and talc as some its natural resources, which the Bank may assist the country to exploit and trade sustainably.

Financial Management

In 2016, the Bank grew its interest income by 8% to USD 225.2M from USD 208.7M in 2015. The increase is attributed to the 11% growth in the Bank's loan book, comprising Project Finance and Trade Finance loan portfolios. Trade Finance contributed 68% of the interest income.

Total borrowing costs increased by 11% from USD 98.2M in 2015 to USD 108.7M. Interest expense on long-term and short-term borrowings rose by 6% from USD 89.5M in 2015 to USD 95.0M, due to the 4% increase in total borrowings as well as the rise in the cost of borrowing, reflecting the rise in LIBOR. The growth in borrowings is in line with the 4% growth in the Bank's total assets. Other borrowing and financing costs increased by 57% from USD 8.7M in 2015 to USD 13.7M mainly because of new facilities secured by the Bank in 2016, which occasioned an increase in facility fees

Consequently, net interest income grew by 5% to USD 116.5M from USD 110.5M in 2015. Net fees and commission income was USD 55.0M up from USD 47.9M in 2015. The 15% increase is attributed to facility fees earned from trade finance loans which were approved in 2016. Risk mitigation costs (comprising risk down-selling and insurance costs) for 2016 amounted to USD 13.1M compared to USD 15.4M in 2015, a 15% reduction.

Operating income rose by 7% to USD 162.0M in 2016 from USD 151.9M in 2015. Operating expenditure increased from USD 20.9M in 2015 to USD 31.5M in 2016 as a result of continued investments in human and organisational capacity to strengthen the Bank's institutional framework and capabilities, as per the 5th Corporate Plan. This included one-off investments in IT systems and upgrades as well as rebranding and technical assistance facilities. The cost to income ratio remained well managed at the 20% level, which is amongst the lowest in the industry.

The Bank grew its total assets by 4% over 2015 to USD 4.26B, exceeding by 40% the USD 3.04B level planned for 2016 in the Bank's 5th Corporate Plan. Of the USD 166.7M net asset growth, USD 185.0M is attributable to Trade Finance loans, whose net balance closed at USD 2.39B, 8% up from USD 2.21B in 2015, due to new disbursements net of repayments. Project Finance loans grew by a net amount of USD 148.2M to USD 846.9M as a result of disbursements net of repayments made during the year. The Bank's net loan book grew year on year by 11%. Shareholders' funds grew by 16% to USD 856.5M, exceeding the 11% growth in the Bank's net loan assets. This compares favourably with, and surpasses by 25% the USD 685.1M projected for 2016 in the Bank's Corporate Plan.

Consequently, the Bank made a net profit for the year 2016 of USD 101.5M up from USD 94.7M in 2015.

Operations

Project and Infrastructure Finance (PIF)

In 2016, the Bank continued to deepen and consolidate PIF activities in line with the strategic themes of the Bank's 5th Corporate Plan. PIF consolidated its existing business portfolio and sought new business albeit cautiously, with increased deal selectivity and transaction structuring. The business adopted a prudent approach to commitments and disbursement of new transactions by assessing previously approved or committed transactions for continued viability.

Impressive improvements in the PIF business were recorded in legal commitments to facilitate draw-down of approved loans. In value terms, commitments rose to USD 323.3M, a 44% increase over the 2015 level of USD 224.8M. These commitments were made in the Bank's priority sectors of energy and transport. Further, during the year, PIF disbursements, through cash and Letters of Credit (LCs), rose to USD 293.1M, a 45% growth over USD 201.7M in 2015. Some of these commitments typically involved multilayer disbursments.

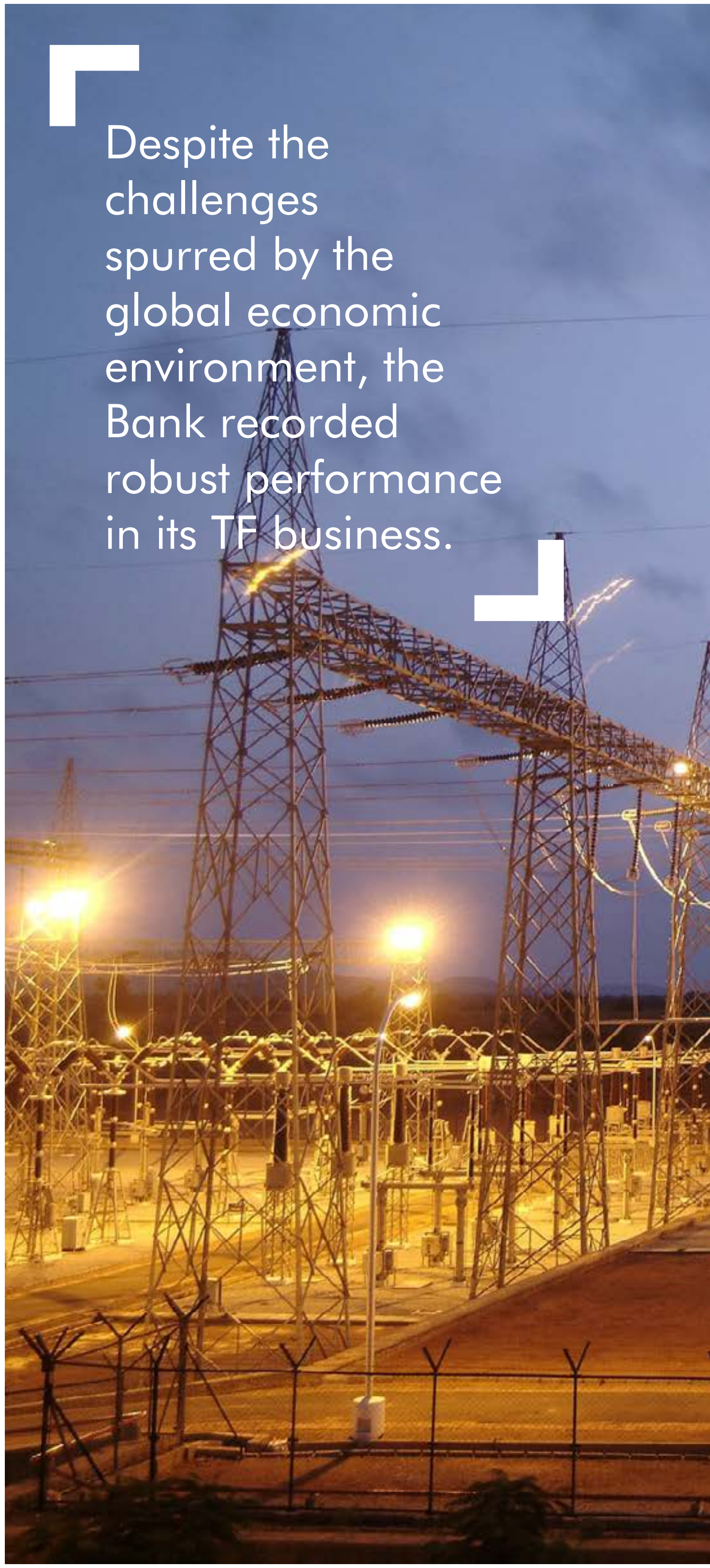
Trade Finance (TF)

Despite the challenges spurred by the global economic environment, the Bank recorded good performance in its TF business. Notwithstanding the subdued economic growth recorded in some of the Bank's Member States where TF has been particularly active such as Zambia, demand for TF products has been sustained. Demand for petroleum financing continued given the importance of this strategic commodity in the economic activities of many Member States.

While the petrochemicals sector remained a strong driver of business, the Bank continued to diversify by increasing intervention in other sectors. Notably, transactions in agribusiness accounted for 33% of the volumes in 2016, with in-roads in infrastructure, industry and the financial services sectors as well. In a bid to promote intra-regional trade and diversification of regional exports, TF promoted trade in import/export products in Member Countries such as Malawi and Egypt; as well as Mauritius and Kenya. Further product driven diversification has been in the areas of factoring & forfaiting, and export credit agency transactions, with promising prospects in several economies.

Risk Management

The Bank's approach to risk management is premised on a well-established governance process, using the 'three lines of defense' model. This comprises: the Board and Senior Management providing an active risk oversight role; the Risk Management function responsible for policy formulation and review, assessment, monitoring and reporting; and the Internal Audit function providing an independent objective review of the status of the Bank's risk management practices.



Throughout the year, the Bank's Risk Management function continued to be resilient, placing emphasis on accountability, responsibility, independence, reporting, communication, and transparency.

The Risk Management function supported the Bank's operations to optimize shareholders' returns within risk appetite and risk tolerance levels of the Bank. The continued prudent risk management practices ensure that the quality of the loan book remain sound. Non-Performing Loans (NPLs) were at 2.85%, a slight improvement over the 2015 level of 2.87%, and well within the 5% target threshold. The capital adequacy ratio stood at 37% (2015: 39.2%) which is stable, adequate and in excess of the 30% internal limit.

In 2016, the Risk Management function further strengthened and refined the Bank's Enterprise Risk Management (ERM) framework, the Business Continuity Program (BCP), Anti Money Laundering/Countering Financing of Terrorism (AML/CFT), and the Sanctions programs. In addition, the Know Your Customer (KYC) capabilities were enhanced through acquisition of AML/CFT and Sanction Screening tool, World Check.

The Bank's Risk Management function was further strengthened by recruitment of personnel in various positions in 2016. A head of Enterprise-wide Risk Management was recruited to lead the Bank's ERM process, and two credit risk analysts joined the Bank to strengthen capacity within the Risk Management Complex.

Resource Mobilisation

During the current Corporate Plan, the Bank has set out to vigorously diversify its funding sources. As such, several funding initiatives have been underway, including raising long term funding for infrastructure and industrial projects, through partner development finance institutions and export credit agencies (ECAs).

One major transaction was the arrangement of ECA funding for RwandAir to purchase aircraft from Airbus. The Bank is also at an advanced stage in negotiations with other ECAs to fund power and other projects. Strong cooperation is underway with China EXIM Bank, and negotiations were concluded with the Japan Bank for International Cooperation, Nippon Export and Investment Insurance and Sumitomo Mitsui Banking Cooperation (JBIC-NEXI-SMBC), which has culminated in the establishment of a pioneering USD 80M ECA line of credit. Other bilateral long-term facilities were also explored with several Organisation for Economic Co-operation and Development (OECD) members and other partners.

To foster trade and development in the region, the Bank also signed a series of agreements with its regional and global counterparties. Agreements were signed with the International Islamic Trade Finance Corporation (ITFC), and Islamic Corporation for the Development of the Private Sector (ICD), to foster trade between the member states, as well as to bring Islamic finance products to the region. Other agreements with multilaterals SMBC and Mizuho Bank Limited were signed to further consolidate the Japan-Africa link, including in the Project and Infrastructure funding space.

With a view to supporting the Bank's trade finance business, the Bank originated close to USD 1.8B in short term borrowing instruments in 2016, over and above maintaining its existing limits with established correspondent banks. The Bank's funding base was diversified with new counterparties on Trade Finance like the United States Agency for International Development (USAID), Mizuho Bank, National Bank of Abu Dhabi, Industrial Commercial Bank of China (ICBC), and First Gulf Bank.

Toward expanding its geographic sources of its market funding, in 2016, TDB became one of the first African Development Finance Institutions (DFI), to issue a China focused syndicated loan which was over-subscribed at USD 340M, creating awareness of the Bank's credit profile in that market. In the same vein, the Bank was able to refinance its maturing two-year 2016 syndicated loan through a two-year and three-year dual tranche syndicated loan, which was recognised at the 'Best Syndicated Loan' offering by an African DFI. Other notable transactions for the year were funding received from CDC Group of USD 50M, and a USAID guarantee-backed funding of USD 50M.

Looking forward, the Bank expects continued volatility in the global economic environment characterised by geopolitical events, volatile commodity prices, and movements of capital from and to emerging markets amongst others. In this context, TDB will seek to skew the weight of its funding mix towards medium and long term funding options, whilst continuously seeking to diversify in terms of markets, products, and counterparties. The Bank looks forward to issuing a Euro Medium Term Note programme in 2017, as well as first new strategic funding partners such as the African Development Bank, Agence Francaise de Development (AFD), China Exim Bank, China Development Bank, KFW and European Investment Bank.

Resource mobilisation and the area of capital equity also continued in 2016. In a demonstration of their support and confidence in the Bank, existing Class A shareholders continued their equity investments by adding USD 7.7M. Dividends totalling USD 16M were re-capitalized as share capital payments, growing class A share capital in 2016 by a total of USD 23.7M.

TDB's Class B shares introduced in 2013, continue to attract investors, with volumes raised so far, including share premium, amounting to USD 113.3M. In 2016, SACOS Group, a new investor, joined the Bank with an initial capital subscription of USD 1.0M. An existing investor, Uganda Social Security Fund, brought in a new investment of USD 14.4M. Other investors brought in USD 1.4M. The total Class B capital injection in 2016, including share premium, was USD 16.8M.

In total, therefore, USD 40.5M capital was recorded in 2016. The success of fundraising and the attractiveness of the Bank for investment and membership has been bolstered by the Bank's strong growth and profitability, as well as tireless effort to raise the profile and ratings of the Bank. The Bank will continue negotiations and fund raising efforts with existing and potential shareholders across the region and beyond.

International Ratings

In 2012, Fitch Ratings revised the Bank's outlook from stable to positive and, in 2013, upgraded the international long term rating from BB- to BB with a stable outlook. The upgrade by Fitch ratings was preceded by GCR's upgrade in 2012 from BB to BB+.

In 2016, Fitch Ratings and Moody's, issued improved ratings reports on the Bank. Despite the challenging economic environment, Fitch Ratings revised TDB's outlook from Negative to Stable and affirmed the Long-Term Issuer Default Rating at 'BB'. Meanwhile, the Bank has maintained its international rating with Moody's (Ba1 rating with a Stable Outlook). Global Rating Company (GCR), a regional rating company has also affirmed TDB's Bank's international scale foreign currency (FC) rating of 'BB+' with its outlook revised from stable to positive.

The good ratings reports reflect the Banks improvement in the following areas: strong and steady improvements in loan asset quality, significant improvement in liquidity and leverage metrics, accelerated resource mobilization, improvements in corporate governance and strengthened risk oversight. During 2017, the Bank will continue to focus efforts to strengthen its ratings.

Human Resources and Administration

In line with institutional strengthening, expanded operations and high growth, the Bank has continued its pursuit to retain, attract and develop a professional and motivated work force, with high caliber talent. Accordingly, various positions across several areas were filled, notably in credit risk and syndications, through competitive selection and internal promotions. Four young professionals were recruited through the on-going Young Professionals Programme (YPP). The Bank's staff complement at the end of 2016 was 123, with female staff comprising 46% of the workforce, and 44% of senior management.

The Bank's reward and recognition programme continued to be implemented, with the roll out of the Long-Term Incentive & Retention Scheme (LTIRS); the Voluntary Provident Fund for Directors & Select Stakeholders; and the President's Award program to recognise exceptional performance and achievements. Further, the Bank's Performance Management System using the Balanced Scorecard (BSC) methodology was developed further towards automation. In addition, the Bank commenced a job evaluation and classification study whose aim is to update the organisation's job competency manual, develop schemes of service and align the organisation's structure and capacity requirements with the new corporate plan for 2018-2022.

To further enhance the skill levels of staff members, various training and capacity building programmes were provided, including the Bank's on-demand e-Learning platform course offerings. Specialised training was also extended to the Board of Directors.

The development of the Nairobi Regional Office and Operations Centre Building Project progressed in 2016, with various consultants contracted to undertake and complete the initial studies. For the Harare Regional Office, the second phase of its renovation project was finalised while plans were advanced to establish the Addis Ababa and Kinshasa offices jointly with sister COMESA institutions.

Rebranding

Since its establishment, the Bank has operated under its legal name 'Eastern and Southern African Trade & Development Bank' as well as two trading names in English and in French: PTA Bank / Banque de la ZEP. At its 32nd Annual Meeting in May 2016, the Bank's Board of Governors approved the rebranding of the Bank, so that it trades under a uniform and consistent name: the Trade and Development Bank (TDB), complete with a new logo and tagline.

The Bank's legal name 'Eastern and Southern African Trade & Development Bank' remains unchanged. To this end, the new brand was launched in November, 2016, with other marketing and branding events planned for 2017.

Customer and Partner Satisfaction Survey

In 2016, an independent consultancy firm was appointed to conduct a Customer and Partner Satisfaction Survey. The survey results showed that the Bank scored 4.35, out of a maximum possible of 5 points. This is a slight improvement from the previous year's result of 4.30 in 2015, and 4.29 in the 2014 survey. The results of the survey affirm the Bank's steady improvements in a number of service performance indicators including the quality of communication and the use of technology to streamline processes and interactions. The Customer and Partner Satisfaction Survey is a valuable tool that enables the Bank to track the quality and responsiveness of its engagement with its clients, partners and shareholders.

Conclusion

Despite the numerous challenges in the operating environment, 2016 was yet another successful year for the Bank. In line with the strategic objectives set out in its 5th Corporate Plan 2013-2017, targets were met, and in many instances, exceeded. In this report, I have highlighted some of our accomplishments in 2016, and look forward to reporting further success and achievements in the coming year and beyond.

During the year, the Bank received consistently strong support from its valued clients and business partners; my deep gratitude goes out to them. I also take this opportunity to thank and congratulate the Management Team and Staff of the Bank for their dedication, commitment, team work and enthusiasm, which continues to manifest itself in the Bank's excellent performance. The success of the Bank would not have been possible without the able leadership of the Board of Directors, and without the wise counsel and support of the Board of Governors; my gratitude and warm appreciation goes to them.

ADMASSU Y. TADESSE
President & Chief Executive Officer

We will strive to realize our vision to be our clients' most valued partner.

STATEMENT ON CORPORATE GOVERNANCE

The key aspects of the Bank's approach to Corporate Governance are as follows:

Corporate Governance Standards

The Board of Directors of the Eastern and Southern African Trade and Development Bank (TDB) is responsible for the governance of the institution and has final accountability for its strategic direction, management and performance. In executing its duties, the Board ensures the Bank complies with good corporate governance principles and high ethical standards as embedded in the Bank's Charter.

As a multilateral institution, the Bank is not subject to the supervisory authority of any national jurisdiction. Accordingly, the corporate governance principles and standards adopted by the Board have been developed with close reference to guidelines adopted by other highly rated international multi-lateral financial institutions, as well as some best practices recommended from different parts of the world including the Principles of Corporate Governance in the Commonwealth, the King Code of Governance (1999) and codes of best practice as developed by various regulatory authorities in the Bank's Member States.

To underpin its commitment to sound corporate governance, the Bank signed a joint approach statement on corporate governance alongside 30 international development financial institutions in October, 2007 which led to the development of the Corporate Governance Development Framework. Under the framework, the signatories endeavour to work together to advance the cause of good corporate governance. In 2016, in recognition of its efforts in promoting good corporate governance practices, the Bank scored a rate of 76 out of 78, which translates to 95% on governance following a peer review under the Association of African Development Finance Institutions (AADFI) Prudential Standards, Guidelines and Rating System.

Governance Structure

The Bank is a multi-national legal entity established by Charter. The Charter which is binding on all Members sets out the objectives, membership, capital structure and organisation of the Bank as well as identifying the type of transactions the Bank may engage in. It also sets out the immunities, exemptions and privileges of the Bank. The Charter also contains provisions with respect to the allocation of capital subscriptions.

The Charter is revisited periodically to ensure alignment with the Bank's size, strategies, interest of shareholders and governance best practices. The latest amendments to the Charter became effective on 1st January, 2016 following approval by the Board of Governors at its 32nd Annual Meeting in May 2016.

The establishment of the Tripartite Free Trade Area presented an opportunity to expand the Bank's geographic coverage and mobilize new memberships. In order to optimize on advantages and benefits that come with an enlarged free trade area, to enable the Bank to operate and participate in projects outside the Bank's Member States as long as this serves to implement the Bank's objectives. To support the membership expansion thrust, the Board of Governors is now empowered to periodically review the size, composition and structure of the Board of Directors and may consider the creation of additional Board seats for one or more shareholding groups.

The membership expansion strategy also necessitated amendments to the Charter to strengthen the Bank's institutional capacity. In pursuit of the strategy of resourcing the Bank's capital growth, the introduction of the Class B instrument attracted significant capital.

Toward this end, the Charter now enables entities such as provident funds to acquire shares in the Bank. As a protective measure, the amended Charter reinforces the Bank's rights on several fronts including the right to suspend an institutional member if its ownership of shares would give rise to a risk of causing, or does cause, a legal, regulatory or reputational risk to the Bank. Moreover, the Bank now enjoys a lien in favour of the Bank on all shares belonging to a shareholder as well as its dividend entitlement. The amended Charter also includes a provision on the procedure for the forfeiture of shares which reflects the Bank's practice over the years.

As the Bank continues to grow and diversify its shareholding base, enhancements to the workings of the Board of Governors were also introduced by way of Charter amendments. The constitution of BOG sub-committees aims to increase efficiency in carrying out delegated tasks specifically mandated by the Board of Governors from time to time with a regular reporting cycle at each annual meeting.

Board of Governors

All powers of the Bank are vested in the Board of Governors. Each Member of the Bank appoints one Governor and one alternate, with the alternate only voting in the absence of the principal. The Governor or the alternate exercises voting powers on behalf of the Member for which he or she is a nominee. Each Governor is entitled to cast the number of votes of the Member State or Member, which appointed them and which they represent and, except as otherwise expressly provided in the Charter, all matters before the Board of Governors shall be decided by a majority of the voting power represented at the meeting. The Board of Governors generally comprises Ministers of Finance or Ministers of Economic Planning from Member States as well as appointees of Members other than the Member States.

The Board of Governors appoints the President of the Bank and Non-Executive Directors (NEDs) of the Board of Directors. It delegates powers to the Board of Directors, and ordinarily meets once a year. Although it has delegated powers to the Board of Directors, certain specific powers, such as the increase or decrease of the Bank's authorised capital, amendments to the Charter and approval of the Bank's audited accounts, are retained by the Board of Governors.

Board of Directors

The Bank's Charter outlines specific roles and responsibilities for the Board of Directors, which has responsibility for the general conduct of the ordinary operations of the Bank. Article 27 (6) of the Bank's Charter provides that the Board of Directors shall be responsible for the conduct of the general operations of the Bank. The Charter provides for the Board to consist of not more than 10 NEDs (in addition to the President as an executive member) or such other number as may be determined by the Board of Governors from time to time. Five of the 10 NEDs represent five groups of Member State constituencies. Each Member State constituency also has an Alternate NED. In addition, each of the following shareholder categories has one seat on the Board: i) non-African States, ii) African Institutions; and iii) all other institutional Shareholders not represented by African Institutions. The remaining two seats on the Board are reserved for independent NEDs in line with good corporate governance.

At its 32nd Annual Meeting held in Kigali, Rwanda in May 2016, the Board of Governors proceeded to appoint the following new Board Members:

- **Independent Non-Executive Directors**
  In April 2016, advertisements were made for the two vacant independent Non-Executive Director (NED) board seats. In line with the provisions of the Charter, the shortlisted candidates were interviewed by the members of the Remuneration and Nominations Committee (REMCO) of the Board of Directors. REMCO members were tasked with conducting the interviews having due regard to established criteria such as balance of skills, nationality, knowledge, experience and diversity on the Board. Following the interviews and REMCO's recommendation, the Board of Governors confirmed the appointment of Dr. Abdel-Rahman Taha and Mr. Juste Rwamabuga as the Bank's two new independent NEDs, effective May and October 2016, respectively. Dr. Taha and Mr. Rwamabuga bring a wealth of experience to the Bank in the operations and management of multilateral development finance institutions namely the Islamic Corporation for the Insurance of Investment and Export Credit, the International Finance Corporation and the African Development Bank.

- **Non-Executive Directors representing All Other Shareholders**

  Since 2013, the Bank welcomed nine new Class B institutional shareholders, in addition to shareholders categorized as regional African Institutions (the African Development Bank, the Africa Reinsurance Corporation and PTA Reinsurance Company). Per the provisions of the Charter, the board seat representing institutional shareholders (All Other Shareholders Group) was filled in 2016. Following a nomination process among the shareholders; Mr. John Bosco Sebabi and Ms. Lekha Nair were respectively appointed as the substantive and alternate NEDs representing the All Other Shareholders Group by the Board of Governors at its 2016 Annual Meeting.

- **Non-Executive Directors representing Member States**

  The Bank's governance framework provides an opportunity to all its 19 Member States to participate in the Board of Directors. This is achieved through a principle of rotation which requires that the Directorship of the Bank rotates between and among Member States within a constituency every three years. In accordance with the principle of rotation, at its 32nd Annual Meeting held in May 2016, the Board of Governors mandated the following Member States to nominate appropriate nationals to constitute the substantive members of the Board of Directors and subject to the prior discharge of any long standing capital arrears and accumulated penalty interest: Tanzania, Mauritius, Mozambique, Comoros and Malawi. The following new Board members formally took office at the Board of Directors' sitting in December 2016:

  - Ms. Isabel Sumar as NED representing the constituency comprising Kenya, Somalia, Zambia and Mozambique
  - Mr. Gerard Bussier as NED representing the constituency comprising Zimbabwe, Eritrea, Rwanda and Mauritius
  - Dr. Natu Mwamba as NED representing the constituency comprising Egypt, Djibouti and Tanzania
  - Mr. Peter Simbani as NED representing the constituency comprising Seychelles, Burundi, Ethiopia and Malawi.

As at 31 December 2016, the Board of Directors, including the President, therefore consisted of 11 members.

Board meetings are held at any of the Bank's offices or at any other location specified in the notice convening the meeting. Board Members elect a Director to serve as Chairperson and Vice-Chairperson of the Board for a period of one year. The President works jointly with the Chairman and Vice-Chairman. The role and responsibilities of the Chairman and of the President are distinct and held separately as specified in the Charter.

To assist members of the Board in the discharge of their responsibilities, the Bank has in place, Rules of Procedure to guide the conduct of meetings and a Code of Conduct for Directors. Quorum for any board meeting is a majority of the total number of directors representing not less than two-thirds of the voting rights of the Bank. In 2016, all Board Meetings satisfied this quorum criterion.

The Audit and Risk Committee (ARCO) is mandated to assist the Board of Directors in discharging its duties relating to the identification and management of the key risks facing the Bank as they relate to monitoring and reviewing the Bank's Enterprise Risk Management Framework, Internal control and Financial Reporting practices. It serves in an advisory capacity to the Board and ensures that the Bank's assets are safeguarded, adequate internal controls are in place and that material risks are effectively managed.

The Investment and Credit Committee (INVESCO) is mandated to provide oversight on matters relating to the Bank's investment and credit mandate, providing advice to management regarding the implementation of investment initiatives and assisting the Board in making major investments decisions; and monitoring the investment policies.

The Remuneration and Nominations Committee (REMCO) is mandated to review, recommend and improve the Bank's policy framework and other inputs on human resource management including remuneration, incentives and other matters affecting working conditions, advising and making recommendations to the Board with regard to corporate performance and issues affecting staff working conditions. REMCO also acts as the reference committee for all matters relating to the Board's Code of Conduct.

Each Board-Committee is composed of at least four Directors. The President is a member of INVESCO and REMCO, and attends ARCO in an ex-officio capacity.

The table below shows attendance by Board Members in 2016.

	Board Meetings	ARCO Meetings	INVESCO Meetings	REMCO Meetings
Mr. Samuel Mivedor [1]	1/4	0/4	1/4	
Mr. Mohamed Kalif [2]	3/4	3/4	3/4	
Dr. Abdel Rahman Taha [3]	3/4		3/4	3/4
Mr. Mingzhi Liu	4/4	4/4	4/4	
Prof. Oliver Saasa [4]	4/4	4/4		4/4
Ms. Kampeta Sayinzoga [5]	4/4		4/4	4/4
Mr. Gerome Kamwanga [6]	4/4	4/4	4/4	
Ms. Mariam Hamadou [7]	3/4	3/4		3/4
Mr. Rupert Simeon [8]	4/4	4/4		4/4
Mr. Juste Rwamabuga [9]	1/4		1/4	1/4
Mr. John Bosco Sebabi [10]	1/4		1/4	1/4
Mr. Gerard Bussier [11]	1/4	1/4	1/4	
Mr. Peter Simbani [12]	1/4	1/4	1/4	
Dr. Natu Mwamba [13]	1/4	1/4		1/4
Ms. Isabel Sumar [14]	1/4		1/4	1/4
Mr. Admassu Tadesse	4/4		4/4	4/4

The President

Pursuant to the Bank's Charter, the President shall be a person of integrity and of the highest competence to matters pertaining to the activities, management and administration of the Bank. He/ she shall preside over the affairs of the Bank, serve as Chief Executive and legal representative of the Bank. The President is assisted in his or her role by a Management Team. At its 32nd Annual Meeting in May 2016, the Board of Governors demonstrated its strong confidence in the Bank's leadership by unanimously renewing Mr. Tadesse's appointment as President & Chief Executive of the Bank for a second term of five years.

Dual Domicilium

Since its establishment in 1985, the Bank's principal office has been located in Bujumbura (Burundi). In recognition of the existing domicilium of the Bank's special purpose funds in Mauritius, the Bank's Board of Governors, on the recommendation of the Board of Directors, approved an upgrade of TDB's Office in Mauritius into a second principal office of the Bank, alongside the Republic of Burundi, effective 31 December 2016. The aim is to leverage on Mauritius' well regarded domicilium for funds and financial institutions in the COMESA region and the Bank's Mauritius principal office will serve as a centre for funds management, fundraising and regional operations as well as corporate support and business continuity. Additionally, this has enhanced the risk profile of the Bank which is now also formally domiciled in an investment grade Member State.

In addition to its two principal offices, the Bank also has a regional and operations centre in Nairobi (Kenya), and an office in Harare (Zimbabwe). In line with its decentralisation and partnership strategy to better service the vast region it operates in and enhance its portfolio management, the Bank is also in the process of establishing new joint offices with peer institutions in Addis Ababa (Ethiopia) and Kinshasa (Democratic Republic of the Congo).

References

1 Substantive Non-Executive Director for African Institutions until June 2016 and Alternate Non-Executive Director from June 2016.

2 Substantive Non-Executive Director for African Institutions effective June 2016 with a first sitting at the Q2 2016 Board meeting.

3 Independent Non-Executive Director effective May 2016 with a first sitting at the Q2 2016 Board meeting.

4 Substantive Non-Executive Director for Kenya, Zambia, Mozambique and Somalia until 30th September 2016 and Alternate Non-Executive Director from 1st October 2016. Appointed Chairman of ARCO at Q4 2016 Board meeting for a period of one year to ensure continuity in governance.

5 Substantive Non-Executive Director for Zimbabwe, Eritrea, Rwanda and Mauritius until 30th September 2016 and Alternate Non-Executive Director from 1st October 2016. Appointed Chairperson of REMCO at Q4 2016 Board meeting for a period of one year to ensure continuity of governance.

6 Mr. Kamwanga assumes the role of Substantive Non-Executive Director until the date of receipt of the payment by Comoros of its long standing arrears and accumulated penalty interest.

7 Substantive Non-Executive Director for Egypt, Djibouti and Tanzania until 30th September 2016 and Alternate Non-Executive Director from 1st October 2016.

8 Substantive Non-Executive Director for Seychelles, Burundi, Ethiopia and Malawi until 30th September 2016 and Alternate Non-Executive Director from 1st October 2016.

9 Independent Non-Executive Director effective 1st October 2016 with a first sitting at the Q4 2016 Board meeting.

10 Non-Executive Director representing All Other Shareholders effective 1st October 2016 with a first sitting at the Q4 2016 Board meeting.

11 Substantive Non-Executive Director for Zimbabwe, Eritrea, Rwanda and Mauritius effective 1st October 2016 with a first sitting at the Q4 2016 Board meeting.

12 Substantive Non-Executive Director for Seychelles, Burundi, Ethiopia and Malawi effective 1st October 2016 with a first sitting at the Q4 2016 Board meeting.

13 Substantive Non-Executive Director for Egypt, Djibouti and Tanzania effective 1st October 2016 with a first sitting at the Q4 2016 Board meeting.

14 Substantive Non-Executive Director for Kenya, Somalia, Zambia and Mozambique effective 1st October 2016 with a first sitting at the Q4 Board meeting.

Trade & Development Bank aims to facilitate exports from the COMESA region through the provision of finance and trade-related facilities that are tailored to meet a client's needs.

SUSTAINABILITY REPORTING STATEMENT

For TDB, sustainability means structuring its business for long term continuity and growth through balancing social, environmental and economic factors in business decisions. TDB's sustainability framework is designed to ensure delivery on its mandate of providing financial and non-financial services to trade and project transactions in a wide range of sectors, which facilitate economic diversification and promote regional integration. The sustainability framework is part of the bank-wide Enterprise Risk Management (ERM) Framework and has four key pillars as summarized below.

TDB SUSTAINABILITY PILLARS

SECTOR STRATEGIES AND PRIORITIES	ESMS POLICY AND PROCEDURES	CAPACITY BUILDING AND KNOWLEDGE	MEASURING RESULTS AND ACCOUNTABILITY
• Allocation of funds targeting transactions meeting sustainable goals e.g Renewable Energy Line of Credit. • Use of sector framework to identify environment and social risks and opportunities.	• Application of policies and procedures through out credit process: • Pre-investment screening. • Due diligence and legal documentation • Compliance monitoring	• In-house group training using Sustainability Experts training • Individualized training for all operational staff • Client on site sharing of knowledge with Bank external experts	• Annual Sustainability Performance Reporting to stake-holders • Impact Assessment reporting on various transaction goals/ targets such as jobs created, Megawatts of clean energy created gender equality • Independent review of the ESMS to monitor performance • Annual reviews of all existing transactions

TDB Sustainability Pillars

The Bank's investments cut across various sectors such as Agribusiness, Transport including aviation, Energy, Tourism, Manufacturing and Infrastructure. In its credit process, the Bank in collaboration with its partners, anticipates and puts in place mitigation measures for potential environmental and social risks that may arise through the Bank's investments while at the same time maximising positive environmental and social outcomes that may arise out of these investments.

To meet these goals, the Bank has in place a credit risk management system that supports the lending portfolio alongside a robust Environmental and Social Management System (ESMS). In addition, the Bank tracks measurable results of its investments and the effectiveness of the ESMS in line with tools available in the ESMS framework. TDB also emphasises knowledge and capacity building- all essential components of the sustainability pillars presented above.

Delivering Sustainability through the ESMS Framework

Aware that investing in and protecting our natural and social capital improves the quality of life for people in our Member States and ensures sustainability of our environment, TDB and its partners strive to understand and mitigate potential negative environmental and social impacts and risks associated with its investments. This is achieved through the application of ESMS policies and procedures. The ESMS has safeguards that protect against environmental and social harm and uphold best international practices and standards, thereby improving the value of the transactions to local communities and the project owners alike.

All Bank relationship managers are trained on a regular basis to ensure they acquire basic skills in identification of potential and emerging ESMS risks and regularly engage the Bank's clients to make them understand that sustainability is paramount in their operations and guide them in adopting more sustainable practices.

The Bank regularly reviews its ESMS policy in order to ensure that new and emerging risks as well as stakeholder concerns are addressed. In 2016, the ESMS procedures manual was reviewed and enhanced to incorporate sector specific Environmental and Social (E&S) risk assessment; monitoring guidelines as well as explicit indication of International Finance Cooperation (IFC) Performance Standards.

Improving Performance through Stakeholder Engagement (Accountability)

The Bank takes an integrated approach towards stakeholder engagement. This entails on-going dialogue about the Bank's role within the Member States regarding its products and services. The instruments we use to conduct this dialogue include technical meetings, frequent conference calls with our customers, business seminars to sensitise stakeholders about our products and analysis of our operations by rating agencies.

By engaging with our stakeholders, we gain in-depth understanding of key issues concerning our clients. The immediate benefits of stakeholder engagement include

- Opportunity to co-create high impact solutions;
- Product and process improvements;
- Better understanding of our borrowers' needs; and
- Prioritising stakeholder needs and acting upon their concerns.

Social Development Impact

TDB financing focuses on economic growth, which creates economic opportunities such as direct and indirect jobs. Its intervention in Member States experiencing institutional and market failures has boosted economic growth and promoted financial stability and resilience. Through its partners, TDB has made available funding targeting qualifying sustainable transactions in the renewable energy sub-sector. Accordingly, in 2016, two new renewable energy transactions were approved in Zambia and Rwanda. Implementation of three other power projects was ongoing in Uganda, Kenya and Zimbabwe. Other key projects that were under implementation during the 2016 were in a diagnostic clinic in Djibouti, and infrastructure finance transaction for the Governments of Kenya and Uganda among others. These transactions are expected to create jobs, improve infrastructure in communities, reduce carbon emissions and improve the quality of life in the communities around them.

Corporate Social Responsibility (CSR) Policy and Other Initiatives

In 2016, the Bank appointed a consultant to develop the CSR policy and strategy which is expected to be delivered by Q2, 2017. The development of CSR policy and strategy will be instrumental in advancing the sustained contributions of the Bank's CSR initiatives to its Member States.

We provide financial and non-financial services in respect of trade and infrastructure among a wide range of growth sectors.

ECONOMIC ENVIRONMENT

Global Overview

The world economy faced yet another challenging year in 2016 occasioned by slow-down in global trade and investments and heightened policy uncertainty. 2016 forecasts were negatively impacted by worldwide political and economic tensions, including the Brexit vote in June, the surprising outcome of the United States election, the stock markets crash in China, and the coups in Brazil and Turkey, among others. With an expansion of only 2.2%, 2016 showed the slowest growth since the 2009 Great Recession, which was underpinned by global investment weakness, low productivity and drop in world trade. However, it is estimated that global growth above expected level could be achieved in 2017 if the United States implemented fiscal stimulus. Emerging markets, developing economies and regions that are commodity importing are projected to record positive growth while commodity exporters will struggle due to low commodity prices.

In 2016, China's rebalancing from an export-led to a more consumption-driven economic model partially contributed to the slowdown in the global expansion, by bringing higher capital outflow pressure and domestic equity market turbulence. The Eurozone economy followed the global feeble growth, with 1.6% growth despite the accommodative monetary policy introduced by the European Central Bank since 2015. Europe is facing strong political uncertainties subsequent to the Brexit vote in June 2016, which hampers investment and exports.

The US economy also reported a slower than expected growth in 2016 as the fall in oil prices led to a sharp decline in the energy sector. Appreciation of the United States dollar hurt exports and manufacturing investment, and inventories were drawn down. Weak external demand and the exchange rate appreciation constrained export growth during much of 2016, while the slowdown in import-intensive investment has weighed on imports.

With no surprise, emerging economies had a weaker economic momentum following China's decision to follow a more sustainable growth pace. Most of the commodity-exporting countries were hit by the sharp fall in commodity prices.

Sub-Saharan Africa

2016 was a challenging year for Sub-Saharan Africa, which saw the region's GDP hit the lowest level of 1.3% in 20 years, from 5.1% in 2014. The slump in commodity prices that started in 2014 contributed to the decline, given that many countries depend on commodity exports. Among the most affected countries are the region's largest economies of Angola, Nigeria and South Africa, which depend heavily on commodity exports. Together, these countries account for 60% of Sub-Sahara's GDP, and it is no wonder that their sub optimal economic performance negatively affected the whole region. In addition, the Eastern and Southern African region was hit by severe drought from mid-2016, severely affecting agriculture and hydro-power generation in countries like Ethiopia, Mozambique and Uganda.

Angola's GDP is forecast at a mere 1.1%, largely as a result of subdued oil prices and little progress in economic diversification. Nigeria too struggled under the pressure of low oil prices. In 2016, South Africa's economic environment continued to decline, reaching its weakest pace in seven years, at 0.4%, as a result of low commodity prices and the effect of the drought that saw a decline in agricultural production.

Despite the drought experienced from late 2016, some African economies recorded relatively stable growth in 2016 above the 5% level, with Tanzania, Ethiopia, Rwanda and Kenya, recording 7.1%, 6.5%, 6.0% and 5.9% respectively. The introduction of interest rate cap in Kenya had a negative impact on the country's GDP and may further dampen the 2017 outlook if measures are not taken sooner to address this. Other countries grew moderately above the region's 1.5% average with Zambia, Mozambique, Uganda and Botswana at 3.8%, 3.4%, 3.00% and 2.7% respectively.

2017 Outlook

Growth perspectives remain moderate and need to be supported by efforts in policy-making that stimulate investment and productivity. According to the World Bank, global economic growth is expected to rise from 3.1% in 2016 to 3.5% in 2017 and 3.6% in 2018. The same institution projects that advanced economies will move upward by 1.9% in 2017 and 2% in 2018, especially in European countries like Germany, United Kingdom and Spain, and also in Japan. Nonetheless, most of the growth will be leveraged by emerging economies with a pickup in growth from 4.1% in 2016 to 4.5% in 2017 and 4.8% in 2018. However, these forecasts are still vulnerable to geopolitical imbalances and major policy shifts. Emerging markets are more exposed to tighter global financial conditions, capital flow reversals, and the balance sheet implications of sharp depreciations.

In Sub-Saharan Africa, growth projections also remain fragile since the region recorded its worst performance over the past two decades. A 2.5% rebound is expected in 2017 as the region is starting to recover from the aftermaths of the drought that hit most of the Eastern and Southern African countries in 2016. Major economies like Nigeria and Angola should give a push up to this growth as they will respectively increase oil production and public spending in 2017 – and thus leveraging more trade in the region. The recent improvement in commodity prices should have an impact on commodity exporting countries like Ghana, Zambia and Zimbabwe. However, these countries will remain vulnerable to any monetary policy adjustment in the United States that could result in an increase in borrowing costs. Non-resource intensive exporters, including Côte d'Ivoire, Ethiopia, Kenya and Senegal, are expected to have a robust expansion of more than 5% in 2017, despite the fiscal deficit results of a massive investment in infrastructure. These countries will benefit from low oil prices, higher private consumption and appealing investment growth rates.

TDB supports its operations through equity from capital subscriptions; long term and short term lines of credit; in addition to participation in capital markets.

FINANCIAL MANAGEMENT

Income

In 2016, the Bank grew its interest income by 8% to USD 225.2M from USD 208.7M in 2015. The increase is attributed to the 11% growth in the Project Finance and Trade Finance loan portfolio. Trade Finance contributed 68% of the interest income.

Total borrowing costs increased by 11% from USD 98.2M in 2015 to USD 108.7M. Interest expense on long-term and short-term borrowings rose by 6% from USD 89.5M in 2015 to USD 95.0M, due to the 4% increase in total borrowings as well as the rise in the cost of borrowing, reflecting the rise in LIBOR. The growth in borrowings is in line with the 4% growth in the Bank's total assets. Borrowing and financing costs increased by 57% from USD 8.7M in 2015 to USD 13.7M mainly because of new facilities secured by the Bank in 2016, which occasioned a more than four-fold increase in facility fees.

Consequently, net interest income grew by 5% to USD 116.5M from USD 110.5M in 2015.

Net fees and commission income was USD 55.0M from USD 47.9M in 2015. The 15% increase is attributed to facility fees earned from trade finance loans which were approved in 2016. Trade Finance fees comprise facility, letter of credit, management, drawdown, document handling, and other fees; while Project Finance fees comprise appraisal, facility, commitment, letter of credit, management, and other fees.

Risk mitigation costs (comprising Risk Down-selling and Insurance costs) for 2016 amounted to USD 13.1M compared to USD 15.3M in 2015, a 14% reduction. The Risk Down-selling costs represent the income forgone as a result of the Bank selling down part of its large credit exposures to certain counterparties. The Risk Down-selling strategy aims to reduce concentration risk especially in the oil/petroleum sector as well as country concentration and allows the retention of large clients whose financing requirements may exceed the Bank's lending limits.

USD 116 million

Net interest income in 2016

USD 55 million

Net fees and commission income

USD 13.1 million

Risk mitigation costs in 2016

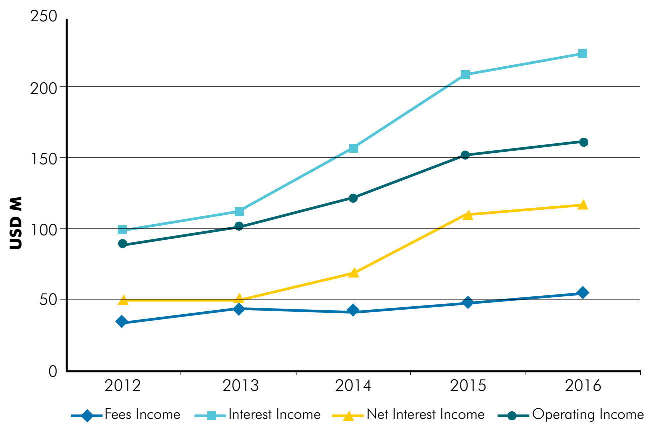
USD 162 million

Operating income in 2016

Operating income rose by 7% to USD 162.0M in 2016 from USD 151.9M in 2015.

The chart below depicts the Banks's gross interest, net interest, fee and operating income over a five-year period.

TOTAL INCOME



Operating expenditure

Operating expenditure increased by 51% from USD 20.9M in 2015 to USD 31.5M in 2016 as a result of continued investments in human and organisational capacity to strengthen the Bank's institutional framework and capabilities, as per the 5th Corporate Plan in addition to a new mid-year career and growing young professional programmes.

Impairment

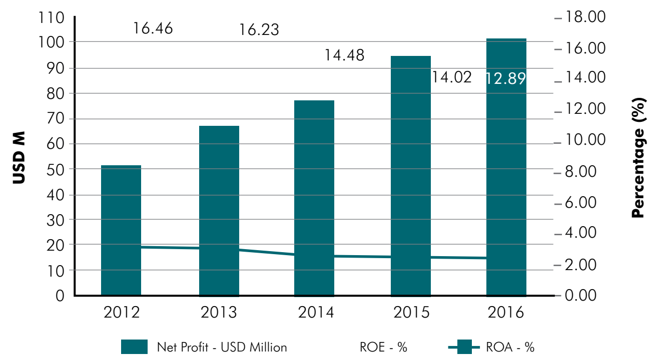
Impairment on Project and Trade Finance loans decreased by 29%, from USD 32.8M in 2015 to USD 23.1M. Impairment provision is made after a detailed review of the Bank's entire loan portfolio. The provision includes USD 12.2M (2015: USD 13.6M) general provisions introduced in 2014 as part of the Bank's revised risk management policies.

Profitability

The Bank made a net profit for the year 2016 of USD 101.5M from USD 94.7M in 2015. This compares very favourably with the annual budget of USD 80.3M. The profitability achieved exceeds by 48% the USD 68.4M level projected for 2016 in the Corporate Plan. The 7% growth in profitability over 2015 is attributable mainly to the increased interest income and net fee and commission income. The ROE and ROA edged lower from 14.02% and 2.48% in 2015 to 12.89% and 2.43% respectively in 2016.

The graph below illustrates the Bank's profitability and profitability ratios over the five years to 2016.

PROFITABILITY



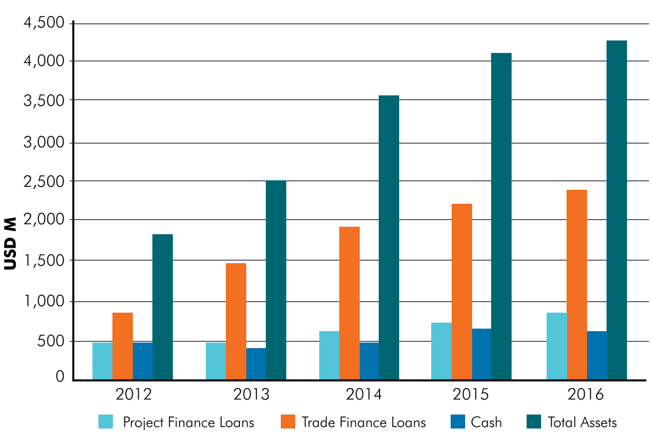
Assets

The Bank grew its total assets by 4% over 2015 to USD 4.26B, exceeding by 40% the USD 3.04B level planned for 2016 in the Bank's 5th Corporate Plan. Of the USD 166.7M net asset growth, USD 185.0M is attributable to Trade Finance loans, whose net balance is USD 2.39B, 8% up from USD 2.21B in 2015, due to new disbursements net of repayments. Project Finance loans grew by a net amount of USD 148.2M to USD 846.9M as a result of disbursements net of repayments made during the year. The Bank's net loan book grew year on year by 11%.

Cash and cash equivalents declined by 8% from USD 643.5M in 2015 to USD 594.8M due to disbursements to major accounts towards year end and decrease in collection account deposits from clients. Other receivables decreased by USD 108.2M in 2016 as a result of Risk Down-selling receivable which reduced to USD 52.7M from USD 163.9M in 2015.

The chart below depicts the growth in the Bank's project finance and trade finance loans, cash and total assets over the last five years.

ASSET COMPOSITION



Liabilities

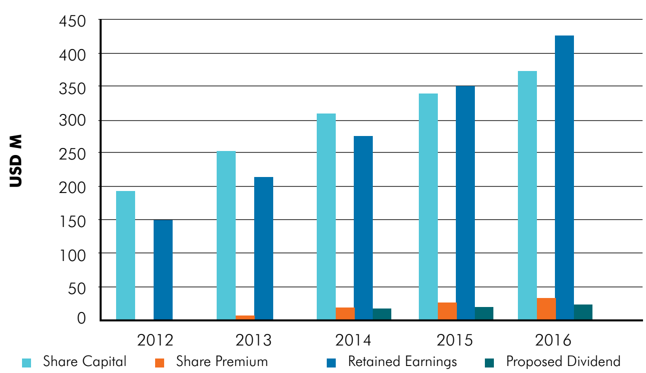
The Bank's total liabilities grew marginally by 1% to USD 3.40B from USD 3.36B in 2015. Short-term borrowings grew by USD 190.1M to USD 2.37B to fund the Bank's Trade Finance book while long-term borrowings decreased by USD 79.9M as a result of repayment of facilities which had matured. Borrowings were received from various lenders and counterparties during the year. Included in short term borrowings is USD 965M syndicated facilities received during the last quarter of 2016, whose proceeds were used to fund disbursements. Collection account deposits decreased by USD 92.7M to USD 171.8M mainly due to reduction in funds on an account denominated in the local currency of a member state. Collection accounts represent cash included in the Bank's cash balances deposited by Trade Finance clients as part of the facility structure to service maturing instalments.

Capital

The Bank's shareholders' funds grew by 16% to USD 856.5M, exceeding the 11% growth in the Bank's net loan assets. This compares favourably with, and surpasses by 25% the USD 685.1M projected for 2016 in the Bank's Corporate Plan. Of the USD 120.2M increase in total equity, USD 40.5M was in the form of capital subscriptions including share premium while USD 77.1M is from retained earnings for the year. A dividend distribution of USD 24.4M is proposed for 2016.

The graph below presents the growth in the Bank's shareholder's funds (total equity) during the five years to 2016.

SHAREHOLDER'S FUNDS



Financial Strength Indicators

The table below depicts the Bank's major ratios for the year ended December 2016 compared to 2015 and 2016 budget

		DECEMBER, 2016 ACTUAL	DECEMBER, 2015 ACTUAL	DECEMBER 2016 BUDGET
	PROFITABILITY RATIOS			
1	Return on Capital Employed	12.89%	14.02%	10.04%
	(Net profit / Total Shareholders' Funds)			
2	Return on assets	2.43%	2.48%	1.98%
3	Net profit margin (Net profit / Gross Income)	37.48%	37.88%	32.32%
4	Net Interest Margin	4.23%	4.40%	3.43%
	EFFICIENCY RATIOS			
5	Operating costs to Total Income	20.18%	21.46%	22.56%
6	Administration Costs/Total Income	11.65%	8.36%	11.66%
7	Staff Costs/Total Income	7.33%	6.11%	7.59%
	LEVERAGE RATIOS			
8	Total debt to equity ratio	369.4%	414.7%	328.0%
	(Total Borrowings / Total Shareholders' Funds)			
9	Total capital and reserves to Total Assets	20.1%	18.0%	21.4%
10	Total capital and reserves to Gross Loans	25.7%	24.5%	26.5%
11	Capital Adequacy Ratio	37.0%	39.1%	35.0%
	OTHER PERFORMANCE INDICATORS			
12	Liquidity Ratio	14.0%	15.7%	10.4%
	(Liquid Assets / Total Assets)			
13	Gross NPL Ratio	2.85%	2.87%	3.00%
14	NPL coverage ratio	102.6%	110.1%	112.2%

The Bank is further expanding its shareholder base as it repositions itself as a more inclusive Regional Development Bank serving all countries in or adjacent to eastern and southern Africa – subject to membership – working with the East African Community, the Intergovernmental Authority on Development (IGAD), the Indian Ocean Commission (IOC) and the Southern African Development Community (SADC), in addition to its founding regional economic community, COMESA.

OPERATIONS

PROJECT AND INFRASTRUCTURE FINANCE

Operational performance

In 2016, the global economy was in flux with political events in developed economies posing additional risks. The Brexit vote worsened the outlook for the United Kingdom and the European Union faced major structural problems with European banks in the midst of high geopolitical tensions and increased terrorism threats. The negative impact of the Brexit vote and slow growth in the United States led to the slight downward revision of global growth projection for 2016–2017. As a result, 2016 saw the world economy slow to its weakest pace of expansion since the 2008-2009 financial crisis. Economies of Sub-Saharan Africa were not spared either.

Results

The Bank started its Project and Infrastructure Finance activities cautiously with increased deal selectivity and transaction structuring. A prudent approach was extended to the review of previously approved or committed transactions to assess continued viability given the dynamic economic and political developments. This led to a well-considered strategy in commitment and disbursement of new transactions.

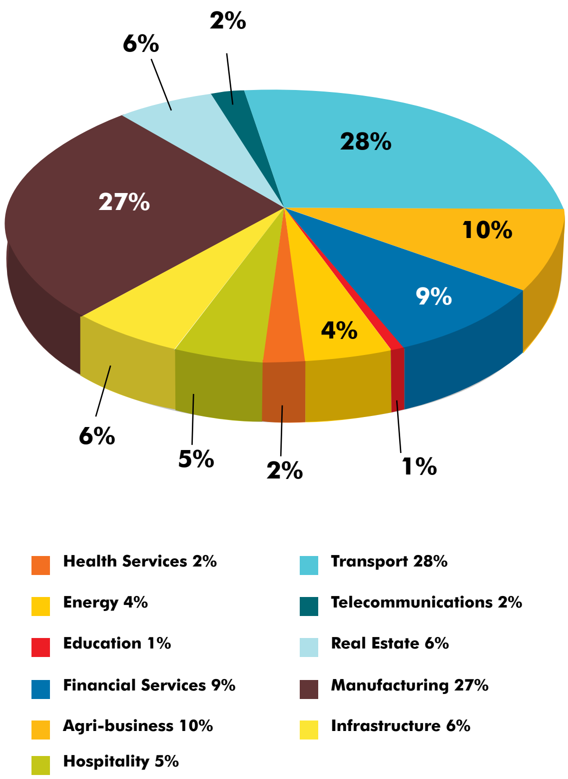
Given the nature of the business whereby annual income is driven primarily from interest income on the existing portfolio and fee income from new business, gross income was not adversely affected, totalling USD 61.7M in 2016.

Portfolio Growth

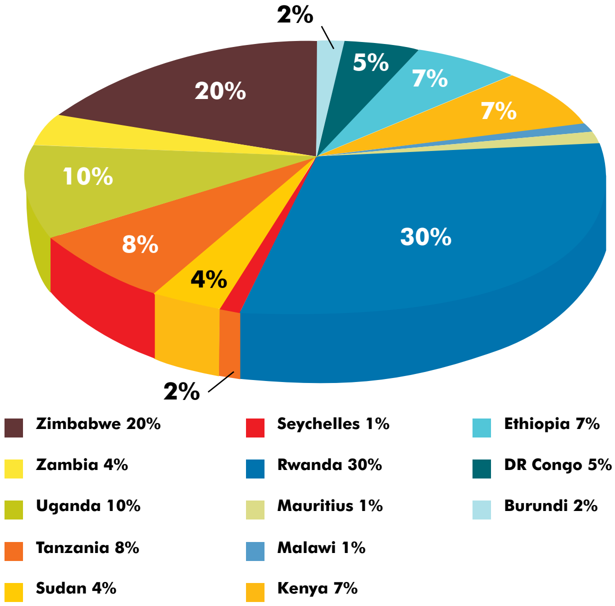
Overall, in 2016, the Bank's gross portfolio of long-term assets grew to USD 896.1M. While this represented 18% year-on-year growth against USD 762.3 M in 2015, it is in line with the Bank's strategic plan both in terms of growth rate (on average 15% per annum) and on-going strategic thrust on Project and Infrastructure Finance.

The figures below show the PIF portfolio sector and geographical distribution in 2016.

Portfolio Distribution per Sector



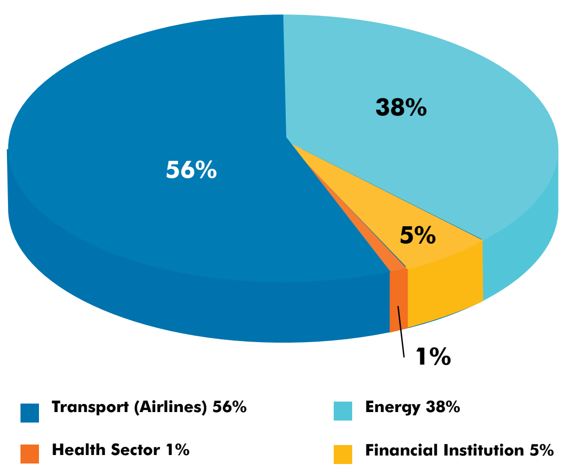
Portfolio Distribution per Country



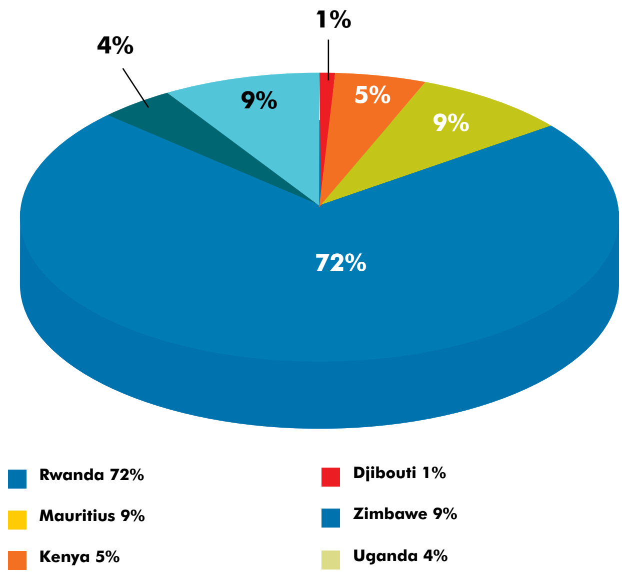
Commitments

A significant milestone in the Project and Infrastructure Finance business is its commitment and fulfilment of conditions precedent to disbursement, to facilitate draw-down of approved loans. In total, the Bank committed an aggregate amount of USD 323.3M, up from USD 224.8M in 2015 representing 44% growth. The commitments reflect the Bank's focus on Infrastructure, Energy and Transport, with some large ticket transactions in Rwanda (RwandAir and Yumn Limited).

Commitments per Sector



Commitments per Country



Disbursements

In the year under review, disbursements of PIF facilities amounted to USD 293.1M, through both Letters of Credit (LCs) and cash. This represents 45% growth on 2015 total disbursements of USD 201.7M.

Loans structures rely primarily on the project's cash flows for repayment and that the project's assets, rights, and other interests are held as security or collateral.

TRADE FINANCE

Trade Finance operations and activities continued to be guided by the Bank's 5th Corporate Plan (2013-2017). The operations and activities were also to some extent influenced by the events shaping the operating environment.

The Bank's diversification strategy continued to balance between sustaining support towards the foundation accounts and sectors, and pivoting towards new market opportunities to reduce concentration risk. Trade Finance continued to focus on market development while benefiting from existing and new relationships to drive the diversification strategy, and portfolio growth beyond traditional markets and into new frontier markets, both in terms of product and sector.

Guided by the Corporate Plan, the Bank succeeded in both geographic and product diversification by expanding its intervention efforts in under-served markets, namely Uganda, Djibouti, Ethiopia, Rwanda, and Democratic Republic of Congo. The Bank's interventions in these markets comprised of sovereign support to benefit public and private enterprises. Further, the Bank's re-focus in new markets such as Djibouti, Mozambique, Mauritius, Egypt, Uganda, and Kenya have already yielded actionable and achievable pipeline, resulting in projected growth of over USD 800M by end of 2017.

Macroeconomic Context

According to the IMF, economic growth in Sub-Sahara Africa 2016 was projected to be the lowest in 20 years at only 1.5%, which is less than half of the previous year's growth. This sharp decline was largely due to the continued commodities price decline, tighter financing environment, narrower fiscal space, and slow policy response in addressing these economic shocks. However, not all countries were hard hit. Non-commodity exporting countries performed well with growth averaging over 4% as they benefited from lower oil import prices, improvements in their business environments, and strong infrastructure investment.

During the period under review, Africa's trade with the rest of the world remained high, except with the United States.

From 2000 to 2008, Africa's trade increased by an annual average of 16%. Because of the 2008-2009 global financial crisis, trade fell sharply by 24% from 2008 to 2009. Since 2010, Africa's exports have recovered, growing by an annual average of 8.5%. Trade with the United States has persistently declined however.

Africa's exports to emerging economies were dominated by China and mainly comprised of oil, metals and other primary products. This exposed the continent to China's shifting economic model from investment, import and export to an economy based on domestic consumption and services. This slowed demand for Africa's products and affected long-term growth. Currently, China accounts for 27% of Sub-Saharan Africa's global exports with primary commodities representing about 83% of exports to China. Trade between African regions also grew, though it remains low compared to other parts of the world. In 2000, intra-regional trade accounted for 10% of Africa's total trade compared to 16% in 2015. This trade is mainly in manufactured goods, which are less susceptible to price shocks. Manufactured products accounted for 60% of total regional trade.

Performance Review

In 2016, Trade Finance activities maintained a positive trend of good performance despite the somewhat mixed economic headwinds and slower growth across the region. This is partially a reflection of solid portfolio and business relationship that the Bank managed to grow over the last two years.

Loan Approvals

In line with the Bank's deliberate strategy of managing asset growth, during 2016, Trade Finance approvals amounted to USD 3.03B representing 8% decrease year on year from USD 3.3B achieved in 2015.

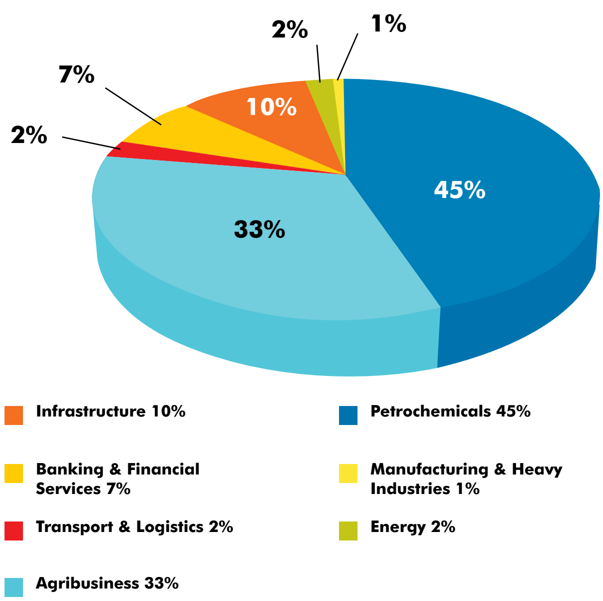
Approvals by Sector

Petroleum products are important to economic activities of Member States as they are a key input into mechanised agriculture and manufacturing industries over and above utilisation in the transport and the distribution sectors. The high demand for petroleum is also due to inadequate power generation in the region to cater for quasi-commercial industries. Accordingly, Petrochemicals transactions accounted for 45% of sectorial Trade Finance approvals.

The Bank also continued rolling out its portfolio diversification strategy during the year. This is demonstrated by Agribusiness transactions accounting for 33%, Infrastructure 10% and Banking & Financial Services transactions accounting for 7% total approvals.

The chart below shows Trade Finance Approvals in 2016 per sector

Approvals per Sector

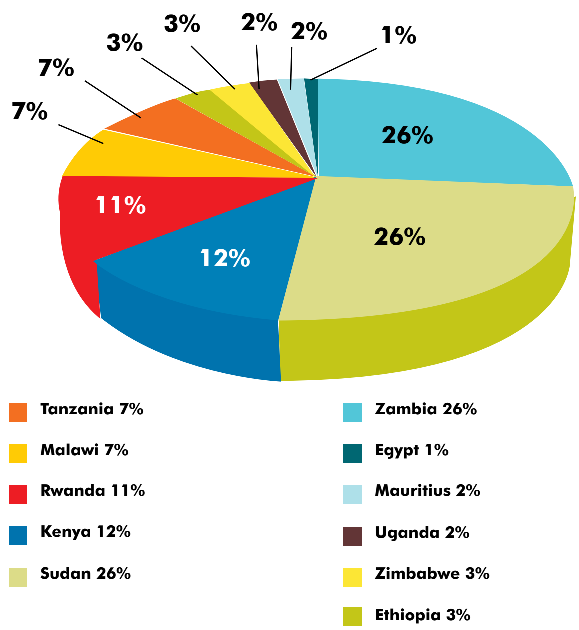


Approvals by Country

Due to the size of the intervention in the Oil importation and other strategic commodity import facilities, the largest recipients of the Bank's Trade Finance approvals in terms of volume were Zambia (26%) and Sudan (26%). The remaining 48% of approvals were spread across the other Member States as follows: Kenya (12%), Rwanda (11%), Malawi (7%), Tanzania (7%), Ethiopia (3%), Zimbabwe (3%), Uganda (2%), Mauritius (2%), and Egypt 1%.

The figure below presents the geographical spread of Trade Finance approvals in 2016.

Approvals per Country



Strategy Execution

2016 marked the fourth year of implementation of the Bank's 5th Corporate Plan (2013 – 2017). The strategic thrust for Trade Finance was aimed at moderating down-side risks to economic challenges while supporting the efforts of Member States to alleviate economic head winds. The diversification strategy continued to balance between sustaining support towards the foundation accounts and sectors, and pivoting towards new market opportunities to dilute concentration risk.

Key Trade Finance programs and facilities

The table below summarises a selection of programs and facilities implemented in 2016:

Client Name		Sector	Country	Facility Type
1.	Export Trading Group	Agribusiness	Mauritius	Syndicated working capital line of credit
2.	Vaell	Transport & Logistics	Kenya/Tanzania	LC for purchase of earth-moving equipment
3.	REGIDESO	Other	DRC	Revolving import line of credit and ECA backed import
4.	Ministry of Finance, Planning and Economic Development	Other	Uganda	Import of equipment and vendor payment settlement
5.	Government of Kenya	Other	Kenya	Capital expenditure and Dual-tranche syndicated loans
6.	Central Bank of Congo (BCC)	Banking & Financial Services	DRC	Revolving Trade Finance import facility
7.	Government of Djibouti	Other	Djibouti	Capital expenditure
8.	RwandAir	Transport & Logistics	Rwanda	Pre-delivery payment (PDP)
9.	Hashi Energy	Petrochemicals	Mauritius	Import Credit facility
10.	Min. of Mines, Energy & Water Development	Petrochemicals	Zambia	Oil import committed facility
11.	Government of Malawi	Banking & Financial Services	Malawi	T-Note programme
12.	Commercial Bank of Ethiopia	Banking & Financial Services	Ethiopia	Refinancing of LCs
13.	Union Co. for Import, Export and Commercial Agencies	Other	Egypt	Import finance facility

Another intervention for the Bank was in assisting Member Country governments to alleviate the pressure they face with limited foreign exchange reserves by funding self-liquidating transactions off the fiscal resource envelope.

Trade Finance embarked on a strong strategy with Financial Institutions, aimed at providing lines of credit to central banks and commercial banks in Member States. Trade Finance concluded a USD 250M bilateral loan to the Central Bank of Democratic Republic of Congo, a 100% cash collateralised facility, as well as a USD 200M bilateral loan in favour of the Ministry of Financial Planning and Economic Development of the Government of Uganda.

With increased funding requirements for sovereigns in the region, Trade Finance completed several syndicated loan transactions, with a strategy of originating for distribution the new assets to ensure efficient utilisation of capital. Trade Finance negotiated mandates with sovereigns and large corporates.

The trade landscape in the Bank's Member States remains highly slanted towards imports. This is reflected in the Trade Finance portfolio where imports for strategic commodities such as petrochemicals and agricultural soft commodities, is very high. Diversification of the Trade Finance portfolio remains guided by each Member State's absorptive capacity and market opportunities as well as credit parameters.

For the year 2016, Trade Finance achieved revenue of USD 218M, a favourable variance of 9% above the budgeted target of USD 200M. This was largely driven by interest income and upfront fees, which were 107% and 119% respectively of budget, as well as income from Treasury Notes and other fees which exceeded the budget by USD 6.4M. In line with the Bank's strategy in 2016 to manage growth, Trade Finance volumes were 67% of the budgeted target of USD 3.75B. Disbursements during the year were posted at 60% while LC volumes were at 74% of budget. Income from Treasury Notes for the year under review was USD 15M.

The Bank, through Trade Finance, continues to deepen its presence across the region to promote intra-regional trade and diversification of regional exports. The Trade Finance portfolio has promoted the trade in import/export products in Member Countries such as Malawi and Egypt; Ethiopia and Democratic Republic of Congo; Mauritius and Kenya. Further product driven diversification includes Factoring & Forfaiting, and Export Credit Agency finance deals which have shown positive results in Ethiopia, Uganda, Zimbabwe, and Rwanda.

FUNDS MANAGEMENT

The Bank's Funds Management Initiative was established in 2013 under the 5th Corporate Plan (2013 – 2017) to diversify income streams and increase development impact. This initiative is in line with Article 9 and 10 of the Charter, which stipulates that the Bank will establish and manage Special Purpose Funds designed to promote the objectives of the Bank.

In previous years, the Bank took responsibility to operationalise the COMESA Infrastructure Fund (CIF) and establish the Eastern and Southern African Trade Fund (ESATF). The CIF is a third party Fund that the Bank had been entrusted to operationalise by the COMESA Secretariat, whilst ESATF is the debut proprietary Fund of TDB. Through a competitive selection process, the CIF identified Harith General Partners Proprietary Limited (HGP) to be the Bank's preferred partner, and the Bank identified GML Capital LLP (GML) as Joint Venture partners to manage ESATF. The Fund Managers for CIF are Eastern and Southern African Infrastructure Fund (ESAIF) while Eastern and Southern African Trade Advisors Limited (ESATAL) are for ESATF. Both Funds, and their respective Fund Managers, are private companies registered in and regulated by the Laws of Mauritius, and are managed independently of the Bank's activities. TDB, as majority shareholder in the Fund Managers, has Board representations, and the Joint Venture partners have both Board representation and management control through their representatives at Chief Executive Officer level.

The work of the CIF and ESAIF continued to receive professional support from the respective Board appointed service providers, namely ABAX as the Fund Administrator, Bedell Cristin as the Legal Counsel, and PWC and BDO as the auditors of the CIF and ESAIF respectively. ESATF and ESATAL are supported by APEX Fund Services as the Fund Administrator, Afrasia Bank as Custodian and Bankers, BLC Chambers as the Legal Counsel and KPMG as the auditors.

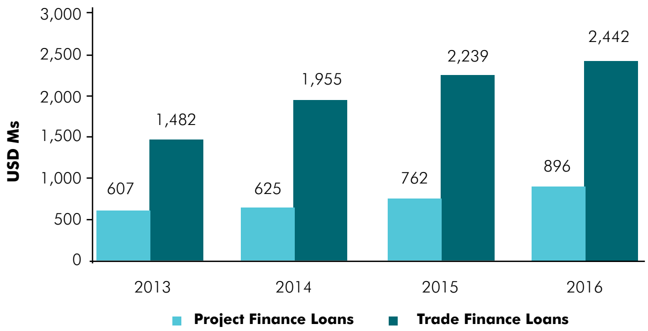
PORTFOLIO MANAGEMENT

Portfolio Overview

In 2016, the Bank's gross loan portfolio grew by 11%, closing the year as at 31 December 2016 at USD 3.34B (2015: USD 3.00B). The growth rate compares favourably with the growth target set by the Bank. Project Loans sub-portfolio grew to USD 896.1M in 2016, an increase of 18% from the 2015 level of USD 762.3M, while the Trade Finance loans portfolio grew by 9% to stand at USD 2.44B in 2016 (2015: USD 2.24B). The growth was driven by the Bank's strategic focus on managed growth, while diversifying the portfolio by country, sector and product type.

The graph below shows the trend in the Project and Trade finance gross portfolio between 2013 and 2016:

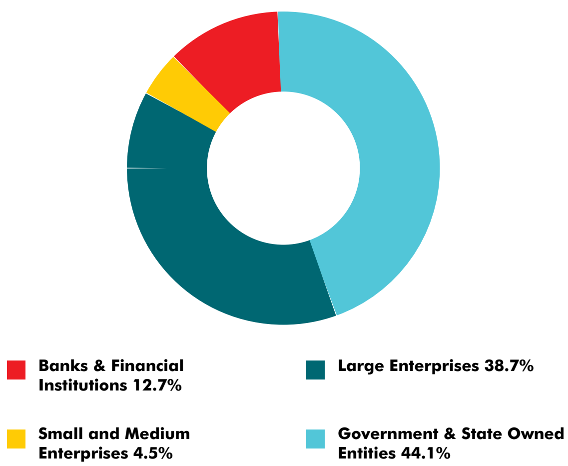
PROJECT AND TRADE FINANCE GROSS LOANS 2013-2016, IN USD'Ms



The Bank's most significant interventions are in Government/ state owned entities and large corporations, which comprised 44% and 39% of the portfolio, respectively. This mix reflects the Bank's enhanced participation in high value deal sizes and risk sharing through syndicated transactions. The Bank continues to serve its Member States and to explore opportunities in frontier markets using structured transactions and a defined risk appetite.

The graph below shows the portfolio mix as at 31 December, 2016.

PORTFOLIO MIX, 31 DECEMBER, 2016



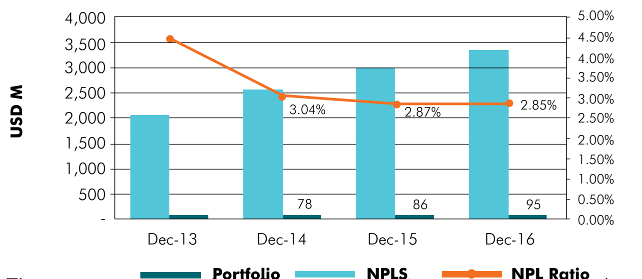
Asset Quality

The Bank continued to foster prudent portfolio risk management practices to maintain a high quality portfolio. The ratio of gross non-performing assets to gross exposure remained acceptable and improving. The trend demonstrates the Bank's systematic approach to risk management across the credit cycle. The Bank continued to focus on the quality and sustainability of new business underwritten, rehabilitation of distressed accounts and pursuit of cost-effective exit strategies. Frequent portfolio reviews are undertaken to optimize returns, align markets as well as proactively mitigate emerging risks.

The Bank's NPL ratio improved in the current year to 2.85%, (2015: 2.87%).

The graph below illustrates the historical NPL ratio trend for the four-year period to 31 December, 2016.

PORTFOLIO GROWTH Vs ASSET QUALITY, 31 DECEMBER, 2016



The improvement in the NPL metric over 4 years attests to a robust portfolio risk management process has been put in place from loan origination to recovery.

Social and Environmental Governance

The Bank's Social and Environmental Management System (SEMS) is a risk management tool designed to determine, assess and manage environmental and social risks inherent in projects financed by the Bank. The Framework aligns closely with best practices such as the IFC Performance Standards and Equator Principles. The Bank devoted effort in implementing the approved environmental and social management framework throughout the credit cycle.

In 2016, the Bank commissioned an Environmental & Social Governance (ESG) consultancy firm, to undertake an environmental and social review of the Portfolio. The review sampled twenty-six transactions and included a deep dive assessment of five Category One projects. The review confirmed that none of the transactions had fatal flaws that could jeopardize the projects' operations and none were involved in excluded activities listed in TDB's exclusion list.

Focus in 2017

In 2017, the Bank will continue to enhance the Credit Risk Assessment System, an essential tool for rating of new and existing transactions. The tool will augment portfolio risk rating both at origination and on-going risk rating throughout the credit cycle. The Bank will continue to evaluate its portfolio and use lessons learnt to inform remedial strategies at the on-boarding stage and for existing transactions. In regard to businesses with long term potential, debt restructuring will be used to limit short-term cash flow challenges. The Bank will continue to work with borrowers and encourage them to standardise their risk management processes to optimize cash flows in businesses and work on appropriate loan repayment plans.

Strengthening the special remedial or workout team as a warehouse for NPLs and written-off loan accounts will continue to be implemented in 2017. The Bank will continue to develop a satisfactory and reliable repayment stream on NPLs and or to realize loan securities while relying heavily on alternative dispute resolution mechanisms. The initiative of building capacity in the management of receiverships, auction processes, forensic investigation and asset tracing tasks as well as working closely with external experts whenever special work-out skills are required, will drive the Bank's recovery strategy.

As the Bank continues to grow and enhance its operating structures, its engagement with various stakeholders also continues to increase and broaden. Stakeholder reporting to line of credit providers, rating agencies, existing and prospective financers will be enhanced and prioritised during the year. The Bank will also continue to prioritise the implementation of a robust Environmental and Social Management System (ESMS) in 2017.

COMPLIANCE AND RISK MANAGEMENT

Overview and Executive Summary

The Compliance and Risk Management Complex under the leadership of the Chief Risk Officer (CRO) comprises the Compliance, Enterprise-wide Risk Management units and the Credit Risk Management department.

The Risk Complex is responsible for implementing the Risk Management Policy Framework (RMF) which stipulates how the Bank manages risk throughout the organization. The RMF identifies processes, ownership, responsibilities and the risk oversight required to support effective implementation of risk management across the Bank.

Effective risk management is fundamental to the business activities of the Bank. While the Bank remains committed to increasing shareholder value by developing and growing its business within Board-determined risk appetite, due consideration is given to the interests of all stakeholders in pursuing this objective. The Bank therefore seeks to achieve an appropriate balance between risk and reward in its business, hence continue to build and enhance the risk management capabilities that assist in delivering the growth plans in a controlled environment.

The Bank operates in a risk environment of growing uncertainty. To assist in visualising, assessing and mitigating the risks that may threaten its mission, the Compliance and Risk Management Complex is tasked with creating a sustainable process to identify, assess, and manage risks across the enterprise to ensure attainment of key organizational objectives and avoid surprises.

Overall responsibility of risk management within the Bank rests with the Board of Directors (the Board), while the day-to-day responsibility is delegated to Bank-wide Integrated Risk Management Committee (BIRMC), which reviews and summarises the entire risk universe. The Board also delegates high-level risk functions to the Audit and Risk Committee (ARCO), and the Investment and Credit Standing Committee (INVESCO), with each Committee focusing on different aspects of risk management. Accountability for risk management resides at all levels within the Bank (everyone is a "risk manager"), from the top executive to each business manager and risk analyst.

During the period under review, the Bank continued to base its risk management framework on a well-established governance process, with different lines of defence and relied both on individual responsibility and collective oversight, supported by a comprehensive reporting and escalation process. The industry standard 'three lines of defence' model is embedded in the Bank's operating model. The first line of defence, Line Management, is practically responsible for risk management. Business unit management is responsible for identification and reporting risks to the various governance bodies within the Bank. The Risk Management function represents the second line of defence, which is independent of Line Management within the Bank.

The Risk function is essentially accountable for establishing and maintaining the Bank's risk management framework as well as providing risk oversight and independent reporting of risks to Senior Management and the Board. The third line of defence consists of Internal Auditors who provide an independent assessment of the adequacy and effectiveness of the control environment. The Internal Auditors report independently to the Board Audit Committee.

The Bank's Enterprise-wide Risk Management (ERM) Framework places emphasis on accountability, responsibility, independence, reporting, communication and transparency. The ERM approach to risk management takes a holistic view of the risks inherent in the Bank's strategy, operations, business, and the management of risks is embedded into the mainstream planning, business and decision-making process. It comprises eight key risk categories that are managed, measured and reported on by all functions across the Bank.

The Bank classifies the eight risk categories into three broad types of risks. The first type and main risk category being 'Credit Risk' followed by 'Market Risk', which together are taken to actively generate profits. The third risk category is 'Operational Risk' that arises passively in the course of carrying out business. These risks were well managed throughout the year.

Review for the Year

In 2015, the Bank set out specific risk focus areas for 2016, and continues to make good progress on these initiatives. The Bank strengthened its risk management environment by ensuring effective implementation of its ERM Framework in compliance with its risk appetite. Activities focused on building capabilities for strengthening risk identification, measurement, control and monitoring, including implementing a robust risk management system, updating the business contingency and continuity plans, and enhancing the risk management and reporting framework.
The global economy continues to be volatile and under stress, and the Bank's continued commitment to sound risk management has proved to be effective as reflected in the financial performance and strong capital position among others. Capital Adequacy Ratio remained stable and stood at 37% (2015: 39.2%) against a set threshold of 30%. The position is considered good to support growth and cover potential losses.

The Bank has a very well performing loan portfolio due to its stringent credit approval process and focus on high quality deals. There was significant performance in containing bad debts through better risk management procedures which allowed the Bank to close the year with lower levels of Non-Performing Loans. NPL level was maintained within the threshold of 5% at 2.85% (2015: 2.87%), an indication of continued prudent risk management practices and sound project due diligence. Provisioning for NPLs was maintained above the threshold of 70% at 106%.

The Bank's risk management approach also included minimizing undue concentration of exposure, limiting potential losses from stress events and ensuring the continued adequacy of all financial resources. Further, the Bank managed compliance risk through proactive measures premised on national and internationally accepted principles of risk management.

The Compliance function supported business in complying with current and emerging compliance related developments, including Customer Due Diligence (CDD) activities on all potential relationships, sanctions, Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) controls, identifying and managing market abuse and mitigation of reputational risk.
In line with the focus areas for 2016, the Implementation of the refined Bank's ERM Framework in a manner consistent with

expectations of the Board, and the implementation of the refined Business Continuity Program (BCP), AML/CFT, and Sanctions programs was started and is ongoing. The Bank has further enhanced its Know Your Customer (KYC) capabilities in managing its operational risk by acquiring an AML/CFT and Sanctions screening tool – World Check.

In addition to the recruitment of the Head of Compliance in 2015, a new Head of Enterprise-wide Risk Management was recruited during 2016 to spearhead the ERM agenda. Two Credit analysts were also recruited in the year to strengthen the centres of excellence, and risk management capacity within the Risk Complex.

Focus for 2017

The dynamic and continually evolving nature of risk requires that the Bank continually enhances and evolves its risk management capabilities.

The risk focus in 2017 remains to ensure that the Bank's financial and strategic objectives are achieved in line with the Bank's mandate and within approved levels of risk appetite. Risk of geopolitical events in the countries in which TDB operates, leading to increase in impairments and reducing financing opportunities, remains the single largest risk facing the Bank. In this regard, the Bank shall actively pursue its portfolio diversification strategy in 2017 and beyond. The Bank will make further refinement of its internal country risk model, placing more emphasis on risk profile and debt absorption capacity of each Member State without ignoring the development mandate of the Bank.

The implementation of the refined ERM Framework along with the AML/CFT and BCP programmes will be on-going in 2017 until these are well embedded and progressed to maturity. To enhance controls and improve efficiency, the Bank in 2016 embarked on an exercise to roll out and implement new systems. The process to acquire three systems namely: Loan Origination System (LOS), Treasury Management System (TMS), and the Operational Risk Management System (ORM) was started.
The ORM system will enhance the implementation of Risk Control Self Assessments, Operational Risk Assessment, Control design, monitoring and reporting. The LOS will be designed to integrate the Credit Risk Assessment process from origination through approval to disbursement. The TMS will assist in managing treasury risk through enhanced limit setting, liquidity forecasting and monitoring.

All these systems are planned for completion and roll out in 2017.

LEGAL

In furtherance of the Bank's 5th Corporate Plan (2013-2017), the Bank, through its Legal Services function has continued to grow and deliver on its mandate by standing as the strategic partner of the operations departments and corporate offices in a number of the Bank's operations and initiatives during the year 2016. Below are some of the highlights.

General Operations

During the year under review, the Legal Services Department served the Bank's operations departments, namely the Trade Finance, Project & Infrastructure Finance, Portfolio Management, and Treasury in assisting the structuring and implementation of transactions of varying proportions in terms of both the general lending operations and resource mobilisation. For instance, the joint team efforts culminated in the successful review and documentation of more than USD 1.9B Treasury transactions, and over USD 1.2B of Project & Infrastructure Finance and Trade Finance transactions. Legal Services Department also successfully supported the Bank in its participations as mandated lead arranger in Syndicated Loan Transactions.

Training and Conferences

In August 2016, staff of the Legal Services Department participated in the Fourth Annual East African Syndicated Loans Conference held in Nairobi. The conference explored legal trends in the short and medium term, and also discussed ways to reduce bottlenecks of liquidity in the region. The roundtable discussion also focused on the role of development banks in the international regulatory landscape. The staff also benefitted from expert training on transactions relating to the legal aspects of Trade Finance, Forfaiting, Islamic Financing and Syndicated Lending.

HUMAN RESOURCE AND ADMINISTRATION

The increased business level during the fourth year of the Bank's current five-year corporate plan necessitated the Bank to continue the drive in attracting best talent, developing and retaining its human capital and establishing an attractive culture of professionalism and motivated work force. Accordingly, 21 new and existing positions were filled mainly in Project and Infrastructure Finance, Compliance and Risk Management, Trade Finance, Corporate Affairs & Investor Relations and Human Resources and Administration departments, through a competitive selection process. Through the ongoing Young Professionals Programme (YPP), in 2016, four young professionals were recruited. The program supports the Bank's human capital development initiatives and promotes diversity in the workforce.

In pursuit of strengthening its reward and recognition program, the Bank's Long Term Incentive & Retention Scheme (LTIRS) was fully implemented and also a new Voluntary Provident Fund for Directors and Select Stakeholders was introduced and successfully launched. The Bank has also introduced and implemented a President's Award program to recognize exceptional performance and special achievements of employees and teams contributing to the growth and sustainability of the Bank and achieve outstanding results.

In 2016, the Bank set a platform to kick-start the automation of its Performance Management System using the Balanced Scorecard (BSC) methodology on SAP platform. A job evaluation and classification study was commissioned to develop a job competency manual, develop schemes of service and streamline the organizational structure of the Bank and recommend optimal staff numbers that meet the Bank's growth.

The Bank's training and capacity building program was enhanced with a view to further promote core competencies, technical skills and knowledge at all levels of the Bank. Various staff training, workshops, seminars and management development programs were provided. The Bank's on-demand e-Learning platform course offerings were enhanced by making the platform available to all staff, at all locations with real-time access in smart and non-smart devices. A specialised training programme was also extended to the Board of Directors.

During the year, improved administrative practices and cost cutting measures were applied consistently. Accordingly, new policies were introduced, automated administrative services were revamped and business processes improved. Planned procurement of goods and services and other logistical and administrative support services including transport, protocol and insurance services were carried out in accordance with the Bank's policies with emphasis placed on efficiency and value for money.

The development of the Nairobi Office building was set in full gear after the Bank's Management and Board of Directors approved the concept design. Based on the Board's guidance, the modified design with enhancements befitting to Class "A" buildings was finalized in 2016. The Bank has also successfully undertaken the procurement and contracting of various consultants to undertake and complete the initial studies and advertised an 'Expression of Interest' for contractors and subcontractors, preconditions and requirements for statutory approvals. Furthermore, the Harare Regional Office second phase renovation project was finalised while the opening of the Addis Ababa Regional Office reached its final stage.

The Bank's staff complement for 2016 was 123 out of which 84 employees were professionals constituting 68% of the total workforce. The ratio of female employees also improved to 46% of the workforce.

INFORMATION TECHNOLOGY

Enhanced automation is one of the cornerstones for achieving the Bank's strategic objectives.

To this end, in April 2016, the Bank concluded a comprehensive IT Review and Diagnostic Study that defined the following key aspects:

(i) An IT architecture that stipulates principles that should guide technology decisions;

(ii) A new and broad IT strategy; and

(iii) A roadmap to achieve the envisaged level of automation.

A pre-requisite in the roadmap was the creation of a Project Management Office which is now in place to oversee implementation of the various automation initiatives. Some of the key systems to be implemented in the roadmap, and which are at diverse stages of the project cycle, with an overall completion date of end of 2017, include fully-fledged solutions to address automation gaps in processes such as Treasury Management, Loan Origination, Document Management, Corporate Financial Modelling, Enterprise Risk Management, and Reporting & Analytics. Given the wide geographical spread of the Bank's business, investments continued to be made in provision of effective mobility tools to staff. This included upgrade of devices and broadening of the category of staff to which these are provided.

From a key risk perspective, review and improvement of the IT Disaster Recovery Plan was carried out. This included upgrade of hardware and assessment of the plan's effectiveness by an independent party.

The Bank continues to lay emphasis on increasing the functionality provided by its SAP Enterprise Resource Planning system. In this regard, enhancements were undertaken in areas such Loan Data Capture, Human Resource reports and Employee Self-service functionality, while others such as automation of the Staff Performance Management process using the pertinent SAP module, and deployment of a Middleware platform, are earmarked for completion in 2017.

Loans are generally structured such that they rely primarily on the project's cash flows for repayment and that the project's assets, rights, and other interests are held as security or collateral.

FINANCIAL STATEMENTS

Corporate **Information**

BOARD OF GOVERNORS

Hon. Claver Gatete
Minister for Finance and Economic Planning
Republic of Rwanda
Chairman, Board of Governors

Hon. Dr.Phillip Mpango
Minister for Finance and Economic Affairs
United Republic of Tanzania

Hon. Felix Mutati
Minister for Finance and National Planning
Republic of Zambia

Hon. Pravind Jugnauth
Prime Minister, Minister of Home Affairs, External Communications and National Development Unit
Minister for Finance and Economic Development
Republic of Mauritius

Hon. Dr. Louis, Rene, Peter Larose
Minister for Finance, Trade and Economic Planning
Republic of Seychelles

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

Hon. Dr. Domitien Ndihokubwayo
Minister for Finance
Republic of Burundi

Hon. Said Ali Said Chayhane
Minister for Finance and Budget
Federal Islamic Republic of Comoros

Hon. Tarek Qabil
Ministerfor Trade and Industry
Arab Republic of Egypt

Hon. Berhane Habtemariam
Minister for Finance
State of Eritrea

Hon. Adan Mohammed
Cabinet Secretary
Ministry of Industry, Investment and Trade
Republic of Kenya

Hon. Goodall Gondwe
Minister for Finance, Economic Planning and Development
Republic of Malawi

Hon. Patrick Chinamasa
Minister for Finance and Economic Development
Republic of Zimbabwe

Hon. Ilyas Moussa Dawaleh
Minister for Economy and Finance in charge of Industry and Planning
Republic of Djibouti

Hon. Dr. Mohamed Osman Suliman El-Rikabi
Minister for Finance and National Economy
Republic of Sudan

Hon. Dr. Abraham Tekeste
Minister for Finance and Economic Development
Federal Democratic Republic of Ethiopia

Hon. Henri Yav Mulang
Minister for Finance
Democratic Republic of Congo

Hon. Adriano Afonso Maleiane
Minister for Economy and Finance
Republic of Mozambique

Hon. Abdirahman Duale Beyle
Minister for Finance
Federal Republic of Somalia

Hon. Martin Dlamini
Minister for Finance
Kingdom of Swaziland

H.E. Dr. Zhou Xiaochuan
People's Bank of China
People's Republic of China
Governor

Mr. Charles O Boamah
African Development Bank (AfDB)
Senior Vice President

Mr. Nikolay N. Natynchick
Paritetbank – Republic of Belarus
Deputy Chairman of the Board

Mr. Veenay Rambarassah
National Pension Fund-Mauritius
Senior Analyst

Mr. Derek Wong Wan Po
Mauritian Eagle Insurance Company Limited
Managing Director

Mr. Jonathan Gatera
Rwanda Social Security Board
Director General

Mr. Tomas Rodrigues Matola
Banco Nacional de Investimento
Chief Executive Officer

Ms. Lekha Nair
Seychelles Pension Fund
Chief Executive Officer

Mr. Corneille Karekezi
Africa Re- Insurance Company
Group Managing Director

Ms. Hope Murera
ZEP-RE (PTA Reinsurance Company)
Managing Director

Mr. Richard Byarugaba
National Social Security Fund – Uganda
Chief Executive Officer

Mr. John A. K Esther
SACOS Group Limited
Chief Executive Officer

FORMER GOVERNORS

Hon. Anerood Jugnauth
Prime Minister, Minister for Defence, Home Affairs, Minister for Finance and Economic Development, Minister for Rodrigues and National Development Unit
Republic of Mauritius

Hon. Hany KadryDimian
Minister for Finance
Arab Republic of Egypt

Hon. Alexander B. Chikwanda
Minister for Finance and National Planning
Republic of Zambia
Mr. RajniVaria
ZEP-RE (PTA Reinsurance Company)
Managing Director

Hon. Abdulaziz Mohammed
Minister for Finance and Economic Development
Federal Democratic Republic of Ethiopia

Hon. Jean Paul Adam
Minister for Finance, Trade and the Blue Economy
Republic of Seychelles

Hon. Tabu Abdallah Manirakiza
Minister for Finance
Republic of Burundi

Hon. Mohamed Ali Soilihi
Vice President in Charge of Finance, Economy, Budget, Investment, Foreign Trade and Privatization
Federal Islamic Republic of Comoros

Hon. Mohamed Aden Ibrahim
Minister for Finance
Federal Republic of Somalia

Hon. Badr El-Din Mahmoud Abbas
Minister of Finance and National Economy
Republic of Sudan

Mr. Andrei S. Brishtelev
Paritetbank – Republic of Belarus
Chairman of the Board

Corporate **Information**

BOARD OF DIRECTORS

Mr. Mohamed Kalif
Non-Executive Director for African Institutions
Chairman

Mr. Gerard Bussier
Non-Executive Director for Zimbabwe, Mauritius, Rwanda and Eritrea

Mr. Peter Simbani
Non-Executive Director for Seychelles, Ethiopia, Burundi and Malawi

Dr. Natu Mwamba
Non-Executive Director for Egypt, Tanzania and Djibouti

Mr. Gerome Kamwanga
Non-Executive Director for Uganda, Sudan, DR Congo and Comoros

Ms. Isabel Sumar
Non-Executive Director for Kenya, Zambia, Mozambique and Somalia

Mr. Liu Mingzhi
Non-Executive Director for Non-African States

Mr. John Bosco Sebabi
Non-Executive Director for All Other Shareholders

Mr. Juste Rwamabuga
Non-Executive Independent Director

Dr. Abdel-Rahman Taha
Non-Executive Independent Director

Mr. Admassu Tadesse
President and Chief Executive

Mr. Samuel Mivedor
Non-Executive Alternate Director for African Institutions

Ms. KampetaSayinzoga
Non-Executive Alternate Director for Zimbabwe, Mauritius, Rwanda and Eritrea

Mr. Rupert Simeon
Non-Executive Alternate Director for Seychelles, Ethiopia, Burundi and Malawi

Prof. Oliver Saasa
Non-Executive Alternate Director for Kenya, Zambia, Mozambique and Somalia

Ms. Mariam Hamadou
Non-Executive Alternate Director for Egypt, Tanzania and Djibouti

Ms. Lekha Nair
Non-Executive Alternate Director for All Other Shareholders

HEADQUARTERS

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Tel: +230- 4676021/4676016
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+257 (22) 4625
Fax:+257 (22) 4983
Email: Official@ptabank.org

AUDITORS

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Off Ragati Road
P. O. Box 44286 – 00100
Nairobi, Kenya

OTHER OFFICES

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197 Lenana Place, Lenana Road | P O Box 48596 - 00100 Nairobi, Kenya
Tel:254 (20) 2712250 | Fax: 254 (20) 2711510 | Swift: ESATKENA

TDB Harare Regional Office: Southern Africa
70 Enterprise Road, Harare, Zimbabwe
Tel: 263(4)788330-3/788336-9/788317 | FCT Line: +263-7827884955
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TDB Addis Ababa Regional Office: Horn of Africa and North Africa
UNDP Compound, Main Bole Rd, Olympia Roundabout,
DRC St. Kirkos Subcity, Kebele 01, House No. 119,
Addis Ababa, Ethiopia

LAWYERS

Various

Report of the **Directors**
For the year ended 31 December 2016

The directors have pleasure in presenting their report and the audited financial statements of the Eastern and Southern African Trade and Development Bank (TDB - formerly PTA Bank) for the year ended 31 December 2016.

1. PRINCIPAL ACTIVITIES

The principal activity of the Bank is to finance, where possible, viable projects and trade activities which have the potential to make the economies of the Member States increasingly complimentary to each other.

The Bank is established by a Charter pursuant to Chapter 9 of the Treaty for the establishment of the Preferential Trade Area (PTA), as subsequently repealed and replaced by the Treaty for the Common Market for the Eastern and Southern African States (COMESA).

2. RESULTS

The results for the period are set out on page 61.

3. DIVIDEND

The Board has recommended a dividend of USD 304.21 (2015: USD 301.35) per share subject to the approval of the shareholders at the Annual General Meeting.

4. BOARD OF GOVERNORS

The current members of the Board of Governors are shown on page 52.

In accordance with the Bank's Charter, each member shall appoint one governor.

5. DIRECTORS

The current members of the Board of Directors are shown on page 53.

In accordance with the Bank's Charter, and subject to re-appointment by the Board of Governors, the directors hold office for a term of three years and are, therefore, not subject to retirement by rotation annually.

6. AUDITORS

The Bank's auditors, Ernst & Young LLP, have expressed their willingness to continue in office in accordance with Article 26 (2) (e) of the Charter of the Bank.

By Order of the Board

Chairman

…………………………..2017

Statement of **Directors' Responsibilities**

For the year ended 31 December 2016

The Bank's Charter requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the operating results of the Bank for that year. It also requires the directors to ensure that the Bank keeps proper accounting records which disclose with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Bank's Charter. The directors are of the opinion that the annual financial statements give a true and fair view of the state of the financial affairs of the Bank and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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.

Director

2017

Director

2017

Report of the **Independent Auditors**

For the year ended 31 December 2016

TO THE MEMBERS OF EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)

Opinion

We have audited the accompanying financial statements of Eastern and Southern African Trade and Development Bank (the "Bank"), which comprise the statements of financial position as at 31 December 2016 and the statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 61 to 166.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Bank's Charter.

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 are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Report of the **Independent Auditors (Cont)**

For the year ended 31 December 2016

Key Audit Matter	How the matter was addressed in the audit
Credit risk and impairment of loans and advances to customers	
Loans and advances which represent 76.03% (2015: 70.99%) of total assets of the Bank.	We evaluated the key controls over the approval, recording and monitoring of loans and advances.
Impairment of these loans and advances is a subjective area due to the level of judgment required in determining whether a loss event has occurred and use of subjective assumptions applied by management in estimating the amount and timing of future cash flows when determining provision for impaired loans. There is a risk that the assumptions used may be inappropriate and hence the estimated impairment loss may be inadequate.	We tested the completeness and accuracy of the underlying loan data used in the impairment calculation by agreeing details to the Bank's source systems. We determined, for a sample of loans, whether key judgments were appropriate given the borrowers' circumstances. The key judgements we evaluated include whether the Bank's assumptions on the expected future cash flows, including the value of realizable collateral, was based on up to date valuations and available market information.
Each quarter management prepares loan loss provisions using the Bank's charter and policy guidelines. At year end, the collective and individual impairment losses are determined by management based on valuation models. Due to the significance of loans and advances and the related estimation process this is considered a key audit matter.	For a sample of individually impaired loans, we recalculated management's provision amount to check for arithmetical accuracy.
Disclosures of these items are included in notes 15, 16 and 17 of the financial statements.	We evaluated the aging of a sample of loans within the loan risk classification categories to ensure that the loans were included in the right category, and provisioned accordingly. For the general provision, which reflects losses incurred but not yet identified, we re-computed the general provisions applied against respective loan categories for a sample of loans based on the company's policy. We further focused on the adequacy of the Bank's disclosure regarding the loan provisions and the related risks such as credit risk, liquidity risk and the aging of the loans to bank customers.

Report of the **Independent Auditors (Cont)**

For the year ended 31 December 2016

Key Audit Matter	How the matter was addressed in the audit
Fair valuation of derivative financial instruments	
The Bank uses derivative financial instruments to manage its exposure to interest rate risk and foreign currency risk. As disclosed in note 14 and note 40 to the financial statements, derivative financial instruments (asset) amounted to USD 75,760,442 comprising of forward foreign exchange contracts of USD 75,418,629 and interest rate swaps of USD 341,813 as at 31 December 2016. Forward foreign exchange contracts are valued using an implied forward rate and discounted using a risk free rate. The fair value of interest rate swaps is calculated using a discounted cash flow model in which the contractual cash flows are discounted using a risk free rate. Due to the subjectivity involved in determining the implied forward rates and risk free rates, the valuation of derivative financial instruments, we considered this to be a key audit matter for our audit.	We assessed the appropriateness of the valuation models used to value the derivative financial instruments. We involved our internal valuation specialists to assess the valuation of a sample of each type of derivative financial instruments to assess whether the valuations performed by the Bank were reasonable. We also compared the fair value adjustments passed by management to our recalculation. We assessed the sources and accuracy of key inputs used in the valuations such as the risk free rates, spot rates and implied forward rates. We benchmarked these rates against external sources. We obtained third party confirmations for a sample of the open positions as at 31 December 2016. We reviewed the financial statement disclosures related to the derivative financial instruments for completeness and accuracy and to assess compliance with the IFRS disclosure requirements.

Other Information

The directors are responsible for the other information. The other information comprises the Chairperson's Statement; President's Statement; Statement on Corporate Governance; Sustainability Reporting Statement; Corporate Information and Information on Economic Environment, Financial Management, and Operations, which is expected to be made available to us after that date. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information 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.

Report of the **Independent Auditors (Cont)**

For the year ended 31 December 2016

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, 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.

When we read the Chairperson's Statement; President's Statement; Statement on Corporate Governance; Sustainability Reporting Statement; Corporate Information and Information on Economic Environment, Financial Management, and Operations, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Directors for the financial statements

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

Those charged with governance are responsible for overseeing the Company's 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 skepticism 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 Auditors (Cont)**

For the year ended 31 December 2016

- 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 Bank's internal control.

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

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

- 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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 responsible for the audit resulting in this independent auditor's report is CPA Nancy Muhoya – P/No. P.2158

Nairobi, Kenya
2017

Statement of **Profit or Loss and Other Comprehensive Income**

For the year ended 31 December 2016

	Note	2016 USD	2015 USD
INCOME			
Interest income	4	225,175,284	208,668,727
Interest expense	5	(95,047,629)	(89,499,439)
Borrowing and financing costs	6	(13,661,851)	(8,691,468)
Interest and similar expense		(108,709,480)	(98,190,907)
Net interest income		116,465,804	110,477,820
Fee and commission income	7a	55,010,879	47,866,029
Net trading income	7b	171,476,683	158,343,849
Risk mitigation costs		(13,054,101)	(15,348,399)
Other income	8	3,560,560	8,886,823
OPERATING INCOME		**161,983,142**	**151,882,273**
EXPENDITURE			
Operating expenses	9	(31,522,886)	(20,895,869)
Impairment on other financial assets	11	(21,765)	(241,287)
Impairment allowance on project and trade finance loans	17	(23,114,269)	(32,767,866)
Impairment of equity instruments at cost	18	(2,805,523)	(223,800)
Net foreign exchange (losses)/gains		(3,062,468)	(3,033,765)
TOTAL EXPENDITURE		**(60,526,911)**	**(57,162,587)**
PROFIT FOR THE YEAR		**101,456,231**	**94,719,686**
Other comprehensive income			
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS		**101,456,231**	**94,719,686**
EARNINGS PER SHARE:			
Basic	**12**	**1,220**	**1,271**
Diluted	**12**	**1,153**	**1,183**

Statement of **Financial Position**

For the year ended 31 December 2016

	Note	2016 USD	2015 USD
ASSETS			
Cash and balances held with other banks	13	594,835,619	643,514,540
Derivative financial instruments	14	75,760,442	60,993,075
Trade finance loans	15	2,393,142,910	2,208,112,386
Project loans	16	846,886,728	698,662,513
Equity investments – at fair value through profit or loss	18	-	288,500
Investment in Government securities	20	214,699,238	241,763,172
Equity investments –at cost	18	17,496,672	20,162,420
Investment in joint venture	19	369,493	334,492
Other receivables	21	79,543,167	187,745,880
Deferred expenditure	22	18,095,167	11,190,156
Property and equipment	23	19,638,542	21,435,474
Intangible assets	24	784,175	357,514
TOTAL ASSETS		**4,261,252,153**	**4,094,560,122**
LIABILITIES AND EQUITY			
LIABILITIES			
Collection account deposits	25	171,770,025	264,474,038
Short term borrowings	26	2,369,322,431	2,179,240,539
Long term borrowings	27	794,214,640	874,104,553
Provision for service and leave pay	29	5,838,723	5,672,051
Other payables	28	63,621,398	34,800,406
TOTAL LIABILITIES		**3,404,767,217**	**3,358,291,587**
EQUITY			
Share capital		372,050,939	339,741,093
Share premium	30	35,106,661	26,870,808
Retained earnings	30	424,977,842	347,871,106
Proposed dividend	30	24,349,494	21,785,528
TOTAL EQUITY		**856,484,936**	**736,268,535**
TOTAL LIABILITIES AND EQUITY		**4,261,252,153**	**4,094,560,122**

The financial statements were approved by the board of directors on ……………………… 2017 and were signed on its behalf by

……………………………………………………… ………………………………………………………

President Director

Statement of
Changes in Equity

For the year ended 31 December 2016

	Share Capital USD	Share premium USD	Retained earnings USD	Proposed dividend USD	Total equity USD
At 1 January 2015	307,962,561	19,778,406	274,936,948	19,244,435	621,922,350
Capital subscriptions (Note 30)	31,778,532	-	-	-	31,778,532
Share Premium (note 30)	-	7,092,402	-	-	7,092,402
Proposed dividend (note 30)	-	-	(21,785,528)	21,785,528	-
Dividends declared (note 30)	-	-	-	(19,244,435)	(19,244,435)
Total comprehensive income for the year	-	-	94,719,686	-	94,719,686
At 31 December 2015	**339,741,093**	**26,870,808**	**347,871,106**	**21,785,528**	**736,268,535**
At 1 January 2016	339,741,093	26,870,808	347,871,106	21,785,528	736,268,535
Capital subscriptions (Note 30)	32,309,846	-	-	-	32,309,846
Share Premium (Note 30)	-	8,235,853	-	-	8,235,853
Proposed dividend (note 30)	-	-	(24,349,495)	24,349,495	-
Dividend declared (note 30)	-	-	-	(21,785,529)	(21,785,529)
Total comprehensive income for the year	-	-	101,456,231	-	101,456,231
At 31 December 2016	**372,050,939**	**35,106,661**	**424,977,842**	**24,349,494**	**856,484,936**

Statement of **Cash Flows**

For the year ended 31 December 2016

	Note	2016 USD	2015 USD
OPERATING ACTIVITIES			
Net cash generated from operations	31(a)	**(94,032,484)**	**220,161,759**
INVESTING ACTIVITIES			
Purchase of property and equipment	23	(499,302)	(1,750,498)
Proceeds from disposal of property and equipment	23	17,402	-
Purchase of intangible assets	24	(589,119)	(87,015)
Acquisition of equity investments	18	(139,775)	(1,345,354)
Disposal of equity investments	18	288,500	-
Acquisition of Interest in Joint Venture	19	(35,001)	(334,492)
Purchase of government securities	20	-	(34,000,000)
Proceeds from redemption of Government securities	20	27,102,693	8,280,471
Net cash generated from (used in) investing activities		**26,145,398**	**(29,236,888)**
FINANCING ACTIVITIES			
Proceeds from capital subscriptions	30	32,309,846	31,778,532
Proceeds from share premium	30	8,235,853	7,092,402
Payment of dividends	30	(21,785,529)	(19,244,435)
Net cash generated from financing activities		**18,760,170**	**19,626,499**
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(49,126,916)	**210,551,370**
Foreign exchange gain/(loss) on cash and cash equivalents		447,997	(3,033,765)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		643,514,538	435,996,933
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	31(c)	594,835,619	643,514,538
FACILITIES AVAILABLE FOR LENDING	31(d)	1,582,753,248	1,348,706,084

Notes to the **Financial Statements**

For the year ended 31 December 2016

1. CORPORATE INFORMATION

The principal activity of the Bank is to finance, where possible, viable projects and trade activities which have the potential to make the economies of the Member States increasingly complementary to each other.

Eastern and Southern African Trade and Development Bank ("the Bank") was established by the Charter pursuant to Chapter 9 of the Treaty for the establishment of the Preferential Trade Area (PTA), as subsequently repealed and replaced by the Treaty for the Common Market for the Eastern and Southern African States (COMESA).

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The Bank's functional and reporting currency is the United States Dollars (USD).

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Presentation of financial statements

The Bank presents its statement of financial position broadly in the order of liquidity.

(b) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Income from loans and investments is recognised in profit or loss when it accrues, by reference to the principal outstanding and the effective interest rate applicable. Interest on arrears of payable capital is taken to revenue when received.

Fees and commissions are generally recognised on an accrual basis when a financing facility is provided over a period of time. These fees include Letter of Credit fees, confirmation fees, guarantee fees, commitment and other fees.

Other fees and commission income include one-off fees arising from the provision of financing facilities to the Bank's clients, like facility fees, drawdown fees, restructuring fees, that do not form an integral part of effective interest rate of the facilities are recognised on completion of the underlying transaction.

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of loans or the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Dividend from investments is recognised when the Bank's right to receive payment has been established.

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Borrowing and financing costs

Borrowing costs are interest and other borrowing and financing costs that the Bank incurs in connection with the borrowing of funds. Interest expense is recognised in profit or loss on the accrual basis taking into account the effective interest rate. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. Other borrowing and financing costs are expensed in the period in which they are incurred. Discounts and premiums or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity are calculated on an effective interest basis.

(d) Foreign currencies

Transactions in foreign currencies are initially recorded at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to profit or loss. All differences arising on non–trading activities are taken to other operating income in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

(e) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment loss. Such cost includes the cost of replacing part of property and equipment if the recognition criteria are met. All other repairs and maintenance costs are expensed as incurred.

Depreciation is calculated at rates which are estimated to write off the cost of property and equipment to their estimated residual values in equal annual instalments over their expected useful lives. The expected useful life of each class of asset is up to the following:

Computer equipment	3-5 years
Motor vehicles	5-7 years
Office equipment	3-5 years
Furniture and fittings	5-10 years
Buildings	50 years
Leasehold Land	99 years

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property and equipment (Continued)

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each reporting date, and adjusted prospectively, if appropriate.

(f) Intangible assets

The Bank's intangible assets relate to the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated at rates which are estimated to write off the cost of the intangible assets in equal annual instalments over 3-5 years.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

The intangible assets' useful lives and methods of amortisation are reviewed at each reporting date, and adjusted prospectively if appropriate.

(g) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless either:

i) the asset's fair value less costs of disposal is higher than its carrying amount; or
ii) the asset's value in use can be estimated to be close to its fair value less costs of disposal and fair value less costs of disposal can be determined.

Notes to the
Financial Statements (Cont)
For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of non-financial assets (Continued)

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available.

If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

For all assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation and amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

(h) Deferred expenditure

Expenditure incurred in relation to a borrowing facility from which the Bank will derive benefits over a period beyond the year in which the facility is secured, if material, is capitalised and amortised over the life of the facility. This relates to expenditure incurred to acquire long term facilities.

(i) Tax

In accordance with paragraph 6 of Article 43 of its Charter, the Bank is exempt from all forms of tax.

(j) Share capital

In accordance with Article 7 of the Charter, for Class A shares, issued and called-up shares are paid for in instalments by the members. Payable capital is credited as share capital and instalments not yet due and due but not paid at year-end are deducted there-from. For Class B shares, payment of the amount subscribed by subscribers shall be paid in full within 90 days from the date of subscription.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments

A financial asset or liability is recognised when the Bank becomes party to the contractual provisions of the instrument (i.e. the trade date). This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial assets

Initial recognition and measurement

The Bank classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans, advances and receivables; held-to-maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition depending on the purpose and characteristics of the asset and management's intention in acquiring them. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets at fair value through profit or loss

Financial assets classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Non-hedging derivatives are also categorised as held for trading.

Loans, advances and receivables

The Bank deals in project and infrastructure financing and trade financing. Project financing is long term in nature, while trade financing is short term in nature. Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market.

Notes to the **Financial Statements (Cont)**

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs, other than for an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

Hedge accounting

The Bank makes use of derivative instruments to manage exposures to interest rate and foreign currency risks. In order to manage these risks, the Bank applies hedge accounting for transactions which meet specified criteria. At inception of the hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each quarter. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where that hedged item is a forecast transaction, the Bank assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in profit or loss in 'other income'. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in profit or loss in 'other income'.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the EIR. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in profit or loss.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in net trading income in profit or loss.

Notes to the
Financial Statements (Cont)
For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

When the hedged transaction affects profit or loss, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line in profit or loss. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in profit or loss. When a forecast is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to profit or loss.

Available-for-sale financial assets

This category comprises financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans, advances and receivables, or (c) held-to-maturity investments. The Bank has not designated any loans or receivables as available-for-sale. The Bank does not have investments classified in this category.

Unrealised gains and losses are recognised directly in equity (other comprehensive income) in the available-for sale reserve. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in profit or loss in other operating income.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:
(a) Financial assets at fair value through profit or loss
(b) Loans, advances and receivables
(c) Held-to-maturity investments
(d) Available-for-sale financial investments

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in profit or loss.

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Bank has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment.

Available-for-sale financial (AFS) investments

AFS financial investments include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealized gains or losses recognised in OCI and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to profit or loss as impairment on other financial assets. Interest earned whilst holding AFS financial investments is reported as interest income using the EIR method. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payment is established. During the year, the Bank had no AFS investments.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
- the Bank has transferred substantially all the risks and rewards of the asset, or
- the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset.

In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or payables. The Bank determines the classification of its financial liabilities at initial recognition.

Initial measurement of financial liabilities

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings and payables, directly attributable transaction costs.

Subsequent measurement

Subsequent measurement of financial liabilities at fair value through profit or loss is at fair value and gains or losses arising from changes in fair value are recognised in profit or loss.

After initial recognition, interest bearing loans and borrowings and payables are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense will not be offset in profit or loss unless required or permitted by any accounting standard or interpretation, and is specifically disclosed in the accounting policies of the Bank.

Impairment of financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets, other than investments at fair value through profit or loss, is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss on loans and receivables and held to maturity investments carried at amortised cost has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not occurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

When a loan is known to be uncollectible, when all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off are included in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Bank's management determines the policies and procedures for both recurring and non-recurring fair value measurement.

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. The fair value of financial instruments is described in more detail in Note 32.

(l) Employee entitlements

Employee entitlements to service pay and annual leave are recognised when they accrue to employees.

A provision is made for the estimated liability of service pay as a result of services rendered by employees up to the year end. Employees are entitled to a full month pay for every year of service completed. An actuarial valuation is carried out every three years to determine the service pay liability. The last valuation was carried out in December 2015.
A provision is made for the estimated liability of annual leave as a result of services rendered by employees up to the year end.

(m) Retirement benefit costs

The Bank operates a defined contribution provident fund scheme for its employees. The Bank contributes 21% of an employee's gross salary to the fund while employees can choose to contribute 7%, 14% or 21%. The Bank's contributions to the defined contribution plan are charged to profit or loss in the year to which they relate. The funds of the scheme are held independently of the Bank's assets.

(n) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are generally written by the Bank to support performance by customers to third parties. The Bank will only be required to meet these obligations in the event of the customers' default. These obligations are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

(o) Cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible to known amounts of cash and which were within three months to maturity when acquired; less advances from banks repayable within three months from the date of the advance.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee

A finance lease is a lease that transfers to the lessee substantially all of the risks and rewards of ownership. A lease that is not a finance lease is an operating lease. Operating lease payments are recognised as an operating expense in profit or loss on a straight-line basis over the lease term.

Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases and are recognised as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

(q) Provisions for other liabilities

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(r) Government grants

Government grants are not recognized unless there is reasonable assurance that the grants will be received and that the Bank will comply with the conditions attaching to the grant. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. When the Bank receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss in equal annual instalments over the expected useful life of the asset.

(s) Collection accounts deposits

Collection accounts deposits include amounts collected on behalf of customers from proceeds of Bank funded commodities. The funds are held until maturity of underlying loans. Collection accounts are recorded at amortized cost. They are derecognized when the underlying assets are discharged.

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Investment in Joint Venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Bank's investment in its joint venture is accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Bank's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The statement of profit or loss and other comprehensive income reflects the Bank's share of the results of operations of the joint venture. Any change in OCI of the investee is presented as part of the Bank's OCI. In addition, when there has been a change recognised directly in the equity of the joint venture, the Bank recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Bank and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Bank's share of profit or loss of a joint venture is shown on the face of the statement of profit or loss and other comprehensive income outside operating profit and represents profit or loss after tax of the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the Bank. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognise an impairment loss on its investment in its joint venture. At each reporting date, the Bank determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Bank calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying amount, and then recognises the loss as 'Share of profit of a joint venture' in the statement of profit or loss and other comprehensive income.

(u) Critical judgments in applying the Bank's accounting policies

In the process of applying the Bank's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent 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 of assets and liabilities within the next financial year.

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Critical judgments in applying the Bank's accounting policies (Continued)

(i) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for 'longer–dated' derivatives and discount rates, prepayment rates and default rate assumptions for 'asset-backed' securities. The Bank measures financial instruments, such as, derivatives, and non-financial assets, at fair value at each reporting date.

The fair value of financial instruments is disclosed in more detail in Note 32.

(ii) Impairment losses on loans and advances

The Bank reviews individually all its loans and advances at each quarter end to assess whether an impairment loss should be recorded in profit or loss. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The impairment loss on loans is disclosed in more detail in notes 15, 16 and 17.

(iii) Property and equipment

In applying the Bank's accounting policy, management makes judgment in determining the useful life for property and equipment. The depreciation rates used are set out in the accounting policy (e) above. See Note 23 for the carrying amounts of property and equipment and depreciation charge for the year.

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

The accounting policies adopted are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2015, except for new standards, amendments and interpretations effective 1 January 2016. The nature and impact of each new standard/ amendment are described below:

The Bank only considered those that are relevant to its operations.

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

New pronouncements issued as at 31 December 2016

(a) IFRS 9 Financial Instruments

Effective for annual periods beginning on or after 1 January 2018.

Key requirements

Classification and measurement of financial assets

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Bank's business model for managing the assets and the instruments' contractual cash flow characteristics The IAS 39 measurement categories will be replaced by: fair Value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow the Bank to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

Classification and measurement of financial liabilities

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise

Impairment

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

(a) IFRS 9 Financial Instruments (Continued)

Hedge accounting

Hedge effectiveness testing is prospective, without the 80% to 125% bright line test in IAS 39, and, depending on the hedge complexity, will often be qualitative. A risk component of a financial or non-financial instrument may be designated as the hedged item if the risk component is separately identifiable and reliably measureable. The time value of an option, any forward element of a forward contract and any foreign currency basis spread can be excluded from the hedging instrument designation and can be accounted for as costs of hedging. More designations of groups of items as the hedged item are possible, including layer designations and some net positions.

Transition

Early application is permitted for reporting periods beginning after the issue of IFRS 9 on 24 July 2014 by applying all of the requirements in this standard at the same time. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. There are choices regarding transition. The standard must be retrospectively applied, but comparatives need not be restated unless the Bank makes a policy choice to do so. Additionally, the hedging requirements can be deferred until the IASB's macro-hedging project is complete. The Bank is yet to elect what route it intends to take.

Impact

The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities. An increase in impairment provisions is expected as a result of providing for both expected and incurred losses. The Bank is still yet to consider whether to apply hedge accounting under IFRS 9.

In December 2016 the Bank set up a multidisciplinary implementation team ('the Team') with members from its Risk, Finance and Operations departments to prepare for IFRS 9 implementation ('the Project').The Project has clear individual work streams and a budget with four key phases: the initial assessment and analysis (Gap analysis), design and build, testing the system, and implementation (parallel running in 2017and go live in 2018). The Gap analysis stage is scheduled to commence in January 2017.

(b) IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28

In August 2015, the IASB issued Exposure Draft ED/2015/7 Effective Date of Amendments to IFRS 10 and IAS 28 proposing to defer the effective date of the amendments until such time as it has finalised any amendments that result from its research project on the equity method.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

(b) IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (Continued)

Key requirements

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

Transition

The amendments must be applied prospectively. Early application is permitted and must be disclosed.

Impact

The Bank is currently assessing the impact of these amendments and plans to adopt them on the required effective date.

(c) IFRS 15 Revenue from Contracts with Customers

Effective for annual periods beginning on or after 1 January 2018.

Key requirements

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17 (or IFRS 16 Leases, once applied). Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 will be applied using a five-step model:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

(c) IFRS 15 Revenue from Contracts with Customers (Continued)

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. It also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. Application guidance is provided in IFRS 15 to assist entities in applying its requirements to certain common arrangements, including licenses of intellectual property, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services and breakage.

Clarifications to IFRS 15

In April 2016, the IASB issued amendments to IFRS 15 to address several implementation issues discussed by the Joint Transition Resource Group for Revenue Recognition. The amendments:

- Clarify when a promised good or service is distinct within the context of the contract
- Clarify how to apply the principal versus agent application guidance, including the unit of account for the assessment, how to apply the control principle in service transactions and reframe the indicators
- Clarify when an entity's activities significantly affect the intellectual property (IP) to which the customer has rights, which is a factor in determining whether the entity recognises revenue for licences over time or at a point in time
- Clarify the scope of the exception for sales-based and usage-based royalties related to licences of IP (the royalty constraint) when there are other promised goods or services in the contract
- Add two practical expedients to the transition requirements of IFRS 15 for: (a) completed contracts under the full retrospective transition approach; and (b) contract modifications at transition.

The amendments have an effective date of 1 January 2018, which is the effective date of IFRS 15. Entities are required to apply these amendments retrospectively. The amendments are intended to clarify the requirements in IFRS 15, not to change the standard.

Transition

Entities can choose to apply the standard using either a full retrospective approach, with some limited relief provided, or a modified retrospective approach. Early application is permitted and must be disclosed.

Impact

The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

(d) IFRS 16 Leases

The new standard is effective for annual periods beginning on or after 1 January 2019.

The IASB issued IFRS 16 Leases on 13 January 2016. The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Key features

- The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under IAS 17.
- Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately.
- The new standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less).
- Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events.
- Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach.

Transition

Early application is permitted, but not before an entity applies IFRS 15. The new standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach.

Impact

The Bank is currently assessing the impact of these amendments and plans to adopt the amendments on the required effective date.

Notes to the **Financial Statements (Cont)**

For the year ended 31 December 2016

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

(e) IAS 1 Disclosure Initiative – Amendments to IAS 1

Effective for annual periods beginning on or after 1 January 2016.

Key requirements

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements.

The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

Transition

Early adoption is permitted. The Board considers these amendments to be clarifications that do not affect the Bank's accounting policies or accounting estimates.

Impact

The amendments do not affect recognition and measurement but the Bank has taken note of these

(f) IAS 7 Disclosure Initiative – Amendments to IAS 7

Effective for annual periods beginning on or after 1 January 2017

Key requirements

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

(f) IAS 7 Disclosure Initiative – Amendments to IAS 7 (Continued)

Transition

On initial application of the amendment, entities are not required to provide comparative information for preceding periods. Early application is permitted.

Impact

The Bank is considering the impact of these amendments and will adopt as applicable on transition date. The amendments are intended to provide information to help investors better understand changes in the Bank's debt.

(g) IAS 27 Equity Method in Separate Financial Statements – Amendments to IAS 27

Effective for annual periods beginning on or after 1 January 2016

Key requirements

The amendments to IAS 27 Separate Financial Statements allow an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Therefore, an entity must account for these investments either:

- At cost
- In accordance with IFRS 9 (or IAS 39) Or
- Using the equity method

The entity must apply the same accounting for each category of investment. A consequential amendment was also made to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 allows a first-time adopter accounting for investments in the separate financial statements using the equity method, to apply the IFRS 1 exemption for past business combinations to the acquisition of the investment.

Transition

The amendments must be applied retrospectively. Early application is permitted and must be disclosed.

Impact

The Bank has taken note of and adopted these amendments in accounting for investments in joint ventures.

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

(h) IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

Effective for annual periods beginning on or after 1 January 2018

Key Requirements

The IASB issued amendments to IFRS 2 Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations. This amendment adds an exception to address the narrow situation where the net settlement arrangement is designed to meet an entity's obligation under tax laws or regulations to withhold a certain amount in order to meet the employee's tax obligation associated with the share- based payment. This amount is then transferred, normally in cash, to the tax authorities on the employee's behalf. To fulfil this obligation, the terms of the share-based payment arrangement may permit or require the entity to withhold the number of equity instruments that are equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment ('net share settlement feature'). Where transactions meet the criteria, they are not divided into two components but are classified in their entirety as equity-settled share-based payment transactions, if they would have been so classified in the absence of the net share settlement feature.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity- settled. The amendment clarifies that, if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. Any difference (whether a debit or a credit) between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in profit or loss.

Transition

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted.

Impact

The Bank is assessing the impact of these amendments.

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

(i) Transfers of Investment Property (Amendments to IAS 40)

Effective for annual periods beginning on or after 1 January 2018

Key requirements

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Transition

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date.

Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed.

Impact

The Bank is considering the impact of these amendments.

(j) IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

Effective for annual periods beginning on or after 1 January 2018

Key requirements

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non- monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Transition

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

(j) IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (Continued)

- The beginning of the reporting period in which the entity first applies the interpretation;

Or

- The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Early application of interpretation is permitted and must be disclosed. First-time adopters of IFRS are also permitted to apply the interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS.

Impact

The Bank is considering the impact of these amendments.

Improvements to International Financial Reporting Standards

Key requirements

The IASB's annual improvements process deals with non-urgent, but necessary, clarifications and amendments to IFRS.

2012-2014 cycle (issued in September 2014)

Following is a summary of the amendments (other than those affecting only the standards' Basis for Conclusions) from the 2012-2014 annual improvements cycle. The changes summarised below are effective for annual reporting periods beginning on or after 1 January 2016. Earlier application is permitted and must be disclosed.

(k) IFRS 7 Financial Instruments: Disclosures

Servicing contracts

- The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required.
- The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendment.

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

(k) IFRS 7 Financial Instruments: Disclosures (Continued)

Applicability of the offsetting disclosures to condensed interim financial statements

- The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.
- The amendment must be applied retrospectively.

(l) IAS 19 Employee Benefits

Discount rate: regional market issue

- The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- The amendment must be applied prospectively.

(m) IAS 34 Interim Financial Reporting

Disclosure of information 'elsewhere in the interim financial report'

- The amendment clarifies that the required interim disclosures must be either in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report).
- The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.
- The amendment must be applied retrospectively.

The Bank has assessed the impact of these amendments and adopted the applicable amendments on the effective date.

2014-2016 cycle (issued in December 2016)

Following is a summary of the amendments from the 2014-2016 annual improvements cycle

(n) IAS 28 Investments in Associates and Joint Ventures

Clarification that measuring investees at fair value through profit or loss is an investment-by- investment choice

The amendments clarifies that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

Notes to the **Financial Statements (Cont)**

For the year ended 31 December 2016

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

(n) IAS 28 Investments in Associates and Joint Ventures (Continued)

- If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact

(o) IFRS 12 Disclosure of Interests in Other Entities

Clarification of the scope of the disclosure requirements in IFRS 12

- The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.
- The amendments are effective from 1 January 2017 and must be applied retrospectively.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

4. INTEREST INCOME	**2016 USD**	**2015 USD**
On loans and facilities:		
Project finance loans	55,913,350	48,352,083
Trade finance loans	152,719,155	143,015,388
	208,632,505	191,367,471
On placements:		
Deposits/Held-to-maturity investments	16,542,779	17,301,256
	225,175,284	**208,668,727**

5. INTEREST EXPENSE

Interest payable on funds borrowed from:		
Banks and financial institutions	45,445,358	48,691,578
Regional and International Bond Markets	19,416,904	23,002,316
Other Institutions	30,185,367	17,805,545
	95,047,629	**89,499,439**

6. BORROWING AND FINANCING COSTS

Amortisation of deferred expenditure	6,194,990	6,459,222
Facility and management fees	5,531,076	1,263,528
Other costs	1,816,370	779,561
Drawdown fees	117,882	58,882
Bank commissions and charges	1,533	130,275
	13,661,851	**8,691,468**

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

7(a) FEE AND COMMISSION INCOME	2016 USD	2015 USD
Upfront fees in trade finance	31,830,072	18,597,472
Letter of credit fees in trade finance	10,326,320	15,848,177
Management fees in trade finance	4,432,445	1,428,673
Facility fees in project finance	2,230,922	1,137,101
Drawdown fees in trade finance	1,778,013	756,568
Commitment fees in project finance	942,856	1,184,617
Drawdown fees in project finance	797,868	93,485
Other fees in trade finance	736,238	4,990,726
Restructuring fees in project finance	676,657	132,543
Appraisal fees in project finance	474,226	893,258
Management fees in project finance	448,234	298,323
Letter of credit fees in project finance	194,191	1,819,926
Document handling fees in trade finance	126,016	221,591
Other Project fees	16,821	463,569
	55,010,879	**47,866,029**

(b) Risk Mitigation Costs

*Insurance cover costs	10,236,731	6,697,732
**Income Forgone	2,817,370	8,650,667
	13,054,101	15,348,399

*This is premium on insurance cover taken on loans made to various borrowers. As at 31 December 2016, the insurance cover was USD 1.18 billion (2015: USD 763.76 million). The cover was taken with African Trade Insurance Agency Ltd and reinsured with Lloyds of London (Syndicates and Insurance Companies).

**These costs represent the income foregone as a result of the Bank selling down part of its large credit exposures to certain counterparties. The risk down-selling strategy aims to reduce concentration risk especially in the Petrochemicals sector and allows the retention of large clients whose financing requirements may exceed the Bank's lending limits. As at 31 December 2016, the Bank had secured from various counterparties risk management capacity amounting to USD 67.7 million (31 December 2015: USD 600 million).

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

8. OTHER INCOME	**2016 USD**	**2015 USD**
Impaired assets recovered *	3,015,335	6,659,073
Other income	429,133	558,383
Interest on capital arrears**	60,160	1,341,440
Grant income ***	29,247	133,150
Interest on staff loans	26,685	26,154
Rental income	-	168,623
	3,560,560	**8,886,823**

*Impaired assets recovered relate to previously written off loans that were recovered during the year.

**Interest on capital arrears relates to interest on capital subscriptions received during the year from member states that were in arrears..

***The grant is provided by the African Development Bank (AFDB) to fund various consultancies and training. The proceeds are credited to the AFDB deferred income account and included in other payables (Note 28). Transfers are made to income when the costs which the grant relates to have been incurred.

9. OPERATING EXPENSES	**2016 USD**	**2015 USD**
Staff costs (Note 10)	19,848,520	15,285,166
Consultants and advisors	5,273,961	1,227,827
Depreciation of property and equipment	2,278,832	765,659
Official missions	1,070,993	1,121,287
Other operating expenses	862,360	736,600
Board of Directors meetings	865,536	672,690
Business promotion	492,877	318,417
Rent	390,230	341,452
Board of Governors meeting	227,119	241,833
Amortisation of intangible assets	162,458	136,938
Audit fees	50,000	48,000
	31,522,886	**20,895,869**

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

10. STAFF COSTS

	2016 USD	2015 USD
Salaries and wages	13,052,606	9,660,031
Other costs	2,520,746	2,213,642
Staff Provident fund contributions –defined contribution plan	1,677,681	1,561,070
Service and leave pay expenses	1,302,561	915,251
Staff reward and recognition scheme	1,294,926	935,172
	19,848,520	**15,285,166**

11. IMPAIRMENT ON OTHER FINANCIAL ASSETS

Other receivables (Note 21)	21,765	241,287

This relates to appraisal fees on projects previously recognized as income receivable, now written off.

12. EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the year of USD 101,456,231 (2015: USD 94,719,686) by the weighted average number of ordinary shares in issue during the year.

Basic Earnings per Share:

The weighted average number of shares in issue is calculated based on the capital instalments due as at year end. The weighted average number of shares in issue during the year was 83,165 comprising Class A – 67,095 and Class B – 16,070 (2015: 74,512 comprising Class A -60,788 and Class B -13,724).

Diluted Earnings per Share:

Diluted earnings per share takes into account the dilutive effect of the callable Class A shares. The number of shares in issue during the year for purposes of diluted earnings per share was 87,966 (2015: 80,076).

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

13. CASH AND BALANCES HELD WITH OTHER BANKS	2016 USD	2015 USD
Current accounts – Note 13 (i)	23,380,982	116,195,904
Call and term deposits with banks – Note 13 (ii)	571,454,637	527,318,636
	594,835,619	**643,514,540**
(i) Current accounts:		
Amounts maintained in United States Dollars (USD)	7,609,676	107,728,956
Amounts maintained in other currencies:		
Euro	7,390,705	(1,770,950)
Tanzania Shillings	4,171,941	2,254,406
Malawi Kwacha	3,250,458	686
Ethiopian Birr	744,740	777,926
Ugandan Shilling	151,626	7,147,788
United Arab Emirates Dirham	37,490	-
South African Rand	10,712	675
Burundi Francs	8,158	5,674
Mauritian Rupee	4,647	21,687
British Pounds	4,164	36,221
Japanese Yen	95	118
Kenyan Shilling	(3,430)	(7,283)
	15,771,306	8,466,948
	23,380,982	**116,195,904**

The average effective interest rate on current accounts was 5.39% (December 2015: 0.50%) per annum.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

13. CASH AND BALANCES HELD WITH OTHER BANKS (Continued)	2016 USD	2015 USD
	USD	USD
(i) Call and term deposits with banks:		
United States Dollars (USD)	400,168,898	257,754,729
Amounts maintained in other currencies:		
Sudanese Pounds	167,465,912	268,412,841
Ugandan Shillings	3,819,827	564,268
Kenya Shillings	-	586,797
	171,285,739	269,563,906
	571,454,637	**527,318,635**

The effective interest rates per annum by currency of deposits were as follows:

Uganda Shillings	14.21%	14.38%
Kenya Shillings	13.50%	11.69%
United States Dollars	0.61%	0.83%

The deposits in Sudanese pounds do not earn interest.

Notes to the **Financial Statements (Cont)**

For the year ended 31 December 2016

14. DERIVATIVE FINANCIAL INSTRUMENTS

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to reduce its exposure to interest rate and foreign currency risks. This is done by engaging in interest rate swaps, currency swaps and currency forward contracts.

Interest rate swaps relate to contracts taken out by the Bank with other financial institutions in which the Bank either receives or pays a floating rate of interest in return for paying or receiving, a fixed rate of interest. The payment flows are usually netted off against each other, with the difference being paid by one party to the other. This swap does not qualify forfair value hedge accounting, and the Bank has treated interest rate swaps contracted to hedge the interest rate risk exposure associated with the fixed rate on its Eurobond as economic hedges, thus derivatives at fair value though Profit and Loss.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled. To avoid creating currency mismatches, the Bank swaps its Euro assets/loans for USD in cases where disbursement made was in Euro.

The Bank also hedges its exposure to adverse movements on currency exchange rates on its Euro disbursements by entering into currency forward exchange contracts. Currency forward exchange contracts are hedges, since the bank is protecting is the USD parity of the Euro, thus hedging the value of the assets from fluctuations.

The table below shows the derivative financial instruments, recorded as assets or liabilities at year-end.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

14. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

	2016 USD	2015 USD
a) Currency Hedges		
(i) Cross Currency Swap:		
Net opening balance as at 1 January	327,065	268,819
Payments under swap arrangement	2,284,030	2,419,505
Receipts under swap agreement	(2,818,264)	(2,898,284)
Exchange gain	14,527	51,447
Fair value gain	-	485,577
Net balances retired-contracts expired	192,642	-
Balance as at 31 December	**-**	**327,064**
(ii) Foreign exchange forward contracts		
Balance as at 1 January	59,790,952	32,887,780
Contracts entered into during the year-Net	166,743,390	684,066,442
Fair valuation	(4,978,605)	-
Net amounts settled	(146,137,108)	(657,163,270)
Balance as at 31 December	**75,418,629**	**59,790,952**
Total Currency Hedges	**75,418,629**	**60,118,016**
b) Interest Rate Swap:		
(i) Fair value movements		
Balance as at 1 January	-	149,579
Amortisation of interest rate swap	-	(149,579)
Balance as at 31 December	**-**	**-**
(ii) Cash flows		
Balance as at 1 January	875,059	883,144
Amounts due from counterparties	2,018,145	4,278,935
Amount received from counterparties	(2,551,391)	(4,287,020)
Balance as at 31 December	**341,813**	**875,059**
Total Interest Rate Swaps	**341,813**	**875,059**
Total derivative assets (a) and (b)	**75,760,442**	**60,993,075**

Notes to the
Financial Statements (Cont)
For the year ended 31 December 2016

14. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

At the inception of the second tranche of the USD 300 million Eurobond in December 2013, the Bank entered into interest swaps to hedge USD 300 million. The swaps exchanged the fixed rate for floating rate in order to match the floating rates offered on loans.

In addition, in December 2010, the Bank entered into a cross currency swap by exchanging a Euro receivable (loan) of EUR 10,113,078 for a US dollar receivable of USD 13,407,919. The contract expired on 31 December, 2016.

Further, the Bank entered into foreign exchange forward contracts to hedge against mismatches in EUR assets and liabilities by selling EUR and buying USD forward. The Bank's exposure under derivative instruments is monitored as part of the overall management of its market risk.

15. TRADE FINANCE LOANS

	2016 USD	2015 USD
Principal loans	2,333,320,973	2,136,398,251
Interest receivable	108,222,569	103,002,713
Gross loans	2,441,543,542	2,239,400,964
Impairment on trade finance loans (Note 17)	(48,400,632)	(31,288,578)
Net loans	**2,393,142,910**	**2,208,112,386**
Maturing:		
Within one year	1,219,036,080	2,071,216,760
One to three years	771,969,155	168,184,204
Over three years	450,538,307	-
	2,441,543,542	**2,239,400,964**

The gross non performing trade finance loans was USD 43,050,665(December 2015 - USD 12,720,386). The specific impairment provisions related to these loans amounted to USD 18,968,613(December 2015 - USD 12,720,386) hence the carrying value of the loans amount was USD 24,082,051 (December 2015 -NIL). General provisions for trade finance loans amounted to USD 29,432,014 (December 2015 - USD 18,568,192).

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

16. PROJECT LOANS

		2016 USD	2015 USD
Approved loans less cancellations		2,417,593,179	2,073,271,552
Less: Unsigned loans*		(253,152,933)	(223,659,112)
Loans signed		2,164,440,246	1,849,612,440
Less: Undisbursed	- Letters of credit opened	(15,467,972)	(7,044,474)
	- Letters of credit not yet opened	(363,136,637)	(332,304,459)
Loans disbursed		1,785,835,637	1,510,263,507
Interest capitalised**		51,008,238	42,972,790
Loans repaid		(953,410,204)	(807,960,121)
Principal loan balances		883,433,671	745,276,176
Interest receivable		12,654,263	17,072,331
Gross loans		896,087,934	762,348,507
Impairment on project loans (Note 17)		(49,201,206)	(63,685,994)
Net loans		**846,886,728**	**698,662,513**

* Unsigned loans refer to loans that have been approved but whose facility agreements have not yet been processed and signed.

**Interest capitalised relates to interest in arrears on loans which were restructured now capitalized.

Maturing:	2016 USD	2015 USD
Within one year	219,079,465	175,829,983
One year to three years	25,518,431	252,973,469
Three to five years	223,137,368	180,736,498
Over five years	428,352,670	152,808,557
	896,087,934	**762,348,507**

The aggregate non performing project loans was USD 52,042,067(December 2015 - USD 73,508,830). The specific impairment provisions related to these loans amounted to USD 41,989,246 (December 2015 - USD 57,793,646) hence the carrying value of the loans amounted to USD 10,053,021 (December 2015 - USD 15,715,184.) General provisions for project finance loans amounted to USD 7,211,963 (December 2015 - USD 5,892,348).

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

17. IMPAIRMENT ALLOWANCE ON PROJECT AND TRADE FINANCE LOANS

The movement in the allowance is as follows:

	Project finance loans USD	Trade finance loans USD	Total Allowance USD
At 1 January 2015	14,695,396	53,245,347	67,940,743
Amounts written-off	(5,734,037)	-	(5,734,037)
Charge for the year	54,724,635	(21,956,769)	32,767,866
- Specific provisions	34,175,223	(22,343,589)	19,119,048
- General provisions	20,549,412	386,820	13,648,818
At 31 December 2015	**63,685,994**	**31,288,578**	**94,974,572**
At 1 January 2016	63,685,994	31,288,578	94,974,572
Amounts written –off	(19,547,387)	(939,616)	(20,487,003)
Charge for the year	5,062,599	18,051,670	23,114,269
- Specific provisions	3,742,984	7,187,847	10,930,831
- General provisions	1,319,615	10,863,823	12,183,438
At 31 December 2016	**49,201,206**	**48,400,632**	**97,601,838**

Notes to the
Financial Statements (Cont)
For the year ended 31 December 2016

18. EQUITY INVESTMENTS

i) Equity participation

31 December 2016	Beginning cost USD	Additions at cost USD	Total ending cost USD	Investment carrying amount 2016 USD	Investment carrying amount 2015 USD	Adjustment for the year USD
At fair value through profit or loss						
Aureos East Africa Fund	288,500	(288,500)	-	-	288,500	
At cost						
African Export Import Bank	2,364,160	-	2,364,160	2,364,160	2,364,160	
Africa Trade Insurance Agency	1,000,000	-	1,000,000	1,000,000	1,000,000	
Gulf African Bank	1,978,734	-	1,978,734	1,978,734	1,978,734	-
Pan African Housing Fund	293,882	139,775	433,657	433,657	293,882	-
Tanruss	1,755,000	-	1,755,000	1,755,000	1,755,000	-
Tononoka	628,653	-	628,653	628,653	628,653	-
ZEP-RE (PTA Reinsurance Company)	9,336,468	-	9,336,468	9,336,468	12,141,991	(2,805,523)
	17,356,897	139,775	17,496,672	17,496,672	20,162,420	(2,805,523)
TOTAL	**17,645,397**	**(148,725)**	**17,496,672**	**17,496,672**	**20,450,920**	**(2,805,523)**

The Bank's main equity investments are in ZEP-RE (PTA Reinsurance Company), African Export-Import Bank, Tanruss, Africa Trade Insurance Agency and Gulf African Bank. In addition, the Bank has subscribed to the equity of various projects in its Member States. The Bank's participation is expressed in US Dollars.

As at 31 December, 2016, there were no investments at fair value since Aureos East Africa, which had been carried at fair value in the previous year, was liquidated in 2016. As at 31 December 2015, only the investment in Aureos East Africa was carried at fair value. All other investments were carried at cost as there were no readily available prices since the shares are not traded in an active market, and their fair values could not otherwise be reliably measured.

The Bank does not intend to dispose the shares in the short term, and none of the shares have been derecognized.

Notes to the **Financial Statements (Cont)**

For the year ended 31 December 2016

18. EQUITY INVESTMENTS (Cont)

i) Equity participation (Continued)

31 December 2015	Beginning cost USD	Additions at cost USD	Total ending cost USD	Investment carrying amount 2016 USD	Investment carrying amount 2015 USD	Adjustment for the year USD
At fair value through profit or loss						
Aureos East Africa Fund	355,695	-	355,695	288,500	512,300	(223,800)
At cost						
African Export Import Bank	1,182,080	1,182,080	2,364,160	2,364,160	1,182,080	-
Africa Trade Insurance Agency	1,000,000	-	1,000,000	1,000,000	1,000,000	-
Gulf African Bank	1,978,734	-	1,978,734	1,978,734	1,978,734	-
Pan African Housing Fund	130,608	163,274	293,882	293,882	130,608	-
Tanruss	1,755,000	-	1,755,000	1,755,000	1,755,000	-
Tononoka	628,653	-	628,653	628,653	628,653	-
ZEP-RE (PTA Reinsurance Company)	9,336,468	-	9,336,468	12,141,991	12,141,991	-
	16,011,543	1,345,354	17,356,897	20,162,420	18,817,066	-
TOTAL	**16,367,238**	**1,345,354**	**17,712,592**	**20,450,920**	**19,329,366**	**(223,800)**

As at 31 December 2015, only the investment in Aureos East Africa was carried at fair value. All other investments were carried at cost as there were no readily available prices since the shares are not traded in an active market, and their fair values could not otherwise be reliably measured. As at 31 December 2015 and 31 December, 2014, investment in ZEP-RE (PTA Reinsurance Company) was carried at fair value. The fair value was determined using the latest share transaction price for October 2013. The shares were sold as a one-off issue and there have been no transactions subsequently. Therefore, the investment is carried at carrying amount as at 31 December 2015 in these financial statements, which becomes its new cost since a reliable measure of fair value is no longer available, in accordance with IAS 39.

The Bank does not intend to dispose the shares in the short term, and none of the shares have been derecognized.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

18. EQUITY INVESTMENTS (Cont)

	2016 USD	2015 USD
ii) Instalments paid:		
Total subscribed capital*	19,330,210	19,636,645
Less: Instalments not due – Note 18 (iii)	(1,833,538)	(1,924,053)
Instalments paid as at end of year – Note 18 (I) and (iii)	**17,496,672**	**17,712,592**

*Total subscribed capital includes paid up capital and unpaid subscriptions

	2016 USD	2015 USD
iii) Unpaid subscriptions expressed in US Dollars at year-end rates comprised:		
African Export-Import Bank*	1,200,000	1,200,000
Aureos East Africa Fund*	-	17,935
Pan African Housing Fund*	633,538	706,118
	1,833,538	**1,924,053**

Unpaid subscriptions

	2016 USD	2015 USD
iv) Movement in the instalments paid:		
At beginning of year	17,645,397	16,367,238
Net additions at cost – Note 18 (i)	(148,725)	1,345,354
At end of year	**17,496,672**	**17,712,592**

19. INVESTMENT IN JOINT VENTURES

The Bank has a 50% interest in Eastern and Southern African Trade Advisers Limited (ESATAL) and 50% interest in Eastern and Southern African Infrastructure Fund (ESAIF). The joint ventures were incorporated in 2015 and their principal place of business is Ebene, Mauritius. ESATAL and ESAIF are vehicles that will raise and manage the Trade Finance Fund and the Infrastructure Fund, respectively. The Bank's voting rights in the joint ventures is equal to its ownership interest. The Bank's interest in the joint ventures is accounted for using the equity method in the financial statements. No quoted market price exists for the investments.

Notes to the
Financial Statements (Cont)
For the year ended 31 December 2016

19. INVESTMENT IN JOINT VENTURES (Continued)

Summarised financial information of the joint ventures is set out below:

	2016 USD	2015 USD
Current assets - cash and cash equivalents	738,986	668,984
Non-current assets	-	-
TOTAL ASSETS	**738,986**	**668,984**
Liabilities	-	-
Equity	**738,986**	**668,984**
Bank's carrying amount of the investment	**369,493**	**334,492**

ESATAL and ESAIF are yet to start operations. The joint ventures had no contingent liabilities or capital commitments a at 31 December 2016. ESATAL and ESAIF cannot distribute their profits without the consent from the venture partners.

20. INVESTMENTS IN GOVERNMENT SECURITIES

	2016 USD	2015 USD
Treasury Notes:		
Maturing within 360 days after year end (at face value)	241,763,172	216,000,000
Additions during year	-	34,000,000
Matured bonds	(27,102,693)	(8,280,471)
Accrued income	38,759	43,643
	214,699,238	**241,763,172**

The treasury notes, issued by the Government of Malawi, represent investments made in Malawi Kwacha equivalent of USD 214.7 million (December 2015 - USD 241.76 million bearing interest at a rate of 6.50% per annum. These investments are managed by the Reserve Bank of Malawi and FDH Bank.

All the treasury notes will mature within twelve months after the reporting date.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

21. OTHER RECEIVABLES

	2016 USD	2015 USD
Down-sold assets*	52,659,500	163,936,500
Prepayments and other receivables**	25,624,544	22,783,616
Staff loans and advances***	674,083	652,483
Appraisal fees****	585,040	373,281
	79,543,167	**187,745,880**
Appraisal fees receivable****		
As at 1 January	373,281	805,000
Accrued income	1,079,419	164,599
Receipts	(845,895)	(355,031)
Amounts written off (Note 11)	(21,765)	(241,287)
At 31 December	**585,040**	**373,281**

Analysis of other receivables by maturity:

	2016 USD	2015 USD
Amounts due within one year	79,380,647	187,525,747
Amounts due after one year	162,520	220,133
	79,543,167	**187,745,880**

*Down-sold assets represent loan assets sold to the Bank's counterparties on a non-funded basis. The amount will be settled within 6 months after year end. Down-selling receivable does not attract interest.

**Prepayments and other receivables comprise mainly of insurance costs on the Bank's exposures and facility fees paid in relation to short term facilities extended to the Bank by lenders.

***Staff loans and advances are granted in accordance with the Staff Rules and Regulations approved by the Board of Directors. The effective interest rate on staff loans and advances was 4.23% (December 2015: 4.43%) per annum. These staff loans and advances have various repayment terms ranging from 3 to 36 months.

****Appraisal fees are recognized as income receivable on approval of a facility to the borrower by the Bank.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

22. DEFERRED EXPENDITURE

	2016 USD	2015 USD
COST		
At beginning of year	21,114,186	28,062,019
Additions	13,100,000	1,022,104
Disposals	(3,784,846)	(7,969,937)
At end of year	**30,429,340**	**21,114,186**
AMORTISATION		
At beginning of year	9,924,030	11,434,745
Disposals	(3,784,846)	(7,969,937)
Charge for the year	6,194,989	6,459,222
At end of year	**12,334,174**	**9,924,030**
NET CARRYING AMOUNT		
At end of year	**18,095,167**	**11,190,156**

Deferred expenditure comprises export credit insurance costs, long term borrowing costs and costs incurred to raise, issue and list local currency bonds and Eurobonds in the Bank's member countries and international markets. These costs are amortised over the life of the underlying borrowings and bonds. Disposals relate to fully amortised costs removed from the books during the reporting period.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

23. PROPERTY AND EQUIPMENT

Year ended 31 December 2016:

	Freehold land USD	Leasehold land USD	Building under construction USD	Buildings USD	Motor vehicles USD	Furniture and fittings USD	Office equipment USD	Total USD
At cost								
At 1 January 2016	140,400	2,453,865	-	22,574,641	458,744	1,296,696	1,748,878	28,673,224
Additions	-	-	117,730	122,830	23,043	33,745	201,954	499,302
Disposals	-	-	-	-	-	(7,395)	(70,750)	(78,145)
At 31 December 2016	**140,400**	**2,453,865**	**117,730**	**22,697,471**	**481,786**	**1,323,046**	**1,880,082**	**29,094,381**
DEPRECIATION								
At 1 January 2016	-	2,066	-	4,996,015	284,437	702,824	1,252,408	7,237,750
Charge for the year	-	24,784	-	1,879,912	64,973	79,892	229,271	2,278,832
Disposals	-	-	-	-	-	(7,202)	(53,541)	(60,743)
At 31 December 2016	**-**	**26,850**	**-**	**6,875,927**	**349,410**	**775,514**	**1,428,138**	**9,455,839**
NET CARRYING AMOUNT								
At 31 December 2016	**140,400**	**2,427,015**	**117,730**	**15,821,544**	**132,377**	**547,532**	**451,944**	**19,638,542**

Building Under Construction:

The Bank is in the process of constructing an office building, with actual commencement expected in 2017. Professional costs have been incurred and in line with IAS 16, Property, Plant and Equipment, no depreciation has been charged on these costs until the building is ready for use.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

23. PROPERTY AND EQUIPMENT (Continued)

Year ended 31 December 2015

	Freehold land USD	Leasehold land USD	Buildings USD	Motor vehicles USD	Furniture and fittings USD	Office equipment USD	Total USD
COST							
At 1 January 2015	2,594,265	-	21,304,943	455,422	1,264,458	1,407,798	27,026,886
Additions	-	-	1,269,698	74,409	36,208	370,183	1,750,498
Reclassification*	(2,453,865)	2,453,865	-	-	-	-	-
Disposals	-	-	-	(71,087)	(3,970)	(29,103)	(104,160)
At 31 December 2015	**140,400**	**2,453,865**	**22,574,641**	**458,744**	**1,296,696**	**1,748,878**	**28,673,224**
DEPRECIATION							
At 1 January 2015	-	-	4,551,512	292,628	629,483	1,087,295	6,560,918
Charge for the year	-	2,066	444,503	62,896	77,311	178,883	765,659
Disposals	-	-	-	(71,087)	(3,970)	(13,770)	(88,827)
At 31 December 2015	**-**	**2,066**	**4,996,015**	**284,437**	**702,824**	**1,252,408**	**7,237,750**
NET CARRYING AMOUNT							
At 31 December 2015	**140,400**	**2,451,799**	**17,578,626**	**174,307**	**593,872**	**496,470**	**21,435,474**

*Reclassification between Freehold and Leasehold Land in 2015:

The Bank holds a freehold title to a property in Nairobi, Kenya, located on LR 1 /184 Lenana Road.

The current Constitution of Kenya, enacted on 27 August 2010, introduced significant changes in the landholding by non-citizens. The Constitution no longer allows foreigners and foreign bodies to own freehold land and leasehold land in excess of 99 years. Freehold land and leasehold land of more than 99 years owned by foreigners and foreign bodies automatically becomes 99 year leases upon enactment of the required legislation under Article - 65(4) of the constitution. These changes in the landholding took effect on 2 May 2012 upon the enactment of the Land Registration Act No. 3 of 2012.

As per the definition of Articles 65(3) of the constitution, the Bank is a non-citizen and hence the status of its freehold land changes to 99 year lease. Under the revised International Accounting standards No. 17 (IAS 17), a 99 year lease qualifies for a finance lease classification if the lessor transfers significantly risks and rewards incidental to the ownership of the land to the Bank.

Accordingly, the new 99 year lease qualifies as a finance lease. Although the Bank's title documents to the land still show the land as freehold, the Bank has opted to account for its land as leasehold in compliance with the Kenyan legislation.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

24. INTANGIBLE ASSETS

	2016 USD	2015 USD
COST		
At beginning of year	1,821,547	1,734,532
Additions	589,119	87,015
At end of year	**2,410,666**	**1,821,547**
AMORTISATION		
At beginning of year	1,464,033	1,327,095
Charge for the year	162,458	136,938
At end of year	**1,626,491**	**1,464,033**
NET CARRYING AMOUNT		
At end of year	**784,175**	**357,514**

Intangible assets relate to cost of acquired computer software.

25. COLLECTION ACCOUNT DEPOSITS

These represent deposits collected by the Bank on behalf of the customers from proceeds of Bank funded commodities to be applied on loan repayments as they fall due.

26. SHORT TERM BORROWINGS

	2016 USD	2015 USD
(a) CERTIFICATES OF DEPOSITS		
Lender		
Reserve Bank of Malawi	255,921,376	284,831,667
Banque Commerciale du Congo	20,000,000	5,000,000
African Trade Insurance Agency	714,945	700,000
Bank of the Republic of Burundi	-	35,000,000
Banque Internationale pour l'Afrique au Congo	-	16,000,000
	276,636,321	**341,531,667**

Certificates of deposits relate to borrowings that are payable within one year.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

26. SHORT TERM BORROWINGS (Continued)

(b) OTHER SHORT TERM BORROWINGS

	Date of renewal/ advance	Maturity Date	Currency	2016 USD	2015 USD
Syndicated Loan - Citibank	Oct-16	Oct-19	USD	400,000,000	-
Syndicated Loan - Asia	Dec-16	Jun-19	USD	340,000,000	-
Standard Chartered Bank London	Oct-16	Apr-17	USD	270,599,292	238,895,424
Mashreq Bank	Dec-16	Dec-17	EUR	173,516,471	80,418,660
KFW	Dec-16	Sep-17	USD	142,637,793	20,000,000
Sumitomo Mitsui Banking Corporation	Nov-16	Nov-18	USD	113,339,750	105,529,688
Cargill Kenya Limited	Dec-16	Dec-19	USD	100,000,000	116,474,878
ABC Bank Inc. Mauritius	Dec-16	Jan-17	EUR	57,974,396	66,809,310
Africa50	Dec-16	Mar-17	USD	51,325,233	-
Africa Finance Corporation	Dec-16	Nov-17	USD	50,000,000	50,000,000
Mauritius Commercial Bank	Dec-16	Jun-19	USD	49,375,042	
Citibank New York	Sep-16	Jan-17	USD	46,315,850	61,836,147
Bunge S.A	Sep-16	Mar-17	USD	41,069,132	-
Bank One Ltd	Oct-16	Jan-17	USD	40,000,000	50,000,000
Commerzbank	Dec-16	Jun-17	USD	38,285,314	114,461,779
State Bank of Mauritius	Nov-16	Apr-17	USD	36,000,000	25,924,010
African Export Import Bank	Dec-15	Feb-17	EUR	35,729,131	63,519,717
Standard Chartered Bank Kenya	Dec-16	Jun-17	USD	30,000,000	30,000,000
Afrasia Bank Ltd- Mauritius	Nov-16	Jan-17	USD	23,696,775	50,000,000
Mizuho Bank London	Oct-16	Oct-17	USD	21,465,728	39,450,000
Loius Dreyfus Commodities Kenya	Jul-16	Jul-17	USD	6,421,063	-
British Arab Commercial Bank	Nov-16	Feb-17	USD	5,000,000	-
BHF Bank	Dec-16	Mar-17	USD	3,778,614	-
Firstrand Bank Ltd	Dec-16	Mar-17	USD	1,452,912	58,703,120
Syndicated Loan - Commerzbank	Apr-16	Sep-16	USD	-	320,500,000
ING Bank	Mar-16	Oct-16	USD	-	50,573,247
African Development Bank	Jun-15	Sep-16	USD	-	50,229,000
Societe Generale	Feb-16	Jul-16	USD	-	2,852,324
FBN Bank	Jun-16	Jul-16	EUR	-	76,823,073
Standard Corporate and Merchant Bank	Mar-16	Sep-16	USD	-	32,689,819
Bank of Tokyo Mitsubishi	Dec-15	Dec-16	USD	-	66,666,667
Deutsche Bank AG	Dec-15	Mar-16	USD	-	52,055,234
Banque de Commerce et de Placement	Nov-15	Feb-16	USD	-	1,290,869
Sub total for other short term borrowings				**2,077,982,496**	**1,825,702,966**
INTEREST PAYABLE				14,703,614	12,005,906
Certificate of Deposits (Note 26a)				276,636,321	341,531,667
TOTAL SHORT TERM BORROWINGS				**2,369,322,431**	**2,179,240,539**

Notes to the **Financial Statements (Cont)**

For the year ended 31 December 2016

27. LONG TERM BORROWINGS

Lender	Date of renewal/ disbursement	Maturity date	Currency	Amount in Currency	Amounts as at 31 December 2016 Balance outstanding USD	due within one year USD	after one Year USD	Amounts as at 31 December 2015 Balance outstanding USD	Amount due within one year USD	Amount due after one year USD
African Development Bank	Dec-04	Aug-23	USD	65,876,015	65,876,015	14,376,015	51,500,000	80,158,580	14,408,580	65,750,000
Africa Agriculture and Trade Investment Fund	Sept-12	Sept-19	USD	30,000,000	30,000,000	10,000,000	20,000,000	30,000,000	30,000,000	-
China Development Bank	Dec-08	Mar-20	USD	84,906,473	84,906,473	36,604,378	48,302,095	101,511,616	16,656,221	84,855,395
KBC Bank	Various	Feb-20	USD	8,864,039	8,864,039	3,185,798	5,678,241	13,466,736	4,588,899	8,877,837
Exim Bank of India Loan	Various	Various	USD	513,451	513,451	400,638	112,813	1,941,460	1,914,109	27,351
US$ 1.0 Billion Euro Medium Term Note Programme: First Tranche	Nov-10	Jan-16	USD	-	-	-	-	98,746,000	98,746,000	-
US$ 1.0 Billion Euro Medium Term Note Programme: Second Tranche	Dec-13	Jan-18	USD	300,000,000	300,000,000	-	300,000,000	300,000,000	-	300,000,000
FMO	Mar-10	Jan-18	USD	10,000,000	10,000,000	8,000,000	2,000,000	18,000,000	8,000,000	10,000,000
Ceskoslovenska Obchodni Banka AS	Jul-07	May-17	USD	408,729	408,729	408,729	-	1,230,061	821,265	408,796
Development Bank of Southern Africa	Mar-07	Jun-23	USD	50,640,849	50,640,849	17,828,349	32,812,500	62,654,381	19,216,881	43,437,500
OPEC Fund for International Development	Jun-13	Jun-16	USD	-	-	-	-	50,000,000	50,000,000	-
Private Export Funding Corporation	Aug-11	Oct-21	USD	29,003,619	29,003,619	5,949,252	23,054,367	34,953,395	5,949,514	29,003,881
KfW	Dec-13	Dec-28	USD	60,000,000	60,000,000	-	60,000,000	60,131,792	131,792	60,000,000
European Investment Bank	Aug-16	Sep-26	USD	88,120,000	88,120,000	-	88,120,000	-	-	-
CDC Group	Oct-16	Oct-22	USD	50,000,000	50,000,000	4,545,455	45,454,545	-	-	-
Tanzania local currency fixed rate bond	Jun-15	May-20	TZS	11,613,205,761	5,327,159	1,433,270	3,893,889	6,827,308	1,143,527	5,683,781
Tanzania local currency floating rate bond	Jun-15	May-20	TZS	11,613,205,761	5,327,159	1,433,270	3,893,889	6,827,450	1,143,527	5,683,923
Uganda local currency fixed rate bond	Oct-09	Oct-16	UGX	-	-	-	-	47,477	47,477	-
Uganda local currency floating rate bond	Oct-09	Oct-16	UGX	-	-	-	-	406,506	406,506	-
Subtotal for long term borrowings					**788,987,493**	**104,165,154**	**684,822,339**	**866,902,762**	**223,174,298**	**643,728,464**
Interest payable					5,227,147	5,227,147	-	7,201,791	7,201,791	-
Total long term borrowings					794,214,640	109,392,301	684,822,339	874,104,553	230,376,089	643,728,464

The Bank repays these borrowings in either quarterly or semi-annual instalments. The Bank has not given any security for the borrowings. It has not defaulted on any of them.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

28. OTHER PAYABLES

	2016 USD	2015 USD
Accrued expenses	34,533,951	5,354,032
Accrued fees-Trade Finance	16,956,160	2,865,143
Provident fund*	9,200,773	7,556,916
Other creditors**	2,496,102	17,621,729
Accrued fees-Project Finance	335,022	75,329
Rental deposit	51,622	51,622
Dividends payable	47,768	1,273,522
Unspent African Development Bank Grant	-	2,113
	63,621,398	**34,800,406**

*Provident fund relates to the Bank's contribution to the fund that is payable.

**Other creditors mainly relate to cash cover deposits by clients.

Analysis of other payables by maturity:

	2016 USD	2015 USD
Amounts due within one year	58,383,548	30,302,231
Amounts due after one year	5,237,850	4,498,175
	63,621,398	**34,800,406**

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

29. PROVISION FOR SERVICE AND LEAVE PAY

(i) PROVISION FOR SERVICE PAY

	2016 USD	2015 USD
At beginning of year	4,424,552	4,224,058
Increase in provision	950,022	670,417
Payment of service pay	(894,528)	(469,923)
At end of period	4,480,046	4,424,552

(II) PROVISION FOR LEAVE PAY

At beginning of year	1,247,499	1,193,936
Increase in provision	298,807	165,596
Payment of leave pay	(187,629)	(112,033)
At end of year	**1,358,677**	**1,247,499**
TOTAL PROVISION FOR SERVICE AND LEAVE PAY	5,838,723	5,672,051

Employees' entitlements to annual leave and service pay are recognised when they accrue to employees.

Notes to the **Financial Statements (Cont)**

For the year ended 31 December 2016

30. SHARE CAPITAL

	As at 31 December 2016			As at 31 December 2015		
	CLASS 'A' SHARES USD	CLASS 'B' SHARES USD	TOTAL USD	CLASS 'A' SHARES USD	CLASS 'B' SHARES USD	TOTAL USD
Authorised capital:						
88,234 Class 'A' ordinary shares of USD 22,667 each	2,000,000,000	-	2,000,000,000	2,000,000,000	-	2,000,000,000
Less: Unsubscribed						
- Class 'A'	(397,420,433)	-	(397,420,433)	(533,331,765)	-	(533,331,765)
- Class 'B'	-	(921,730,497)	(921,730,497)	-	(930,316,795)	(930,316,795)
Subscribed capital:						
- 70,701 Class 'A' (2015: 64,705) ordinary shares of USD 22,667 each	1,602,579,567	-	1,602,579,567	1,466,668,235	-	1,466,668,235
- 17,265 Class 'B' (2015: 15,371 ordinary shares of USD 4,533.42 each	-	78,269,503	78,269,503	-	69,683,205	69,683,205
Less: Callable capital	(1,282,063,654)	-	(1,282,063,654)	(1,173,334,587)	-	(1,173,334,587)
Payable capital	320,515,913	78,269,503	398,785,416	293,333,648	69,683,2055	363,016,853
Less: Amounts not yet due	(12,330,848)	-	(12,330,848)	(13,170,890)	-	(13,170,890)
Capital due	308,185,065	78,269,503	386,454,568	280,162,758	69,683,205	349,845,963
Less: subscriptions in arrears	(14,403,629)	-	(14,403,629)	(10,104,870)	-	(10,104,870)
Paid up capital	**293,781,436**	**78,269,503**	**372,050,939**	**270,057,888**	**69,683,205**	**339,741,093**

Notes to the
Financial Statements (Cont)
For the year ended 31 December 2016

30. SHARE CAPITAL (Continued)

Share Premium:	Number of shares	Share value USD	Price paid USD	Share premium USD
As at 31 December 2016:				
At1 January 2016	15,371	69,683,206	96,554,014	26,870,808
Additions during the year	1,894	8,586,297	16,822,150	8,235,853
At 31 December 2016	**17,265**	**78,269,503**	**113,376,164**	**35,106,661**
As at 31 December 2015:				
As at 1 January 2015:	13,482	61,119,575	80,897,981	19,778,406
Additions during the year	1,889	8,563,631	15,656,033	7,092,402
As at 31 December 2015:	**15,371**	**69,683,206**	**96,554,014**	**26,870,808**

Class A and B shares
As at 31 December 2016, there were 70,701 'A' ordinary shares (2015: 64,705) and 17,265 Class 'B' ordinary shares (2015: 15,371). Class 'A' shares have a par value of USD 22,667 each (comprising 80% callable and 20% payable) and were issued only to Members, while Class 'B' shares have a par value of USD 4,533.42 each and are issued both to Members and other institutional investors. All ordinary shares have a right to receive dividends in the proportion of the number of shares held by each member, as and when declared by the Board of Governors.

Nature and purpose of the share premium
Class 'B' shares are issued at a premium of USD 4,661.20 (2015: USD 3,754.58) that is determined after a valuation of the Bank's shares. The share premium is used to finance the operations of the Bank.

Dividends on ordinary shares declared and paid:	2016 USD	2015 USD
Final dividend for 2015: USD 301.35 per share (2014: 329.50 per share)	21,785,529	19,244,435
Proposed dividends on ordinary shares:		
Dividend for 2016: USD 304.21 per share (2014: USD 301.35 per share)	24,349,495	21,785,528

Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability as at 31 December.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

30. SHARE CAPITAL (Continued)

	As at 31 December 2016			As at 31 December 2015		
	CLASS 'A' USD	CLASS 'B' USD	TOTAL USD	CLASS 'A' USD	CLASS 'B' USD	TOTAL USD
Movement in paid up share capital:						
At beginning of year	270,057,887	69,683,206	339,741,093	246,842,986	61,119,575	307,962,561
African Development Bank	965,614	-	965,614	998,281	-	988,281
National Social Security Fund Uganda	-	7,348,674	7,348,674	-	5,471,838	5,471,838
National Pention Fund Mauritius	-	-	-	-	299,206	299,206
Sacos Group Limited	-	548,544	548,544	-	-	-
Seychelles Pension Fund	-	-	-	-	1,645,632	1,645,632
Rwanda Social Security Board	-	-	-	-	22,667	22,667
Banco Nationale De Investment	-	122,402	122,402	-	4,533	4,533
Africa Reinsurance Corporation	-	72,535	72,535	-	1,092,554	1,092,554
Belarus	1,068,069	-	1,068,069	1,027,268	-	1,027,268
Burundi	394,406	-	394,406	398,939	-	398,939
China- People's Republic	1,097,083	494,143	1,591,226	1,119,750	27,201	1,146,951
Comoros	224,852	-	224,852	8,896	-	8,896
Congo DRC	1,701,170	-	1,701,170	575,558	-	575,558
Djibouti	99,735	-	99,735	99,735	-	99,735
Egypt	1,722,692	-	1,722,692	1,758,959	-	1,758,959
Eritrea	38,789	-	38,789	39,539	-	39,539
Ethiopia	1,722,692	-	1,722,692	1,758,959	-	1,758,959
Kenya	1,722,692	-	1,722,692	1,758,959	-	1,758,959
Malawi	430,673	-	430,673	430,673	-	430,673
Mauritius	3,032,845	-	3,032,845	3,005,644	-	3,005,644
Mozambique	2,000,136	-	2,000,136			
Rwanda	422,798	-	422,798	1,298,819	-	1,298,819
Seychelles	86,135	-	86,135	86,135	-	86,135
Somalia	51,396	-	51,396	52,390	-	52,390
Sudan	-	-	-	1,618,423	-	1,618,423
Tanzania	1,668,291	-	1,668,291	1,482,421	-	1,482,421
Uganda	2,053,630	-	2,053,630	826,540	-	826,540
Zambia	1,429,154	-	1,429,154	3,056,587	-	3,056,587
Zimbabwe	1,790,696	-	1,790,696	1,822,426	-	1,822,426
	23,723,548	8,586,298	32,309,846	23,214,901	8,563,631	31,778,532
At the end of the year	**293,781,435**	**78,269,504**	**372,050,939**	**270,057,887**	**69,683,206**	**339,741,093**

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

30. SHARE CAPITAL (Continued)

Payable capital is one fifth of the subscribed capital to Class 'A' shares. The remaining four fifths of the subscribed capital constitutes callable capital. The Bank's Board of Governors may, on the recommendation of the Board of Directors, make a call only when the amount thereof is required to repay existing borrowings or to meet guaranteed commitments. Note 43 contains the status of subscriptions to the capital stock by member countries.

31. NOTES TO THE STATEMENT OF CASH FLOWS

			2016 USD	2015 USD
(a)	Reconciliation of profit for the year to cash generated from operations:			
	Profit for the year		101,456,231	94,719,686
	Adjustments:			
	Depreciation on property and equipment		2,278,832	765,659
	Amortisation of intangible assets		162,458	136,938
	Loss on disposal of property and equipment		-	15,333
	(Gain)/loss in foreign exchange		(447,997)	3,033,765
	Fair value loss on revaluation of equity investments		2,805,523	223,800
	Interest received		(219,149,882)	(189,818,776)
	Interest paid		93,634,994	90,681,199
	Provision for impairment		23,114,269	32,767,866
	Increase in provision for service and leave pay		166,672	254,057
	Profit before changes in operating assets and liabilities		**4,021,100**	**32,779,528**
	(Decrease)/increase in other receivables		108,202,713	101,373,775
	Increase in hedging derivative instruments-net		(14,767,367)	(26,803,754)
	(Increase) in trade finance loans		(203,082,193)	(361,283,971)
	(Increase) in project loans		(153,286,813)	(66,547,509)
	Decrease in deferred expenditure		(6,905,011)	5,437,118
	Increase /(decrease) in collection accounts deposits		(92,704,013)	137,699,693
	Increase in other payables		28,820,992	13,799,809
	(Increase) in interest receivable on government securities		(38,759)	(43,643)
	Interest received		219,149,882	189,818,776
	Interest paid		(93,634,994)	(90,681,199)
	Increase in borrowings	31 (b)	284,613,137	110,191,979
			(94,032,484)	**220,161,759**

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

31. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

		2016 USD	2015 USD
(b) Analysis of changes in borrowings:			
Short term borrowings:			
At beginning of year		2,179,240,539	1,919,329,465
Loans received		3,139,551,683	3,124,916,104
Repayments		(2,949,469,791)	(2,865,005,030)
At end of year		**2,369,322,431**	**2,179,240,539**
Long term borrowings:			
At beginning of year		874,104,553	849,402,489
Loans received		197,948,073	120,288,898
Repayments		(277,837,986)	(95,586,834)
At end of year		**794,214,640**	**874,104,553**
Total borrowings:			
At beginning of year		3,053,345,092	2,768,731,954
Loans received		3,211,916,928	3,245,205,002
Repayments		(3,101,724,949)	(2,960,591,864)
At end of year		**3,163,537,071**	**3,053,345,092**
Increase in total borrowings	31 (a)	**110,191,979**	**284,613,137**

(c) Analysis of cash and cash equivalents

Cash and balances with other banks - Note 13	594,835,619	643,514,540

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

31. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

(d) Facilities available for lending

As at 31 December 2016 the following facilities were available to the Bank for lending:

SHORT-TERM FACILITIES

LENDER	Facilities available USD	Facilities utilized USD	Facilities unutilised USD
Syndicated Loan 2	400,000,000	400,000,000	-
Syndicated Loan 1	340,000,000	340,000,000	
Short Term Placements	276,636,321	276,636,321	-
Bridge loan	225,000,000	225,000,000	-
Sumitomo Mitsui Banking Corporation	220,000,000	114,506,082	105,493,918
Standard Chartered Bank	180,000,000	111,341,562	68,658,438
Mashreqbank	173,516,471	173,516,471	-
AFREXIM Bank	157,978,500	35,729,130	122,249,370
KFW-Ipex	142,637,793	142,637,793	-
Commerzbank	105,319,000	41,550,826	63,768,174
Cargill Kenya Limited	100,000,000	100,000,000	-
Citibank Nairobi	98,000,000	46,315,850	51,684,150
Societe Generale	95,000,000	-	95,000,000
ING Bank	94,787,100	55,268,714	39,518,386
Standard Bank South Africa	90,000,000	-	90,000,000
Mauritius Commercial Bank	90,000,000	49,375,042	40,624,958
Commercial Bank of Africa	80,000,000	-	80,000,000
FBN Bank London	80,000,000	-	80,000,000
Mizuho Bank	80,000,000	21,465,728	58,534,272
BNP Paribas Group	63,191,400	-	63,191,400
Deutsche Bank	60,000,000	-	60,000,000
ABC Bank Incorporation, Mauritius	57,974,396	57,974,396	-
British Arab Commercial Bank	52,659,500	5,000,000	47,659,500
Africa50	51,325,233	51,325,233	-
State Bank of Mauritius	51,000,000	36,000,000	15,000,000
Kenya Commercial Bank	50,000,000	-	50,000,000
Rand Merchant Bank	50,000,000	4,454,262	45,545,738
African Finance Corporation	50,000,000	50,000,000	-
Bunge SA	41,069,131	41,069,131	-

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

31. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

SHORT-TERM FACILITIES (Continued)

LENDER	Facilities available USD	Facilities utilized USD	Facilities unutilised USD
NIC Bank	40,000,000	-	40,000,000
Bank One	40,000,000	40,000,000	-
Nedbank	35,000,000	-	35,000,000
Natixis	30,000,000	-	30,000,000
CFC Stanbic Bank	30,000,000	-	30,000,000
BMCE Bank	26,329,750	-	26,329,750
KBC Bank	26,329,750	5,056,907	21,272,843
FimBank	26,329,750	14,421,209	11,908,541
Afrasia Bank Limited	23,696,775	23,696,775	-
Banque BIA, France	21,063,800	-	21,063,800
Barclays/Absa Bank	20,000,000	-	20,000,000
BHF Bank	15,797,850	5,615,641	10,182,209
DZ Bank	15,000,000	-	15,000,000
Habib Bank London	10,000,000	-	10,000,000
Intesa Sanpaolo	10,000,000	-	10,000,000
Banque de Commerce de placement	9,993,430	-	9,993,430
Bank of China	8,000,000	-	8,000,000
Louis Dreyfus Commodities Kenya	6,421,063	6,421,063	-
United Bank Limited	5,000,000	-	5,000,000
	3,955,057,013	**2,474,378,136**	**1,480,678,877**

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

31. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

LONG-TERM FACILITIES

LENDER	Facilities available USD	Facilities utilized USD	Facilities unutilised USD
Eurobond	398,746,000	398,746,000	-
African Development Bank	150,000,000	150,000,000	-
China Development Bank	122,900,000	122,900,000	-
Exim Bank India	100,000,000	75,000,000	25,000,000
European Investment Bank (EIB)	97,245,000	88,120,000	9,125,000
Development Bank of South Africa	95,000,000	95,000,000	-
Private Export Funding Corporation (PEFCO)	60,000,000	60,000,000	-
KfW	60,000,000	60,000,000	-
KBC Bank	51,403,510	36,854,139	14,549,371
FMO	50,000,000	50,000,000	-
CDC Group	50,000,000	50,000,000	-
Africa Agriculture Trade and Investment Fund	30,000,000	30,000,000	-
Industrial Development Bank (IDC)	30,000,000	-	30,000,000
BHF Bank	18,000,000	7,300,000	10,700,000
Tanzania Shillings Local Currency Bond	16,506,555	16,506,555	-
Japan Bank for International Corporation (JBIC)	12,700,000	-	12,700,000
Ceskoslovenska Obchodni Banka AS	6,575,954	6,575,954	-
Exim Bank USA	No limit	-	No limit
	1,349,077,019	**1,247,002,648**	**102,074,371**
TOTAL FACILITIES			
At 31 DECEMBER 2016	**5,304,134,032**	**3,721,380,784**	**1,582,753,248**

Note:

Facilities utilised include outstanding letters of credit for Trade Finance amounting to USD 322,643,889 as disclosed in note 34(b)

Notes to the **Financial Statements (Cont)**

For the year ended 31 December 2016

31. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

SHORT-TERM FACILITIES

LENDER	Facilities available USD	Facilities utilized USD	Facilities unutilised USD
(d) Facilities available for lending			
As at 31 December 2015 the following facilities were available to the Bank for lending:			
Standard Chartered Bank	405,000,000	374,302,464	30,697,536
Short Term Placements	341,531,667	341,531,667	
Mauritius Commercial Bank	160,000,000	-	160,000,000
AFREXIM	125,000,000	63,519,716	61,480,284
Commerz Bank	117,535,215	117,535,215	-
Bank of Tokyo Mitsubishi	100,000,000	100,000,000	-
Firstrand Bank	100,000,000	58,703,120	41,296,880
ING Bank	98,361,900	50,667,170	47,694,730
Mashreqbank	95,181,693	95,181,692	1
Societe Generale	95,000,000	58,177,808	36,822,192
Standard Bank South Africa	90,000,000	59,995,447	30,004,553
Commercial Bank of Africa	80,000,000	-	80,000,000
FBN Bank London	80,000,000	76,623,072	3,376,928
BNP Paribas Group	75,000,000	-	75,000,000
Sumitomo Mitsui Banking Corporation	73,000,000	72,590,698	409,302
HSBC Bank	72,000,000	-	72,000,000
Citibank Nairobi	65,284,297	65,284,297	-
Deutsche Bank	60,000,000	58,137,543	1,862,457
British Arab Commercial Bank	54,645,500	-	54,645,500
African Finance Corporation	50,000,000	50,000,000	-
Kenya Commercial Bank	50,000,000	-	50,000,000
State Bank of Mauritius	50,000,000	27,138,204	22,861,796
UBA,New York	50,000,000	-	50,000,000
NIC Bank	40,000,000	-	40,000,000
Mizuho Bank London	40,000,000	39,450,000	550,000
BADEA	40,000,000	-	40,000,000

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

31. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

SHORT-TERM FACILITIES (Continued)

LENDER	Facilities available USD	Facilities utilized USD	Facilities unutilised USD
BCV	32,787,300	-	32,787,300
Natixis	30,000,000	-	30,000,000
CFC Stanbic Bank	30,000,000	186,967	29,813,033
FimBank	29,962,569	29,962,569	-
KBC Bank	27,322,750	19,999,999	7,322,751
BMCE Bank	27,322,750	9,999,999	17,322,751
BHF Bank	21,858,200	3,226,110	18,632,090
Byblos Bank	21,858,200	-	21,858,200
Banque BIA, France	21,858,200	9,999,999	11,858,201
KFW	20,000,000	20,000,000	-
Ghana International Bank	20,000,000	-	20,000,000
Banque de Commerce de placement	16,393,650	6,178,425	10,215,225
DZ Bank	15,000,000	-	15,000,000
Investec	15,000,000	-	15,000,000
Barclays/Absa Bank	15,000,000	-	15,000,000
Nedbank	10,000,000	-	10,000,000
Habib Bank London	10,000,000	9,999,999	1
Intesa Sanpaolo	10,000,000	9,999,999	1
Bank of China	8,000,000	7,999,999	1
Bank of China	5,000,000	4,999,999	1
United Bank Limited	5,000,000	-	5,000,000
	2,999,903,891	1,841,392,177	1,158,511,714

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

31. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

LONG-TERM FACILITIES

LENDER	Facilities available USD	Facilities utilized USD	Facilities unutilised USD
Eurobond	398,746,000	398,746,000	-
African Development Bank	150,000,000	150,000,000	-
Exim Bank India	100,000,000	75,000,000	25,000,000
China Development Bank	122,900,000	122,900,000	-
European Investment Bank	97,245,000	-	97,245,000
Development Bank of Southern Africa	95,000,000	95,000,000	-
Private Export Funding Corporation	60,000,000	60,000,000	-
KfW	60,000,000	60,000,000	-
KBC Bank	51,403,510	36,854,140	14,549,370
Opec Fund for International Development	50,000,000	50,000,000	-
FMO	50,000,000	50,000,000	-
Africa Agriculture Trade and Investment Fund	30,000,000	30,000,000	-
Industrial Development Corporation	30,000,000	-	30,000,000
BHF Bank	18,000,000	7,300,000	10,700,000
Tanzania Local Currency Bond	16,506,555	16,506,555	-
Japan Bank for International Corporation	12,700,000	-	12,700,000
Ceskoslovenska Obchodni Banka AS	6,575,954	6,575,954	-
Uganda Shillings Local Currency Bond	3,674,312	3,674,312	-
Overseas Private Investment Corporation	1,400,000	1,400,000	-
Exim Bank USA	No limit	-	No limit
	1,354,151,331	1,163,956,961	190,194,370
TOTAL FACILITIES			
At 31 DECEMBER 2015	4,354,055,222	3,005,349,138	1,348,706,084

Note:

Facilities utilised include outstanding letters credit for Trade Finance amounting to USD 341,874,767 as disclosed in note 34(b)

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments recorded at fair value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

Currency swaps, interest rate swaps and currency forward contracts are derivative products valued using a valuation technique with market-observable inputs. The most frequently applied valuation technique is the swap model using present value calculations. The model incorporates various inputs including foreign exchange spot and forward rates.

Equity Investments – at fair value through profit or loss

Unquoted equity investments are valued using a valuation technique with non market observable inputs. The unobservable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have significant effect on the recorded fair value that are not based on observable market data.

At 31 December 2016:	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
ASSETS				
Derivative financial instruments	-	75,760,442	-	75,760,442
Equity investments – at fair value through profit or loss	-	-	-	-
	-	75,760,442	-	75,760,442
LIABILITIES	-	-	-	-

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2015:	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
ASSETS				
Derivative financial instruments	-	60,993,075	-	60,993,075
Equity Investments – at fair value through profit or loss		-	288,500	288,500
	-	60,993,075	288,500	61,281,575
LIABILITIES	-	-	-	-

The Bank has not designated any loan or receivable or borrowings and payables as at fair value through profit or loss.

Transfers between Level 1, 2 and Level 3:

As at 31 December 2016, there were no transfers between the levels.

As at 31 December 2015, equity holding in ZEP-RE (PTA Reinsurance Company) was transferred out of Level 2 of the fair value hierarchy and re-designated from equity investment at fair value through profit or loss to equity investment at cost. This is because the investment no longer meets the requirements to be measured at fair value since there are no recent transactions from which fair value can be readily determined.

Valuation of financial Instruments recorded at fair value:

The Bank uses widely recognised valuation models for determining fair values of interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including both credit and debit valuation adjustments for counterparty and own credit risk, foreign exchange spot and forward rates and interest rate curves. For these financial instruments, significant inputs into models are market observable and are included within Level 2.

The Bank invests in private equity companies which are not quoted in an active market. Transactions in such investments do not occur on a regular basis. The Bank uses the International Private Equity Valuation Guidelines for these positions.

Valuations of financial instruments are the responsibility of Management.

The valuation of equity investments and derivative financial instruments is performed on a semi-annual basis by the Financial Management Unit. The valuations are also subject to quality assurance procedures performed by the Bank's internal and external auditors. In addition, the accuracy of the computation is tested. The latest valuation is also compared with the valuations in the preceding periods. If fair value changes (positive or negative) are more than certain thresholds set, the changes are further considered by senior management. Appropriateness of valuation methods and inputs is considered and management may request that alternative valuation methods are applied to support the valuation arising from the method chosen.

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Net changes in fair value of financial assets and financial liabilities through profit or loss:

	As at 31 December 2016			As at 31 December 2015		
	Realised USD	Unrealised USD	Total gains/ (losses) USD	Realised USD	Unrealised USD	Total gains/ (losses) USD
ASSETS						
Net Derivative financial instruments:						
- Interest rate swap	-	-	-	-	(149,579)	(149,579)
- Currency swap	-	-	-	-	485,577	485,577
Equity investments – at fair value through profit or loss	-	-	-	-	(223,800)	(223,800)
	-	-	-	-	112,198	112,198
LIABILITIES	-	-	-	-	-	-

Quantitative information of significant unobservable inputs – Level 3:

Description	Valuation Technique	Unobservable input	Range (weighted average)	2016 USD	2016 USD
Equity investments – at fair value through profit or loss	International Private Equity Valuation Guidelines	Multiple variables	n/a	-	288,500

Sensitivity analysis to significant changes in unobservable inputs within Level 3 hierarchy – Level 3:

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis are as shown below:

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

As at 31 December 2016:

Description	Input	Sensitivity used	Effect on fair value USD
Equity investments – at fair value through profit or loss	Multiple variables	-	-

As at 31 December 2015:

Description	Input	Sensitivity used	Effect on fair value USD
Equity investments – at fair value through profit or loss	Multiple variables	5%	14,425

Significant increases (decreases) in the equity of investee companies in isolation would result in a significantly (lower) higher fair value measurement

Level 3 reconciliation

The following table shows a reconciliation of all movements in the fair value of financial instruments categorised within Level 3 between the beginning and the end of the reporting period:

	2016 USD	2015 USD
Balance as at 31 January	288,500	512,300
Financial assets recognized at FV-Level 2	-	-
Financial assets recognized at cost in current year	-	-
	288,500	512,300
Total FV gains and losses in profit or loss	-	(223,800)
Additions	-	-
Retirements	(288,500)	-
Balance as at 31 December	**-**	**288,500**

Notes to the **Financial Statements (Cont)**

For the year ended 31 December 2016

33. SEGMENT REPORTING

The Bank's main business is offering loan products. As such, the Bank has chosen to organise the Bank based on the loan products offered for segmental reporting.

The main types of loan products are:

- Trade finance – Short term and structured medium term financing in support of trading activities such as imports and exports in various member states.
- Project finance – Medium and long term financing of viable and commercially oriented public and private sector projects and investments in various economic sectors or industries.

Other operations comprise other miscellaneous income like rental of office premises which cannot be directly attributed to the Bank's main business. The Bank also participates in the investment of Government securities and other unlisted equity investments. Transactions between the business segments are on normal commercial terms and conditions. Segment assets and liabilities comprise operating assets and liabilities, which form the majority of the statement of financial position.

Information about geographical areas has not been included, as this is not available and the cost to develop is considered to be excessive.

The table below analyses the breakdown of segmental assets, liabilities, income and expenses;

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

33. SEGMENT REPORTING (continued)

STATEMENT OF COMPREHENSIVE INCOME

Year Ended 31 December 2016:	Trade finance USD	Project finance USD	Other USD	Total USD
Gross interest income	168,114,873	55,913,350	1,147,061	225,175,284
Interest expense and other borrowing costs	(79,267,994)	(27,632,108)	(1,809,379)	(108,709,481)
Net interest income	88,846,879	28,281,242	(662,318)	116,465,803
Fee and commission income	36,175,004	5,781,775	-	41,956,779
Other income	-	417,542	67,523	485,065
Other assets written off	-	(21,765)	-	(21,765)
Interest on capital arrears	-	-	60,160	60,160
Other assets recovered	-	3,015,335	-	3,015,335
Operating expenses	(23,097,848)	(5,983,748)	-	(29,081,596)
Depreciation and amortisation	(2,017,988)	(423,302)	-	(2,441,290)
Impairment on loans	(18,051,669)	(5,062,600)	-	(23,114,269)
Foreign exchange loss	(3,062,468)	-	-	(3,062,468)
Fair value gain on equity investments	-	(2,805,523)	-	(2,805,523)
Profit for the year	**78,791,910**	**23,198,956**	**(534,635)**	**101,456,231**

Year Ended 31 December 2015:				
Gross interest income	159,416,207	48,352,083	900,437	208,668,727
Interest expense and other borrowing costs	(70,477,044)	(26,334,208)	(1,379,655)	(98,190,907)
Net interest income	88,939,163	22,017,875	(479,218)	110,477,820
Fee and commission income	26,494,807	6,022,823	-	32,517,630
Other income	-	-	886,310	886,310
Other assets written off	-	(241,287)	-	(241,287)
Interest on capital arrears	-	-	1,341,440	1,341,440
Other assets recovered	1,779,735	4,879,338	-	6,659,073
Operating expenses	(17,186,386)	(2,806,886)	-	(19,993,272)
Depreciation and amortisation	(831,962)	(70,635)	-	(902,597)
Impairment on loans	21,956,769	(54,724,635)	-	(32,767,866)
Foreign exchange gain	(3,033,765)	-	-	(3,033,765)
Fair value gain on equity investments	-	(223,800)	-	(223,800)
Profit for the year	**118,118,361**	**(25,147,207)**	**1,748,532**	**94,719,686**

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

33. SEGMENT REPORTING (continued)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016:

	Trade finance USD	Project finance USD	Other USD	Total USD
Assets:				
Cash and balances held with other banks	167,465,912	-	427,369,707	594,835,619
Investment in Government securities - held to maturity	214,699,238	-	-	214,699,238
Derivative financial instruments	75,760,442	-	-	75,760,442
Other receivables	-	-	79,543,167	79,543,167
Trade finance loans	2,393,142,910	-	-	2,393,142,910
Project loans	-	846,886,728	-	846,886,728
Equity investments - at costs	-	17,496,672	-	17,496,672
Investment in Joint Ventures	-	369,493	-	369,493
Deferred expenditure	-	-	18,095,167	18,095,167
Property and equipment	-	-	19,638,542	19,638,542
Intangible assets	-	-	784,175	784,175
Total assets	**2,851,068,502**	**864,752,893**	**545,430,758**	**4,261,252,153**
Liabilities:				
Short term borrowings	2,369,322,431	-	-	2,369,322,431
Long term borrowings	-	794,214,640	-	794,214,640
Collection account deposits	171,770,025	-	-	171,770,025
Provision for service and leave pay		-	5,838,723	5,838,723
Other payables	-	-	63,621,398	63,621,398
Total liabilities	**2,541,092,456**	**794,214,640**	**69,460,121**	**3,404,767,217**
Equity	-	-	856,484,936	856,484,936
	2,541,092,456	**794,214,640**	**925,945,057**	**4,261,252,153**

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

33. SEGMENT REPORTING (continued)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2015:

	Trade finance USD	Project finance USD	Other USD	Total USD
Assets:				
Cash and balances held with other banks	264,474,038	-	379,040,502	643,514,540
Investment on Government securities	-	-	241,763,172	241,763,172
Derivative financial instruments	-	-	60,993,075	60,993,075
Trade finance loans	2,208,112,386	-	-	2,208,112,386
Project loans	-	698,662,513	-	698,662,513
Equity investments at fair value through profit or loss	-	288,500	-	288,500
Equity investments at cost	-	20,162,420	-	20,162,420
Investment in joint ventures	-	334,492	-	334,492
Other receivables	-	-	187,745,880	187,745,880
Deferred expenditure	-	-	11,190,156	11,190,156
Property and equipment	-	-	21,435,474	21,435,474
Intangible assets	-	-	357,514	357,514
Total assets	**2,472,586,424**	**719,447,925**	**902,525,773**	**4,094,560,122**
Liabilities:				
Collection account deposits	264,474,038	-	-	264,474,038
Short term borrowings	2,179,240,539	-	-	2,179,240,539
Long term borrowings	-	874,104,553	-	874,104,553
Other payables	-	-	34,800,406	34,800,406
Provision for service and leave pay	-	-	5,672,051	5,672,051
Total liabilities	**2,443,714,577**	**874,104,553**	**40,472,457**	**3,358,291,587**
Equity	-	-	736,268,535	736,268,535
	2,443,714,577	**874,104,553**	**776,740,992**	**4,094,560,122**

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

34. CONTINGENT LIABILITIES AND COMMITMENTS

	2016 USD	2015 USD
(a) Capital commitments		
Approved but not contracted	14,099,435	9,471,715
(b) Loans committed but not disbursed		
Project finance loans	211,626,646	219,343,426
Trade finance loans	675,913,295	511,347,097
	887,539,941	730,690,523

(c) Contingencies

In line with normal banking operations, the Bank conducts business involving acceptances, guarantees and performances. The majority of these facilities are offset by corresponding obligations of third parties.

	2016 USD	2015 USD
Letters of credit - Project finance loans	15,467,972	7,044,474
- Trade finance loans	322,643,889	341,874,767
Guarantees	10,274,707	2,041,765
	348,386,568	350,961,006

(d) Operating lease arrangements

The Bank as a lessor

This relates to the Bank's building in Bujumbura of which part has been leased out. Rental income earned during the year was NIL (2015 - USD 168,623). At reporting date, the Bank had no future lease receivables (2015: NIL):

Leases are negotiated for an average term of 2 years and rentals are reviewed every 2 years. The leases are cancelled with a penalty when the tenants do not give 3 months notice to vacate the premises. The leases had not been renewed by 31 December, 2016.

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

34. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

The Bank as a lessee

At year end, the Bank had outstanding commitments under operating leases which fall due as follows:

	2016 USD	2015 USD
Within one year	839,777	274,727
In the second to fifth year inclusive	560,024	726,613
	1,399,801	**1,001,340**

Operating lease payments represent rentals payable by the Bank for use of its office premises. These leases are negotiated for an average term of 5 years.

(a) Pending litigation

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes provisions to cater for any adverse effects which the claims may have on its financial standing.

As at 31 December 2016, there were legal proceedings involving the Bank amounting to USD 24,850,000 (2015 - USD 19,340,000) that are yet to be determined. No provision has been made as, in the opinion of the Directors and the Bank's lawyers, it is unlikely that any significant loss will crystallise.

35. RELATED PARTY TRANSACTIONS

(a) Membership and governance

As a supranational development financial institution with a membership comprising:- Class A Shareholders- Twenty COMESA /African States (the "Member States"), two non-African State and one institutional member;- Class B Shareholders – one non-African State and ten institutional members,- subscription to the capital of the Bank is made by all its Members. All the powers of the Bank are vested in the Board of Governors, which consists of the Governors appointed by each Member of the Bank, who exercise the voting power of the appointing Member. The Board of Directors, which is composed of thirteen (13) Directors elected by the Members is responsible for the conduct of the general operations of the Bank, and for this purpose, exercises all the powers delegated to it by the Board of Governors. The Bank makes loans to some of its Member States. The Bank also borrows funds from some of its Members. Such loans granted to Member States are approved by the Board of Directors.

Notes to the
Financial Statements (Cont)
For the year ended 31 December 2016

35. RELATED PARTY TRANSACTIONS (Continued)

The following are the details of the transactions and balances with related parties:-

	2016 USD	2015 USD
(b) Loans to member states		
Outstanding loans at 1 January		1,206,539,908
Loans disbursed during the year		836,487,209
Loans repaid during the year		(910,712,237)
Outstanding loan balances at 31 December		**1,132,314,880**

Loans to related parties are subject to commercial negotiations on the terms and conditions of varying interest rates and terms. Outstanding balances at year-end are secured by cash security deposits, sovereign undertakings/guarantees and insurance. The loans to Member States are performing and the Bank has not made any provision for doubtful debts relating to amounts owed by related parties (2015: Nil). The loans are granted for an average period of one year.

	2016 USD	2015 USD
(c) Borrowings from members		
Outstanding borrowings at 1 January	364,990,246	279,156,500
Borrowings received during the year	44,803,720	95,584,634
Borrowings repaid during the year	(87,996,575)	(9,750,888)
Outstanding balances at 31 December	**321,797,391**	**364,990,246**

Borrowings from related parties are subject to commercial negotiations on the terms and conditions. The outstanding balances as at year-end are unsecured and there has been no guarantee provided by the Bank for any borrowings from members. The borrowings are for an average period of ten years.

	2016 USD	2015 USD
(d) Income and expenses		
Interest income from loans to Member States earned during the year	88,034,294	77,509,593
Interest expense on borrowings from Member States incurred during the year	(8,279,514)	(9,616,953)
Fees and commission earned from Member States during the year	34,644,298	24,623,254

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

35. RELATED PARTY TRANSACTIONS (Continued)

(e) Other related parties

The remuneration of members of key management staff during the year was as follows:

	2016 USD	2015 USD
Salaries and other short-term benefits	2,667,140	1,908,812
Post employment benefits: Defined contribution: Provident Fund	578,121	460,483
Board of Directors and Board of Governors allowances	281,770	48,300
	3,527,031	2,417,595

36. CURRENCY

The financial statements are presented in United States Dollars (USD). At the reporting date, the conversion rates between one USD and certain other currencies were as analysed below:

	2016 USD	2015 USD
British Pound	0.8147	0.6744
Euro	0.9495	0.9150
United Arab Emirates Dirham	3.6730	3.6725
Sudanese Pound	9.6940	6.0482
Zambian Kwacha	9.8900	11.2475
South Africa Rand	13.6287	15.5632
Ethiopian Birr	22.5160	20.9470
Mauritian Rupee	36.0200	35.8772
Kenya Shilling	102.5700	102.2500
Japanese Yen	116.8000	120.4216
Malawi Kwacha	727.4651	658.3900
Burundi Franc	1675.3000	1531.0000
Tanzania Shilling	2180.0000	2158.4975
Uganda Shilling	3610.0000	3377.3175

Notes to the
Financial Statements (Cont)
For the year ended 31 December 2016

37. EVENTS AFTER THE REPORTING DATE

There are no material events after the reporting date that would require disclosure in or adjustment to, these financial statements.

38. FINANCIAL RISK MANAGEMENT

The financial risk management objectives and policies are as outlined below:

(a) INTRODUCTION

Risk is inherent in the Bank's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk (non–trading risks). It is also subject to country risk.

Risk management structure

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. As part of its governance structure, the Board of Directors has embedded a comprehensive risk management framework for measuring, monitoring, controlling and mitigation of the Bank's risks. The policies are integrated in the overall management information systems of the Bank and supplemented by a management reporting structure.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees and other stakeholders understand their roles and obligations.

The Bank-Wide Integrated Risk Management Committee (BIRMC) is responsible for monitoring compliance with the Bank's risk management policies and procedures and review of the adequacy of the risk management framework in relation to the risks faced by the Bank. BIRMC undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board.

Risk measurement and reporting systems

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition, the Bank's policy is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

The notes below provide detailed information on each of the above risks and the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

(b) CREDIT RISK

The Bank defines credit risk as the risk that adverse changes in the credit quality of borrowers will negatively affect the Bank's financial performance and financial condition. Credit risk arises from both client-specific risk and country risk. The Bank, through its lending operations to private sector and public sector entities in its Member Countries, and to a lesser extent, treasury operations, is exposed to credit risk.

Risk Management Policies and Processes

The Bank manages credit risk through an integrated risk management policy framework and processes which place great emphasis on rigorous screening of borrowers at loan origination.

The risk management policies and processes are designed to identify, measure, manage and control credit risk throughout the whole project cycle. The lending process follows a formalised system of strict procedures and processes and committee-based decision-making processes.

Client-Specific Risk

The Bank uses credit assessment and risk profiling systems to evaluate the credit risk of the investment proposals both at loan origination and during the life of the loan.

The Bank seeks to mitigate credit risk in its lending operations and calls for risk mitigating measures such as security in the form of real estate collateral, personal and corporate guarantees. Such collateral is re-valued every three years or earlier should there be any evidence of diminution in value. To ensure prudent management of concentration risk, the Bank limits exposure to a single borrower to 25% of its paid up capital and retained earnings

Country risk

The Bank considers country-specific political, social and economic events which may have an adverse impact on the credit quality of its borrowers. To mitigate such risks, the Bank uses prudent country exposure management policies. In addition, the Bank considers the economic, social and political profile of the country in which the investment project is domiciled before approval is granted. The investment proposal is also loaded with the risk premium that reflects the risk rating of the host country.

The Bank limits its exposure to any single Member country to 30% of its total loan portfolio. As at 31 December 2016, all country exposures were within this limit.

Notes 41 and 42 of the Financial Statements contain the country exposure analysis as at 31 December 2016 and 31 December 2015.

Notes to the **Financial Statements (Cont)**

For the year ended 31 December 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Credit-related commitment risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies. These are further disclosed under Note 34(c).

Maximum Exposure to Credit Risk before Collateral Held:

	2016 USD	%	2015 USD	%
On - statement of financial position Items				
Cash and Balances held with other banks	594,835,619	14	643,514,540	16
Investment in Government securities	214,699,238	5	241,763,172	6
Other receivables	53,918,623	1	164,962,264	4
Derivative Financial instruments	75,760,442	2	60,993,075	1
Loans and advances	3,337,631,476	78	3,001,749,471	73
-Project loans	896,087,934		762,348,507	
-Trade finance loans	2,441,543,542		2,239,400,964	
Sub Total	**4,276,845,398**	**100**	**4,112,982,522**	**100**
Off - statement of financial position Items				
Letters of Credit	338,111,861	27	348,919,241	32
Loan Commitments not disbursed	887,539,941	72	730,690,523	68
Guarantees and Performance Bonds	10,274,707	1	2,041,765	-
Sub Total	**1,235,926,509**	**100**	**1,081,651,529**	**100**
Total Credit Exposure	**5,512,177,907**		**5,194,634,051**	

The above figures represent the worst case scenario of credit exposure for the two years without taking into account any collateral held or other credit enhancements. Loan and advances and off-statement of financial position items took up 84% in 2016 (2015 - 80%) of the total maximum credit exposure.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Other than cash and bank balances amounting to USD 594,835,619 (2015 -USD 643,514,540) all other credit risk exposures are secured by collateral in the form of cash liens, mortgages on land and buildings, securities charged over plant and machinery and third party guarantees.

As at 31 December 2016, the fair value of collateral held for impaired loans and advances was USD 222,113,132 (2015 - USD 412,077,829) and provided sufficient cover over the gross exposure of USD 95,092,932 (2015-USD 86,229,211) and over the net exposure of USD 34,135,073 (2015-USD 15,715,179) after deducting the impairment allowances.

Classification of Loans and advances

For year ended 31 December 2016:	Gross amount USD	Impairment allowance USD	Net amount USD	%
Neither past due nor impaired	3,141,046,185	(36,643,976)	3,104,402,209	96
Past due but not impaired	101,492,359	-	101,492,359	3
Impaired	95,092,932	(60,957,859)	34,135,073	1
Total	**3,337,631,476**	**(97,601,835)**	**3,240,029,641**	**100**

For year ended 31 December 2015	Gross amount USD	Impairment allowance USD	Net amount USD	%
Neither past due nor impaired	2,648,287,767	(24,460,540)	2,623,827,227	90
Past due but not impaired	267,232,493	-	267,232,493	9
Impaired	86,229,211	(70,514,032)	15,715,179	1
Total	**3,001,749,471**	**(94,974,572)**	**2,906,774,899**	**100**

The amounts which are past due but not impaired are secured by collaterals in the form of cash liens, mortgages on land and buildings, securities charged over plant and machinery and third party guarantees.

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Financial Statements (Cont)

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38. FINANCIAL RISK MANAGEMENT (Continued)

Ageing of arrears for past due loans and advances not impaired

(b) CREDIT RISK (Continued)

	2016 USD	2015 USD
Below 30 Days	50,638,134	152,678,075
31 to 90 Days	50,854,225	114,554,418
Total arrears	**101,492,359**	**267,232,493**

Ageing of arrears for impaired loans and advances

Below 30 Days	1,529,018	2,950,787
31-90 Days	3,493,701	357,132
91-180 Days	24,320,759	16,066,427
181-360 Days	34,012,295	22,573,153
Over 360 Days	23,458,469	65,242,360
Total arrears	**86,814,242**	**107,189,859**
Amounts not in arrears/(Restructured loans)	8,278,690	(20,960,648)
Total	**95,092,932**	**86,229,211**

Loans and advances that are neither past due nor impaired

The Bank classifies loans and advances under this category for borrowers that are up to date with their principal and interest payments and conforming to all the agreed terms and conditions. Such borrowers are financially sound and demonstrate capacity to continue to service their debts in the future. The Bank classifies such loans as 'Low Risk-PTAR 1 and Satisfactory Risk-PTAR 2' in line with its Loan Classification Policy.

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Financial Statements (Cont)
For the year ended 31 December 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Past due but not impaired

Loans under this category are performing well but exhibit potential weaknesses which may, if not corrected in good time, weaken the borrower's capacity to repay. These weaknesses may also result in the Bank's interest not being adequately protected. Such weaknesses include temporary cash flow problems and deteriorating economic conditions. The Bank classifies such loans as 'Fair Risk-PTAR 3 and Watch Risk- PTAR 4' in line with its Loan Classification Policy. Sovereign loans that are past due are not considered impaired unless otherwise approved by the Bank's Board of Directors.

Impaired loans and advances

The Bank, depending on the severity of default and deterioration of borrower's financial condition and collateral, classifies impaired loans into three categories 'Substandard-PTAR 5', 'Doubtful-PTAR 6' and 'Loss-PTAR 7'. Thus, impaired loans range from those that are not adequately protected by their current sound worth and paying capacity of the obligor to those that are considered uncollectible or of such little value that their continuance as bankable assets is not warranted.

Collateral Held

In addition to its rigorous credit risk assessments, the Bank seeks to protect its interests in the event of unpredictable and extreme factors that negatively affect the borrower's capacity to service the Bank's loan by calling for credit enhancement arrangements. In this regard, the Bank calls for security such as mortgage interest on property, registered securities over financed or third party assets and third party guarantees. The security cover required is, at least, one and half times the loan amount that is disbursed. Such security is subject to regular reviews and, if necessary, revaluation every three years.

The Bank does not hold security over deposits placed with other banks or financial institutions and government securities. However, the Bank places deposits with well vetted and financially sound counter-parties. In addition, the Bank places limits on counter-party exposures which are set, monitored and reviewed by the Bank-Wide Integrated Risk Management Committee.

For both periods ended 31 December 2016 and 31 December 2015, the Bank's collateral exceeded the outstanding gross portfolio.

Notes to the
Financial Statements (Cont)
For the year ended 31 December 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Collateral held for loan portfolio

		2016 USD	2015 USD
(i)	Total portfolio:		
	Mortgages on properties	822,521,130	635,948,361
	Fixed charge on plant and equipment	866,914,455	767,196,751
	Cash security deposits	830,600,740	865,519,340
	Sovereign undertakings	1,273,105,261	767,636,989
	Insurance and Guarantees	2,069,571,769	1,728,576,031
	Other floating all asset debenture	268,382,137	355,481,787
	Total security cover	6,131,095,492	5,120,359,259
	Gross portfolio	(3,337,631,476)	(3,001,749,471)
	Net cover	**2,793,464,016**	**2,118,609,788**
(ii)	Past due but not impaired:		
	Mortgages on properties	677,632,056	33,109,149
	Fixed charge on plant and equipment	821,974,961	25,015,488
	Cash security deposits	830,600,740	-
	Sovereign undertakings	1,273,105,261	65,015,488
	Insurance and Guarantees	2,037,287,205	69,000,000
	Other floating all asset debenture	268,382,137	40,000,000
	Total security cover	5,908,982,360	232,140,125
	Gross portfolio	(101,492,359)	(267,232,493)
	Net cover	**5,807,490,001**	**(35,092,368)**
(iii)	Impaired loans:		
	Mortgages on properties	144,889,074	75,253,541
	Fixed charge on plant and equipment	44,939,494	51,162,144
	Cash security deposits	-	850,000
	Sovereign undertakings	-	52,012,144
	Insurance and Guarantees	32,284,564	232,800,000
	Total security cover	222,113,132	412,077,829
	Gross portfolio	(95,092,932)	(86,229,211)
	Net cover	**127,020,200**	**325,848,618**

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Concentration of risk

As at 31 December 2016

	Gross Exposure On-statement Of financial Position USD	%	Off-statement Of financial Position USD	%	Cash collateral/ In transit USD	Insurance USD	Net Exposure USD	%
Mining and Quarrying	8,021,410	-	-	-	-	-	8,021,410	-
Agribusiness	932,318,916	28	119,528,320	10	(203,034,465)	(343,847,013)	504,965,758	21
Banking and Financial Services	268,026,040	8	230,205,834	19	-	(140,203,539)	358,028,335	15
Education	5,771,990	-	-	-	-	-	5,771,990	-
Hospitality	41,388,623	1	244,865	-	-	-	41,633,488	2
Manufacturing and Heavy Industries	246,304,182	7	73,135,533	6	-	-	319,439,715	13
Other	44,787,302	1	230,816,559	19	(154,009,225)	(18,000,000)	103,594,636	4
Health Services	19,790,861	1	6,489,448	1	-	-	26,280,309	1
Energy	100,449,765	3	135,584,796	11	-	(471,313)	235,563,248	10
Petrochemicals	1,194,270,524	36	269,302,632	22	(518,174,726)	(592,500,000)	352,898,430	14
Real Estate	53,538,588	2	8,522,813	1	-	-	62,061,401	2
Telecommunications	19,527,724	1	274,707	-	-	(6,209,104)	13,593,327	1
Infrastructure	157,561,056	5	161,821,002	13	-	(100,000,000)	219,382,058	9
Transport and Logistics	245,874,495	7	-	-	-	(61,200,000)	184,674,495	8
	3,337,631,476	100	1,235,926,509	100	(875,218,416)	(1,262,430,969)	2,435,908,600	100

**Off –statement of financial position items include loans approved but not disbursed, outstanding letters of credit and guarantees and performance bonds.

The Bank, as part of its prudent management of credit risk arising from high sectoral concentration, limits the net exposure to Petrochemicals and Agribusiness sectors to 35% of the Bank's total loan book, and 25% for all other sectors. As at 31 December 2016, all loan and advances sectoral concentrations were within the stipulated limit.

Notes to the
Financial Statements (Cont)
For the year ended 31 December 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Concentration of risk

As at 31 December 2015

	Gross Exposure On-statement Of financial Position USD	%	Off-statement Of financial Position USD	%	Cash collateral/ In transit USD	Insurance USD	Net Exposure USD	%
Mining and Quarrying	46,498,420	2	18,790,350	2	-	-	65,288,770	3
Agribusiness	663,051,429	22	120,779,699	11	(327,300,786)	(132,117,612)	324,412,730	13
Banking and Financial Services	286,546,860	10	147,598,509	14	(438,027)	-	433,707,342	17
Education	7,514,509	-	(376)	-	-	-	7,514,133	-
Hospitality	57,455,162	2	2,066,252	-	-	-	59,521,414	2
Manufacturing and Heavy Industries	176,173,483	6	139,073,310	13	-	-	315,246,793	12
Other	40,716,129	1	222,997,422	21	-	-	263,713,551	10
Health Services	26,536,759	1	2,926,385	-	-	-	29,463,144	1
Energy	98,375,384	3	39,456,165	4	-	(32,380,584)	105,450,965	4
Petrochemicals	1,295,165,817	43	331,657,882	31	(462,807,121)	(550,000,000)	614,016,578	24
Real Estate	68,617,018	2	13,394,864	1	-	-	82,011,882	3
Telecommunications	34,118,045	1	2,222,152	-	-	(6,209,104)	30,131,093	1
Infrastructure	73,237,444	2	-	-	-	-	73,237,444	3
Transport and Logistics	127,743,012	4	40,688,915	4	-	(43,057,683)	125,374,244	5
	3,001,749,471	100	1,081,651,529	100	(790,545,934)	(763,764,983)	2,529,090,083	100

Notes to the Financial Statements (Cont)

For the year ended 31 December 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

	2016 USD	2015 USD
Restructured loans		
Project finance loans	24,816,680	-
Trade finance loans	10,766,117	390,000,000
	35,582,797	**390,000,000**

(c) LIQUIDITY RISK

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from financial liabilities. The Bank's liquidity policy ensures that it has resources to meet its net disbursement and debt service obligations and allows it flexibility in deciding the appropriate time to access capital markets.

The Bank holds sufficient liquid assets to enable it to continue normal operations even in the unlikely event that it is unable to obtain fresh resources from its lending partners and the capital markets for an extended period of time. To achieve this objective, the Bank operates on a prudential minimum level of liquidity, which is based on projected net cash requirements.

The prudential minimum level of liquidity is updated quarterly.

The liquidity position statement is presented under the most prudent consideration of maturity dates. Liabilities are classified according to the earliest possible repayment date, while assets are classified according to the latest possible repayment date.

The Bank-wide Integrated Risk Management Committee (BIRMC) is tasked with the responsibility of ensuring that all foreseeable funding commitments can be met when due, and that the Bank will not encounter difficulty in meeting obligations from its financial liabilities as they occur.

BIRMC relies substantially on the Treasury Department to coordinate and ensure discipline, certify adequacy of liquidity under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

(c) LIQUIDITY RISK (Continued)

Maturities of financial assets and financial liabilities are as follows:

At 31 December 2016

	Up to 1 month USD	2 to 3 months USD	4 to 6 months USD	6 to 12 months USD	1 to 5 years USD	Over 5 years USD	Total USD
FINANCIAL ASSETS							
Cash and balances with other banks	591,015,791	3,819,828	-	-	-	-	594,835,619
Investment in Government securities	-	-	-	227,876,780	-	-	227,876,780
Other receivables	53,396,149	77,572	110,669	171,713	162,520	-	53,918,623
Derivative financial instruments	-	-	-	-	75,760,442	-	75,760,442
Trade finance loans	283,632,317	129,034,828	403,620,482	545,679,697	1,316,888,638	-	2,678,855,962
Project loans	40,236,915	9,497,414	43,951,374	255,246,563	539,020,368	178,527,666	1,066,480,300
Equity investments at cost	-	-	-	-	17,866,165	-	17,866,165
Total financial assets	**968,281,172**	**142,429,642**	**447,682,525**	**1,028,974,753**	**1,949,698,133**	**178,527,666**	**4,715,593,891**
FINANCIAL LIABILITIES							
Short term borrowings	265,174,799	452,704,593	314,996,931	533,492,410	888,484,879	-	2,454,853,612
Long term borrowings	17,348,786	1,718,301	32,132,714	76,113,640	638,015,618	125,984,094	891,313,153
Collection Account	171,770,025	-	-	-	-	-	171,770,025
Other payables	57,469,779	159,707	238,592	463,848	3,320,805	1,917,045	63,569,776
Total liabilities	**511,763,389**	**454,582,601**	**347,368,237**	**610,069,898**	**1,529,821,302**	**127,901,139**	**3,581,506,566**
Net liquidity gap	**456,517,783**	**(312,152,959)**	**100,314,288**	**418,904,855**	**419,876,831**	**50,626,527**	**1,134,087,325**
Cumulative gap	**456,517,783**	**144,364,824**	**244,679,112**	**663,583,968**	**1,083,460,798**	**1,134,087,325**	**1,134,087,325**

The above table analyses financial assets and financial liabilities of the Bank into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

(c) LIQUIDITY RISK (Continued)

Maturities of financial assets and financial liabilities are as follows:

At 31 December 2015

	Up to 1 month USD	2 to 3 months USD	4 to 6 months USD	6 to 12 months USD	1 to 5 years USD	Over 5 years USD	Total USD
FINANCIAL ASSETS							
Cash and balances with other banks	642,927,743	586,797	-	-	-	-	643,514,540
Investment in Government securities	-	-	-	241,763,172		-	241,763,172
Other receivables	164,034,873	69,951	103,526	160,500	593,414	-	164,962,264
Derivative financial instruments	-	-	-	-	60,993,075	-	60,993,075
Trade finance loans	730,794,285	322,340,355	514,465,968	503,616,152	136,895,626	-	2,208,112,386
Project loans	56,543,325	26,529,027	29,113,515	63,644,116	370,023,973	152,808,557	698,662,513
Equity investments	-	348,919,241	-	-	-	-	348,919,241
Equity investments							
- At fair value through profit or loss	-	-	-	-	288,500	-	288,500
- At cost	-	-	-	-	20,162,420	-	20,162,420
Total financial assets	**1,594,300,226**	**349,526,130**	**543,683,009**	**809,183,940**	**588,957,008**	**152,808,557**	**4,038,458,870**
FINANCIAL LIABILITIES							
Short term borrowings	399,799,620	582,716,614	382,205,556	794,303,637	20,215,112	-	2,179,240,539
Long term borrowings	116,879,510	18,604,203	61,152,236	33,740,140	569,370,850	74,357,614	874,104,553
Collection Account	264,150,398	323,640	-	-	-	-	264,474,038
Other payables	29,467,497	142,934	213,891	424,174	3,043,917	1,454,258	34,746,671
Total liabilities	**810,297,025**	**601,787,391**	**443,571,683**	**828,467,951**	**592,629,879**	**75,811,872**	**3,352,565,801**
Net liquidity gap	**784,003,201**	**252,261,261**	**100,111,326**	**(19,284,011)**	**(3,672,871)**	**76,996,685**	**685,893,069**
Cumulative gap	**784,003,201**	**531,741,940**	**631,853,266**	**612,569,255**	**608,896,384**	**685,893,069**	**685,893,069**

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Financial Statements (Cont)
For the year ended 31 December 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

(c) LIQUIDITY RISK (Continued)

Maturities of loan commitments and off balance financial liabilities are as follows:

At 31 December 2016

	Up to 1 month USD	2 to 3 months USD	4 to 6 months USD	6 to 12 months USD	1 to 5 years USD	Over 5 years USD	Total USD
Guarantees	-	-	-	10,274,707	-	-	10,274,707
Letters of credit	-	338,111,861	-	-	-	-	338,111,861
Loan commitments	-	-	673,459,934	214,080,007	-	-	887,539,941
Total	-	338,111,861	673,459,934	224,354,714	-	-	1,235,926,509

At 31 December 2015

	Up to 1 month USD	2 to 3 months USD	4 to 6 months USD	6 to 12 months USD	1 to 5 years USD	Over 5 years USD	Total USD
Guarantees	-	-	-	2,041,765	-	-	2,041,765
Letters of credit	-	348,919,241	-	-	-	-	348,919,241
Loan commitments	-	-	511,347,097	219,343,426	-	-	730,690,523
Total	-	348,919,241	511,347,097	221,385,191	-	-	1,081651,529

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Financial Statements (Cont)
For the year ended 31 December 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

(c) LIQUIDITY RISK (Continued)

(i) Liquidity and funding management

The Bank's liquidity and funding policies require:
- Entering into lending contracts subject to availability of funds,
- Projecting cash flows by major currency and considering the level of liquid assets necessary in relation thereto,
- Maintaining a diverse range of funding sources with back–up facilities,
- Investment in short term liquid instruments which can easily be sold in the market when the need arises,
- Investments in property and equipment are properly budgeted for and done when the Bank has sufficient cash flows,
- Maintaining liquidity and funding contingency plans. These plans must identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications.

(ii) Contingency Plans

The Bank carries out contingency funding planning at the beginning of the year. This details the following measures to combat liquidity crisis:
- Unutilised lines of credit, including standby facilities, from different counter-parties.
- Term deposits with counter-parties and prospects of withdrawal and rollovers.
- Investment portfolio and its defeasance period.
- Amount of short-term resources with a time period, required to raise such resources.
- Amount which can be raised from other counter parties based on the Bank's past relationships.

(d) MARKET RISK

The objective of the Bank's market risk management process is to manage and control market risk exposures in order to optimise return on risk. Market risk is the risk that movement in market factors, including interest rates and foreign currency exchange rates, will reduce income or value of portfolio.

Overall responsibility for management of market risk rests with BIRMC. The Treasury Department is responsible for the development of detailed market risk management policies and for the day-to-day implementation of those policies.

The management of market risk is supplemented by the monitoring of sensitivity analysis of the key market risk variables. The Bank normally uses simulation models to measure the impact of changes in interest rates on net interest income. The key assumptions used in these models include loan volumes and pricing and changes in market conditions. Those assumptions are based on the best estimates of actual positions. The models cannot precisely predict the actual impact of changes in interest rates on income because these assumptions are highly uncertain.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The extent of exposure to interest rate risk is largely determined by the length of time for which the rate of interest is fixed for a financial instrument. The Bank's principal interest rate risk management objective is to generate a suitable overall net interest margin by matching the interest rate characteristic and re-pricing profile of assets with those of the underlying borrowings and equity sources respectively.

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Financial Statements (Cont)

For the year ended 31 December 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

(i) Interest rate risk continued (Continued)

The table below summarises the Bank's exposure to interest rate risk

At 31 December 2016

	Up to 1 month USD	2 to 3 months USD	4 to 6 months USD	6 to 12 months USD	1 to 5 years USD	Over 5 years USD	Total USD
FINANCIAL ASSETS							
Cash and balances with other banks	423,549,880	3,819,827	-	-	-	167,465,912	594,835,619
Investment in Government securities	-	-	-	-	214,699,238	-	214,699,238
Other receivables	-	-	-	-	562,660	53,355,963	53,918,623
Derivative financial instruments	-	-	-	-	-	75,760,442	75,760,442
Trade finance loans	434,279,327	670,149,605	330,257,705	4,557,326	942,856,676	11,042,271	2,393,142,910
Project finance loans	493,246,373	138,005,617	-	-	178,751,417	36,883,320	846,886,727
Equity Investments cost	-	-	-	-	-	17,866,165	17,866,165
Total financial assets	1,351,075,580	811,975,049	330,257,705	4,557,326	1,336,869,991	362,374,073	4,197,109,724
FINANCIAL LIABILITIES							
Short term borrowings	897,564,652	979,593,934	158,268,073	-	333,895,772	-	2,369,322,431
Long term borrowings	176,617,628	612,269,853	-	-	5,327,159	-	794,214,640
Collection Accounts	-	-	-	-	-	171,770,025	171,770,025
Other payables	-	-	-	-	6,179,852	57,389,924	63,569,776
Total financial liabilities	1,074,182,280	1,591,863,787	158,268,073	-	345,402,783	229,159,949	3,398,876,872
Net interest rate exposure	276,893,300	(779,888,738)	171,989,632	4,557,326	991,467,208	133,214,124	798,232,852
Cumulative interest rate exposure	276,893,300	(502,995,438)	(331,005,806)	(326,448,480)	665,018,728	798,232,852	798,232,852

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* Fixed interest and non-interest bearing items are stated at amortised costs or their carrying amounts which approximate their fair values

38. FINANCIAL RISK MANAGEMENT (Continued)

d) MARKET RISK (Continued)

(i) Interest rate risk (Continued)

The table below summarises the Bank's exposure to interest rate risk.

At 31 December 2015

	Up to 1 month	2 to 3 months	4 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
	USD	USD	USD	USD	USD	USD	USD
FINANCIAL ASSETS							
Cash and balances with other banks	374,514,901	586,797	-	-	-	268,412,842	643,514,540
Investment in Government securities	-	-	-	-	241,763,172	-	241,763,172
Other receivables	-	-	-	-	591,496	164,370,768	164,962,264
Derivative financial instruments	-	875,058	-	-	-	60,118,017	60,993,075
Trade finance loans	56,488,100	36,515,807	419,916,304	43,656,454	1,638,815,324	12,720,397	2,208,112,386
Project finance loans	299,710,837	115,900,333	85,099,357	1,742,319	194,228,314	1,981,353	698,662,513
Equity Investments							
- At fair value through profit or loss	-	-	-	-	-	288,500	288,500
- At cost	-	-	-	-	-	20,162,420	20,162,420
Total financial assets	**730,713,838**	**153,877,995**	**505,015,661**	**45,398,773**	**2,075,398,306**	**528,054,297**	**4,038,458,870**
FINANCIAL LIABILITIES							
Short term borrowings	963,323,643	705,088,836	117,971,970	20,215,113	372,640,977	-	2,179,240,539
Long term borrowings	126,238,363	710,058,858	6,827,448	-	30,979,884	-	874,104,553
Collection Accounts	-	-	-	-	-	264,474,038	264,474,038
Other payables	-	-	-	-	5,351,532	29,395,139	34,746,671
Total financial liabilities	**1,089,562,006**	**1,415,147,694**	**124,799,418**	**20,215,113**	**408,972,393**	**293,869,177**	**3,352,565,801**
Net interest rate exposure	**(358,848,168)**	**(1,261,269,699)**	**380,216,243**	**25,183,660**	**1,666,425,913**	**234,185,120**	**685,893,069**
Cumulative interest rate exposure	**(358,848,168)**	**(1,620,117,867)**	**(1,239,901,624)**	**(1,214,717,964)**	**451,707,949**	**685,893,069**	**685,893,069**

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Financial Statements (Cont)
For the year ended 31 December 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

(d) MARKET RISK (Continued)

(i) Interest rate risk (Continued)

Interest rate risk - Sensitivity analysis

The Bank monitors the impact that an immediate hypothetical increase or decrease in interest rates of 100 basis points applied at the beginning of the year would have on net interest income.

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at year end. The analysis was prepared using the following assumptions:

- Interest-bearing assets and liabilities outstanding as at 31 December 2016 were outstanding at those levels for the whole year,
- Interest-bearing assets and liabilities denominated in currencies other than USD experienced similar movements in interest rates, and
- All other variables are held constant.

If interest rates had been 100 basis points higher or lower with the above assumptions applying, the Bank's net profit for the year ended 31 December 2016 of USD 101,456,231 (2015: USD 94,719,686) would increase or decrease by USD 1,117,492 (2015 - USD 12,190,930) as follows:

Effect on the Bank's Net Profit:

The profit for the year ended 31 December 2016 would increase to USD 102,573,723 (2015: USD 106,910,616) or decrease to USD 100,338,739 (2015: USD 82,528,756).

The potential change is 1.1% (2015 – 12.9%) of the year's profit.

(ii) Currency risk

Currency risk is defined as the potential loss that could result from adverse changes in foreign exchange rates. Currency risks are minimised and, where possible, eliminated by requiring assets to be funded by liabilities that have matching currency characteristics.

Foreign currency positions are monitored on a quarterly basis. The single currency exposure, irrespective of short or long positions should not exceed the limit of 10% of the Bank's net worth.

Notes to the
Financial Statements (Cont)
For the year ended 31 December 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

d) MARKET RISK (Continued)

(ii) Currency rate risk (Continued)

The Bank's financial assets and financial liabilities are reported in USD.

The Bank's currency position as at 31 December 2016 was as follows:

At 31 December 2016

	USD	GBP	EURO	KES	SDG	UGX	TZSH	OTHER	TOTAL
FINANCIAL ASSETS									
Cash and balances with other banks	407,778,574	4,164	7,390,705	(3,430)	167,465,912	3,971,453	4,171,941	4,056,300	594,835,619
Investment in Government securities	214,699,238	-	-	-	-	-	-	-	214,699,238
Other receivables	53,918,623	-	-	-	-	-	-	-	53,918,623
Derivative financial instruments	943,388,070	-	(867,627,628)	-	-	-	-	-	75,760,442
Trade finance loans	1,447,036,840	-	946,106,070	-	-	-	-	-	2,393,142,910
Project finance loans	816,453,643	-	18,602,230	-	-	138,504	11,692,350	-	846,886,727
Equity Investments at cost	17,866,165	-	-	-	-	-	-	-	17,866,165
Total financial assets	**3,901,141,153**	**4,164**	**104,471,377**	**(3,430)**	**167,465,912**	**4,109,957**	**15,864,291**	**4,056,300**	**4,197,109,724**
FINANCIAL LIABILITIES									
Short term borrowings	2,085,405,657	-	110,400,302	-	-	-	-	173,516,472	2,369,322,431
Long term borrowings	783,560,322	-	-	-	-	-	10,654,318	-	794,214,640
Collection account	4,186,261	-	-	-	164,371,219	-	-	3,212,545	171,770,025
Other payables	63,391,463	-	-	173,300	-	-	-	5,013	63,569,776
Total financial liabilities	**2,936,543,703**	**-**	**110,400,302**	**173,300**	**164,371,219**	**-**	**10,654,318**	**176,734,030**	**3,398,876,872**
NET POSITION	**964,597,450**	**4,164**	**(5,928,925)**	**(176,730)**	**3,094,693**	**4,109,957**	**5,209,973**	**(172,677,730)**	**798,232,852**

Notes to the **Financial Statements (Cont)**

For the year ended 31 December 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

d) MARKET RISK (Continued)

(ii) Currency Risk (Continued)

The Bank's financial assets and financial liabilities are reported in USD.

The Bank's currency position as at 31 December 2015 was as follows:

At 31 December 2015

	USD	GBP	EURO	KES	SDG	UGX	TZSH	OTHER	TOTAL
FINANCIAL ASSETS									
Investment in Government securities	365,483,686	36,221	(1,770,950)	579,514	268,412,841	7,712,056	2,254,406	806,766	643,514,540
Other receivables	241,763,172	-	-	-	-	-	-	-	241,763,172
Derivative financial instruments	164,962,264	-	-	-	-	-	-	-	164,962,264
Trade finance loans	782,483,595	-	(721,490,520)	-					60,993,075
Project finance loans	1,216,723,046	-	991,389,340	-					2,208,112,386
Equity Investments	668,812,801	-	15,356,809	-	-	345,442	14,147,461	-	698,662,513
- At fair value through profit or loss	288,500	-	-	-					288,500
- At cost	20,162,420	-							20,162,420
Total financial assets	**3,460,679,484**	**36,221**	**283,484,679**	**579,514**	**268,412,841**	**8,057,498**	**16,401,867**	**806,766**	**4,038,458,870**
FINANCIAL LIABILITIES									
Short term borrowings	1,913,453,965	-	265,786,574	-	-	-	-	-	2,179,240,539
Long term borrowings	859,995,812	-	-	-	-	453,918	13,654,823	-	874,104,553
Collection account	1,021,342	-	-	-	263,452,696	-	-	-	264,474,038
Other payables	34,632,448	-	-	100,618	-	-	-	13,605	34,746,671
Total financial liabilities	**2,809,103,567**	**-**	**265,786,574**	**100,618**	**263,452,696**	**453,918**	**13,654,823**	**13,605**	**3,352,565,801**
NET POSITION	**651,575,917**	**36,221**	**17,698,105**	**478,896**	**4,960,145**	**7,603,580**	**2,747,044**	**793,161**	**685,893,069**

Notes to the
Financial Statements (Cont)
For the year ended 31 December 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

(ii) Currency Risk (Continued)

Currency risk - Sensitivity Analysis

The Bank is mainly exposed to Euros, Pound Sterling, Kenya Shillings, Tanzania Shillings, Sudanese Pounds, and Uganda Shilling. The following analysis details the Bank's sensitivity to a 10% increase and decrease in the value of the USD against the other currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes cash and term deposits, securities, loans and borrowings in currencies other than United States Dollars. A positive number below indicates a decrease in profit and reserves when the USD strengthens by 10% against the other currencies in which the Bank has a net asset position. For a 10% weakening of the USD against the relevant currencies, there would be an equal opposite impact on the net profit.

	GBP	EURO	KES	TSH	SDG	UGX
2016	**1,207**	**(849,703)**	**(183)**	**239**	**31,924**	**(33,941)**
2015	5,317	1,928,671	8,393	127	82,010	(31,358)

39. CAPITAL MANAGEMENT

The Bank, being a supranational financial institution, is not subject to any regulatory supervision by a national body. The conduct of operations is vested with the Board of Directors which closely monitors directly or through its Audit Committee the Bank's performance, risk profile and capital adequacy.

Based on the need to protect against increased credit risks associated with projects and infrastructure financing in developing African economies, the Bank's capital management policy aims to maintain a capital adequacy ratio of at least 30 per cent. This ratio is computed in line with recommendations of the paper prepared by the Basel Committee on Banking Supervision entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1988 as amended from time to time (Basel I paper) and the paper prepared by the Basel Committee entitled "International Convergence of Capital Measurement and Standards: A Revised Framework" dated June 2004 as amended from time to time (Basel II Paper).

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

- To have sufficient capital to support its development mandate;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits to Member States and other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy is monitored monthly by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee. Currently, the Bank's capital is entirely Tier 1 capital which is: Paid-up share capital, retained earnings and other reserves.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

39. CAPITAL MANAGEMENT (Continued)

Risk-weighted assets are measured by means of a hierarchy of seven risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-statement of financial position exposure, with some adjustments to reflect the more contingent nature of the potential losses.

A summary of the Bank's capital adequacy computations is provided below.

	2016 USD	2015 USD
RISK WEIGHTED ASSETS		
On-Statement of financial position assets	2,236,880,589	1,812,316,602
Off- Statement of financial position assets	77,853,320	70,804,731
Total risk weighted assets	**2,314,733,909**	**1,883,121,333**
CAPITAL		
Paid up capital	372,050,939	339,741,093
Retained earnings and reserves	484,427,909	396,527,442
Total capital	**856,478,848**	**736,268,535**
CAPITAL ADEQUACY RATIO	37.0%	39.1%

In addition to its paid-up capital, the Bank has access to additional capital in the form of callable capital. During the years, the Bank complied with its capital adequacy requirements. There were no events after the reporting date.

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

40. FINANCIAL INSTRUMENTS CATEGORIES

The table below sets out the Bank's analysis of financial instrument categories.

As at 31 December 2016:

	Loans and receivables	At fair value through profit or loss	Available for sale	Hedging instruments	Held to Maturity	Total carrying amount
	USD	USD	USD	USD	USD	USD
Financial assets						
Cash and balances held with banks	594,835,619	-	-	-	-	594,835,619
Investment in Government securities	-	-	-	-	214,699,238	214,699,238
Other receivables	53,918,623	-	-	-	-	53,918,623
Trade finance loans	2,393,142,910	-	-	-	-	2,393,142,910
Project finance loans	846,886,728	-	-	-	-	846,886,728
Equity investments at cost	-	-	17,496,672	-	-	17,496,672
Derivative financial instruments	-	341,813	-	75,418,629	-	75,760,442
Total financial assets	**3,888,783,880**	**341,813**	**17,496,672**	**75,418,629**	**214,699,238**	**4,196,740,232**
Financial liabilities						
Collection account deposits	-	-	-	-	171,770,025	171,770,025
Short term borrowings	-	-	-	-	2,369,322,431	2,369,322,431
Long term borrowings	-	-	-	-	794,214,640	794,214,640
Other payables	-	-	-	-	63,569,776	63,569,776
Total financial liabilities	**-**	**-**	**-**	**-**	**3,398,876,872**	**3,398,876,872**

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

40. FINANCIAL INSTRUMENTS CATEGORIES (Continued)

As at 31 December 2015:

	Loans and receivables USD	At fair value through profit or loss USD	Available for sale USD	Hedging instruments USD	Held to Maturity USD	Total carrying amount USD
Financial assets						
Cash and balances held with banks	643,514,540	-	-	-	-	643,514,540
Investment in Government securities	241,763,172	-	-	-	-	241,763,172
Other receivables	164,962,264	-	-	-	-	164,962,264
Trade finance loans	2,208,112,386	-	-	-	-	2,208,112,386
Project finance loans	698,662,513	-	-	-	-	698,662,513
Equity investments at fair value through profit or loss	-	288,500	-	-	-	288,500
Equity investments at cost	-	-	20,162,420	-	-	20,162,420
Derivative financial instruments	-	875,059	-	60,118,016	-	60,993,075
Total financial assets	**3,957,014,875**	**1,163,559**	**20,162,420**	**60,118,016**	**-**	**4,038,458,870**
Financial liabilities						
Collection account deposits	-	-	-	-	264,474,038	264,474,038
Short term borrowings	-	-	-	-	2,179,240,539	2,179,240,539
Long term borrowings	-	-	-	-	874,104,553	874,104,553
Other payables					34,746,671	34,746,671
Total financial liabilities	**-**	**-**	**-**	**-**	**3,352,565,801**	**3,352,565,801**

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

41. TRADE FINANCE LOAN PORTFOLIO

Country	As at 31 December 2016 Balance outstanding USD	Amounts due within six months USD	Amounts due after six months USD	As at 31 December 2015 Balance outstanding USD	Amounts due within six months USD	Amounts due after six months USD
Burundi	-	-	-	5,047,017	5,047,017	-
Congo DRC	7,726,524	7,726,524	-	-	-	
Djibouti	4,615,707	1,197,257	3,418,450	2,035,492	24,932	2,010,560
Egypt	12,003,562	12,003,562	-	228,684	228,684	-
Ethiopia	27,660,036	24,548,100	3,111,936	88,048,439	27,037,953	61,010,486
Kenya	153,420,417	8,471,222	144,949,195	50,396,656	48,569,754	1,826,903
Malawi	189,141,186	94,518,814	94,622,372	207,401,942	54,991,992	152,409,949
Mauritius	23,324,637	20,580,932	2,743,705	13,487,722	13,487,722	-
Rwanda	316,349,038	1,599,426	314,749,612	43,170,625	559,540	42,611,085
Seychelles	1,011,191	1,011,191	-	12,384,716	9,384,716	3,000,000
Sudan	696,086,435	324,281,548	371,804,887	787,272,222	561,535,286	225,736,936
Tanzania	161,915,797	106,861,296	55,054,501	176,556,612	94,698,852	81,857,760
Uganda	68,643,471	971,704	67,671,767	6,716,731	1,447,928	5,268,803
Zambia	677,441,537	231,158,838	446,282,699	703,259,687	689,417,597	13,842,090
Zimbabwe	102,204,004	20,473,387	81,730,617	143,394,419	61,168,635	82,225,784
Gross Loans	**2,441,543,542**	**855,403,801**	**1,586,139,741**	**2,239,400,964**	**1,567,600,608**	**671,800,356**
Less: Impairment on trade finance loans (Note 17)	(48,400,632)	-	(48,400,632)	(31,288,578)	-	(31,288,578)
NET LOANS	**2,393,142,910**	**855,403,801**	**1,537,739,109**	**2,208,112,386**	**1,567,600,608**	**640,511,778**

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

42. PROJECT LOAN PORTFOLIO

Country	Amounts Approved USD	Amounts Signed USD	Amounts Disbursed USD	Interest Capitalized USD	Amounts Repaid USD	Interest Receivable USD	As at 31 December 2016 Balance Outstanding USD	As at 31 December 2016 Due within One year USD	As at 31 December 2016 Due after One year USD	As at 31 December 2015 Balance Outstanding USD	As at 31 December 2015 Within One year USD	As at 31 December 2015 Due after One year USD
Burundi	40,115,973	35,998,515	26,139,793	1,192,186	(13,698,889)	587,566	14,220,656	1,810,789	12,409,867	13,383,097	2,477,088	10,906,009
Congo DRC	84,200,000	84,200,000	44,106,938	-	-	1,514,814	45,621,752	12,963	45,608,789	28,285,392	1,080,024	27,205,368
Eritrea	403,652	403,652	403,652	-	(403,652)	-	-	-	-	-	-	-
Djibouti	2,835,000	2,835,000	-	-	-	-	-	-	-	-	-	-
Ethiopia	170,664,439	132,164,439	96,764,688	522,176	(35,515,760)	97,496	61,868,600	713,971	61,154,629	20,328,013	4,551,870	15,776,143
Kenya	393,752,129	345,552,129	308,255,526	1,532,900	(243,219,613)	1,094,139	67,662,952	5,569,007	62,093,945	66,754,801	15,682,642	51,072,159
Malawi	61,713,723	61,713,723	60,793,337	2,920	(52,026,150)	353,420	9,123,527	6,011,027	3,112,500	21,552,173	6,832,520	14,719,653
Mauritius	65,725,000	22,000,000	22,000,000	-	(9,699,446)	(3,999)	12,296,555	(4,000)	12,300,555	13,088,930	888,376	12,200,554
Rwanda	398,437,297	383,716,760	322,496,075	2,941,028	(58,290,548)	3,349,231	270,495,786	178,726,683	91,769,103	100,123,342	16,328,564	83,794,778
Seychelles	47,500,000	41,500,000	41,364,275	-	(34,318,821)	69,184	7,114,638	69,183	7,045,455	10,960,551	3,965,472	6,995,079
Sudan	78,381,910	78,381,910	45,106,624	12,464,752	(25,392,903)	-	32,178,473	-	32,178,473	29,388,930	8,903,439	20,485,491
Tanzania	311,822,792	270,322,793	191,670,274	682,910	(118,453,908)	1,960,905	75,860,181	9,662,924	66,197,257	96,527,345	25,453,144	71,074,201
Uganda	243,786,291	227,945,639	213,940,523	4,851,976	(131,235,767)	865,550	88,422,282	6,773,231	81,649,051	108,341,970	27,336,981	81,004,989
Zambia	156,664,661	136,820,934	131,225,913	26,107,734	(122,137,372)	507,644	35,703,919	3,710,598	31,993,321	50,759,663	10,923,068	39,836,595
Zimbabwe	361,590,312	340,884,752	281,568,019	709,656	(109,017,375)	2,258,313	175,518,613	6,023,090	169,495,523	202,854,300	51,406,795	151,447,505
Gross loans	2,417,593,179	2,164,440,246	1,785,835,637	51,008,238	(953,410,204)	12,654,263	896,087,934	219,079,466	677,008,468	762,348,507	175,829,983	586,518,524
Less: Impairment on project loans (note 17)							(49,201,206)	-	(49,201,206)	(63,685,994)	-	(63,685,994)
NET LOANS							846,886,728	219,079,466	627,807,262	698,662,513	175,829,983	522,832,530

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

43. STATEMENT OF SUBSCRIPTIONS TO THE CAPITAL STOCK

As at 31 December 2016:

CLASS 'A' shares	Shares Subscribed	Percentage of total	Value USD	Callable capital USD	Payable Capital USD	Instalments due as at 31.12.2016 USD	Instalments paid as at 31.12.2016 USD
Belarus	1,124	1.59	25,477,708	20,382,166	5,095,542	3,095,405	3,095,405
Burundi	1,405	1.99	31,847,135	25,477,708	6,369,427	6,369,427	6,369,427
China	3,889	5.50	88,151,963	70,521,570	17,630,393	17,630,393	17,630,393
Comoros	162	0.23	3,672,054	2,937,643	734,411	734,411	356,148
Djibouti	356	0.50	8,069,452	6,455,562	1,613,890	1,613,890	1,613,890
Congo DRC	5,340	7.55	121,041,780	96,833,424	24,208,356	24,208,356	12,249,403
Egypt	6,108	8.64	138,450,036	110,760,029	27,690,007	27,690,007	27,690,007
Eritrea	240	0.34	5,440,080	4,352,064	1,088,016	1,088,016	622,329
Ethiopia	6,108	8.64	138,450,036	110,760,029	27,690,007	27,690,007	27,690,007
Kenya	6,108	8.64	138,450,036	110,760,029	27,690,007	27,690,007	27,690,007
Malawi	1,510	2.14	34,227,170	27,381,736	6,845,434	6,845,434	6,845,434
Mauritius	2,898	4.10	65,688,966	52,551,173	13,137,793	13,137,793	13,137,793
Mozambique	2,206	3.12	50,003,402	40,002,722	10,000,680	2,000,136	2,000,136
Rwanda	1,731	2.45	39,236,577	31,389,262	7,847,315	7,847,315	7,379,300
Seychelles	308	0.44	6,981,436	5,585,149	1,396,287	1,396,287	1,396,287
Somalia	318	0.45	7,208,106	5,766,485	1,441,621	1,441,621	824,586
Sudan	5,277	7.46	119,613,759	95,691,007	23,922,752	23,922,752	23,922,752
Tanzania	5,909	8.36	133,939,303	107,151,442	26,787,861	26,787,861	26,787,861
Uganda	4,567	6.46	103,520,189	82,816,151	20,704,038	18,373,870	18,373,870
Zambia	5,369	7.59	121,699,123	97,359,298	24,339,825	24,339,826	23,824,150
Zimbabwe	6,337	8.96	143,640,779	114,912,623	28,728,156	28,728,156	28,728,156
African Development Bank	3,431	4.85	77,770,477	62,216,382	15,554,095	15,554,095	15,554,095
	70,701	100	1,602,579,567	1,282,063,654	320,515,913	308,185,065	293,781,436

Notes to the
Financial Statements (Cont)

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43. STATEMENT OF SUBSCRIPTIONS TO THE CAPITAL STOCK

As at 31 December 2015:

CLASS 'A' shares	Shares Subscribed	Percentage of total	Value USD	Callable capital USD	Payable Capital USD	Instalments due as at 31.12.2015 USD	Instalments paid as at 31.12.2015 USD
Belarus	1,109	1.71	25,137,703	20,110,162	5,027,541	2,027,336	2,027,336
Burundi	1,318	2.04	29,875,106	23,900,085	5,975,021	5,975,021	5,975,021
China	3,647	5.64	82,666,549	66,133,239	16,533,310	16,533,309	16,533,309
Comoros	54	0.08	1,224,018	979,214	244,804	244,804	131,296
Djibouti	334	0.52	7,570,778	6,056,622	1,514,156	1,514,156	1,514,156
Congo DRC	5,340	8.25	121,041,780	96,833,424	24,208,356	19,366,684	10,548,230
Egypt	5,728	8.85	129,836,576	103,869,261	25,967,315	25,967,315	25,967,315
Eritrea	240	0.37	5,440,080	4,352,064	1,088,016	1,088,016	583,539
Ethiopia	5,728	8.85	129,836,576	103,869,261	25,967,315	25,967,315	25,967,315
Kenya	5,728	8.85	129,836,576	103,869,261	25,967,315	25,967,315	25,967,315
Malawi	1,415	2.19	32,073,805	25,659,044	6,414,761	6,414,761	6,414,761
Mauritius	2,779	4.29	62,991,593	50,393,274	12,598,319	10,104,948	10,104,948
Rwanda	1,731	2.68	39,236,577	31,389,262	7,847,315	6,956,502	6,956,502
Seychelles	289	0.45	6,550,763	5,240,610	1,310,153	1,310,153	1,310,153
Somalia	318	0.49	7,208,106	5,766,485	1,441,621	1,441,621	773,190
Sudan	5,277	8.16	119,613,759	95,691,007	23,922,752	23,922,752	23,922,752
Tanzania	5,541	8.56	125,597,847	100,478,278	25,119,569	25,119,570	25,119,570
Uganda	3,600	5.56	81,601,200	65,280,960	16,320,240	16,320,240	16,320,240
Zambia	5,369	8.30	121,699,123	97,359,298	24,339,825	22,394,996	22,394,996
Zimbabwe	5,942	9.18	134,687,314	107,749,851	26,937,463	26,937,463	26,937,463
African Development Bank	3,218	4.97	72,942,406	58,353,925	14,588,481	14,588,481	14,588,481
	64,705	100	1,466,668,235	1,173,334,587	293,333,648	280,162,758	270,057,888

Notes to the
Financial Statements (Cont)

For the year ended 31 December 2016

43. STATEMENT OF SUBSCRIPTIONS TO THE CAPITAL STOCK (Continued)

CLASS 'B' shares	Number of shares	Percentage of total	Payable capital USD	Instalments due as at year end USD	Paid up capital USD	Share premium USD	Total paid USD
As at 31 December 2016:							
Africa Reinsurance Corporation	757	4.38	3,431,799	3,431,799	3,431,799	1,712,729	5,144,528
African Development Bank	3,333	19.30	15,109,890	15,109,890	15,109,890	4,890,110	20,000,000
Banco Nacional de Investmento	862	4.99	3,907,807	3,907,807	3,907,807	1,352,746	5,260,553
Mauritian Eagle Insurance Company Limited	270	1.56	1,224,024	1,224,024	1,224,024	395,976	1,620,000
National Pension Fund–Mauritius	1,733	10.04	7,856,418	7,856,418	7,856,418	2,692,570	10,548,988
National Social Security Fund Uganda	2,828	16.38	12,820,513	12,820,513	12,820,513	11,604,767	24,425,280
People's Republic of China	3,449	19.98	15,635,767	15,635,767	15,635,767	5,420,216	21,055,983
Rwanda Social Security Board	2,049	11.87	9,288,978	9,288,978	9,288,978	3,016,462	12,305,440
Seychelles Pension Fund	1,029	5.96	4,664,890	4,664,890	4,664,890	2,343,654	7,008,544
Sacos Group Limited	121	0.70	548,544	548,544	548,544	454,304	1,002,848
ZEP-RE(PTA Reinsurance company)	834	5.20	3,780,873	3,780,873	3,780,873	1,223,127	5,004,000
	17,265	100	78,269,503	78,269,503	78,269,503	35,106,661	113,376,164
As at 31 December 2015:							
Africa Reinsurance Corporation	741	4.82	3,359,265	3,359,265	3,359,265	1,638,144	4,997,409
African Development Bank	3,333	21.68	15,109,890	15,109,890	15,109,890	4,890,110	20,000,000
Banco Nacional de Investmento	835	5.43	3,785,406	3,785,406	3,785,406	1,226,882	5,012,288
Mauritian Eagle Insurance Company Limited	270	1.76	1,224,024	1,224,024	1,224,024	395,976	1,620,000
National Pension Fund–Mauritius	1,733	11.27	7,856,418	7,856,418	7,856,418	2,692,570	10,548,988
National Social Security Fund Uganda	1,207	7.85	5,471,838	5,471,838	5,471,838	4,531,778	10,003,616
People's Republic of China	3,340	21.73	15,141,624	15,141,624	15,141,624	4,912,104	20,053,728
Rwanda Social Security Board	2,049	13.33	9,288,978	9,288,978	9,288,978	3,016,462	12,305,440
Seychelles Pension Fund	1,029	6.69	4,664,890	4,664,890	4,664,890	2,343,654	7,008,544
ZEP-RE(PTA Re insurance company)	834	5.43	3,780,873	3,780,873	3,780,873	1,223,128	5,004,001
	15,371	100	69,683,206	69,683,206	69,683,206	26,870,808	96,554,014

Class'B' shares were first issued in 2013 following approval by the Board of Governors in December 2012 to increase the Banks's authorized capital from USD 2.0 billion to USD 3.0 billion. This increase was achieved through the creation of new class 'B' shares of par value of USD 4,533.420375 each. Class 'B' shares do not have a callable portion and are payable at once.

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