



# EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK

U.S.\$ 1,000,000,000

## Euro Medium Term Note Programme

Under the Euro Medium Term Note Programme (the "**Programme**") described in this base prospectus (the "**Base Prospectus**"), the Eastern and Southern African Trade and Development Bank (the "**Issuer**", "**TDB**" or the "**Bank**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro Medium Term Notes (the "**Notes**" on the terms set out herein, as completed by the Final Terms). The aggregate nominal amount of Notes outstanding under the Programme will not at any time exceed U.S.\$ 1,000,000,000 (or the equivalent in other currencies), subject to increase as described herein. This Base Prospectus is a base prospectus under Art 5(4) of the Prospectus Directive.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Overview of the Programme" and to any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an on-going basis. References in this Base Prospectus to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer be to all Dealers agreeing to subscribe such Notes.

This Base Prospectus has been approved by the Central Bank of Ireland, as competent authority under Directive 2003/71/EC. The Central Bank of Ireland only approves this base prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Directive 2003/71/EC. Application has been made to the Irish Stock Exchange plc (the "**Irish Stock Exchange**") for the Notes to be admitted to the Official List and trading on its regulated market. Such approval relates only to Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC and/or which are to be offered to the public in any Issuer Member State of the European Economic Area. Application has been made to the Irish Stock Exchange for Notes issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to its official list (the "**Official List**") and to trading on the Main Securities Market. References in this Base Prospectus to the Notes being "*listed*" (and all related references) shall mean that, unless otherwise specified in the relevant Final Terms (as defined below) or the relevant Drawdown Prospectus (as defined below), the Notes have been admitted to the Official List and to trading on the Main Securities Market. The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

For each issue of Notes under the Programme, the information required to complete this Base Prospectus for the relevant issue will be set out in a final terms document (the "**Final Terms**") or in a separate prospectus specific to such Tranche (as defined herein) (the "**Drawdown Prospectus**") as described under "*Form of Final Terms*" which, with respect to Notes to be listed on the Irish Stock Exchange, will be filed with the Central Bank of Ireland. Copies of such Final Terms and Drawdown Prospectus will also be published on the Central Bank of Ireland's website at [www.centralbank.ie](http://www.centralbank.ie) and on the Irish Stock Exchange's website at [www.ise.ie](http://www.ise.ie). Each Series (as defined in "Overview of the Programme - Method of Issue") of Notes to be issued in global bearer form will be represented on issue by a temporary global note in bearer form (each a "**temporary Global Note**") or a permanent global note in bearer form (each a "**permanent Global Note**").

Each series of Notes to be issued in global registered form will be represented on issue by registered certificates (each a "**Certificate**"), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. If the Global Notes are stated in the applicable Final Terms to be issued in new global note ("**NGN**") or new safekeeping structure ("**NSS**") form, the Global Notes or Certificates in NSS form (as the case may be) will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Global Notes which are not issued in NGN form ("**Classic Global Notes**" or "**CGNs**") and Certificates will be deposited on the issue date of the relevant Series with a common depositary on behalf of Euroclear and Clearstream, Luxembourg (the "**Common Depositary**"). The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**"). Unless they are so registered, the Notes may be offered only in transactions that are exempt from registration under the U.S. Securities Act. Accordingly, the Notes are being offered outside the United States in accordance with Regulation S under the U.S. Securities Act ("**Regulation S**"). See "*Subscription and Sale*" The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "*Summary of Provisions Relating to the Notes while in Global Form*".

The Issuer has been rated "BB" by Fitch Ratings Limited ("**Fitch**") and "Ba1" by Moody's Investors Services Ltd ("**Moody's**"). The Issuer has been also been rated BB+ international long-term rating from Global Credit Rating Company (Pty) Ltd ("**GCR**"). Each of Fitch and Moody's is established in the European Union (the "**EU**"), domiciled in the United Kingdom, and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009 on Credit Rating Agencies as amended by Regulation (EU) No. 513/2011 (the "**CRA Regulation**"). GCR was incorporated and is domiciled in South Africa, it is not established in the European Union. GCR is not included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009 on Credit Rating Agencies as amended by Regulation (EU) No. 513/2011. This list is available on the ESMA website (<http://www.esma.europa.eu/page/list-registered-and-certified-CRAs>) (last updated 1 December 2015). Tranches of Notes (as defined in "*Overview of the Programme - Method of Issue*") to be issued under the Programme may be rated or unrated. Tranches of Notes to be issued under the Programme may be rated by Standard and Poor's Rating Services ("**S&P**"). Where a Tranche of Notes is to be rated such rating will not necessarily be the same as the ratings assigned to the Issuer. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

**Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Base Prospectus.**

Citigroup

Arrangers and Dealers  
Commerzbank  
MUFG

Standard Chartered Bank

The date of this Base Prospectus is 28 February 2017

The Issuer accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the issue or sale of the Notes and, if given or made, such other information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers or the Arrangers (as defined in "*Overview of the Programme*"). Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented, or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither the issue of this Base Prospectus nor the issue, subscription, offering and sale of the Notes constitutes a waiver by the Issuer or by any of its members, Directors, officers or employees of any of the rights, immunities, privileges or exemptions conferred upon any of them by the Charter of the Eastern and Southern African Trade and Development Bank (the "**Charter**"). The Issuer is, however, amenable to suit in respect of its obligations under the Notes in accordance with the Terms and Conditions of the Notes.

#### **THE NOTES ARE NOT AN OBLIGATION OF ANY GOVERNMENT**

**The distribution of this Base Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus comes are required by the Issuer, the Dealers and the Arrangers to inform themselves about and to observe any such restrictions. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and include Notes in bearer form that are subject to U.S. tax law requirements. Notes may not be offered, sold or delivered within the United States or to U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. For a description of certain restrictions on offers and sales of Notes and on the distribution of this Base Prospectus, see "Subscription and Sale".**

**This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Dealers to subscribe for, or purchase, any Notes.**

**To the fullest extent permitted by law, none of the Dealers, the Arrangers or the Trustee make any representation, express or implied, nor do they accept any responsibility for the contents of this Base Prospectus or for any other statement, made or purported to be made by an Arranger the Trustee or a Dealer or on its behalf in connection with the Issuer or the issue and offering of the Notes. Each Arranger, the Trustee and each Dealer accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Base Prospectus or any such statement.**

**The Arrangers and the Dealers and the Trustee have not separately verified the information contained in this Base Prospectus.**

**Neither this Base Prospectus nor any financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arrangers or the Dealers that any recipient of this Base Prospectus or any financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arrangers or the Trustee undertake to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Base Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or, the Arrangers or the Trustee.**

**In connection with the issue of any Tranche (as defined in "Overview of the Programme - Method of Issue"), the Dealer or Dealers (if any) named as the stabilising manager(s) (the "Stabilising Manager(s)") (or any person acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.**

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to "euro" and "€" are to the currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community as amended, references to "U.S. dollars", "U.S.\$", "USD" and "United States dollars" are to the lawful currency of the United States of America, its territories, possessions, and references to "£" or "Sterling" are to the lawful currency of the United Kingdom and references to "CNY" and "Renminbi" refer to the lawful currency of the People's Republic of China (the "PRC") which, for the purposes of this Base Prospectus, excludes the Hong Kong Special Administrative Region of the PRC, the Macao Special Administration Region of the PRC and Taiwan.

The language of this Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

#### **Alternative Performance Measures**

The selected financial data set forth in this Base Prospectus, in addition to the conventional financial performance measures established by IFRS, contains certain alternative performance measures (such as net interest margin, cost/income ratio, non-performing loans ratio etc.) ("APMs") that are presented for purposes of a better understanding of the trend of operations and the financial condition and provides a more meaningful depiction for investors of the underlying fundamentals of the Group's business. Where used, the relevant metrics are identified as APMs and accompanied by an explanation of each such metric's components and calculation method.

Such measures should, however, not be considered as a substitute for those required by IFRS.

#### **SUPPLEMENTS TO THE BASE PROSPECTUS**

The Issuer has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Base Prospectus which is capable of affecting the assessment of any Notes and whose inclusion in or removal from this Base Prospectus is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, and the rights attaching to the Notes, the Issuer shall prepare an amendment or supplement to this Base Prospectus or publish a replacement Base Prospectus for use in connection with any subsequent offering of the Notes and shall file such amendment, supplement or replacement Base Prospectus with the Irish Stock Exchange and shall supply to each Dealer, the Trustee and the Irish Stock Exchange such number of copies of such supplement hereto as such Dealer, the Trustee and the Irish Stock Exchange may reasonably request.

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## **RISK FACTORS**

*An investment in the Notes involves a high degree of risk. Prospective Investors should carefully consider, among other things, the risks set forth below and other information contained in this Base Prospectus prior to making any investment decision with respect to the Notes. The risks highlighted below could have a material adverse effect on the Issuer's business, financial condition, results of operations or prospects, which in turn, could have a material adverse effect on its ability to make payments under the Notes.*

*In addition, the value of the Notes could decline due to any of these risks, and prospective investors may lose some or all of their investment. Prospective investors should note that the risks described below are not only the risks that the Issuer faces but are the risks that the Issuer considers to be material. There may be additional risks that the Issuer currently considers immaterial or of which it is currently unaware, and any such risks could have effects similar to the risks set forth below.*

*Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.*

### **FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER OR IN CONNECTION WITH NOTES ISSUED UNDER THE PROGRAMME**

#### **RISKS RELATING TO ISSUER**

##### *Unavailability of Bonds and Syndicated Loans Markets*

The Issuer has traditionally funded its loan portfolio through lines of credit extended by international development financial institutions, export credit agencies and other international financial institutions as well as through local currency bond issues. The Issuer plans to diversify its funding sources through syndicated loan financing and the issuance of international bonds, both of which experienced a significant decline in activity levels as a result of the global economic crisis of 2008/2009. While the bond and syndicated loan markets have since recovered, any future disruptions or instability of these markets could constrain the Issuer's ability to mobilise funding resources and attain its growth targets thereby adversely affecting the Issuer's operational and financial performance.

##### *Delays or Failure to Implement Business Initiatives*

Under the Corporate Plan, the Issuer has undertaken to implement a number of business initiatives including geographic and sectoral diversification, new product development, fund management, a capital increase, membership expansion, diversification of funding programmes and diversification of strategic partnerships. A number of strategic initiatives have been completed in implementing the Corporate Plan. The Bank has strengthened its corporate governance and risk management practices, created new share classes to grow its core capital, created several key management positions to enhance institutional capacity and is currently diversifying its geographic and sectoral reach. The Funds Management arm of the Bank, Eastern and Southern African Trade Advisers Limited (ESATAL), has been constituted in partnership with GML Capital, a London based funds management firm. Business advisory services, syndications and other initiatives are progressively being rolled out. While a number of initiatives are still underway, their implementation may not be concluded within the set timeframes and others may not be implemented at all. Any delays experienced in implementing these business initiatives could divert the attention of the Issuer's management, result in additional expense, distract the Issuer from pursuing other initiatives or, ultimately, prevent the Issuer from realising the anticipated benefits of the initiatives, which could adversely affect the Issuer's business, results of operations and financial condition.

##### *Relationships with States and Persons Facing International Sanctions*

The Issuer is a supranational institution which finances trade, projects and infrastructure within its Issuer Member States in the Eastern and Southern African region. Due to its shareholding structure and developmental mandate, the Issuer has business and/or shareholding relationships with individuals and countries that are subject to international sanctions.

One such party is The Republic of Sudan, an Issuer Member State owning 6.43 per cent. of the Issuer's total shareholding and currently subject to sanctions imposed by the United States State Department (note however that on 13 January 2017, the President of the United States of America and the Department of the Treasury's Office of Foreign Assets Control (OFAC) announced the interim lifting of sanctions on Sudan

with a path to a permanent revocation of sanctions in six months, if certain conditions are met). Currently, the Issuer has no exposure to Somalia, another Issuer Member State which faces a variety of international sanctions. In addition, the Bank also has a nexus to a sanctioned person, Mr Chinamasa, by virtue of his office as Minister of Finance for Zimbabwe. Mr Chinamasa has been appointed to represent Zimbabwe as a sovereign shareholder at the Board of Governors' meetings of the Bank. In practice, all Governors are entitled to delegate an alternate or representative to attend the Board of Governors' meetings in their place and exercise the relevant shareholder's voting powers. As at the date of this Base Prospectus, Mr. Chinamasa has not attended the Bank's Board of Governors meetings. He has instead delegated attendance to an alternate to attend the Board of Governors meetings.

As at 31 December 2016, the Issuer had funded various transactions in Sudan with an aggregate exposure of the equivalent of USD 728.26 million, representing 21.81% of the Issuer's gross loan portfolio, of which USD 696.09 million was in respect of short dated trade finance exposures, with the remainder in respect of project finance exposures. The Bank is looking to reduce this exposure to no more than 17 per cent. of the gross loan portfolio by the end of 2017 and no more than 15 per cent. by the end of 2018 through a combination of selling on, and not renewing, existing exposure. In mitigation of the risks associated with exposures in Sudan, the Bank obtained additional collateral in the form of 100% cash cover held by the Central Bank of Sudan in Euros and Sudanese Pounds and, government guarantees in the form of Irrevocable Reimbursement Undertakings (IRU) by the Central Bank Of Sudan, as well as near cash instruments like credit and political risk cover amounting to USD 201.11 million, underwritten by a syndicate of reinsurers including the Lloyds Syndicate. All retrocessionaires under the policy are rated by A.M Best with investment grade ratings. While the U.S. dollar is the reporting currency of the Bank, all trade finance and project finance exposures in Sudan are funded from the Bank in Euros, which is financed from Euro sources and held in a separate Euro denominated bank account.

The proceeds of the Eurobond issue will not be used, directly or indirectly, to fund any business in Sudan, Somalia or any borrowers facing international sanctions. The Issuer's "Know Your Customer" procedures require that borrowers are vetted against various international sanctions lists before being considered for financing. In addition, funds used by the Issuer to repay interest and/or principal on any Eurobonds that have been or will be issued under the Programme are not and will not be sourced from funds that the Issuer receives from transactions involving countries, entities or individuals facing international sanctions.

#### *Changes in the Credit Quality of Borrowers/Counterparties and Systemic Risk Effects*

The Issuer's business is subject to the risks associated with its borrowers' credit quality and the recoverability of loans and amounts due from counterparties. The Issuer requires its loans to be secured using various forms of collateral types by at least 1.3 times for projects and infrastructure loans and at least 1.10 times for trade finance loans, depending on the liquidity of the underlying collateral. The changes in the credit quality of the Issuer's borrowers and counterparties or arising from systemic risk in the financial system could reduce the value of the Issuer's assets and necessitate increased impairment provisions. In addition, changes in economic conditions, the health of the economy in the various Issuer Member States, or disruption caused by political elections in the Issuer Member States or globally may result in the deterioration of the value of the collateral held and increase the risk of loss in the event of a default by the Issuer's borrowers.

#### *Unforeseen Changes in Portfolio Growth*

Increased demand for projects, infrastructure and trade financing has led to the Issuer's loan portfolio recording significant growth rates over the last five years. There can be no assurance, however, that future growth rates will be in line with historical growth rates. Deterioration in the performance of the Issuer Member States' economies could affect the demand for projects, infrastructure and trade financing which could affect the Issuer's business and results of operations.

#### *Market, Currency and Price Change Risks*

The Issuer is exposed to various market risks including interest rates, exchange rates and commodity prices whose volatility could adversely impact on the value of its assets, liabilities, revenues or expenses. Despite the Issuer managing market risks through the matching of assets and liabilities with similar market risk characteristics at the time of originating transactions, there can be no assurance that changes in interest rates and currency exchange rates will not have a significant adverse effect on the Issuer's financial condition and operational results.

The Issuer is also exposed to commodity price risks especially oil prices whose fluctuations could have adverse effects on its borrowers and Issuer Member States which, in turn, could have a direct impact on the Issuer's financial condition and operational results.

#### *Liquidity Risk*

Liquidity risk is a primary concern for any financial institution, particularly those involved in long-term funding of projects and investments. The Issuer manages its liquidity risk through regular monitoring of maturity mismatches between its assets and liabilities and preparation of cash flow forecasts. In addition, the Issuer ensures that its unutilised lines of credit which include standby banking facilities are adequate to fund its lending operations for at least the next twelve months. This notwithstanding, there can be no guarantee that maturity mismatches will not occur which could have material adverse effects on the business, financial condition and operational results of the Issuer.

#### *Currency Availability and Restrictions*

Most of the Issuer's loans are denominated, disbursed and repaid in United States dollars. Notwithstanding the fact that a significant proportion of these loans are in support of export transactions, the Issuer faces the risk that some of its clients may not access dollars on a timely basis due to foreign currency shortages and/or controls in Issuer Member States. The Issuer also faces the risk that local currency depreciation could increase the cost, in local currency terms, of its loans which ultimately could impact on the viability of the underlying project and the ability of the Issuer's borrowers to service its loans.

#### *Ability to Call Capital*

As at 31 December 2016, the Issuer had USD 1.28 billion in callable capital. This amount represents the maximum obligation of the Issuer's Member States in the event of a call being made in response to financial distress. With the exception of the People's Republic of China (Aa3 rating, Moody's) the, African Development Bank (Aaa rating, Moody's) and Mauritius (Baa1 Stable rating, Moody's), the balance of the callable capital is to be provided by regional Issuer Member States which have below investment grade or no credit ratings. In determining its borrowing limit, the Bank limits its reliance on callable capital to half of the total callable capital. This notwithstanding, it is possible that the Issuer could experience delays in realising capital calls from its Issuer Member States which could adversely impact the Issuer's financial position and business prospects.

#### *Operational Risks*

As a financial institution, the Issuer is exposed to various operational risks including system disruptions or failures, fraud, errors and irregularities by employees and third parties and authorisation and documentation flaws. There can be no assurance that operational risks will not occur or that the occurrence of operational risks will not have a material effect on the Issuer's business, prospects, financial condition and operational results.

#### *Bank Immunity*

Section 3 of Article 43 of the Issuer's Charter provides that 'the principal as well as regional offices of the Bank shall be inviolable. The property and assets of the Bank shall be immune from search, requisition, confiscation, expropriation, and any other form of interference whether by legislative, executive, judicial or administrative action'. Furthermore, Section 4 of the same Article provides that 'the archives of the Bank and in general all documents belonging to it or held by it, shall be inviolable'.

Notwithstanding these immunities and the absence of government interference up to the date of this Base Prospectus, there can be no guarantee that there will be no interference by Issuer Member States or that violation through unlawful or arbitrary actions by some Issuer Member States will not occur, which could lead to disruption in the Bank's operations and adversely affect its financial position and business prospects.

COMESA Infrastructure Fund ("**CIF**") and Eastern & Southern Africa Trade Fund ("**ESATF**") have bilateral host country agreements with the Government of Mauritius and are also covered under the CIF protocol setting out its immunities and privileges. ESATF and its fund manager, ESATAL benefits from the Bank's privileges and immunities.

### *Absence of Regulation*

Article 16 of the Issuer's Charter provides that its operations shall be guided by sound banking principles. Furthermore, Section 7 of Article 43 provides that the Issuer may hold assets of any kind and shall be free to transfer its assets from one country to another and to convert any currency held by it into any other currency without being restricted by controls, regulations, restrictions or moratoria of any kind.

The Issuer, 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 Issuer'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 Issuer'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).

Notwithstanding the high capital adequacy threshold, there can be no assurance, in the absence of an independent regulatory or supervision authority, that the Issuer will maintain its current capital management policy and/or adhere to its requirements. Failure to adhere to the current policy or changes to the policy could lead to negative market perceptions of the Issuer which ultimately could adversely impact on the Issuer's financial condition.

### *Portfolio Concentration*

In line with the experiences of other African supra-national development financial institutions, the Issuer's credit portfolio has traditionally exhibited a high degree of geographic and sectoral concentration.

As at 31 December 2016, the Bank's gross exposure (excluding cash collateral and insurance) to the petroleum and agri-business sectors accounted for 36 per cent. and 28 per cent. of its total portfolio, respectively. However, after the employment of risk mitigation measures such as cash collateral and credit insurance cover, sector concentrations changed to 14 per cent. and 21 per cent. for the petroleum and agri-business sectors respectively and well within the set thresholds of 35 per cent. for these two strategic sectors. Exposures to other sectors were contained within set limits of 25 per cent.

The Issuer's credit policies stipulate that credit exposure to any one Issuer Member State shall not exceed 30 per cent. of the total value of outstanding loans (all such credit limits are on a net basis). As at 31 December 2016, the Issuer's exposure to the top seven countries accounted for 83.7 per cent. of its net loan portfolio: Tanzania 17.5 per cent., Zambia 15.7 per cent., Rwanda 15.6 per cent., Zimbabwe 12.1 per cent., Kenya 8.9 per cent., Uganda 7.3 per cent. and Ethiopia 6.6 per cent. The 20 largest borrowers accounted for 80.1 per cent. of the gross loan portfolio (55 per cent. of the net loan portfolio). All of the top 20 borrowers are performing satisfactorily according to the Issuer's credit monitoring. While the Issuer intends to actively try to diversify its portfolio (in terms of obligors, economic group, sector and geography), portfolio concentration in certain sectors and certain countries could adversely affect the Issuer's credit portfolio thereby affecting its financial condition and operational results.

## **RISKS RELATING TO THE EASTERN AND SOUTHERN AFRICAN REGION**

### **Economic Risks**

#### *Emerging/Frontier Market Risks*

The Issuer Member States are countries of the Eastern and Southern African region, all of which are considered emerging markets, and many of which are considered to be frontier markets by international investors. Frontier markets are a subset of emerging markets that are characterised by fragile economies in nascent stages of transformation. These economies present international investors with additional risks due to the lack of safeguards and infrastructure that investors traditionally find in more developed economies.

Similar to developed markets, emerging markets and, in particular, African emerging markets are susceptible to economic instability and, in certain cases, significant political and legal risks. Investors should also note that emerging markets, such as those in Africa, are subject to rapid change and that the information set out in this Base Prospectus may become outdated relatively quickly.

From time to time, the economies of countries in Eastern and Southern Africa have experienced volatility characterised by high interest rates, exchange controls, exchange rate volatility, high inflation, wage and price controls and sudden changes in investment and fiscal policies.

Any of these factors, as well as the volatility in the markets for securities, may adversely affect the value and liquidity of the Notes.

Accordingly, investors should exercise due care in evaluating the risks involved in investing in the Notes and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investments in emerging markets are only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and prospective investors are urged to consult with their own legal and financial advisors before making an investment in the Notes.

#### *Stability of Eastern and Southern African Economies*

African economies have historically experienced significant volatility characterised by slow or negative growth, significant inflation, low foreign currency reserves, high external debts, currency depreciation, political uncertainty, declining investments and government and private sector debt defaults and have also had incidents of wars, riots and outbreaks of contagious disease. African economies are also highly susceptible to global economic changes including oil price changes, U.S. dollar interest and exchange rate movements and the demand for commodities by developed and emerging market economies. The Issuer's lending activities are confined to its eighteen Eastern and Southern African Member States, a region which comprises a number of weak and vulnerable economies. Consequently, any adverse changes affecting these economies could have a significant impact on the Issuer's credit portfolio, including increased loan impairment provisions, restructurings and loan losses which, in turn, could affect the Issuer's growth, asset quality, prospects, profitability and financial condition.

#### *Reliability and Credibility of Official Data*

The Issuer has relied on official statistics and other data published by central banks, governments and non-governmental agencies in Eastern and Southern Africa which may be substantially less complete or researched and, consequently, less reliable than those published by comparable bodies in other jurisdictions. Indeed, official data in most of these economies mainly reflects the state of the formal economy and may not adequately gauge the potential of the informal economy.

Accordingly, the Issuer cannot assure prospective investors that the sources from which it has drawn some of the information set out herein are reliable or complete. Some or all of the state entities in the Eastern and Southern Africa region may have official data collection methods that are different from those used by comparable bodies in other jurisdictions. Discussions of matters relating to the Issuer's operations herein may therefore be subject to uncertainty due to concerns about the completeness or the reliability of available official and public information.

#### *Political Risks*

A number of the Issuer Member States have unresolved political differences internally, with neighbouring countries and/or internationally. In Burundi, the current political instability has had minimal effect on the Bank's operations. The Bank's loan and investment assets in Burundi represent less than 1 per cent. of the Bank's total loan and investment assets. Political stability in the Democratic Republic of Congo is becoming increasingly fragile as the presidential and legislative elections were re-scheduled from November 2016 to April 2018. The Bank does not have any loan or investment assets in Comoros, Eritrea and Somalia. However, Somalia has been without an effective national government since 1991, a situation which has led to the emergence of Islamic insurgents and increased risks of terrorism especially in East Africa. Even though the Issuer does not have any loan exposure in Somalia and the unresolved political differences and the threat of terrorism has not impacted the Issuer's operations and financial condition, it is conceivable that in future such events could have an adverse effect on the political stability and economies

of Issuer Member States which the Issuer is exposed to through lending activities. In turn, such impact could have an adverse effect on the Issuer's results of operations and financial condition.

## **FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME**

*Notes may not be a suitable investment for all investors*

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained in this Base Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes may perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

## **RISKS RELATED TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES**

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features.

*Notes subject to optional redemption by the Issuer*

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

*Variable rate Notes with a multiplier or other leverage factor*

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

*Inverse Floating Rate Notes*

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise

comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of such Notes.

#### *Fixed/ Floating Rate Notes*

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

#### *Notes issued at a substantial discount or premium*

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest bearing securities with comparable maturities.

#### **Risks Related to Renminbi Notes**

Notes denominated in Renminbi ("**Renminbi Notes**") may be issued under the Programme. Renminbi Notes contain particular risks for potential investors, including:

*Renminbi is not freely convertible and the liquidity of the Notes denominated in Renminbi may be adversely affected.*

As a result of the restrictions by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside the People's Republic of China ("**PRC**") is limited. While the People's Bank of China ("**PBOC**") has established Renminbi clearing and settlement mechanisms through settlement agreements on the clearing of Renminbi business (the "**Renminbi Clearing Banks**"), and are in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions (the "**Settlement Arrangements**"), the current size of Renminbi denominated financial assets outside the PRC is limited.

There are restrictions imposed by the PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The Renminbi Clearing Banks only have access to onshore liquidity support from the PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of its Renminbi Notes. To the extent the Issuer is required to source Renminbi in the offshore market to service its Renminbi Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

#### *Renminbi currency risk.*

Except in limited circumstances, all payments of Renminbi under Notes denominated in Renminbi to an investor will be made solely by transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which a Renminbi Clearing Bank clears and settles Renminbi in accordance with the prevailing rules and regulations and in accordance with the Terms and Conditions of the Renminbi Notes. The Issuer cannot be required to make payment by any other means (including in any other currency or by



transfer to a bank account in the PRC). Renminbi is not freely convertible at present, and despite a movement towards liberalisation of cross-border Renminbi remittances, notably in PRC current account activity, there is no assurance that the PRC government will continue such movement in the future or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC.

Holders of Renminbi Notes may be required to provide certifications and other information (including Renminbi account information) in order to allow such Holder to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in the jurisdiction of the relevant Renminbi Clearing Bank.

In addition, there can be no assurance that access to Renminbi for the purposes of making payments under such Notes or generally may remain or will not become restricted. If it becomes impossible to convert Renminbi from/to another freely convertible currency, or transfer Renminbi between accounts in Hong Kong or a financial centre in which a Renminbi Clearing Bank clears and settles Renminbi, or the general Renminbi exchange market outside the PRC becomes illiquid, any payment of Renminbi under the Notes may be delayed or the Issuer may make such payments in another currency selected by the Issuer using an exchange rate determined by the Calculation Agent, or the Issuer may redeem the Notes by making payment in another currency.

#### *Renminbi exchange rate risk*

The value of Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and by many other factors. Recently, the PBOC implemented changes to the way it calculates the Renminbi's daily mid-point against the U.S. dollar to take into account market-maker quotes before announcing such daily mid-point. This change, and others that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. The Issuer will make all Renminbi payments under Notes denominated in Renminbi in Renminbi (subject to the second paragraph under the heading "Renminbi currency risk" above). As a result, the value of such payments in Renminbi (in U.S. dollars or other applicable foreign currency terms) may vary with the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the U.S. dollar or other foreign currencies, the value of an investor's investment in U.S. dollars or other applicable foreign currency terms will decline.

In the event that access to Renminbi becomes restricted to the extent that, by reason of Renminbi Inconvertibility, Renminbi Non-transferability or Renminbi Illiquidity (as defined in the Conditions of Notes), the Issuer is unable, or it is impractical for it, to pay interest or principal in Renminbi, the Conditions of the Notes allow the Issuer to make payment in U.S. dollars at the prevailing spot rate of exchange, all as provided in more detail in the Conditions of the Notes. As a result, the value of these Renminbi payments may vary with the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the U.S. Dollar or other foreign currencies, the value of a holder's investment in U.S. Dollar or other foreign currency terms will decline.

#### *An investment in Renminbi Notes is subject to interest rate risk.*

The PRC Government has gradually liberalised the regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. The Renminbi Notes may carry a fixed interest rate. Consequently, the trading price of such Renminbi Notes will vary with fluctuations in interest rates. If a holder of Renminbi Notes tries to sell any Renminbi Notes before their maturity, they may receive an offer that is less than the amount invested.

#### *Gains on the transfer of Renminbi-denominated Notes may become subject to income taxes under PRC tax laws.*

Under the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementing rules as amended from time to time, any gain realised on the transfer of Renminbi Notes by non-PRC resident enterprise or individual Noteholders may be subject to PRC enterprise income tax ("EIT") or PRC individual income tax ("IIT") if such gain is regarded as income derived from sources within the PRC. While the PRC Enterprise Income Tax Law levies EIT at the rate of 20 per cent. of the gains derived by such non-PRC resident enterprise Noteholders from the transfer of the Renminbi Notes, its implementation rules have reduced the enterprise income tax rate to 10 per cent. In accordance with the

PRC Individual Income Tax Law and its implementation rules (as amended from time to time), any gain realised by a non-PRC resident individual Noteholder from the transfer of the Renminbi Notes may be regarded as being sourced from the PRC and thus be subject to IIT at a rate of 20 per cent. of the gains derived by such non-PRC resident individual Noteholder from the transfer of the Renminbi Notes. However, uncertainty remains as to whether the gain realised from the transfer of Renminbi Notes by a non-PRC resident enterprise or individual Noteholders would be treated as income derived from sources within the PRC and subject to the EIT or the IIT. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementing rules. According to the arrangement between the PRC and Hong Kong, for the avoidance of double taxation, holders of Renminbi Notes who are residents of Hong Kong including enterprise Noteholders and individual Noteholders, will not be subject to the EIT or IIT on any capital gains derived from a sale or exchange of Renminbi Notes.

Therefore, if non-PRC resident enterprise or individual resident Noteholders are required to pay PRC income tax on gains derived from the transfer of Renminbi Notes (such EIT is currently levied at the rate of 10 per cent. of gains realised and such IIT is currently levied at the rate of 20 per cent. of gains realised (with deduction of reasonable expenses), unless there is an applicable tax treaty between PRC and the jurisdiction in which such non-PRC resident enterprise or individual resident holders of Renminbi Notes reside that reduces or exempts the relevant EIT or IIT (however, qualified Noteholders may not enjoy the treaty benefit automatically but through a successful application with the PRC tax authorities)), the value of their investment in Renminbi Notes may be materially and adversely affected.

## **RISKS RELATED TO NOTES GENERALLY**

Set out below is a brief description of certain risks relating to the Notes generally.

### *Modification, waivers and substitution*

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) determine without the consent of the Noteholders that any Event of Default, potential Event of Default or Conditional Put Event shall not be treated as such.

Accordingly, matters affecting the interests of some Noteholders may be outside the control of such Noteholders.

### *EU Savings Directive*

Under EC Council Directive 2003/48/EC (the "**EU Savings Directive**") on the taxation of savings income, each European Union member state ("**EU Member State**") is required to provide to the tax authorities of another EU Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such person for, an individual resident in that other EU Member State or to certain limited types of entity established in that other EU Member State. However, for a transitional period, Luxembourg and Austria may instead apply (unless during that period they elect otherwise) a withholding system in relation to such payments deducting tax at rates rising over time to 35 per cent. (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

A number of non-EU countries and territories and certain dependent or associated territories of certain EU Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in an EU Member State. In addition, the EU Member States entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in an EU Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The Council of the European Union formally adopted a Council Directive amending the Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements described above. EU Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover income that is equivalent to interest.

Investors who are in any doubt as to their position should consult their professional advisers.

### *Change of law*

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus nor whether any such change could adversely affect the ability of the Issuer to make payments under the Notes.

### *Integral multiples of less than €100,000*

In relation to any issue of Notes which have a denomination consisting of the minimum Specified Denomination of €100,000 plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of €100,000 (or its equivalent) that are not integral multiples of

€100,000 (or its equivalent). In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

## **RISKS RELATED TO THE MARKET GENERALLY**

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk.

### *There may be no active trading market for the Notes*

Notes issued under the Programme will be new securities, which may not be widely distributed and may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

### *The secondary market generally*

Notes issued under the Programme will (unless they are to be consolidated into a single Series with any Notes previously issued) be new securities which may not be widely distributed and for which there is currently no active trading market. Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

In addition, Noteholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date of this Base Prospectus), whereby there is a general lack of liquidity in the secondary market for instruments similar to the Notes. Such lack of liquidity may result in investors suffering losses on the Notes in secondary resales even if there is no decline in the performance of the assets of the Issuer. The Issuer cannot predict if any of these circumstances will change and whether, if and when they do change, there will be a more liquid market for the Notes and instruments similar to the Notes at that time.

### *Exchange rate risks and exchange controls*

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency.

These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls.

An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease: (1) the Investor's Currency equivalent yield on the Notes; (2) the Investor's Currency equivalent value of the principal payable on the Notes; and (3) the Investor's Currency equivalent market value of the Notes. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

### *Interest rate risks*

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

*Credit ratings may not reflect all risks*

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the relevant rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency being included in such list as there may be delays between certain supervisory measures being taken against a relevant rating agency and publication of an updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

*Legal investment considerations may restrict certain investments*

The investment activities of certain investors may be subject to law or review or regulation by certain authorities. Each potential investor should determine for itself, on the basis of professional advice where appropriate, whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

## GENERAL DESCRIPTION OF THE PROGRAMME

### Overview of the Bank

The Eastern and Southern African Trade and Development Bank ("**TDB**", the "**Bank**" or the "**Issuer**") was established by charter on 6 November 1985 (the "Charter"), pursuant to chapter 9 of the treaty establishing the Preferential Trade Area (the "**PTA**") for Eastern and Southern African States. TDB is a multilateral treaty organisation. The PTA has since been transformed into the Common Market for Eastern and Southern African States ("**COMESA**"), which is a Regional Economic Community ("**REC**"), whose membership includes 19 countries in Northern, Eastern and Southern Africa. On 10 June 2015, COMESA, along with the East African Community ("**EAC**") and the Southern African Development Community ("**SADC**") (which are two other RECs) launched the Tripartite Free Trade Area ("**TFTA**"). The aim of the TFTA is to create an integrated market across Eastern and Southern Africa, from Cape Town to Cairo. The TFTA region: has a combined population of approximately 625 million; a total Gross Domestic Product ("**GDP**") of approximately USD 1.2 trillion (representing approximately 58 per cent. of the combined GDP across the African continent); and has Issuer Member States representing approximately half of the Member States of the African Union. The TFTA will come into effect once the COMESA-EAC-SADC Tripartite Agreement is ratified by two-thirds of the 26 Issuer Member States of COMESA, EAC and SADC provided that this is completed by 10 June 2017.

The Bank's vision is to become a leading development finance institution of the TFTA region advancing the economic development, integration and prosperity of its Issuer Member States. The Bank's mission is to be at the forefront of extending development capital and services to advance regional growth and integration through customer focused and innovative financing instruments. The Bank is similar in structure to other supranational trade and development banks, such as the African Development Bank, the African Export-Import Bank and the East African Development Bank.

As at the date of this Base Prospectus, the Bank has the following shareholders: Burundi, Comoros, the Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Malawi, Mauritius, Mozambique, Rwanda, Seychelles, Somalia, Sudan, Tanzania, Uganda, Zambia and Zimbabwe. It also has the People's Bank of China ("**PRC**") and Paritetbank as the Designated Institutions of non-regional member countries. The Bank also counts the African Development Bank, the National Pension Fund of Mauritius, Mauritian Eagle Insurance Company Ltd, Rwanda Social Security Board, Seychelles Pension Fund, Africa Reinsurance Corporation, PTA Reinsurance Company, Banco Nacional de Investimento ("**BNI**"), National Social Security Fund Uganda and SACOS Group Limited as institutional shareholders. Under its five year corporate strategic plan covering the period 2013 to 2017 (the "**Corporate Plan**"), the Bank's aim is to further expand its membership base to countries in or adjacent to Eastern and Southern Africa as well as increase the shareholding with institutional shareholders who will be investing in the Class B shares.

The Bank offers a broad range of products and services, across both the private and public sectors, including long term and short term debt, equity and quasi-equity as well as guarantees. TDB's investments range from, amongst others, agriculture, trade, industry, infrastructure, energy and tourism, and are made on a commercial basis and sustainability principles. In 2013, TDB also established a Fund's Management business to support the implementation of the Bank's strategy in pursuing growth and diversification by spearheading new initiatives. Currently there are two strategic fund initiatives which are both based in Mauritius: the COMESA Infrastructure Fund (CIF), a private equity fund focused on infrastructure and the Eastern and Southern African Trade Fund, an open-ended investment fund which will undertake trade finance related investments.

As of 31 December 2016, the Bank's assets totalled USD 4.26 billion. This represents growth at an approximate compound annual growth rate of 19 per cent. since 2013, indicates the Bank's commitment to development and growth within its stated objectives.

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, has recently approved an upgrade of TDB's Office in Mauritius into a second principal office of the Bank, alongside the Republic of Burundi. 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 hub in Nairobi (Kenya), and an office in Harare (Zimbabwe). The Bank is also establishing new joint offices with the COMESA Reinsurance Company and Africa Trade Insurance Agency in Addis Ababa (Ethiopia) and Kinshasa (Democratic Republic of the Congo), in line with its decentralisation and partnership strategy to better service the vast region it operates in, and enhance its portfolio management.

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' and 'Banque de la ZEP' respectively. At its 32nd Annual Meeting in May 2016, the Bank’s Board of Governors approved the rebranding of the Bank. It will therefore progressively be trading under one trade name as the Trade and Development Bank ('TDB'), with a new logo and a new tagline. The Bank’s legal name, "Eastern and Southern African Trade & Development Bank”, will remain unchanged.



## Overview of the Programme

*The following overview is qualified in its entirety by the remainder of this Base Prospectus.*

<b>Issuer:</b>	Eastern and Southern African Trade and Development Bank
<b>Description:</b>	Euro Medium Term Note Programme
<b>Size:</b>	Up to USD 1,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
<b>Arrangers and Dealers:</b>	<p>Citigroup Global Markets Limited Commerzbank Aktiengesellschaft MUFG Securities EMEA plc Standard Chartered Bank</p> <p>(each an "<b>Arranger</b>").</p> <p>Citigroup Global Markets Limited Commerzbank Aktiengesellschaft MUFG Securities EMEA plc Standard Chartered Bank</p> <p>(each a "<b>Dealer</b>").</p> <p>The Issuer may from time to time terminate the appointment of any Dealer under the Programme or appoint additional Dealers either in respect of one or more Tranches (as defined below) or in respect of the whole Programme. References in this Base Prospectus to "<b>Permanent Dealers</b>" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and</p> <p>whose appointment has not been terminated) and references to "<b>Dealers</b>" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.</p>
<b>Trustee:</b>	Citicorp Trustee Company Limited
<b>Issuing and Paying Agent:</b>	Citibank N.A., London Branch
<b>Agents:</b>	The Issuing and Paying Agent, the other Paying Agents, the Transfer Agent and the Registrar.
<b>Registrar:</b>	Citigroup Global Markets Deutschland AG
<b>Method of Issue:</b>	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a " <b>Series</b> ") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable and fungible with all other Notes of that Series. Each Series may be issued in tranches (each a " <b>Tranche</b> ") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the final terms (the " <b>Final Terms</b> ").

<b>Issue Price:</b>	The Issue price will be specified in the relevant Final Terms. Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.
<b>Form of Notes:</b>	The Notes may be issued in bearer form only (" <b>Bearer Notes</b> ") or in registered form only (" <b>Registered Notes</b> "). Each Tranche of Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in " <i>Selling Restrictions</i> " below); otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as " <b>Global Certificates</b> ". Global Certificates representing Registered Notes in NSS form are referred to as " <b>NSS Global Certificates</b> ".
<b>Clearing Systems:</b>	Clearstream, Luxembourg, Euroclear, and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer.
<b>Initial Delivery of Notes:</b>	On or before the issue date for each Tranche, in the case of a NSS Global Certificate or if the relevant Global Note is a NGN, the Global Note or NSS Global Certificate (as the case may be) will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is a CGN, the Global Note representing Bearer Notes or the Certificate representing Registered Notes may (or, in the case of Notes listed on the Irish Stock Exchange, shall) be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Global Notes or Certificates relating to Notes that are not listed on the Irish Stock Exchange may also be deposited with any other clearing system or may be delivered outside any clearing system <i>provided that</i> the method of such delivery has been agreed in advance by the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.
<b>Currencies:</b>	<p>Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency as agreed between the Issuer and the relevant Dealers.</p> <p>Payment in respect of Notes denominated in Renminbi may be made in U.S. Dollars if Renminbi Currency Events are specified in the applicable Final Terms and a Renminbi Currency Event occurs. See "<i>Terms and Conditions of the Notes – Condition 8(j)</i>".</p>
<b>Maturities:</b>	Subject to compliance with all relevant laws, regulations and directives, any maturity between one month and 30 years.
<b>Specified Denomination:</b>	Definitive Notes will be in such denominations as may be specified in the relevant Final Terms <i>provided that</i> the minimum denomination of the Notes shall be equal to or greater than (i) EUR100,000 (or its equivalent in another currency) or (ii) such other minimum denomination greater than EUR100,000 as may be allowed or required from time to time by the relevant central bank or

equivalent regulatory authority in the relevant jurisdiction, and any laws or regulations applicable to the Issuer or the relevant currency, as the case may be. Notes (including Notes denominated in Sterling) which have a maturity of less than one year will, if the proceeds of the Issue are accepted in the United Kingdom, have a minimum denomination of £100,000 (or its equivalent in other currencies).

**Fixed Rate Notes:**

Fixed interest will be payable in arrears on the date or dates in each year specified in the relevant Final Terms.

**Floating Rate Notes:**

Floating Rate Notes will bear interest (payable in arrears) determined separately for each Series as follows:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. or any successor provisions published by the International Swaps and Derivatives Association Inc.; or
- (ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin.

Interest Periods will be specified in the relevant Final Terms.

**"EURIBOR"** is the interest rate benchmark known as the Euro zone interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of the European Banking Federation.

**"LIBID"** is the London inter-bank bid rate. It is the bid rate that banks are willing to pay for eurocurrency deposits in the London interbank market. The LIBID rate is derived by subtracting 0.125 per cent. from the LIBOR rate that has the same maturity.

**"LIBOR"** is the London inter-bank offered rate for a currency and period displayed on the appropriate page (being currently Reuters screen page LIBOR01 or LIBOR02) on the information service which publishes that rate.

**"LIMEAN"** is the London inter-bank mean rate. It is the mid-market interest rate in the London interbank market, calculated by averaging the LIBID and LIBOR rates.

**Zero Coupon Notes:**

Zero Coupon Notes (as defined in *"Terms and Conditions of the Notes"*) may be issued at their nominal amount or at a discount to it and will not bear interest.

**Interest Periods and Interest Rates:**

The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.

<b>Redemption:</b>	The Terms and Conditions specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
<b>Optional Redemption:</b>	<p>The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and, if so, the terms applicable to such redemption.</p> <p>If a Conditional Put Event occurs, the holder of any Note will have the option to require the Issuer to redeem that Note (see "<i>Terms and Conditions -11. Events of Default and Put Events</i>").</p>
<b>Status of Notes:</b>	The Notes will constitute unsecured and unsubordinated obligations of the Issuer, all as described in " <i>Terms and Conditions of the Notes - 3. Status</i> ".
<b>Financial Covenants and Information Undertakings:</b>	See " <i>Terms and Conditions of the Notes - 5. Financial Covenants</i> ".
<b>Negative Pledge:</b>	See " <i>Terms and Conditions of the Notes - 4. Negative Pledge</i> ".
<b>Cross Default:</b>	See " <i>Terms and Conditions of the Notes -11. Events of Default and Put Events</i> ".
<b>Ratings:</b>	<p>The Issuer has been rated:</p> <p>BB by Fitch;</p> <p>Ba1 by Moody's; and</p> <p>BB+ international long-term rating from Global Credit Rating Company (Pty) Ltd ("<b>GCR</b>").</p> <p>Each of Fitch and Moody's is established in the EU, domiciled in the United Kingdom, and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009 on Credit Rating Agencies as amended by Regulation (EU) No. 513/2011 (the "<b>CRA Regulation</b>"). This list is available on the ESMA website (<a href="http://www.esma.europa.eu/page/list-registered-and-certified-CRAs">http://www.esma.europa.eu/page/list-registered-and-certified-CRAs</a>) (last updated 1 December 2015). Tranches of Notes will be rated or unrated.</p> <p>Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Final Terms.</p> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.</p> <p>Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Final Terms.</p> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.</p>

<b>Early Redemption:</b>	Except as provided in "- <i>Optional Redemption</i> " above, Notes will not be redeemable at the option of the Issuer prior to maturity. See " <i>Terms and Conditions of the Notes - 7. Redemption, Purchase and Options</i> ".
<b>Tax Status:</b>	Each Series of Notes and the interest thereon will not be exempt from taxation generally but, pursuant to the Charter of the Eastern and Southern African Trade and Development Bank, are not subject to any tax by an Issuer Member State (as defined herein). All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes, subject to certain exemptions, all as more fully described in " <i>Terms and Conditions of the Notes - 9. Taxation</i> " below.
<b>Governing Law:</b>	The laws of England and Wales.
<b>Listing and Admission to Trading:</b>	<p>Application has been made to the Irish Stock Exchange for Notes issued under the Programme to be admitted to the Official List and for such Notes to be admitted to trading on the Irish Stock Exchange's regulated market.</p> <p>Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Unlisted Notes and/or Notes not admitted to trading on any market may also be issued.</p> <p>The relevant Final Terms or the relevant Drawdown Prospectus (as the case may be) will state on which stock exchanges and/or markets the relevant Notes are to be listed and/or admitted to trading.</p>
<b>Redenomination, Renominalisation and/or Consolidation:</b>	Notes denominated in a currency of a country that subsequently participates in the third stage of European Economic and Monetary Union may be subject to redenomination, renominalisation and/or consolidation with other Notes then denominated in euro. The provisions applicable to any such redenomination, renominalisation and/or consolidation will be as specified in the relevant Final Terms.
<b>Selling Restrictions:</b>	There are restrictions on the sale of Notes and the distribution of the Base Prospectus, the relevant final terms and any other offering materials (see " <i>Subscription and Sale</i> ").
<b>Regulation S:</b>	<p>The Issuer is Category 2 for the purposes of Regulation S under the Securities Act.</p> <p>The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the "<b>D Rules</b>") unless (i) the relevant Final Terms state that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the "<b>C Rules</b>") or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("<b>TEFRA</b>"), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.</p>

## CAPITALISATION

The following table sets forth the capitalisation and indebtedness of the Issuer as at the dates indicated.

	Year ended 31 December		
	2016	2015	2014
	<i>U.S.\$'000</i>		
Borrowings			
Short Term Borrowings	2,369,322	2,179,241	1,919,329
Long Term Borrowings	794,215	874,105	849,402
Total Debt	3,163,537	3,053,346	2,768,731
Equity:			
Authorised capital			
88,234 ordinary Class A shares of U.S.\$22,667 each	2,000,000	2,000,000	2,000,000
220,584 ordinary Class B shares of U.S.\$ 4,533.40 each	1,000,000	1,000,000	1,000,000
Total Authorised Capital	3,000,000	3,000,000	3,000,000
Subscribed capital			
70,701 ordinary Class A shares (2015:- 64705; 2014:- 61557; 2013:-57,674) of U.S.\$22,667 each	1,602,580	1,466,668	1,395,313
17,265 ordinary Class B shares (2015:-15,371; 2014:-13,482; 2013:-5,000) of U.S.\$ 4,533.40 each	78,270	69,683	61,120
Total Subscribed Capital	1,680,850	1,536,351	1,456,433
Callable capital	1,282,064	1,173,335	1,116,250
Paid up capital	372,051	339,741	307,963
Share premium	35,107	26,871	19,778
Proposed dividends	24,349	21,786	19,244
Retained earnings	424,978	347,871	274,937
Total Equity	<b>856,485</b>	<b>736,269</b>	<b>621,922</b>

## SELECTED FINANCIAL INFORMATION

The Bank prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS").

The following selected financial information for the financial years ended 31 December 2014, 31 December 2015 and 31 December 2016 has been derived from the Bank's audited financial statements. All of the following financial information should be read in conjunction with the Bank's audited financial statements and notes thereto and with "*Management discussion and analysis of financial condition and results of operations*" in this Base Prospectus.

### Statements of Comprehensive Income

	Year ended 31 December		
	2016	2015	2014
	<i>U.S.\$'000</i>		
<b>Interest Income</b>			
On Trade Finance loans and facilities	152,719	143,015	108,074
On Project Finance loans and facilities	55,913	48,352	46,000
On Placements	16,543	17,301	2,665
<b>Total Interest Income</b>	<b>225,175</b>	<b>208,668</b>	<b>156,739</b>
Less: Short-term Interest Expense	-57,816	-50,857	-43,209
Less: Long-term Interest Expense	-37,231	-38,643	-34,892
Less: Other Costs Related to Borrowing	-13,662	-8,691	-9,892
<b>Interest and Similar Expense</b>	<b>-108,709</b>	<b>-98,191</b>	<b>-87,993</b>
<b>Net Interest Income</b>	<b>116,466</b>	<b>110,477</b>	<b>68,746</b>
<b>Fee and Commission Income</b>			
Trade Finance	49,229	41,843	47,449
Project Finance	5,782	6,023	7,499
<b>Fee and Commission Income</b>	<b>55,011</b>	<b>47,866</b>	<b>54,948</b>
<b>Net Trading Income</b>	<b>171,477</b>	<b>158,343</b>	<b>123,694</b>
Risk mitigation	-13,054	-15,348	-12,948
Other Income	3,560	8,887	10,976
<b>Income From Operations</b>	<b>161,983</b>	<b>151,882</b>	<b>121,722</b>
<b>Operating Expenditure</b>			
Staff Costs	-19,849	-15,285	-14,022
Board of Governors	-227	-242	-212
Board of Directors	-866	-673	-631
Consultants and Advisers	-5,274	-1,228	-1,170
Official Missions	-1,071	-1,121	-1,052
Business Promotion	-493	-318	-375
Depreciation & amortisation	-2,441	-903	-693
Audit fees	-50	-48	-47
Other Operating Expenses	-1,252	-1,078	-1,026
<b>Total Operating Expenditure</b>	<b>-31,523</b>	<b>-20,896</b>	<b>-19,228</b>
<b>Operating profit before provisions</b>	<b>130,460</b>	<b>130,986</b>	<b>102,494</b>
Impairment Allowance on Project and Trade Finance Loans	-23,114	-32,768	-24,792
Impairment of Equity Instruments at Cost	-2,806	-224	-1,281
Impairment on Other Financial Assets	-22	-241	-

Net Foreign Exchange (Losses) / Gains	-3,062	-3,034	557
<b>Profit for the year / Period</b>	<b>101,456</b>	<b>94,719</b>	<b>76,978</b>
Other comprehensive income			
<b>Total Comprehensive Income for the Year / Period</b>	<b>101,456</b>	<b>94,719</b>	<b>76,978</b>

**Source:** December 2014, 2015 and 2016 - Audited Financial Statements;  
All figures are in USD

## Statements of Financial Position

	Year ended 31 December		
	2016	2015	2014
	U.S.\$'000		
<b>ASSETS</b>			
Cash and Bank Balances held with other banks	594,836	643,515	435,997
Investments in Government Securities	214,699	241,763	216,000
Derivative Financial Instruments	75,760	60,993	34,189
Other Receivables	79,543	187,746	289,120
Trade Finance Loans	2,441,544	2,239,401	1,954,798
Less Provisions	-48,401	-31,289	-53,245
Project Finance Loans	896,088	762,349	624,854
Less Provisions	-49,201	-63,686	-14,695
Equity Investments	17,497	20,451	19,329
Investment in Joint Venture	369	334	
Deferred expenditure	18,095	11,190	16,627
Property and equipment	19,639	21,435	20,466
Intangible assets	784	358	407
<b>Total Assets</b>	<b>4,261,252</b>	<b>4,094,560</b>	<b>3,543,847</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Short Term Borrowings	2,369,322	2,179,241	1,919,329
Long Term Borrowings	794,215	874,104	849,403
Collection Account Deposits	171,770	264,474	126,774
Derivative Financial Instruments	0	0	0
Provision for Service and leave pay	5,839	5,672	5,418
Other Payables	63,621	34,800	21,001
<b>Total Liabilities</b>	<b>3,404,767</b>	<b>3,358,291</b>	<b>2,921,925</b>
<b>Equity</b>			
Share Capital	372,051	339,741	307,963
Share Premium	35,107	26,871	19,778
Proposed dividends	24,349	21,786	19,244
Retained Earnings	424,978	347,871	274,937
<b>Total Equity</b>	<b>856,485</b>	<b>736,269</b>	<b>621,922</b>
<b>Total Liabilities and Equity</b>	<b>4,261,252</b>	<b>4,094,560</b>	<b>3,543,847</b>

**Source:** December 2014, 2015 and 2016 - Audited Financial Statements;  
All figures are in USD



## Cash Flow Statements

	Year ended 31 December		
	2016	2015	2014
		U.S.\$'000	
<b>Inflows</b>			
Profit for the year	101,456	94,719	76,978
<b>Adjustments:</b>			
Depreciation on property and equipment	2,279	766	578
Amortisation of intangible assets	162	137	116
Fair value loss on revaluation of equity investments	2,806	224	1,281
(Gain)/loss in foreign exchange	-448	3,034	-557
Increase in provision for service and leave pay	167	254	565
Provision for impairment	23,114	32,768	24,792
Interest received	(219,150)	(189,819)	(131,423)
Interest paid	93,635	90,681	66,727
Loss on disposal of property and equipment	-	15	0
<b>Profit before working capital changes</b>	<b>4,021</b>	<b>32,780</b>	<b>39,057</b>
Decrease / (Increase) in other receivables	108,203	101,374	-281,814
(Increase) in trade finance loans	-203,082	-361,284	-477,536
(Increase) in project loans	-153,287	-66,548	-31,320
Increase in hedging derivative instruments-net	-14,767	-26,804	-34,189
Increase / (Decrease) in Derivative Liabilities	-	-	-126
Decrease / (Increase) in Deferred expenditure	-6,905	5,437	2,527
(Decrease) / increase in collection accounts deposits	-92,704	137,700	-75,766
(Decrease) / increase in other payables	28,821	13,800	3,364
Interest received	219,150	189,819	131,423
Interest paid	(93,635)	(90,681)	(66,727)
Increase in short term borrowings	110,192	284,613	972,278
(Increase) in interest receivable on government securities	-38	-43	-
<b>Net cash generated from operations</b>	<b>-94,031</b>	<b>220,147</b>	<b>181,171</b>
<b>Investing Activities</b>			
Purchase of property and equipment	-499	-1,751	-627
Proceeds from disposal of property and equipment	17	-	-
Purchase of intangible assets	-589	-87	-218
Acquisition of equity investments	-140	-1,345	-857
Disposal of equity investments	289		
Acquisition of interest in joint venture	-35	-334	-
Purchase of Government Securities	-	-34,000	-
Proceeds from redemption of Government Securities	27,103	8,280	-216,000
<b>Net cash generated from (used in) investing activities</b>	<b>26,146</b>	<b>-29,237</b>	<b>-217,702</b>
<b>Financing Activities</b>			
Proceeds from capital subscriptions	32,310	31,779	55,522
Proceeds from share premium	8,236	7,092	12,443
Payment of dividends	-21,786	-19,244	

<b>Net cash generated from financing activities</b>	<b>18,760</b>	<b>19,627</b>	<b>67,965</b>
<b>Increase / (Decrease) in Cash and Cash Equivalents</b>	<b>-49,127</b>	<b>210,552</b>	<b>31,433</b>
Foreign Exchange (loss)/gain on cash and cash equivalents	448	-3,034	557
Cash and Cash Equivalents at beginning of year	643,515	435,997	404,007
<b>Cash and Cash Equivalents at end of year</b>	<b>594,836</b>	<b>643,515</b>	<b>435,997</b>

**Source:** December 2014, 2015 and 2016 - Audited Financial Statements;  
All figures are in USD

## Selected Financial Ratios

	Year ended 31 December		
	2016	2015	2014
Cost/Income Ratio <sup>1</sup>	20.18%	21.46%	20.99%
Return on Shareholders' Equity <sup>2</sup>	12.89%	14.02%	14.01%
Return on Average Assets <sup>3</sup>	2.43%	2.48%	2.55%
NPLs as a % of Loan Portfolio <sup>4</sup>	2.85%	2.87%	3.04%
Impairment Allowance as a % of Gross Loans <sup>5</sup>	2.92%	3.16%	2.63%

**Source:** December 2014, 2015 and 2016 - Audited Financial Statements; All figures are in USD

<sup>1</sup> This measure is an APM. It is the ratio of Operating Expenses plus provisions divided by the Total Income.

<sup>2</sup> This measure is an APM. It is calculated by dividing the Net Profit by the monthly average paid in capital, plus retained earnings.

<sup>3</sup> This measure is an APM. It is calculated by dividing Net Profit by the average Total Assets: being the Opening Total Assets plus Closing Total Assets of a financial year divided by two.

<sup>4</sup> This measure is an APM. Non-performing Loans (NPLs) are all loans assessed by the Bank as being unlikely to be repaid. This figure represents the NPLs as a percentage of the total gross trade finance loan book and gross project and infrastructure loan book. See "Asset Quality and Non-performing Loans" for more details.

<sup>5</sup> This measure is an APM. The Impairment Allowance is the allocation of expenditure on a prudential basis in respect of the general and specific deterioration of loan assets. The General deterioration is the assumption on a prudential basis of the likelihood of deterioration of the entire loan book, whereas specific allowance is made in respect of the management's view of the likelihood of deterioration of specific and identifiable loan assets.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions that, subject to completion in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Final Terms or (ii) these terms and conditions as so completed (and subject to simplification by the deletion of non-applicable provisions) shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

The Notes are constituted by an amended and restated Trust Deed (as amended or supplemented, the "**Trust Deed**") dated 28 February 2017 between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). The Trust Deed may be amended or supplemented as at the date of issue of the Notes (the "**Issue Date**"). These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Registered Notes, Certificates, Coupons and Talons referred to below. An amended and restated Agency Agreement (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") dated 28 February 2017 has been entered into in relation to the Notes between the Issuer, the Trustee, Citibank N.A., London Branch as initial issuing and paying agent and the other agents named therein. The issuing and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Issuing and Paying Agent**", the "**Paying Agents**" (which expression shall include the Issuing and Paying Agent), the "**Registrar**", the "**Transfer Agents**" (which expression shall include the Registrar) and the "**Calculation Agent(s)**". Copies of the Trust Deed and the Agency Agreement are available for inspection in physical form during usual business hours, and upon reasonable notice at the specified offices of the Paying Agents and Transfer Agents.

The Noteholders (as defined below), the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement which are applicable to them.

As used in these Conditions, "Tranche" means Notes which are identical in all respects.

### 1. **FORM, DENOMINATION AND TITLE**

The Notes are issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**") in each case in the Specified Denomination(s) shown hereon *provided that* in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a member state of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, as amended, including Directive 2010/73/EU, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

#### **All Registered Notes shall have the same Specified Denomination**

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, or a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c) (*Exercise of Options or Partial Redemption in Respect of Registered Notes*), each Certificate shall represent the entire holding of Registered Notes by the same holder.

If indicated in the relevant Final Terms, any Global Notes issued from time to time may be intended to be held in a manner which will allow Eurosystem eligibility. This simply means that such Notes are intended to be issued in Eurosystem-eligible NGN form or Eurosystem eligible NSS Global Certificate form, respectively (as the case may be), in each case deposited with a Common Safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

In these Conditions:

- (i) **"Common Depository"** means a depository common to the ICSDs;
- (ii) **"Common Safekeeper"** means a common safekeeper for the ICSDs;
- (iii) **"Eurosystem"** means the European System of Central Banks as the term is used by the Governing Council of the European Central Bank;
- (iv) **"Eurosystem-eligible NGN"** means an NGN which is intended to be held in a manner which would allow Eurosystem eligibility, as indicated in the relevant Final Terms;
- (v) **"Eurosystem-eligible NSS Global Certificate"** means an NSS Global Certificate which is intended to be held in a manner which would allow Eurosystem eligibility, as indicated in the relevant Final Terms;
- (vi) **"ICSD"** means any or each of Euroclear and Clearstream, Luxembourg;
- (vii) **"New Global Note"** or **"NGN"** means a temporary Global Bearer Note or a permanent Global Bearer Note in either case where the relevant Final Terms indicates that such Note is intended to be issued in new global note form; and
- (viii) **"NSS Global Certificate"** means a Global Registered Note where the relevant Final Terms indicates that such Note is intended to be issued under the safekeeping structure implemented on 1 July 2010 by the ICSDs.

Save as provided in Condition 2(c) (*Exercise of Options or Partial Redemption in respect of Registered Notes*), each Registered Note shall represent the entire holding of Notes by the same holder.

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the **"Register"**). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, **"Noteholder"** means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), **"holder"** (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

## 2. NO EXCHANGE OF NOTES AND TRANSFERS OF REGISTERED NOTES

### (a) No Exchange of Notes

Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) **Transfer of Registered Notes**

One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(c) **Exercise of Options or Partial Redemption in Respect of Registered Notes**

In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) **Delivery of New Certificates**

Each new Certificate to be issued pursuant to Conditions 2(b) (*Transfer of Registered Notes*) or (c) (*Exercise of Options or Partial Redemption in Respect of Registered Notes*) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 7(e) (*Redemption at the Option of the Noteholders*)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d) (*Delivery of New Certificates*), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) **Transfers Free of Charge**

Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(f) **Closed Periods**

No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d) (*Accrual of Interest*), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date (as defined in Condition 8(b)(ii) (*Registered Notes*)).

3. **STATUS**

The Notes and Coupons relating to them constitute (subject to Condition 4 (*Negative Pledge*)) unsecured and unsubordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The obligations of the Issuer under the Notes and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4 (*Negative Pledge*), at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

4. **NEGATIVE PLEDGE**

So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), except for a Permitted Lien (as defined below), the Issuer will not create, or have outstanding, any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) (a "**Lien**") to secure any of its indebtedness.

In this Condition:

"**Permitted Lien**" means:

- (a) Liens existing on 28 February 2017;
- (b) any netting or set-off arrangement entered into by the Issuer in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances;
- (c) any Lien over:
  - (i) any On-Loan Security which is created by the Issuer as security for any On-Loan Financing pursuant to which the relevant On-Loan was made available; or
  - (ii) any On-Loan which is created as security for the On-Loan Financing pursuant to which that On-Loan was made available where, "**On-Loan**" means, in respect of any On-Loan Financing, a loan or other form of financing made available to any person by the Issuer using the proceeds of that On-Loan Financing; "**On-Loan Financing**" means any financing made available to the Issuer for the purpose of the Issuer making any funds available to another person; and "**On-Loan Security**" means, in respect of any On-Loan, any Lien or guarantee created in favour of and/or for the benefit of the Issuer as security for that On-Loan;
- (d) any Lien arising by operation of law or court or government body in the ordinary course of trading;
- (e) any Lien securing any financial obligation of the Issuer incurred in connection with a Permitted Securitisation;
- (f) any Lien over or affecting any asset acquired by the Issuer after the issue of the Notes, *provided that*
  - (i) if such Lien was not created in contemplation of the acquisition of that asset, the principal amount secured has not been increased in contemplation of or since the acquisition of that asset;

- (ii) if such Lien is created in order to facilitate the acquisition of the asset, no such Lien shall extend to any other assets of the Issuer; or
- (iii) if such Lien is created in order to facilitate the construction of a building or buildings to be owned by the Issuer, such Lien shall extend only to such building or buildings and the land on which such building or buildings is/are to be built; and
- (g) Liens in respect of indebtedness up to a maximum of USD 30,000,000.

**"Permitted Securitisation"** means any transaction or series of transactions where indebtedness is incurred by the Issuer in connection with a securitisation of assets or factoring of receivables where the recourse of the provider(s) of that indebtedness is principally limited to those assets and or receivables, *provided that*, the aggregate outstanding principal amount of such financial obligation does not at the time of incurrence exceed 15 per cent. of the consolidated total assets of the Issuer (as determined by reference to the latest available audited financial statements of the Issuer), save that where the outstanding principal amount of indebtedness under any existing Permitted Securitisation is to be fully or partially repaid or refinanced with the proceeds of a transaction or series of transactions which itself or themselves will constitute a Permitted Securitisation then the existing outstanding principal amount of indebtedness to be repaid will not be taken into account for the purpose of the foregoing determination.

## 5. FINANCIAL COVENANTS

### 5.1 Capital Adequacy and Tangible Net Worth

The Issuer shall ensure that:

- (a) it maintains a minimum capital adequacy ratio of 12 per cent. of capital against risk weighted assets calculated in accordance with the provisions of the Basel Paper; and
- (b) its Tangible Net Worth shall not be less than USD 200,000,000.

In this Condition 5 (*Financial Covenants*):

**"Basel Paper"** means the paper entitled "International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version" dated June 2006 and prepared by the Basel Committee on Banking Supervision;

**"IFRS"** means the International Financial Reporting Standards promulgated by the International Accounting Standards Board from time to time and consistently applied;

**"Tangible Net Worth"** means, in respect of the Issuer, at any time the aggregate of:

- (a) the amount paid up or credited as paid up on the common stock of the Issuer;
- (b) to the extent the Issuer's general reserves (**"General Reserves"**) and/or share premium (**"Share Premium"**) are included in audited financial statements produced by the issuer, the Issuer's General Reserves and Share Premium; and
- (c) the Issuer's Retained Earnings, in each case as calculated in accordance with IFRS.

### 5.2 Information Undertakings

At any time that it is required to comply with the Financial Covenants set out under Condition 5.1 (*Capital Adequacy and Tangible Net Worth*) above, the Issuer shall supply to the Trustee:

- (a) as soon as the same become available, but in any event within 135 days after the end of each of its financial years, its audited financial statements for that financial year; and
- (b) as soon as they are available, but in any event within 90 days after the end of each half of each of its financial years, after the approval of its half year financial statements by the



Issuer's Board of Directors, its financial statements for the relevant financial half year in the form such financial statements were so approved.

5.3 **No Event of Default Certificate**

- (a) The Issuer has undertaken in the Trust Deed to deliver to the Trustee in relation to each set of financial statements delivered pursuant to paragraph (a) of Condition 5.2 (*Information Undertakings*) upon request by the Trustee a certificate of the Issuer as to there not having occurred an Event of Default, a Potential Event of Default or a Conditional Put Event and that the covenants in Condition 4 (*Negative Pledge*) have been complied with since the date of the last such certificate (the "**No Event of Default Certificate**"), or, if such an event had occurred, as to the details of such event, in the form set out in the Trust Deed. The Trustee will be entitled to rely without liability on any No Event of Default Certificate and shall not be obliged to monitor compliance by the Issuer with the covenants set forth in this Condition 4 (*Negative Pledge*) and shall not be required to review any financial statements or certificates provided pursuant to Condition 5.3 (*No Event of Default Certificate*) or to monitor the timing of their delivery and need not enquire further as regards the circumstances existing on the date of such No Event of Default Certificate.
- (b) The Issuer is not in compliance with Condition 5.1 (*Capital Adequacy and Tangible Net Worth*) then it shall as soon as practicable inform the Trustee that it is no longer in compliance.
- (c) Each such No Event of Default Certificate shall be signed by two authorised signatories of the Issuer.

6. **INTEREST AND OTHER CALCULATIONS**

(a) **Interest on Fixed Rate Notes**

Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 6(h) (*Determination or Calculation by Trustee*).

(b) **Interest on Floating Rate Notes**

(i) *Interest Payment Dates*

Each Floating Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 6(h) (*Determination or Calculation by Trustee*). Such Interest Payment Date(s) may either be shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention*

If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it

not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes*

The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon
- (y) the Designated Maturity is a period specified hereon and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

For the purposes of these Conditions:

"**EURIBOR**" means the interest rate benchmark known as the Euro zone interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of the European Banking Federation;

"**LIBID**" means the London inter-bank bid rate. It is the bid rate that banks are willing to pay for eurocurrency deposits in the London interbank market. The LIBID rate is derived by subtracting 0.125 per cent. from the LIBOR rate that has the same maturity;

"**LIBOR**" means the London inter-bank offered rate for a currency and period displayed on the appropriate page (being currently Reuters screen page LIBOR01 or LIBOR02) on the information service which publishes that rate; and

"**LIMEAN**" means the London inter-bank mean rate. It is the mid-market interest rate in the London interbank market, calculated by averaging the LIBID and LIBOR rates.

(B) Screen Rate Determination for Floating Rate Notes

- (x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the

Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time in the case of LIBOR, LIBID and LIMEAN or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR, LIBID and LIMEAN or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

- (y) if the Relevant Screen Page is not available or if, sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, LIBID or LIMEAN the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, LIBID or LIMEAN at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and
- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered: (i) if the Reference Rate is LIBOR, LIBID OR LIMEAN at approximately 11.00 a.m. (London time); or (ii), if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in: (i) if the Reference Rate is LIBOR, LIBID or LIMEAN the London inter-bank market; or (ii), if the

Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be;

or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which: (i) if the Reference Rate is LIBOR, LIBID or LIMEAN at approximately 11.00 a.m. (London time); or (ii), if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in: (i) if the Reference Rate is LIBOR, LIBID or LIMEAN the London inter-bank market; or (ii), if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be;

*provided that*, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(c) **Zero Coupon Notes**

Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 7(b)(i) (*Early Redemption-Zero Coupon Notes*)).

(d) **Accrual of Interest**

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 6 (*Interest and Other Calculations*) to the Relevant Date (as defined in Condition 9 (*Taxation*)).

(e) **Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding**

- (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with this Condition 6 by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified hereon, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be. Unless specified hereon, the Minimum Rate of Interest shall be zero.

- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country or countries, as the case may be, of such currency.

(f) **Calculations**

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(g) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts**

The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 6(b) (ii) (*Interest on Floating Rate Notes-Business Day Convention*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 11 (*Events of Default and Put Events*), the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(h) **Determination or Calculation by Trustee**

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee may, subject to its being indemnified and/or secured to its satisfaction, do so (or shall appoint an agent on its behalf to do so) (but without any liability accruing to the Trustee as a result) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(i) **Definitions**

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

**"Business Day"** means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET system is operating (a **"TARGET Business Day"**); and/or
- (iii) in relation to any sum payable in Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement for Renminbi payments in Hong Kong; and/or

in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

**"Day Count Fraction"** means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the **"Calculation Period"**):

- (i) if **"Actual/Actual"** or **"Actual/Actual - ISDA"** is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)
- (ii) if **"Actual/365 (Fixed)"** is specified hereon, the actual number of days in the Calculation Period divided by 365
- (iii) if **"Actual/360"** is specified hereon, the actual number of days in the Calculation Period divided by 360
- (iv) if **"30/360"**, **"360/360"** or **"Bond Basis"** is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[(360 \times (Y_2 - Y_1)) + [30 \times (M_2 - M_1)] + [D_2 - D_1]}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30

- (v) if "30E/360" or "Eurobond Basis" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[(360 \times (Y_2 - Y_1)) + [30 \times (M_2 - M_1)] + [D_2 - D_1)]}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30

- (vi) if "30E/360 (ISDA)" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[(360 \times (Y_2 - Y_1)) + [30 \times (M_2 - M_1)] + [D_2 - D_1)]}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M<sub>1</sub>**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M<sub>2</sub>**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D<sub>1</sub>**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

"**D<sub>2</sub>**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30

(vii) if "**Actual/Actual-ICMA**" is specified hereon,

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date and

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s)

"**Euro-zone**" means the region comprised of EU Member States of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon



Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

**"Interest Commencement Date"** means the Issue Date or such other date as may be specified hereon.

**"Interest Determination Date"** means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

**"Interest Period"** means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

**"Interest Period Date"** means each Interest Payment Date unless otherwise specified hereon.

**"ISDA Definitions"** means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

**"Rate of Interest"** means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

**"Reference Banks"** means, in the case of a determination of LIBOR, LIBID or LIMEAN the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

**"Reference Rate"** means the rate specified as such hereon.

**"Relevant Screen Page"** means such page, section, caption, column or other part of a particular information service as may be specified hereon.

**"Specified Currency"** means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

**"TARGET System"** means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(j) **Calculation Agent**

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the

Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

## 7. REDEMPTION, PURCHASE AND OPTIONS

### (a) Final Redemption

Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount).

### (b) Early Redemption

#### (i) Zero Coupon Notes

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 7(c) (*Redemption for Tax Reasons*) or upon it becoming due and payable as provided in Condition 11 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.
- (B) Subject to the provisions of sub-paragraph (C) below, the "**Amortised Face Amount**" of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 7(c) (*Redemption for Tax Reasons*) or upon it becoming due and payable as provided in Condition 11 (*Events of Default and Put Events*) is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 6(c) (*Zero Coupon Notes*).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

#### (ii) Other Notes

The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 7(c) (*Redemption for Tax Reasons*) or upon it becoming due and payable as provided in Condition 11 (*Events of Default and Put Events*), shall be the Final Redemption Amount unless otherwise specified hereon.

(c) **Redemption for Tax Reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is a Floating Rate Note) or, at any time (if this Note is a Fixed Rate Note or a Zero Coupon Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (as described in Condition 7(b) (*Early Redemption*) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer satisfies the Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of any Issuer Member State (as defined in Condition 9 (*Taxation*)), or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, *provided that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 7(c) (*Redemption for Tax Reasons*), the Issuer shall deliver to the Trustee (a) a certificate signed by two authorised signatories of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and (b) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment, and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on Noteholders and Couponholders.

(d) **Redemption at the Option of the Issuer**

If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes to be redeemed, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements and the rules and procedures of Euroclear and/or Clearstream, Luxembourg, where applicable (to be reflected in the records of Euroclear and Clearstream Luxembourg as either a pool factor or reduction in nominal amount or otherwise, in each case at their discretion) or any other Alternative Clearing System (as defined in the Trust Deed) as the case may be.

(e) **Redemption at the Option of Noteholders**

If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmaturing Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) **Purchases**

The Issuer may at any time purchase Notes (*provided that* all unmaturing Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.

(g) **Cancellation**

All Notes purchased by or on behalf of the Issuer may be held by or on behalf of the Issuer or surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmaturing Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmaturing Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

8. **PAYMENTS AND TALONS**

(a) **Bearer Notes**

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below (and subject to Condition 8(i)), be made against presentation and surrender of the relevant Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 8(f)(iv) (*Unmaturing Coupons and unexchanged Talons*)) or Coupons (in the case of interest, save as specified in Condition 8(f)(ii) (*Unmaturing Coupons and unexchanged Talons*)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) **Registered Notes**

Payments of principal in respect of Registered Notes shall be made against presentation and surrender or, in the case of part payment only, endorsement of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

Subject to Condition 8(i), interest on Registered Notes shall be paid to the person shown on the Register at the close of the business day prior to the due date for payment thereof (the "**Record Date**"). Subject as provided below, payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any

Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

(c) **Payments in the United States**

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) **Payments subject to Laws**

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment, and any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 thereof, any regulations or agreements otherwise thereunder, official interpretations thereof ("**FATCA**"), or any law implementing an intergovernmental approach to FATCA but without prejudice to the provisions of Condition 9 (*Taxation*). No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) **Appointment of Agents**

The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the approval of the Trustee (such approval not to be unreasonably withheld or delayed) to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent and to appoint additional or other Paying Agents or Transfer Agents, *provided that* at the time of such variation or termination, no downgrading of any voting assigned to the Notes shall result and *provided further that* the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) a Paying Agent having a specified office in at least one major European city, and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Trustee.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) **Unmatured Coupons and unexchanged Talons**

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes, Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in

full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 10 (*Prescription*)).

- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) **Talons**

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 10 (*Prescription*)).

(h) **Non-Business Days**

If any date for payment in respect of any Notes or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" hereon and:

- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or
- (ii) (in the case of a payment in euro) which is a TARGET Business Day.

(i) **Renminbi Account**

All payments in respect of the Notes in Renminbi will be made solely by credit to a Renminbi account maintained by the payee at a bank in Hong Kong or such other financial

centre(s) as may be specified in the applicable Final Terms as Renminbi Settlement Centre(s) in accordance with applicable laws, rules, regulations and guidelines issued from time to time (including all applicable laws and regulations with respect to the settlement of Renminbi in Hong Kong or any relevant Renminbi Settlement Centre).

(j) **Renminbi Currency Event**

If Renminbi Currency Events are specified in the applicable Final Terms and a Renminbi Currency Event occurs and is continuing on a date for payment of any amount due in respect of any Note or Coupon, the Issuer's obligation to make payment in Renminbi under the terms of the Notes may be satisfied by payment of such amount in U.S. dollars converted using the Spot Rate for the Rate Calculation Date.

Upon the occurrence of a Renminbi Currency Event that is continuing, the Issuer shall give irrevocable notice to the Noteholders in accordance with Condition 15 (*Replacement of Notes, Certificates, Coupons and Talons*) not less than five nor more than 30 days before the relevant due date for payment or, if this is not practicable due to the time at which the relevant Renminbi Currency Event occurs, as soon as practicable following such occurrence, stating the occurrence of the Renminbi Currency Event, giving details thereof and the action proposed to be taken in relation thereto.

For the purpose of this Condition and unless stated otherwise in the applicable Final Terms (and subject in the case of any determination of the Calculation Agent, to the provisions of Condition 6.2(f) (*Calculation Agent*)):

**"Governmental Authority"** means any de facto or de jure government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of Hong Kong;

**"PRC"** means the People's Republic of China which, for the purposes of these Conditions, shall exclude Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan;

**"Rate Calculation Business Day"** means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange) in Hong Kong, London and New York City;

**"Rate Calculation Date"** means the day which is two Rate Calculation Business Days before the due date of the relevant payment under the Notes;

**"Renminbi Currency Events"** means any one of Renminbi Illiquidity, Renminbi Non-Transferability and Renminbi Inconvertibility;

**"Renminbi Illiquidity"** means the general Renminbi exchange market in Hong Kong becomes illiquid as a result of which the Issuer cannot obtain sufficient Renminbi in order to make a payment, if any amount, in whole or in part, under the Notes, as determined by the Issuer acting in good faith and in a commercially reasonable manner following consultation with two independent foreign exchange dealers of international repute active in the Renminbi exchange market in Hong Kong;

**"Renminbi Inconvertibility"** means the occurrence of any event that makes it impossible for the Issuer to convert in the general Renminbi exchange market in Hong Kong any amount, in whole or in part, due in respect of the Notes into Renminbi on any payment date, other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Issue Date of the first Tranche of the relevant Series and it is impossible for the Issuer, due to an event beyond the control of the Issuer, to comply with such law, rule or regulation);

**"Renminbi Non-Transferability"** means the occurrence of any event that makes it impossible for the Issuer to deliver Renminbi between accounts inside Hong Kong or from

an account inside Hong Kong to an account outside Hong Kong (including where the Renminbi clearing and settlement system for participating banks in Hong Kong is disrupted or suspended), other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Issue Date of the first Tranche of the relevant Series and it is impossible for the Issuer due to an event beyond its control, to comply with such law, rule or regulation); and

**"Spot Rate"** means the spot CNY/U.S. dollar exchange rate for the purchase of U.S. dollars with Renminbi in the over-the-counter Renminbi exchange market in Hong Kong for settlement in two Rate Calculation Business Days, as determined by the Calculation Agent at or around 11.00 a.m. (Hong Kong time) on the Rate Calculation Date, on a deliverable basis by reference to Reuters Screen Page TRADCNY3, or if no such rate is available, on a non-deliverable basis by reference to Reuters Screen Page TRADNDF. If neither rate is available, the Calculation Agent shall determine the rate taking into consideration all available information which the Calculation Agent deems relevant, including, among other things, pricing information obtained from the Renminbi non-deliverable exchange market in Hong Kong or elsewhere and the CNY/U.S. dollar exchange rate in the PRC domestic foreign exchange market. Reference to a page on the Reuters Screen means the display page so designated on the Reuter Monitor Money Rates Service (or any successor service) or such other page as may replace that page for the purpose of displaying a comparable currency exchange rate.

## 9. TAXATION

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within or on behalf of any Issuer Member State or any authority therein or thereof having power to tax, unless such withholding or deduction is required by a law to which the Issuer is or becomes subject. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

(a) **Other connection**

to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the Issuer Member State other than the mere holding of the Note or Coupon; or

(b) **Presentation more than 30 days after the Relevant Date**

presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth such day; or

Notwithstanding any other provision of this Condition 8, none of the Issuer, the Fiscal Agent, and Paying Agent or any other person shall be required to pay any additional amounts in respect of any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code, otherwise required pursuant to FATCA or required pursuant to any law implementing an intergovernmental approach to FATCA.

As used in these Conditions, **"Relevant Date"** in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative



Certificate) or Coupon being made in accordance with these Conditions, such payment will be made, *provided that* payment is in fact made upon such presentation.

References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 7 (*Redemption, Purchase and Options*) or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 6 (*Interest and Other Calculations*) or any amendment or supplement to it, (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed and (iv) "**Issuer Member State**" means any Member State of the Eastern and Southern African Trade and Development Bank as determined in accordance with its Charter.

## 10. **PRESCRIPTION**

Claims against the Issuer for payment in respect of the Notes and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

## 11. **EVENTS OF DEFAULT AND PUT EVENTS**

### 11.1 **Events of Default**

If any of the following events ("**Events of Default**") occurs and is continuing, the Trustee at its discretion may, and if so requested by holders of at least twenty five per cent. in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject, in each case, to its being indemnified and/or secured and/or prefunded to its satisfaction), give written notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest:

#### (a) **Non-Payment of Principal**

default is made in the payment on the due date of principal in respect of any of the Notes; or

#### (b) **Non-Payment of Interest**

default is made in the payment on the due date of interest in respect of any of the Notes, *provided that* such default will not be an Event of Default if the failure to pay is caused by administrative or technical error and such default is remedied within three Business Days in London and Nairobi; or

#### (c) **Breach of Financial Covenants or Negative Pledge**

the Issuer does not perform or comply with any one or more of its obligations under Conditions 4 (*Negative Pledge*) or 5 (*Financial Covenants*); or

#### (d) **Breach of Other Obligations**

the Issuer does not perform or comply with any one or more of its other obligations in the Notes or the Trust Deed which default is certified by the Trustee as being materially prejudicial to the interests of the Noteholders and is incapable of remedy (including, but not limited to, as a result of the discontinuation of its corporate structure) or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after notice of such default shall have been given to the Issuer by the Trustee; or

#### (e) **Cross-Default**

any other present or future indebtedness of the Issuer, for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any event of default or the like (howsoever described), (*provided that* any such default under any of the Issuer's financing arrangements, other than in respect of the Programme or the Notes issued hereunder, which is analogous to the events described in Condition 11.2 (*Put Events*) below must be declared due and payable in order for such default to constitute an Event of Default in accordance with this paragraph), or (B) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (C) the Issuer fails to pay when due (but after the expiration of any applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised *provided that* the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (e) have occurred equals or exceeds 10 per cent. of the net worth of the Issuer (as reasonably determined by the Trustee); or

(f) **Enforcement Proceedings**

any expropriation, distress, attachment, sequestration or execution (or any analogous procedure) or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer (other than as described in Condition 11.2(b) (*Government Intervention*)); or

(g) **Insolvency**

the Issuer is unable to pay its debts as they fall due, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer or the value of the assets of the Issuer is less than its liabilities (taking into account contingent and prospective liabilities); or

(h) **Winding-up**

any order is made or any resolution passed for the suspension or termination of the Issuer, or the Issuer otherwise ceases to exist; or

(i) **Cessation of Business**

the Issuer ceases, or threatens to cease, to carry on all or substantially all of its business or operations; or

(j) **Illegality**

it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes, the Agency Agreement or the Trust Deed.

*The Issuer has undertaken in the Trust Deed that within 14 days after any request by the Trustee, it will send to the Trustee a certificate signed by two authorised signatories of the Issuer to the effect that as at a date not more than five days prior to the date of the certificate no Event of Default has occurred*

11.2 **Put Events**

If any of the following events ("**Conditional Put Events**") occurs, the holder of any such Note will have the option (a "**Conditional Put Option**") (unless prior to the giving of the relevant Conditional Put Event Notice (as defined below) the Issuer has given notice of redemption under Condition 7(c) above) to require the Issuer to redeem or, at the Issuer's option, purchase (or procure the purchase of) that Note on the Conditional Put Option Date (as defined below) at its principal amount together with interest accrued to (but excluding) the Conditional Put Option Date.

A "**Conditional Put Event**" will be deemed to occur if:

(a) **Breach or Amendment of Charter**

Any of Articles 5, 6, 7, 26, 27 or 29 of the Charter of the Eastern and Southern African Trade and Development Bank (the "**Charter**") is (i) amended other than in accordance with the terms of Article 44 of the Charter or (ii) breached by the Issuer in a manner or to an extent materially adversely affecting the Issuer's capacity to perform its obligations in respect of the Notes; or

(b) **Government Intervention**

(i) All or any substantial part of the undertaking, assets and revenues of the Issuer is condemned, seized or otherwise appropriated by any person acting under the authority of any Issuer Member State (as defined in Condition 9 (*Taxation*)) or (ii) the Issuer is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets and revenues, and (in each case) such action has a materially adverse effect on the Issuer's capacity to perform its obligations in respect of the Notes. For the purpose of this Condition 11.2(ii), "**substantial**" means at least fifty per cent. of the undertaking, assets and revenues of the Issuer.

Promptly upon the Issuer becoming aware that a Conditional Put Event has occurred the Issuer shall, and the Trustee may if it has actual knowledge, and if so requested by the holders of at least twenty five per cent. in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders, shall, (subject in each case to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction) give notice (a "**Conditional Put Event Notice**") to the Noteholders in accordance with Condition 17 specifying the nature of the Conditional Put Event and the procedure for exercising the Conditional Put Option.

To exercise the Conditional Put Option, the holder of a Bearer Note must deliver such Note to the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the period (the "**Conditional Put Option Period**") of 30 days after a Conditional Put Event Notice is given, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a "**Conditional Put Option Notice**"). The Note should be delivered together with all Coupons appertaining thereto maturing after the date which is seven days after the expiration of the Conditional Put Option Period (the "**Conditional Put Option Date**"), failing which the Paying Agent will require payment from or on behalf of the Noteholder of an amount equal to the face value of any missing such Coupon. Any amount so paid will be reimbursed to the Noteholder against presentation and surrender of the relevant missing Coupon (or any replacement therefore issued pursuant to Condition 15 (*Replacement of Notes, Certificates, Coupons and Talons*)) at any time after such payment, but before the expiry of the period of five years from the date on which such Coupon would have become due, but not thereafter. The Paying Agent to which such Note and Conditional Put Option Notice are delivered will issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. Payment in respect of any Note so delivered will be made, if the holder duly specified a bank account in the Conditional Put Option Notice to which payment is to be made, on the Conditional Put Option Date by transfer to that bank account and, in every other case, on or after the Conditional Put Option Date against presentation and surrender or (as the case may be) endorsement of such receipt at the specified office of any Paying Agent. A Conditional Put Option Notice, once given, shall be irrevocable. For the purposes of these Conditions, receipts issued pursuant to this Condition 11.2 shall be treated as if they were Notes.

To exercise the Conditional Put Option, the holder of a Registered Note must deposit the Certificate evidencing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly signed and completed Conditional Put Option Notice obtainable from the Registrar or any Transfer Agent within the Conditional Put Option Period. No Certificate so deposited and option so exercised may be withdrawn without the

prior consent of the Issuer. Payment in respect of any Certificate so deposited will be made, if the holder duly specified a bank account in the Conditional Put Option Notice to which payment is to be made, on the Conditional Put Option Date by transfer to that bank account and, in every other case, by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register.

The Issuer shall redeem or purchase (or procure the purchase of) the relevant Notes on the Conditional Put Option Date unless previously redeemed (or purchased) and cancelled.

If 75 per cent. or more in principal amount of the Notes then outstanding have been redeemed or purchased pursuant to this Condition 11.2, the Issuer may, on giving not less than 30 nor more than 60 days' notice to the Noteholders (such notice being given within 30 days after the Conditional Put Option Date), redeem or purchase (or procure the purchase of), at its option, all but not some only of the remaining outstanding Notes at their principal amount, together with interest accrued to (but excluding) the date fixed for such redemption or purchase.

The Trustee is under no obligation to ascertain whether a Conditional Put Event or any event which could lead to the occurrence of or could constitute a Conditional Put Event has occurred and, until it shall have actual knowledge or notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no Conditional Put Event or other such event has occurred.

## **12. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION**

### **(a) Meetings of Noteholders**

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent. or at any adjourned meeting not less than 25 per cent. in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) **Modification of the Trust Deed**

The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed that is of a formal, minor or technical nature or is made to correct a manifest error or to cure any ambiguity, inconsistency or defective provision, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders or Couponholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

(c) **Entitlement of the Trustee**

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

13. **ENFORCEMENT**

At any time after the Notes become due and payable, only the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed, the Notes and the Coupons, but it need not take any such proceedings or any other steps or actions in relation to the Trust Deed or the Notes unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-fifth in nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14. **INDEMNIFICATION OF THE TRUSTEE**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including relieving it from taking proceedings unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee is not obliged or required to take any action under the Trust Deed which may involve it in incurring any personal liability or expense unless indemnified, secured and/or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee may rely without liability to Noteholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

*The Trust Deed contains provisions for the Trustee to retire provided that the Trustee has given at least three months written notice to the Issuer. The Trust Deed also contains provisions whereby the Noteholders may by Extraordinary Resolution remove the Trustee. Any such retirement or removal shall not be effective until a successor Trustee has been appointed. Noteholders shall be notified in accordance with Condition 17 (Notices) of any such retirement, removal and/or replacement of the Trustee.*

15. **REPLACEMENT OF NOTES, CERTIFICATES, COUPONS AND TALONS**

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

16. **FURTHER ISSUES**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes). References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

17. **NOTICES**

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing, and if any such Notes are listed on the Irish Stock Exchange, notices will be published either on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)) or in a daily newspaper with general circulation in the Republic of Ireland (which is expected to be *the Irish Times*). Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*) and so long as the Notes are listed on the Irish Stock Exchange, published either on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)) or in a daily newspaper with general circulation in the Republic of Ireland (which is expected to be *the Irish Times*). If in the opinion of the Trustee any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

18. **CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

19. **GOVERNING LAW AND JURISDICTION**

(a) **Governing Law**

The Trust Deed, the Notes, the Coupons, the Talons and the arbitration agreement at Clause 19(b) (*Arbitration*), including any non-contractual obligations arising out of or in

connection with them, shall be governed by, and shall be construed in accordance with, English law.

(b) **Arbitration**

Subject to Clause 19(c) (*Trustee's option to refer Dispute to court*) below, and 19(d) (*Jurisdiction of the English Courts*) the Issuer agrees that any claim, dispute or difference of whatever nature arising under, out of or in connection with the Trust Deed and the Notes, the Coupons or the Talons (including a claim, dispute or difference regarding its existence, termination or validity or any non contractual obligations arising out of or in connection with the Trust Deed (a "**Dispute**"), shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules of the LCIA (the "**Rules**") as in force at the date of the Trust Deed and as modified by this Clause, which Rules shall be deemed incorporated into this Clause. The number of arbitrators shall be three, one of whom shall be nominated by the claimant(s), one by the respondent(s) and the third of whom, who shall act as Chairman, shall be nominated by the two party-nominated arbitrators, *provided that* if the third arbitrator has not been nominated within 30 days of the nomination of the second party-nominated arbitrator, such third arbitrator shall be appointed by the LCIA Court. The parties may nominate and the LCIA Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. Where more than one Dispute arises out of or in connection with Trust Deed, the Notes, the Coupons or the Talons, and such Disputes, in the reasonable opinion of the first arbitral tribunal to be appointed in respect of any of the Disputes (the "**First Tribunal**"), are so closely connected that it is fair and expedient for them to be resolved in the same proceedings, the First Tribunal may, upon application by any party, order that the proceedings to resolve one Dispute shall be consolidated with those to resolve any other Dispute. If the First Tribunal so orders, the parties to each Dispute which is a subject of such order shall be treated as having consented to that Dispute being finally decided by the First Tribunal, unless the LCIA Court decides that the First Tribunal would not be suitable. The seat of arbitration shall be London, England and the language of arbitration shall be English.

(c) **Trustee's option to refer Dispute to court**

The Trustee may, by notice in writing to the Issuer, require that a Dispute be heard by a court of law *provided that* such written notice is received by the Issuer before an arbitrator has been appointed in connection with such Dispute. A notice validly issued by the Trustee under this Condition 19(c) shall also be binding on all Noteholders and Couponholders. If the Trustee gives such notice, the Dispute to which such notice refers shall be determined in accordance with Condition 19(d) (*Justification of the English Courts*) below.

(d) **Jurisdiction of the English Courts**

In the event that the Trustee validly issues a notice pursuant to Condition 19(c) (*Trustee's option to refer Dispute to court*) the following provisions shall apply:

- (i) the courts of England shall have jurisdiction to settle any such Dispute;
- (ii) the Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any such Dispute, and agrees not to claim that courts of England are not a convenient or appropriate forum; and
- (iii) the submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of the Trustee, in accordance with this Condition 19, to take proceedings in any other court of competent jurisdiction, nor shall the taking of any proceedings in any one or more jurisdictions preclude the taking of proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by applicable law.

(e) **Immunity**

To the extent that the Issuer may in any jurisdiction claim for itself or its assets, property or revenues (irrespective of their use or intended use) immunity from jurisdiction, suit, enforcement, execution, attachment (whether in aid of execution, after the making of a final judgment of a court of competent jurisdiction or final award) or other legal process including in relation to the enforcement of any arbitration award and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets, property or revenues, the Issuer has agreed not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction and the Charter.

(f) **Service of Process**

The Issuer has in the Trust Deed irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any proceedings in England.



## OVERVIEW OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

### 1. Initial Issue of Notes

If the Global Notes are stated in the applicable Final Terms to be issued in NGN or NSS form, the Global Notes or NSS Global Certificates (as the case may be) will be deposited on or prior to the original issue date of the Tranche with a common safekeeper for Euroclear and Clearstream Luxembourg (the Common Safekeeper). Depositing the Global Notes or NSS Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Global Notes which are issued in CGN form and Certificates may be delivered on or prior to the original issue date of the Tranche to a Common Depositary.

If the Global Note is a CGN, upon the initial deposit of a Global Note with a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") or registration of Registered Notes in the name of any common nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is an NGN, the issue outstanding amount from time to time of the Notes shall be the amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the issue outstanding amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time. In the case of a NSS Global Certificate, the register maintained by the Registrar shall be conclusive evidence of the issue outstanding amount of Notes represented by the NSS Global Certificate.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

### 2. Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system ("**Alternative Clearing System**") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

### 3. Exchange

#### 3.1 Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (a) if the relevant Final Terms indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see

"*Overview of the Programme - Selling Restrictions*"), in whole, but not in part, for the Definitive Notes defined and described below; and

- (b) otherwise, in whole or in part, on or after the date which is 40 days after the completion of the distribution of all Notes of the relevant Tranche (as determined and certified by the relevant Dealer (the "**Distribution Compliance Period**")) upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

### 3.2 **Permanent Global Notes**

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.4 below, in part for Definitive Notes:

- (a) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; or
- (b) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Issuing and Paying Agent of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

### 3.3 **Permanent Global Certificates**

If the Final Terms state that the Notes are to be represented by a permanent Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in part:

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) if principal in respect of any Notes is not paid when due; or
- (iii) with the consent of the Issuer,

*provided that*, in the case of the first transfer of part of a holding pursuant to paragraph 3.3(i) or 3.3(ii) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

### 3.4 **Partial Exchange of Permanent Global Notes**

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes if principal in respect of any Notes is not paid when due.

### 3.5 Delivery of Notes

If the Global Note is a CGN, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes or, if the Global Note is a NGN, the Issuer will procure that details of such exchange be entered *pro rata* in the records of the relevant clearing system. In this Base Prospectus, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons in respect of interest that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

### 3.6 Exchange Date

"**Exchange Date**" means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or in the case of failure to pay principal in respect of any Notes when due, 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located.

## 4. Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Base Prospectus. The following is an overview of certain of those provisions:

### 4.1 Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 8(e) (vii) will apply to the Definitive Notes only. If the Global Note is a NGN, the Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant clearing system and in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note will be reduced accordingly. In the case of a NSS Global Certificate, the Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the Registrar and in the case of payments of principal, the nominal amount of the Notes recorded in the records of the Registrar and represented by the NSS Global Certificate will be reduced accordingly. Payments under the NGN or NSS Global Certificate will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. Any

failure to make the entries in the records of the relevant clearing system or Registrar (as the case may be) shall not affect such discharge.

#### 4.2 **Prescription**

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 10).

#### 4.3 **Meetings**

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. (All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate).

#### 4.4 **Cancellation**

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note.

#### 4.5 **Purchase**

Notes represented by a permanent Global Note may only be purchased by the Issuer if they are purchased together with the rights to receive all future payments of interest (if any) thereon.

#### 4.6 **Issuer's Option**

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of account holders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other Alternative Clearing System (as the case may be).

#### 4.7 **Noteholders' Options**

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, where the permanent Global Note is a CGN, presenting the permanent Global Note to the Issuing and Paying Agent, or to a Paying Agent acting on behalf of the Issuing and Paying Agent, for notation. Where the Global Note is a NGN or in the case of a NSS Global Certificate, the Issuer shall procure that details of such exercise shall be entered *pro rata* in the records of the relevant clearing system or Registrar (as the case may be) and the nominal amount of the Notes recorded in those records will be reduced accordingly.

4.8 **NGN/NSS nominal amount**

Where the Global Note is an NGN or in the case of a NSS Global Certificate, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems or Registrar and upon any such entry being made, in respect of payments of principal, the nominal amount of the Notes represented by such Global Note or NSS Global Certificate (as the case may be) shall be adjusted accordingly.

4.9 **Trustee's Powers**

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of any nominee or common safekeeper for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Notes and may consider such interests as if such accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

4.10 **Events of Default and Put Events**

Each Global Note provides that the holder may cause such Global Note, or a portion of it, to become due and repayable in the circumstances described in Condition 11 by stating in the notice to the Issuing and Paying Agent the nominal amount of such Global Note that is becoming due and repayable.

4.11 **Notices**

So long as any Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note, except that so long as the Notes are listed on the Irish Stock Exchange and the rules of that exchange so require, notices shall also be published either on the official website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)) or in a leading newspaper having general circulation in the Republic of Ireland (which is expected to be *the Irish Times*).

## **USE OF PROCEEDS**

The net proceeds from each issue of Notes shall be incorporated into the ordinary capital resources of the Issuer and used in its ordinary operations in accordance with its Charter.

The proceeds from the issue will not be used, directly or indirectly, to finance projects or transactions involving countries, entities or individuals facing international sanctions.

## **MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion should be read in conjunction with the Bank's audited financial statements for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 (see "Selected Financial Information" above).*

### **Critical Accounting Policies**

The Bank's financial statements are prepared on the historical cost basis except for certain financial assets that have been measured at fair value, and are presented in United States dollars in accordance with the Bank's Charter. The reporting currency is the United States Dollar and most of the Bank's activities are conducted in this currency.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and also requires the Bank's management to exercise its judgement in the process of applying the Bank's accounting policies. The preparation of financial statements involves management estimates and assumptions that may affect the reported amounts of assets and liabilities within the financial year. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Income from loans and investments is recognised in profit or loss when it accrues, by reference to the principal outstanding and the interest rate applicable. Fees and commissions are recognised at the time of effecting the transaction. Borrowing costs are expensed in the period in which they are incurred. Assets and liabilities in foreign currencies are translated to United States Dollars at the relevant rates of exchange on the reporting date. Property and equipment are stated in the Statement of Financial Position at cost less accumulated depreciation and any accumulated impairment loss. Intangible assets comprise the cost of acquired computer software programmes.

At each reporting date, the Bank reviews the carrying amounts of its financial, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognised in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount. Expenditure incurred in relation to borrowings from which the Bank will derive benefits over a period beyond the period in which the facility is secured, if material, is capitalised and amortised over the life of the facility.

### **Statement of Comprehensive Income**

Interest Income has grown progressively over the past years, specifically to USD 156.7 million, USD 208.7 million and USD 225.2 million for the years ended 2014, 2015 and 2016 respectively. The significant increase in interest income is partly the result of the utilisation of the USD 399 million of funding raised under the Bank's November 2010 and December 2013 Eurobond issues, the USD 321 million and USD 740 million raised under the Bank's 2014 and 2016 syndicated loans respectively, and other borrowings raised to fund the Bank's operations. The enhanced resource capacity enabled the Bank to finance a significantly higher volume of transactions under trade and project finance.

Arising from an expanded loan portfolio, trade finance interest income increased from USD 108.1 million in 2014 to USD 152.7 million in 2016, a 41 per cent. increase. Project finance interest income also grew by 22 per cent. from USD 46.0 million in 2014 to USD 55.9 million in 2016.

For the years 2014, 2015 and 2016, Interest Expense was USD 78.1 million, USD 89.5 million and USD 95.0 million respectively. The 2013 Eurobond issue and the 2014 syndicated loan contributed to a significant increase in the interest expense recorded in 2015. In addition to these borrowings, the Bank drew on its short term and long term facilities to fund portfolio growth. Long-term borrowings amounted to USD 849.4 million in 2014, USD 874.1 million in 2015 and USD 794.2 million in 2016 while short-term borrowings amounted to USD 1.9 billion in 2014, USD 2.2 billion in 2015 and USD 2.4 billion in 2016.

Net Interest Income for the years ended 31 December 2014, 2015, and 2016 was ,USD 68.7 million, USD 110.48 million and USD 116.47 million respectively, with the annual increases mainly reflecting portfolio growth during the period and diversification into hitherto under-served markets by TDB.

Fees and Commission Income, for the years ended 31 December 2014, 2015 and 2016 was USD 54.9 million, USD 47.9 million and USD 55.0 million respectively. The lower oil prices from USD 54 per barrel in 2014 to USD 35 in 2015 negatively impacted the fees and commission income in 2015. Risk mitigation costs (Risk Down-Selling and Insurance) for the year ended 31 December 2016 amounted to USD 13.1 million compared to USD 15.4 million in December 2015 and USD 12.9million in December 2014. 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 and allows the retention of large clients whose financing requirements may exceed the Bank's lending limits. Income from operations for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 was USD 121.7 million, USD 151.9 million and USD 162.0 million respectively. The growth in trade finance interest income recorded over the period accounts for the improved operational performance.

Operating Expenses for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 were USD 19.2 million, USD 20.9 million and USD 31.5 million respectively. Recruitment of new staff to drive the implementation of various strategic business initiatives, the introduction of performance linked pay incentives and the opening of a regional office in Mauritius account for the increased operating expenses. The annual increases were well below the business volume growth recorded during the period..

Total Comprehensive Income for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 was USD 77.0 million, USD 94.7 million and USD 101.5 million respectively

### Statement of Financial Position

Total assets as at 31 December 2016 amounted to USD 4.3 billion compared to USD 4.1 billion as at 31 December 2015 representing, a 4 per cent. increase. This growth was due to new lending, particularly in respect of trade finance activities. At 31 December 2016, net trade finance loans amounted to USD 2.4 billion, net project finance loans amounted to USD 846.9 million and Cash and Bank balances were USD 594.8 million compared to balances at 31 December 2015 of USD 2.2 billion, USD 698.7 million and USD 643.5 million respectively. As at 31 December 2016, the Bank held investments in Government Securities amounting to USD 214.7 million, which constituted 5 per cent. of the total assets compared to investments at 31 December 2015 of USD 241.8 million which constituted 6 per cent. of the total assets, respectively.

Total liabilities as at 31 December 2016 were USD 3.40 billion compared to USD 3.4 billion as at 31 December 2015. Increases in short-term borrowings to fund the growing trade finance portfolio and increases in account deposits accounted for this increase in liabilities. As at 31 December, 2016, short-term borrowings amounted to USD 2.4 billion compared to USD 2.2 billion at 31 December 2015. Long-term borrowings were USD 794.2 million at 31 December 2016 compared with USD 874.1 million at 31 December 2015.

### Asset Quality and Non-performing Loans

The Bank's level of non-performing loans ("NPLs")<sup>6</sup> fell from 3.04 per cent. at 31 December 2014 to 2.85 per cent. at 31 December 2016. The nominal amount of NPLs increased to USD 95.1 million from USD 78.3 million, an increase of 21 per cent., compared to a 29 per cent. growth in the gross portfolio from USD 2.58 billion at 31 December 2014 to USD 3.33 billion at 31 December 2016 over the same period.

### Loan Recoveries

During the period, in respect of NPLs, the Bank recorded the following loan recoveries. For details on the percentage recovery for NPLs, refer to "Collateral Enforcement" below.

	Year ended 31 December		
	2016	2015	2014
	U.S.\$'000		
Impaired Assets Recovered .....	3,015	6,659	9,043

<sup>6</sup> This measure is an APM. NPLs are loans that are assessed by the Bank as being unlikely to be repaid.



### Off Balance Sheet Transactions

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

The following table sets out the Bank's composition of off-balance sheet items for the years ended 31 December 2014, 2015 and 2016.

	Year ended 31 December		
	2016	2015	2014
		<i>U.S.\$'000</i>	
Letters of credit - Project loans	15,468	7,044	64,490
Letters of credit - Trade loans	322,644	341,875	405,147
Guarantees	10,275	2,042	20,378
<b>Total</b>	<b>348,387</b>	<b>350,961</b>	<b>490,015</b>

## DESCRIPTION OF THE BANK

### Profile of the Issuer

#### *Introduction*

The Bank was established by charter on 6 November 1985 (the "**Charter**"), pursuant to Chapter 9 of the Treaty establishing the Preferential Trade Area ("**PTA**") for Eastern and Southern African States. The PTA has since been transformed into the Common Market for Eastern and Southern Africa ("**COMESA**"), which is a regional economic integration bloc, whose membership currently includes 19 countries in Northern, Eastern and Southern Africa. With the current formation of the Tripartite Free Trade Area ("**TFTA**"), COMESA and two other regional economic communities, namely the East African Community ("**EAC**") and Southern African Development Community ("**SADC**"), the Bank has positioned itself as a leading development finance institution of the TFTA. The Bank is similar in structure to other supranational trade and development banks, such as the African Development Bank, the African Export-Import Bank and the East African Development Bank.

The Bank's vision is to become a world-class financial institution advancing the economic development, integration and prosperity of the Eastern and Southern African Region and its mission is to be at the forefront of extending development capital and services to advance regional growth and integration through customer focused and innovative financing instruments.

The Bank's principal offices are located at Blue Tower, 2nd Floor, Rue de l'Institut, Ebene, P.O. Box 43, Reduit, Mauritius and Chaussee Prince Louis, Rwagasore, P.O. Box 1750 Bujumbura, Burundi. Its telephone and facsimile contacts at those addresses are +257-22-224966 / +257-22-224983 (Burundi) and +230 4676016 / +230 4675971 (Mauritius), respectively. The Bank also has regional offices in Nairobi (Kenya) and Harare (Zimbabwe). Its telephone and facsimile contacts at the Nairobi regional office are +254-20-2712250 and +254-20-2711510 respectively, while its telephone contact for the Harare regional office is +263 (4) 252235.

#### *Brief History of the Bank*

After establishment in 1985, the Bank went through its formative years between 1986 and 1989 during which the principal activities undertaken were capital mobilisation, staff recruitment and establishment of various operational and policy instruments. Lending operations commenced on a limited scale in 1990 and continued until 1994 when political instability in Burundi forced the Bank to relocate its operations to Nairobi, Kenya. Since 1994, the Nairobi regional office has remained the main office for conducting the Bank's business and activities although the principal office of the Bank is located in Bujumbura, Burundi.

In its first decade of lending, the Bank recorded mixed performance in terms of financial outcomes and portfolio quality. Consequently, the Board of Governors ("**BOG**") instituted a change of leadership in 2000 and commissioned a restructuring study by Maxwell Stamp Plc of United Kingdom whose recommendations were successfully implemented between 2001 and 2003.

Besides the leadership changes, other key elements of the Bank's restructuring were the strengthening of corporate governance, institution of checks and balances in the credit processes and the adoption of a new organisational structure. The restructuring resulted in a reconfiguration of the board of directors to allow for an independent chairman to chair board meetings (previously the President also chaired board meetings) and also to allow for the outsourcing of the internal audit function.

In April, 2012, the Bank underwent a leadership succession process which resulted in the incumbent President and Chief Executive, Mr Admassu Tadesse, taking over from Dr Michael Gondwe who retired after serving the maximum two terms of five years each. Following this leadership change, a new five year strategic plan covering the period 2013 to 2017, was approved by the Board of Governors in December, 2012 (the "**Corporate Plan**"). The Corporate Plan aims to reposition TDB as the preferred development bank for the Tripartite Region, a REC which brings together member countries of the COMESA, the EAC and the SADC.

In order to bring its financial services closer to its clients in the Southern African sub region, the Bank opened a regional office in Harare, Zimbabwe in 2008. An additional regional office in Ebene, Mauritius was opened in 2013 to support the Bank's fund management strategic initiative. The funds of the Bank are

currently domiciled in Mauritius and the Bank is currently considering a dual registration in Mauritius, as well as establishing other regional offices in the future.

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' and 'Banque de la ZEP' respectively. At its 32nd Annual Meeting in May 2016, the Bank’s Board of Governors approved the rebranding of the Bank. It will therefore progressively be trading under one trade name as the Trade and Development Bank ('TDB'), with a new logo and a new tagline. The Bank’s legal name, "Eastern and Southern African Trade & Development Bank”, will remain unchanged.

### ***Historic Credit Ratings***

Moody's, Fitch and GCR have accorded the Bank the following ratings from 2013 to 2016:

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
International Rating – Long Term (Moody's).....	Bal	Bal	Bal	Bal
International Rating – Short Term (Moody's).....	–	–	–	–
International Rating – Long Term (Fitch).....	BB	BB	BB	BB
International Rating – Short Term (Fitch).....	B	B	B	B
Local Currency – Short Term (GCR).....	A1+	A1+	A1+	A1+
Local Currency – Long Term (GCR).....	AAA	AAA	AA+	AA+
International Rating – Long Term (GCR).....	BB+	BB+	BB+	BB+

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 2015, Moody's and Fitch revised the Bank's outlook from stable to negative as a result of a rise in loan arrears since late 2014, as well as rapid growth in the Bank's operations. However, in their 2016 ratings, Moody's and Fitch, assigned the Bank a stable outlook whilst, GCR assigned a positive outlook. This reflects the improvement in the Bank's credit quality, and in particular, the clearance of arrears on the facility granted to Zambia.

### ***Membership and share capital***

Following amendments made to the Bank's Charter in January 2016, membership of the Bank has been redefined to comprise:

- (i) Issuer Member States (or their Designated Institutions) and " **Issuer Member State**" means any country which is an Eligible Member State<sup>7</sup>, has acceded to the Charter and membership of the Bank, and is a Shareholder;
- (ii) African Institutions;
- (iii) Other African and non-African states (or their Designated Institutions); and
- (iv) Any African or non-African public or private Institutions or corporate bodies.

The terms and conditions governing the eligibility of each membership shall be determined by the BOG which shall approve the membership of any state (other than the Issuer Member States), body corporate, enterprise or other institution. The BOG determines the eligibility of each membership based on the provisions of the Charter, namely Articles 3 and 5. These provisions outline the composition of the membership of the Bank, allocation of shares and the division of authorised capital stock.

<sup>7</sup> Eligible Member State means any country which has the status of membership of, or any country which is eligible to join the membership of, any of the Regional Economic Communities (RECs) or any other African country that borders a Member State.

The Bank's current members ("**Issuer Member States**") are: Burundi, Comoros, the Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Malawi, Mauritius, Mozambique, Rwanda, Seychelles, Somalia, Sudan, Tanzania, Uganda, Zambia and Zimbabwe. It also has the People's Bank of China and Paritetbank as Designated Institutions of non-regional member countries, and the African Development Bank, the National Pension Fund of Mauritius, Mauritian Eagle Insurance Company Ltd, Rwanda Social Security Board, Seychelles Pension Fund, Africa Reinsurance, PTA Reinsurance, Banco Nacional de Investimento (BNI), National Social Security Fund of Uganda and SACOS Group Limited as institutional shareholders. The paid up capital and shareholding levels are as indicated in the table (under "*Capital Subscriptions*") below.

The Government of Mozambique signed the country's accession to the membership of the TDB in early 2016 and became the 19<sup>th</sup> Issuer Member State. In line with the Bank's strategic focus to expand partnerships and further diversify, a pipeline of banking facilities in favour of government bodies, corporations and commercial entities in Mozambique, DRC Congo, Ethiopia and Uganda has been built.

The Bank does not finance projects, infrastructure or trade finance activity involving either Issuer Member States or enterprises located in Issuer Member States under sanctions imposed by the BOG on account of failing to fulfil capital subscription obligations for an extended period of time. Issuer Member States currently under sanctions imposed by the Bank as determined by the BOG are Eritrea, Somalia and Comoros.

### ***Authorised share capital***

At the 23<sup>rd</sup> Annual Meeting held in Mauritius in June 2007, the BOG approved an increase in the Bank's authorised share capital from USD 544 million to USD 2.0 billion with the par value of each share being USD 22,667. The effective date of this increase was 1 July 2007.

At the 28<sup>th</sup> Annual Meeting held in Lusaka, Zambia, in 2012, the BOG approved an increase in the Bank's authorised capital from USD 2.0 billion to USD 3.0 billion. This increase was achieved through the creation of 220,584 new Class B shares of a par value of USD 4,533.42 each. Following the creation of the Class B shares, the Bank currently has 17,533 and 203,319 unissued Class A and Class B shares respectively.

### ***Subscribed capital***

As at 31 December 2016, the Bank had USD 1.7 billion in subscribed capital: subscribed class B shares and 20 per cent of the subscribed class A shares, or USD 398.8 million in aggregate was payable, leaving USD 1.28 billion as callable capital. Of the payable capital, USD 372.1 million had been paid in as at 31 December 2016. The balance of the payable capital is expected to be paid between 2018 and 2019.

### ***Capital subscriptions***

The following table summarises the subscriptions to the capital stock of the Bank as at 31 December 2016 (amounts of 'payable capital' in the table below include 'paid up capital' and unpaid but payable capital):

As at 31 December 2016						
	% of Total Subscription Value	Subscription Value U.S.\$'000	Callable Capital U.S.\$'000	Payable Capital U.S.\$'000	Paid Up Capital U.S.\$'000	% of Total Paid Up Capital
Burundi.....	1.9%	31,847	25,478	6,369	6,369	1.71%
Comoros.....	0.0002%	3,672	2,938	734	356	0.10%
Djibouti.....	0.5%	8,069	6,456	1,614	1,614	0.43%
DR Congo.....	7.2%	121,042	96,833	24,208	12,249	3.29%
Egypt.....	8.3%	138,450	110,760	27,690	27,690	7.44%
Eritrea.....	0.3%	5,440	4,352	1,088	622	0.17%
Ethiopia.....	8.3%	138,450	110,760	27,690	27,690	7.44%
Kenya.....	8.3%	138,450	110,760	27,690	27,690	7.44%
Malawi.....	2.0%	34,227	27,382	6,845	6,845	1.84%
Mauritius.....	3.9%	65,689	52,551	13,138	13,138	3.53%
Mozambique.....	3.0%	50,008	40,003	10,001	2,000	0.54%
Rwanda.....	2.3%	39,237	31,389	7,847	7,379	1.98%
Seychelles.....	0.4%	6,981	5,585	1,396	1,396	0.38%
Somalia.....	0.4%	7,208	5,766	1,442	825	0.22%
Sudan.....	7.1%	119,614	95,691	23,923	23,923	6.43%
Tanzania.....	8.0%	133,939	107,151	26,788	26,788	7.20%
Uganda.....	6.2%	103,520	82,816	20,704	18,374	4.94%
Zambia.....	7.3%	121,699	97,359	24,340	23,824	6.40%
Zimbabwe.....	8.6%	143,641	114,913	28,728	28,728	7.72%
<b>NON REGIONAL MEMBER COUNTRIES</b>						

As at 31 December 2016						
	% of Total Subscription Value	Subscription Value U.S.\$'000	Callable Capital U.S.\$'000	Payable Capital U.S.\$'000	Paid Up Capital U.S.\$'000	% of Total Paid Up Capital
China .....	6.2%	103,788	70,522	33,266	33,266	8.94%
Belarus .....	1.5%	25,478	20,382	5,096	3,095	0.83%
<b>INSTITUTIONAL MEMBERS</b>						
AfDB .....	5.5%	92,880	62,216	30,664	30,664	8.24%
African Reinsurance Corporation .....	0.2%	3,432	—	3,432	3,432	0.92%
Banco Nacional De Investiment .....	0.2%	3,908	—	3,908	3,908	1.05%
Mauritian Eagle Insurance Company Limited .....	0.1%	1,224	—	1,224	1,224	0.33%
National Pension Fund of Mauritius .....	0.5%	7,856	—	7,856	7,856	2.11%
National Social Security Fund Uganda .....	0.8%	12,821	—	12,821	12,821	3.45%
PTA Reinsurance Company .....	0.2%	3,781	—	3,781	3,781	1.02%
Rwanda Social Security Board (RSSB) .....	0.6%	9,289	—	9,289	9,289	2.50%
Sacos Group Limited .....	0.03%	549	—	549	549	0.15%
Seychelles Pension Fund .....	0.3%	4,665	—	4,665	4,665	1.25%
	<b>100.0%</b>	<b>1,680,849</b>	<b>1,282,063</b>	<b>398,786</b>	<b>372,050</b>	<b>100.00%</b>

To date, the Bank has nine new Class B institutional investors - four pension funds, four insurance and re-insurance companies and one other specialised financial institution. Notably, all of these were African institutional investors. The nine new institutional investors, who invested in Class B shares, are: Rwanda Social Security Board; Seychelles Pension Fund; Africa Reinsurance; Banco Nacional de Investimento; PTA Reinsurance Company; National Pension Fund of Mauritius; Mauritian Eagle, National Social Security Fund of Uganda and SACOS Group Limited. Two existing shareholders African Development Bank and People's Bank of China increased their shareholding by investing in Class B Shares. In 2013, a new member, Paritetbank of Belarus (a wholly-owned subsidiary of the Central Bank of Belarus), invested in Class A shares. Other existing Class A shareholders such as Rwanda, Zambia and Mauritius chose to take up the additional shares offered to them in Class A shares. In 2016, Mozambique became the nineteenth member country of the Bank. No single shareholder has dominant voting rights. None of the largest shareholders hold more than 10 per cent.

### The Charter

The Charter which is binding on all Issuer Member States 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.

As set out in Article 4 of the Charter, the objectives of the Bank, among other things, are to:

- provide financial and technical assistance to promote the economic and social development of Issuer Member States taking into account the prevailing varying economic and other relevant conditions within the Issuer Member States;
- promote the development of trade among Issuer Member States conducted in accordance with the provisions of the COMESA Treaty by financing, where appropriate, activities related to such trade;
- further the aims of Issuer Member States by financing, wherever possible, projects designed to make the economies of the Issuer Member States increasingly complementary to each other;
- supplement the activities of national development agencies of the Issuer Member States by joint financing operations and by the use of such agencies as channels for financing specific projects;
- co-operate, within the terms of the Charter, with other institutions and organisations, public or private, national or international, which are interested in the economic and social development of the Issuer Member States; and
- undertake such other activities and provide such other services as may advance the Bank's objectives which for the avoidance of doubt and without limiting the generality of the foregoing includes the provision of finance to, and the making of investments in, any African or non-African public or private institution or corporate, whether or not the same is a Member, where the Board of Directors is of the view that to do so may advance the objectives of the Bank.

These strategic objectives are achieved through the provision of project finance (which includes infrastructure finance) and trade finance, which are funded by the Bank's ordinary resources. Special operations are financed through funds from bilateral and multilateral donor institutions as well as from the Bank's own funds. Ordinary resources and special operations are further explained under "*Use of Resources*" below.

Article 36 of the Charter provides that a member of the Bank which is an Issuer Member State may not withdraw from the Bank. In addition, subject to the provisions of the Charter and any regulation made as a supplement thereto, any member of the Bank other than an Issuer Member State wishing to withdraw from the Bank shall give to the President one year's written notice of its intention to withdraw and at the end of such year shall, if such notice is not withdrawn, cease to be a member of the Bank.

The Charter may be amended by a resolution of the Board of Governors approved by a two-thirds majority of the total voting power of the Bank's Board of Governors including at least two thirds majority of the votes of Shareholders which are Issuer Member States or African Institutions.

### **Voting**

The voting power of each Issuer Member is equal to the number of shares of the capital stock of the Bank held by that Issuer Member **provided, however, that** for the Issuer Members in arrears on their paid-in shares the voting powers will be reduced in the proportion that paid up amounts bears to the unpaid amount.

#### ***Voting in the Board of Governors***

- (a) each Governor is entitled to cast the number of votes of the Issuer Member State or member which appointed him and which he represents; and
- (b) except as otherwise expressly provided in the Charter all matters before the Board of Governors shall be decided by a majority of the votes present at the meeting.

#### ***Voting in the Board of Directors***

- (a) each director shall be entitled to cast the number of votes of those members of the Bank whom he represents, which votes need not be cast as a unit;
- (b) notwithstanding paragraph 3(a) of Article 29 of the Charter, the business of the Board of Directors will initially be decided on a show of hands at which point the President and each independent director shall have one vote each as shall all the other Directors. The voting provided for in paragraph 3(a) of Article 29 of the Charter shall only apply if prior to or following such vote by a show of hands one of the other Directors so request it at the same meeting at which the vote is being taken; and
- (c) except as otherwise expressly provided in the Charter all matters before the Board of Directors shall be decided by a majority of the total votes of the Issuer Members of the Bank.

### **Borrowing, investment and other powers of the Bank**

As per Article 21 of the Charter:

- 1. The Bank is empowered to borrow funds in the manner the Board of Directors may deem appropriate, as guided by sound banking principles, to achieve the objectives of the Bank, *inter alia*
  - (i) whenever concessional loans are available, the Bank shall give preference to concessional funds;
  - (ii) the Bank may borrow funds from any source for the purpose of financing development and trade;
  - (iii) the Bank may obtain lines of credit and special funds for specific project and programmes; and
  - (iv) the Bank may accept deposits from other institutions on conditions to be determined by the Board of Directors.

2. Subject to the approval of its Board of Directors, the Bank shall be empowered to invest and in so doing it is guided by the following:
  - (i) the Bank may invest surplus funds as the Board of Directors may determine;
  - (ii) the Bank's policy on investment shall be intended to ensure maximum returns on its investments as well as sufficient liquidity for its operations;
  - (iii) the Bank may invest funds not immediately needed in its operations in such obligations as it may determine and invest funds held by the Bank for pension or similar purposes in marketable securities, but the Bank shall ensure that any funds which it may decide to invest in the territories of the Issuer Member States shall be invested, as nearly as possible in equal proportions in each Issuer Member State;
  - (iv) the Bank may guarantee securities in which it has invested in order to facilitate their sale; and
  - (v) the Bank may enter into joint ventures with other regional and international institutions.
3. The Bank charges for any technical advice and assistance it provides.
4. The Bank studies and promotes investment opportunities within COMESA.

#### **Use of Resources**

The resources and facilities of the Bank shall be used only within the Issuer Member States or such other locations that the Board of Directors considers will serve to implement the objectives of the Bank as set out in the Charter. When approving the use of the resources and facilities of the Bank in locations other than that of an Issuer Member State, the Board of Directors shall take account of the need, wherever practical to do so, to preserve the immunities and privileges of the Bank.

#### **Operations of the Bank**

The operations of the Bank consist of ordinary operations and special operations. Ordinary operations are those financed from the Bank's ordinary capital resources, being:

- (i) the authorised capital stock of the Bank subscribed to pursuant to the Charter;
- (ii) funds raised by borrowing of the Bank by virtue of powers conferred to it, on which calls may be made on the amount subscribed in callable shares in the capital stock of the Bank;
- (iii) funds received in repayment of loans or guarantees made with the resources specified in paragraphs (i) and (iv) and income derived from lending and guaranteeing; and
- (iv) other funds or income received by the Bank which do not form part of its Special Funds as defined below.

The ordinary operations shall include, as a general policy, providing loans and guarantees to public and private institutions. When loans are made to autonomous private institutions, the Bank may seek guarantees from the governments concerned.

Special operations are those operations other than ordinary operations of the Bank. Special operations are financed from resources other than ordinary resources ("**Special Funds**"). The ordinary capital resources and the Special Funds of the Bank shall at all times and in all respects be held, used, committed, invested or otherwise disposed of entirely separately from each other.

#### **Operational Limitations**

To protect its capital stock, the Bank's Charter sets out the following operating limits:

- (i) The total amount outstanding of loans, equity investments and guarantees in the ordinary operations shall not, at any time, exceed the Bank's ordinary capital resources.

- (ii) The total amount invested in equity capital out of ordinary capital resources shall not exceed 50 per cent. of the aggregate amount of the unimpaired capital actually paid in at any given time, together with the reserves and surplus included in its ordinary capital resources.
- (iii) In the case of guarantees given by the Bank in the ordinary course of operations, the total amount guaranteed shall not exceed 25 per cent. of the aggregate amount of the actual unimpaired paid up capital, together with the reserves and surplus included in its ordinary capital resources.

### **Callable Capital**

Article 7(4) of the Charter provides that payment of the amount subscribed on callable shares in the capital stock of the Bank shall be subject to call on the recommendations of the Board of Directors to the Board of Governors from time to time but such calls shall only be made as and when the amount thereof shall be required by the Bank:

- (i) to repay monies raised by the Bank in the capital markets borrowed or otherwise acquired by the Bank for the purpose of making or participating in loans; and
- (ii) to pay or repay any loan or loans guaranteed in whole or in part by the Bank in furtherance of its objectives.

The Bank has never made a call on its callable capital. The total amount of callable capital amounted to USD 1.28 billion as at 31 December 2016. The Bank has procured credit enhancement provided by a five-year insurance policy for callable capital instituted on behalf of the Bank's non-investment grade shareholders, which it purchased from a syndicate of highly rated private international credit insurers. The Bank has taken steps to strengthen the quality of shareholder support. Callable capital provides an additional buffer and demonstrates shareholder commitment in the event of financial stress and also acts as a guarantee to the Bank's borrowings. To strengthen the Bank's shareholder support, TDB recently concluded an insurance package for USD 625 million in a bid to credit enhance callable capital. Based on the 2016 year-end financials, this would effectively raise callable capital from investment grade shareholders to about 70 per cent. (from its current level of 16 per cent.) and debt cover to about 26 per cent. (from its current level of 6.1 per cent.). This will improve the average rating of key shareholders from 'B-' to at least 'BBB'. Credit Rating Agencies consider this ongoing initiative to be credit positive.

### **Dividends**

Article 22(1) of the Charter provides that the Board of Governors shall determine annually what part of net income of the Bank shall be allocated, after making provisions for reserves, to surplus and what part, if any, shall be distributed among the Shareholders of the Bank.

The Issuer has put in place a dividend policy that allows for up to 25 per cent. of net profits earned in a financial year to be awarded as a dividend. In accordance with the Charter of the Issuer, Class A Shares shall represent at least two thirds of equity at all times. In accordance with the Bank's policy, Class A Shareholders are not entitled to receive a cash dividend but have the option of applying their dividend entitlement either to (i) any subscription instalments which are not yet due and payable or (ii) the allotment of additional Class A Shares **provided that** such Member is not in arrears on the subscribed capital, the General Capital Increase or any other scheme of capitalisation adopted by the Board of Governors. Class B Shareholders may elect whether to receive any such dividend as cash or whether to attribute any such dividend to the acquisition of additional shares. A dividend award is declared by the Board of Governors on the recommendation of the Board of Directors.

### **Legal Status, Capacity, Immunities and Privileges**

The Bank possesses full legal personality and, in particular, full capacity to enter into contracts, acquire and dispose of movable and immovable property, and to institute legal proceedings.

Arising from its mandate of promoting private sector development through co-financing and syndication arrangements, the Bank has not sought to enjoy preferred creditor status in any of its Issuer Member States. Under the Charter, the Bank enjoys various immunities and privileges including immunity from every form of legal process except in cases arising out of the exercise of its borrowing powers, when it may be sued only in a court of competent jurisdiction in the territory of an Issuer Member State in which the Bank has its principal office, or in the territory of an Issuer Member State or non-Issuer Member State where it has



appointed an agent for the purpose of accepting service or notice of process or has issued or guaranteed securities. Such immunities and privileges also extend to the funds of the Bank as they are more than 50 per cent. owned by the Bank. However, the Bank will waive its immunity in respect of the Programme and Notes issued thereunder.

Article 43(1) of the Charter provides that:

- (i) Any Issuer Member State that accedes to the membership or benefits from Bank funding shall first accede to the Agreement on Privileges and Immunities adopted by the PTA Issuer Member States in December 1984 and shall take immediate steps to ratify and implement the same under that Issuer Member State's domestic law.
- (ii) Non-COMESA African states when joining the Bank shall in the Deed of Accession to the membership of the Bank undertake to (i) vest the Bank with the same immunities, privileges and exemptions provided for in the Charter and (ii) recognise the Bank's Charter in their domestic law.

Article 43(7) of the Charter provides that:

*"The Bank (a) may hold assets of any kind and operate accounts in any currency; and (b) shall be free to transfer its assets from one country to another and to convert any currency held by it into any other currency without being restricted by controls, regulations, restrictions or moratoria of any kind."*

The property and assets of the Bank shall, wherever located and by whoever held, be immune from all forms of seizure, attachment or execution before the delivery of final judgment against the Bank.

These immunities are granted in the interests of the Bank. However, the President may waive them to such extent and upon such conditions as he may determine in cases where such waiver would, in his opinion, further the interests of the Bank.

### **Regulatory Supervision & Internal Audit**

As a supranational institution, the Bank is not subject to regulatory supervision by a national body including with regard to capital adequacy. The conduct of the Bank's operations is vested with the Board of Directors which closely monitors directly or through its Audit and Risk Committee the Issuer's performance, risk profile and capital adequacy.

The Bank's capital management policy aims to maintain a capital adequacy ratio of at least 30 per cent. (as at 31 December 2016 the capital adequacy ratio of the Bank was 37 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**").

In order to reinforce its self-regulatory processes, the Bank has an internal audit coordinator who works closely with the outsourced internal auditors of the Bank – KPMG , Nairobi. The mandate and scope of KPMG's reviews is determined by the Board through its Audit and Risk Committee. KPMG's reviews are conducted on a quarterly basis or as often as the Board may require.

The Bank's Compliance and Risk Management Department ("**CRMD**") which reports directly to the Board further reinforces the Bank's self-regulatory processes. A detailed description of the role and functions of CRMD is provided in the section headed *"Corporate and Management Information"*.

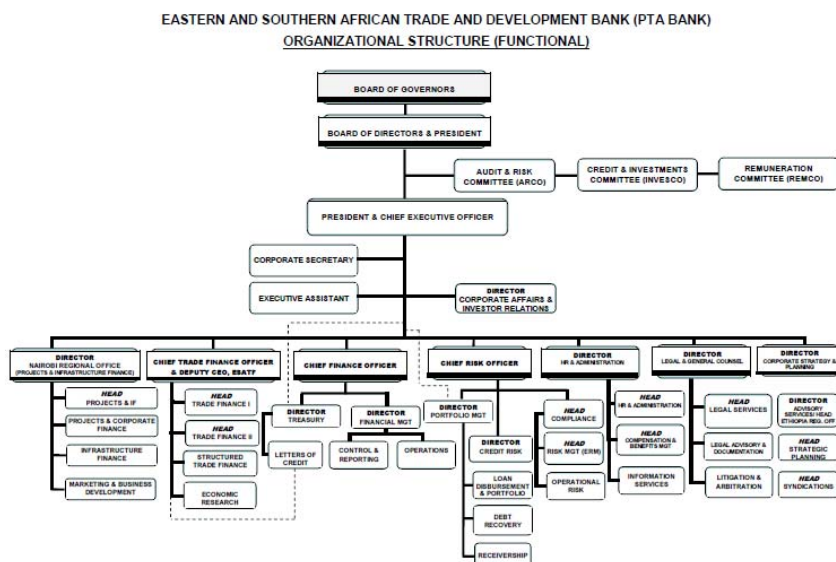
### **Organisation Structure**

The principal operating activities of the Bank are business development, portfolio management, finance and administration. To ensure effective oversight of these activities, the Bank's operations are organised into eight independent but closely aligned departments namely: Projects and Infrastructure; Trade Finance; Portfolio Management; Finance; Human Resources and Administration; Legal Services and, Compliance and Risk Management; Treasury; and Corporate Affairs and Investor Relations, as depicted in the following organisation chart. The strengthened management team structure approved by the Board includes

a Chief Operating Officer, a Chief Financial Officer and a Chief Risk Officer, along with Directors and Unit Heads.

## EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB)

### ORGANISATIONAL STRUCTURE (FUNCTIONAL)



### Board of Governors

The BOG is the supreme governing body of the Bank in whom all powers of the Bank are vested. Each Shareholder of the Bank appoints one Governor and one alternate, with the alternate only voting in the absence of his Governor. The Governor or the alternate exercises voting powers on behalf of the Issuer Member for which he is a nominee.

The BOG generally comprises Ministers of Finance or Ministers of Economic Planning from Issuer Member States, as well as appointees by members of the Bank other than the Issuer Member States.

The BOG, which has delegated executive powers to the Board of Directors, ordinarily meets once a year. The current Chairman of the BOG is Ambassador Claver Gatete, Minister of Finance and Economic Planning, Republic of Rwanda.

Although it has delegated executive powers to the Board of Directors, certain specific powers, such as the increase or decrease of the Bank's authorised capital, appointment of the President, amendment of the Charter and approval of the Bank's audited accounts, are retained by the BOG.

Details of the members of the BOG are provided under the Section headed "*Corporate and Management Information*".

### Board of Directors

The Board of Directors (the "**Board**") has responsibility for the general conduct of the ordinary operations of the Bank and, in this regard, exercises all the powers delegated to it by the BOG to discharge its responsibility.

The Board consists of not more than ten non-executive Directors (in addition to the President) appointed by the BOG as follows:

- (a) five Directors and their alternates for the Issuer Member States following their nomination by five constituencies formed by countries in groups agreed by the BOG;
- (b) one Director nominated by non-African states;

- (c) one Director nominated by African Institutions; and
- (d) two independent Directors selected by the Remuneration and Nomination Committee of the Board of Directors and confirmed by the Chairman of the BOG.

The President is a member of the Board of Directors but is not entitled to appoint an alternate.

The Board meets once every three months and, in addition to these scheduled meetings, as often as the business of the Bank may require. The meetings are held at the Bank's principal office or regional office locations or at any other location specified in the notice convening the meeting.

In addition to the powers provided for it expressly in the Charter and the powers delegated to it by the BOG, the Board shall be responsible for the conduct of the general operations of the Bank and, in particular:

- (a) appoint such technical or other sub-committees as it deems necessary;
- (b) determine the organisation and offices of the Bank and prescribe the responsibilities attached to the administrative and professional officers of the Bank;
- (c) approve the budget of the Bank;
- (d) prepare the work of the BOG;
- (e) in conformity with the general directive of the BOG, take decisions concerning particular loans, guarantees, investments in equity capital and borrowing of funds by the Bank and on similar financial transactions;
- (f) determine the rates of interest for loans, commissions and fees for guarantees and other financial transactions of a similar kind; and
- (g) submit the accounts for each financial year and annual report for approval to the BOG at each annual meeting.

Mr. Mohamed Kalif is currently acting as the Chair of the Board. The members of the Board are set out in *"Corporate and Management Information"*.

### **President of the Bank**

According 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. The President shall be the Chief Executive and legal representative of the Bank and shall conduct, under the direction of the Board of Directors, the current business of the Bank. The President is responsible for, among other things, the organisation, appointment and dismissal of officers and staff in accordance with the regulations prescribed by the Board.

The President shall hold office for a term of five years renewable only once at the discretion of the BOG. The Board may on a majority of two thirds of the total voting power at the meeting recommend the suspension of the President and the appointment of an acting President. However, the BOG has the powers to dismiss and suspend the President by a simple majority of the voting power of the Issuer Members present upon recommendation of the Board made pursuant to a decision of the Board taken by a majority of two thirds of the total voting power at the meeting. The President shall also be a national of an Issuer Member State.

The current President, Mr Admassu Tadesse, was appointed in April 2012, his initial term will finish in 2017 and he has been renewed for a second term of five years. Previously, Mr. Tadesse was Executive Vice-President at the Development Bank of Southern Africa in Johannesburg, responsible for international finance and corporate strategy, where he served for 10 years. Prior to that, he worked as an advisor, analyst and specialist, with various international funds and organisations in New York. Mr. Tadesse holds an MSc from the London School of Economics and an MBA from Wits Business School in South Africa. He is also an alumni of Harvard Business School and the University of Western Ontario where he has also trained and qualified.

Mr. Tadesse has served on several boards, trusts and industry bodies in Africa and internationally. He has worked internationally for over 35 years, in ten countries across three continents, including 10 years in the US, 10 years in South Africa and 5 years in Kenya and Burundi. He is conversant in French and Arabic, and fluent in English and Amharic, his mother tongue. He is the recipient of a number of honours and awards.

### **Authorisation**

The Bank has obtained all necessary consents, approvals and authorisations in connection with the issue of the Notes, including but not limited to a resolution of the Board of the Bank passed on 11 November 2016.

### **Material Contracts, Acquisitions and Disposals of Assets**

The Bank has entered into various agreements with respect to the Programme, which are available for inspection at the Bank's registered offices.

No other material contracts have been entered into by the Bank other than those entered into in the ordinary course of the Bank's business.

### **Material Litigation**

Save as disclosed below, to the best of the Bank's knowledge there is no material litigation, prosecution or other civil or criminal legal action in which the Issuer or any of its Directors is involved, which if found against the Issuer would affect the credit standing of the Issuer or its capability to perform under the Programme. With respect to the matters disclosed below, no provisions have been made as, in the opinion of the Board and the Bank's legal counsel, it is unlikely that any significant loss will arise.

#### **1. CONCORP V. TDB**

The Bank was sued by Concorp seeking damages for breach of contract and wrongful sale of its mortgaged assets in Uganda and loss of business of up to USD 18,000,000. The Bank's defence is premised on a written agreement between the two parties in which it was agreed that all disputes between the parties be settled by an arbitration tribunal in Sudan. The tribunal was set up and all disputes were referred to the said tribunal. Full hearings were concluded and an award was given in favour of the Bank in 2009. Having lost the case in Sudan, Concorp is attempting to revive the same case in Uganda; the Bank considers this to be an abuse of court process due to the conclusion of the above arbitration. At the first hearing the Bank informed the court that any dispute between the parties is to be referred to arbitration in line with the written agreement. On 6 March 2015 the court agreed with the Bank's position and directed Concorp to refer the dispute to arbitration. This however is unlikely to happen as arbitration has previously taken place and the Bank holds an award in its favour.

Nevertheless, on 13 March, 2015, Concorp filed a Notice of Appeal to the Ugandan Court and applied for the court record to enable it to prepare and file its Memorandum of Appeal for subsequent service on the Bank. This Notice of Appeal was served on the Bank on the 16 of March, 2015.

Concorp is yet to file its Memorandum of Appeal.

#### **2. GUARANTORS OF TROPICAL FOODS LIMITED V. PTA BANK AND OTHERS**

The Bank made an export credit finance facility available to Tropical Foods Limited of USD 250,000 for the purchase and export of fish. The facility was secured by third party mortgages from certain guarantors. Tropical Foods Limited defaulted and the Bank called on the loan. Tropical Foods Limited proceeded to file an arbitration claim against the Bank claiming loss of business due to delayed and partial disbursement having been made. The arbitration claim was eventually withdrawn following Tropical Foods Limited's failure to pay the arbitration fees. Subsequently one of the guarantors agreed to pay the debt and to have the securities and Tropical Foods Limited's debt transferred and assigned to him (or his nominee) respectively. The Bank was

paid and subsequently executed the transfer and assignment documents in favour of the transferee guarantor, Corfu Investments Limited.

Three other guarantors are now severally challenging the transfer and assignment on grounds that there is a pending arbitration. They have each applied for injunctions to prevent the perfection of the transfer. The Bank's defence is that there is no arbitration case as the same was withdrawn on account of Tropical Foods Limited having failed to pay the arbitration fees. On withdrawal of the claim, Tropical Foods Limited received a refund of its arbitration fees paid.

In March 2015, the Court directed (with the consent of all the parties) that the three cases raised by the Guarantors be consolidated.

In the meantime, the Court heard one of the applications on 27 May 2016 and dismissed the application for injunction with costs.

The court heard the second application for injunction on 7 July 2016 and this was determined on 19 August 2016. The court granted the injunction ordering that the statutory sale of the property subject matter of the proceedings cannot proceed until the main matter is fully determined.

The third injunction application remains to be heard on notice.

On 25 October 2016, the Bank's co-defendant, Corfu Investments Limited, filed an application seeking, *inter alia*, an order dismissing the main matter as against it. The Court received all submissions on 13 December 2016 and has yet to rule on this matter.

### **3. KABİYET AGRO V. TDB & ANOTHER**

The Bank placed Kabiye Agro under receivership following Kabiye's continued default under a term loan advanced to it by the Bank. Kabiye is now seeking to restrain the Bank and the Bank's receiver from selling its assets, instead requesting that Kabiye be sold as a going concern to realise a higher sale value. The Bank's defence is that there is no cause of action because the debt has not been denied, the actions of the Bank and its receiver cannot be challenged unless the same are against the law (and no such challenge has been raised by Kabiye).

The injunction application was heard on 17 March 2015 wherein the court directed that the parties file written submissions. The ruling was delivered in February 2016 in favour of Kabiye Agro. The hearing of the main application is yet to be fixed.

### **4. EAST AFRICAN FOAM CASE**

East African Foam sued the Bank and the Bank's receiver for wrongful sale of its assets in Uganda and now seeks damages of approximately USD 850,000 plus loss of earnings of USD 20,000 per month. The Bank denied the claim as it sold the property following East African Foam's default on its loan repayment and in line with due process. The court found in favour of the Bank.

Subsequently, the plaintiff served the Bank with a Notice of Appeal on 17 July, 2013, and a Memorandum of Appeal on 9 December, 2013.

The matter is to be heard on notice.

### **5. EXCEL TEXTILES MILLS ZAMBIA LIMITED V. TDB**

Excel Textiles Mills Zambia Limited (the "Claimant") has declared a dispute (the Dispute) against the Bank (i) contesting being indebted to the Bank in the sum of USD 2,747,634.71 and (ii) claiming the sum of USD 6 million being amounts allegedly due from the Bank to Excel Textiles Mills Zambia Limited. The Bank disputes the claim.

The Bank made available banking facilities to Excel Textiles Mills Zambia Limited pursuant to facility agreements dated 20 December 1991 and 20 April 1993 respectively for (i) UAPTA 1,700,000 (equivalent to USD 2,400,000) and (ii) UAPTA 200,000 (equivalent to USD 280,000).

The Dispute will be determined by a three arbitrator tribunal (the "Arbital Tribunal"). On 9 June 2016 and 15 September 2016, the Claimant and the Bank appointed Hon. Justice Mathew Ngulube (Rtd) and Hon. Justice Mark Albert Wood as their respective arbitrators. The two arbitrators so appointed are in the process of appointing the chairman to complete the composition of the Arbital Tribunal.

The dates for the prehearing conferences, discovery, hearings and rendering of the arbitration award have not yet been determined.

#### *External Auditors*

Ernst & Young of Kenya Re Towers, member of ICPAK, whose registered address is at Upper hill, off Ragati Road, P.O. Box 44286-00100 Nairobi ("**Ernst & Young**") have audited and rendered an unqualified audit opinion on the accounts of the Bank for the years ended 31 December 2013 through to 31 December 2016.

As at the date of this Base Prospectus, the external auditors of the Bank are Ernst & Young.

#### *Activities of the Issuer*

In accordance with Article 13 of the Bank's Charter, the Bank may provide finances or facilitate financing in any one of the following ways to any agency, entity or enterprise operating in the territories of the Issuer Member States:

- (a) by making or participating in loans with its unimpaired paid-in capital, reserves and undistributed surplus or with the unimpaired Special Funds;
- (b) by making or participating in loans with funds raised by the Bank in the capital markets or borrowed or otherwise acquired by the Bank for inclusion in its ordinary capital resources;
- (c) by the investment of funds referred to in paragraphs (a) and (b) above in the equity capital of an institution or enterprise;
- (d) by guaranteeing, in whole or in part, loans made by others for economic development or for the promotion of trade within the Common Market;
- (e) by purchasing, selling, dealing in or trading securities, notes, bills of exchange, bankers' acceptances or any other negotiable instruments, species and currencies and loans or analogous instruments as any principal, broker or agent;
- (f) by making or receiving payments in any currency and for that purpose to maintain accounts in respective financial centres and take membership of associations, organisations or institutions (whether bodies corporate, partnerships or otherwise) for the transmission, netting or settlement of payments;
- (g) by issuing or giving guarantees or letters of credit, accepting, endorsing or availing bills of exchange, notes, bankers' acceptances or other negotiable instruments;
- (h) by undertaking activities described in paragraphs (e), (f) and (g) above by borrowing or raising funds through issuance of securities, whether listed or unlisted, private placements, loans and the issuance of certificates of deposit; and
- (i) by such other finance instruments as may be determined by the Board from time to time.

The Bank may also provide refinancing and accept, endorse, discount and re-discount the trade bills of the Issuer Member States. Further, it may provide export credit insurance and reinsurance of export credit organisations where they exist in Issuer Member States.

### ***Eligible Goods and Transactions – general***

Under its projects and infrastructure finance activities, the Bank provides medium to long term financing to commercial projects that: (i) are incorporated and domiciled in an Issuer Member State (ii) fall within the Bank's identified priority sectors as described below (iii) are commercially viable (iv) are environmentally sustainable and technically feasible and (v) are able to generate sufficient cash flows to repay the Bank's loan.

Through its trade finance activities, the Bank aims to facilitate export and import trade flows from, to and between its Issuer Member States by providing short-term (usually up to one year), structured and self-liquidating financing facilities.

As with most development financial institutions, the Bank does not finance projects, infrastructure or trade finance activity involving:

- military arms, weaponry or ammunitions;
- production of or trade in activities deemed or legislated as illegal in its Issuer Member States or under international conventions and agreements;
- areas which have been notified by host countries or international legislation and deemed to have high biodiversity and/or cultural value, or any other activities that leads to substantial destruction of the environment;
- trade in wildlife or wildlife products regulated under the Convention on Trade in Endangered Species of Wild Fauna and Flora; and
- production or trade in chemicals, pesticides, herbicides and pharmaceuticals subject to national and international phase outs or bans.

### **Product Overview – Project and Infrastructure Finance ("PIF")**

The Bank supports public and private sector projects that are commercially oriented in any viable economic sector or industry. The main objective for PIF activities is the provision of funding to projects that promote infrastructure development and economic integration of the countries in the region (COMESA, SADC, EAC, IGAD and IOC). Funding of financially viable projects within Issuer Member States is provided in varying forms, including medium and long-term loans, straight and quasi-equity, Sharia Compliant facilities and guarantees. PIF aims to mobilise resources from various long term financiers through syndication transactions with commercial and development financial institutions, as well as export credit agencies. The PIF functions involve business development, investment appraisal, and structuring and client relationship management.

### ***Eligible Goods and Services***

The Bank finances transactions in all traded goods and services ("**Eligible Goods**") except armaments, ammunition and other military equipment, psychotropic drugs or narcotics, all items for which international trade is prohibited for environmental reasons or by international conventions, and pornographic and obscene materials. In addition, the Bank takes great care to respect the trade and other related policies of Issuer Member States.

### ***Eligible Sectors under Project Finance***

The Bank provides funding to public and private sector projects in various sectors including the following:

- Agri-business and Forestry;
- Information & Communication Technology ("**ICT**");
- Manufacturing and Heavy Industries;
- Mining and Quarrying;



- Hospitality, Tourism and Hotels;
- Banking and Financial Services;
- Transport and Logistics: Roads, Pipes, Rail, Aviation, Ports, Airports and Marine Services;
- Oil and Gas;
- Energy: Independent Power Producers, Emergency Power, Hydro Power, Bio-Fuels and Clean Energy;
- Real Estate: Commercial, Retail and Residential;
- Education: K-12, VCT and Tertiary; and
- Health Services: Primary, Secondary and Tertiary Care Facilities.

### ***Priority Sectors***

The Bank has identified certain key priority sectors of focus:

- *agri-business*: which includes agro-processing, logistics, agri-related infrastructure (such as silos and warehouses); and
- *infrastructure*: which includes in energy, transportation, supportive infrastructure (such as cement and steel) and social infrastructure (including education and health).

### ***Maturities***

PIF provides medium to long term funding. The medium term funding is typically between a period of 3 to 5 years, inclusive of a grace period. The long term funding can be up to 15 years, inclusive of a grace period.

### ***Lending Instruments***

Under its projects and infrastructure financing activities, the Bank employs either one or a combination of the following modes of financing:

#### ***1. Direct Project and Corporate Finance***

This accounts for the largest portion of the Bank's portfolio and involves direct funding to the Bank's clients, with or without the use of third parties. Although such funding is often done through straight debt, the Bank also provides funding through mezzanine and quasi-equity structures. Given its developmental mandate, the Bank's investments often complement funding from other financial institutions:

- *Syndications*: Resource mobilisation is a strategic priority for the Bank. The Bank invests through syndicated facilities, either as the mandated lead arranger or as a participant together with other reputable financial institutions. This enables the Bank to support large scale investments that may exceed its Single Obligor Limits as well as to catalyse the investment by others in its investments.
- *Parallel Lending Local or International Financial Institutions*: The Bank collaborates with other financial institutions as a parallel lender to close the financing gap. This can be on common or differing terms, depending on the nature of the investment.

#### ***2. Lines of Credit ("LOCs") to Financial Intermediaries***

The Bank provides lines of credit to financial intermediaries/national development agencies as a means of providing indirect funding to sub-borrowers. The Bank is able to provide funded and unfunded LOCs. Many of these LOCs are for Small and Medium Sized Enterprises ("SMEs")

whose borrowing requirements are below the Bank's minimum investment threshold and thus do not qualify for direct funding from the Bank.

3. *Guarantees*

The Bank provides guarantee facilities to eligible entities in Issuer Member States to enable them to access funding from institutions that are unable to fund the entities directly. Under these transactions, the Bank takes the borrower's credit risk and secures itself against the collateral of the borrowing entity whilst the lending institution takes the Bank's risk.

4. *Lease financing*

Under lease financing, the Bank finances equipment/machinery and enters into a rental agreement with the lessor that obliges the lessee to purchase the leased asset at the end of the agreement. The lease eases the cash flow burden on the lessee as the lessee is only required to pay rentals.

5. *Equity Participation*

In exceptional cases, the Bank takes limited equity stakes in certain strategic enterprises, provided the equity stake does not exceed 15 per cent. Currently, the Bank's strategic equity portfolio consists of African Export Import Bank, ZEP-Re (PTA Reinsurance Company), the African Trade Insurance Agency, Tononoka Steels Limited, Tanruss Investments Limited, Pan African Housing Fund, Aureos East Africa and Gulf African Bank.

## **Product Overview – Trade Finance**

Under trade finance, the Bank facilitates export and import trade flows from, to and between its Issuer Member States by providing tailor-made financing solutions. The Bank's trade finance operations include amongst others:

- (i) the financing of either short or medium term in-land or cross border trade using one or more financing instruments;
- (ii) short to medium term financing tenures reflecting the underlying transaction cycle. In general, short-term tenures shall not exceed 12 months and medium term tenures shall not exceed 36 months;
- (iii) offer structured/self-liquidating transactions that are supporting specific underlying transactions.

Using a variety of financing instruments, the Bank provides trade finance support to the following, among other sectors: manufacturing; agriculture; tourism; mining; infrastructure and petroleum and energy sectors. The financing instruments used include pre- and post-shipment loans, import finance facilities, guarantees, performance and bid bonds, letters of credit, structured trade and commodity finance facilities, securities-backed facilities, bills and invoice discounting, asset based lending and bridging facilities.

## ***Loan Application Process***

When providing loans, the business cycle consists of three distinct phases including pre-investment, investment and operation.

The process begins at the identification of investment opportunities. This is achieved through organised road shows in Issuer Member States and participation in workshops. Increasingly, the Bank is relying on its extensive network of co-financiers and syndicate partners for the generation of new business. Applications are made directly to the Bank or through the website portal. The main objective is to identify viable projects within the region that are aligned with the Corporate Plan. The strategy includes stringent project selection and emphasis on productive private sector investments. Long term sustainability and projects complementarity of productive sectors in Issuer Member States is considered crucial in project selection.

## ***Loan Processing***

Upon receipt of a loan application, a review is carried out to determine whether the project meets the Bank's eligibility criteria. The review will be steered by the officer responsible for the particular Issuer

Member State or such other officer appointed by the head of the department. If the preliminary review is positive, a project brief is prepared and circulated to the New Deal Forum ("**NDF**") for comments. The purpose of the brief is to accord the key stakeholders in the Bank the opportunity to comment on the proposal in order to enrich the due diligence process. Any comments received are collated and included in the check list of issues to be addressed during due diligence, where applicable. It is only after this process is fully exhausted that a due diligence mission is undertaken to the project.

Upon return, the transaction team prepares a report summarising the outcome of the due diligence mission and outlining any issues requiring the attention of Management. Depending on the report, the relevant Director decides whether to proceed with the preparation of the necessary appraisal reports for submission to the approving authorities.

If the decision is to proceed, an Appraisal Report ("**AR**") covering all aspects of the project is prepared including financial projections. In addition to aspects such as the market, promoters profiles, money laundering and Know Your Customer (see "*Money Laundering and Know Your Customer Checks*" below) information etc., financial analysis, among others is included. The report is submitted to both an Operations Technical Committee ("**OTC**") and the Compliance and Risk Management Department. The latter reviews the Report and prepares a Risk Rating Report ("**RRR**"). With the three reports, namely, AR, OTC Report and RRR, a submission to the Corporate Credit Committee ("**CCC**") is made.

The Corporate Credit Committee, comprises departmental heads and representatives of the operational departments, finance, legal, and compliance and risk management and makes a recommendation to the Board of Directors for projects beyond its mandate, as per the table below. The PTA Credit Risk Assessment System rating (PTAR) is further explained below (see —"*Loan Classification System*"). The INVESCO has been established to report on investments and make recommendations to the Board of Directors with respect to credit approvals. The INVESCO does not itself have the ability to make credit approval decisions.

(% of Capital & Reserves)	Trade Finance			Project & Infrastructure Finance		
	PTAR1	PTAR2	PTAR3	PTAR1	PTAR2	PTAR3
				2% Max \$10m	1.5% Max \$7m	1.0% Max \$m
1. Credit Committee						
i Structured & self-liquidating facilities.....	20% Max \$70m	1.5% Max \$50m	10% Max \$25m			
ii. Short-term loans	Max \$50m	Max \$30m	Max \$20m			
2. Board of Directors .....						

### ***Certificate of Effectiveness***

Once the project is approved, the loan documentation is reviewed by both the legal and compliance departments until issuance of a Certificate of Effectiveness ("**COE**") which signifies that Borrower can commence loan draw-downs.

At this stage, PIF hands over the relationship to the Portfolio Management department which has the mandate to process disbursements. For trade finance on the other hand, loan disbursements and monitoring continue to be done within the department over the life of the facility.

### ***Portfolio Overview***

The following table presents an overview of the Bank's trade and project loan portfolios on a gross basis as at 31 December 2014, 2015 and 2016.

	Year ended 31 December					
	2016		2015		2014	
	<i>No. of loans</i>	<i>Balance U.S.\$'000</i>	<i>No. of loans</i>	<i>Balance U.S.\$'000</i>	<i>No. of loans</i>	<i>Balance U.S.\$'000</i>
<b>Type of Loans</b>						
Trade Finance .....	41	2,441,544	38	2,239,401	38	1,954,798

Project Finance .....	74	896,088	76	762,349	81	624,854
<b>Total Loans .....</b>	<b>115</b>	<b>3,337,632</b>	<b>114</b>	<b>3,001,750</b>	<b>119</b>	<b>2,579,652</b>

The following table presents an overview of the Bank's trade and project loan portfolios on a net basis as at 31 December 2014, 2015 and 2016 by sector:

	Year ended 31 December					
	2016		2015		2014	
	<i>Balance U.S.\$'000</i>	<i>%</i>	<i>Balance U.S.\$'000</i>	<i>%</i>	<i>Balance U.S.\$'000</i>	<i>%</i>
<b>TRADE FINANCE PORTFOLIO</b>						
Petroleum	102,771	18.21%	268,695	24.53%	41,056	5.88%
Manufacturing	4,999	0.89%	20,620	1.88%	18,057	2.59%
Agri-business	298,125	52.83%	337,315	30.80%	315,685	45.20%
Infrastructure	4,411	0.78%	-1	0.00%	7,269	1.04%
Telecommunications	-	0.00%	-	0.00%	-	0.00%
Energy	59,927	10.62%	59,927	5.47%	59,927	8.58%
Finance & Banking	61,424	10.89%	192,281	17.56%	195,527	28.00%
Mining	4,589	0.81%	38,110	3.48%	1,774	0.25%
Transport & Logistics	201	0.04%	107	0.01%	22,574	3.23%
Tourism	-	0.00%	-	0.00%	-	0.00%
Health Services	1,587	0.28%	-	0.00%	-	0.00%
Real Estate	-	0.00%	-	0.00%	-	0.00%
Other	26,228	4.65%	178,137	16.27%	36,514	5.23%
<b>Total Loans</b>	<b>564,262</b>	<b>100.00%</b>	<b>1,095,191</b>	<b>100.00%</b>	<b>698,383</b>	<b>100.00%</b>

	Year ended 31 December					
	2016		2015		2014	
	<i>Balance U.S.\$'000</i>	<i>%</i>	<i>Balance U.S.\$'000</i>	<i>%</i>	<i>Balance U.S.\$'000</i>	<i>%</i>
<b>PROJECT INFRASTRUCTURE PORTFOLIO</b>						
Petroleum.....	-	0.00%	-	-	-	-
Manufacturing .....	241,305	30.39%	179,908	24.15%	77,508	12.53%
Agri-business.....	87,313	11.00%	92,524	12.42%	85,317	13.79%
Infrastructure .....	53,150	6.69%	73,238	9.83%	85,032	13.74%
Telecommunications .....	13,319	1.68%	27,909	3.75%	29,528	4.77%
Energy .....	40,051	5.04%	38,448	5.16%	35,551	5.75%
Finance & Banking .....	45,583	5.74%	94,266	12.65%	51,565	8.34%
Mining .....	3,432	0.43%	8,389	1.13%	10,252	1.66%
Transport & Logistics .....	184,478	23.23%	66,436	8.92%	89,962	14.54%
Tourism .....	-	0.00%	58,917	7.91%	59,847	9.67%
Education.....	5,772	0.73%	-	-	-	-

Health Services.....	18,204	2.29%	—	—	—	—
Hospitality .....	41,389	5.21%	—	—	—	—
Real Estate.....	53,539	6.74%	—	—	—	—
Other .....	6,556	0.83%	105,007	14.09%	94,081	15.21%
<b>Total Loans .....</b>	<b>794,091</b>	<b>100.00%</b>	<b>745,042</b>	<b>100.00%</b>	<b>618,643</b>	<b>100.00%</b>

### Geographic Distribution

The following table shows the geographical distribution of the Bank's portfolio on a net basis as at 31 December 2014, 2015 and 2016:

Country	Year ended 31 December					
	2016		2015		2014	
	Balance U.S.\$'000	%	Balance U.S.\$'000	%	Balance U.S.\$'000	%
Zambia	213,145	16%	302,362	16.43%	57,011	4.33%
Tanzania	237,776	18%	284,870	15.48%	232,202	17.63%
Kenya	121,082	9%	215,099	11.69%	127,367	9.67%
Zimbabwe	164,656	12%	348,266	18.93%	318,298	24.17%
Uganda	98,716	7%	114,890	6.24%	80,445	6.11%
Malawi	71,252	5%	146,118	7.94%	197,191	14.97%
Seychelles	7,115	1%	23,320	1.27%	46,975	3.57%
Burundi	8,012	1%	7,174	0.39%	6,881	0.52%
Rwanda	212,347	16%	83,443	4.53%	100,874	7.66%
Sudan	64,463	5%	105,331	5.72%	63,733	4.84%
Ethiopia	89,529	7%	127,148	6.91%	78,217	5.94%
Mauritius	12,297	1%	13,089	0.71%	7,623	0.58%
DRC	53,348	4%	36,897	2.01%	165	0.01%
Djibouti	4,616	0.3%	2,035	0.11%	45	0.00%
Egypt	-	0%	30,191	1.64%	-	-
<b>Total</b>	<b>1,358,354</b>	<b>100.00%</b>	<b>1,840,233</b>	<b>100.00%</b>	<b>1,317,027</b>	<b>100.00%</b>

The following table shows the geographical distribution of the Bank's off-balance sheet exposures as at 31 December 2014, 2015 and 2016:

Country	Year ended 31 December					
	2016		2015		2014	
	Balance U.S.\$'000	%	Balance U.S.\$'000	%	Balance U.S.\$'000	%
Burundi	10,274	0.83%	2,042	0.19%	7,035	0.62%
Djibouti	2,936	0.24%	2,489	0.23%	-	-
DR Congo	30,093	2.43%	26,995	2.50%	84,200	7.39%
Egypt	52,706	4.26%	79,963	7.39%	-	-
Ethiopia	68,336	5.53%	116,725	10.79%	50,500	4.43%
Kenya	291,281	23.57%	140,771	13.01%	89,739	7.88%
Malawi	142,480	11.53%	144,409	13.35%	157,365	13.82%
Mauritius	127,792	10.34%	56,265	5.20%	-	0.00%
Rwanda	70,042	5.67%	42,443	3.92%	9,789	0.86%
Seychelles	-	0.00%	49,500	4.58%	31,787	2.79%

Sudan	64,909	5.25%	37,073	3.43%	184,122	16.16%
Tanzania	74,037	5.99%	70,934	6.56%	75,544	6.63%
Uganda	17,182	1.39%	35,142	3.25%	23,356	2.05%
Zambia	77,589	6.28%	125,018	11.56%	241,184	21.17%
Zimbabwe	206,270	16.69%	151,883	14.04%	184,435	16.19%
<b>Total</b>	<b>1,235,927</b>	<b>100.00%</b>	<b>1,081,652</b>	<b>100.00%</b>	<b>1,139,056</b>	<b>100%</b>

The following table shows the distribution of the Bank's portfolio on a gross basis by type of borrower as at 31 December 2014, 2015 and 2016:

	Year ended 31 December				
	2016		2015		2014
	Balance U.S.\$'000	%	Balance U.S.\$'000	%	Balance U.S.\$'000
<b>Type of Borrower</b>					
Small & Medium Enterprises .....	152,580	4.57%	211,861	7.06%	391,710
Large Corporations .....	1,286,369	38.54%	1,263,833	42.10%	599,486
Bank's & Financial institutions .....	108,924	3.26%	113,645	3.79%	176,564
Government/Parastatals .....	1,789,763	53.62%	1,412,297	47.05%	1,411,892
<b>Total .....</b>	<b>3,337,635</b>	<b>100.00%</b>	<b>3,001,636</b>	<b>100.00%</b>	<b>2,579,652</b>

The following table shows the Bank's twenty (20) largest borrowers on a gross and net basis as at 31 December 2016:

Top 20 as at 31 December 2016						
No	Client	Country	Gross Exposure	Cash Collateral	Insurance Cover	Net Exposure
(U.S.\$'000)						
1	Agricultural Bank of Sudan	Sudan	347,074	(136,958)	(210,116)	0
2	Alliance One Tanzania	Tanzania	68,656	-	-	68,656
3	Alliance One Tobacco Kenya	Kenya	36,299	-	-	36,299
4	Alliance One Tobacco Malawi	Malawi	92,129	-	(85,500)	6,629
5	Alliance One Zambia	Zambia	51,011	-	-	51,011
6	Bank of Kigali Ltd	Rwanda	317,742	(263,298)	(50,000)	4,444
7	CBZ Bank Ltd	Zimbabwe	54,339	-	(20,815)	33,524
8	Government of Kenya	Kenya	104,411	-	(100,000)	4,411
9	Habesha Cement	Ethiopia	45,891	-	-	45,891
10	Kampala Cement Company Lim	Uganda	50,023	-	-	50,023
11	Kilwa Energy Ltd	Tanzania	59,927	-	-	59,927
12	Malawi Leaf Company	Malawi	82,394	-	(38,300)	44,094
13	Ministry of Finance Sudan	Sudan	316,728	(316,728)	-	-
14	Ministry of Finance Uganda	Uganda	58,350	-	(58,350)	-
15	Ministry Of Finance Zambia	Zambia	592,935	-	(500,000)	92,935
16	Portland Holdings Limited	Zambia	48,666	-	-	48,666
17	PPC Barnet DRC	DRC	45,622	-	-	45,622
18	Reserve Bank of Zimbabwe	Zimbabwe	44,378	-	(57,660)	(13,282)
19	RwandAir	Rwanda	214,482	-	(61,200)	153,282
20	Zimbabwe Asset Management	Zimbabwe	43,227	-	(34,125)	9,102
Total			2,674,284	(716,984)	(1,216,066)	741,234

As at 31 December 2016, the 20 largest borrowers accounted for 80.1 per cent. of the gross loan. All of the top 20 borrowers are performing satisfactorily. Details of some of the significant exposures are provided below.

#### ***Ministry of Finance, Zambia***

Since October 2007, the Bank has provided a strategic oil import facility to the Ministry of Finance, Zambia to support the Zambian Government in the importation of crude oil through letters of credit ("LCs"). Typically, the Bank issues a 210 day LC every 45 days to finance the importation of 90,000 metric tonnes of crude oil valued at approximately USD 60 million (depending on international oil prices) and two 90 day LCs to finance the importation of 80,000 metric tonnes of refined petroleum products to supplement refinery output. The LC is confirmed by a number of the Bank's correspondent banks who also provide refinancing at the time of paying the beneficiary. The crude oil is shipped and discharged at the Dar es Salaam port for onward transportation through the TAZAMA pipeline to Indeni Oil Refinery which is located in Ndola, Zambia. Refined product is transported via road from Dar es Salaam or Beira to the various storage facilities across Zambia. After refining, the oil products are sold to the oil marketing companies strictly on cash and carry basis before uplifting petroleum products. Proceeds from the sale of the oil are accumulated in a collection account held by a local Agent Bank. The agent bank then arranges for conversion of the local currency proceeds into U.S. dollars and through the Bank of Zambia (Central Bank of Zambia) for externalisation of the proceeds into the Bank's offshore accounts with correspondent banks on a weekly basis. The externalised funds (collection account deposits) are used to pay for the Bank's fees and the refinanced LCs. In order to mitigate the risk of the sale proceeds being inadequate to cover the LC and related obligations, the Ministry of Finance, Zambia provides an undertaking to cover such shortfalls in respect of each shipment and provides cash margin for each LC opened. In addition, the performance of the facility is closely monitored by SIS, an independent collateral management company who submit periodic reports to the Bank. Except for occasional arrears, the credit performance of this account is satisfactory.

The facility is demand driven and has increased from levels of USD 100 million in 2011 to USD 850 million on a gross basis as at the date hereof. In 2015, the facility limit was reduced to USD 700 million in line with reduction in international oil price. However, the gross figure overstates the exposure as the facility is secured by stock and debtors (a robust CMA arrangement in place) and in addition secondary security is available in the form of credit insurance. Despite the reduction in facility amount, credit cover was renewed at the same level of USD 550 million for an additional one year cycle. The primary counterparty for the current policy is the African Trade Insurance ("ATI") - A/Stable rating by S&P and rated strongest insurance in Africa. ATI keeps approximately 10 per cent. of the cover and re-insures the remainder with the Lloyds of London Syndicate.

#### ***Ministry of Finance – Sudan***

The facility which the Bank extended to the Ministry of Finance and Economic Planning ("MOFEP"), contributes to the security of supply of strategic commodities in the Issuer Member State including petroleum and wheat, which are critical to the sustenance of economic activity. Sudan's need for the Bank's financing of refined fuel imports came against the backdrop of diminished internal output following the cessation of South Sudan. The facility is secured by Irrevocable Reimbursement Undertaking ("IRU") issued by the Central Bank of Sudan ("CBOS") and cash cover over the exposures under the facility is held by CBOS in trust for TDB.

The primary source of repayment is oil export proceeds (crude oil to China and refined oil to Ethiopia). To supplement this source the Government of Sudan has assigned additional revenue streams to the Bank-export of agricultural commodities under a Collateral Management Arrangement (Sorghum, Sesame, Cotton and Gum Arabic). Except for occasional delayed payments from Sudan (foreign currency shortages), account performance is generally satisfactory.

#### ***Agricultural Bank of Sudan***

The exposure relates to a trade finance facility extended to finance import of strategic agricultural inputs in support of the Government of Sudan's agricultural revival plan. The plan aims at ensuring food security for the country while enhancing export earnings from cash crops. This facility is a strategic intervention in an

Issuer Member State in support of the financial impact to the Agricultural Bank of Sudan from the seasonal fluctuations inherent in the agro-business industry. This facility is structured on a dual recourse basis as a line of credit to Agricultural Bank of Sudan supported by credit enhancement from the Central Bank of Sudan in the form of irrevocable reimbursement undertakings. The facility is cash covered. The cash cover is supported by an irrevocable payment undertaking ("**IRU**") issued by the Central Bank of Sudan. The IRU prioritizes TDB in foreign currency allocation and externalisation of forex. The Bank has a preferred Creditor Status in Sudan. In addition, The Bank has procured a Political and Credit Insurance Cover for Euro 200 million from the Islamic Corporation for Insurance and Investment (ICIEC) (the insurance arm of the Islamic Development Bank). ICIEC is rated Aa3/Stable by Moody's Investor relations. ICIEC retains Euro 40 million on its balance sheet and re-insurers the rest with A-rated insurance companies most of which are Lloyds of London Syndicate members. Facilities have been conducted satisfactorily except for occasional delayed payments arising from foreign currency shortages.

#### ***Alliance One Tobacco, Malawi***

The exposure relates to a Seasonal Tobacco Export Finance Facility between TDB and Alliance One Malawi. The proceeds of the loan are used by Alliance One Malawi to purchase green leaf tobacco from small holders as well as commercial farmers. The processed tobacco is then exported to China, Egypt and Japan and some OECD countries through Alliance One A.G., the group's marketing and trading arm based in Switzerland. The facility is secured by a Corporate Guarantee from the parent company, Alliance One International, which is listed on the New York Stock Exchange. Additional security has been provided in the form of credit insurance for USD 104 million procured from ATIA.

#### ***Malawi Leaf, Malawi***

The exposure relates to a commodity export finance facility between the Bank and Malawi Leaf Company Limited. The current gross exposure is USD 82 million. The Bank holds additional security in the form of credit insurance for USD 38 million procured from ATIA, leaving a net exposure of USD 44 million. The facility is used by Malawi Leaf Company to purchase green leaf tobacco from small holders as well as commercial farmers, which is exported to China, Egypt and a number of the OECD countries including the United States of America.

#### ***Malawian Bonds***

The Bank holds a large portfolio of Malawi bonds, funded by deposits of the Malawi Central Bank. The bonds were issued to securitize a Trade Reinforcement Country Program entered into between TDB and the Reserve Bank of Malawi. The program includes the importation of agricultural inputs as well as petrochemicals which are key drivers of economic sectors for Malawi. It also incorporates an export development tranche to promote Non Traditional Exports (NTEs) both to traditional trade partners as well as emerging markets. Proceeds of trade flows from the underlying trade transactions remain the primary source of repayment under the Treasury Notes-backed trade program and amortised obligations arising from the Malawi government security are cleared through disbursements towards private sector participants who execute the actual trade flows (import and export finance obligors to TDB) in the country. The bonds which were issued are used as a secondary source of repayment under the program.

#### ***Collateral***

The Bank seeks to protect its interests in the event of unpredictable and extreme factors that may negatively affect the borrower's capacity to service its loan by calling for security such as mortgage interest on property, registered securities over financed or third party assets and third party guarantees.

The Bank's minimum-security coverage on project and infrastructure transactions is 1.5 times the loan amount in relation to the market value of assets offered as collateral. The Bank aims to be conservative in estimating the market values of the securities offered and, in all cases, insist on independent valuation by a valuer approved by the Bank.

In the case of Trade Finance transactions where the commodity is being financed, debtors and other illiquid instruments such as equipment are offered as collateral. The minimum security coverage is 1.25 times. However, in cases where liquid security such as cash, credit risk insurance and treasury bills are offered as collateral, the security coverage threshold is pegged at 1.10 times.



In assessing security, the Bank considers the following assets or a combination thereof as acceptable collateral for lending exposures for:

1. Cash deposits or liens over cash deposits in a major or freely convertible currency with at least a 10 per cent. margin, for currency risk where the lending currency may differ from the collateral currency.
2. Legal charges or mortgage bonds over real estate in the form of land and buildings recently valued (not more than one year) by approved property valuers. For the purposes of calculating a security value the Bank will discount market valuations by 20 per cent to account for market fluctuations and forced sale values.
3. All asset debentures over a company's assets as specified in their audited balance sheets with a margin of at least 20 per cent to cater for market value fluctuations.
4. Specific debentures and liens over stocks of the financed commodities. In structured commodity financing, the commodity being financed shall form the security of the facility with a margin of not less than 20 per cent to cater for price and market volatility.
5. Liens over treasury bills issued by the governments of the Issuer Member States with a margin of at least 10 per cent to cover currency risk.
6. Bank guarantees, inward letters of credit, bankers' acceptances, promissory notes and similar contingent instruments issued in favour of the Bank by first class rated institutions.
7. Corporate, parent company, personal and shareholders guarantees backed by identifiable assets or instruments pledged in favour of the Bank.
8. Any other security which may be deemed acceptable by the Credit Committee on a case by case basis.

In all instances, the Bank carries out due diligence on the assets offered as security to ensure the Bank's rights on enforceability and liquidation are protected with the necessary attendant insurances and other protections in place for the security to be deemed acceptable.

The Bank's policies require that fully implemented projects should be valued to establish their net worth. Subsequently, the Bank undertakes quarterly securities reviews during its routine supervision missions.

The security coverage ratio is improved by the decline in the Bank's exposure through regular repayments made by performing loans. For performing loan accounts, the Bank's exposure declines gradually as a result of regular repayments thereby improving the security coverage ratio. The Bank does not revalue securities provided against performing loans. If deterioration of the securities is evident arrangements will be negotiated with the respective borrowers to make up for the difference.

Revaluation of Bank securities for non-performing loans is carried out on a case-by-case basis as guided by the Arrears Recovery Committee.

The following table shows the composition of the Bank's collateral as at 31 December 2014, 2015 and 2016.

Collateral Type	Year ended 31 December					
	2016		2015		2014	
	Value U.S.\$'000	%	Value U.S.\$'000	%	Value U.S.\$'000	%
Mortgages on properties	822,521	13%	635,948	12%	701,496	20%
Fixed charge on plant & equipment	866,914	14%	767,197	15%	316,496	9%
Cash deposits	830,601	14%	865,519	17%	889,585	25%
Floating all asset debentures	-	0%	355,482	7%	252,869	7%
Sovereign undertakings /Guarantees	1,273,105	21%	767,637	15%	662,766	18%
Other	268,382	4%	-	0%	-	0%
Insurance	2,069,572	34%	1,728,576	34%	768,542	21%
<b>Total</b>	<b>6,131,095</b>	<b>100%</b>	<b>5,120,359</b>	<b>100%</b>	<b>3,591,754</b>	<b>100%</b>

### Collateral Enforcement

The Bank's collateral enforcement experiences differ from one country to another. In enforcing collateral the Bank uses a combination of direct foreclosures, receivership and legal enforcement mechanisms such as court action. These experiences largely reflect the efficiency of the legal processes in terms of determining the outcomes of any legal challenges that may be raised by aggrieved borrowers.

The following table summarises the Bank's recovery experience on non-performing loans for the period 2000 to 31 December 2016.

Non-Performing Loans	Year ended 31 December 2016		
	Principal Disbursed	Cumulative Recoveries	Recovery
	U.S.\$'000		%
Trade Finance .....	53,617	28,629	53%
Projects Finance.....	139,904	102,615	73%
<b>Total .....</b>	<b>193,521</b>	<b>131,244</b>	<b>68%</b>

The lower recovery rates on trade finance loans reflect the nature of collateral which mostly comprises stocks, receivables and other current assets.

The following table shows the geographical distribution of the Bank's collateral as at 31 December 2014, 2015 and 2016:

Country	Year ended 31 December					
	2016		2015		2014	
	Value U.S.\$'000	%	Value U.S.\$'000	%	Value U.S.\$'000	%
Zambia	1,412,569	23.04%	1,251,545	24.44%	824,836	22.96%
Tanzania	482,553	7.87%	303,873	5.93%	276,932	7.71%
Kenya	448,401	7.31%	192,128	3.75%	108,809	3.03%
Zimbabwe	566,526	9.24%	701,291	13.70%	426,218	11.87%
Uganda	333,289	5.44%	250,952	4.90%	228,450	6.36%
Malawi	465,142	7.59%	506,413	9.89%	230,185	6.41%
Seychelles	108,100	1.76%	193,287	3.77%	30,830	0.86%
Burundi	26,136	0.43%	22,920	0.45%	23,130	0.64%
Rwanda	743,615	12.13%	86,195	1.68%	164,029	4.57%
Sudan	975,896	15.92%	1,193,059	23.30%	1,225,988	34.13%
Ethiopia	214,362	3.50%	196,196	3.83%	36,347	1.01%
Mauritius	73,697	1.20%	-	0.00%	16,000	0.45%
DR Congo	228,205	3.72%	222,500	4.35%	-	0.00%
Djibouti	4,606	0.08%	-	0.00%	-	0.00%
Egypt	48,000	0.78%	-	0.00%	-	0.00%
<b>Total</b>	<b>6,131,097</b>	<b>100.00%</b>	<b>5,120,359</b>	<b>100.00%</b>	<b>3,591,754</b>	<b>100.00%</b>

## ***Risk Management and Asset Quality***

As a self-regulated supranational institution, the Bank nonetheless strives to comply with all applicable prudential risk management standards and also aims to adopt best practices in its industry. The Bank recognises that having a robust risk management framework and communicating this clearly to stakeholders can be a source of competitive advantage. Accordingly, there is a sustained focus on the overall risk management at the Bank driven by overarching objectives of achieving sustainable growth and attainment of investment grade rating. The Board has the overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has embedded a comprehensive risk management framework for measuring, monitoring, controlling and mitigating various risks.

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

### ***Lending Limits***

The Bank's credit policies stipulate that credit exposure to any one Issuer Member State shall not exceed 30 per cent of the total value of outstanding loans (all such credit limits are on a net basis). The Bank shall also aim to maintain a well-diversified portfolio across various economic sectors by ensuring that exposure to any one sector does not exceed 25 per cent of the total loan portfolio. However, in view of the strategic nature of the agri-business and the petroleum sector and their significant contribution to GDP in almost all Issuer Member States, exposure within each of these two sectors is set at a higher limit of 35 per cent. of the total portfolio.

Single Obligor Limit Thresholds	Risk Rate PTAR1	Risk Rate PTAR2	Risk Rate PTAR3
	(% of capital & Reserve)		
Single Company .....	20%	15%	10%
Group within a Country .....	25%	20%	15%
Diversified Group in more than (1) country .....	30%	25%	20%
Sovereign lending or majority owned State Corporations whose loans are guaranteed by the respective Governments, Strategic imports, exports and infrastructure projects included.	30%	25%	25%

### ***Lending Authority***

All PIF loans above USD 10 million are approved by the Board. PIF loans below USD 10 million and trade finance loans of up to USD 70 million are approved by the Corporate Credit Committee ("**CCC**"). Chaired by the Chief Risk Officer, the CCC Management Credit Committee, among others, comprises of representatives from the Legal, Finance/Strategy, Treasury, Portfolio Management, Risk departments. Representatives from operations departments, i.e. PIF and Trade Finance attend Corporate Credit Committee meetings as invitees. Trade Finance transactions exceeding the single obligor limit are approved by the Board. Lending limits are on a net basis. If the exposure is mitigated by a cash cover or near cash instruments such as credit and political risk cover, such exposure is excluded from contributing to SOL.

### ***Loan Reviews***

The Bank's Portfolio Management Department ("**PMD**") undertakes a review of the portfolio and submits a report to the Board on a quarterly basis. At the management level the Arrears Recovery Committee ("**ARC**") meets on a quarterly basis to review PMD's report on accounts experiencing significant loan repayment difficulties. ARC deliberates, approves and where appropriate provides guidance to PMD's recommendations for appropriate loan workout measures to be implemented for such accounts.

### ***Loans Classification System***

In line with practices adopted by commercial banks and central banks in the region, the Bank has adopted a seven category loan classification system as shown below:

## **PTA Credit Risk Assessment System ("CRAS") rating ("PTAR")**

PTAR1: Low risk

PTAR2: Satisfactory risk

PTAR3: Fair risk

PTAR4: Watch list

PTAR5: Substandard

PTAR6: Doubtful & Bad

PTAR7: Loss

### ***Acceptable***

Loans in this category are fully protected by the sound net-worth and paying capacity of the borrower, are performing in accordance with contractual terms, and are expected to continue doing so. Loans under this category are further classified as "Low Risk" or "Satisfactory Risk"

### ***Special Mention***

Loans under this category are generally performing well but exhibit potential weaknesses that may, if not corrected, weaken the borrower's capacity to repay. The weaknesses may result in the Bank's position not being adequately protected. Examples of such weaknesses include, but are not limited to: inability to properly supervise due to an inadequate loan agreement; deteriorating condition or control of collateral; and/or deteriorating economic conditions or adverse trends in the borrower's financial position which may, if not checked, jeopardise repayment capacity. In terms of the age of arrears, the project loan and/or trade finance loans will have been due for between 31 and 90 days. Loans under this category are further classified as "Fair Risk" or "Watch List" depending on the financial condition of the loan.

### ***Substandard***

Typically, loans in this category are not adequately protected by the current net-worth and paying capacity of the borrower. The primary sources of repayment are insufficient to service the debt and the Bank must look to secondary sources such as collateral, sale of fixed assets, refinancing, or additional capacity injections for repayment. Substandard loans have defined weaknesses that could jeopardise the orderly repayment of the debt thereby increasing the possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Such loans may or may not be past due but carry more than a normal degree of risk due to the borrower's unsatisfactory financial condition. An unduly long absence of current and satisfactory financial information or inadequate collateral documentation may also warrant a substandard classification.

Renegotiated loans will normally continue to be classified as substandard unless all past due income is paid by the borrower in cash at the time of re-negotiation and a sustained record of timely repayment of principal and income under a realistic repayment program has been demonstrated for a period of not less than 180 days. As a general rule, project and trade finance loans which have been due for between 91 and 180 days shall be classified as substandard.

### ***Doubtful***

Loans in this category have all the weaknesses inherent in a substandard loan with the added characteristic that the loans are not well secured. These weaknesses make collection in full, on the basis of currently existing facts, conditions, and value, highly questionable and improbable.

Although the possibility of loss is high, there however may exist important and reasonably specific pending factors, which may mitigate the actual amount of loss. As a result, it is difficult to determine the full extent of the loss. Such pending factors may include a capital injection, perfection of liens on additional collateral, refinancing plans, embarking on a new project or asset disposal. It must be noted that the pending event must have a reasonable chance of success in order to be considered in assessing the net risk involved. As a

general guide, project and trade finance loans which have been due for more than 180 days shall be classified as doubtful.

### ***Loss***

Loans in this category are considered un-collectible or of such little value that their continuance as bankable assets is not warranted. However, the classification of a loan as a loss does not necessarily mean that there is no recovery or salvage value. Generally, project and trade finance loans that have been due for more than 365 days shall be classified as a "loss" unless such loan is well secured, legal action has actually commenced, and timely realisation of the collateral or enforcement of the guarantees can be expected.

### ***Impaired Loans***

Loans are identified as impaired when arrears on principal or interest are more than 90 days overdue or when there is adverse development (such as significant deterioration in the value of collateral) which creates significant doubt on the collectability of the principal loan and interest. At a minimum, all loans classified as substandard and below are considered impaired.

### ***Provisions for Impairment Losses***

At each balance sheet date, the Bank assesses whether there is objective evidence that a loan is impaired. A loan is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan (a "**loss event**") and that loss event has an impact on the estimated future cash flows of the loan that can be reliably estimated. The amount of loss is measured as the difference between the loan and the present value of the estimated future cash flows discounted at the effective interest rate made under the loan contract. The carrying amount of the loans is reduced through the use of an allowance account and the amount of loss is recognised in the income statement.

The methodology and assumptions for estimating future cash flows are reviewed regularly by the Bank in order to reduce the differences between loss estimates and actual loss experiences.

Specific provisions are made for loans categorised as non-performing i.e. those graded in the substandard, doubtful and loss categories. The assessment of specific provisions is measured as the difference between the loan carrying amount and the estimated future cash flows discounted at the loan's original effective interest rate. This assessment incorporates an estimation of the realisation from collateral held against the loan.

For the purpose of assessing collective impairment, the Bank groups and reviews on a quarterly basis all performing loans on the basis of similar credit characteristics which are relevant to the estimation of future cash flows for such loans. Prior to 2014, the Bank only had specific provisions on impaired accounts. However, in line with best practices, in 2014 collective impairment was re-introduced to create a buffer and further mitigate residual credit risks.

When a loan is known to be uncollectible, all the necessary legal procedures have been completed and the final loss has been determined, such a loan is written off against the related provision for impairment. Loans write-offs exceeding USD 1.0 million have to be approved by the Board. Subsequent recoveries of amounts previously written off are included in the income statement.

The following table sets forth information regarding the Bank's impaired loans as at 31 December 2014, 2015 and 2016.

	Year ended 31 December		
	2016	2015	2014
	U.S.\$'000		
Impaired Loans – Projects & Infrastructure	52,042	73,509	25,076
Impaired Loans – trade finance	43,051	12,720	53,261
<b>Total Impaired Loans</b>	<b>95,093</b>	<b>86,229</b>	<b>78,337</b>
Specific Provisions for Impairment	60,958	70,514	57,129

General Provisions for Impairment	36,644	24,461	10,812
<b>Total Provisions</b>	<b>97,602</b>	<b>94,975</b>	<b>67,941</b>
Total Provisions/Total Impaired Loans	102.64%	110.14%	86.73%
Impaired Loans as a per cent. of total loans	2.85%	2.87%	3.04%
Impaired Loans as a per cent. of total assets	2.23%	2.11%	2.21%

Asset quality as depicted by the ratio of impaired loans as a percentage of total loans, improved from 2.87 per cent. as at 31 December 2015 to 2.85 per cent. as at 31 December 2016, while the ratio of total provisions as a percentage of total impaired loans remained above 100 per cent., (103 per cent. in 2016: 110 per cent. in 2015).

The following table sets forth the information regarding the geographic distribution of the impairment charge on loans and advances as at 31 December 2014, 2015 and 2016.

	Year ended 31 December		
	2016	2015	2014
<b>Country distribution of loans charged off against allowance for credit losses</b>			
	<i>U.S.\$'000</i>		
Burundi	2,510	568	-
Ethiopia	-	-	-
Kenya	125	16,154	-
Sudan	8,203	2,779	-
Malawi	-	-	-
Rwanda	191	5,349	213
Tanzania	575	717	-21
Uganda	(1,851)	4,192	38
Zambia	814	30,214	-121
Zimbabwe	364	(40,854)	13,872
<b>Total</b>	<b>10,931</b>	<b>19,119</b>	<b>13,981</b>

The following table sets forth the information regarding the geographic distribution of the Bank's balance sheet provisions for loan impairment as at 31 December 2014, 2015 and 2016.

	Year ended 31 December		
	2016	2015	2014
<b>Country distribution of loans charged off against allowance for credit losses</b>			
	<i>U.S.\$'000</i>		
Burundi	2,518	569	-
Ethiopia	-	-	-
Kenya	12,205	13,841	-
Sudan	8,204	-	-
Malawi	-	-	-
Rwanda	5,791	5,599	250
Tanzania	2,220	4,827	4,110
Uganda	7,316	9,166	4,974
Zambia	21,935	30,214	-
Zimbabwe	772	6,298	47,795
<b>Total</b>	<b>60,961</b>	<b>70,514</b>	<b>57,129</b>

The following table sets forth the information regarding the sector distribution of the impairment charge on loans and advances as at 31 December 2014, 2015 and 2016.

**Year ended 31 December**

Sector distribution of loans charged off against allowance for credit losses	2016	2015	2014
	U.S.\$'000		
Agri-business	7,840	17,015	1,421
Banking & Financial Services	480	(37,367)	7,673
Education		-	-
Hospitality	1,455	26,498	631
Infrastructure	(2,150)	-	-
Manufacturing & Heavy Industries	2,643	4,293	2,633
Mining & Quarrying		-	-
Health Services	1,285	1	-
Petrochemicals		-	-
Real Estate	(205)	2,312	-
Other	-	2,310	-
Telecommunications	(417)	7,732	-
Transport & Logistics		(134)	1,585
Energy		(3,540)	38
<b>Total</b>	<b>10,931</b>	<b>19,120</b>	<b>13,981</b>

### ***Treasury and Hedging Policies***

The primary objective of the Bank's treasury operations is to mobilise sufficient resources to fund approved operational and administrative programmes and to effectively manage the Bank's liquidity, interest rate and foreign exchange risks in order to safeguard the Bank's financial integrity, protect its capital and generate adequate investment returns.

The Bank's Treasury department is responsible for the management of market risks within the parameters established by the Bank-wide Integrated Risk Management Committee/Assets and Liabilities Committee ("**BIRMC**"/"**ALCO**"). This forum, chaired by the President or his designate, is responsible for the review and monitoring of risk management practices across the Bank as well as asset and liability management.

Given the Bank's non-complex activities and relatively short term Balance Sheet structure, the Bank has a low interest rate risk profile. The Bank's conservative hedging policies involve mainly matching of assets and liabilities in terms of currency and interest rate attributes. Accordingly, it aims to match (to the extent possible) the currency of its borrowings with the currency of its loans. On interest rates, the Bank's policies require the matching of fixed rate borrowings with fixed rate loans and the matching of floating rate borrowings with floating rate loans. Floating rates are mainly based on LIBOR and re-pricing periods for both loans and borrowings are generally limited to no more than six months.

The Bank uses interest rate swaps, cross currency swaps and currency forward contracts on a selective basis to mitigate interest rate and currency risks that cannot be effectively mitigated through matching approaches.

### ***Liquidity and Investment Policies***

The management of liquidity is a critical treasury function aimed at ensuring that the Bank is in a position to meet its financial obligations as and when they fall due. A liquidity position statement is prepared, daily, using criteria of bucketing assets, liabilities and off balance sheet items in terms of maturity. This statement is prepared under the most prudent consideration of maturity dates with assets being classified according to the latest possible repayment date and liabilities being classified according to the earliest possible repayment date. Any significant negative gaps in each bucket are monitored and appropriate remedies instituted.

The Bank aims to maintain liquid assets to total assets ratio of at least 10 per cent and an operating level liquidity of at least 1.25 times the value of designated liabilities. Designated liabilities include forward rolling 12 months of long term debt service obligations, disbursements not funded under any line of credit, committed capital expenditures and 12 months of administration expenses.

Investments of short-term surplus funds are made in various short term instruments subject to counter party exposure limits approved by ALCO. Unless otherwise approved, investments in call deposits, certificates of deposits, term deposits, commercial paper and corporate bonds shall be made with banks and institutions with investment grade credit ratings. The investments are made in eligible currencies in which resources have been raised in order to mitigate currency risk.

### ***Funding***

In order to fulfill its developmental mandate, the Bank aims to increase and diversify its funding base by utilising bilateral lines of credit, letters of credit confirmation and refinancing limits, term deposits bond issuances and export credit agency relationships. Loan syndications, the Euro bond market and international financial institutions are expected to provide further diversification in terms of funding.

The following table sets forth the information regarding the Bank's borrowings as at 31 December 2016, 2015 and 2014:

	Year ended 31 December		
	2016	2015	2014
<b>Borrowings</b>			
<b>Short Term Borrowings</b>		<i>U.S.\$'000</i>	
Certificates of deposits .....	276,636	341,532	277,200
Other Short term borrowings .....	2,092,686	1,837,709	1,642,129
<b>Total Short term borrowings .....</b>	<b>2,369,322</b>	<b>2,179,241</b>	<b>1,919,329</b>
<b>Long Term Borrowings</b>			
From other development institutions .....	409,543	322,456	297,793
From Export Credit Agencies .....	513	1,941	4,959
Foreign currency bonds .....	300,000	398,746	398,746
Local currency bonds .....	10,654	14,109	1,111
Other long term borrowings .....	73,505	136,852	146,793
<b>Total Long term borrowings .....</b>	<b>794,215</b>	<b>874,104</b>	<b>849,402</b>
<b>Total .....</b>	<b>3,163,537</b>	<b>3,053,345</b>	<b>2,768,731</b>



## SHORT TERM BORROWINGS

The table below indicates the Bank's short term borrowings as at 31 December 2016, 2015 and 2014 respectively.

	Year ended 31 December		
	2016	2015	2014
	<i>U.S.\$'000</i>		
Reserve Bank of Malawi .....	255,921	284,832	216,000
Bank of the Republic of Burundi .....	–	35,000	40,000
Banque Commerciale du Congo .....	20,000	5,000	10,000
Banque International pour l'Afrique au Congo .....	–	16,000	10,000
African Trade Insurance Agency .....	715	700	1,200
	<b>276,636</b>	<b>341,532</b>	<b>277,200</b>

Lines of credit are short term in nature – and are uncommitted. These facilities are essentially utilised for refinancing of issued letters of credit for trade finance transactions. Accordingly the maturities as advised below reflect the maturity of the latest documentary financing issued by the relevant lender. Where the stated maturity date occurred on or before 31 December 2016, the loan has been repaid and the details have been included here solely for comparative purposes. Typically the refinancing tenors range from 90 -360 days. The table below provides a breakdown of borrowings payable within one year as at the dates shown:

	Date of renewal/advance	Maturity Date	Currency	Year ended 31 December		
				2016	2015	2014
				<i>U.S.\$'000</i>		
Syndicated Loan –Asia .....	Dec-16	Jun-19	USD	340,000	–	–
Syndicated Loan – Citibank.....	Oct-16	Oct-19	USD	400,000		
Syndicated Loan – Commerzbank.....	Apr-16	Sep-16	USD	–	320,500	320,500
Mashreq Bank .....	Dec-16	Dec-17	EUR	173,516	80,419	267,589
Standard Chartered Bank London.....	Oct-16	Apr-17	USD	270,599	238,895	106,217
Cargill Kenya .....	Dec-16	Dec-19	USD	100,000	116,475	–
Bunge S.A. ....	Sep-16	Mar-17	USD	41,069	–	–
ABC Bank Inc.Mauritius .....	Dec-16	Jan-17	EUR	57,974	66,809	35,910
ING Bank .....	Mar-16	Oct-16	USD	–	50,573	30,513
African Export Import Bank .....	Dec-15	Feb-17	EUR	35,729	63,520	91,114
Sumitomo Mitsui Banking Corporation .....	Nov-16	Nov-18	USD	113,340	105,530	120,440
Africa Development Bank.....	Dec-16	Mar-17	USD	51,325	50,229	–
Africa Finance Corporation .....	Dec-16	Nov-17	USD	50,000	50,000	50,000
Societe Generale.....	Feb-16	Jul-16	USD	–	2,852	–
Bank One Ltd .....	Oct-16	Jan-17	USD	40,000	50,000	50,000
Mizuho Bank London .....	Oct-16	Oct-17	USD	21,466	39,450	–
Standard Chartered Bank Kenya.....	Dec-16	Jun-17	USD	30,000	30,000	–
Commerzbank .....	Dec-16	Jun-17	USD	38,285	114,462	72,338
KFW .....	Dec-16	Sep-17	USD	142,638	20,000	–
British Arab Commercial Bank.....	Nov-16	Feb-17	USD	5,000	–	50,725
State Bank of Mauritius .....	Nov-16	Apr-17	USD	36,000	25,924	2,900
FBN Bank.....	Jun-16	Jul-16	EUR	–	76,823	50,676
BHF Bank.....	Dec-16	Mar-17	USD	3,779	–	11,240
Standard Corporate and Merchant Bank.....	Mar-16	Sep-16	USD	–	32,690	31,963

	Date of renewal/ advance	Maturity Date	Currency	Year ended 31 December		
				2016	2015	2014
				<i>U.S.\$'000</i>		
Citibank New York .....	Sep-16	Jan-17	USD	46,316	61,836	2,343
Afrasia Bank Ltd-Mauritius .....	Nov-16	Jan-17	USD	23,697	50,000	40,000
Bank of Tokyo Mitsubishi .....	Dec-15	Dec-16	USD	—	66,667	—
Deutsche Bank Ag.....	Dec-15	Mar-16	USD	—	52,055	—
FirstRand Bank Ltd.....	Dec-16	Mar-17	USD	1,453	58,703	88,759
Banque de Commerce et de Placement.....	Nov-15	Feb-16	USD	—	1,291	927
Ghana International Bank .....	Jun-15	Sep-15	USD	—	—	20,000
Loius Dreyfus Commodities Kenya.....	Jul-16	Jul-17	USD	6,421		
Mauritius Commercial Bank.....	Dec-16	Jun-19	USD	49,375		
Natixis .....	May-15	Aug-15	USD	—	—	—
Investec Bank Mauritius .....	Apr-15	Jul-15	USD	—	—	—
FIMBank .....	Nov-14	Mar-15	EUR	—	—	56,454
Commercial Bank of Africa.....	Oct-14	Jan-15	USD	—	—	29,523
Banque Cantonale Vaudoise .....	Aug-14	Mar-15	EUR	—	—	29,173
BMCE Bank International PLC .....	Sep-14	Apr-15	EUR	—	—	27,265
Standard Chartered Bank Tanzania .....	Dec-14	Apr-15	TZS	—	—	18,635
KBC Bank .....	Oct-14	Feb-15	USD	—	—	13,513
Banque BIA.....	Jul-14	Jan-15	EUR	—	—	10,174
Sub total for other short term borrowings .....				<u>2,077,982</u>	<u>1,825,703</u>	<u>1,628,891</u>
<b>INTEREST PAYABLE .....</b>				<b>14,704</b>	12,006	13,238
<b>Certificate of Deposits (Note 25a) .....</b>				<b>276,636</b>	341,532	277,200
<b>TOTAL SHORT TERM BORROWINGS .....</b>				<u><b>2,369,322</b></u>	<u><b>2,179,241</b></u>	<u><b>1,919,329</b></u>

## LONG TERM BORROWINGS

The following table indicates the Bank's long-term borrowings as at 31 December 2016, 2015 and 2014 respectively. Long term lines of credit are committed in nature are essentially specific to identified sector(s) and countries by TDB. These facilities are essentially utilised for financing of projects, not limited to infrastructure, that have a developmental impact and satisfy TDB's eligibility criteria as well as additional screening required under each line of credit. The maturities reported in the table are as per financing agreement in place between TDB and the respective funder(s).

Lender	Date of renewal/ disbursement	Maturity date	Currency U.S.\$	Year ended 31 December		
				2016	2015	2014
				<i>Balancing Outstanding U.S.\$'000</i>		
African Development Bank .....	Dec-04	Aug-23	U.S.\$	65,876	80,159	63,157
Africa Agriculture and Trade Investment Fund.....	Sep-12	Sep-19	U.S.\$	30,000	30,000	30,000
China Development Bank .....	Dec-08	Mar-20	U.S.\$	84,906	101,512	111,450
KBC Bank .....	Various	Feb-20	U.S.\$	8,864	13,467	16,643
Exim Bank of India Loan .....	Various	Various	U.S.\$	513	1,941	4,958
U.S.\$1.0 Billion Euro Medium Term Note Programme: Second Tranche.....	Dec-13	Jan-18	U.S.\$	—	300,000	300,000
U.S.\$1.0 Billion Euro Medium Term Note Programme: First Tranche .....	Nov-10	Jan-16	U.S.\$	300,000	98,746	98,746
FMO .....	Mar-10	Jan-18	U.S.\$	10,000	18,000	26,000
Ceskoslovenska Obchodni Banka AS .....	Jul-07	May-17	U.S.\$	409	1,230	2,053
BHF Bank .....	Various	Sep-15	U.S.\$	—	—	589
Development Bank of Southern Africa .....	Mar-07	Jun-23	U.S.\$	50,641	62,654	67,187
OPEC Fund for International Development .....	Jun-13	Jun-16	U.S.\$	—	50,000	50,000
Overseas Private Investment Corporation .....	Sep-03	Mar-15	U.S.\$	—	—	350
Private Export Funding Corporation .....	Aug-11	Oct-21	U.S.\$	29,004	34,953	40,903
KfW .....	Dec-13	Dec-18	U.S.\$	60,000	60,132	30,000
European Investment Bank .....	Aug-16	Sep-26	U.S.\$	88,120	—	—
CDC Group .....	Oct-16	Oct-22	U.S.\$	50,000	—	—
Tanzania local currency fixed rate bond .....	Jun-15	May-20	TZS	5,327	6,827	—
Tanzania local currency floating rate bond .....	Jun-15	May-20	TZS	5,327	6,827	—
Uganda local currency fixed rate bond .....	Oct-09	Oct-16	UGX	—	48	86
Uganda local currency floating rate bond .....	Oct-09	Oct-16	UGX	—	407	1,025
Subtotal for long term borrowings .....				<b>788,987</b>	<b>866,903</b>	<b>843,147</b>
Interest payable .....				5,227	7,202	6,255
<b>Total long term borrowings .....</b>				<b>794,214</b>	<b>874,105</b>	<b>849,402</b>

### Available Lines of Credit

The following table sets forth the information regarding the Bank's available lines of credit as at 31 December 2016, 2015 and 2014.

Available Lines of Credit	Year ended 31 December		
	2016	2015	2014
	<i>U.S.\$'000</i>		
Short term facilities	3,955,057	2,999,904	2,520,958
Long Term Facilities	1,349,077	1,354,151	1,337,645
<b>Total</b>	<b>5,304,134</b>	<b>4,354,055</b>	<b>3,858,603</b>

### ***Short-term lines of credit***

Increasingly, the Bank is meeting its short-term financing requirements through structured credit facilities with various banks including, Standard Chartered Bank, Bank of Tokyo-Mitsubishi UFJ, Mashreq Bank Psc, Commerzbank, Afrasia Bank Limited, Sumitomo Banking and Corporation Europe.

In 2014, the Bank raised USD 320.5 million of funding from the syndicated loans market, which was oversubscribed and attracted a 28.6 per cent. reduction in interest margin relative to its 2012 Syndicated Loan. The loan was jointly arranged by Standard Chartered Bank, Commerzbank (Germany), ICBC (China), Mashreq Bank (UAE), Rand Merchant Bank (South Africa), and SMBC (Japan).

In 2016, the Bank issued a syndicated loan facility. This Asia focused syndicated loan was oversubscribed by USD 340 million. The facility was led by Standard Chartered Bank. The second syndicated loan issued by TDB was a reframing of the 2014 edition with an upside of USD 80 million. The aforesaid facility was arranged by Standard Chartered Bank, Bank of Tokyo-Mitsubishi UFJ, Commerzbank, Citi, ICBC, Mashreq Bank and Mizuho.

### ***Long-term lines of credit***

To support its project finance and investment activities, the Bank mobilises medium and long-term funding from other development financial institutions, ECAs and also from local and regional capital markets.

The long term facilities from Ceskoslovenska Obchodni Banka AS, BHF Bank, China Development Bank, Exim Bank of India, USAID, JBIC and KBC Bank are provided in support of financing exports from the countries where these institutions are domiciled. In effect, the resources provided under these facilities are tied and cannot be used to support all types of Bank financed projects. The Bank's resource mobilisation strategy aims to diversify the funding base by introducing more untied resources such as those provided under the EMTN program.

### ***Master Risk Participation Agreements ("MRPAs")***

With a view to addressing concentration risk arising out of the financing of large transactions especially in the oil sector, the Bank has put in place a risk down-selling strategy by signing MRPAs with a number of institutions. In addition to facilitating the selling down of risk to other parties, the MRPAs provide a source of business for the Bank to the extent which the partner institutions have excess credit risk which they would like to offload to other parties.

### ***Loans Maturity Profile***

The following table shows the maturity profile of the Bank's loans and advances as at 31 December 2016, 2015 and 2014.

<b>Available Lines of Credit</b>	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<i>U.S.\$'000</i>		
<b>Maturity of Loans &amp; Advances</b>			
Within One Year.....	1,438,116	2,247,047	2,009,656
One year to three years.....	797,488	421,158	282,090
Three to five years.....	673,676	180,736	147,262
Over five years.....	428,353	152,809	140,644
<b>Total.....</b>	<b>3,337,633</b>	<b>3,001,750</b>	<b>2,579,652</b>

### ***Liquidity Risk***

Liquidity risk is a primary concern for any financial institution, particularly those involved in long-term funding of projects and investments. The Bank is fully cognisant of this risk and, given its focus on promoting sustained long-term development in Issuer Member States, limits the use of short-term borrowings to its trade finance operations. It is the Bank's policy to limit its borrowings to five times the paid-up capital and reserves plus fifty per cent of callable capital.

The Bank aims to maintain liquid assets to total assets ratio of at least 10 per cent and an operating level liquidity of at least 1.25 times the value of designated liabilities. Designated liabilities include 12 months of debt service obligations, disbursements not funded under any line of credit, committed capital expenditures and 12 months of administration expenses.

The Bank's liquid assets are held principally in readily marketable bonds issued, or guaranteed, by sovereign nations of acceptable credit standing, as well as in term deposits and other unconditional obligations of banks and financial institutions with investment grade ratings.

The following table sets out an analysis of the Bank's maturities of its financial assets and liabilities as at 31 December 2016, 2015 and 2014:

LIQUIDITY RISK	Maturities of assets and liabilities as at 31 December 2016						
	Up to 1 month	2 to 3 months	4 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
<b>ASSETS</b>	U.S.\$'000						
Cash and balances with other banks.....	591,016	3,820	-	-	-	-	594,836
Investment in Government Securities .....	-	-	-	227,877	-	-	227,877
Other receivables .....	53,396	78	111	172	163	-	53,920
Derivative financial instruments .....	-	-	-	-	75,760	-	75,760
	283,632	129,035	403,620	545,680	1,316,88	-	2,678,85
Trade finance loans.....					9		6
	40,237	9,497	43,951	255,247	539,020	178,52	1,066,48
Project loans .....						8	0
Equity Investments – At Fair Value.....	-	-	-	-	17,866	-	17,866
Equity Investments – At Cost	-	-	-	-	-	-	-
	<b>968,281</b>	<b>142,430</b>	<b>447,682</b>	<b>1,028,97</b>	<b>1,949,69</b>	<b>178,52</b>	<b>4,715,59</b>
				<b>6</b>	<b>8</b>	<b>8</b>	<b>5</b>
<b>Total assets .....</b>							
<b>LIABILITIES</b>							
	265,175	452,705	314,997	533,492	888,485	-	2,454,85
Short term borrowings.....							4
	17,349	1,718	32,133	76,114	638,016	125,98	891,314
Long term borrowings.....						4	
Collection Account.....	171,770	-	-	-	-	-	171,770
Other payables .....	57,470	160	239	464	3,321	1,917	63,571
					<b>1,529,82</b>	<b>127,90</b>	<b>3,581,50</b>
<b>Total liabilities .....</b>	<b>511,76</b>	<b>454,583</b>	<b>347,369</b>	<b>610,070</b>	<b>2</b>	<b>1</b>	<b>9</b>
		(312,15				<b>50,627</b>	<b>1,134,08</b>
<b>Net liquidity gap .....</b>	<b>456,517</b>	<b>3)</b>	<b>100,313</b>	<b>418,906</b>	<b>419,876</b>		<b>6</b>
					<b>1,083,45</b>	<b>1,134,0</b>	<b>1,134,08</b>
<b>Cumulative gap .....</b>	<b>456,517</b>	<b>144,364</b>	<b>244,677</b>	<b>663,583</b>	<b>9</b>	<b>86</b>	<b>6</b>

\*Equity Investment includes equity investments (note 18) and investments from joint ventures (note 19)

\*Excluded from other receivables is non-financial assets (prepayments) excluded from other payables is grant funds payable & rental deposit

LIQUIDITY RISK	Maturities of assets and liabilities as 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
<b>ASSETS</b>	U.S.\$'000						
Cash and balances with other banks.....	642,928	587	-	-	-	-	643,515
Investment in Government Securities .....	-	-	-	241,763	-	-	241,763
Other receivables .....	164,035	70	104	161	593	-	164,963
Derivative financial instruments .....	-	-	-	-	60,993	-	60,993
Trade finance loans.....	730,794	322,340	514,466	503,616	136,896	-	2,208,122
Project loans .....	56,543	26,529	29,114	63,644	370,024	152,809	698,663
Equity Investments – At Fair Value.....	-	-	-	-	289	-	289
Equity Investments – At Cost	-	-	-	-	20,162	-	20,162
	<b>1,594,300</b>	<b>349,526</b>	<b>543,684</b>	<b>809,184</b>	<b>588,957</b>	<b>152,809</b>	<b>4,038,459</b>
<b>Total assets .....</b>							
<b>LIABILITIES</b>							
Short term borrowings.....	399,800	582,717	382,206	794,304	20,215	-	2,179,242
Long term borrowings .....	116,880	18,604	61,152	33,740	569,371	74,358	874,105

Collection Account.....	264,150	324	–	–	–	–	264,474
Other payables.....	29,467	143	214	424	3,044	1,454	34,746
<b>Total liabilities .....</b>	<b>810,297</b>	<b>601,788</b>	<b>443,572</b>	<b>828,468</b>	<b>592,630</b>	<b>75,812</b>	<b>3,352,567</b>
<b>Net liquidity gap .....</b>	<b>784,003</b>	<b>(252,262)</b>	<b>100,112</b>	<b>(19,284)</b>	<b>(3,673)</b>	<b>76,997</b>	<b>685,893</b>
<b>Cumulative gap.....</b>	<b>784,003</b>	<b>531,742</b>	<b>631,853</b>	<b>612,569</b>	<b>608,896</b>	<b>685,893</b>	<b>685,893</b>

*\*Equity Investment includes equity investments (note 18) and investments from joint ventures (note 19)*

*\*Excluded from other receivables is non-financial assets (prepayments) excluded from other payables is grant funds payable & rental deposit*

## LIQUIDITY RISK

### Maturities of assets and liabilities as at 31 December 2014

	Up to 1 month	2 to 3 months	4 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
<b>FINANCIAL ASSETS</b>	U.S.\$'000						
Cash and balances with other banks.....	435,082	915	–	–	–	–	435,997
Investment in Government Securities .....	–	–	–	–	216,000	–	216,000
Other receivables .....	109	279,639	145	102	956	–	280,951
Derivative financial instruments .....	–	–	–	–	34,189	–	34,189
Trade finance loans.....	553,781	363,608	216,706	736,549	30,909	–	1,901,553
Project loans .....	31,634	19,199	20,976	52,507	345,198	140,644	610,158
Equity Investments – At Fair Value.....	–	–	–	–	12,654	–	12,654
Equity Investments – At Cost .....	–	–	–	–	6,675	–	6,675
<b>Total financial assets .....</b>	<b>1,020,606</b>	<b>663,361</b>	<b>237,827</b>	<b>789,158</b>	<b>646,581</b>	<b>140,644</b>	<b>3,498,177</b>
<b>FINANCIAL LIABILITIES</b>							
Short term borrowings.....	389,833	579,735	333,957	295,305	320,500	–	1,919,330
Long term borrowings.....	9,000	9,450	11,398	29,505	727,781	62,268	849,402
Collection Account .....	4,205	–	–	122,570	–	–	126,775
Other payables .....	12,257	3,859	397	496	2,531	1,407	20,947
<b>Total liabilities .....</b>	<b>415,295</b>	<b>593,044</b>	<b>345,752</b>	<b>447,876</b>	<b>1,050,812</b>	<b>63,675</b>	<b>2,916,454</b>
<b>Net liquidity gap .....</b>	<b>605,311</b>	<b>70,317</b>	<b>-107,925</b>	<b>341,281</b>	<b>-404,231</b>	<b>76,969</b>	<b>581,723</b>
<b>Cumulative gap .....</b>	<b>605,311</b>	<b>675,628</b>	<b>567,703</b>	<b>908,985</b>	<b>504,754</b>	<b>581,723</b>	<b>581,723</b>

*\*Equity Investment includes equity investments (note 18) and investments from joint ventures (note 19)*

*\*Excluded from other receivables is non-financial assets (prepayments) excluded from other payables is grant funds payable & rental deposit*

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.

**Source:** December 2014, 2015 and 2016 - Audited Financial Statements;  
All figures are in USD

## Currency Risk

The Bank mitigates its foreign currency transaction risk exposure by matching the currencies of its liabilities with those of its assets. The principal currency exposure arises from the translation of its assets and liabilities in foreign currency to its reporting currency, namely the U.S. Dollar. Thus, related exposure mainly arises from a revaluation of shareholders' funds, special and capital funds, as any translation gains or losses are added to, or subtracted from, these items.

The Bank does not actively trade in foreign currencies in order to generate income. However, in order to meet specific funding requirements, the Bank engages in limited scale spot foreign currency transactions.

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

**Currency Risk as at 31 December 2016**

	<u>U.S.\$</u>	<u>GBP</u>	<u>EURO</u>	<u>KES</u>	<u>SDG</u>	<u>UGXD</u>	<u>TZS</u>	<u>Other</u>	<u>Total</u>
<b>Financial Assets</b>	<i>US\$'000</i>								
Assets .....	3,901,141	4	104,471	(3)	167,466	4,110	15,864	4,056	4,197,109
<b>Financial Liabilities</b>									
Liabilities.....	<u>2,936,544</u>	<u>–</u>	<u>110,400</u>	<u>173</u>	<u>164,371</u>	<u>-</u>	<u>10,654</u>	<u>176,734</u>	<u>3,398,876</u>
<b>NET POSITION .....</b>	<b><u>964,597</u></b>	<b><u>4</u></b>	<b><u>(5,929)</u></b>	<b><u>(176)</u></b>	<b><u>3,095</u></b>	<b><u>4,110</u></b>	<b><u>5,210</u></b>	<b><u>(172,678)</u></b>	<b><u>(798,233)</u></b>

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

**Currency Risk as at 31 December 2015**

	<u>U.S.\$</u>	<u>GBP</u>	<u>EURO</u>	<u>KES</u>	<u>SDG</u>	<u>UGXD</u>	<u>TZS</u>	<u>Other</u>	<u>Total</u>
<b>Financial Assets</b>	<i>US\$'000</i>								
Assets .....	3,460,679	36	283,485	580	268,413	8,057	16,402	807	4,038,459
<b>Financial Liabilities</b>									
Liabilities.....	<u>(2,809,104)</u>	<u>–</u>	<u>(265,787)</u>	<u>(101)</u>	<u>(263,453)</u>	<u>(454)</u>	<u>(13,655)</u>	<u>(14)</u>	<u>(3,352,568)</u>
<b>NET POSITION .....</b>	<b><u>651,575</u></b>	<b><u>36</u></b>	<b><u>17,698</u></b>	<b><u>479</u></b>	<b><u>4,960</u></b>	<b><u>7,603</u></b>	<b><u>2,747</u></b>	<b><u>793</u></b>	<b><u>685,891</u></b>

The Bank's currency position as at 31 December 2014 was as follows:

**Currency Risk as at 31 December 2014**

	<u>U.S.\$</u>	<u>GBP</u>	<u>EURO</u>	<u>KES</u>	<u>SDG</u>	<u>UGXD</u>	<u>TZS</u>	<u>Other</u>	<u>Total</u>
<b>Financial Assets</b>	<i>US\$'000</i>								
Assets .....	2,740,115	1	607,039	26	127,862	2,499	19,821	813	3,498,176
<b>Financial Liabilities</b>									
Liabilities.....	<u>(2,159,020)</u>	<u>–</u>	<u>(615,080)</u>	<u>(34)</u>	<u>(122,570)</u>	<u>(1,111)</u>	<u>(18,635)</u>	<u>(4)</u>	<u>(2,916,454)</u>
<b>NET POSITION .....</b>	<b><u>581,095</u></b>	<b><u>1</u></b>	<b><u>(8,041)</u></b>	<b><u>(8)</u></b>	<b><u>5,292</u></b>	<b><u>1,388</u></b>	<b><u>1,186</u></b>	<b><u>809</u></b>	<b><u>581,722</u></b>

**Source:** December 2014, 2015 and 2016 - Audited Financial Statements;  
All figures are in USD

For the financial period ending 2014, 2015 and 2016, all of the currency mismatches are below 10 per cent. of the Bank's net-worth, the threshold beyond which the Bank is required to implement hedging strategies.

### Interest Rate Risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The main source of potential interest rate risk to the Bank is the interest rate spread between the rate earned on assets and the cost of funds. Interest rate risk also arises from various factors, including timing differences between the contractual maturity or repricing of floating rate assets and liabilities. The Bank actively manages the related exposure but recognises that, in general, interest income is reduced during periods of low interest rates.

The Bank's interest rate exposure on its financial assets and liabilities, as at 31 December 2016 is summarised below:

	As at 31 December 2016						
INTEREST RATE RISK	Up to 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Fixed interest bearing	Non-Interest bearing	Totals
	U.S.\$'000						
ASSETS							
Cash & balances with other banks	423,550	3,820	-	-	-	167,466	594,836
Other Investment	-	-	-	-	214,699	-	214,699
Other receivables	-	-	-	-	563	53,356	53,919
Hedging Derivative	-	-	-	-	-	75,760	75,760
Trade finance loans	434,279	670,150	330,258	4,557	942,857	11,042	2,393,143
Project loans	493,246	138,006	-	-	178,752	36,883	846,887
Equity Investment at cost	-	-	-	-	-	17,866	17,866
<b>Total assets</b>	<b>1,351,075</b>	<b>811,976</b>	<b>330,258</b>	<b>4,557</b>	<b>1,336,871</b>	<b>362,373</b>	<b>4,197,110</b>
LIABILITIES							
Other payables	-	-	-	-	6,180	57,390	63,570
Collection Accounts	-	-	-	-	-	171,770	171,770
Short term borrowings	897,565	979,594	158,268	-	333,896	-	2,369,323
Long term borrowings	176,618	612,270	-	-	5,327	-	794,215
<b>Total liabilities</b>	<b>1,074,183</b>	<b>1,591,864</b>	<b>158,268</b>	<b>-</b>	<b>345,403</b>	<b>229,160</b>	<b>3,398,878</b>
<b>Net interest rate exposure</b>	<b>276,892</b>	<b>(779,888)</b>	<b>171,990</b>	<b>4,557</b>	<b>991,468</b>	<b>133,213</b>	<b>798,232</b>
<b>Cumulative interest rate exposure</b>	<b>276,892</b>	<b>(502,996)</b>	<b>(331,006)</b>	<b>(326,449)</b>	<b>665,019</b>	<b>798,232</b>	<b>798,232</b>

*\*Equity Investment includes equity investments (note 18) and investments from joint ventures (note 19)*

*\*Excluded from other receivables is non-financial assets (prepayments) excluded from other payables is grant funds payable & rental deposit*

The Bank's interest rate exposure on its financial assets and liabilities, as at 31 December 2015 is summarised in the table below:



as at 31 December 2015

as at 31 December 2015							
INTEREST RATE RISK	Up to 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Fixed interest bearing	Non- Interest bearing	Totals
U.S.\$'000							
ASSETS							
Cash & balances with other banks .....	374,515	587	-	-	-	268,413	643,515
Other Investment .....	-	-	-	-	241,763	-	241,763
Other receivables .....	-	-	-	-	591	164,371	164,962
Hedging Derivative .....	-	875	-	-	-	60,118	60,993
Trade finance loans .....	56,488	36,516	419,916	43,657	1,638,815	12,720	2,208,112
Project loans .....	299,711	115,900	85,100	1,742	194,228	1,981	698,662
Equity Investment at fair value .....	-	-	-	-	-	289	289
Equity Investment at cost.....	-	-	-	-	-	20,162	20,162
<b>Total assets .....</b>	<b>730,714</b>	<b>153,878</b>	<b>505,016</b>	<b>45,399</b>	<b>2,075,397</b>	<b>528,054</b>	<b>4,038,458</b>
LIABILITIES							
Other payables .....	-	-	-	-	5,352	29,395	34,747
Provisions for Service & Leave .....	-	-	-	-	-	-	-
Collection Accounts .....	-	-	-	-	-	264,474	264,474
Hedging Derivative .....	-	-	-	-	-	-	-
Short term borrowings .....	963,324	705,089	117,972	20,215	372,641	-	2,179,241
Long term borrowings .....	126,238	710,059	6,827	-	30,980	-	874,104
<b>Total liabilities .....</b>	<b>1,089,562</b>	<b>1,415,148</b>	<b>124,799</b>	<b>20,215</b>	<b>408,973</b>	<b>293,869</b>	<b>3,352,566</b>
<b>Net interest rate exposure</b> .....	<b>(358,848)</b>	<b>(1,261,270)</b>	<b>380,217</b>	<b>25,184</b>	<b>1,666,424</b>	<b>234,185</b>	<b>685,892</b>
<b>Cumulative interest rate exposure .....</b>	<b>(358,848)</b>	<b>(1,620,118)</b>	<b>(1,239,901)</b>	<b>(1,214,717)</b>	<b>451,707</b>	<b>685,892</b>	<b>685,892</b>

\*Equity Investment includes equity investments (note 18) and investments from joint ventures (note 19)

\*Excluded from other receivables is non-financial assets (prepayments) excluded from other payables is grant funds payable & rental deposit

The Bank's interest rate exposure on its financial assets and liabilities, as at 31 December 2014 is summarised below:

as at 31 December 2014

# INTEREST RATE RISK

	Up to 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Fixed interest bearing	Non- Interest bearing	Totals
U.S.\$'000							
<b>ASSETS</b>							
Cash & balances with other banks .....	307,221	915	-	-	-	127,862	435,998
Other Investment .....	-	-	-	-	216,000	-	216,000
Other receivables .....	-	-	-	-	491	280,459	280,950
Hedging Derivative .....	1,302	-	-	-	-	32,888	34,190
Trade finance loans .....	439,738	490,478	141,595	19,145	810,580	16	1,901,552
Project loans .....	295,860	101,530	9,091	-	193,296	10,382	610,159
Equity Investment at fair value ...	-	-	-	-	-	12,654	12,654
Equity Investment at cost .....	-	-	-	-	-	6,675	6,675
<b>Total assets</b> .....	<b>1,044,120</b>	<b>592,923</b>	<b>150,686</b>	<b>19,145</b>	<b>1,220,367</b>	<b>470,936</b>	<b>3,498,178</b>
<b>LIABILITIES</b>							
Other payables .....	-	-	-	-	4,924	16,023	20,947
Provisions for Service & Leave ..	-	-	-	-	-	-	-
Collection Accounts .....	-	-	-	-	-	126,774	126,774
Hedging Derivative .....	-	-	-	-	-	-	-
Short term borrowings .....	760,333	862,492	79,305	-	217,200	-	1,919,330
Long term borrowings .....	128,080	577,577	-	-	143,746	-	849,403
<b>Total liabilities</b> .....	<b>888,413</b>	<b>1,440,068</b>	<b>79,305</b>	<b>-</b>	<b>365,870</b>	<b>142,797</b>	<b>2,916,454</b>
<b>Net interest rate exposure</b> .....	<b>155,708</b>	<b>(847,146)</b>	<b>71,381</b>	<b>19,145</b>	<b>854,497</b>	<b>328,139</b>	<b>581,724</b>
<b>Cumulative interest rate exposure</b>	<b>155,708</b>	<b>(691,438)</b>	<b>(620,057)</b>	<b>(600,912)</b>	<b>253,585</b>	<b>581,724</b>	<b>581,724</b>

\*Equity Investment includes equity investments (note 18) and investments from joint ventures (note 19)

\*Excluded from other receivables is non-financial assets (prepayments) excluded from other payables is grant funds payable & rental deposit

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

Source: December 2014, 2015 and 2016 - Audited Financial Statements;  
All figures are in USD

With the exception of collection account deposits which are non-interest bearing, and Eurobond linked assets and liabilities, most of the Bank's financial assets and financial liabilities have floating interest rates and therefore re-price within short time intervals at least at every billing date.

## Operational Risk

As with all financial institutions, the Bank is exposed to many types of operational risks, including business disruption and system or transaction processing failure. The Bank mitigates operational risk by maintaining a strong system of internal controls designed to manage that risk at appropriate levels in view of the Bank's financial strength, activities and type of markets in which it operates. The Bank's operational risk is monitored and controlled through business process reviews and compliance reviews by external and internal auditors in the finance, operations and information systems areas. In this context, the Bank has implemented the following initiatives:

1. Enterprise Risk Management;
2. Business Continuity Plan;
3. Environment and Social Risk Analysis – on-going training for all our officers;
4. Environmental and Social Governance Management System; and
5. Anti-money Laundering Policy (update) and Training.

## Capital Adequacy

Being a supranational financial institution, the Bank is self regulated. The conduct of operations is guided by the Charter with oversight 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 mitigate against increased credit risks associated with projects and infrastructure financing in developing African economies, the Bank has established a capital management policy which aims to maintain a capital adequacy ratio (ratio of total capital to risk-weighted assets) 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**").

Tier 1 capital includes paid up share capital and revenue reserves. A summary of the Bank's capital adequacy ratio is set forth in the following table.

	Year ended 31 December		
	2016	2015	2014
	US\$'000		
<b>Tier 1 Capital</b>			
Paid up share capital .....	372,051	339,741	307,962
	<b>484,428</b>	<b>396,527</b>	<b>313,960</b>
Retained earnings and Reserves .....			
<b>Total Tier 1 capital</b> .....	<b>856,479</b>	<b>736,268</b>	<b>621,922</b>
Tier 2 capital bonds .....	-	-	-
Total Tier 2 capital .....	-	-	-
<b>Total Tier 1 and Tier 2 capital</b> .....	<b>856,479</b>	<b>736,268</b>	<b>621,922</b>
<b>Risk weighted assets</b> .....			
On-Statement of financial position assets .....	2,236,881	1,812,316	1,739,614
Off- Statement of financial position assets .....	77,853	70,805	104,116
<b>Total risk weighted assets</b> .....	<b>2,314,734</b>	<b>1,883,121</b>	<b>1,843,730</b>
<b>Basel Ratio (per cent.)</b> .....	<b>37</b>	<b>39</b>	<b>34</b>

Source: December 2014, 2015 and 2016 - Audited Financial Statements;  
All figures are in USD

The Bank's tier 1 capital has achieved significant growth over the reporting period mainly due to increased profitability and capital subscriptions under the Bank's General Capital Increase program. These factors have enabled the Bank's capital adequacy ratio to remain well above the 30 per cent. threshold.

## Related Party Transactions

The Bank's principal related parties are its Members. The Bank makes loans to some of its Issuer Member States or to entities either controlled or significantly influenced by some of its Issuer Member States. In addition, the Bank secures lines of credit from certain members or institutions either controlled or significantly influenced by members. Loans and borrowings to or from related parties are made at market interest rates and are subject to commercial negotiations on the terms and conditions.

The table below shows the loans and borrowings to/from related parties as at 31 December 2014, 2015 and 2016.

	Year ended 31 December		
	2016	2015	2014
	US\$'000		
Loans to Member States .....	1,132,315	1,206,540	1,156,105
Borrowings from Members .....	321,797	364,990	279,157
Interest Income earned .....	88,034	77,510	65,956
Interest Expense incurred .....	8,280	9,617	1,153
Fees and commission earned .....	34,644	24,623	17,324

## Corporate Plan

### Corporate Strategy

The Corporate Plan was approved by the BOG in December 2012. The Corporate Plan aims to reposition the Bank as the leading and preferred development finance institution of the wider Eastern and Southern African region, in alignment with the Tripartite Agreement between COMESA, SADC and EAC. This entails strengthening and expanding the Bank's operations in the financing of trade, infrastructure and enterprises, across the greater free trade area of 26 African countries envisaged under the Tripartite Agreement.

The specific objectives to be pursued during the Corporate Plan period include:

- (a) advancing regional economic integration and growth through trade and investment;
- (b) promoting the development of infrastructure, exports and enterprises in Issuer Member States;
- (c) providing debt, quasi-equity financing, as well as non-financial products and services, to qualifying entities and projects in Issuer Member States;
- (d) rendering technical and management services to Issuer Member States, Partners, Donors and Stakeholders, including management of special purpose funds; and
- (e) foster the development and deepening of financial and capital markets in Issuer Member States

The Corporate Plan envisages the Bank securing rating upgrades to investment grade status thereby improving access to international capital markets and reducing the overall cost of borrowed funds.

The Corporate Plan proposes a moderate growth strategy in respect of business development activities with emphasis being placed on increased leveraging of the Bank's funding resources. Project and infrastructure loans worth USD 1.63 billion are targeted for approval during the Corporate Plan period.

Targeting an overall portfolio growth rate of 15 per cent. per annum, project and infrastructure commitments and disbursements for the five year period are projected at USD 1.56 billion and USD 1.4 billion respectively. Trade finance volumes are projected to increase annually by 10 per cent. from USD 3.49 billion in 2013 to reach USD 5.17 billion by 2017. There can be no assurance that such targets and plans will be met as they are dependent on many variables that are outside of the control of the Bank.

The following table summarises the Corporate Plan's business targets.

	Corporate Plan (CP)									
	2013		2014		2015		2016		2017	
	Actual	CP	Actual	CP	Actual	CP	Actual	CP		
Project & Infrastructure Approvals	289	242	309	278	357	320	76	368	423	
Project & Infrastructure Commitments	296	230	210	265	225	305	281	351	404	
Project and Infrastructure Disbursements	210	207	124	238	202	274	284	315	362	
Project and Infrastructure Syndications		155	215	214	-	288	-	378	434	
Trade Finance Disbursements	1,895	1,651	2,830	1,816	2,262	1,998	1,330	2,298	2,418	
Letters of credit issued	1,994	1,804	2,446	1,984	1,762	2,182	1,150	2,400	2,640	
Letters of credit confirmed		-		20	-	30	-	40	50	
Guarantees	84	40	20	44	34	48	-	53	58	

*All figures are in USD millions*

The Bank has achieved the targets set out in the Corporate Plan for the last three years since implementation. The Bank's dollar balance sheet in 2016 grew year-on-year by 4 per cent. to USD 4.3 billion, commensurate by 16 per cent. capital growth of USD 856 million. This result is aided by growth of the portfolio and high quality loans. During the period, non-performing loans have remained steady at the respectable level of below 5 per cent, reaching 2.85 per cent. in 2016. In terms of return on equity, the Bank's return on equity ("**ROE**") was consistently above 10 per cent. and 13 per cent. in 2016. The Bank has also focused on strengthening corporate governance and risk management practices to ensure greater operational effectiveness and more efficient use of capital.

The Bank continues to grow its capital both with strong support from existing members as well as robust interest from new investors including institutional investors.

In pursuit of its corporate objectives, the Bank has set up its fund management initiatives namely the Eastern and Southern African Trade Fund and the COMESA Infrastructure Fund which are respectively managed through JV vehicles with GML Capital and Harith General Partners. These Funds and respective Fund Managers have been incorporated in the first half of 2015 and are in the process of fund raising. Both GML Capital and Harith General Partners are specialist in their respective fields with extensive years of experience.

### **Enhanced Corporate Governance and Management**

The Bank has, as at December 2016, appointed two independent non-executive directors in line with the provisions of the Corporate Plan and the Charter. The formation of additional committees was done with two new committees being formed, being the Investment and Credit Committee and the Nominations and Remuneration Committee. These committees have helped streamline the operations of the Board for greater efficiency and effectiveness. The Bank's management team has been strengthened with the introduction of three senior executive positions, namely, Chief Operating Officer, Chief Financial Officer and Chief Risk Officer, responsible for these management roles. Similarly, management positions for Syndicated Loan and Advisory services have also been formed. Since July 2015, the Treasury Unit has been expanded and developed into a separate Treasury department.

The Bank's investment grade shareholders, notably the African Development Bank, Mauritius, and the People's Bank of China ("**PBoC**") have increased their stake in the Bank in the past 36 months representing in aggregate 20.71 per cent. of the Bank's paid in capital structure. The Bank welcomed several new institutional investors, pension funds, re-insurance companies and specialised investment banks from within the region. Notably, some of these were African institutional investors, a further reflection of the confidence of African investors in their own financial institutions that show commitment to strong corporate governance and high performance. The Bank also welcomed Banco Nacional de Investimento of Mozambique and Africa Reinsurance Corporation, headquartered in Nigeria, reflecting interest in the Bank's profile from the West African investment community.

The Bank's capital growth strategy is also predicated upon a successful completion of the on-going General Capital Increase ("**GCI**") an equity fund raising plan, in line with the Corporate Plan. In this regard, the Corporate Plan assumes that shares not paid for by Issuer Member States with capital subscription arrears will be immediately forfeited by the defaulting Issuer Members and reallocated to other eligible Issuer Members. As of 31 December 2016, 15 out of the 19 member states had paid up their capital subscriptions in full. In 2015, three existing member states increased their shareholding through new capital initiatives. Other countries are in advanced stages of joining the Bank and becoming member states, namely the Kingdom of Swaziland and the Republic of South Sudan. By ensuring a successful completion of the GCI and implementing the expanded membership strategy, the Bank's paid in capital is expected to increase from USD 372 million as at 31 December 2017 to reach USD 380 million by 2017.

With regard to new members, emphasis will be placed on broadening the membership base by targeting COMESA, other African, emerging markets and OECD countries that have not yet joined the Bank. The Bank has launched a new membership drive with a view to signing on new prospective Issuer Member States from the region, such as Angola, Madagascar and Swaziland, where the Bank believes its financial services would be in demand.

#### **(a) Treasury management**

Since July 2015, the Treasury Unit has developed into a Treasury department. The Bank will continue to use sound financial policies in its treasury activities, following internationally recognised benchmarks. Further, a new treasury management system is expected to be implemented during 2017. The Bank will continue to use sound financial policies in its treasury activities, following internationally recognised benchmarks.

(b) *Borrowings*

It is the Bank's policy to limit borrowings to five times the paid up capital and reserves plus fifty per cent. of callable capital. As at 31 December 2016, the Bank had USD 3.2 billion in borrowings, representing 64 per cent of its borrowing capacity. Implementation of the capital increase approved by the BOG in June 2007 and retained earnings have significantly augmented the Bank's borrowing capacity.

To obtain additional financing, the Bank will pursue the following strategies:

(i) *Improve on its domestic and international ratings.*

The Bank has a 'BB' international long-term rating from GCR. In addition, in 2014 Fitch upgraded the Bank to a "BB" long-term rating while Moody's long term rating of Ba1 has been upheld. The Bank will aim to improve on these ratings in order to attract funding at competitive terms.

(ii) *Strategic bond issues on the local capital markets in various countries.*

The Bank has already issued bonds in Uganda, Kenya and Tanzania. In 2015 the Bank has issued a Tanzanian Shilling Bond valued at TZS 32,600,000,000, with further issues planned for Zambia and Mauritius in the near future.

### ***Financial management***

The Bank has implemented a number of changes to build on its financial management performance.

The budgeting process has been strengthened to ensure efficient allocation and use of resources, incorporating regular reviews of actual performance against plans. The budgetary control process has been de-centralised to enable departmental heads to approve and monitor departmental budgets. This has been achieved and continues to be improved by leveraging the budgeting and control functionality of the SAP Accounting System.

In addition, the Bank is implementing a decision support tool which will be used to run scenarios in order to test the sensitivity of key outputs to different input assumptions and to predict financial results with greater confidence. The model will have a robust "What If" functionality to analyse a number of scenarios given a set of parameters, including capital adequacy, leverage, non-performing loans, impairments, liquidity, margin management.

### ***Risk Management***

The Bank has continued to strengthen its risk management framework to ensure that the risk function performs a key role in independently identifying, assessing, mitigating, controlling, monitoring and reporting significant risks facing the Bank. The Bank continues to base its risk management framework on a well-established governance process, relying both on individual responsibility and collective oversight, and by being supported by a comprehensive reporting and escalation process. The industry standard three lines of defence model is embedded in the Bank's operating model. In the first line of defence, line management is principally responsible for risk management. Business Unit managers are responsible for identification and appropriate reporting of risks to the various governance bodies of the Bank. The Risk Management Function represents the second line of defence and is independent of line management. The Risk Management function is essentially accountable for establishing and maintaining the Bank's risk management framework as well as providing risk oversight as well as independently reporting on such matters to Senior Management and the Board. The Risk department now includes a Chief Risk Officer, a Director of Credit Risk, a Head of Enterprise Risk and a Head of Compliance. The third line of defence consists of internal auditors which provide an independent assessment of the adequacy and effectiveness of the control environment. The internal audit function reports independently to the Board Audit Committee.

In this regard, the Bank has implemented a number of measures aimed at strengthening its risk management capacity, which include upgrading the function to a fully-fledged department with dedicated credit risk and internal audit co-ordinating units.

### ***Information Technology***

The Bank runs a fully integrated Enterprise Resource Planning system, on the SAP platform, to meet its treasury, accounting, administrative and management information requirements.

The SAP system is installed on a Local Area Network that allows for the easy access of information by all the departments. To ensure system reliability, every effort is taken to provide a resilient hardware infrastructure comprising of servers, desktop PCs and networked printers.

The Bank has recently embarked on major review of information management systems such as automation initiative of business processes, document management, decision making tools, systems and underlying ICT connectivity infrastructure in order to ensure reliable communication between its principal office in Burundi and its regional offices in Nairobi (Kenya), Harare (Zimbabwe) and Ebene (Mauritius). The aggregate costs of these projects is approx. USD 2.5m, over the period 2015 and 2016.

### ***Competition***

Management believes the Bank occupies a competitive position in the sub-region derived from its:

- ability to extend both long and short-term foreign and local currency denominated loans to the sub-region;
- ability to act as a credible intermediary and conduit of financing for international financial institutions unable to lend directly to the sub-region;
- capitalisation in a U.S. dollars and the availability of significant levels of callable capital acting as guarantee to the Bank's borrowings;
- focus on the sub-region's private sector, recognised as the engine of growth for the Bank's Issuer Member States;
- intimate knowledge of the sub-region through linkages with government institutions, central banks, commercial banks, local development financial institutions and private sector operators; and
- human resources capacity with extensive experience, depth and breadth in development banking in Africa.

The competitive landscape in which the Bank operates includes local commercial banks, subsidiaries of international banks, regional and international development financial institutions. Given, however, the significant demand for development capital in the region, the Bank views the presence of these institutions both from a competitive position and also a complementary or collaborative perspective.

Subsidiaries of foreign banks operating in the Bank's Issuer Member States include Barclays, Standard Bank of South Africa, Citibank and Standard Chartered Bank. These banks are active in providing pre-and post-shipment finance and confirmation of letters of credit. The Bank enjoys good working relations with these foreign banks and is often invited to join club deals or syndications arranged by them. A number of these banks fund the Bank's trade finance activities.

The Bank enjoys strong relations with African continental and regional development financial institutions which include the African Development Bank ("**ADB**"), African Export-Import Bank ("**AfreximBank**"), Development Bank of South Africa ("**DBSA**") and the East African Development Bank ("**EADB**"). ADB has provided equity and lines of credit to the Bank in excess of USD 184 million and is an active co-financier on a number of Bank financed projects. The Bank has a 0.48 per cent equity stake in Afrexim bank, an active co-financier on a number of trade finance transactions. Afrexim bank has also provided a USD 125 million short term line of credit to support the Bank's trade finance activities. DBSA has provided a USD 95 million line of credit to the Bank. DBSA and Afrexim are active co-financing partners on a number of Bank financed projects.

International financial institutions such as the International Finance Corporation, Agence Francaise de Development ("**AFD**"), KFW, PROPARCO, (*Promotion et Participation pour la Coopération*), DEG (*Deutsche Investitions und Entwicklungsgesellschaft mbH*), FMO (*Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V.*), USAID and the European Investment Bank ("**EIB**") are active players in the provision of medium to long term development capital. Similarly, the Bank enjoys cordial relations with these institutions some of which like FMO have direct funding relationships with the Bank.

In 2013, the Bank secured accreditation from OECD's Development Assistance Committee ("**DAC**"). This accreditation has enabled the Bank to access development assistance funding at concessionary terms thereby contributing lower funding cost and improved competitiveness.

### ***Money Laundering and "Know Your Customer" Checks***

In support of global efforts towards fighting money laundering and terrorism financing, the Bank applies various anti-money laundering and anti-terrorism financing controls as provided in its policy. These include the administration of "Know Your Customer" checklists, the designation of a Money Laundering Reporting Officer within the Compliance and Risk Management Unit, continuous staff training and independent auditing of the procedures and controls to ensure conformity with best practices. The Bank also uses Thomson Reuters World Check programme to check counterparties against sanctions related lists globally.

The Bank's "Know Your Customer" policy requires the submission of certain information including the entity's certificate of incorporation, physical and operating addresses, board resolutions/mandates with respect to specific transactions, memorandum and articles of association, profile of board members and management, details of shareholdings in excess of 25 per cent. and recently audited financial statements. The policy prohibits any dealings with shell companies.

Additional information is obtained from various databases including the asset freeze targets lists designated by the United Nations and the European Union. The Bank also undertakes due diligence on the intended application of loan funds so as to satisfy itself on the authenticity of the transactions and credibility of the parties involved. For import related transactions, the Bank encourages disbursements through the use of confirmed letters of credit while for other transactions, disbursement applications are scrutinised to ensure that they conform to the purpose for which the loan was approved.

In 2014, the Bank reviewed and revamped its AML/CFT framework to further consolidate its effective internal controls. This included the comprehensive customer due diligence ("**CCDD**"), policies, procedures, processes, for all customers particularly those that present a high risk of money laundering or terrorist financing.

The Bank has a whistle blowing policy that requires all employees to report any unusual transactions or non compliance. Any suspicious transactions are reported to central banks or other Issuer Member States' regulatory authorities for further investigation.

### ***Corporate and Management Information***

#### **Corporate Structure**

The corporate structure of the Bank comprises two policy-making organs namely, the BOG and the Board, three Board sub-committees namely, the Audit and Risk Committee, the Investment and Credit Committee and the Remuneration and Nominations Committee constituted of members of the Board, the President as the Chief Executive Officer, management and staff.

#### **Board of Governors**

The addresses and occupation of the current members of the BOG are listed below.

#### **BOARD OF GOVERNORS**

Hon. Dr. Abraham Tekeste.....	Minister of Finance and Economic Cooperation, Federal Democratic Republic of Ethiopia
Hon. Felix Mutati .....	Minister of Finance and National Planning, Republic of Zambia
Hon. Pravind Kumar Jugnauth .....	Prime Minister, Minister of Finance and Economic Development, Minister of Foreign Affairs, Regional Integration and International Trade, Republic of Mauritius
Mr. Louis Rene Peter Larose.....	Minister of Finance, Trade and the Blue Economy, Republic of Seychelles



Hon. Matia Kasaija.....	Minister of Finance, Planning and Economic Development Republic of Uganda
Hon. Dr. Domitien Ndiwokubwayo.....	Minister of Finance, Budget and Privatisations, Republic of Burundi
Hon. Said Ali Said Chayhane .....	Minister of Finance and Budget, Union of Comoros
Hon. Ilyas Moussa Dawaleh .....	Minister of Economy, Finance and Planning, Republic of Djibouti
Hon. Dr. Amr EL-Garhy .....	Minister of Finance, Republic of Egypt
Hon. Berhane Habtemariam.....	Minister of Finance, State of Eritrea
Hon. Adan Mohamed EGH.....	Cabinet Secretary of Ministry of Industry, Trade and Co-operatives, Republic of Kenya
Hon. Dr. Goodall Gondwe.....	Minister of Finance, Economic Planning and Development Republic of Malawi
Hon. Patrick Chinamasa.....	Minister of Finance and Economic Development, Republic of Zimbabwe
Amb. Claver Gatete (Chairman of the BOG).....	Minister of Finance and Economic Planning, Republic of Rwanda
Hon. Badr El-Din Mahmoud Abbas .....	Minister of Finance and National Economy, Republic of Sudan
Hon. Phillip Mpango.....	Minister of Finance and Economic Affairs, United Republic of Tanzania
Hon. Henri Yav Mulang.....	Minister of Finance, Democratic Republic of Congo
Hon. Mohamed Aden Ibrahim .....	Minister of Finance, Federal Republic of Somalia
Hon. Adriano Afonso Maleiane .....	Minister of Economy and Finance, Republic of Mozambique
Mr. Charles O Boamah .....	Vice President – Finance, African Development Bank (AfDB)
H.E. Dr. Zhou Xiaochuan .....	Governor, People's Bank of China, People's Republic of China
Mr. Andrei S. Bristelev .....	Chairman of the Board, Paritetbank, Belarus
Mr. Veenay Rambarassah .....	Senior Analyst, National Pension Fund of Mauritius
Mr. Derek Wong Wan Po .....	Managing Director, Mauritian Eagle Insurance Company Ltd
Ms. Lekha Nair.....	Chief Executive Officer, Seychelles Pension Fund
Mr. Corneille Karekezi.....	Group Managing Director, Africa-Re Insurance Company
Ms. Hope Murera .....	Managing Director, Zep-Re (PTA Reinsurance Company)
Mr. Jonathan Gatera .....	Director General, Rwanda Social Security Board
Mr. Richard Byarugaba.....	Chief Executive Officer, National Social Security Fund Uganda
Mr. Tomas Rodrigues Matola .....	President, Banco Nacional de Investimento
Mr. John A K Esther .....	Chief Executive Officer, SACOS Group Limited

### ***Board of Directors***

The current members of the Board are listed below.

Mr. Mohamed Kalif.....	Non-Executive Director for African Institutions, Chairman
Mr. Gerard Pascal Bussier.....	Non-Executive Director for Zimbabwe, Mauritius, Rwanda and Eritrea.
Ms. Isabel Sumar .....	Non-Executive Director for Kenya, Mozambique, Zambia and Somalia
Dr. Natu Mwamba .....	Non-Executive Director for Egypt, Tanzania and Djibouti
Mr. Gerome Kamwanga .....	Non-Executive Director for Uganda, Sudan, DR Congo and Comoros
Mr. Peter Simbani.....	Non-Executive Director for Seychelles, Ethiopia, Burundi and Malawi
Mr. Mingzhi Liu .....	Non-Executive Director for Non-African States
Mr. John Bosco Sebabi.....	Non-Executive Director for all Other Shareholders
Dr. Abdel-Rahman Taha.....	Non-Executive Independent Director
Mr. Juste Rwamabuga .....	Non-Executive Independent Director
Mr. Samuel Mivedor.....	Alternate Non-Executive Director for African Institutions
Ms. Li Hui.....	Alternate Non-Executive Director for Non-African States
Ms. Kampeta Sayinzoga .....	Alternate Non-Executive Director for Zimbabwe, Mauritius, Rwanda and Eritrea
Ms. Mariam Hamadou.....	Alternate Non-Executive Director for Egypt, Tanzania and Djibouti
Prof. Oliver Saasa .....	Alternate Non-Executive Director for Kenya, Mozambique, Zambia and Somalia
Ms. Lekha Nair .....	Alternate Non-Executive Director for All Other Shareholders
Mr. Admassu Tadesse.....	President

None of the Directors has been, nor is currently, the subject of filing of a petition for bankruptcy, either in their own capacity or as an executive officer of any company. None of the Directors has been convicted of a criminal offence, nor is any Director the subject of current criminal proceedings.

None of the Directors has been ruled temporarily or permanently unfit to engage in any business practices.

### **Directors' Interests**

As at 31 December 2016, no Director held directly or indirectly an interest in the Bank's ordinary issued share capital.

Except for employment contracts with executive Directors, there are no existing or proposed contracts between any of the Directors and the Bank.

There are no ongoing actual or potential conflicts of interest between any Director and their duties to the Bank.

## ***Directors' Qualifications and Experience***

### **Mohamed Kalif**

Mohamed Kalif is the Head of Financial Intermediation of the African Development Bank (AfDB) which covers commercial banks, trade finance, SMEs, insurance, leasing and regional development financial institutions. Before joining the Private Sector Department of the AfDB, Mr. Kalif was Chief of Risk of AfDB for a period of 7 years.

Mr. Kalif has 24 years of banking experience, including of risk management, corporate banking and project finance lending in commercial banks and development financial institutions. He is the current Board Chairman.

### ***Dr. Natu El Mamry Mwamba***

Dr. Natu E. Mwamba holds a PhD in Economics from the University of Nottingham, United Kingdom and a Master's Degree from the University of Dar es Salaam. She is the Deputy Governor of the Bank of Tanzania and was a Senior Lecturer at the University of Dar es Salaam prior to her appointment. Dr. Mwamba is a published researcher in various areas including economics and social and gender issues. She is the Non-Executive Director representing Djibouti, Egypt and Tanzania

### ***Gerard Pascal Bussier***

Gerard Bussier is a Director at the Ministry of Finance and Economic Development of the Government of Mauritius, heading the department that deals with resource mobilisation, bilateral agreements, and economic cooperation including international affairs and trade. Mr. Bussier is a Certified Chartered Accountant (UK) and a Certified Fraud Examiner (USA). He also holds a Master in Business Administration from the University of Mauritius with specialisation in finance. He is the Non-Executive Director representing Rwanda, Mauritius, Zimbabwe and Eritrea.

### ***John Bosco Sebabi***

John Bosco Sebabi is the Deputy Director General of the Rwanda Social Security Board in charge of funds management. He holds an MSc in International Economics, Banking and Finance from Cardiff University, United Kingdom and a BSc in Economics and an Associate degree in Economics, both from the National University of Rwanda. Mr. Sebabi is a fellow of the Fletcher Leadership Program for Financial Inclusion of the Fletcher School, Tufts University, and holds an executive education certificate from the Advanced Management Program (AMP). He is the Non-Executive Director representing all other Shareholders.

### ***Juste Rwamabuga***

Juste Rwamabuga is a Burundian national with over 40 years of experience in public, private and international organisations, including, the World Bank, International Finance Corporation and the African Development Bank. He previously served as Division Manager of the Transports Infrastructure Department of the African Development Bank. He holds an MBA from the University Of Montreal, Canada. He is the Independent Non-Executive Director.

### ***Peter Simbani***

Peter Simbani heads the Department of Economic Planning and Development of Malawi which is responsible for the formulation of the medium to long-term development plans for the country, the formulation of the public sector investment programme and monitoring the performance of sector plans. He has over 27 years of experience in aid and debt management.

He holds a Master's degree in International Development Studies from the University of Bradford and a Bachelor's degree in Social Sciences from Chancellor College of the University of Malawi. He is the Non-Executive Director representing Seychelles, Burundi, Ethiopia and Malawi.

### ***Isabel Maria Sumar***

Isabel Sumar is the National Director of Cooperation in the Mozambican Ministry of Finance responsible for managing cooperation with international partners supporting the state budget and coordination of the

SADC Regional Integration. She possesses expertise in the oil and gas industry and management of public enterprises.

Ms. Sumar holds an MSc in Public Economic Management and Finance from the University of Birmingham in the United Kingdom and an honors degree in International Relations and Diplomacy from the Mozambique Institute of International Relations (ISRI). She is the Non-Executive Director representing Kenya, Zambia, Somalia and Mozambique.

#### ***Oliver Saasa***

Professor Oliver Saasa is a holder of a Master in Science in International Studies and a PhD in International Economic Studies from Southampton University in the United Kingdom. Mr. Saasa is currently a Managing Consultant/CEO of Premier Consult Ltd in Lusaka. He is the Director for Zambia, Kenya and Somalia.

#### ***Mr. Mingzhi Liu***

Mingzhi Liu is the Chief Representative for the People's Bank of China at the Africa office in Tunis. He holds a Masters and a PhD in Economics from the Peking University in Beijing, China. He is currently working as Chief Representative for Africa of the People's Bank of China (Central Bank of China) at the Bank's office in Tunis. Mr. Liu possesses over 12 years of experience in development banking in Africa and China. He is the Non-Executive Director representing Non-African States.

#### ***Abdel-Rahaman Taha***

Dr. Taha holds a PhD in Business Administration from the University of California, Los Angeles and an MBA from the University of California, Berkeley. He has over 40 years' experience in the management of regional multilateral development finance institutions focusing on trade finance and export credit and political risk insurance, covering African and other developing countries.

Dr. Taha previously served as the CEO of the Islamic Corporation for the Insurance of Investment and Export Credit. He is an Independent Non-Executive Director.

#### ***Gerome Kamwanga Masankisi***

Gerome Kamwanga holds a Master of Science degree in Mathematical Financial Modeling from the University of Witwatersrand in South Africa. He is currently a Senior Advisor in charge of Cooperation at the office of the Prime Minister of the Democratic Republic of Congo. He is the Non-Executive Director for the Democratic Republic of Congo, Uganda, Comoros and Sudan.

#### ***Admassu Tadesse, President and Chief Executive***

Mr. Tadesse is the President and Chief Executive of the Bank. An economist and banker, Mr. Tadesse qualified at the London School of Economics and Political Science, Wits Business School and the University of Western Ontario, and trained in advanced management and banking at Harvard Business School and INSEAD.

Prior to his appointment, Mr. Tadesse served as a top executive for 10 years at the Development Bank of Southern Africa ("DBSA") where he was responsible for international finance and investment, as well as corporate strategy.

#### ***Alternate Directors***

##### ***Mariam Hamadou***

Mrs. Hamadou is a holder of a Master Degree in Management of Economic Policies from the CERDI in Clermont Ferrand, France. Ms. Hamadou is the Director of Economy and Planning in Djibouti. She has over 17 years of experience in Management, Project development and Assessment of policies. She is the Alternate Director for Djibouti, Tanzania and Egypt.

##### ***Kampeta Sayinzoga***

Mrs. Sayinzoga is a holder of a Master Degree in Economic Development and Policy Analysis from the

University of Nottingham, United Kingdom. Ms. Sayinzoga is the Permanent Secretary and the Secretary to Treasury at the Ministry of Finance and Economic Planning in Rwanda. She is a board member of a number of Institutions. She is the Alternate Director for Zimbabwe, Mauritius, Rwanda and Eritrea.

#### ***Ekue Samuel Mivedor***

Mr. Mivedor holds a Master degree in Business Administration from SUNY Buffalo, New York. Mr. Mivedor is currently working as Manager, Portfolio Management Division in the Private Sector Department at the African Development Bank headquartered in Cote D'Ivoire. He has more than 15 years of experience in project finance, small and mid-size companies, microfinance, private equity investments, treasury operations and infrastructure projects. He is the Non-Executive Director representing African Institutions.

#### ***Rupert Simeon***

Mr. Simeon holds a Bachelor of Arts Degree in Banking, Insurance and Finance from the University of Wales in Bangor, United Kingdom. Mr Simeon has been involved in various economic reform programs. He is currently the Director General of the Policy and Strategy Division at the Ministry of Finance in Seychelles.

#### ***Lekha Nair***

Mrs. Nair holds a Master of Science in Public Finance from Leeds Metropolitan University in the United Kingdom. Mrs Nair is the CEO of the Seychelles Pension Fund and has been on various Boards and Committees such as Nouvobanq, Public Utilities Corporation, Seypec, SIBA, Seychelles Pension Fund and Island Development Company. She was also instrumental in setting up the National Tender Board. She is currently the Chairperson of the Development Bank of Seychelles and a Board Director of SACOS. The National Disaster Relief Fund is also under her chairmanship.

Mrs Nair was also the Alternate Governor of the World Bank and Alternate Governor of African Development Bank, amongst others.

### **Departments**

The roles and responsibilities of the each department are summarised below:

#### **Human Resources**

In appointing officers and staff to the Bank, consideration is given to employing individuals with the highest standards of integrity and professionalism. The Bank currently employs 123 staff, of which 84 are professionals. The remaining staff comprises both sub-professional and general services employees. The Bank's professional and sub-professional staff is well educated with more than 50 per cent. of them having attained post graduate and professional qualifications.

#### **Departments**

The roles and responsibilities of the each department are summarised below:

#### **Projects and Infrastructure Finance**

The Projects and Infrastructure Finance department is responsible for developing the pipeline of projects and infrastructure loan applications, appraising credit applications, securing the required approvals and committing the underlying loans through appropriate documentation and fulfilment of conditions precedent to initial disbursement.

#### **Trade Finance**

The Trade Finance department is responsible for developing the pipeline of short term and structured trade transactions, appraising credit applications, securing the necessary approvals and committing the underlying loans through appropriate documentation and fulfilment of conditions precedent to disbursement. The Department is also responsible for relationship and portfolio management functions of trade finance accounts which are regular in terms of loan servicing.

## **Finance**

The Finance department is responsible for ensuring timely availability of accurate and readily usable financial information, and adequate funding to meet all operational requirements. Its main focus is therefore on budgeting and control, financial reporting and resource mobilisation and management.

### ***Portfolio Management***

The Portfolio Management Department ("**PMD**") is responsible for the administration and monitoring of projects and infrastructure loans and investments immediately from the first disbursement of funds through to project implementation. PMD also takes over the responsibility of managing trade finance accounts whose ageing of arrears exceed 90 days.

The overall aim of the department is to manage and maintain a high quality loans portfolio by ensuring that all Bank-supported transactions perform in line with the credit appraisal requirements and that the approved terms and conditions are executed appropriately.

Other functions of PMD include:

- (a) developing and improving the effectiveness and efficiency of the Bank's loan administration, supervision, monitoring, and debt recovery processes;
- (b) checking and verifying compliance with the provisions of the credit approvals and the loan agreements in the disbursement process;
- (c) checking and verifying compliance to the Banks' approved procurement policy and procedures by borrowers;
- (d) sustaining regular loan repayment status of existing and new borrowers;
- (e) grading of loans based on performance of individual accounts and recommending classification and loan provisioning;
- (f) working out existing and potential non-performing loans through restructuring arrangements which are reinforced by effective supervision and monitoring activities; and
- (g) assessing the performance and exit mechanisms for accounts in receivership and monitoring the overall performance of receivership operations for both in-house and external receivers.
- (h) As part of its core responsibilities, PMD generates the following reports:
- (i) back to office reports arising from the monitoring and supervision visits to projects;
- (j) arrears recovery reports to apprise the Arrears Recovery Committee ("**ARC**") on the status of the outstanding arrears and the recovery actions taken or proposed to be taken by PMD to have the arrears settled. The reports are prepared on a monthly basis;
- (k) quarterly compliance reports setting out the status of compliance by the borrower with the terms and conditions of the loan /facility agreement. The reports are submitted to CRMU; and
- (l) quarterly portfolio reports detailing country, industry, sector exposure by type of advances and duration of loan. The reports which are submitted to the BOD incorporate comments on the performance of the main borrowers and overall portfolio performance.

## **Human Resources and Administration**

The Human Resources and Administration department is responsible for all staffing and administration matters including staff recruitment, staff welfare, performance evaluation and the provision of administrative support services to other departments.

## **Legal Services**

The Legal Services Department has the responsibility of executing the general legal advisory services

function of the Bank. In its core function of providing legal services support, the department is responsible for serving as general legal counsel of the Bank, drafting various legal instruments, instructing external counsel of the Bank and overseeing the smooth conduct of its litigation portfolio. It reviews and advises upon contractual arrangements with various counterparties with whom the Bank engages in its ordinary course of business.

### **Corporate Affairs and Investor Relations**

The Corporate Affairs Department is responsible for managing key stakeholder relations which include Issuer Member States, lenders, business partners and donors. The department also coordinates membership explanation and the management of strategic partnerships with bilateral and multi-lateral development partners. The department provides analytical and policy advice to the President on various strategic initiatives, maintains information of development issues in the region, provides administrative and logistical support to the Board and handles the Bank's public relations activities.

### **Treasury**

The Treasury department is responsible for the management of the Bank's liquidity and market risks by ensuring that risk is controlled within the bank policy risk guidelines. Treasury is also charged with market facing functions that include term liability issuance as well as Money Market operations. A treasury management system platform on SAP is expected to be implemented during the next 12 months. With the implementation of the Treasury Management System, Treasury will be in a better position to optimise capital and balance sheet management and bank's liquidity position.

### **Compliance and Risk Management**

The Compliance and Risk Management Department ("**CRMD**") serves as an independent and dedicated risk management unit whose main responsibility of the monitoring, measurement, evaluation and reporting, on a Bank-wide basis, of all risks including compliance risk. The CRMD reports to the Audit Committee of the Board of Directors.

CRMD's specific responsibilities include:

- (a) measuring and reporting on an aggregate basis, all risk exposures across the Bank against approved limits;
- (b) coordinating the design, implementation and monitoring of business continuity and other corporate risk management plans;
- (c) reviewing risk policies and risk exposure limits as may be recommended by departments and units;
- (d) coordinating and facilitating the maintenance of risk registers and risk mitigation action plans;
- (e) coordinating the design, implementation and monitoring of other risk management initiatives;
- (f) conducting reviews and assessments of credit applications and providing independent opinions; and
- (g) monitoring and reporting progress on implementation of Departmental risk management plans.

CRMD monitors the Bank's risk exposures on a continuous basis and reports monthly to management through the BIRMC and quarterly through the Audit Committee of the BOD.

## Senior Management of the Bank

The following are the members of the Bank's senior management team.

No	Name	Nationality	Position	Age
1	Admassu Tadesse	Ethiopian	President and Chief Executive Officer	47
2	Joy Ntare	Rwandan	Chief Risk Officer	49
3	Devalingum Gopalla	Mauritian	Director, Legal Services	38
4	George Mudange	Zimbabwean	Senior Director Trade Finance & Chief Trade Finance Officer*	44
5	James Kabuga	Kenyan	Senior Director, Harare Regional Office	60
6	Catherine Kimaryo	Tanzanian	Director, Nairobi Regional Office, Project & Infrastructure	40
7	Daniel Mezgebu	Ethiopian	Director, Human Resources and Administration	58
8	Wycliffe Bbossa	Ugandan	Director, Portfolio Management	50
9	Abraham Byanyima	Ugandan	Director, Treasury	51
10	Goodman Chakanyuka	Zimbabwean	Director, Credit Risk Management	45
11	Mary Kamari	Rwandan	Director, Corporate Affairs and Investor Relations	41
12	Francis Namboya	Malawian	Director, Financial Management	50

\* Appointed Deputy Chief Executive Officer of the Tripartite Trade Finance Fund ("TTFF") since 1 Feb 2015

## Management Profiles

A management team led by the President of the Bank is responsible for steering the Bank's operations. This management team, in turn, reports to the Board. As President and Chief Executive of the Bank, Mr. Admassu Tadesse heads the current management team.

There are no actual or potential conflicts of interest between any member of PTA's management team and their duties and the Bank.

The following is a summary of key members of the current management team:

### 1. *Admassu Tadesse*

Mr. Tadesse is the President and Chief Executive of the Bank. An economist and banker, Mr. Tadesse qualified at the London School of Economics and Political Science, Wits Business School and the University of Western Ontario, and trained in advanced management and banking at Harvard Business School and INSEAD.

Prior to his appointment, Tadesse served as a top executive for 10 years at the Development Bank of Southern Africa ("DBSA") where he was responsible for international finance and investment, as well as corporate strategy. Much earlier in his career, he served in various management and technical capacities with specialised UN agencies.

Tadesse is the vice-chairman of the Association of African Development Finance Institutions ("AADFI") and a member of the Institute of Bankers and Institute of Directors of Southern Africa. He serves on several international boards and trust funds and is fluent in Arabic, English and French.

### 2. *Joy Ntare*

Ms. Ntare is the Chief Risk Officer and has been with the Bank since April 2014. She has over 26 years of experience in accounting and finance. Prior to joining the Bank, Ms. Ntare was employed by the Central Bank of Rwanda for 20 years in several capacities including Director General for Financial Stability, Director Supervision of Non-Bank Financial Institutions and Tanzania Electric Supply Company. Ms. Ntare holds an Advanced Diploma in Accountancy and a Master of Business Administration from Cardiff Business School, University of Wales. She is also a member of the Association of Chartered Certified Accountants (UK) and Institute of Certified Public Accountants of Rwanda ("ICPAR")

### 3. *Devalingum Gopalla*

Mr. Gopalla has over 11 years of diverse and progressive experience in Emerging and Global Markets gained from working in Mauritius, the United Kingdom and the USA. He previously

served in senior capacities at the Financial Services Commission in Mauritius, Clifford Chance and Conyers Dill & Pearman in London. Prior to joining the Bank, Mr. Gopalla worked as Head of Legal at Amicorp Group in Mauritius. He holds an LLB from University of Wolverhampton and an LLM from Kings College London. He is a Barrister at Law admitted in England and Mauritius and is a Member of the New York State Bar Association.

4. ***George Mudange***

Mr. Mudange is a Senior Director of Trade Finance and the Chief Trade Finance Officer. He was also appointed as Deputy Chief Executive Officer of the ESATAL in 1 February 2015. He has over 13 years of experience in corporate banking and advisory experience at senior levels with specialisation in structured trade and commodity finance. Prior to joining the Bank, he worked with merchant banks in Zimbabwe and advisory firms in South Africa and Nigeria. He holds a BSc. Economics and an MBA from the University of Zimbabwe. He also holds a Diploma in Banking from the Institute of Bankers of Zimbabwe of which he is an associate member.

5. ***James Kabuga***

Mr. Kabuga is the Senior Director, Harare Regional Office. He has over 20 years of development and investment banking experience, specialising in project and structured finance in the areas of credit appraisal, loan administration, budgeting and finance. Prior to joining the Bank in 1994, he worked in various senior capacities in the financial industry. Mr. Kabuga holds a Bachelor of Economics from the University of Nairobi and a Master of Agricultural Economics from Colorado State University.

6. ***Catherine Kimaryo***

Ms. Kimaryo is Director, Nairobi Regional Office and Projects and Infrastructure Finance. She has over 15 years of experience in project and corporate finance and deal structuring. Prior to joining the Bank in 2013, she was the Senior Investment Officer at the World Bank, where she worked for 8 years. She has worked for the United Nations in Kosovo and Akiba Commercial Bank in Tanzania. Ms. Kimaryo holds a Bachelor of Commerce from McGill University and a Master of Business Administration from Wits Business School.

7. ***Daniel Mezgebu***

Mr. Mezgebu is the Director, Human Resources and Administration. Prior to joining the Bank, he was employed by dVenuts Wind Technologies as Director of Human Resources and Administration for three years. He holds over 25 years of professional experience and has worked with several organisations including the Sheraton Hotel, American Embassy and Ethiopian Airlines. Mr. Mezgebu holds a Master of Public Administration from University of Greenwich and a Bachelor of Arts in Management and Public Administration from Addis Ababa University.

8. ***Wycliff Bbossa***

Mr. Bbossa is the Director of Portfolio Management Department. He has worked with the Bank since 2000 in operations and has 20 years of experience in development finance, business advisory and commercial banking. Prior to joining the Bank, Mr. Bbossa worked with KPMG East Africa as a pre-divestiture and banking sector reforms consultant and debt recovery manager. Mr. Bbossa holds a BA Economics, Post Graduate diplomas in Economics Education and Industrial Projects Appraisal and an MA Economics from the University of Malawi.

9. ***Abraham Byanyima***

Mr. Byanyima is Director of Treasury. He has over 15 years of diverse and progressive experience in emerging and global markets gained from working for global banks and Africa based Financial Institutions. His expertise includes interest rate derivatives and global currency derivative products, forex trading and risk management. Prior to joining the Bank, Mr. Byanyima worked as Vice President of Bank of New York Mellon and Associate Director at UBS Investment Bank, New York. He holds a Bachelor of Commerce from Makerere University and an MBA from Fordham University.



10. ***Goodman Chakanyuka***

Dr. Chakanyuka has been Director, Credit Risk Management, since October 2013. He has over 18 years of experience in commercial banking across Southern Africa. Prior to joining the Bank, he was the Chief Risk Officer at Ned Bank (Swaziland) for 8 years and held senior positions with Kingdom Bank and Afrexim Bank. Mr. Chakanyuka holds a BSc. Economics and an MBA from the University of Zimbabwe and a Doctorate in Business Leadership from UNISA. He is an associate member of the Institute of Bankers (Zimbabwe) and holder of intermediate certificate of the Institute of Chartered Secretaries and Administrators (UK).

11. ***Mary Kamari***

Ms. Kamari is the Director of Corporate Affairs and Investor Relations and is responsible for stakeholder relations, strategic partnerships and board affairs. Prior to joining the Bank in April 2012, she was Regional Project Director with UNOPS and concurrently, Resource Mobilisation and International Relations Advisor at the Development Bank of South Africa, where she served for 5 years, establishing various-donor facilities. Previously, she was Managing Director for GoodWorks International in Rwanda and a consultant to the World Bank. She started her career as an Associate at the World Bank and holds a Master of Business Administration from California State University.

12. ***Francis Namboya***

Mr. Namboya has been with the Bank for over 14 years and has over 27 years of experience as a finance specialist. Prior to joining the Bank, Mr. Namboya worked as financial controller, company secretary and treasurer for the Commonwealth Development Corporation (CDC) group in Tanzania, United Kingdom and Malawi. Mr. Namboya holds a Global MBA from Oxford Brookes University in the United Kingdom, a Bachelor of Commerce (Accountancy) and a Diploma in Business Studies from the University of Malawi. He is a fellow of the Association of Chartered Certified Accountants (FCCA) (UK) and Certified Public Accountant (CPA) Malawi.

**Expanded Membership**

The Kingdom of Swaziland and the Republic of South Sudan are in advanced stages of joining the Bank. In order to expand its market, increase its resource base and strengthen regional economic integration, the Bank will continue to pursue the membership of Madagascar, Botswana, Angola and Algeria. The Bank will also continue to pursue membership of a number of emerging market states such as India as well as OECD states based on the strength of existing trade relations and/or political affiliations with East and Southern African States.

**Diversification**

In order to meaningfully address the development challenges of its Issuer Member States and react appropriately to market dynamics, the Bank plans to diversify its products and also expand its scope of sectoral and geographic intervention. This drive will also seek to diversify the Bank's earnings profile from interest income to a healthy balance by growing non-interest income. The Bank aims to do the following:

- Successful operationalisation through its joint venture, of the Eastern and Southern African Trade Fund, and the COMESA Infrastructure Fund;
- Growing its Alternative Investment offering through either proprietary or third party funds; and
- Growing Syndication/co-investments offering and launching advisory services.

***Regional Outreach***

With a view to effectively address its customer needs amidst rapidly growing regional and local economies, the Bank has set up regional offices and plans to establish further satellite offices. These offices will serve a relationship and origination function by identifying areas of opportunity in line with the Bank's developmental mandate, manage more closely our portfolio of investments to further improve the quality of its assets, and continuously engage with its stakeholders.

### ***Strategic Partnerships***

In order to diversify its network of business partnerships, the Bank intends to remain an active member of a number of global and regional networks and alliances. These include the Global Network of Export Import Banks and International Development Financial Institutions ("**GNEXID**"), the Association of African Development Financial Institutions ("**AADFI**"), the Alliance of African International Financial Institutions ("**AAIFI**") and the International Development Finance Club ("**IDFC**"). The Bank has also entered into an export credit funding cooperation with the Development Bank of Belarus.

GNEXID aims to boost bilateral and multilateral agreements of various kind among export-import banks and development financial institutions based in developing countries. The network was founded in 2006 in Geneva based on the recognition of the importance of South-South trade and investment flows as drivers of economic growth in the developing world. Cooperation by GNEXID's members is expected to reduce the costs of trade between developing nations, spurring investment across borders and making financing more readily available to new and innovative businesses and enabling the growth of niche markets. GNEXID allows members to learn from each other's experiences and share effective practices for entering new markets and establishing risk sharing methods for investments. Currently, the network has a membership of 24 institutions which include Exim Bank of India, Afrexim Bank, Andean Development Corporation (Venezuela), Bank Ekspor of Indonesia, Caribbean Development Bank, Export Import Bank of Romania and State Export-Import Bank of Ukraine.

Headquartered in Abidjan, Côte d'Ivoire, AADFI is an international organisation created under the auspices of the African Development Bank in 1975 with a membership comprising banking and financial institutions engaged in development finance activities in Africa. The main activities of the AADFI are the provision of information and training in the techniques of banking and finance as well as development policy advice to African bankers and finance officers. AADFI organises various training programmes comprising skills-base workshops and policy seminars aimed at assisting member-institutions to improve and update their technical competence and structures in line with the changing development needs of their countries.

Established in 2009, AAIFI is an alliance of African international financial institutions. Unlike AADFI whose membership comprises national and regional development finance institutions, AAIFI's membership is drawn from commercial banks and development finance institutions operating in multiple African countries. Among the objectives of AAIFI include sharing of information and experiences, risk sharing, pursuit of investment banking opportunities and promotion of reciprocal funds placement arrangements among members.

As part of its drive to diversify and grow its funding base, the Bank will strengthen existing relationships with institutions such as the African Development Bank, the European Financing Partnership, Export-Import Bank of India, China Development Bank and the USAID.

The International Development Finance Club is an association of national and sub-regional Development Banks that support the realisation of national and international development plans through resource mobilisation assistance and technical advisory support. Members of the IDFC collaborate and pool expertise, resources best practices, and networks, amongst other assets, to add value to development projects and to resolve strategic and structural development challenges.

## TAXATION

Each Series of Notes and the interest thereon will be exempt from taxation generally.

### *The Charter*

Under Article 43 of The Charter, the Bank is exempt from any obligation relating to the payment, withholding or collection of any tax or duty within the jurisdictions of the Issuer Member States.

The Bank, its property, other assets, income and transaction, are exempt from all taxation and from all customs duties and prohibitions and restrictions on imports and exports in respect of articles imported or exported by the Bank for its official use.

Article 43 further states that no tax of any kind shall be levied on any obligations or securities issued by the Bank, including any dividend or interest thereon, by whomever held; which discriminates against such obligations or security solely because it is issued by the Bank; or if the sole reason for the imposition of such a tax is the place or currency in which such obligations or securities are issued, made payable or paid or the location of any office maintained by the Bank.

### **EU Directive on the Taxation of Savings Income**

Under Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments (the "**EU Savings Directive**"), each EU Member State is required to provide to the tax authorities of another EU Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain entities (as described in Article 4.2 of the EU Savings Directive, each a "**Residual Entity**") established in that other EU Member State; however for a transitional period, Austria may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 30 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non EU countries, including Switzerland, ("**Third Countries**") and certain dependent or associated territories of certain EU Member States ("**Dependent and Associated Territories**") have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or Residual Entities established in another EU Member State, or certain Third Countries or Dependent and Associated Territories.

The Council of the European Union formally adopted a Council Directive amending the EU Savings Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements described above. EU Member States have until 1 January 2016 to adopt national legislation to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the EU Savings Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover income that is equivalent to interest.

However, the European Commission has proposed the repeal of the Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other EU Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The proposal also provides that, if it proceeds, EU Member States will not be required to apply the new requirements of the Amending Directive.

Investors who are in any doubt as to their position should consult their professional advisers.

## **SUBSCRIPTION AND SALE**

### **Summary of Dealer Agreement**

Subject to the terms and on the conditions contained in the amended and restated dealer agreement dated 28 February 2017 (the "**Dealer Agreement**") between the Issuer and the Permanent Dealers and Arrangers, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers. However, the Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers.

The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer, the Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arranger for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis will be stated in the relevant Final Terms.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

### **Selling Restrictions**

#### ***General:***

Neither the Issuer nor any Dealer makes any representation that any action has been or will be taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Base Prospectus, any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required. Each Dealer shall, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Base Prospectus, any other offering material or any Final Terms, in all cases at its own expense.

No Dealer is authorised to make any representation or use any information in connection with the issue, offering and sale of the Notes other than as contained in, or which is consistent with, the documents permitted to be circulated in accordance with Clause 5.2 of the Dealer Agreement.

#### **United States of America:**

"The Notes have not been and will not be registered under the Securities Act, or with any security regulatory authority of any state or other jurisdiction of the United States, and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of, the Securities Act.

Each Dealer represents, warrants and agrees that it has offered and sold the Notes of any identifiable tranche, and shall offer and sell the Notes of any identifiable tranche (1) as part of its distribution at any time and (2) otherwise until 40 days after completion of the distribution of such tranche as determined and certified to the Issuer and each Relevant Dealer, by the Issuing and Paying Agent or, in the case of a Syndicated Issue, the Lead Manager, only in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes or has solicited or will solicit offers for, or offer to sell, Notes by means of any general solicitation or advertising in the United States or otherwise in any manner involving a public offering within the meaning of Section 4(2) of the Securities Act, and it and they have complied and shall comply with the offering restrictions requirement of Regulation S. Each Dealer agrees to notify the Issuing and Paying Agent or, in the case of a Syndicated Issue, the Lead Manager when it has completed the distribution of its portion of the Notes of any identifiable tranche so that the Issuing and Paying Agent or, in the case of a Syndicated Issue, the Lead Manager may determine the completion of the distribution of all Notes of that tranche and notify the other Relevant Dealers of the end of the distribution compliance period.

Each Dealer agrees that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

‘The Securities covered hereby have not been registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such tranche as determined, and certified to the Issuer and [Relevant Dealers], by [Lead Manager], except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S.’

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, unless the Final Terms or the Subscription Agreement relating to one or more Tranches specifies that the applicable TEFRA exemption is either "**C Rules**" or "not applicable", each Dealer represents and agrees in relation to each Tranche of Notes in bearer form:

- (a) except to the extent permitted under U.S. Treas. Reg. §1.163 5(c)(2)(i)(D) (the "**D Rules**"):
  - (i) it has not offered or sold, and during a 40 day restricted period shall not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person and
  - (ii) it has not delivered and shall not deliver within the United States or its possessions definitive Notes in bearer form that are sold during the restricted period
- (b) it has and throughout the restricted period shall have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules
- (c) if it is a United States person, it is acquiring the Notes in bearer form for purposes of resale in connection with their original issuance and if it retains Notes in bearer form for its own account, it shall only do so in accordance with the requirements of U.S. Treas. Reg. §1.163 5(c)(2)(i)(D)(6) and
- (d) with respect to each affiliate that acquires from it Notes in bearer form for the purpose of offering or selling such Notes during the restricted period, it either (a) repeats and confirms the representations contained in Clauses 3.2.1, 3.2.2 and 3.2.3 of the Dealer Agreement on behalf of such affiliate or (b) agrees that it shall obtain from such affiliate for the benefit of the Issuer the representations contained in Clauses 3.2.1, 3.2.2 and 3.2.3 of the Dealer Agreement.

Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder, including the D Rules.

In addition, to the extent that the Final Terms relating to one or more Tranches of Bearer Notes specifies that the applicable TEFRA exemption is "C Rules", under U.S. Treas. Reg. §1.163 5(c)(2)(i)(C) (the "**C Rules**"), Notes in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issuance. In relation to each such Tranche, each Dealer represents, warrants and agrees that it has not offered, sold or delivered, and shall not offer, sell or deliver, directly or indirectly, Notes in bearer form within the United States or its possessions in connection with their original issuance. Further, in connection with their original issuance of Notes in bearer form, it has not communicated, and shall not communicate, directly or indirectly, with a prospective purchaser if either such purchaser or it is within the United States or its possessions or otherwise involve its U.S. office in the offer or sale of Notes in bearer form.

Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder, including the D Rules.

In addition, to the extent that the Final Terms relating to one or more Tranches of Bearer Notes specifies that the applicable TEFRA exemption is "C Rules", under U.S. Treas. Reg. §1.163 5(c)(2)(i)(C) (the "**C**

**Rules**"), Notes in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issuance. In relation to each such Tranche, each Dealer represents, warrants and agrees that it has not offered, sold or delivered, and shall not offer, sell or deliver, directly or indirectly, Notes in bearer form within the United States or its possessions in connection with their original issuance. Further, in connection with their original issuance of Notes in bearer form, it has not communicated, and shall not communicate, directly or indirectly, with a prospective purchaser if either such purchaser or it is within the United States or its possessions or otherwise involve its U.S. office in the offer or sale of Notes in bearer form.

Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder, including the C Rules.

***Public Offer Selling Restriction under the Prospectus Directive***

In relation to each EU Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **"Relevant Member State"**), each Dealer has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **"Relevant Implementation Date"**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that EU Member State by any measure implementing the Prospectus Directive in that EU Member State. The expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Issuer Member State), and includes any relevant implementing measure in the Relevant Member State and the expression **"2010 PD Amending Directive"** means Directive 2010/73/EU.

**United Kingdom:**

- (i) Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:
  - (a) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the **"FSMA"**) by the Issuer;

- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

**Kenya:**

This Base Prospectus and the offering of any Notes have not been nor will it be approved by the Capital Markets Authority of Kenya.

**Issuer Member States:**

Each Dealer represents, warrants and undertakes that it will not, as part of its initial distribution of Notes, offer or sell any Notes to residents of any Issuer Member State or legal entity incorporated in any Issuer Member State.

Notes may not be offered or sold to residents of any Issuer Member State or to any legal entity incorporated in any Issuer Member State.

## FORM OF FINAL TERMS

*The form of Final Terms that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:*

### FINAL TERMS dated [•]

#### Eastern and Southern African Trade and Development Bank

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the USD 1,000,000,000

#### Euro Medium Term Note Programme

#### PART A - CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the acquired Base Prospectus dated 28 February 2017 [and the Base Prospectus Supplement dated [•] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive (Directive 2003/71/EC) as amended (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus and the Final Terms have been published on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)) and the website of the Central Bank of Ireland ([www.centralbank.ie](http://www.centralbank.ie)). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive<sup>8</sup>.

*[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]*

- |    |        |  |  |
|----|--------|--|--|
| 1. | [(i)]  | Series Number:                                       | [•]  |
|    | [(ii)] | Tranche Number (If fungible with an existing Series: | [•]  |
|    | (a)    | Issue Date of existing Series                        | [•]  |
|    | (b)    | Aggregate Principal Amount of existing Series        | [•]  |
|    | (c)    | Date on which the Notes become Fungible              | [Not Applicable/The Notes shall be consolidated and form a single series and be interchangeable for trading purposes with the [insert description of the Series] on [insert date/the Issue Date].] |
| 2. |        | Specified Currency or Currencies:                    | [•]  |
| 3. |        | Aggregate Nominal Amount of Notes:                   | [•]  |
|    | [(i)]  | Series:  | [•]  |
|    | [(ii)] | Tranche:   | [•]  |
| 4. |        | Issue Price:   | [•] per cent. of the Aggregate Nominal Amount  |
|    |        |  | [plus accrued interest from [insert date] (if applicable)]   |

<sup>8</sup> Remove this language for unlisted Notes.



5. (i) Specified Denominations: [•]
- (ii) Calculation Amount: [•]
6. (i) Issue Date: [•]
- (ii) Interest Commencement Date [Specify/Issue Date/Not Applicable]
7. Maturity Date: [Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]
8. Interest Basis: [[•] per cent. Fixed Rate]
- [[months][LIBOR/LIBID/LIMEAN/EURIBOR]  
+/- [•] per cent. Floating Rate]
- [Zero Coupon]
- [further particulars specified below in paragraphs 12 and 13]
9. Put/Call Options: [Investor Put]
- [Issuer Call]
- [further particulars specified below in paragraphs 15 and 16]
10. (i) Status of the Notes: [Senior/Rated/Perpetual]/ Subordinated]
- (ii) Date Board approval for issuance of Notes obtained: [•]
- (N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)
11. **Method of distribution:** [Syndicated/Non-syndicated]

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

12. **Fixed Rate Note Provisions** [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [•] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [•] in each year [adjusted in accordance with
- [[Floating Rate Business Day Convention / Following Business Day Convention / Modified Following Business Day Convention / Preceding Business Day Convention] and specify any applicable Business Centre(s) for the definition of "Business Day"/not adjusted]
- (iii) Fixed Coupon Amount[(s)]: [•] per Calculation Amount
- (iv) Broken Amount(s): [•] per Calculation Amount payable on the Interest

		Payment Date falling [in/on] [•]
(v)	Day Count Fraction:	[Actual/Actual / Actual/Actual – ISDA / Actual/365 (Fixed) / Actual/360 / 30/360 / 360/360 / Bond Basis / 30E/360 / Eurobond Basis / 30E/360 (ISDA) / Actual/Actual-ICMA]
(vi)	[Determination Dates:	[•] in each year (insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))]
13.	<b>Floating Rate Note Provisions</b>	[Applicable/Not Applicable]
		<i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i)	Interest Period(s):	[[•], subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment, as the Business Day Convention in (iv) below is specified to be Not Applicable]
		[[•]in each year[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment, as the Business Day Convention in (iv) below is specified to be Not Applicable]]
(ii)	Specified Interest Payment Dates:	[•]
(iii)	First Interest Payment Date:	[•]
(iv)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/Preceding Business Day Convention] [Not Applicable]
(v)	Business Centre(s):	[•][Not Applicable]
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(vii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	[•][Not Applicable]
(viii)	Screen Rate Determination:	[Applicable/Not Applicable]
	- Reference Rate/Benchmark:	[•]
	- Interest Determination Date(s):	[•]
	- Relevant Screen Page:	[•]
(ix)	ISDA Determination:	[Applicable/Not Applicable]
	- Floating Rate Option:	[•]
	- Designated Maturity:	[•]

-	Reset Date:	[•]
(x)	Margin(s):	[+/-][•] per cent. per annum
(xi)	Minimum Rate of Interest:	[•] per cent. per annum
(xii)	Rate of Interest:	[•] per cent. per annum
(xiii)	Day Count Fraction:	[Actual/Actual / Actual/Actual – ISDA / Actual/365 (Fixed) / Actual/360 / 30/360 / 360/360 / Bond Basis / 30E/360 / Eurobond Basis / 30E/360 (ISDA) / Actual/Actual-ICMA]
14.	Zero Coupon Note Provisions	[Applicable/Not Applicable]  <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i)	[Amortisation/Accrual] Yield:	[•] per cent. per annum
(ii)	Reference Price:	[•]
<b>PROVISIONS RELATING TO REDEMPTION</b>		
15.	<b>Call Option</b>	[Applicable/Not Applicable]  <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i)	Optional Redemption Date(s):	[•]
(ii)	Optional Redemption Amount(s) of each Note:	[•] per Calculation Amount
(iii)	If redeemable in part:	
(a)	Minimum Redemption Amount:	[•] per Calculation Amount
(b)	Maximum Redemption Amount:	[•] per Calculation Amount
(iv)	Notice period	[•]
16.	<b>Put Option</b>	[Applicable/Not Applicable]  <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>

- (i) Optional Redemption Date(s): [•]
- (ii) Optional Redemption Amount(s) of each Note: [•] per Calculation Amount
- (iii) Notice period [•]
- 17. **Final Redemption Amount of each Note** [•] per Calculation Amount
  - (i) Payment Date: [•]
  - (ii) Minimum Final Redemption Amount: [•] per Calculation Amount
  - (iii) Maximum Final Redemption Amount: [•] per Calculation Amount
- 18. **Early Redemption Amount**

Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption. [•] per Calculation Amount

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 19. Form of Notes: **[Bearer Notes:**

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]]

[Permanent Global Note exchangeable for a for Definitive Notes in the limited circumstances specified in the Permanent Global Note]]

**[Registered Notes:**

Global Notes exchangeable for Definitive Notes in the limited circumstances specified in the Global Note.]
- 20. New Global Note: [Yes] [No]
- 21. Financial Centre(s): [Applicable] [Not Applicable]
 

*Note that this item relates to the date and place of payment, and not interest period end dates, to which items 15(ii), 16(v) and 18(ix) relates*

  - (a) Date of payment [•]
  - (b) Place of payment [•]
- 22. Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No] [If yes, specify dates on which Talons will be exchangeable for further coupons]
- 23. Renminbi Currency Events: [Condition 8(j) is applicable/Not Applicable]
 

Renminbi Settlement Centre(s) [[ ]/Not Applicable]

## DISTRIBUTION

24. [Not Applicable/give names, addresses and underwriting commitments]
- (i) If syndicated, names [and addresses] of Managers [and underwriting commitments]: *(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.)*
- (ii) [Date of Subscription Agreement: [•]]
- (iii) Stabilisation Manager(s) (if any): [Not Applicable/give names]
- (iv) If non-syndicated, name and address of Dealer: [Not Applicable/give name and address]
- (v) Total commission and concession: [•] per cent. of the Aggregate Nominal Amount
- (vi) U.S. Selling Restrictions: Reg. S Compliance Category; TEFRA/TEFRA D/TEFRA not applicable]

Signed on behalf of the Eastern and Southern African Trade and Development Bank:

By:.....  
Duly authorised

## PART B – OTHER INFORMATION

### 1. LISTING

- (i) Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [the Irish Stock Exchange's regulated market] with effect from [•].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [specify relevant regulated market] with effect from [•].] [Not Applicable.] *(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading)*
- (ii) Estimate of total expenses related to admission to trading [•]

### 2. RATINGS

- Ratings: [[The Notes to be issued [have been/are expected to be] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]]:
- [S&P: [•]] [Moody's: [•]]
- [[Fitch: [•]]
- [[Other]: [•]]
- (The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*
- [[Insert credit rating agency] is established in the European Union and is registered under Regulation (EU) No 1060/2009 (the "**CRA Regulation**").]
- [[Insert credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EU) No 1060/2009 (the "**CRA Regulation**").]

### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER

*Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:*

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. *(Amend as appropriate if there are other interests)*]

### 4. Fixed Rate Notes only - YIELD

- Indication of yield: [•] [Not Applicable]

## 5. OPERATIONAL INFORMATION

ISIN Code: [•]

Common Code: [•]

Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, société anonyme and the relevant identification numbers): [Not Applicable/give name(s) and number(s)]

Delivery: Delivery [against/free of] payment

Names and addresses of initial Paying Agent(s): [•]

Names and addresses of additional Paying Agent(s) (if any): [•]

Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,][include this text for registered notes]] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been *met*.]

[No. While the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper (and registered in the name of a nominee of one of the ICSDs acting as common safekeeper). Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

## GENERAL INFORMATION

1. It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the Irish Stock Exchange's regulated market will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes initially representing the Notes of such Tranche. Application has been made to the Irish Stock Exchange for Notes to be admitted to the Official List and trading on its regulated market.
2. The Issuer has obtained all necessary consents, approvals and authorisations in Kenya in connection with the establishment of the Programme and with the issue and performance of Notes under the Programme. The establishment of the Programme and the issue and performance of Notes under the Programme is authorised pursuant to the Charter.
3. There has been no significant change in the financial or trading position of the Issuer, and no material adverse change in the prospects of the Issuer, since 31 December 2016. The Issuer prepares its financial statements in accordance with IFRS.
4. The Issuer is not, nor has it been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Base Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Issuer.
5. Each Note having a maturity of more than one year, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".
6. Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.
7. There are no material contracts entered into other than in the ordinary course of the Issuer's business, which could result in the Issuer being under an obligation or entitlement that is material to its ability to meet its obligations to noteholders in respect of the Notes being issued.
8. Where information in this Base Prospectus has been sourced from third parties, this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.
9. The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on the prevailing market conditions.
10. For so long as Notes may be issued pursuant to this Base Prospectus, physical copies of the following documents will be available, during usual business hours and upon reasonable notice on any weekday (public holidays excepted), for inspection at the registered offices of each of the Paying Agents and the Trustee:



- (i) the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons and the Talons);
- (ii) the Agency Agreement;
- (iii) the Charter of the Eastern and Southern African Trade and Development Bank;
- (iv) the published annual report and audited accounts of the Issuer for the financial years ended 31 December 2014 and 2015;
- (v) each Final Terms (save that Final Terms will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Issuing and Paying Agent as to its holding of Notes and identity); and
- (vi) a copy of this Base Prospectus together with any Supplement of Base Prospectus or further Base Prospectus.

This Base Prospectus and the Final Terms for Notes that are listed on the Official List and admitted to trading on the regulated market will be published on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)) and the website of the Central Bank of Ireland ([www.centralbank.ie](http://www.centralbank.ie))

11. Copies of the latest annual report and accounts of the Issuer and the latest interim accounts of the Issuer may be obtained, and copies of the Trust Deed will be available for inspection, at the specified offices of each of the Paying Agents during normal business hours and upon reasonable notice, so long as any of the Notes is outstanding.
12. Ernst & Young of Kenya-Re Towers, Upperhill, off Ragati Road, P.O. Box 44286, 00100 Nairobi GPO, Kenya (certified Public Accountants) ("**Ernst & Young**") have audited, and rendered an unqualified audit report on, the accounts of the Issuer for the year ended 31 December 2015, 31 December 2014 and 31 December 2013.
13. Ernst & Young is a member of the The Institute of Certified Public Accountants of Kenya (ICPAK), an affiliate of the International Federation of Accountants (IFAC).
14. All notices to Noteholders shall be given to them in accordance with Condition 17 (*Notices*) (as modified, in the event of Notes held in global form, by the provisions of paragraph 4.11 "*Amendments to Conditions*" in "*Overview of Provisions relating to Notes while in Global Form*").
15. The yield of each Tranche of Notes set out in the applicable Final Terms will be calculated as of the relevant issue date on an annual or semi-annual basis using the relevant issue price. It is not an indication of future yield.
16. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the notes and is not itself seeking admission of the notes to the Official List of the Irish Stock Exchange or to trading on the Main Securities Market of the Irish Stock Exchange.
17. Certain of the Arrangers and Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer and its affiliates in the ordinary course of business. Certain of the Arrangers and Dealers and their affiliates may have positions, deal or make markets in an issuance of Notes, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

18. In addition, in the ordinary course of their business activities, the Arrangers and Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. Certain of the Arrangers and Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Arrangers and Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially an issuance of Notes. Any such positions could adversely affect future trading prices of any issuance of Notes. The Arrangers and Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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EASTERN AND SOUTHERN AFRICAN  
TRADE AND DEVELOPMENT BANK  
(TDB - formerly PTA Bank)

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2016

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016

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EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
CORPORATE INFORMATION  
FOR THE YEAR ENDED 31 DECEMBER 2016

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 Kasalja	Minister for Finance, Planning and Economic Development Republic of Uganda
Hon. Dr. Domitien Ndhokubwayo	Minister for Finance Republic of Burundi
Hon. Said Ali Said Chayhane	Minister for Finance & Budget, Federal Islamic Republic of Comoros
H.E. Amr El-Garhy	Minister for Finance Arab Republic of Egypt
Hon. Berhane Abrehe	Minister for Finance State of Eritrea
Hon. Adan Mohamed, EGH	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
H.E. Ilyas Moussa Dawaleh	Minister for Economy, Finance and Planning, in charge of Privatization Republic of Djibouti
Hon. Badr El-Din Mahmoud Abbas	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 Mozambique
Hon. Mohamed Aden Ibrahim	Minister for Finance Federal Republic of Somalia

**EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB – formerly PTA Bank)  
CORPORATE INFORMATION (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**BOARD OF GOVERNORS (Continued)**

H.E. Dr. Zhou Xiaochuan	Governor, People's Bank of China People's Republic of China
Mr. Charles O Boamah	African Development Bank (AfDB) Vice President - Finance
Mr. Andrei S. Brishtelev	Paribelbank -Belarus, 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 Gatara	Rwanda Social Security Board, Director General
Mr. Tomas Rodrigues Matola	Banco Nacional de Investimento, President
Ms. Lekha Nair	Seychelles Pension Fund Chief Executive Officer
Mr. Cornelle 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
<b><u>Former Governors</u></b>	
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
H.E Hany Kadyr Dimian	Minister for Finance Arab Republic of Egypt
Hon. Alexander B. Chikwanda	Minister for Finance and National Planning Republic of Zambia
Mr. Rajni Varie	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
H.E Mohamed Ali Soilih	Vice President in Charge of Finance, Economy, Budget, Investment, Foreign Trade and Privatization Federal Islamic Republic of Comoros

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
CORPORATE INFORMATION (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016

DIRECTORS

Mr. Mohamed Kalif	Director for African Institutions (AI) Chairman
Mr. Gerard Bussler	Director for Zimbabwe, Mauritius, Rwanda and Eritrea
Mr. Peter Simbani	Director for Seychelles, Ethiopia, Burundi and Malawi
Dr. Natu Mwamba	Director for Egypt, Tanzania and Djibouti
Mr. Gerome Kamwanga	Director for Uganda, Sudan, DR Congo and Comoros
Ms. Isabel Sumar	Director for Kenya, Zambia, Mozambique and Somalia
Mr. Liu Mingzhi	Director for Non-African states members
Mr. John Bosco Sebbi	Director for All Other Shareholders
Mr. Juste Rwamabaga	Independent Director
Dr. Abdel-Rahman Taha	Independent Director
Mr. Admassu Tadesse	President and Chief Executive
Mr. Samuel Mivedor	Alternate Director for African Institutions (AI)
Ms. Kampeta Sayinzoga	Alternate Director for Zimbabwe, Mauritius, Rwanda and Eritrea
Mr. Rupert Simeon	Alternate Director for Seychelles, Ethiopia, Burundi and Malawi
Prof. Oliver Saasa	Alternate Director for Kenya, Zambia, Mozambique and Somalia
Ms. Li Hui	Alternate Director for Non-African states members
Ms. Mariam Hamadou	Alternate Director for Egypt, Tanzania and Djibouti
Ms. Lekha Nair	Alternate Director for All Other Shareholders



EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
CORPORATE INFORMATION (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016

AUDITORS	Ernst & Young LLP Kenya Re Towers, Upperhill Off Ragati Road P. O. Box 44286 - 00100 Nairobi, Kenya	
LAWYERS	Various	
HEADQUARTERS	<p>TDB Headquarters 2nd Floor, Blue Tower Rue de L'Institute, Ebene P.O Box 43, Reudit, Mauritius Telephone: +230- 4676021/4676016 Fax: +230-4675971 Email :Official@ptabank.org</p>	<p>TDB Headquarters Chaussee, Prince Louis, Rwagasore P O Box 1750, Bujumbura, Burundi Telephone :257 (22) 4966 / 257 (22) 4625 Fax :257 (22) 4983 Email :Official@ptabank.org</p>
OTHER OFFICES	<p>TDB Nairobi Regional Office : East Africa 197 Lenana Place, Lenana Road P O Box 48596 - 00100 Nairobi, Kenya Telephone :254 (20) 2712250 Fax :254 (20) 2711510 Swift :ESATKENA</p> <p>TDB Harare Regional Office: Southern Africa 70 Enterprise Road Harare, Zimbabwe Telephone: 263(4)788330-3/788336-9/788317 FCT Line : +263-7827884955 Fax :+263-772788345</p> <p>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</p>	

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
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 complementary 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 11.

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 1 - 2.

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

5. DIRECTORS

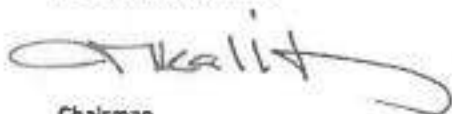
The current members of the Board of Directors are shown on page 3.

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

21 February 2017


EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
STATEMENT OF DIRECTORS' RESPONSIBILITIES  
ON THE FINANCIAL STATEMENTS  
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

  
Director

21 February 2017

21 February 2017

**REPORT OF THE INDEPENDENT AUDITORS  
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 statement of financial position as at 31 December 2016 and the statement 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 11 to 99.

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 other independence requirements applicable to performing the audit of Eastern and Southern African Trade and Development Bank. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of Eastern and Southern African Trade and Development Bank. 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.

Key Audit Matter	How the matter was addressed in the audit
<p><b>Credit risk and impairment of loans and advances to customers</b></p> <p>Loans and advances represent 76.03% (2015: 70.99%) of total assets of the Bank.</p>	<p>We evaluated the key controls over the approval, recording and monitoring of loans and advances.</p>



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Key Audit Matter	How the matter was addressed in the audit
<p>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.</p> <p>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.</p> <p>Disclosures of these items are included in notes 15, 16 and 17 of the financial statements.</p>	<p>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.</p> <p>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.</p> <p>For a sample of individually impaired loans, we recalculated management's provision amount to check for arithmetical accuracy.</p> <p>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.</p> <p>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 Bank's policy.</p> <p>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.</p>
<p><b>Fair valuation of derivative financial instruments</b></p> <p>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.</p> <p>Forward foreign exchange contracts are valued using an implied forward rate and discounted using a risk free rate.</p> <p>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.</p> <p>Due to the subjectivity involved in determining the implied forward rates and risk free rates, the valuation of derivative financial instruments is considered to be a key audit matter for our audit.</p>	<p>We assessed the appropriateness of the valuation models used to value the derivative financial instruments.</p> <p>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.</p> <p>We also compared the fair value adjustments passed by management to our recalculation.</p> <p>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.</p> <p>We obtained third party confirmations for a sample of the open positions as at 31 December 2016.</p> <p>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.</p>

## **Other Information**

The directors are responsible for the other information. The other information comprises the Report of the Directors; Statement of Directors' Responsibilities and the Corporate Information (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of the auditor's report, and 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.

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.

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.



- 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*

*Ernst & Young*

Nairobi, Kenya

22/02/ 2017

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 USD	2015 USD
<b>INCOME</b>			
Interest income	4	<u>225,175,284</u>	<u>208,668,727</u>
Interest expense	5	(95,047,629)	(89,499,439)
Borrowing and financing costs	6	<u>(13,661,851)</u>	<u>(8,691,468)</u>
Interest and similar expense		<u>(108,709,480)</u>	<u>(98,190,907)</u>
Net interest income		116,465,804	110,477,820
Fee and commission income	7a	<u>55,010,879</u>	<u>47,866,029</u>
Net trading income		171,476,683	158,343,849
Risk mitigation costs	7b	<u>(13,054,101)</u>	<u>(15,348,399)</u>
Other income	8	<u>3,560,560</u>	<u>8,886,823</u>
<b>OPERATING INCOME</b>		<u>161,983,142</u>	<u>151,882,273</u>
<b>EXPENDITURE</b>			
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		<u>(3,062,468)</u>	<u>(3,033,765)</u>
<b>TOTAL EXPENDITURE</b>		<u>(60,526,911)</u>	<u>(57,162,587)</u>
<b>PROFIT FOR THE YEAR</b>		<u>101,456,231</u>	<u>94,719,686</u>
Other comprehensive income		—	—
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS</b>		<u>101,456,231</u>	<u>94,719,686</u>
<b>EARNINGS PER SHARE:</b>			
Basic	12	<u>1.220</u>	<u>1.271</u>
Diluted	12	<u>1.153</u>	<u>1.183</u>

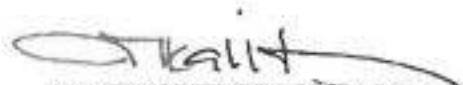


EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016

	Note	2016 USD	2015 USD
<b>ASSETS</b>			
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
<b>TOTAL ASSETS</b>		<b><u>4,261,252,153</u></b>	<b><u>4,094,560,122</u></b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
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
<b>TOTAL LIABILITIES</b>		<b><u>3,404,767,217</u></b>	<b><u>3,358,291,587</u></b>
<b>EQUITY</b>			
Share capital	30	372,050,939	339,741,093
Share premium	30	35,106,661	26,870,808
Retained earnings		424,977,842	347,871,106
Proposed dividend	30	24,349,494	21,785,528
<b>TOTAL EQUITY</b>		<b><u>856,484,936</u></b>	<b><u>736,268,535</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>4,261,252,153</u></b>	<b><u>4,094,560,122</u></b>

The financial statements were approved by the board of directors on 21 February 2017  
and were signed on its behalf by:

  
.....  
President

  
.....  
Director

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
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	<u>339,741,093</u>	<u>26,870,808</u>	<u>347,871,106</u>	<u>21,785,528</u>	<u>736,268,535</u>
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	<u>372,050,939</u>	<u>35,106,661</u>	<u>424,977,842</u>	<u>24,349,494</u>	<u>856,484,936</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 USD	2015 USD
<b>OPERATING ACTIVITIES</b>			
Net cash generated from operations	31(a)	<u>(94,032,484)</u>	<u>220,161,759</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	23	(499,302)	(1,750,498)
Proceeds from disposal of property and	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	<u>27,102,693</u>	<u>8,280,471</u>
Net cash generated from (used in) investing activities		<u>26,145,398</u>	<u>(29,236,888)</u>
<b>FINANCING ACTIVITIES</b>			
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	<u>(21,785,529)</u>	<u>(19,244,435)</u>
Net cash generated from financing activities		<u>18,760,170</u>	<u>19,626,499</u>
(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		<u>643,514,538</u>	<u>435,996,933</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	31(c)	<u>594,835,619</u>	<u>643,514,538</u>
FACILITIES AVAILABLE FOR LENDING	31(d)	<u>1,582,753,248</u>	<u>1,348,706,084</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
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.

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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.



2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

*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.

*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.



EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

*Cash flow hedges (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.

*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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Instruments (Continued)

*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:
  - a) the Bank has transferred substantially all the risks and rewards of the asset, or
  - b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Instruments (Continued)

*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.

*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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Instruments (Continued)

Impairment of financial assets (Continued)

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.

*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:



EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

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.

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.

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.

(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.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Investment in Joint Venture (Continued)

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.

(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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(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.

*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.



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 measurable. 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 2017 and 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.

*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

3 NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

(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

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.

3 NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

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

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.

(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.

(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.

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3 NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

(e) IAS 1 *Disclosure Initiative - Amendments to IAS 1* (Continued)

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).

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.

3 NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

(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.

(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.



3 NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

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

- 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.

(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.

3 NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

(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:

-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.

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3 NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

(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.

*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



3 NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

(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 clarify 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.
- 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.

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4. INTEREST INCOME	2016 USD	2015 USD
On loans and facilities:		
Project finance loans	55,913,350	48,352,083
Trade finance loans	<u>152,719,155</u>	<u>143,015,388</u>
	208,632,505	191,367,471
On placements:		
Deposits/Held-to-maturity investments	<u>16,542,779</u>	<u>17,301,256</u>
	<u>225,175,284</u>	<u>208,668,727</u>
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	<u>30,185,367</u>	<u>17,805,545</u>
	<u>95,047,629</u>	<u>89,499,439</u>
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	<u>1,533</u>	<u>130,275</u>
	<u>13,661,851</u>	<u>8,691,468</u>
7 (a) FEE AND COMMISSION INCOME		
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	<u>16,821</u>	<u>463,569</u>
	<u>55,010,879</u>	<u>47,866,029</u>
(b) Risk Mitigation Costs		
*Insurance cover costs	10,236,731	6,697,732
**Income Forgone	<u>2,817,370</u>	<u>8,650,667</u>
	<u>13,054,101</u>	<u>15,348,399</u>

\*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).

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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
	<u>3,560,560</u>	<u>8,886,823</u>

\*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
	<u>31,522,886</u>	<u>20,895,869</u>

10. STAFF COSTS		
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
	<u>19,848,520</u>	<u>15,285,166</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

11.	IMPAIRMENT ON OTHER FINANCIAL ASSETS	2016 USD	2015 USD
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Other receivables (Note 21)	<u>21,765</u>	<u>241,287</u>
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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).

13.	CASH AND BALANCES HELD WITH OTHER BANKS	2016 USD	2015 USD
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Current accounts - Note 13 (i)	23,380,982	116,195,904
Call and term deposits with banks - Note 13 (ii)	<u>571,454,637</u>	<u>527,318,636</u>

594,835,619      643,514,540

(i) Current accounts:		
Amounts maintained in United States Dollars (USD)	<u>7,609,676</u>	<u>107,728,956</u>

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	<u>(3,430)</u>	<u>(7,283)</u>

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.

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

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

	2016	2015
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.

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 for fair 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 through 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.

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14. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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

	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	<u>192,642</u>	<u>-</u>
Balance as at 31 December	<u>-</u>	<u>327,064</u>
(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	<u>(146,137,108)</u>	<u>(657,163,270)</u>
Balance as at 31 December	<u>75,418,629</u>	<u>59,790,952</u>
Total Currency Hedges	<u>75,418,629</u>	<u>60,118,016</u>
b) Interest Rate Swap:		
(i) Fair value movements		
Balance as at 1 January	-	149,579
Amortisation of interest rate swap	<u>-</u>	<u>(149,579)</u>
Balance as at 31 December	<u>-</u>	<u>-</u>
(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	<u>(2,551,391)</u>	<u>(4,287,020)</u>
Balance as at 31 December	<u>341,813</u>	<u>875,059</u>
Total Interest Rate Swaps	<u>341,813</u>	<u>875,059</u>
Total derivative assets (a) and (b)	<u>75,760,442</u>	<u>60,993,075</u>

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.

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15. TRADE FINANCE LOANS	2016 USD	2015 USD
Principal loans	2,333,320,973	2,136,398,251
Interest receivable	<u>108,222,569</u>	<u>103,002,713</u>
Gross loans	2,441,543,542	2,239,400,964
Impairment on trade finance loans (Note 17)	<u>(48,400,632)</u>	<u>(31,288,578)</u>
Net loans	<u>2,393,142,910</u>	<u>2,208,112,386</u>
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	<u>450,538,307</u>	<u>-</u>
	<u>2,441,543,542</u>	<u>2,239,400,964</u>

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).

16. PROJECT LOANS	2016 USD	2015 USD
Approved loans less cancellations	2,417,593,179	2,073,271,552
Less: Unsigned loans*	<u>(253,152,933)</u>	<u>(223,659,112)</u>
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	<u>(363,136,637)</u>	<u>(332,304,459)</u>
Loans disbursed	1,785,835,637	1,510,263,507
Interest capitalised**	51,008,238	42,972,790
Loans repaid	<u>(953,410,204)</u>	<u>(807,960,121)</u>
Principal loan balances	883,433,671	745,276,176
Interest receivable	<u>12,654,263</u>	<u>17,072,331</u>
Gross loans	896,087,934	762,348,507
Impairment on project loans (Note 17)	<u>(49,201,206)</u>	<u>(63,685,994)</u>
Net loans	<u>846,886,728</u>	<u>698,662,513</u>

\* 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.



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16. PROJECT LOANS (Continued)

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	<u>428,352,670</u>	<u>152,808,557</u>
	<u>896,087,934</u>	<u>762,348,507</u>

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).

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	<u>63,685,994</u>	<u>31,288,578</u>	<u>94,974,572</u>
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	<u>49,201,206</u>	<u>48,400,632</u>	<u>97,601,838</u>



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18. EQUITY INVESTMENTS

i) Equity participation

31 December 2016

	Share- Holding %	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
<i>At fair value through profit or loss</i>							
Aureos East Africa Fund	-	288,500	(288,500)	-	-	288,500	-
<i>At cost</i>							
African Export Import Bank	0.48	2,364,160	-	2,364,160	2,364,160	2,364,160	-
Africa Trade Insurance Agency	0.10	1,000,000	-	1,000,000	1,000,000	1,000,000	-
Gulf African Bank	5.33	1,978,734	-	1,978,734	1,978,734	1,978,734	-
Pan African Housing Fund	2.38	293,882	139,775	433,657	433,657	293,882	-
Tanruss	4.06	1,755,000	-	1,755,000	1,755,000	1,755,000	-
Tononoka	5.00	628,653	-	628,653	628,653	628,653	-
ZEP-RE (PTA Reinsurance Company)	8.28	<u>9,336,468</u>	<u>-</u>	<u>9,336,468</u>	<u>9,336,468</u>	<u>12,141,991</u>	<u>(2,805,523)</u>
		<u>17,356,897</u>	<u>139,775</u>	<u>17,496,672</u>	<u>17,496,672</u>	<u>20,162,420</u>	<u>(2,805,523)</u>
TOTAL		<u>17,645,397</u>	<u>(148,725)</u>	<u>17,496,672</u>	<u>17,496,672</u>	<u>20,450,920</u>	<u>(2,805,523)</u>

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.

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18. EQUITY INVESTMENTS(Continued)

(i) Equity participation (Continued)

	Share- holding	Beginning cost USD	Additions at cost USD	Total ending cost USD	Investment carrying amount 2015 USD	Investment carrying amount 2014 USD	Fair value loss for the year USD
<i>At fair value through profit or loss</i>							
Aureos East Africa Fund	5.00	<u>355,695</u>	<u>-</u>	<u>355,695</u>	<u>288,500</u>	<u>512,300</u>	<u>(223,800)</u>
<i>At cost</i>							
African Export Import Bank	0.33	1,182,080	1,182,080	2,364,160	2,364,160	1,182,080	-
Africa Trade Insurance Agency	0.10	1,000,000	-	1,000,000	1,000,000	1,000,000	-
Gulf African Bank	5.33	1,978,734	-	1,978,734	1,978,734	1,978,734	-
Pan African Housing Fund	2.38	130,608	163,274	293,882	293,882	130,608	-
Tanruss	4.06	1,755,000	-	1,755,000	1,755,000	1,755,000	-
Tononoka	5.00	628,653	-	628,653	628,653	628,653	-
ZEP-RE (PTA Reinsurance Company)	11.6	<u>9,336,468</u>	<u>-</u>	<u>9,336,468</u>	<u>12,141,991</u>	<u>12,141,991</u>	<u>-</u>
		<u>16,011,543</u>	<u>1,345,354</u>	<u>17,356,897</u>	<u>20,162,420</u>	<u>18,817,066</u>	<u>-</u>
TOTAL		<u>16,367,238</u>	<u>1,345,354</u>	<u>17,712,592</u>	<u>20,450,920</u>	<u>19,329,366</u>	<u>(223,800)</u>

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.

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18. EQUITY INVESTMENTS (Continued)	2016 USD	2015 USD
ii) Instalments paid:		
Total subscribed capital*	19,330,210	19,636,645
Less: Instalments not due - Note 18 (iii)	<u>(1,833,538)</u>	<u>(1,924,053)</u>
Instalments paid as at end of year - Note 18 (i) and (ii)	<u>17,496,672</u>	<u>17,712,592</u>
*Total subscribed capital includes paid up capital and unpaid subscriptions		
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*	<u>633,538</u>	<u>706,118</u>
*Unpaid subscriptions are payable on call.	<u>1,833,538</u>	<u>1,924,053</u>
iv) Movement in the instalments paid:		
At beginning of year	17,645,397	16,367,238
Net additions at cost - Note 18 (i)	<u>(148,725)</u>	<u>1,345,354</u>
At end of year	<u>17,496,672</u>	<u>17,712,592</u>

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.

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	-	-
<b>TOTAL ASSETS</b>	<u>738,986</u>	<u>668,984</u>
Liabilities	-	-
<b>Equity</b>	<u>738,986</u>	<u>668,984</u>
Bank's carrying amount of the investment	<u>369,493</u>	<u>334,492</u>

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

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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	<u>38,759</u>	<u>43,643</u>
	<u>214,699,238</u>	<u>241,763,172</u>

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.

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****	<u>585,040</u>	<u>373,281</u>
	<u>79,543,167</u>	<u>187,745,880</u>
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)	<u>(21,765)</u>	<u>(241,287)</u>
At 31 December	<u>585,040</u>	<u>373,281</u>
Analysis of other receivables by maturity:		
Amounts due within one year	79,380,647	187,525,747
Amounts due after one year	<u>162,520</u>	<u>220,133</u>
	<u>79,543,167</u>	<u>187,745,880</u>

\*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.

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

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.

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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
<b>COST</b>								
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	<u>140,400</u>	<u>2,453,865</u>	<u>117,730</u>	<u>22,697,471</u>	<u>481,786</u>	<u>1,323,046</u>	<u>1,880,082</u>	<u>29,094,381</u>
<b>DEPRECIATION</b>								
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	<u>-</u>	<u>26,850</u>	<u>-</u>	<u>6,875,927</u>	<u>349,410</u>	<u>775,514</u>	<u>1,428,138</u>	<u>9,455,839</u>
<b>NET CARRYING AMOUNT</b>								
At 31 December 2016	<u>140,400</u>	<u>2,427,015</u>	<u>117,730</u>	<u>15,821,544</u>	<u>132,377</u>	<u>547,532</u>	<u>451,944</u>	<u>19,638,542</u>

*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.

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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
<b>COST</b>							
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	<u>140,400</u>	<u>2,453,865</u>	<u>22,574,641</u>	<u>458,744</u>	<u>1,296,696</u>	<u>1,748,878</u>	<u>28,673,224</u>
<b>DEPRECIATION</b>							
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	<u>-</u>	<u>2,066</u>	<u>4,996,015</u>	<u>284,437</u>	<u>702,824</u>	<u>1,252,408</u>	<u>7,237,750</u>
<b>NET CARRYING AMOUNT</b>							
At 31 December 2015	<u>140,400</u>	<u>2,451,799</u>	<u>17,578,626</u>	<u>174,307</u>	<u>593,872</u>	<u>496,470</u>	<u>21,435,474</u>

\*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.



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

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	<u>-</u>	<u>16,000,000</u>
	<u>276,636,321</u>	<u>341,531,667</u>

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



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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	-
Firststrand 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				<u>2,077,982,496</u>	<u>1,825,702,966</u>
INTEREST PAYABLE				14,703,614	12,005,906
Certificate of Deposits (Note 26a)				<u>276,636,321</u>	<u>341,531,667</u>
TOTAL SHORT TERM BORROWINGS				<u>2,369,322,431</u>	<u>2,179,240,539</u>

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27. LONG TERM BORROWINGS

Lender	Date of renewal/ disbursement	Maturity date	Currency	Amount in Currency	Amounts as at 31 December 2016			Amounts as at 31 December 2015		
					Balance outstanding USD	Amount due within one year USD	Amount due after one Year USD	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.

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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
	<u>63,621,398</u>	<u>34,800,406</u>

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

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

	2016 USD	2015 USD
Analysis of other payables by maturity:		
Amounts due within one year	58,383,548	30,302,231
Amounts due after one year	<u>5,237,850</u>	<u>4,498,175</u>
	<u>63,621,398</u>	<u>34,800,406</u>

29. PROVISION FOR SERVICE AND LEAVE PAY

(i) PROVISION FOR SERVICE PAY

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

(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	<u>(187,629)</u>	<u>(112,033)</u>
At end of year	<u>1,358,677</u>	<u>1,247,499</u>
TOTAL PROVISION FOR SERVICE AND LEAVE PAY	<u>5,838,723</u>	<u>5,672,051</u>

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

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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
220,584 Class 'B' ordinary shares of USD 4,533.42 each	-	1,000,000,000	1,000,000,000	-	1,000,000,000	1,000,000,000
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	69,683,205	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

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30. SHARE CAPITAL (Continued)

Share Premium:	Number of shares	Share value USD	Price paid USD	Share premium USD
As at 31 December 2016:				
At 1 January 2016	15,371	69,683,206	96,554,014	26,870,808
Additions during the year	<u>1,894</u>	<u>8,586,297</u>	<u>16,822,150</u>	<u>8,235,853</u>
At 31 December 2016	<u>17,265</u>	<u>78,269,503</u>	<u>113,376,164</u>	<u>35,106,661</u>
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	<u>1,889</u>	<u>8,563,631</u>	<u>15,656,033</u>	<u>7,092,402</u>
As at 31 December 2015:	<u>15,371</u>	<u>69,683,206</u>	<u>96,554,014</u>	<u>26,870,808</u>

*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.

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

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.

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30. SHARE CAPITAL (Continued)

	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
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	-	998,281
National Social Security Fund Uganda	-	7,348,674	7,348,674	-	5,471,838	5,471,838
Mauritian Eagle Insurance Company	-	-	-	-	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
	<u>23,723,548</u>	<u>8,586,298</u>	<u>32,309,846</u>	<u>23,214,901</u>	<u>8,563,631</u>	<u>31,778,532</u>
At the end of the year	293,781,435	78,269,504	372,050,939	270,057,887	69,683,206	339,741,093

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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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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	-	15,323
(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	<u>4,021,100</u>	<u>32,779,528</u>
(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)	<u>110,191,979</u>	<u>284,613,137</u>
	<u>(94,032,484)</u>	<u>220,161,759</u>
(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	<u>2,369,322,431</u>	<u>2,179,240,539</u>
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	<u>794,214,640</u>	<u>874,104,553</u>
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	<u>3,163,537,071</u>	<u>3,053,345,092</u>
Increase in total borrowings 31 (a)	<u>110,191,979</u>	<u>284,613,137</u>
For purposes of the Statement of Cash Flows, borrowings received for on-lending are treated as normal operations of the Bank and, therefore, are classified as cash generated from operations.		
(c) Analysis of cash and cash equivalents	2016 USD	2015 USD
Cash and balances with other banks - Note 13	<u>594,835,619</u>	<u>643,514,540</u>



EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 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	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	-
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/Abisa Bank	20,000,000	-	20,000,000
BHF Bank	15,797,850	5,615,641	10,182,209
OZ 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
	<u>3,955,057,013</u>	<u>2,474,378,136</u>	<u>1,480,678,877</u>



EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

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

(d) Facilities available for lending (continued)

	Facilities available	Facilities utilised	Facilities unutilised
LONG TERM FACILITIES LENDER	USD	USD	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
	<u>1,349,077,019</u>	<u>1,247,002,648</u>	<u>102,074,371</u>
TOTAL FACILITIES			
At 31 DECEMBER 2016	<u>5,304,134,032</u>	<u>3,721,380,784</u>	<u>1,582,753,248</u>

Note:

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

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 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 2015 the following facilities were available to the Bank for lending:

SHORT-TERM FACILITIES LENDER	Facilities available USD	Facilities utilized USD	Facilities unutilized USD
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	-
Firststrand 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
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/Abse 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
	<u>2,999,903,891</u>	<u>1,841,392,177</u>	<u>1,158,511,714</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

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

(d) Facilities available for lending (continued)

	Facilities available	Facilities utilised	Facilities unutilised
LONG TERM FACILITIES LENDER	USD	USD	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
	<u>1,354,151,331</u>	<u>1,163,956,961</u>	<u>190,194,370</u>
TOTAL FACILITIES			
At 31 DECEMBER 2015	<u>4,354,055,222</u>	<u>3,005,349,138</u>	<u>1,348,706,084</u>

Note:

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

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 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
<b>ASSETS</b>				
Derivative financial instruments	-	75,760,442	-	75,760,442
Equity investments - at fair value through profit or loss	-	-	-	-
	-	<u>75,760,442</u>	-	<u>75,760,442</u>
<b>LIABILITIES</b>	-	-	-	-

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 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
<b>ASSETS</b>				
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
<b>LIABILITIES</b>	-	-	-	-

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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 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
<b>ASSETS</b>						
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
<b>LIABILITIES</b>	-	-	-	-	-	-

Quantitative information of significant unobservable inputs - Level 3:

Description	Valuation Technique	Unobservable input	Range (weighted average)	2016 USD	2015 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:

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

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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	-	-
	<u>288,500</u>	<u>512,300</u>
Total FV gains and losses in profit or loss	-	(223,800)
Additions	-	-
Retirements	<u>(288,500)</u>	<u>-</u>
Balance as at 31 December	<u>-</u>	<u>288,500</u>

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.



EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

33. SEGMENT REPORTING (Continued)

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

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	<u>(79,267,994)</u>	<u>(27,632,108)</u>	<u>(1,809,379)</u>	<u>(108,709,481)</u>
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	-	<u>(2,805,523)</u>	-	<u>(2,805,523)</u>
Profit for the year	<u>78,791,910</u>	<u>23,198,956</u>	<u>(534,635)</u>	<u>101,456,231</u>
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	<u>(70,477,044)</u>	<u>(26,334,208)</u>	<u>(1,379,655)</u>	<u>(98,190,907)</u>
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	-	<u>(223,800)</u>	-	<u>(223,800)</u>
Profit for the year	<u>118,118,361</u>	<u>(25,147,207)</u>	<u>1,748,532</u>	<u>94,719,686</u>



EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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33. SEGMENT REPORTING (Continued)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016:	Trade finance USD	Project USD	Other USD	Total USD
<b>Assets:</b>				
Cash and balances held with other banks	167,465,912	-	427,369,707	594,835,619
Investment in Government securities -	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 fair value through	-	-	-	-
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
<b>Total assets</b>	<b><u>2,851,068,502</u></b>	<b><u>864,752,893</u></b>	<b><u>545,430,758</u></b>	<b><u>4,261,252,153</u></b>
<b>Liabilities:</b>				
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
<b>Total liabilities</b>	<b><u>2,541,092,456</u></b>	<b><u>794,214,640</u></b>	<b><u>69,460,121</u></b>	<b><u>3,404,767,217</u></b>
<b>Equity</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>856,484,936</u></b>	<b><u>856,484,936</u></b>
	<b><u>2,541,092,456</u></b>	<b><u>794,214,640</u></b>	<b><u>925,945,057</u></b>	<b><u>4,261,252,153</u></b>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 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
<b>Assets:</b>				
Cash and balances held with other	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
<b>Total assets</b>	<b><u>2,472,586,424</u></b>	<b><u>719,447,925</u></b>	<b><u>902,525,773</u></b>	<b><u>4,094,560,122</u></b>
<b>Liabilities:</b>				
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
<b>Total liabilities</b>	<b><u>2,179,240,539</u></b>	<b><u>874,104,553</u></b>	<b><u>40,472,457</u></b>	<b><u>3,358,291,587</u></b>
<b>Equity</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>736,268,535</u></b>	<b><u>736,268,535</u></b>
	<b><u>2,443,714,577</u></b>	<b><u>874,104,553</u></b>	<b><u>776,740,992</u></b>	<b><u>4,094,560,122</u></b>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

34. CONTINGENT LIABILITIES AND COMMITMENTS

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

(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	<u>10,274,707</u>	<u>2,041,765</u>
	<u>348,386,568</u>	<u>350,961,006</u>

(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.

*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	<u>560,024</u>	<u>726,613</u>
	<u>1,399,801</u>	<u>1,001,340</u>

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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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34. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

(e) 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.

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

(b) Loans to member states	2016 USD	2015 USD
Outstanding loans at 1 January	1,206,539,908	1,156,104,821
Loans disbursed during the year	836,487,209	1,322,929,001
Loans repaid during the year	<u>(910,712,237)</u>	<u>(1,272,493,914)</u>
Outstanding loan balances at 31 December	<u>1,132,314,880</u>	<u>1,206,539,908</u>

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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

35. RELATED PARTY TRANSACTIONS (Continued)

	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	<u>(87,996,575)</u>	<u>(9,750,888)</u>
Outstanding balances at 31 December	<u>321,797,391</u>	<u>364,990,246</u>

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	<u>88,034,294</u>	<u>77,509,593</u>
• Interest expense on borrowings from Member States incurred during the year	<u>(8,279,514)</u>	<u>(9,616,953)</u>
• Fees and commission earned from Member States during the year	<u>34,644,298</u>	<u>24,623,254</u>

(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	<u>281,770</u>	<u>48,300</u>
	<u>3,527,031</u>	<u>2,417,595</u>

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	2015
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

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.

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.



38. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) CREDIT RISK (Continued)

*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.

*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).

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Maximum Exposure to Credit Risk before Collateral Held:

	2016 USD	%	2015 USD	%
Credit Exposures				
<i>On - statement of financial position Items</i>				
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	<u>4,276,845,398</u>	<u>100</u>	<u>4,112,982,522</u>	<u>100</u>
<i>Off - statement of financial position Items</i>				
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	<u>10,274,707</u>	<u>1</u>	<u>2,041,765</u>	<u>-</u>
Sub Total	<u>1,235,926,509</u>	<u>100</u>	<u>1,081,651,529</u>	<u>100</u>
Total Credit Exposure	<u>5,512,771,907</u>		<u>5,194,634,051</u>	

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.

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.



EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

*Classification of Loans and advances*

For year ended 31 December

2016: Category	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	<u>95,092,932</u>	<u>(60,957,859)</u>	<u>34,135,073</u>	<u>1</u>
Total	<u>3,337,631,476</u>	<u>(97,601,835)</u>	<u>3,240,029,641</u>	<u>100</u>

For year ended 31 December

2015 Category	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	<u>86,229,211</u>	<u>(70,514,032)</u>	<u>15,715,179</u>	<u>1</u>
Total	<u>3,001,749,471</u>	<u>(94,974,572)</u>	<u>2,906,774,899</u>	<u>100</u>

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.

Ageing of arrears for past due loans and advances not impaired

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

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	<u>23,458,469</u>	<u>65,242,360</u>
Total arrears	<u>86,814,242</u>	<u>107,189,859</u>
Amounts not in arrears/(Restructured loans)	<u>8,278,690</u>	<u>(20,960,648)</u>
Total	<u>95,092,932</u>	<u>86,229,211</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

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.

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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

	<i>Collateral held for loan portfolio</i>	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	<u>268,382,137</u>	<u>355,481,787</u>
	Total security cover	<u>6,131,095,492</u>	<u>5,120,359,259</u>
	Gross portfolio	<u>(3,337,631,476)</u>	<u>(3,001,749,471)</u>
	Net cover	<u>2,793,464,016</u>	<u>2,118,609,788</u>
(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	<u>268,382,137</u>	<u>40,000,000</u>
	Total security cover	<u>5,908,982,360</u>	<u>232,140,125</u>
	Gross portfolio	<u>(101,492,359)</u>	<u>(267,232,493)</u>
	Net cover	<u>5,807,490,001</u>	<u>(35,092,368)</u>
(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	<u>32,284,564</u>	<u>232,800,000</u>
	Total security cover	<u>222,113,132</u>	<u>412,077,829</u>
	Gross portfolio	<u>(95,092,932)</u>	<u>(86,229,211)</u>
	Net cover	<u>127,020,200</u>	<u>325,848,618</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

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
Insurance: Infrastructure	157,561,056	5	161,821,002	13	-	(100,000,000)	219,382,058	9
Insurance: Transport and Logistics	245,874,495	7	-	-	-	(61,200,000)	184,674,495	8
	<u>3,337,631,476</u>	<u>100</u>	<u>1,235,926,509</u>	<u>100</u>	<u>(875,218,416)</u>	<u>(1,262,430,969)</u>	<u>2,435,908,600</u>	<u>100</u>

\*\*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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2015

38. FINANCIAL RISK MANAGEMENT (Continued)

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
	<u>3,001,749,471</u>	<u>100</u>	<u>1,081,651,529</u>	<u>100</u>	<u>(790,545,934)</u>	<u>(763,764,983)</u>	<u>2,529,090,083</u>	<u>100</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

	2016 USD	2015 USD
<i>Restructured loans</i>		
Project finance loans	-	-
Trade finance loans	<u>35,582,797</u>	<u>390,000,000</u>
	<u>35,582,797</u>	<u>390,000,000</u>

(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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 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
<b>FINANCIAL ASSETS</b>							
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
<b>Total financial assets</b>	<b><u>968,281,172</u></b>	<b><u>142,429,642</u></b>	<b><u>447,682,525</u></b>	<b><u>1,028,974,753</u></b>	<b><u>1,949,698,133</u></b>	<b><u>178,527,666</u></b>	<b><u>4,715,593,891</u></b>
<b>FINANCIAL LIABILITIES</b>							
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	<u>57,469,779</u>	<u>159,707</u>	<u>238,592</u>	<u>463,848</u>	<u>3,320,805</u>	<u>1,917,045</u>	<u>63,569,776</u>
<b>Total liabilities</b>	<b><u>511,763,389</u></b>	<b><u>454,582,601</u></b>	<b><u>347,368,237</u></b>	<b><u>610,069,898</u></b>	<b><u>1,529,821,302</u></b>	<b><u>127,901,139</u></b>	<b><u>3,581,506,566</u></b>
<b>Net liquidity gap</b>	<b><u>456,517,783</u></b>	<b><u>(312,152,959)</u></b>	<b><u>100,314,288</u></b>	<b><u>418,904,855</u></b>	<b><u>419,876,831</u></b>	<b><u>50,626,527</u></b>	<b><u>1,134,087,325</u></b>
<b>Cumulative gap</b>	<b><u>456,517,783</u></b>	<b><u>144,364,824</u></b>	<b><u>244,679,112</u></b>	<b><u>663,583,968</u></b>	<b><u>1,083,460,798</u></b>	<b><u>1,134,087,325</u></b>	<b><u>1,134,087,325</u></b>

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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 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	-	-	<u>673,459,934</u>	<u>214,080,007</u>	-	-	<u>887,539,941</u>
Total	-	<u>338,111,861</u>	<u>673,459,934</u>	<u>224,354,714</u>	-	-	<u>1,235,926,509</u>
At 31 December 2015							
Guarantees	-	-	-	2,041,765	-	-	2,041,765
Letters of credit	-	348,919,241	-	-	-	-	348,919,241
Loan commitments	-	-	<u>511,347,097</u>	<u>219,343,426</u>	-	-	<u>730,690,523</u>
Total	-	<u>348,919,241</u>	<u>511,347,097</u>	<u>221,385,191</u>	-	-	<u>1,081,651,529</u>



EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2015

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
<b>FINANCIAL ASSETS</b>							
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							
- At fair value through profit or loss	-	-	-	-	288,500	-	288,500
- At cost	-	-	-	-	20,162,420	-	20,162,420
<b>Total financial assets</b>	<b><u>1,594,300,226</u></b>	<b><u>349,526,130</u></b>	<b><u>543,683,009</u></b>	<b><u>809,183,940</u></b>	<b><u>588,957,008</u></b>	<b><u>152,808,557</u></b>	<b><u>4,038,458,870</u></b>
<b>FINANCIAL LIABILITIES</b>							
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	<u>29,467,497</u>	<u>142,934</u>	<u>213,891</u>	<u>424,174</u>	<u>3,043,917</u>	<u>1,454,258</u>	<u>34,746,671</u>
<b>Total liabilities</b>	<b><u>810,297,025</u></b>	<b><u>601,787,391</u></b>	<b><u>443,571,683</u></b>	<b><u>828,467,951</u></b>	<b><u>592,629,879</u></b>	<b><u>75,811,872</u></b>	<b><u>3,352,565,801</u></b>
<b>Net liquidity gap</b>	<b><u>784,003,201</u></b>	<b><u>(252,261,261)</u></b>	<b><u>(100,111,326)</u></b>	<b><u>(19,284,011)</u></b>	<b><u>(3,672,871)</u></b>	<b><u>76,996,685</u></b>	<b><u>685,893,069</u></b>
<b>Cumulative gap</b>	<b><u>784,003,201</u></b>	<b><u>531,741,940</u></b>	<b><u>631,853,266</u></b>	<b><u>612,569,255</u></b>	<b><u>608,896,384</u></b>	<b><u>685,893,069</u></b>	<b><u>685,893,069</u></b>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

38. FINANCIAL RISK MANAGEMENT

(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	1 to 6 Months USD	6 to 12 months USD	1 to 5 years USD	*Fixed Interest Rate USD	Non-interest bearing USD	Total USD
<b>FINANCIAL ASSETS</b>							
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
<b>Total financial assets</b>	<b><u>1,351,075,580</u></b>	<b><u>811,975,049</u></b>	<b><u>330,257,705</u></b>	<b><u>4,557,326</u></b>	<b><u>1,336,869,991</u></b>	<b><u>362,374,073</u></b>	<b><u>4,197,109,724</u></b>
<b>FINANCIAL LIABILITIES</b>							
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
<b>Total financial liabilities</b>	<b><u>1,074,182,280</u></b>	<b><u>1,591,863,787</u></b>	<b><u>158,268,073</u></b>	<b><u>-</u></b>	<b><u>345,402,783</u></b>	<b><u>229,159,949</u></b>	<b><u>3,398,876,872</u></b>
<b>Net interest rate exposure</b>	<b><u>276,893,300</u></b>	<b><u>(779,888,738)</u></b>	<b><u>171,989,632</u></b>	<b><u>4,557,326</u></b>	<b><u>991,467,208</u></b>	<b><u>133,214,124</u></b>	<b><u>798,232,852</u></b>
<b>Cumulative interest rate exposure</b>	<b><u>276,893,300</u></b>	<b><u>(502,995,438)</u></b>	<b><u>(331,005,806)</u></b>	<b><u>(326,448,480)</u></b>	<b><u>665,018,728</u></b>	<b><u>798,232,852</u></b>	<b><u>798,232,852</u></b>

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

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

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 USD	1 to 6 Months USD	6 to 12 months USD	1 to 5 years USD	*Fixed interest Rate USD	Non-interest bearing USD	Total USD
<b>FINANCIAL ASSETS</b>							
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
<b>Total financial assets</b>	<b>730,713,838</b>	<b>153,877,995</b>	<b>505,015,661</b>	<b>45,398,773</b>	<b>2,075,398,306</b>	<b>528,054,297</b>	<b>4,038,458,870</b>
<b>FINANCIAL LIABILITIES</b>							
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
<b>Total financial liabilities</b>	<b>1,089,562,006</b>	<b>1,415,147,694</b>	<b>124,799,418</b>	<b>20,215,113</b>	<b>408,972,393</b>	<b>293,869,177</b>	<b>3,352,565,801</b>
<b>Net interest rate exposure</b>	<b>(358,848,168)</b>	<b>(1,261,269,699)</b>	<b>380,216,243</b>	<b>25,183,660</b>	<b>1,666,425,913</b>	<b>234,185,120</b>	<b>685,893,069</b>
<b>Cumulative interest rate exposure</b>	<b>(358,848,168)</b>	<b>(1,620,117,867)</b>	<b>(1,239,901,624)</b>	<b>(1,214,717,964)</b>	<b>451,707,949</b>	<b>685,893,069</b>	<b>685,893,069</b>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 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 2016 was as follows:

	USD	GBP	EURO	KES	SDG	UGX	TZSH	OTHER	TOTAL
<b>FINANCIAL ASSETS</b>									
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
<b>Total financial assets</b>	<b>3,901,141,153</b>	<b>4,164</b>	<b>104,471,377</b>	<b>(3,430)</b>	<b>167,465,912</b>	<b>4,109,957</b>	<b>15,864,291</b>	<b>4,056,300</b>	<b>4,197,109,724</b>
<b>FINANCIAL LIABILITIES</b>									
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
<b>Total financial liabilities</b>	<b>2,936,543,703</b>	<b>-</b>	<b>110,400,302</b>	<b>173,300</b>	<b>164,371,219</b>	<b>-</b>	<b>10,654,318</b>	<b>176,734,030</b>	<b>3,398,876,872</b>
<b>NET POSITION</b>	<b>964,597,450</b>	<b>4,164</b>	<b>(5,928,925)</b>	<b>(176,730)</b>	<b>3,094,693</b>	<b>4,109,957</b>	<b>5,209,973</b>	<b>(172,677,730)</b>	<b>798,232,852</b>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

38. FINANCIAL RISK MANAGEMENT (Continued)

MARKET RISK (Continued)

(iii) 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:

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



EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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38. FINANCIAL RISK MANAGEMENT (Continued)

(iii) 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	<u>1,207</u>	<u>(849,703)</u>	<u>(183)</u>	<u>239</u>	<u>31,924</u>	<u>(33,941)</u>
2015	<u>5,317</u>	<u>1,928,671</u>	<u>8,393</u>	<u>127</u>	<u>82,010</u>	<u>(31,358)</u>

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.



EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 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
<b>RISK WEIGHTED ASSETS</b>		
On-Statement of financial position assets	2,236,880,589	1,812,316,602
Off-Statement of financial position assets	<u>77,853,320</u>	<u>70,804,731</u>
Total risk weighted assets	<u>2,314,733,909</u>	<u>1,883,121,333</u>
<b>CAPITAL</b>		
Paid up capital	372,050,939	339,741,093
Retained earnings and reserves	<u>484,427,909</u>	<u>396,527,442</u>
Total capital	<u>856,478,848</u>	<u>736,268,535</u>
<b>CAPITAL ADEQUACY RATIO</b>	<u>37.0%</u>	<u>39.1%</u>

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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 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 USD	At fair value through profit or loss USD	Available for sale USD	Hedging instruments USD	Held to Maturity USD	Total carrying amount USD
<b>Financial assets</b>						
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	-	<u>341,813</u>	-	<u>75,418,629</u>	-	<u>75,760,442</u>
<b>Total financial assets</b>	<b><u>3,888,783,880</u></b>	<b><u>341,813</u></b>	<b><u>17,496,672</u></b>	<b><u>75,418,629</u></b>	<b><u>214,699,238</u></b>	<b><u>4,196,740,232</u></b>
<b>Financial liabilities</b>						
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	-	-	-	-	<u>63,569,776</u>	<u>63,569,776</u>
<b>Total financial liabilities</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>3,398,876,872</u></b>	<b><u>3,398,876,872</u></b>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 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	Loans and borrowings USD	Total carrying amount USD
<b>Financial assets</b>						
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
<b>Total financial assets</b>	<b>3,957,014,875</b>	<b>1,163,559</b>	<b>20,162,420</b>	<b>60,118,016</b>	<b>-</b>	<b>4,038,458,870</b>
<b>Financial liabilities</b>						
Collection account deposits	-	-	-	-	264,474,038	264,474,038
Derivative financial instruments	-	-	-	-	-	-
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
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,352,565,801</b>	<b>3,352,565,801</b>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

41. TRADE FINANCE LOAN PORTFOLIO

Country	As at 31 December 2016			As at 31 December 2015		
	Balance outstanding USD	Amounts due within six months USD	Amounts due after six months USD	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	<u>2,441,543,542</u>	<u>855,403,801</u>	<u>1,586,139,741</u>	<u>2,239,400,964</u>	<u>1,567,600,608</u>	<u>671,800,356</u>
Less: Impairment on trade finance loans (Note 17)	<u>(48,400,632)</u>	<u>-</u>	<u>(48,400,632)</u>	<u>(31,288,578)</u>	<u>-</u>	<u>(31,288,578)</u>
NET LOANS	<u>2,393,142,910</u>	<u>855,403,801</u>	<u>1,537,739,109</u>	<u>2,208,112,386</u>	<u>1,567,600,608</u>	<u>640,511,778</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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42. PROJECT LOAN PORTFOLIO

Country	As at 31 December 2016							As at 31 December 2015				
	Amounts Approved	Amounts Signed	Amounts Disbursed	Interest Capitalized	Amounts Repaid	Interest Receivable	Balance Outstanding	Due within One year	Due after One year	Balance Outstanding	Within One year	Due after One year
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	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	15,662,642	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	2,164,449,246	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

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 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	<u>3,431</u>	<u>4.85</u>	<u>77,770,477</u>	<u>62,216,382</u>	<u>15,554,095</u>	<u>15,554,095</u>	<u>15,554,095</u>
	<u>70,701</u>	<u>100</u>	<u>1,602,579,567</u>	<u>1,282,063,654</u>	<u>320,515,913</u>	<u>308,185,065</u>	<u>293,781,436</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2016

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
Mozambique	2,206	3.12	50,003,402	40,002,722	10,000,680	2,000,136	2,000,136
	<u>64,705</u>	<u>100</u>	<u>1,466,668,235</u>	<u>1,173,334,587</u>	<u>293,333,648</u>	<u>280,162,758</u>	<u>270,057,888</u>



EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (TDB - formerly PTA Bank)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEARENDED 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 Invertemto	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
Sacos Group Limited	1,029	5.96	4,664,890	4,664,890	4,664,890	2,343,654	7,008,544
Seychelles Pension Fund	121	0.70	548,544	548,544	548,544	454,304	1,002,848
ZEP-RE(PTA Reinsurance company)	<u>834</u>	<u>5.20</u>	<u>3,780,873</u>	<u>3,780,873</u>	<u>3,780,873</u>	<u>1,223,127</u>	<u>5,004,000</u>
	<u>17,265</u>	<u>100</u>	<u>78,269,503</u>	<u>78,269,503</u>	<u>78,269,503</u>	<u>35,106,661</u>	<u>113,376,164</u>
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 Invertemto	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)	<u>834</u>	<u>5.43</u>	<u>3,780,873</u>	<u>3,780,873</u>	<u>3,780,873</u>	<u>1,223,128</u>	<u>5,004,001</u>
	<u>15,371</u>	<u>100</u>	<u>69,683,206</u>	<u>69,683,206</u>	<u>69,683,206</u>	<u>26,870,808</u>	<u>96,554,014</u>

Class 'B' shares were first issued in 2013 following approval by the Board of Governors in December 2012 to increase the Bank'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.



EASTERN AND SOUTHERN AFRICAN  
TRADE AND DEVELOPMENT BANK  
(PTA BANK)

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2015

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015

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EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
CORPORATE INFORMATION  
FOR THE YEAR ENDED 31 DECEMBER 2015

BOARD OF GOVERNORS

H.E. Ilyas Moussa Dawaleh	Minister for Economy, Finance and Planning, in charge of Privatization Republic of Djibouti Chairman of the Board of Governors
Hon. Phillip Mpango	Minister for Finance and Economic Affairs United Republic of Tanzania
Hon. Alexander B. Chikwanda	Minister for Finance and National Planning Republic of Zambia
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. Jean Paul Adam	Minister for Finance, Trade and the Blue Economy Republic of Seychelles
Hon. Matia Kasaija	Minister for Finance, Planning and Economic Development Republic of Uganda
Hon. Tabu Abdallah Manirakiza	Minister for Finance Republic of Burundi
H.E. Mohamed Ali Soilihi	Vice President in charge of Finance, Economy, Budget, Investment, Foreign Trade and Privatization Federal Islamic Republic of Comoros
H.E. Hany Kadry Dimian	Ministry for Finance Arab Republic of Egypt
Hon. Berhane Abrehe	Minister for Finance State of Eritrea
Hon. Adan Mohamed, EGH	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. Claver Gatete	Minister for Finance and Economic Planning Republic of Rwanda
Hon. Badr El-Din Mahmoud Abbas	Minister for Finance and National Economy Republic of Sudan

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
CORPORATE INFORMATION (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

BOARD OF GOVERNORS (Continued)

Hon. Abdulaziz Mohammed	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 Mozambique
Hon. Mohamed Aden Ibrahim	Minister for Finance Federal Republic of Somalia
H.E. Dr. Zhou Xiaochuan	Governor, People's Bank of China People's Republic of China
Mr. Charles O Roamah	African Development Bank (AfDB) Vice President - Finance
Mr. Andrei S. Brishtev	Paritetbank -Belarus, 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, President
Ms. Lekha Nair	Seychelles Pension Fund, Chief Executive Officer
Mr. Corneille Karekezi	Africa Re- Insurance Company, Group Managing Director
Mr. Rajni Varia	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

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
CORPORATE INFORMATION (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

DIRECTORS

Ms. Kampeta Sayinzoga	Director for Zimbabwe, Mauritius, Rwanda and Eritrea Chairman
Dr. Anne Francis Leautier	Independent Director Vice-Chairman
Mr. Rupert Simeon	Director for Seychelles, Ethiopia, Burundi and Malawi
Ms. Mariam Hamadou	Director for Egypt, Tanzania and Djibouti
Mr. Gerome Manankisi Kamwanga	Director for Uganda, Sudan, DR Congo and Comoros
Prof. Oliver Saasa	Director for Kenya, Zambia and Somalia
Mr. Liu Mingzhi	Director for Non-African state members
Mr. Solomon Asamoah	Director for African Financial Institutions (AFI)
Mr. Admassu Tadesse	President and Chief Executive
Mr. Willard Manungo	Alternate Director for Zimbabwe, Mauritius, Rwanda and Eritrea
Mr. Sulleman Kamolleh	Alternate Director for Kenya, Zambia and Somalia
Mr. Lawrence Kiiza	Alternate Director for Uganda, Sudan and Comoros
Mr. Tarek Fayed	Alternate Director for Egypt, Tanzania and Djibouti

AUDITORS Ernst & Young LLP  
Kenya Re Towers, Upperhill  
Off Ragati Road  
P. O. Box 44286 - 00100 Nairobi, Kenya

LAWYERS Various

HEADQUARTERS PTA Bank Headquarters : Central Africa  
Chaussee, Prince Louis, Rwagasore  
P O Box 1750, Bujumbura, Burundi  
Telephone :257 (22) 4966 / 257 (22) 4625  
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Email :Official@ptabank.org

OTHER OFFICES	PTA Bank Nairobi Regional Office : Eastern Africa 197 Lenana Place, Lenana Road P O Box 48596 - 00100 Nairobi, Kenya Telephone :254 (20) 2712250 Fax :254 (20) 2711510 Swift :ESATKENA	PTA Bank Harare Regional Office:Southern Africa 70 Enterprise Road Harare, Zimbabwe Telephone: 263(4)788330-3/788336-9/788317 FCT Line : +263-7827884955 Fax :+263-772788345
	PTA Bank Mauritius Regional Office: Indian Ocean 2nd Floor, Blue Tower Rue de L'Institute, Ebene P.O Box 43, Reduit, Mauritius Telephone: +230- 4676021/4676016 Fax :+230-4675971	

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2015

The directors have pleasure in presenting their report and the audited financial statements of the Eastern and Southern African Trade and Development Bank (PTA Bank) for the year ended 31 December 2015.

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 7.

3. DIVIDEND

The Board has recommended a dividend of USD 301.35 (2014: USD 329.50) 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 1 - 2.

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 3.

In accordance with the Bank's Charter, 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

Nairobi

19 April 2016

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
STATEMENT OF DIRECTORS' RESPONSIBILITIES  
ON THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015

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

19 April 2016

  
Director

19 April 2016





Building a better  
working world

Ernst & Young LLP  
Certified Public Accountants  
Kenya Re Towers  
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REPORT OF THE INDEPENDENT AUDITORS  
TO THE MEMBERS OF  
EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Eastern and Southern African Trade and Development Bank (PTA Bank), which comprise the statement of profit or loss and other comprehensive income, the statement of financial position as at 31 December 2015, 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 notes as set out on pages 7 to 92.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Bank's Charter, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015 and of 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.

*The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Joseph K Cheboror - P/No. P.1145.*

Nairobi, Kenya

21 April, 2016



EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 USD	2014 USD
INCOME			
Interest income	4	<u>208,668,727</u>	<u>156,739,455</u>
Interest expense	5	(89,499,439)	(78,101,408)
Other costs related to borrowing	6	<u>(8,691,468)</u>	<u>(9,891,843)</u>
Interest and similar expense		<u>(98,190,907)</u>	<u>(87,993,251)</u>
Net interest income		110,477,820	68,746,204
Fee and commission income	7	<u>32,517,630</u>	<u>41,999,967</u>
Net trading income		142,995,450	110,746,171
Other income	8	<u>8,886,823</u>	<u>10,975,925</u>
OPERATING INCOME		<u>151,882,273</u>	<u>121,722,096</u>
EXPENDITURE			
Operating expenses	9	(20,895,869)	(19,228,565)
Impairment on other financial assets	11	(241,287)	-
Impairment allowance on project and trade finance loans	17	(32,767,866)	(24,792,314)
Fair value (loss) on equity investments at fair value through profit or loss	18	(223,800)	(1,280,792)
Net foreign exchange (losses)/gains		<u>(3,033,765)</u>	<u>557,313</u>
TOTAL EXPENDITURE		<u>(57,162,587)</u>	<u>(44,744,358)</u>
PROFIT FOR THE YEAR		<u>94,719,686</u>	<u>76,977,738</u>
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS		<u>94,719,686</u>	<u>76,977,738</u>
EARNINGS PER SHARE:			
Basic	12	<u>1,271</u>	<u>1,254</u>
Diluted	12	<u>1,191</u>	<u>1,144</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2015

	Note	2015 USD	2014 USD
<b>ASSETS</b>			
Cash and balances held with other banks	13	643,514,540	435,996,933
Derivative financial instruments	14	60,993,075	34,189,322
Trade finance loans	15	2,208,112,386	1,901,553,050
Project loans	16	698,662,513	610,158,235
Equity investments - at fair value through profit or loss	18	288,500	12,654,291
Equity investments -at cost	18	20,162,420	6,675,075
Investment in joint venture	19	334,492	-
Investment in Government securities	20	241,763,172	216,000,000
Other receivables	21	187,745,880	289,119,653
Deferred expenditure	22	11,190,156	16,627,274
Property and equipment	23	21,435,474	20,465,968
Intangible assets	24	357,514	407,437
<b>TOTAL ASSETS</b>		<b><u>4,094,560,122</u></b>	<b><u>3,543,847,238</u></b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Collection account deposits	25	264,474,038	126,774,345
Short term borrowings	26	2,179,240,539	1,919,329,465
Long term borrowings	27	874,104,553	849,402,489
Other payables	28	34,800,406	21,000,595
Provision for service and leave pay	29	5,672,051	5,417,994
<b>TOTAL LIABILITIES</b>		<b><u>3,358,291,587</u></b>	<b><u>2,921,924,888</u></b>
<b>EQUITY</b>			
Share capital	30	339,741,093	307,962,561
Share premium	30	26,870,808	19,778,406
Retained earnings		347,871,106	274,936,948
Proposed dividend	30	21,785,528	19,244,435
<b>TOTAL EQUITY</b>		<b><u>736,268,535</u></b>	<b><u>621,922,350</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>4,094,560,122</u></b>	<b><u>3,543,847,238</u></b>

The financial statements were approved by the board of directors on 19 April 2016  
and were signed on its behalf by:

  
.....  
President

  
.....  
Director

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2015

	Share Capital USD	Share premium USD	Retained earnings USD	Proposed dividend USD	Total equity USD
At 1 January 2014	252,440,548	7,334,878	217,203,645	-	476,979,071
Capital subscriptions (Note 30)	55,522,013	-	-	-	55,522,013
Share Premium (note 30)	-	12,443,528	-	-	12,443,528
Proposed dividend (note 30)	-	-	(19,244,435)	19,244,435	-
Total comprehensive income for the year	-	-	<u>76,977,738</u>	-	<u>76,977,738</u>
At 31 December 2014	<u>307,962,561</u>	<u>19,778,406</u>	<u>274,936,948</u>	<u>19,244,435</u>	<u>621,922,350</u>
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	-
Dividend paid (note 30)	-	-	-	(19,244,435)	(19,244,435)
Total comprehensive income for the year	-	-	<u>94,719,686</u>	-	<u>94,719,686</u>
At 31 December 2015	<u>339,741,093</u>	<u>26,870,808</u>	<u>347,871,106</u>	<u>21,785,528</u>	<u>736,268,535</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 USD	2014 USD
OPERATING ACTIVITIES			
Net cash generated from operations	31(a)	<u>220,205,402</u>	<u>181,169,011</u>
INVESTING ACTIVITIES			
Purchase of property and equipment	23	(1,750,498)	(626,791)
Purchase of intangible assets	24	(87,015)	(218,533)
Acquisition of equity investments	18	(1,345,354)	(988,839)
Disposal of equity investments	18	-	132,301
Acquisition of Interest in Joint Venture	19	(334,492)	-
Net purchase of Government securities	20	<u>(25,763,172)</u>	<u>(216,000,000)</u>
Net cash used in investing activities		<u>(29,280,531)</u>	<u>(217,701,862)</u>
FINANCING ACTIVITIES			
Proceeds from capital subscriptions	30	31,778,532	55,522,013
Proceeds from share premium	30	7,092,402	12,443,528
Payment of dividends	30	<u>(19,244,435)</u>	<u>-</u>
Net cash generated from financing activities		<u>19,626,499</u>	<u>67,965,541</u>
INCREASE IN CASH AND CASH EQUIVALENTS		210,551,370	31,432,690
Foreign exchange (loss)/gain on cash and cash equivalents		(3,033,765)	557,313
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		<u>435,996,933</u>	<u>404,006,930</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	31(c)	<u><u>643,514,538</u></u>	<u><u>435,996,933</u></u>
FACILITIES AVAILABLE FOR LENDING	31(d)	<u><u>1,348,706,084</u></u>	<u><u>1,153,353,486</u></u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Borrowing costs

Borrowing costs are interest and other 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 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, and discounts and premiums are allocated over the relevant period as revenue or expense respectively.

(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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.



2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

*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.

*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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

Hedge accounting (Continued)

*Cash flow hedges (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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

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:
  - a) the Bank has transferred substantially all the risks and rewards of the asset, or
  - b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (k) Financial instruments (Continued)

#### 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.

#### 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

Impairment of financial assets (Continued)

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.

*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:

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

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.

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 six months to maturity when acquired; less advances from banks repayable within six months from the date of the advance.

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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Investment in Joint Venture (Continued)

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.

*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.



2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

*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 2014, except for new standards, amendments and interpretations effective 1 January 2015. The nature and impact of each new standard/ amendment are described below:

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

*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.

2010-2012 cycle (issued in December 2013)

Following is a summary of the amendments (other than those affecting only the standards' Basis for Conclusions) from the 2010 - 2012 annual improvements cycle. With the exception of the amendment relating to IFRS 2 *Share-based Payment*, the changes summarised below are effective for annual reporting periods beginning on or after 1 July 2014. Earlier application is permitted and must be disclosed.

*IFRS 2 Share-based Payment*

Definitions of vesting conditions

- ▶ The amendment defines 'performance condition' and 'service condition' to clarify various issues, including the following:
- ▶ A performance condition must contain a service condition
- ▶ A performance target must be met while the counterparty is rendering service
- ▶ A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- ▶ A performance condition may be a market or non-market condition
- ▶ If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.
- ▶ The amendment is applicable for share-based payments for which the grant date is on or after 1 July 2014 and must be applied prospectively.

This amendment did not impact the Bank since it does not offer share based payments to its staff.

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

#### *IFRS 3 Business Combinations*

Accounting for contingent consideration in a business combination

- The amendment clarifies that all contingent consideration arrangements classified as liabilities or assets arising from a business combination must be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).
- The amendment must be applied prospectively.

This amendment did not impact the Bank since it has not entered into a business combination in the past.

#### *IFRS 8 Operating Segments*

Aggregation of operating segments

- The amendment clarifies that an entity must disclose the judgments made by management in applying the aggregation criteria in IFRS 8.12, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are similar.
- The amendment must be applied retrospectively

Reconciliation of the total of the reportable segments' assets to the entity's assets

- The amendment clarifies that the reconciliation of segment assets to total assets is required to be disclosed only if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- The amendment must be applied retrospectively

The Bank has not applied the aggregation criteria in IFRS 8.12. The Bank has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in these financial statements.

#### *IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*

Revaluation method - proportionate restatement of accumulated depreciation/amortisation

- The amendments to IAS 16 and IAS 38 clarify that the revaluation can be performed, as follows:
- Adjust the gross carrying amount of the asset to market value

Or

- Determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value.
- The amendments also clarify that accumulated depreciation/amortisation is the difference between the gross and carrying amounts of the asset.
- The amendments must be applied retrospectively.

#### *IAS 24 Related Party Disclosures*

Key management personnel

- The amendment clarifies that a management entity - an entity that provides key management personnel services - is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.
- The amendment must be applied retrospectively.

This amendment did not have any impact on the Bank's financial statements since its property and equipment are carried at cost.

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

2011-2013 cycle (issued in December 2013)

Following is a summary of the amendments (other than those affecting only the standards' Basis for Conclusions) from the 2011-2013 annual improvements cycle. The changes summarised below are effective for annual reporting periods beginning on or after 1 July 2014. Earlier application is permitted and must be disclosed.

#### *IFRS 3 Business Combinations*

Scope exceptions for joint ventures

- ▶ The amendment clarifies that:
- ▶ Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- ▶ The scope exception applies only to the accounting in the financial statements of the joint arrangement itself.
- ▶ The amendment must be applied prospectively.

The Bank is not a joint arrangement, and thus this amendment is not relevant.

#### *IFRS 13 Fair Value Measurement*

Scope of paragraph 52 (portfolio exception)

- ▶ The amendment clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).
- ▶ The amendment must be applied prospectively.

The Bank does not apply the portfolio exception in IFRS 13.

#### *IAS 40 Investment Property*

Interrelationship between IFRS 3 and IAS 40 (ancillary services)

- ▶ The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment clarifies that IFRS 3, not the description of ancillary services in IAS 40, is used to determine whether the transaction is the purchase of an asset or business combination.
- ▶ The amendment must be applied prospectively.

, This amendment did not impact the Bank as it does not have investment property.

#### Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's interim condensed financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

#### *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.

### 3 NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (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 amendments are intended to eliminate diversity in practice and give preparers a consistent set of principles to apply for such transactions. However, the application of the definition of a business is judgmental and entities need to consider the definition carefully in such transactions. The Bank is currently assessing the impact of these amendments and plans to adopt them on the required effective date

#### IFRS 9 *Financial Instruments*

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

#### Key requirements

##### *Classification and measurement of financial assets*

All financial assets are measured at fair value on initial recognition, adjusted for transaction costs, if the instrument is not accounted for at fair value through profit or loss (FVTPL). Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by instrument basis to present changes in the fair value of non trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.

##### *Classification and measurement of financial liabilities*

For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other IAS 39 *Financial Instruments: Recognition and Measurement* classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

##### *Impairment*

The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model. The ECL model applies to debt instruments accounted for at amortised cost or at FVOCI, most loan commitments, financial guarantee contracts, contract assets under IFRS 15 and lease receivables under IAS 17 *Leases*. In determining the appropriate period to measure ELCs, entities are generally required to assess based on either 12-months or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition (or when the commitment or guarantee was entered into). For some trade receivables, a simplified approach may be applied whereby the lifetime expected credit losses are always recognised.

3 NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (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.

*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. The Bank is currently assessing the impact that this standard will have on the financial position and performance.

*IFRS 11 Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11*

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

*Key requirements*

The amendments require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 and other IFRSs that do not conflict with the requirements of IFRS 11 *Joint Arrangements*. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations.

The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation. Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.

*Transition*

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

*Impact*

The Bank is currently assessing the impact of IFRS 11 and plans to adopt the new amendments on the required effective date.

3 NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

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. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, 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:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard 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 licences of intellectual property, warranties, rights of return, principal versus-agent considerations, options for additional goods or services and breakage.

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.

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 application is permitted and entities do not need to disclose that fact because the Board considers these amendments to be clarifications that do not affect an entity's accounting policies or accounting estimates.

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

#### Impact

The amendments affect presentation only and have no impact on the Bank's financial position or performance

#### *IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38*

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

#### Key requirements

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

#### Transition

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

#### Impact

These amendments are not expected to have any impact to the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

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

#### 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.

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

#### *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

Changes in methods of disposal

- Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.
- The amendment must be applied prospectively.

#### *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.

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.

#### *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.

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



3 NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)

IFRS 16 Leases

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.

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

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

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

4. INTEREST INCOME	2015 USD	2014 USD
On loans and facilities:		
Project finance loans	48,352,083	46,000,222
Trade finance loans	<u>143,015,388</u>	<u>108,073,658</u>
	191,367,471	154,073,880
On placements:		
Deposits/Held-to-maturity investments	<u>17,301,256</u>	<u>2,665,575</u>
	<u>208,668,727</u>	<u>156,739,455</u>
5. INTEREST EXPENSE		
Interest payable on funds borrowed from:		
Banks and financial institutions	48,691,578	45,828,574
Regional and International Bond Markets	23,002,316	21,576,948
Other Institutions	<u>17,805,545</u>	<u>10,695,886</u>
	<u>89,499,439</u>	<u>78,101,408</u>
6. OTHER COSTS RELATED TO BORROWING		
Amortisation of deferred expenditure	6,459,222	6,177,606
Facility and management fees	1,263,528	1,992,140
Other costs	779,561	717,350
Bank commissions and charges	130,275	635,602
Drawdown fees	58,882	94,149
Hedging derivatives cost	<u>-</u>	<u>274,996</u>
	<u>8,691,468</u>	<u>9,891,843</u>
7. FEE AND COMMISSION INCOME		
Upfront fees in trade finance	18,597,472	26,550,964
Letter of credit fees in trade finance	15,848,177	17,068,007
Other fees in trade finance	4,990,726	147,540
Letter of credit fees in project finance	1,819,926	821,487
Management fees in trade finance	1,428,673	1,302,625
Commitment fees in project finance	1,184,617	585,922
Facility fees in project finance	1,137,101	1,970,808
Appraisal fees in project finance	893,258	1,176,297
Drawdown fees in trade finance	756,568	2,152,093
Other Project fees	463,569	287,797
Management fees in project finance	298,323	146,420
Document handling fees in trade finance	221,591	228,044
Restructuring fees in project finance	132,543	524,831
Drawdown fees in project finance	93,485	202,563
Syndication fees in project finance	-	1,782,529
*Insurance cover costs	(6,697,732)	(8,037,245)
**Risk down-selling costs	<u>(8,650,667)</u>	<u>(4,910,715)</u>
	<u>32,517,630</u>	<u>41,999,967</u>

\*This is premium on insurance cover taken on loans made to the Ministry of Finance, Zambia, Malawi Leaf, Alliance One Tobacco Malawi, Hashi Energy, Burundi Backbone and Rwandair. As at 31 December 2015, the insurance cover was USD 763.76 million (2014: USD 580 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 2015, the Bank had secured from various counterparties risk management capacity amounting to USD 600 million (31 December 2014: USD 600 million).

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

8. OTHER INCOME	2015 USD	2014 USD
Impaired assets recovered *	6,659,073	9,043,199
Interest on capital arrears**	1,341,440	1,261,075
Other income	558,383	392,911
Rental income	168,623	227,460
Grant income ***	133,150	28,482
Interest on staff loans	<u>26,154</u>	<u>22,798</u>
	<u>8,886,823</u>	<u>10,975,925</u>

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

\*\*Interest on capital arrears relates to interest charged to capital subscriptions from member states that are in arrears, received during the year.

\*\*\*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	2015 USD	2014 USD
Staff costs (Note 10)	15,285,166	14,021,779
Consultants and advisors	1,227,827	1,170,396
Official missions	1,121,287	1,051,925
Depreciation of property and equipment	765,659	578,203
Other operating expenses	736,600	732,328
Board of Directors meetings	672,690	630,982
Rent	341,452	293,560
Business promotion	318,417	374,992
Board of Governors meeting	241,833	212,124
Amortisation of intangible assets	136,938	115,691
Audit fees	<u>48,000</u>	<u>46,585</u>
	<u>20,895,869</u>	<u>19,228,565</u>

10. STAFF COSTS		
Salaries and wages	9,660,031	7,731,619
Other costs	2,213,642	1,936,959
Staff Provident fund contributions -defined contribution plan	1,561,070	1,434,794
Staff reward and recognition scheme	935,172	2,017,549
Service and leave pay expenses	<u>915,251</u>	<u>900,858</u>
	<u>15,285,166</u>	<u>14,021,779</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

11.	IMPAIRMENT ON OTHER FINANCIAL ASSETS	2015 USD	2014 USD
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Other receivables (Note 21)	<u>241,287</u>	<u>-</u>
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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 94,719,686 (2014: USD 76,977,738) 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 74,512 comprising Class A - 60,788 and Class B - 13,724 (2014: 61,385 comprising Class A - 55,657 and Class B - 5,729).

*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 79,510 (2014: 67,286).

13.	CASH AND BALANCES HELD WITH OTHER BANKS	2015 USD	2014 USD
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Current accounts - Note 13 (i)	116,195,904	21,934,346
Call and term deposits with banks - Note 13 (ii)	<u>527,318,636</u>	<u>414,062,587</u>

	<u>643,514,540</u>	<u>435,996,933</u>
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(i) Current accounts:		
Amounts maintained in United States Dollars (USD)	<u>107,728,956</u>	<u>8,078,463</u>

Amounts maintained in other currencies:

Ugandan Shilling	7,147,788	13,376
Tanzania Shillings	2,254,406	724,300
Ethiopian Birr	777,926	792,144
British Pounds	36,221	1,227
Mauritian Rupee	21,687	3,556
Burundi Francs	5,674	6,530
Malawi Kwacha	686	581
South African Rand	675	8,960
Japanese Yen	118	118
Kenyan Shilling	(7,283)	26,335
Euro	<u>(1,770,950)</u>	<u>12,278,756</u>

	<u>8,466,948</u>	<u>13,855,883</u>
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	<u>116,195,904</u>	<u>21,934,346</u>
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The average effective interest rate on current accounts was 0.50% (December 2014: 0.49%) per annum.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

13.	CASH AND BALANCES HELD WITH OTHER BANKS (Continued)	2015 USD	2014 USD
	(ii) Call and term deposits with banks:		
	United States Dollars (USD)	<u>257,754,729</u>	<u>285,218,600</u>
	Amounts maintained in other currencies:		
	Sudanese pounds	268,412,841	127,861,520
	Kenya Shillings	586,797	-
	Ugandan shillings	564,268	981,169
	Malawi Kwacha	-	1,298
		<u>269,563,906</u>	<u>128,843,987</u>
		<u>527,318,635</u>	<u>414,062,587</u>

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

	2015	2014
Uganda Shillings	14.38%	11.61%
Kenya Shillings	11.69%	9.56%
Malawi Kwacha	-	6.50%
United States Dollars	0.83%	1.43%
Euro	-	-

The deposits in Sudanese pounds do not earn interest.

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. The Bank applies fair value hedge accounting to interest rate swaps contracted to hedge the interest rate risk exposure associated with the fixed rate on its Eurobond.

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 cash flow hedges.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

14. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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

	2015 USD	2014 USD
a) Currency Hedges		
(i) Cross Currency Swap:		
Net opening balance as at 1 January	268,819	(1,004,408)
Payments under swap arrangement	2,419,505	2,947,408
Exchange gain	51,447	867,268
Fair value gain	485,577	442,584
Receipts under swap agreement	<u>(2,898,284)</u>	<u>(2,984,033)</u>
Balance as at 31 December	<u>327,064</u>	<u>268,819</u>
(ii) Foreign exchange forward contracts		
Balance as at 1 January	32,887,780	(916,856)
Contracts entered into during the year-Net	684,066,442	34,772,845
Net amounts settled	<u>(657,163,270)</u>	<u>(968,209)</u>
Balance as at 31 December	<u>59,790,952</u>	<u>32,887,780</u>
Total Currency Hedges	<u>60,118,016</u>	<u>33,156,599</u>
b) Interest Rate Swap:		
(i) Fair value movements		
Balance as at 1 January	149,579	299,164
Amortisation of interest rate swap	<u>(149,579)</u>	<u>(149,585)</u>
Balance as at 31 December	<u>-</u>	<u>149,579</u>
(ii) Cash flows		
Balance as at 1 January	883,144	1,495,677
Amounts due from counterparties	4,278,935	3,210,969
Amount received from counterparties	<u>(4,287,020)</u>	<u>(3,823,502)</u>
Balance as at 31 December	<u>875,059</u>	<u>883,144</u>
Total Interest Rate Swaps	<u>875,059</u>	<u>1,032,723</u>
Total derivative assets (a) and (b)	<u>60,993,075</u>	<u>34,189,322</u>

In December 2010, the Bank entered into interest rate swaps to hedge USD 150 million of funds received from the first tranche of the Fixed Rate Eurobond issued in November 2010. At the inception of the second tranche of the USD 300 million Eurobond in December 2013, the Bank entered into further 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. USD 75 million of the swap from the first tranche of the Eurobond was retired in January 2014.

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.

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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

15. TRADE FINANCE LOANS	2015 USD	2014 USD
Principal loans	2,136,398,251	1,878,596,369
Interest receivable	<u>103,002,713</u>	<u>76,202,028</u>
Gross loans	2,239,400,964	1,954,798,397
Impairment on trade finance loans (Note 17)	<u>(31,288,578)</u>	<u>(53,245,347)</u>
Net loans	<u>2,208,112,386</u>	<u>1,901,553,050</u>

The weighted average effective interest rate was 5.87% (December 2014: 5.58%) per annum

	2015 USD	2014 USD
Maturing:		
Within one year	2,071,216,760	1,870,644,287
One to three years	<u>168,184,204</u>	<u>84,154,110</u>
	<u>2,239,400,964</u>	<u>1,954,798,397</u>

The gross non performing trade finance loans were USD 12,720,386 (December 2014: USD 53,261,481). The specific impairment allowance related to these loans amounted to USD 12,720,386 (December 2014: USD 45,011,485) hence the carrying amounts of the loans amount was NIL (December 2014: USD 8,249,996). General provisions for trade finance loans amounted to USD 18,568,192 (December 2014 - USD 8,233,859).

16. PROJECT LOANS	2015 USD	2014 USD
Approved loans less cancellations	2,073,271,552	2,003,949,552
Less: Unsigned loans*	<u>(223,659,112)</u>	<u>(323,727,211)</u>
Loans signed	1,849,612,440	1,680,222,341
Less: Undisbursed - Letters of credit opened	(7,044,474)	(64,489,727)
- Letters of credit not yet opened	<u>(332,304,459)</u>	<u>(334,139,978)</u>
Loans disbursed	1,510,263,507	1,281,592,636
Interest capitalised**	42,972,790	42,547,425
Loans repaid	<u>(807,960,121)</u>	<u>(711,108,627)</u>
Principal loan balances	745,276,176	613,031,434
Interest receivable	<u>17,072,331</u>	<u>11,822,197</u>
Gross loans	762,348,507	624,853,631
Impairment on project loans (Note 17 )	<u>(63,685,994)</u>	<u>(14,695,396)</u>
Net loans	<u>698,662,513</u>	<u>610,158,235</u>

\* 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.

The average effective interest rate was 7.78% (December 2014: 7.78%) per annum.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

16. PROJECT LOANS (Continued)

Maturing:	2015 USD	2014 USD
Within one year	175,829,983	139,011,328
One year to three years	252,973,469	197,935,701
Three to five years	180,736,498	147,262,380
Over five years	<u>152,808,557</u>	<u>140,644,222</u>
	<u>762,348,507</u>	<u>624,853,631</u>

The aggregate non performing project loans were USD 73,508,830 (December 2014: USD 25,075,966). The specific impairment allowance related to these loans amounted to USD 57,793,646 (December 2014: USD 12,117,533) hence the carrying value of the loans amounted to USD 15,715,184 (December 2014: USD 12,958,433) at the end of the period. General provisions for project loans amounted to USD 5,892,348 (December 2014 - USD 2,577,862).

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 2014	22,617,326	38,270,425	60,887,751
Amounts written-off	(13,392,863)	(4,346,459)	(17,739,322)
Charge for the year	5,470,933	19,321,381	24,792,314
- Specific provisions	2,893,071	11,087,522	13,980,593
- General provisions	2,577,862	8,233,859	10,811,721
At 31 December 2014	<u>14,695,396</u>	<u>53,245,347</u>	<u>67,940,743</u>
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	51,410,150	(32,291,102)	19,119,048
- General provisions	3,314,485	10,334,333	13,648,818
At 31 December 2015	<u>63,685,994</u>	<u>31,288,578</u>	<u>94,974,572</u>



EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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18. EQUITY INVESTMENTS

i) Equity participation

31 December 2015

	Share- holding	Beginning cost USD	Additions at cost USD	Total ending cost USD	Investment carrying amount 2015 USD	Investment carrying amount 2014 USD	Fair value loss for the year USD
<i>At fair value through profit or loss</i>							
Aureos East Africa Fund	5.00	<u>355,695</u>	<u>-</u>	<u>355,695</u>	<u>288,500</u>	<u>512,300</u>	<u>(223,800)</u>
<i>At cost</i>							
African Export Import Bank	0.33	1,182,080	1,182,080	2,364,160	2,364,160	1,182,080	-
Africa Trade Insurance Agency	0.10	1,000,000	-	1,000,000	1,000,000	1,000,000	-
Gulf African Bank	5.33	1,978,734	-	1,978,734	1,978,734	1,978,734	-
Pan African Housing Fund	2.38	130,608	163,274	293,882	293,882	130,608	-
Tanruss	4.06	1,755,000	-	1,755,000	1,755,000	1,755,000	-
Tononoka	5.00	628,653	-	628,653	628,653	628,653	-
ZEP-RE (PTA Reinsurance Company)	11.6	<u>9,336,468</u>	<u>-</u>	<u>9,336,468</u>	<u>12,141,991</u>	<u>12,141,991</u>	<u>-</u>
		<u>16,011,543</u>	<u>1,345,354</u>	<u>17,356,897</u>	<u>20,162,420</u>	<u>18,817,066</u>	<u>-</u>
TOTAL		<u>16,367,238</u>	<u>1,345,354</u>	<u>17,712,592</u>	<u>20,450,920</u>	<u>19,329,366</u>	<u>(223,800)</u>

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 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 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 2014 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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

18. EQUITY INVESTMENTS(Continued)

(i) Equity participation (Continued)

31 December 2014							Fair value gain/(loss) /adjustment for the year*
	Share- holding	Beginning cost	(Disposals)/ additions at cost	Total ending cost	Investment carrying amount 2014 USD	Investment carrying amount 2013 USD	USD
<i>At fair value through profit or loss</i>		USD	USD	USD			
ZEP-RE (PTA Reinsurance Company)	8.28	9,336,468	-	9,336,468	12,141,991	12,200,551	(58,560)
Aureos East Africa Fund	5.00	<u>487,996</u>	<u>(132,301)</u>	<u>355,695</u>	<u>512,300</u>	<u>1,741,296</u>	<u>(1,096,695)</u>
		<u>9,824,464</u>	<u>(132,301)</u>	<u>9,692,163</u>	<u>12,654,291</u>	<u>13,941,847</u>	<u>(1,155,255)</u>
<i>At cost</i>							
African Export Import Bank	0.48	1,182,080	-	1,182,080	1,182,080	2,872,893	(1,690,813)
Tononoka	5.00	628,653	-	628,653	628,653	413,550	215,103
Tanruss	4.06	1,755,000	-	1,755,000	1,755,000	879,174	875,826
Africa Trade Insurance Agency	0.10	100,000	900,000	1,000,000	1,000,000	96,899	3,101
Gulf African Bank	5.33	1,978,734	-	1,978,734	1,978,734	1,507,488	471,246
Pan African Housing Fund	2.38	<u>41,769</u>	<u>88,839</u>	<u>130,608</u>	<u>130,608</u>	<u>41,769</u>	<u>-</u>
		<u>5,686,236</u>	<u>988,839</u>	<u>6,675,075</u>	<u>6,675,075</u>	<u>5,811,773</u>	<u>(125,537)</u>
TOTAL		<u>15,510,700</u>	<u>856,538</u>	<u>16,367,238</u>	<u>19,329,366</u>	<u>19,753,620</u>	<u>(1,280,792)</u>

\*As at 31 December 2013, all equity investments were measured using the Bank's proportionate share of the average net assets of the investee company. At 31 December 2014, only investments in Aureos East Africa and PTA Reinsurance were 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 cannot be reliably measured. The Bank does not intend to dispose the shares in the short term, and none of the shares have been derecognized. An adjustment amounting to USD 125,537 has been made write back to cost the investments previously held at fair value.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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18. EQUITY INVESTMENTS (Continued)	2015 USD	2014 USD
ii) Instalments paid:		
Total subscribed capital*	19,636,645	18,454,565
Less: Instalments not due - Note 18 (iii)	<u>(1,924,053)</u>	<u>(2,087,327)</u>
Instalments paid as at end of year - Note 18 (i) and (iii)	<u>17,712,592</u>	<u>16,367,238</u>
*Total subscribed capital includes paid up capital and unpaid subscriptions		
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	17,935
Pan African Housing Fund*	<u>706,118</u>	<u>869,392</u>
*Unpaid subscriptions are payable on call.	<u>1,924,053</u>	<u>2,087,327</u>
iv) Movement in the instalments paid:		
At beginning of year	16,367,238	15,510,700
Net additions at cost - Note 18 (i)	<u>1,345,354</u>	<u>856,538</u>
At end of year	<u>17,712,592</u>	<u>16,367,238</u>

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.

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

	2015 USD	2014 USD
Current assets - cash and cash equivalents	668,984	-
Non-current assets	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>668,984</u>	<u>-</u>
Liabilities	<u>-</u>	<u>-</u>
Equity	<u>668,984</u>	<u>-</u>
Bank's carrying amount of the investment	<u>334,492</u>	<u>-</u>

ESATAL and ESAIF started operations towards the end of the year. The joint ventures had no contingent liabilities or capital commitments as at 31 December 2015. ESATAL and ESAIF cannot distribute their profits without the consent from the venture partners.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

20. INVESTMENTS IN GOVERNMENT SECURITIES	2015 USD	2014 USD
Treasury Notes:		
Maturing within 360 days after year end (at face value)	216,000,000	-
Additions during year	34,000,000	216,000,000
Matured bonds	(8,280,471)	-
Accrued income	43,643	-
Less: Unearned discount	-	-
	<u>241,763,172</u>	<u>216,000,000</u>

The treasury notes issued by the Government of Malawi, represent investments made in Malawi Kwacha 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.

21. OTHER RECEIVABLES	2015 USD	2014 USD
Down-sold assets*	163,936,500	279,578,800
Prepayments and other receivables**	22,783,616	8,169,564
Appraisal fees***	373,281	805,000
Staff loans and advances****	<u>652,483</u>	<u>566,289</u>
	<u>187,745,880</u>	<u>289,119,653</u>
<i>Appraisal fees receivable***</i>		
As at 1 January	805,000	1,318,263
Accrued income	164,599	240,007
Receipts	(355,031)	(753,270)
Amounts written off (Note 11)	<u>(241,287)</u>	<u>-</u>
At 31 December	<u>373,281</u>	<u>805,000</u>
Analysis of other receivables by maturity:		
Amounts due within one year	187,525,747	288,968,165
Amounts due after one year	<u>220,133</u>	<u>151,488</u>
	<u>187,745,880</u>	<u>289,119,653</u>

\*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.

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

\*\*\*\*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 4.43% (December 2014: 4.35%) per annum. These staff loans and advances have various repayment terms ranging from 3 to 36 months.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

22. DEFERRED EXPENDITURE	2015 USD	2014 USD
<b>COST</b>		
At beginning of year	28,062,019	27,766,430
Additions	1,022,104	3,650,788
Disposals	<u>(7,969,937)</u>	<u>(3,355,199)</u>
At end of year	<u>21,114,186</u>	<u>28,062,019</u>
<b>AMORTISATION</b>		
At beginning of year	11,434,745	8,612,338
Disposals	(7,969,937)	(3,355,199)
Charge for the year	<u>6,459,222</u>	<u>6,177,606</u>
At end of year	<u>9,924,030</u>	<u>11,434,745</u>
<b>NET CARRYING AMOUNT</b>		
At end of year	<u>11,190,156</u>	<u>16,627,274</u>

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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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23 (a). PROPERTY AND EQUIPMENT

	Freehold land USD	Leasehold land USD	Buildings USD	Motor vehicles USD	Furniture and fittings USD	Office equipment USD	Total USD
At 31 December 2015:							
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	<u>140,400</u>	<u>2,453,865</u>	<u>22,574,641</u>	<u>458,744</u>	<u>1,296,696</u>	<u>1,748,878</u>	<u>28,673,224</u>
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	<u>-</u>	<u>2,066</u>	<u>4,996,015</u>	<u>284,437</u>	<u>702,824</u>	<u>1,252,408</u>	<u>7,237,750</u>
NET CARRYING AMOUNT							
At 31 December 2015	<u>140,400</u>	<u>2,451,799</u>	<u>17,578,626</u>	<u>174,307</u>	<u>593,872</u>	<u>496,470</u>	<u>21,435,474</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
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23(b). PROPERTY AND EQUIPMENT (Continued)

	Freehold land USD	Building USD	Motor vehicles USD	Furniture and fittings USD	Office equipment USD	Total USD
At 31 December 2014:						
<b>COST</b>						
At 1 January 2014	140,400	23,454,596	395,073	1,156,755	1,253,301	26,400,125
Additions	-	304,212	60,349	107,703	154,527	626,791
Reclassification*	2,453,865	(2,453,865)	-	-	-	-
Disposals	-	-	-	-	(30)	(30)
At 31 December 2014	<u>2,594,265</u>	<u>21,304,943</u>	<u>455,422</u>	<u>1,264,458</u>	<u>1,407,798</u>	<u>27,026,886</u>
<b>DEPRECIATION</b>						
At 1 January 2014	-	4,211,010	247,365	556,851	967,499	5,982,725
Charge for the period	-	340,502	45,263	72,632	119,806	578,203
Disposals	-	-	-	-	(10)	(10)
At 31 December 2014	<u>-</u>	<u>4,551,512</u>	<u>292,628</u>	<u>629,483</u>	<u>1,087,295</u>	<u>6,560,918</u>
<b>NET CARRYING AMOUNT</b>						
At 31 December 2014	<u>2,594,265</u>	<u>16,753,431</u>	<u>162,794</u>	<u>634,975</u>	<u>320,503</u>	<u>20,465,968</u>

\*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.

The reclassification in 2014 is in relation to the cost of the land amounting to USD 2,453,865 located on LR 1 /184 Lenana Road, which was previously classified under buildings.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
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24. INTANGIBLE ASSETS	2015 USD	2014 USD
COST		
At beginning of year	1,734,532	1,515,999
Additions	<u>87,015</u>	<u>218,533</u>
At end of year	<u>1,821,547</u>	<u>1,734,532</u>
AMORTISATION		
At beginning of year	1,327,095	1,211,403
Charge for the year	<u>136,938</u>	<u>115,692</u>
At end of year	<u>1,464,033</u>	<u>1,327,095</u>
NET CARRYING AMOUNT		
At end of year	<u>357,514</u>	<u>407,437</u>

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	2015 USD	2014 USD
(a) CERTIFICATES OF DEPOSITS		
Lender		
Reserve Bank of Malawi	284,831,667	216,000,000
Bank of the Republic of Burundi	35,000,000	40,000,000
Banque International pour l'Afrique au Congo	16,000,000	10,000,000
Banque Commerciale du Congo	5,000,000	10,000,000
African Trade Insurance Agency	<u>700,000</u>	<u>1,200,000</u>
	<u>341,531,667</u>	<u>277,200,000</u>

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



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26. SHORT TERM BORROWINGS (Continued)

(b) OTHER SHORT TERM BORROWINGS

	Date of renewal/ advance	Maturity date	Currency	2015 USD	2014 USD
Syndicated Loan	Jul-15	Sep-16	USD	320,500,000	320,500,000
Standard Chartered Bank London	Dec-15	Dec-16	USD	238,895,424	106,217,201
Cargill Kenya Limited	Dec-15	Jun-16	USD	116,474,878	-
Commerzbank	Dec-15	May-16	USD	114,461,779	72,338,464
Sumitomo Mitsui Banking Corporation	Dec-15	Jun-16	USD	105,529,688	120,439,978
Mashreq Bank	Dec-15	Jun-16	EUR	80,418,660	267,589,338
FBN Bank	Oct-15	Apr-16	EUR	76,823,073	50,676,028
ABC Bank Inc. Mauritius	Dec-15	Jan-16	EUR	66,809,310	35,909,933
Bank of Tokyo Mitsubishi	Dec-15	Dec-16	USD	66,666,667	-
African Export Import Bank	Dec-15	Aug-16	EUR	63,519,717	91,113,968
Citibank New York	Dec-15	Mar-16	USD	61,836,147	2,432,559
Firststrand Bank Ltd	Nov-15	May-16	USD	58,703,120	88,759,198
Deutsche Bank AG	Dec-15	Mar-16	USD	52,055,233	-
ING Bank	Sep-15	Mar-16	USD	50,573,247	30,512,729
African Development Bank	Dec-15	Mar-16	USD	50,229,000	-
Africa Finance Corporation	Dec-15	Apr-16	USD	50,000,000	50,000,000
Bank One Ltd	Oct-15	Jan-16	USD	50,000,000	50,000,000
Afrasia Bank Ltd- Mauritius	Dec-15	Jan-16	USD	50,000,000	40,000,000
Mizuho Bank London	Oct-15	Oct-16	USD	39,450,000	-
Standard Corporate and Merchant Bank	Dec-15	Mar-16	USD	32,689,819	31,962,618
Standard Chartered Bank Kenya	Dec-15	Jun-16	USD	30,000,000	-
State Bank of Mauritius	Nov-15	Feb-16	USD	25,924,010	2,900,268
KFW	Dec-15	Dec-16	USD	20,000,000	-
Societe Generale	Dec-15	Mar-16	USD	2,852,325	-
Banque de Commerce et de Placement	Nov-15	Feb-16	USD	1,290,869	927,277
Ghana International Bank	Jun-15	Sep-15	USD	-	20,000,000
BHF Bank	May-15	Aug-15	USD	-	11,240,088
Fimbank	Nov-14	May-15	EUR	-	56,453,926
British Arab Commercial Bank PLC	Aug-14	Feb-15	EUR	-	50,724,868
Commercial Bank of Africa	Oct-14	Jan-15	USD	-	29,522,767
Banque Cantonale Vaudoise	Sep-14	Mar-15	EUR	-	29,173,440
BMCE Bank International PLC	Aug-14	Apr-15	EUR	-	27,264,511
Standard Chartered Bank Tanzania	Dec-14	Apr-15	TZS	-	18,634,645
KBC Bank	Oct-14	Feb-15	USD	-	13,513,387
Banque BIA	Jul-14	Jan-15	EUR	-	10,174,237
Sub total for other short term borrowings				<u>1,825,702,966</u>	<u>1,628,891,428</u>
INTEREST PAYABLE				12,005,926	13,238,037
Certificate of Deposits (Note 26a)				<u>341,531,667</u>	<u>277,200,000</u>
TOTAL SHORT TERM BORROWINGS				<u>2,179,240,539</u>	<u>1,919,329,465</u>

The effective interest rate during the year was 2.72% ( 2014: 3.41%) per annum. The short term borrowings are unsecured.

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27.LONG TERM BORROWINGS

Lender	Date of renewal/ disbursement	Maturity date	Currency	Amount in Currency	Amounts as at 31 December 2015			Amounts as at 31 December 2014		
					Balance outstanding USD	Amount due within one year USD	Amount due after one Year USD	Balance outstanding USD	Amount due within one year USD	Amount due after one year USD
African Development Bank	Dec-04	Aug-23	USD	80,158,580	80,158,580	14,408,580	65,750,000	63,156,500	8,156,500	55,000,000
Africa Agriculture and Trade Investment Fund	Sep-12	Sep-19	USD	30,000,000	30,000,000	-	30,000,000	30,000,000	-	30,000,000
China Development Bank	Dec-08	Mar-20	USD	101,511,616	101,511,616	16,656,221	84,855,395	111,449,715	9,938,095	101,511,620
KBC Bank	Various	Jul-19	USD	13,466,736	13,466,736	4,588,899	8,877,837	16,643,546	3,891,014	12,752,532
Exim Bank of India Loan	Various	Various	USD	1,941,460	1,941,460	1,914,109	27,351	4,958,575	2,970,901	1,987,674
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
US\$ 1.0 Billion Euro Medium Term Note Programme: First Tranche	Nov-10	Jan-16	USD	98,746,000	98,746,000	98,746,000	-	98,746,000	-	98,746,000
FMO	Mar-10	Jan-18	USD	18,000,000	18,000,000	8,000,000	10,000,000	26,000,000	8,000,000	18,000,000
Ceskoslovenska Obchodni Banka AS	Jul-07	May-17	USD	1,230,061	1,230,061	821,265	408,796	2,052,658	821,265	1,231,393
BHF Bank	Various	Sep-15	USD	-	-	-	-	588,912	588,912	-
Development Bank of Southern Africa	Mar-07	Jun-23	USD	62,654,381	62,654,381	19,216,881	43,437,500	67,187,500	11,875,000	55,312,500
OPEC Fund for International Development	Jun-13	Jun-16	USD	50,000,000	50,000,000	50,000,000	-	50,000,000	-	50,000,000
Overseas Private Investment Corporation	Sep-03	Mar-15	USD	-	-	-	-	350,000	350,000	-
Private Export Funding Corporation	Aug-11	Oct-21	USD	34,953,395	34,953,395	5,949,514	29,003,881	40,902,909	5,949,514	34,953,395
KfW	Dec-13	Dec-18	USD	60,131,792	60,131,792	131,792	60,000,000	30,000,000	-	30,000,000
Tanzania local currency fixed rate bond	Jun-15	May-20	TZS	14,736,872,720	6,827,308	1,143,527	5,683,781	-	-	-
Tanzania local currency floating rate bond	Jun-15	May-20	TZS	14,737,029,400	6,827,450	1,143,527	5,683,923	-	-	-
Uganda local currency fixed rate bond	Oct-09	Oct-16	UGX	160,117,615	47,477	47,477	-	86,036	30,956	55,080
Uganda local currency floating rate bond	Oct-09	Oct-16	UGX	1,372,908,893	<u>406,506</u>	<u>406,506</u>	-	<u>1,024,706</u>	<u>525,081</u>	<u>499,625</u>
Sub total for long term borrowings					866,902,762	223,174,298	643,728,464	843,147,057	53,097,238	790,049,819
Interest payable					<u>7,201,791</u>	<u>7,201,791</u>	-	<u>6,255,432</u>	<u>6,255,432</u>	-
Total long term borrowings					<u>874,104,553</u>	<u>230,376,089</u>	<u>643,728,464</u>	<u>849,402,489</u>	<u>59,352,670</u>	<u>790,049,819</u>

The effective interest rate during the year was 4.56% (2014: 4.52%). The borrowings are either at variable or fixed rate.

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.

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28. OTHER PAYABLES	2015 USD	2014 USD
Other creditors**	17,621,729	5,417,786
Provident fund*	7,556,916	6,060,132
Accrued expenses	5,354,032	3,831,692
Accrued fees-Trade Finance	2,865,143	5,374,235
Dividends payable	1,273,522	-
Accrued fees-Project Finance	75,329	263,015
Rental deposit	51,622	51,622
Unspent African Development Bank Grant***	<u>2,113</u>	<u>2,113</u>
	<u>34,800,406</u>	<u>21,000,595</u>

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

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

\*\*\*This relates to the minimum balance being held in a bank account where the grant is banked.

	2015 USD	2015 USD
Analysis of other payables by maturity:		
Amounts due within one year	30,302,231	17,062,895
Amounts due after one year	<u>4,498,175</u>	<u>3,937,700</u>
	<u>34,800,406</u>	<u>21,000,595</u>

29. PROVISION FOR SERVICE AND LEAVE PAY

(I) PROVISION FOR SERVICE PAY

At beginning of year	4,224,058	3,845,311
Increase in provision	670,417	645,858
Payment of service pay	<u>(469,923)</u>	<u>(267,111)</u>
At end of period	<u>4,424,552</u>	<u>4,224,058</u>

(II) PROVISION FOR LEAVE PAY

At beginning of year	1,193,936	1,008,078
Increase in provision	165,596	255,000
Payment of leave pay	<u>(112,033)</u>	<u>(69,142)</u>
At end of year	<u>1,247,499</u>	<u>1,193,936</u>
TOTAL PROVISION FOR SERVICE AND LEAVE PAY	<u>5,672,051</u>	<u>5,417,994</u>

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

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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30. SHARE CAPITAL

	As at 31 December 2015			As at 31 December 2014		
	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
220,584 Class 'B' ordinary shares of USD 4,533.420375 each	-	1,000,000,000	1,000,000,000	-	1,000,000,000	1,000,000,000
Less: Unsubscribed						
- Class 'A'	(533,331,765)	-	(533,331,765)	(604,687,481)	-	(604,687,481)
- Class 'B'	<u>-</u>	<u>(930,316,795)</u>	<u>(930,316,795)</u>	<u>-</u>	<u>(938,880,425)</u>	<u>(938,880,425)</u>
Subscribed capital:						
64,705 Class 'A' (2014: 61,557) ordinary shares of USD 22,667 each	1,466,668,235	-	1,466,668,235	1,395,312,519	-	1,395,312,519
15,371 Class 'B' (2014: 13,482) ordinary shares of USD 4,533.420375 each	-	69,683,205	69,683,205	-	61,119,575	61,119,575
Less: Callable capital	<u>(1,173,334,587)</u>	<u>-</u>	<u>(1,173,334,587)</u>	<u>(1,116,250,015)</u>	<u>-</u>	<u>(1,116,250,015)</u>
Payable capital	293,333,648	69,683,205	363,016,853	279,062,504	61,119,575	340,182,079
Less: Amounts not yet due	<u>(13,170,890)</u>	<u>-</u>	<u>(13,170,890)</u>	<u>(25,453,397)</u>	<u>-</u>	<u>(25,453,397)</u>
Capital due	280,162,758	69,683,205	349,845,963	253,609,107	61,119,575	314,728,682
Less: subscriptions in arrears	<u>(10,104,870)</u>	<u>-</u>	<u>(10,104,870)</u>	<u>(6,766,121)</u>	<u>-</u>	<u>(6,766,121)</u>
Paid up capital	<u>270,057,888</u>	<u>69,683,205</u>	<u>339,741,093</u>	<u>246,842,986</u>	<u>61,119,575</u>	<u>307,962,561</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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30. SHARE CAPITAL (Continued)

Share Premium:	Number of shares	Share value USD	Price paid USD	Share premium USD
As at 31 December 2015:				
At 1 January 2015	13,482	61,119,575	80,897,981	19,778,406
Additions during the year	<u>1,889</u>	<u>8,563,631</u>	<u>15,656,033</u>	<u>7,092,402</u>
At 31 December 2015	<u>15,371</u>	<u>69,683,206</u>	<u>96,554,014</u>	<u>26,870,808</u>
As at 31 December 2014:				
As at 1 January 2014:	5,000	22,667,102	30,001,980	7,334,878
Additions during the year	<u>8,482</u>	<u>38,452,473</u>	<u>50,896,001</u>	<u>12,443,528</u>
As at 31 December 2014:	<u>13,482</u>	<u>61,119,575</u>	<u>80,897,981</u>	<u>19,778,406</u>

*Class A and B shares*

As at 31 December 2015, there were 64,705 Class 'A' ordinary shares (2014: 61,557) and 15,371 Class 'B' ordinary shares (2014: 13,482). Class 'A' shares have a par value of USD 22,667 each 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 3,754.58 (2014: USD 1,466.58) that is determined after a valuation of the Bank's shares. The share premium is used to finance the operations of the Bank.

	2015 USD	2014 USD
<i>Dividends on ordinary shares declared and paid:</i>		
Final dividend for 2014: USD 329.50 per share (2013: Nil per share)	<u>19,244,435</u>	<u>-</u>
Proposed dividends on ordinary shares		
Dividend for 2015: USD 301.35 per share (2014: USD 329.50 per share)	<u>21,785,528</u>	<u>19,244,435</u>

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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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30. SHARE CAPITAL (Continued)

	As at 31 December 2015			As at 31 December 2014		
	CLASS 'A' SHARES USD	CLASS 'B' SHARES USD	TOTAL USD	CLASS 'A' SHARES USD	CLASS 'B' SHARES USD	TOTAL USD
Movement in paid up share capital:						
At beginning of year	<u>246,842,986</u>	<u>61,119,575</u>	<u>307,962,561</u>	<u>229,773,446</u>	<u>22,667,102</u>	<u>252,440,548</u>
African Development Bank	988,281	-	988,281	-	-	-
National Social Security Fund Uganda	-	5,471,838	5,471,838	-	-	-
Mauritian Eagle Insurance Company	-	299,206	299,206	-	1,224,024	1,224,024
Seychelles Pension Fund	-	1,645,632	1,645,632	-	3,019,258	3,019,258
Rwanda Social Security Board	-	22,667	22,667	-	9,266,311	9,266,311
Banco Nationale De Investment	-	4,533	4,533	-	3,780,873	3,780,873
Africa Reinsurance Corporation	-	1,092,554	1,092,554	-	2,266,710	2,266,710
ZEP-RE (PTA Reinsurance Company)	-	-	-	-	3,780,873	3,780,873
Belarus	1,027,268	-	1,027,268	1,000,068	-	1,000,068
Burundi	398,939	-	398,939	207,336	-	207,336
China- People's Republic	1,119,750	27,201	1,146,951	-	15,114,424	15,114,424
Comoros	8,896	-	8,896	-	-	-
Congo DRC	575,558	-	575,558	6,069,838	-	6,069,838
Djibouti	99,735	-	99,735	-	-	-
Egypt	1,758,959	-	1,758,959	-	-	-
Eritrea	39,539	-	39,539	-	-	-
Ethiopia	1,758,959	-	1,758,959	-	-	-
Kenya	1,758,959	-	1,758,959	-	-	-
Malawi	430,673	-	430,673	-	-	-
Mauritius	3,005,644	-	3,005,644	-	-	-
Rwanda	1,298,819	-	1,298,819	-	-	-
Seychelles	86,135	-	86,135	-	-	-
Somalia	52,390	-	52,390	-	-	-
Sudan	1,618,423	-	1,618,423	-	-	-
Tanzania	1,482,421	-	1,482,421	4,555,647	-	4,555,647
Uganda	826,540	-	826,540	4,403,580	-	4,403,580
Zambia	3,056,587	-	3,056,587	833,071	-	833,071
Zimbabwe	<u>1,822,426</u>	<u>-</u>	<u>1,822,426</u>	<u>-</u>	<u>-</u>	<u>-</u>
	23,214,901	8,563,631	31,778,532	17,069,540	38,452,473	55,522,013
At the end of the year	<u>270,057,887</u>	<u>69,683,206</u>	<u>339,741,093</u>	<u>246,842,986</u>	<u>61,119,575</u>	<u>307,962,561</u>

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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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31. NOTES TO THE STATEMENT OF CASH FLOWS	2015 USD	2014 USD
(a) Reconciliation of profit for the year to cash generated from operations:		
Profit for the year	94,719,686	76,977,738
Adjustments:		
Depreciation on property and equipment	765,659	578,203
Gain in foreign exchange	3,033,765	(557,313)
Loss on disposal of property and equipment	15,333	20
Fair value loss on revaluation of equity investments	223,800	1,280,792
Amortisation of intangible assets	<u>136,938</u>	<u>115,692</u>
Profit before changes in operating assets and liabilities	<u>99,895,181</u>	<u>78,395,132</u>
(Decrease)/increase in other receivables	101,373,775	(281,813,618)
Increase in hedging derivative asset	(26,803,754)	(34,189,322)
(Decrease) in hedging derivative liability	-	(126,423)
(Increase) in trade finance loans	(306,559,336)	(458,214,995)
(Increase) in project loans	(88,504,278)	(25,849,111)
Decrease in deferred expenditure	5,437,118	2,526,818
Increase /(decrease) in collection accounts deposits	137,699,693	(75,766,346)
Increase in other payables	13,799,809	3,363,988
Increase in provision for service and leave pay	254,057	564,605
Increase in borrowings	31 (b) <u>284,613,137</u>	<u>972,278,283</u>
	<u>220,205,402</u>	<u>181,169,011</u>
(b) Analysis of changes in borrowings:		
Short term borrowings:		
At beginning of year	1,919,329,465	972,855,019
Loans received	3,124,916,104	3,247,694,788
Repayments	<u>(2,865,005,030)</u>	<u>(2,301,220,342)</u>
At end of year	<u>2,179,240,539</u>	<u>1,919,329,465</u>
Long term borrowings:		
At beginning of year	849,402,489	823,598,652
Loans received	120,288,898	127,554,555
Repayments	<u>(95,586,834)</u>	<u>(101,750,718)</u>
At end of year	<u>874,104,553</u>	<u>849,402,489</u>
Total borrowings:		
At beginning of year	2,768,731,954	1,796,453,671
Loans received	3,245,205,002	3,375,249,343
Repayments	<u>(2,960,591,864)</u>	<u>(2,402,971,060)</u>
At end of year	3,053,345,092	2,768,731,954
Increase in total borrowings	31 (a) <u>284,613,137</u>	<u>972,278,283</u>
(c) Analysis of cash and cash equivalents		
Cash and balances with other banks - Note 13	<u>643,514,540</u>	<u>435,996,933</u>

For purposes of the Statement of Cash Flows, borrowings received for on-lending are treated as normal operations of the Bank and, therefore, are classified as cash generated from operations.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2015

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

(d) Facilities available for lending

As at 31 December 2015 the following facilities were available to the Bank for lending:

SHORT-TERM FACILITIES LENDER	Facilities available USD	Facilities utilized USD	Facilities unutilised USD
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	-
Firststrand 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
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
	<u>2,999,903,891</u>	<u>1,841,392,177</u>	<u>1,158,511,714</u>



EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2015

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

(d) Facilities available for lending (continued)

	Facilities available	Facilities utilised	Facilities unutilised
LONG TERM FACILITIES LENDER	USD	USD	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
	<u>1,354,151,331</u>	<u>1,163,956,961</u>	<u>190,194,370</u>
TOTAL FACILITIES			
At 31 DECEMBER 2015	<u>4,354,055,222</u>	<u>3,005,349,138</u>	<u>1,348,706,084</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

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

(d) Facilities available for lending

As at 31 December 2014 the following facilities were available to the Bank for lending:

SHORT-TERM FACILITIES LENDER	Facilities available USD	Facilities utilized USD	Facilities unutilized USD
Short Term Placements	277,200,000	277,200,000	-
Mashreq Bank	232,171,960	231,763,705	408,255
Mauritius Commercial Bank	160,000,000	-	160,000,000
Standard Chartered Bank	150,000,000	147,399,662	2,600,338
Commerzbank	121,556,000	118,489,383	3,066,617
Rand Merchant Bank	100,000,000	80,696,352	19,303,648
AFREXIM Bank	125,000,000	125,000,000	-
ING Bank	109,400,400	30,512,729	78,887,671
Standard Bank South Africa	90,000,000	54,742,414	35,257,586
Commercial Bank of Africa	80,000,000	29,522,767	50,477,233
FBN Bank London	80,000,000	79,683,220	316,780
BNP Paribas Group	75,000,000	-	75,000,000
HSBC Bank	72,000,000	7,731,207	64,268,793
Citibank Nairobi	65,000,000	48,000,000	17,000,000
British Arab Commercial Bank	60,778,000	50,724,867	10,053,133
Deutsche Bank	60,000,000	30,317,274	29,682,726
Sumitomo Mitsui Banking Corporation	55,000,000	55,000,000	-
Kenya Commercial Bank	50,000,000	-	50,000,000
UBA, New York	50,000,000	-	50,000,000
Societe Generale	50,000,000	13,859,175	36,140,825
NIC Bank	40,000,000	-	40,000,000
BCV-Banque Cantonale Vaudoise	36,466,800	29,173,440	7,293,360
KBC Bank	30,389,000	13,637,835	16,751,165
BMCE Bank	30,389,000	27,264,510	3,124,490
Fim Bank	29,439,759	26,742,319	2,697,440
Natixis	30,000,000	-	30,000,000
CFC Stanbic Bank	30,000,000	-	30,000,000
African Finance Corporation	50,000,000	50,000,000	-
Byblos Bank	24,311,200	208,804	24,102,396
Banque BIA France	24,311,200	10,174,237	14,136,963
BHF Bank	24,311,200	20,697,118	3,614,082
International Islamic Trade Finance Corporation	20,000,000	-	20,000,000
Opec Fund for International Development	20,000,000	20,000,000	-
Ghana International Bank	20,000,000	20,000,000	-
Banque de Commerce et de Placement	18,233,400	10,770,386	7,463,014
DZ Bank	15,000,000	-	15,000,000
State Bank of Mauritius	15,000,000	3,487,400	11,512,600
	<u>2,520,957,919</u>	<u>1,612,798,804</u>	<u>908,159,114</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
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31. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

(d) Facilities available for lending as at 31 December 2014 (Continued)

LONG TERM FACILITIES LENDER	Facilities Available USD	Facilities utilised USD	Facilities unutilized USD
Eurobond	398,746,000	398,746,000	-
African Development Bank	150,000,000	125,000,000	25,000,000
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	30,000,000	30,000,000
KBC Bank	51,403,510	36,854,139	14,549,371
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
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
	<u>1,337,644,776</u>	<u>1,092,450,405</u>	<u>245,194,371</u>
TOTAL FACILITIES			
At 31 DECEMBER 2014	<u>3,858,602,695</u>	<u>2,705,249,209</u>	<u>1,153,353,486</u>

### 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 2015:	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
<b>ASSETS</b>				
Derivative financial instruments	-	60,993,075	-	60,993,075
Equity investments - at fair value through profit or loss	-	-	288,500	288,500
	<u>-</u>	<u>60,993,075</u>	<u>288,500</u>	<u>61,281,575</u>
<b>LIABILITIES</b>				
Derivative financial instruments	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2014:	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
<b>ASSETS</b>				
Derivative financial instruments	-	34,189,322	-	34,189,322
Equity Investments - at fair value through profit or loss	-	12,141,991	512,300	12,654,291
	-	46,331,313	512,300	46,843,613
<b>LIABILITIES</b>				
Net Derivative financial instruments	-	-	-	-
	-	-	-	-

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 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.

As at 31 December 2014, the equity holding in ZEP-RE (PTA Reinsurance Company) was transferred from level 3 to level 2 of the fair value hierarchy. The transfer was due to a change in the valuation technique used to value the equity holding in ZEP-RE (PTA Reinsurance Company) from use of the average equity method to the use of the last transaction price as the basis of valuation. The last transaction price was deemed to be a more accurate measure of the fair value as it represented an observable transaction involving the trade in the shares of ZEP-RE (PTA Reinsurance Company).

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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

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 2015			As at 31 December 2014		
	Realised	Unrealised	Total	Realised	Unrealised	Total
	USD	USD	gains/(losses)	USD	USD	gains/(losses)
			USD			USD
<b>ASSETS</b>						
Net Derivative financial instruments:						
- Interest rate swap	-	(149,579)	(149,579)	-	(149,585)	(149,585)
- Currency swap	-	485,577	485,577	-	442,584	442,584
Equity investments - at fair value through profit or loss	-	(223,800)	(223,800)	-	(1,280,792)	(1,280,792)
	-	112,198	112,198	-	(987,793)	(987,793)
<b>LIABILITIES</b>						
Derivative financial instruments	-	-	-	-	-	-
	-	-	-	-	-	-

Quantitative information of significant unobservable inputs - Level 3:

Description	Valuation Technique	Unobservable input	Range (weighted average)	2015 USD	2014 USD
Equity investments - at fair value through profit or loss	International Private Equity Valuation Guidelines	Multiple variables	n/a	288,500	512,300

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:

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

As at 31 December 2014:

Description	Input	Sensitivity used	Effect on fair value USD
Equity investments - at fair value through profit or loss	Multiple variables	5%	25,615

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

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2015

32. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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:

	2015 USD	2014 USD
Balance as at 31 January	512,300	19,753,620
Financial assets recognized at FV-Level 2	-	(12,141,991)
Financial assets recognized at cost in current year	<u>-</u>	<u>(6,675,075)</u>
	<u>512,300</u>	<u>936,554</u>
Total FV gains and losses in profit or loss	(223,800)	(1,155,255)
Additions	-	863,302
Retirements	<u>-</u>	<u>(132,301)</u>
Balance as at 31 December	<u>288,500</u>	<u>512,300</u>

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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

33. SEGMENT REPORTING (Continued)

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

STATEMENT OF COMPREHENSIVE INCOME

Year Ended 31 December 2015:	Trade finance USD	Project finance USD	Other USD	Total USD
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 loss	(3,033,765)	-	-	(3,033,765)
Fair value gain on equity investments	-	(223,800)	-	(223,800)
Profit for the year	<u>118,118,361</u>	<u>(25,147,207)</u>	<u>1,748,532</u>	<u>94,719,686</u>
Year Ended 31 December 2014:				
Gross interest income	108,073,658	46,000,222	2,665,575	156,739,455
Interest expense and other borrowing costs	(61,198,376)	(22,742,730)	(3,052,145)	(87,993,251)
Net interest income	45,875,282	23,257,492	(386,570)	68,746,204
Fee and commission income	34,501,313	7,498,654	-	41,999,967
Other income	-	-	671,651	671,651
Interest on capital arrears	-	-	1,261,075	1,261,075
Other assets recovered	714,193	8,329,006	-	9,043,199
Operating expenses	(15,939,995)	(2,489,675)	(105,000)	(18,534,670)
Depreciation and amortisation	(657,379)	(36,516)	-	(693,895)
Impairment on loans	(19,321,381)	(5,470,933)	-	(24,792,314)
Foreign exchange gain	557,313	-	-	557,313
Fair value gain on equity investments	-	-	(1,280,792)	(1,280,792)
Profit for the year	<u>45,729,346</u>	<u>31,088,028</u>	<u>160,364</u>	<u>76,977,738</u>



EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

33. SEGMENT REPORTING (Continued)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2015:	Trade finance USD	Project USD	Other USD	Total USD
<b>Assets:</b>				
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
<b>Total assets</b>	<b><u>2,472,586,424</u></b>	<b><u>719,447,925</u></b>	<b><u>902,525,773</u></b>	<b><u>4,094,560,122</u></b>
<b>Liabilities:</b>				
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
<b>Total liabilities</b>	<b>2,179,240,539</b>	<b>874,104,553</b>	<b>40,472,457</b>	<b>3,358,291,587</b>
<b>Equity</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>736,268,535</u></b>	<b><u>736,268,535</u></b>
	<b><u>2,443,714,577</u></b>	<b><u>874,104,553</u></b>	<b><u>776,740,992</u></b>	<b><u>4,094,560,122</u></b>
<b>As at 31 December 2014:</b>				
<b>Assets:</b>				
Cash and balances held with other banks	-	-	435,996,933	435,996,933
Investment on Government securities	-	-	216,000,000	216,000,000
Derivative financial instruments	-	-	34,189,322	34,189,322
Trade finance loans	1,901,553,050	-	-	1,901,553,050
Project loans	-	610,158,235	-	610,158,235
Equity investments at fair value through profit or loss	-	-	12,654,291	12,654,291
Equity investments at cost	-	-	6,675,075	6,675,075
Other receivables	-	-	289,119,653	289,119,653
Deferred expenditure	-	-	16,627,274	16,627,274
Property and equipment	-	-	20,465,968	20,465,968
Intangible assets	-	-	407,437	407,437
<b>Total assets</b>	<b><u>1,901,553,050</u></b>	<b><u>610,158,235</u></b>	<b><u>1,032,135,953</u></b>	<b><u>3,543,847,238</u></b>
<b>Liabilities:</b>				
Collection account deposits	126,774,345	-	-	126,774,345
Short term borrowings	1,919,329,465	-	-	1,919,329,465
Long term borrowings	-	849,402,489	-	849,402,489
Other payables	-	-	21,000,595	21,000,595
Provision for service and leave pay	-	-	5,417,994	5,417,994
<b>Total liabilities</b>	<b>2,046,103,810</b>	<b>849,402,489</b>	<b>26,418,589</b>	<b>2,921,924,888</b>
<b>Equity</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>621,922,350</u></b>	<b><u>621,922,350</u></b>
	<b><u>2,046,103,810</u></b>	<b><u>849,402,489</u></b>	<b><u>648,340,939</u></b>	<b><u>3,543,847,238</u></b>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2015

34. CONTINGENT LIABILITIES AND COMMITMENTS

	2015 USD	2014 USD
(a) Capital commitments		
Approved but not contracted	<u>9,471,715</u>	<u>2,665,894</u>
Approved and contracted	<u>-</u>	<u>-</u>
(b) Loans committed but not disbursed		
Project finance loans	219,343,426	271,798,340
Trade finance loans	<u>511,347,097</u>	<u>377,243,504</u>
	<u>730,690,523</u>	<u>649,041,844</u>

(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.

	2015 USD	2014 USD
Letters of credit - Project finance loans	7,044,474	64,489,727
- Trade finance loans	341,874,767	405,146,928
Guarantees	<u>2,041,765</u>	<u>20,377,524</u>
	<u>350,961,006</u>	<u>490,014,179</u>

(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 USD 168,623 (2014 - USD 227,460). At reporting date, the Bank had contracted with tenants for the following future lease receivables:

	2015 USD	2014 USD
Within one year	-	128,408
In the second and third year inclusive	<u>-</u>	<u>-</u>
	<u>-</u>	<u>128,408</u>

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 2015.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2015

34. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

(d) Operating lease arrangements (Continued)

*The Bank as a lessee*

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

	2015 USD	2014 USD
Within one year	274,727	262,647
In the second to fifth year inclusive	726,613	990,553
Over five years	-	-
	<u>1,001,340</u>	<u>1,253,200</u>

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.

(e) 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 2015, there were legal proceedings involving the Bank amounting to USD 19,340,000 (2014 - USD 18,200,000) 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- eighteen COMESA /African States (the "Member States"), two non-African State and one institutional member;- Class B Shareholders - one non-African State and nine 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.

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

	2015 USD	2014 USD
(b) Loans to member states		
Outstanding loans at 1 January	1,156,104,821	803,299,392
Loans disbursed during the year	1,322,929,001	2,220,727,959
Loans repaid during the year	<u>(1,272,493,914)</u>	<u>(1,867,922,530)</u>
Outstanding loan balances at 31 December	<u>1,206,539,908</u>	<u>1,156,104,821</u>

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 (2014: Nil). The loans are granted for an average period of one year.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

35. RELATED PARTY TRANSACTIONS (Continued)

	2015 USD	2014 USD
(c) Borrowings from members		
Outstanding borrowings at 1 January	279,156,500	46,145,657
Borrowings received during the year	95,584,634	241,739,266
Borrowings repaid during the year	<u>(9,750,888)</u>	<u>(8,728,423)</u>
Outstanding balances at 31 December	<u>364,990,246</u>	<u>279,156,500</u>

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.

	2015 USD	2014 USD
(d) Income and expenses		
• Interest income from loans to Member States earned during the year	<u>77,509,593</u>	<u>65,956,299</u>
• Interest expense on borrowings from Member States incurred during the year	<u>(9,616,953)</u>	<u>(1,152,774)</u>
• Fees and commission earned from Member States during the year	<u>24,623,254</u>	<u>17,324,372</u>

(e) Other related parties

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

	2015 USD	2014 USD
Salaries and other short-term benefits	1,908,812	1,873,716
Post employment benefits: Defined contribution: Provident Fund	460,483	469,607
Board of Directors and Board of Governors allowances	<u>48,300</u>	<u>181,800</u>
	<u>2,417,595</u>	<u>2,525,123</u>

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:

	2015	2014
British Pound	0.6744	0.6426
Euro	0.9150	0.8227
Sudanese Pound	6.0482	5.6692
Zambian Kwacha	11.2475	6.3420
South Africa Rand	15.5632	11.5561
Ethiopian Birr	20.9470	20.0150
Mauritian Rupee	35.8772	31.6780
Kenya Shilling	102.2500	90.6000
Japanese Yen	120.4216	119.6700
Malawi Kwacha	658,3900	445.0000
Burundi Franc	1531.0000	1537.0000
Tanzania Shilling	2158.4975	1738.6100
Uganda Shilling	3377.3175	2764.2060

### 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.

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.

### 38. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (b) CREDIT RISK (Continued)

##### *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 2015, all country exposures were within this limit.

Notes 41 and 42 of the Financial Statements contain the country exposure analysis as at 31 December 2015 and 31 December 2014.

##### *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).

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2015

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Maximum Exposure to Credit Risk before Collateral Held:

	2015 USD	%	2014 USD	%
Credit Exposures				
<i>On - statement of financial position Items</i>				
Cash and Balances held with other banks	643,514,540	16	435,996,933	12
Investment in Government securities	241,763,172	6	216,000,000	6
Other receivables	164,962,264	4	280,950,089	8
Loans and advances	3,001,749,471	74	2,579,652,028	74
-Project loans	762,348,507		624,853,631	
-Trade finance loans	2,239,400,964		1,954,798,397	
Sub Total	<u>4,051,989,447</u>	<u>100</u>	<u>3,512,599,050</u>	<u>100</u>
<i>Off - statement of financial position Items</i>				
Letters of Credit	348,919,241	32	469,636,655	41
Loan Commitments not disbursed	730,690,523	68	649,041,844	57
Guarantees and Performance Bonds	<u>2,041,765</u>	<u>-</u>	<u>20,377,524</u>	<u>2</u>
Sub Total	<u>1,081,651,529</u>	<u>100</u>	<u>1,139,056,023</u>	<u>100</u>
Total Credit Exposure	<u>5,133,640,979</u>		<u>4,651,655,073</u>	

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 80% in 2015 (2014 - 80%) of the total maximum credit exposure.

Other than cash and bank balances amounting to USD 643,514,540 (2014 -USD 435,996,933) 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 2015, the fair value of collateral held for impaired loans and advances was USD 412,077,829 (2014 - USD 155,728,529) and provided sufficient cover over the gross exposure of USD 86,229,211 (2014-USD 78,337,447) and over the net exposure of USD 15,715,179 (2014-USD 21,208,427) after deducting the impairment allowances.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2015

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

*Classification of Loans and advances*

For year ended 31 December 2015:

Category	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	<u>86,229,211</u>	<u>(70,514,032)</u>	<u>15,715,179</u>	<u>1</u>
Total	<u>3,001,749,471</u>	<u>(94,974,572)</u>	<u>2,906,774,899</u>	<u>100</u>

For year ended 31 December 2014:

Category	Gross amount USD	Impairment allowance USD	Net amount USD	%
Neither past due nor impaired	2,298,846,349	(10,811,721)	2,288,034,628	91
Past due but not impaired	202,468,231	-	202,468,231	8
Impaired	<u>78,337,447</u>	<u>(57,129,021)</u>	<u>21,208,426</u>	<u>1</u>
Total	<u>2,579,652,027</u>	<u>(67,940,742)</u>	<u>2,511,711,285</u>	<u>100</u>

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.

Ageing of arrears for past due loans and advances not impaired

	2015 USD	2014 USD
Below 30 Days	152,678,075	132,376,019
31 to 90 Days	<u>114,554,418</u>	<u>70,092,213</u>
Total arrears	<u>267,232,493</u>	<u>202,468,232</u>

Ageing of arrears for impaired loans and advances

Below 30 Days	2,950,787	2,776,708
31-90 Days	357,132	927,249
91-180 Days	16,066,427	27,025,050
181-360 Days	22,573,153	9,043,049
Over 360 Days	<u>65,242,360</u>	<u>88,981,122</u>
Total arrears	<u>107,189,859</u>	<u>128,753,178</u>
(Restructured loans)/Amounts not in arrears	<u>(20,960,648)</u>	<u>(50,415,731)</u>
Total	<u>86,229,211</u>	<u>78,337,447</u>



EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2015

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

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.

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 2015 and 31 December 2014, the Bank's collateral exceeded the outstanding gross portfolio.

<i>Collateral held for loan portfolio</i>	2015 USD	2014 USD
(i) Total portfolio:		
Mortgages on properties	635,948,361	701,496,217
Fixed charge on plant and equipment	767,196,751	316,495,621
Cash security deposits	865,519,340	889,584,657
Floating all asset debentures	355,481,787	252,868,715
Sovereign undertakings	767,636,989	662,766,017
Insurance and Guarantees	<u>1,728,576,031</u>	<u>768,543,694</u>
Total security cover	<u>5,120,359,259</u>	<u>3,591,754,921</u>
Gross portfolio	<u>(3,001,749,471)</u>	<u>(2,579,652,028)</u>
Net cover	<u>2,118,609,788</u>	<u>1,012,102,893</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2015

38. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

*Collateral held for loan portfolio (Continued)*

	2015 USD	2014 USD
(ii) Past due but not impaired:		
Mortgages on properties	33,109,149	264,133,360
Fixed charge on plant and equipment	25,015,488	61,265,841
Other floating all asset debentures	40,000,000	103,000,000
Sovereign undertakings	65,015,488	202,322,881
Insurance and Guarantees	<u>69,000,000</u>	<u>30,000,000</u>
	232,140,125	660,722,082
Portfolio	<u>(267,232,493)</u>	<u>(202,468,232)</u>
Net cover	<u>(35,092,368)</u>	<u>458,253,850</u>
(iii) Impaired loans:		
Mortgages on properties	75,253,541	64,591,539
Fixed charge on plant and equipment	51,162,144	13,818,000
Cash security deposits	850,000	-
Sovereign undertakings	52,012,144	77,318,990
Insurance and Guarantees	<u>232,800,000</u>	<u>-</u>
	412,077,829	155,728,529
Portfolio	<u>(86,229,211)</u>	<u>(78,337,447)</u>
Net cover	<u>325,848,618</u>	<u>77,391,082</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

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
	<u>3,001,749,471</u>	<u>100</u>	<u>1,081,651,529</u>	<u>100</u>	<u>(790,545,934)</u>	<u>(763,764,983)</u>	<u>2,529,090,083</u>	<u>100</u>

\*\*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 2015, all loan and advances sectoral concentrations were within the stipulated limit

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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38. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

*Concentration of risk*

As at 31 December 2014

	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	12,026,498	1	68,716,001	6	-	-	80,742,499	4
Agribusiness	639,378,047	25	268,766,721	24	(206,445,940)	(30,000,000)	671,698,828	31
Banking and Financial Services	247,091,966	10	79,261,203	7	-	-	326,353,169	15
Education	8,247,326	-	376,468	-	-	-	8,623,794	-
Hospitality	59,847,013	2	3,606,551	-	-	-	63,453,564	3
Manufacturing and Heavy Industries	95,564,830	4	162,826,820	14	-	-	258,391,650	12
Other	31,153,240	1	32,459,811	3	-	-	63,613,051	3
Health Services	28,633,901	1	29,143,285	3	-	-	57,777,186	3
Energy	95,478,518	4	51,946,335	5	-	-	147,424,853	7
Petrochemicals	1,059,096,021	41	402,240,897	35	(611,723,436)	(712,867,992)	136,745,490	6
Real Estate	62,560,702	2	26,022,323	2	-	-	88,583,025	4
Telecommunications	35,738,016	1	8,085,974	1	-	(6,209,696)	37,614,294	2
Infrastructure	92,300,731	4	5,603,634	-	-	-	97,904,365	5
Transport and Logistics	112,535,219	4	-	-	-	-	112,535,219	5
	<u>2,579,652,028</u>	<u>100</u>	<u>1,139,056,023</u>	<u>100</u>	<u>(818,169,376)</u>	<u>(749,077,688)</u>	<u>2,151,460,987</u>	<u>100</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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38. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

	2015 USD	2014 USD
<i>Restructured loans</i>		
Project finance loans	-	30,559,636
Trade finance loans	<u>390,000,000</u>	<u>180,824,733</u>
	<u>390,000,000</u>	<u>211,384,369</u>

(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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

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
<b>FINANCIAL ASSETS</b>							
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							
- At fair value through profit or loss	-	-	-	-	288,500	-	288,500
- At cost	-	-	-	-	20,162,420	-	20,162,420
<b>Total financial assets</b>	<b><u>1,594,300,226</u></b>	<b><u>349,526,130</u></b>	<b><u>543,683,009</u></b>	<b><u>809,183,940</u></b>	<b><u>588,957,008</u></b>	<b><u>152,808,557</u></b>	<b><u>4,038,458,870</u></b>
<b>FINANCIAL LIABILITIES</b>							
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	<u>29,467,497</u>	<u>142,934</u>	<u>213,891</u>	<u>424,174</u>	<u>3,043,917</u>	<u>1,454,258</u>	<u>34,746,671</u>
<b>Total liabilities</b>	<b><u>810,297,025</u></b>	<b><u>601,787,391</u></b>	<b><u>443,571,683</u></b>	<b><u>828,467,951</u></b>	<b><u>592,629,879</u></b>	<b><u>75,811,872</u></b>	<b><u>3,352,565,801</u></b>
<b>Net liquidity gap</b>	<b><u>784,003,201</u></b>	<b><u>(252,261,261)</u></b>	<b><u>(100,111,326)</u></b>	<b><u>(19,284,011)</u></b>	<b><u>(3,672,871)</u></b>	<b><u>76,996,685</u></b>	<b><u>685,893,069</u></b>
<b>Cumulative gap</b>	<b><u>784,003,201</u></b>	<b><u>531,741,940</u></b>	<b><u>631,853,266</u></b>	<b><u>612,569,255</u></b>	<b><u>608,896,384</u></b>	<b><u>685,893,069</u></b>	<b><u>685,893,069</u></b>

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.

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38. FINANCIAL RISK MANAGEMENT (Continued)

(c) LIQUIDITY RISK (Continued)

Maturities of financial assets and financial liabilities are as follows:

At 31 December 2014	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
<b>FINANCIAL ASSETS</b>							
Cash and balances with other banks	435,082,303	914,630	-	-	-	-	435,996,933
Investment in Government securities	-	-	-	-	216,000,000	-	216,000,000
Other receivables	108,722	279,638,674	144,564	101,640	956,489	-	280,950,089
Derivative financial instruments	-	-	-	-	34,189,322	-	34,189,322
Trade finance loans	553,780,658	363,608,299	216,706,268	736,549,062	30,908,763	-	1,901,553,050
Project loans	31,633,890	19,199,013	20,976,147	52,506,882	345,198,081	140,644,222	610,158,235
Equity investments							
- At fair value through profit or loss	-	-	-	-	12,654,291	-	12,654,291
- At cost	-	-	-	-	6,675,075	-	6,675,075
<b>Total financial assets</b>	<b><u>1,020,605,573</u></b>	<b><u>663,360,616</u></b>	<b><u>237,826,979</u></b>	<b><u>789,157,584</u></b>	<b><u>646,582,021</u></b>	<b><u>140,644,222</u></b>	<b><u>3,498,176,995</u></b>
<b>FINANCIAL LIABILITIES</b>							
Short term borrowings	389,832,778	579,734,616	333,957,011	295,305,060	320,500,000	-	1,919,329,465
Long term borrowings	9,000,165	9,449,711	11,397,700	29,505,095	727,781,354	62,268,464	849,402,489
Collection Account	4,204,577	-	-	122,569,768	-	-	126,774,345
Other payables	<u>12,257,290</u>	<u>3,858,918</u>	<u>396,680</u>	<u>496,271</u>	<u>2,530,712</u>	<u>1,406,989</u>	<u>20,946,860</u>
<b>Total liabilities</b>	<b><u>415,294,810</u></b>	<b><u>593,043,245</u></b>	<b><u>345,751,391</u></b>	<b><u>447,876,194</u></b>	<b><u>1,050,812,066</u></b>	<b><u>63,675,453</u></b>	<b><u>2,916,453,159</u></b>
<b>Net liquidity gap</b>	<b><u>605,310,763</u></b>	<b><u>70,317,371</u></b>	<b><u>(107,924,412)</u></b>	<b><u>341,281,390</u></b>	<b><u>(404,230,045)</u></b>	<b><u>76,968,769</u></b>	<b><u>581,723,836</u></b>
<b>Cumulative gap</b>	<b><u>605,310,763</u></b>	<b><u>675,628,134</u></b>	<b><u>567,703,722</u></b>	<b><u>908,985,112</u></b>	<b><u>504,755,067</u></b>	<b><u>581,723,836</u></b>	<b><u>581,723,836</u></b>

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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FOR THE YEAR ENDED 31 DECEMBER 2015

38. FINANCIAL RISK MANAGEMENT

I. Interest rate risk continued (Continued)

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

At 31 December 2015:	Up to 1 month USD	1 to 6 Months USD	6 to 12 months USD	1 to 5 years USD	*Fixed interest Rate USD	Non-interest bearing USD	Total USD
<b>FINANCIAL ASSETS</b>							
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
<b>Total financial assets</b>	<b><u>730,713,838</u></b>	<b><u>153,877,995</u></b>	<b><u>505,015,661</u></b>	<b><u>45,398,773</u></b>	<b><u>2,075,398,306</u></b>	<b><u>528,054,297</u></b>	<b><u>4,038,458,870</u></b>
<b>FINANCIAL LIABILITIES</b>							
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
<b>Total financial liabilities</b>	<b><u>1,089,562,006</u></b>	<b><u>1,415,147,694</u></b>	<b><u>124,799,418</u></b>	<b><u>20,215,113</u></b>	<b><u>408,972,393</u></b>	<b><u>293,869,177</u></b>	<b><u>3,352,565,801</u></b>
<b>Net interest rate exposure</b>	<b><u>(358,848,168)</u></b>	<b><u>(1,261,269,699)</u></b>	<b><u>380,216,243</u></b>	<b><u>25,183,660</u></b>	<b><u>1,666,425,913</u></b>	<b><u>234,185,120</u></b>	<b><u>685,893,069</u></b>
<b>Cumulative interest rate exposure</b>	<b><u>(358,848,168)</u></b>	<b><u>(1,620,117,867)</u></b>	<b><u>(1,239,901,624)</u></b>	<b><u>(1,214,717,964)</u></b>	<b><u>451,707,949</u></b>	<b><u>685,893,069</u></b>	<b><u>685,893,069</u></b>

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

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

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 2014:	Up to 1 month USD	1 to 6 Months USD	6 to 12 months USD	1 to 5 years USD	*Fixed interest Rate USD	Non-interest Bearing USD	Total USD
<b>FINANCIAL ASSETS</b>							
Cash and balances with other banks	307,220,783	914,630	-	-	-	127,861,520	435,996,933
Investment in Government securities	-	-	-	-	216,000,000	-	216,000,000
Other receivables	-	-	-	-	491,057	280,459,032	280,950,089
Derivative financial instruments	1,301,542	-	-	-	-	32,887,780	34,189,322
Trade finance loans	439,738,455	490,477,922	141,595,230	19,144,927	810,580,391	16,125	1,901,553,050
Project finance loans	295,859,554	101,530,285	9,090,751	-	193,295,655	10,381,990	610,158,235
Equity Investments							
- At fair value through profit or loss	-	-	-	-	-	12,654,291	12,654,291
- At cost	-	-	-	-	-	6,675,075	6,675,075
<b>Total financial assets</b>	<b><u>1,044,120,334</u></b>	<b><u>592,922,837</u></b>	<b><u>150,685,981</u></b>	<b><u>19,144,927</u></b>	<b><u>1,220,367,103</u></b>	<b><u>470,935,813</u></b>	<b><u>3,498,176,995</u></b>
<b>FINANCIAL LIABILITIES</b>							
Short term borrowings	760,332,778	862,491,627	79,305,060	-	217,200,000	-	1,919,329,465
Long term borrowings	128,079,774	577,576,715	-	-	143,746,000	-	849,402,489
Collection Accounts	-	-	-	-	-	126,774,345	126,774,345
Other payables	-	-	-	-	4,923,992	16,022,868	20,946,860
<b>Total financial liabilities</b>	<b><u>888,412,552</u></b>	<b><u>1,440,068,342</u></b>	<b><u>79,305,060</u></b>	<b><u>-</u></b>	<b><u>365,869,992</u></b>	<b><u>142,797,213</u></b>	<b><u>2,916,453,159</u></b>
<b>Net interest rate exposure</b>	<b><u>155,707,782</u></b>	<b><u>(847,145,505)</u></b>	<b><u>71,380,921</u></b>	<b><u>19,144,927</u></b>	<b><u>854,497,111</u></b>	<b><u>328,138,600</u></b>	<b><u>581,723,836</u></b>
<b>Cumulative interest rate exposure</b>	<b><u>155,707,782</u></b>	<b><u>(691,437,723)</u></b>	<b><u>(620,056,802)</u></b>	<b><u>(600,911,875)</u></b>	<b><u>253,585,236</u></b>	<b><u>581,723,836</u></b>	<b><u>581,723,836</u></b>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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38. FINANCIAL RISK MANAGEMENT (Continued)

(d) MARKET RISK (Continued)

II. 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 2015 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 2015 of USD 94,719,686 (2014: USD 76,977,738) would increase or decrease by USD 12,190,930 (2014 - USD 7,185,990) as follows:

Effect on the Bank's Net Profit:

The profit for the year ended 31 December 2015 would increase to USD 106,910,616 (2014: USD 84,163,728) or decrease to USD 82,528,756 (2014: USD 69,796,748).

The potential change is 12.9% (2014 - 9.3%) of the year's profit.

III. 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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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38. FINANCIAL RISK MANAGEMENT (Continued)

d) MARKET RISK (Continued)

III .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:

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

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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38. FINANCIAL RISK MANAGEMENT ( Continued )

MARKET RISK (Continued)

III. Currency Risk (Continued)

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

The Bank's currency position as at 31 December 2014 was as follows:

	USD	GBP	EURO	KES	SDG	UGX	TZSH	OTHER	TOTAL
FINANCIAL ASSETS									
Cash and balances with other banks	293,297,063	1,227	12,278,756	26,335	127,861,520	994,544	724,300	813,188	435,996,933
Investment in Government securities	216,000,000	-	-	-	-	-	-	-	216,000,000
Other receivables	280,950,089	-	-	-	-	-	-	-	280,950,089
Derivative financial instruments	422,543,703	-	(388,354,381)	-	-	-	-	-	34,189,322
Trade finance loans	923,605,593	-	977,947,457	-	-	-	-	-	1,901,553,050
Project finance loans	584,389,389	-	5,167,260	-	-	1,504,437	19,097,149	-	610,158,235
Equity investments									
- At fair value through profit or loss	12,654,291	-	-	-	-	-	-	-	12,654,291
- At cost	<u>6,675,075</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,675,075</u>
Total financial assets	<u>2,740,115,203</u>	<u>1,227</u>	<u>607,039,092</u>	<u>26,335</u>	<u>127,861,520</u>	<u>2,498,981</u>	<u>19,821,449</u>	<u>813,188</u>	<u>3,498,176,995</u>
FINANCIAL LIABILITIES									
Short term borrowings	1,285,614,569	-	615,080,251	-	-	-	18,634,645	-	1,919,329,465
Long term borrowings	848,291,747	-	-	-	-	1,110,742	-	-	849,402,489
Collection account	4,203,278	-	-	-	122,569,768	-	-	1,299	126,774,345
Other payables	<u>20,910,163</u>	<u>-</u>	<u>-</u>	<u>34,065</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,632</u>	<u>20,946,860</u>
Total financial liabilities	<u>2,159,019,757</u>	<u>-</u>	<u>615,080,251</u>	<u>34,065</u>	<u>122,569,768</u>	<u>1,110,742</u>	<u>18,634,645</u>	<u>3,931</u>	<u>2,916,453,159</u>
NET POSITION	<u>581,095,446</u>	<u>1,227</u>	<u>(8,041,159)</u>	<u>(7,730)</u>	<u>5,291,752</u>	<u>1,388,239</u>	<u>1,186,804</u>	<u>809,257</u>	<u>581,723,836</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2015

38. FINANCIAL RISK MANAGEMENT (Continued)

III. Currency Risk (Continued)

Currency risk - Sensitivity Analysis

The Bank is mainly exposed to Euros, Pound Sterling, Kenya Shillings, Tanzania Shillings, Malawi Kwacha, 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	MWK	UGX
2015	<u>5,317</u>	<u>1,928,671</u>	<u>8,393</u>	<u>127</u>	<u>-</u>	<u>(31,358)</u>
2014	<u>(144)</u>	<u>(1,104,303)</u>	<u>2,981</u>	<u>68</u>	<u>-</u>	<u>(12,690)</u>

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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2015

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.

	2015 USD	2014 USD
<b>RISK WEIGHTED ASSETS</b>		
On-Statement of financial position assets	1,812,316,602	1,739,613,887
Off- Statement of financial position assets	<u>70,804,731</u>	<u>104,116,093</u>
Total risk weighted assets	<u><u>1,883,121,333</u></u>	<u><u>1,843,729,980</u></u>
<b>CAPITAL</b>		
Paid up capital	339,741,093	307,962,561
Retained earnings and reserves	<u>396,527,442</u>	<u>313,959,788</u>
Total capital	<u><u>736,268,535</u></u>	<u><u>621,922,348</u></u>
<b>CAPITAL ADEQUACY RATIO</b>	<u><u>39.1%</u></u>	<u><u>33.7%</u></u>

In addition to its 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.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

40. FINANCIAL INSTRUMENTS CATEGORIES

The table below sets out the Bank's analysis of financial instrument categories.

As at 31 December 2015:	Loans and receivables USD	At fair value through profit or loss USD	Available for sale USD	Hedging instruments USD	Loans and borrowings 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	-	-	-	60,993,075	-	60,993,075
<b>Total financial assets</b>	<b><u>3,957,014,875</u></b>	<b><u>288,500</u></b>	<b><u>20,162,420</u></b>	<b><u>60,993,075</u></b>	<b><u>-</u></b>	<b><u>4,038,458,870</u></b>
Financial liabilities						
Collection account deposits	-	-	-	-	264,474,038	264,474,038
Derivative financial instruments	-	-	-	-	-	-
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
<b>Total financial liabilities</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>3,352,565,801</u></b>	<b><u>3,352,565,801</u></b>



EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

40. FINANCIAL INSTRUMENTS CATEGORIES (Continued)

As at 31 December 2014:	Loans and receivables USD	At fair value through profit or loss USD	Available for sale USD	Hedging instruments USD	Loans and borrowings USD	Total carrying amount USD
Financial assets						
Cash and balances held with banks	435,996,933	-	-	-	-	435,996,933
Investment in Government securities held to maturity	216,000,000	-	-	-	-	216,000,000
Other receivables	280,950,089	-	-	-	-	280,950,089
Trade finance loans	1,901,553,050	-	-	-	-	1,901,553,050
Project finance loans	610,158,235	-	-	-	-	610,158,235
Equity investments at fair value through profit or loss	-	12,654,291	-	-	-	12,654,291
Equity investments at cost	-	-	6,675,075	-	-	6,675,075
Derivative financial instruments	-	-	-	34,189,322	-	34,189,322
Total financial assets	<u>3,443,658,307</u>	<u>12,654,291</u>	<u>6,675,075</u>	<u>34,189,322</u>	<u>-</u>	<u>3,498,176,995</u>
Financial liabilities						
Collection account deposits	-	-	-	-	126,774,345	126,774,345
Derivative financial instruments	-	-	-	-	-	-
Short term borrowings	-	-	-	-	1,919,329,465	1,919,329,465
Long term borrowings	-	-	-	-	849,402,489	849,402,489
Other payables	-	-	-	-	20,946,860	20,946,860
Total financial liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,916,453,159</u>	<u>2,916,453,159</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

41. TRADE FINANCE LOAN PORTFOLIO

Country	As at 31 December 2015			As at 31 December 2014		
	Balance outstanding USD	Amounts due within six months USD	Amounts due after six months USD	Balance outstanding USD	Amounts due within six months USD	Amounts due after six months USD
Congo DRC	5,047,017	5,047,017	-	-	-	-
Djibouti	2,035,492	24,932	2,010,560	-	-	-
Egypt	228,684	228,684	-	-	-	-
Ethiopia	88,048,439	27,037,953	61,010,486	61,666,968	12,371,335	49,295,633
Kenya	50,396,656	48,569,753	1,826,903	74,403,775	63,403,775	11,000,000
Malawi	207,401,942	54,991,993	152,409,949	204,126,016	128,596,516	75,529,500
Mauritius	13,487,722	13,487,722	-	3,234	3,234	-
Rwanda	43,170,625	559,540	42,611,085	-	-	-
Seychelles	12,384,716	9,384,716	3,000,000	42,262,613	23,120,558	19,142,055
Sudan	787,272,222	561,535,286	225,736,936	700,034,021	165,269,559	534,764,462
Tanzania	176,556,612	94,698,852	81,857,760	129,389,290	70,657,456	58,791,834
Uganda	6,716,731	1,447,928	5,268,803	3,717,490	1,765,659	1,951,831
Zambia	703,259,687	689,417,597	13,842,090	530,845,445	530,845,445	-
Zimbabwe	<u>143,394,419</u>	<u>61,168,635</u>	<u>82,225,784</u>	<u>208,349,545</u>	<u>138,061,688</u>	<u>70,287,857</u>
Gross Loans	2,239,400,964	1,567,600,608	671,800,356	1,954,798,397	1,134,095,225	820,703,172
Less: Impairment on trade finance loans (Note 17)	<u>(31,288,578)</u>	<u>-</u>	<u>(31,288,578)</u>	<u>(53,245,347)</u>	<u>-</u>	<u>(53,245,347)</u>
NET LOANS	<u>2,208,112,386</u>	<u>1,567,600,608</u>	<u>640,511,778</u>	<u>1,901,553,050</u>	<u>1,134,095,225</u>	<u>767,457,825</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEAR ENDED 31 DECEMBER 2015

42. PROJECT LOAN PORTFOLIO

Country	As at 31 December 2015						As at 31 December 2014					
	Amounts	Amounts	Amounts	Interest	Amounts	Interest	Balance	Due	Due after	Balance	Within	Due after
	Approved	Signed	Disbursed	Capita- Lized	Repaid	Receivable	Outstanding	within	One year	Outstanding	One	Due after
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Burundi	40,115,973	35,998,515	26,139,793	-	(13,108,902)	352,206	13,383,097	2,477,088	10,906,009	13,091,057	1,951,688	11,139,369
Congo DRC	84,200,000	84,200,000	27,205,368	-	-	1,080,024	28,285,392	1,080,024	27,205,368	164,892	164,892	-
Eritrea	403,652	403,652	403,652	-	(403,652)	-	-	-	-	-	-	-
Ethiopia	149,964,439	126,464,439	50,672,668	522,176	(31,047,300)	180,469	20,328,013	4,551,870	15,776,143	16,549,619	4,833,726	11,715,893
Kenya	376,752,129	328,552,129	297,300,171	1,532,900	(233,146,173)	1,067,903	66,754,801	15,682,642	51,072,159	52,966,021	13,630,249	39,335,772
Malawi	61,713,723	61,713,723	60,793,336	2,920	(39,769,499)	525,416	21,552,173	6,832,520	14,719,653	23,501,009	5,011,360	18,489,649
Mauritius	65,725,000	22,000,000	22,000,000	-	(8,911,112)	42	13,088,930	888,376	12,200,554	7,619,733	549,679	7,070,054
Rwanda	166,822,670	162,123,954	144,565,020	2,941,028	(48,951,167)	1,568,461	100,123,342	16,328,564	83,794,778	100,874,199	10,861,244	90,012,955
Seychelles	47,500,000	41,500,000	41,364,275	-	(30,477,474)	73,750	10,960,551	3,965,472	6,995,079	8,211,108	2,580,862	5,650,246
Sudan	78,381,910	78,381,910	45,106,624	5,473,714	(25,392,905)	4,201,497	29,388,930	8,903,439	20,485,491	28,492,513	3,798,699	24,693,814
Tanzania	311,822,792	245,322,793	191,504,320	682,910	(97,478,721)	1,818,836	96,527,345	25,453,144	71,074,201	103,034,122	19,680,798	83,353,324
Uganda	217,376,291	215,245,639	206,604,865	4,851,976	(104,296,802)	1,181,931	108,341,970	27,336,981	81,004,989	76,697,485	22,033,929	54,663,556
Zambia	140,902,661	136,820,934	131,311,189	26,255,510	(108,117,633)	1,310,597	50,759,663	10,923,068	39,836,595	56,719,555	8,793,598	47,925,957
Zimbabwe	<u>331,590,312</u>	<u>310,884,752</u>	<u>265,292,226</u>	<u>709,656</u>	<u>(66,858,781)</u>	<u>3,711,199</u>	<u>202,854,300</u>	<u>51,406,795</u>	<u>151,447,505</u>	<u>136,932,318</u>	<u>30,425,208</u>	<u>106,507,110</u>
Gross loans	<u>2,073,271,552</u>	<u>1,849,612,440</u>	<u>1,510,263,507</u>	<u>42,972,790</u>	<u>(807,960,121)</u>	<u>17,072,331</u>	<u>762,348,507</u>	<u>175,829,983</u>	<u>586,518,524</u>	<u>624,853,631</u>	<u>124,315,932</u>	<u>500,557,699</u>
Less: Impairment on project loans (note 17)							(63,685,994)	-	(63,685,994)	(14,695,396)	-	(14,695,396)
NET LOANS							<u>698,662,513</u>	<u>175,829,983</u>	<u>522,832,530</u>	<u>610,158,235</u>	<u>124,315,932</u>	<u>485,862,303</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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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
	<u>64,705</u>	<u>100</u>	<u>1,466,668,235</u>	<u>1,173,334,587</u>	<u>293,333,648</u>	<u>280,162,758</u>	<u>270,057,888</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTABANK)  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
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43. STATEMENT OF SUBSCRIPTIONS TO THE CAPITAL STOCK

As at 31 December 2014:

CLASS 'A' shares	Shares Subscribed	Percentage of total	Value USD	Callable capital USD	Payable capital USD	Instalments due as at 31.12.2014 USD	Instalments paid as at 31.12.2014 USD
Belarus	1,103	1.79	25,001,701	20,001,361	5,000,340	1,000,068	1,000,068
Burundi	1,230	2.00	27,880,410	22,304,328	5,576,082	5,576,082	5,576,082
China	3,400	5.52	77,067,800	61,654,240	15,413,560	15,413,560	15,413,560
Comoros	54	0.09	1,224,018	979,214	244,804	244,804	122,400
Djibouti	312	0.51	7,072,104	5,657,683	1,414,421	1,414,421	1,414,421
Congo DRC	5,340	8.67	121,041,780	96,833,424	24,208,356	14,525,013	9,972,673
Egypt	5,340	8.67	121,041,780	96,833,424	24,208,356	24,208,356	24,208,356
Eritrea	240	0.39	5,440,080	4,352,064	1,088,016	1,088,016	544,000
Ethiopia	5,340	8.67	121,041,780	96,833,424	24,208,356	24,208,356	24,208,356
Kenya	5,340	8.67	121,041,780	96,833,424	24,208,356	24,208,356	24,208,356
Malawi	1,320	2.29	29,920,440	23,936,352	5,984,088	5,984,088	5,984,088
Mauritius	1,566	2.72	35,496,522	28,397,218	7,099,304	7,099,304	7,099,304
Rwanda	1,641	2.67	37,196,547	29,757,238	7,439,309	5,657,683	5,657,683
Seychelles	1,370	2.23	31,053,790	24,843,032	6,210,758	1,224,018	1,224,018
Somalia	318	0.52	7,208,106	5,766,485	1,441,621	1,441,621	720,800
Sudan	4,920	7.99	111,521,640	89,217,312	22,304,328	22,304,328	22,304,328
Tanzania	5,214	8.47	118,185,738	94,548,590	23,637,148	23,637,148	23,637,148
Uganda	3,600	5.85	81,601,200	65,280,960	16,320,240	16,320,240	15,493,700
Zambia	5,369	8.72	121,699,123	97,359,298	24,339,825	19,338,409	19,338,409
Zimbabwe	5,540	9.00	125,575,180	100,460,144	25,115,036	25,115,036	25,115,036
African Development Bank	<u>3,000</u>	<u>4.87</u>	<u>68,001,000</u>	<u>54,400,800</u>	<u>13,600,200</u>	<u>13,600,200</u>	<u>13,600,200</u>
	<u>61,557</u>	<u>100</u>	<u>1,395,312,519</u>	<u>1,116,250,015</u>	<u>279,062,504</u>	<u>253,609,107</u>	<u>246,842,986</u>

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTABANK)  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
FOR THE YEARENDED 31 DECEMBER 2015

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 31December 2015:							
Africa Reinsurance Corporation	741	4.82	3,359,265	3,359,265	3,359,265	1,638,144	4,997,410
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 Investimento	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	13,305,440
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 Reinsurance company)	<u>834</u>	<u>5.43</u>	<u>3,780,873</u>	<u>3,780,873</u>	<u>3,780,873</u>	<u>1,223,128</u>	<u>5,004,000</u>
	<u>15,371</u>	<u>100</u>	<u>69,683,206</u>	<u>69,683,206</u>	<u>69,683,206</u>	<u>26,870,808</u>	<u>95,554,014</u>
As at 31December 2014:							
Africa Reinsurance Corporation	500	3.71	2,266,710	2,266,710	2,266,710	733,290	3,000,000
African Development Bank	3,333	24.72	15,109,890	15,109,890	15,109,890	4,890,110	20,000,000
Banco Nacional de Investimento	834	6.19	3,780,873	3,780,873	3,780,873	1,223,127	5,004,000
Mauritian Eagle Insurance Company Limited	270	2.00	1,224,024	1,224,024	1,224,024	395,976	1,620,000
National Pension Fund-Mauritius	1,667	12.36	7,557,212	7,557,212	7,557,212	2,444,768	10,001,980
People's Republic of China	3,334	24.73	15,114,424	15,114,424	15,114,424	4,889,576	20,004,000
Rwanda Social Security Board	2,044	15.16	9,266,311	9,266,311	9,266,311	2,997,690	12,264,001
Seychelles Pension Fund	666	4.94	3,019,258	3,019,258	3,019,258	980,742	4,000,000
ZEP-RE(PTA Re insurance company)	<u>834</u>	<u>6.19</u>	<u>3,780,873</u>	<u>3,780,873</u>	<u>3,780,873</u>	<u>1,223,127</u>	<u>5,004,000</u>
	<u>13,482</u>	<u>100</u>	<u>61,119,575</u>	<u>61,119,575</u>	<u>61,119,575</u>	<u>19,778,406</u>	<u>80,897,981</u>

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.

# 2014 AUDITED FINANCIAL STATEMENTS

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## CORPORATE INFORMATION

BOARD OF *GOVERNORS***Hon. Saada Mkuya Salum\***

Minister of Finance and Economic Affairs  
United Republic of Tanzania  
Chairman of Board of Governors

**Mr. Charles O. Boamah\***

Vice President, Finance  
African Development Bank

**Mr. Corneille Karekezi\***

Group Managing Director  
Africa Re-Insurance Company

**Mr. Tomas Rodriguez Matola\***

Chief Executive Officer  
Banco Nacional Investimento (Bni)

**Hon. Mohamed Ali Soilihi\***

Vice President in Charge of Finance,  
Economy, Budget, Investment, Foreign  
Trade and Privatisation  
Federal Islamic Republic of Comoros

**Hon. Monsieur Tabu Abdallah Manirakiza\***

Minister of Finance  
Republic of Burundi

**Hon. Henri Yav Mulang\***

Minister of Finance  
Democratic Republic of Congo

**Hon. Ilyas Moussa Dawaleh\***

Minister of Economy, Finance and  
Planning  
Republic of Djibouti

**Hon. Mounir Fakhry Abdel Nour\***

Minister of Foreign Trade and Industry  
Republic of Egypt

**Hon. Berhane Abrehe\***

Minister of Finance  
State of Eritrea

**Hon. Sufian Ahmed\***

Minister of Finance and Economic  
Development  
Federal Democratic Republic of Ethiopia

**Hon. Phyllis Kipkingor-Kandie\***

Cabinet Secretary for Eac Affairs,  
Commerce and Tourism  
Kenya

**Hon. Goodall Gondwe\***

Minister of Finance  
Republic of Malawi

**Hon. Seetannah Lutchmeenaraidoo\***

Minister of Finance and Economic  
Empowerment,  
Republic of Mauritius

**Mr. Derek Wong Wan Po\***

Managing Director  
Mauritian Eagle Insurance Company  
Limited

**Mr. Veenay Rambarassah\***

Senior Analyst  
National Pension Fund of Mauritius

**Mr. Andrei S. Brishtev\***

Chairman of The Board  
Paritet Bank (Republic of Belarus)

**Mr. Zhou Xiaochuan\***

Governor, for the People's Bank of China  
People's Bank of China

**Hon. Claver Gatete\***

Minister of Finance and Economic  
Planning  
Rwanda

**Mr. Ufitikirezi Daniel\***

Director General  
Rwanda Social Security Board

**Mr. Willy Confait\***

Chief Executive Officer  
Seychelles Pension Fund

**Hon. Jean Paul Adam\***

Minister of Finance, Trade and the Blue  
Economy  
Seychelles

**Hon. Hussein Abdi Halane\***

Minister for Finance, Planning and  
International Co-operation  
Federal Government of the Somali  
Republic  
Mogadishu, Somalia

**Hon. Badreldin Mahmoud Abbas\***

Minister of Finance and National  
Economy  
Sudan

**Hon. Matia Kasaija\***

Minister of Finance, Planning and  
Economic Development  
Uganda

**Hon. Alexander B. Chikwanda\***

Minister of Finance & National Planning  
Zambia

**Mr. Rajni Varia\***

Zep Re

**Hon. Patrick Chinamasa\***

Minister for Finance & Economic  
Development  
Zimbabwe

PREVIOUS BOARD OF *GOVERNORS***His Excellency. Dr. Navinchandra Ramgoolam, GCSK, FRCP\*\***

Mauritius

**Honourable Monsieur Pierre Laporte,\*\***

Seychelles

**Honourable Maria Kiwanuka,\*\***

Uganda

**Engineer Hatem Saleh\*\***

Egypt\*\*

**Patrice Kitedi Kibol\*\***

Republique Democratique Du Congo

\* Incoming Governors

\*\* Outgoing Governors



## CORPORATE INFORMATION

BOARD OF *DIRECTORS***Mr. Rupert Horace Simeon**

Director For Seychelles, Ethiopia, Burundi and Malawi  
Chairman of the Board of Directors

**Mr. Admassu Tadesse**

President and Chief Executive

**Mr. Liu Mingzhi**

Director for Non-African state members

**Mr. Samuel Mivedor**

Director for African Financial Institutions (AFI)

**Mr. Gerome Manankisi Kamwanga**

Director for Uganda, Sudan, DR Congo and Comoros

**Ms. Kampeta Sayinzoga**

Director for Zimbabwe, Mauritius, Rwanda and Eritrea  
Vice-Chairman

**Ms. Mariam Hamadou**

Director for Egypt, Tanzania and Djibouti

**Prof. Oliver Saasa**

Director for Kenya, Zambia and Somalia

ALTERNATE *DIRECTORS***Mr. Lawrence Kiiza**

Alternate Director for Uganda, Sudan and Comoros

**Mr. Willard Manungo**

Alternate Director for Zimbabwe, Mauritius, Rwanda and Eritrea

**Mr. Tarek Fayed**

Alternate Director for Egypt, Tanzania and Djibouti

**Mr. Sulleman Kamolleh**

Alternate Director for Kenya, Zambia and Somalia



## AUDITORS

**Ernst & Young**  
Kenya Re Towers, Upperhill  
Off Ragati Road  
P. O. Box 44286 – 00100  
Nairobi, Kenya

## LAWYERS

Various

## HEADQUARTERS

**PTA Bank Headquarters:**

Central Africa Chaussee, Prince Louis, Rwagasore  
P O Box 1750, Bujumbura, Burundi  
Telephone :257 (22) 4966 / 257 (22) 4625  
Fax :257 (22) 4983  
Email :Official@ptabank.org

## OTHER OFFICES

**PTA Bank Nairobi Regional Office:**

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

**PTA Bank Mauritius Regional Office:**

Indian Ocean  
2nd Floor, Blue Tower  
Rue, de L'Institute, Ebene  
P.O Box 43, Reduit, Mauritius  
Telephone: +230- 4676021/4676016  
Fax :+230-4675971

**PTA Bank Harare Regional Office:**

Southern Africa  
70 Enterprise Road Harare, Zimbabwe  
Telephone: 263 (4) 788330-3  
/788336-9/788317  
FCT line: +263-7827884955  
Fax: +263-772788345

**REPORT OF THE DIRECTORS**

FOR THE YEAR ENDED 31 DECEMBER 2014

The directors have pleasure in presenting their report and the audited financial statements of the Eastern and Southern African Trade and Development Bank (PTA Bank) for the year ended 31 December 2014.

**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 7.

**3. DIVIDEND**

The Board has recommended a dividend of USD 329.50 (2013: USD Nil) 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 2.

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

**5. DIRECTORS**

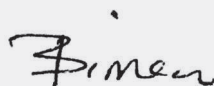
The current members of the Board of Directors are shown on page 3.

In accordance with the Bank's Charter, 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, 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**

Nairobi  
30th April 2015

**STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2014

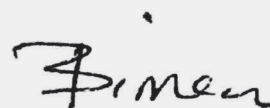
The Bank's Charter requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the operating results of the Bank for that year. It also requires the directors to ensure that 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**

30th April 2015


**DIRECTOR**

30th April 2015

## REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Eastern and Southern African Trade and Development Bank (PTA Bank), which comprise the statement of financial position as at 31 December 2014, the statement 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 notes as set out on pages 7 to 87.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Bank's charter, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

### OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014 and of 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.

*The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Joseph K Cheboror - P/ No. P.1145.*



Nairobi, Kenya

14th May 2015

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 USD	2013 USD
<b>INCOME</b>			
Interest income	4	156,739,455	111,583,586
Interest expense	5	(78,101,408)	(54,161,866)
Other costs related to borrowing	6	(9,891,843)	(6,953,413)
Interest and similar expense		(87,993,251)	(61,115,279)
Net interest income		68,746,204	50,468,307
Fee and commission income	7	41,999,967	43,679,479
Net trading income		110,746,171	94,147,786
Other income	8	10,975,925	7,036,324
<b>OPERATING INCOME</b>		121,722,096	101,184,110
<b>EXPENDITURE</b>			
Operating expenses	9	(19,228,565)	(15,810,528)
Impairment on other financial assets	11	-	(132,887)
Impairment allowance on project and trade finance loans	17	(24,792,314)	(22,300,974)
Fair value (loss) / gains on equity investments at fair value through profit or loss	18	(1,280,792)	2,344,752
Net foreign exchange gains		557,313	1,345,903
<b>TOTAL EXPENDITURE</b>		(44,744,358)	(34,553,734)
<b>PROFIT FOR THE YEAR</b>		76,977,738	66,630,376
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS</b>		76,977,738	66,630,376
<b>EARNINGS PER SHARE:</b>			
Basic	12	1,254	1,232
Diluted	12	1,144	1,154

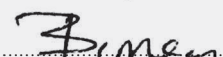
**STATEMENT OF FINANCIAL POSITION**

AS AT 31 DECEMBER 2014

	Note	2014 USD	2013 Restated USD	2012 Restated USD
<b>ASSETS</b>				
Cash and balances held with other banks	13	435,996,933	404,006,930	462,607,857
Derivative financial instruments	14	34,189,322	-	1,232,788
Trade finance loans	15	1,901,553,050	1,443,338,055	847,524,196
Project loans	16	610,158,235	584,309,124	476,419,727
Equity investments – at fair value through profit or loss	18	12,654,291	19,753,620	10,855,430
Equity investments – at cost		6,675,075	-	-
Investment in Government securities – held to maturity	19	216,000,000	-	-
Other receivables	20	289,119,653	7,306,035	5,169,379
Deferred expenditure	21	16,627,274	19,154,092	7,503,221
Property and equipment	22	20,465,968	20,417,400	19,736,664
Intangible assets	23	407,437	304,596	313,747
<b>TOTAL ASSETS</b>		<b>3,543,847,238</b>	<b>2,498,589,852</b>	<b>1,831,363,009</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Collection account deposits	24	126,774,345	202,540,691	144,851,598
Derivative financial instruments	14	-	126,423	-
Short term borrowings	25	1,919,329,465	972,855,019	681,326,318
Long term borrowings	26	849,402,489	823,598,652	648,239,614
Other payables	27	21,000,595	17,636,607	8,492,492
Provision for service and leave pay	28	5,417,994	4,853,389	4,201,424
<b>TOTAL LIABILITIES</b>		<b>2,921,924,888</b>	<b>2,021,610,781</b>	<b>1,487,111,446</b>
<b>EQUITY</b>				
Share capital	29	307,962,561	252,440,548	193,678,294
Share premium	29	19,778,406	7,334,878	-
Retained earnings		274,936,948	217,203,645	150,573,269
Proposed dividend		19,244,435	-	-
<b>TOTAL EQUITY</b>		<b>621,922,350</b>	<b>476,979,071</b>	<b>344,251,563</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,543,847,238</b>	<b>2,498,589,852</b>	<b>1,831,363,009</b>

The financial statements were approved by the board of directors on 30th April 2015 and were signed on its behalf by:

  
 .....  
**President**

  
 .....  
**Director**

\* Certain amounts shown here do not correspond to the 2013 financial statements and reflect adjustments made. Refer to Note 37.

**STATEMENT OF CHANGES IN EQUITY**

FOR THE YEAR ENDED 31 DECEMBER 2014

	Share capital USD	Share premium USD	Retained Earnings USD	Proposed dividend USD	Total equity USD
At 1 January 2013	193,678,294	-	150,573,269	-	344,251,563
Capital subscriptions (Note 29)	58,762,254	-	-	-	58,762,254
Share Premium (Note 29)	-	7,334,878	-	-	7,334,878
Total comprehensive income for the year	-	-	66,630,376	-	66,630,376
At 31 December 2013	252,440,548	7,334,878	217,203,645	-	476,979,071
At 1 January 2014	252,440,548	7,334,878	217,203,645	-	476,979,071
Capital subscriptions (Note 29)	55,522,013	-	-	-	55,522,013
Share Premium (Note 29)	-	12,443,528	-	-	12,443,528
Proposed dividend	-	-	(19,244,435)	19,244,435	-
Total comprehensive income for the year	-	-	76,977,738	-	76,977,738
At 31 December 2014	307,962,561	19,778,406	274,936,948	19,244,435	621,922,350

**STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 USD	2013 USD
<b>OPERATING ACTIVITIES</b>			
Net cash generated from/ (used in) operations	30(a)	181,169,011	(118,137,842)
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	22	(626,791)	(1,280,858)
Purchase of intangible assets	23	(218,533)	(71,824)
Acquisition of equity investments	18	(856,538)	(6,553,437)
Purchase of Government securities	19	(216,000,000)	-
Net cash used in investing activities		(217,701,862)	(7,906,119)
<b>FINANCING ACTIVITIES</b>			
Proceeds from capital subscriptions	29	55,522,013	58,762,254
Proceeds from share premium	29	12,443,528	7,334,878
Net cash generated from financing activities		67,965,541	66,097,132
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		31,432,690	(59,946,829)
Foreign exchange gain on cash and cash equivalents		557,313	1,345,903
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		404,006,930	462,607,857
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>	30(c)	435,996,933	404,006,930
FACILITIES AVAILABLE FOR LENDING	30(d)	1,153,353,486	876,116,011



**NOTES TO THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2014

**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 as 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 establishing Letter of Credit fees, confirmation fees, guarantee fees, commitment and other fees.

Other fees and commission income including : 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 (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(c) Borrowing costs**

Borrowing costs are interest and other 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 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, and discounts and premiums are allocated over the relevant period as revenue or expense respectively.

**(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. Repairs and maintenance costs are capitalised if the recognition criteria are complied with. 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 its estimated residual value 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

**Freehold land is not depreciated.**

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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
FOR THE YEAR ENDED 31 DECEMBER 2014

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(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 financial year-end, 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.

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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(g) Impairment of non-financial assets (continued)**

For assets excluding goodwill, 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 therefrom. For Class B shares, payment of the amount subscribed by subscribers shall be paid in full within 90 days from the date of subscription.

**(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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(k) Financial instruments (Continued)***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.

*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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(k) Financial instruments (Continued)***Hedge accounting (Continued)**Cash flow hedges (Continued)**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.

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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(k) Financial instruments (Continued)***Subsequent measurement*

For purposes of subsequent measurement financial assets are classified in four categories:

1. Financial assets at fair value through profit or loss
2. Loans and receivables
3. Held-to-maturity investments
4. 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.

Loans and receivables

Loans 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 effective interest rate (EIR) method, less impairment. Amortized 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 the statement of profit or loss. The losses arising from impairment of loans and advances, and other receivables, are recognised as separate line items, in the statement of profit or loss, and other comprehensive income, respectively.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(k) Financial instruments (Continued)***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.

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 as finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss as impairment on other financial assets. As at 31 December 2014, Investment in Government Securities was held-to-maturity. The Bank did not have any held-to-maturity investments during the year ended 31 December 2013.

*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 the statement of 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 two periods the Bank has 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 (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(k) Financial instruments (Continued)**

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 or 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.

*Offsetting*

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(k) Financial instruments (Continued)***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.

*Impairment of financial assets (Continued)*

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.

*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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(k) Financial instruments (Continued)****Fair Value Measurement (Continued)**

The principal or the most advantageous market must be accessible to 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 fair value measurement, and unquoted AFS financial assets.

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 31.

**(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. A provision is made for the estimated liability of annual leave as a result of services rendered by employees up to the year end.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

An actuarial valuation is carried out every three years to determine the service pay liability. The last valuation was carried out in December 2012.

**(m) Retirement benefit costs**

The Bank operates a defined contribution provident fund scheme for its employees. The Bank's contributions to the 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 six months to maturity when acquired; less advances from banks repayable within six months from the date of the advance.

**(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, where 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(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.

**(s) Comparatives**

When necessary, comparative figures are reclassified to conform to changes in presentation in the current year. The changes have been disclosed in note 37.

**(t) 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.

**(u) Critical judgements 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 judgements 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.

**(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, judgement is required to establish fair values. The judgements 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 balance sheet date.

**(ii) Impairment losses on loans and advances**

The Bank reviews individually all its loans and advances at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, management's judgement 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 Note 15, 16 and 17.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(u) Critical judgements in applying the Bank's accounting policies (Continued)****(iii) Property and equipment**

In applying the Bank's accounting policy, management makes judgement in determining the useful life for property and equipment. The depreciation rates used are set out in the accounting policy (e) above. See Note 22 for the depreciation charge for the year.

**3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS****New and amended standards, interpretations and improvements**

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments and interpretations effective 1 January 2014:

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

**Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32**

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. Refer to note 37 for offsetting arrangements in regard to derivative financial assets and liabilities.

**Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39**

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Bank as the Bank has not novated its derivatives during the current or prior periods.

**IAS 36 Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36**

The amendments to IAS 36 *Impairment of Assets* clarify the disclosure requirements in respect of fair value less costs of disposal. The amendments remove the requirement to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant.

In addition, the IASB added two disclosure requirements:

- Additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal.
- Information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendments harmonise disclosure requirements between value in use and fair value less costs of disposal.

As a result of the amendments, entities are no longer required to disclose information that was regarded as commercially sensitive by preparers. Nevertheless, additional information needs to be provided. In general, it is likely that the information required to be disclosed will be readily available. The adoption of the amendment did not have a significant impact on the financial position or performance of the Bank.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)****New and amended standards, interpretations and improvements (Continued)****Annual Improvements 2010-2012 Cycle**

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment did not have a significant impact on the financial position or performance of the Bank, since the balances of such receivables and payables held by the Bank were carried at their undiscounted amounts.

**Annual Improvements 2011-2013 Cycle**

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Bank, since the Bank are existing IFRS preparers.

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

**IFRS 9 Financial Instruments**

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. 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. The Bank is currently assessing the impact that this standard will have on the financial position and performance.

**IFRS 14 Regulatory Deferral Accounts**

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Bank has already adopted IFRS, this standard would not apply.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)****New and amended standards, interpretations and improvements (Continued)****Amendments to IAS 19 Defined Benefit Plans: Employee Contributions**

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Bank, since it does not have defined benefit plans with contributions from employees or third parties.

**IAS 1 Disclosure Initiative – Amendments to IAS 1**

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 other comprehensive income. The amendments affect presentation only and have no impact on the Bank's financial position or performance. This amendment becomes effective for annual periods beginning on or after 1 January 2016.

**Annual improvements 2010-2012 Cycle**

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. These standards are part of the improvement process and are not new issued standards. They include:

**IFRS 2 Share-based Payment**

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)****New and amended standards, interpretations and improvements (Continued)****IFRS 3 Business Combinations**

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

**IFRS 8 Operating Segments**

The amendments are applied retrospectively and clarify that

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

**IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets**

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

**IAS 24 Related Party Disclosures**

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

**Annual improvements 2011-2013 Cycle**

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. These standards are part of the improvement process and are not new issued standards. They include:

**IFRS 3 Business Combinations**

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

**IFRS 13 Fair Value Measurement**

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)****New and amended standards, interpretations and improvements (Continued)****IAS 40 Investment Property**

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Bank is currently assessing the impact of IFRS 11 and plans to adopt the new standard on the required effective date.

**Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

**2012-2014 Cycle (issued in September 2014)**

In the 2012-2014 annual improvements cycle, the IASB issued five amendments to four standards, summaries of which are provided below. These standards are part of the improvement process and are not new issued standards. The changes are effective 1 January 2016. Earlier application is permitted and must be disclosed.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (Continued)****New and amended standards, interpretations and improvements (Continued)****IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations***Changes in methods of disposal*

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. The amendment must be applied prospectively.

**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 amendments.

*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.

**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.

**IAS 34 Interim Financial Reporting***Disclosure of information 'elsewhere in the interim financial report'*

The amendment clarifies that the required interim disclosures must either be 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>4. INTEREST INCOME</b>	<b>2014 USD</b>	<b>2013 USD</b>
On loans and facilities:		
Project finance loans	46,000,222	37,921,552
Trade finance loans	108,073,658	72,255,395
	154,073,880	110,176,947
On placements:		
Deposits/Held-to-maturity investments	2,665,575	1,406,639
	156,739,455	111,583,586
<b>5. INTEREST EXPENSE</b>		
Interest payable on funds borrowed from:		
Banks and financial institutions	45,828,574	23,647,286
Other institutions	21,576,948	11,082,969
Regional and International Bond Markets	10,695,886	19,431,611
	78,101,408	54,161,866
<b>6. OTHER COSTS RELATED TO BORROWING</b>		
Amortisation of deferred expenditure	6,177,606	3,469,279
Facility and management fees	1,992,140	1,191,667
Other costs	717,350	857,050
Drawdown fees	635,602	-
Hedging derivatives costs	274,996	1,376,974
Bank commissions and charges	94,149	58,443
	9,891,843	6,953,413

7. FEE AND COMMISSION INCOME	2014 USD	2013 USD
Upfront fees in trade finance	26,550,964	28,408,863
Letter of credit fees in trade finance	17,068,007	20,470,991
Drawdown fees in trade finance	2,152,093	1,419,325
Facility fees in project finance	1,970,808	1,738,267
Syndication fees in project finance	1,782,529	420,000
Management fees in trade finance	1,302,625	1,103,993
Appraisal fees in project finance	1,176,297	365,610
Letter of credit fees in project finance	821,487	821,405
Restructuring fees in project finance	524,831	375,283
Commitment fees in project finance	585,922	1,233,967
Other Project fees	287,797	524,012
Document handling fees in trade finance	228,044	501,808
Drawdown fees in project finance	202,563	148,325
Other fees in trade finance	147,540	58,577
Management fees in project finance	146,420	202,501
*Insurance cover costs	(8,037,245)	(4,649,217)
**Risk down-selling costs	(4,910,715)	(9,464,231)
	41,999,967	43,679,479

\* This is insurance cover taken on loans made to the Ministry of Finance, Zambia. As at 31 December 2014, the insurance cover was USD 550 million (2013: USD 400 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 2014, the Bank had secured from various counterparties risk management capacity amounting to USD 600 million (31 December 2013: USD 325 million).

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>8. OTHER INCOME</b>	<b>2014 USD</b>	<b>2013 USD</b>
Impaired assets recovered *	9,043,199	4,736,096
Interest on capital arrears **	1,261,075	1,687,805
Other income	392,911	192,545
Rental income	227,460	223,760
Grant income ***	28,482	179,179
Interest on staff loans	22,798	16,939
	<b>10,975,925</b>	<b>7,036,324</b>

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

\*\* Interest on capital arrears relates to interest charged to capital subscriptions from member states that are in arrears, received during the year.

\*\*\*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 27). Transfers are made to income when the costs which the grant relates to have been incurred.

<b>9. OPERATING EXPENSES</b>	<b>2014 USD</b>	<b>2013 USD</b>
Staff costs (Note 10)	14,021,779	11,357,069
Consultants and advisors	1,170,396	875,579
Official missions	1,051,925	1,018,415
Other operating expenses	732,328	531,665
Board of Directors meetings	630,982	503,061
Depreciation of property and equipment	578,203	594,768
Business promotion	374,992	302,677
Rent	293,560	295,438
Board of Governors meeting	212,124	210,885
Amortisation of intangible assets	115,691	80,975
Audit fees	46,585	39,996
	<b>19,228,565</b>	<b>15,810,528</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>10. STAFF COSTS</b>	<b>2014 USD</b>	<b>2013 USD</b>
Salaries and wages	7,731,619	6,773,056
Staff reward and recognition scheme	2,017,549	889,598
Other costs	1,936,959	1,627,131
Staff Provident fund contributions – defined contribution plan	1,434,794	1,264,427
Service and leave pay expenses	900,858	802,857
	<b>14,021,779</b>	<b>11,357,069</b>

<b>11. IMPAIRMENT ON OTHER FINANCIAL ASSETS</b>	<b>2014 USD</b>	<b>2013 USD</b>
Other receivables (Note 20)	-	132,887

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 76,977,738 (2013: USD 66,630,376) 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 61,385 comprising Class A - 55,657 and Class B - 5,729 (2013: 54,066 comprising Class A - 53,997 and Class B - 69).

*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 67,286 (2013: 57,743).

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>13. CASH AND BALANCES HELD WITH OTHER BANKS</b>	<b>2014 USD</b>	<b>2013 USD</b>
Current accounts – Note 13 (i)	21,934,346	25,683,981
Call and term deposits with banks – Note 13 (ii)	414,062,587	378,322,949
	435,996,933	404,006,930
(i) Current accounts:		
Amounts maintained in United States Dollars (USD)	8,078,463	3,865,635
Amounts maintained in other currencies:		
Euro	12,278,756	21,297,953
Ethiopian Birr	792,144	346,765
Tanzania Shillings	724,300	91
Kenyan Shillings	26,335	108,127
Ugandan Shillings	13,376	3,592
South African Rand	8,960	13,437
Burundi Francs	6,530	20,176
Mauritian Rupee	3,556	-
British Pounds	1,227	26,022
Malawi Kwacha	581	817
Japanese Yen	118	1,366
	13,855,883	21,818,346
	21,934,346	25,683,981

The average effective interest rate on current accounts was 0.49% (December 2013: 0.49%) per annum.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>13. CASH AND BALANCES HELD WITH OTHER BANKS (Continued)</b>	<b>2014 USD</b>	<b>2013 USD</b>
(ii) Call and term deposits with banks:		
United States Dollars (USD)	285,218,600	254,445,495
Amounts maintained in other currencies:		
Sudanese pounds	127,861,520	122,758,153
Ugandan shillings	981,169	581,374
Malawi Kwacha	1,298	138,621
Kenya Shillings	-	399,306
	128,843,987	123,877,454
	414,062,587	378,322,949

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

	<b>2014</b>	<b>2013</b>
Uganda Shillings	11.61%	11.00%
Kenya Shillings	9.56%	8.60%
Malawi Kwacha	6.50%	7.83%
United States Dollars	1.43%	1.36%
Euro	-	2.25%

The deposits in Sudanese pounds do not earn interest.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**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 interest in return for paying or receiving, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other. The Bank applies fair value hedge accounting to interest rate swaps contracted to hedge the interest rate risk exposure associated with the fixed rate on its Eurobond.

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 cash flow hedges.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

14. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)	2014 USD	2013 USD
The table below shows the derivative financial instruments, recorded as assets or liabilities at year-end.		
a) Currency Hedges		
(i) Cross Currency Swap:		
Net opening balance as at 1 January	(1,004,408)	(288,320)
Payments under swap arrangement	2,947,408	3,818,255
Exchange gain/(loss)	867,268	(400,831)
Fair value gain /(loss)	442,584	(387,178)
Receipts under swap agreement	(2,984,033)	(3,746,334)
Balance as at 31 December	268,819	(1,004,408)
(ii) Foreign exchange forward contracts		
Balance as at 1 January	(916,856)	-
Contracts entered into during the year-Net	34,772,845	(4,222,641)
Net amounts settled	(968,209)	3,305,785
Balance as at 31 December	32,887,780	(916,856)
Total Currency Hedges	33,156,599	(1,921,264)
b) Interest Rate Swap:		
(i) Fair value movements		
Balance as at 1 January	299,164	448,749
Amortisation of interest rate swap	(149,585)	(149,585)
Balance as at 31 December	149,579	299,164
(ii) Cash flows		
Balance as at 1 January	1,495,677	1,072,359
Amounts due from counterparties	3,210,969	2,247,296
Amount received from counterparties	(3,823,502)	(1,823,978)
Balance as at 31 December	883,144	1,495,677
Total Interest Rate Swaps	1,032,723	1,794,841
Total derivative assets/(liabilities) a and b	34,189,322	(126,423)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

In December 2010, the Bank entered into interest rate swaps to hedge USD 150 million of funds received from the first tranche of the Fixed Rate Eurobond issued in November 2010. At the inception of the second tranche of the USD 300 million Eurobond in December 2013, the Bank entered into further interest swaps to hedge USD 180 million. The swaps exchanged the fixed rate for floating rate in order to match the floating rates offered on loans. USD 75 million of the swap from the first tranche of the Eurobond was retired in January 2014.

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.

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	2014 USD	2013 USD
Principal loans	1,878,596,369	1,396,831,345
Interest receivable	76,202,028	84,777,135
Gross loans	1,954,798,397	1,481,608,480
Impairment on trade finance loans (Note 17)	(53,245,347)	(38,270,425)
Net loans	1,901,553,050	1,443,338,055
The weighted average effective interest rate was 5.58% (December 2013: 6.12%) per annum		
Maturing:		
Within one year	1,870,644,287	1,375,593,686
One to three years	84,154,110	83,839,939
Over three years	-	22,174,855
	1,954,798,397	1,481,608,480

The gross non performing trade finance loans were USD 53,261,481 (December 2013: USD 57,607,903). The impairment allowance related to these loans amounted to USD 53,245,344 (December 2013: USD 38,270,425) hence the carrying value of the loans amount to USD 16,138 (December 2013: USD 19,337,478).

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>16. PROJECT LOANS</b>	<b>2014 USD</b>	<b>2013 USD</b>
Approved loans less cancellations	2,003,949,552	1,656,330,999
Less: Unsigned loans*	(323,727,211)	(287,598,701)
Loans signed	1,680,222,341	1,368,732,298
Less: Undisbursed - Letters of credit opened	(64,489,727)	(21,698,552)
- Letters of credit not yet opened	(334,139,978)	(233,018,499)
Loans disbursed	1,281,592,636	1,114,015,247
Interest capitalised**	42,547,425	38,857,363
Loans repaid	(711,108,627)	(556,668,116)
Principal loan balances	613,031,434	596,204,494
Interest receivable	11,822,197	10,721,956
Gross loans	624,853,631	606,926,450
Impairment on project loans (Note 17 )	(14,695,396)	(22,617,326)
Net loans	610,158,235	584,309,124

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

\*\* Interest capitalised relates to interest in arrears on loans which were restructured now capitalized.  
The average effective interest rate was 7.78% (December 2013: 7.44%) per annum.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>16. PROJECT LOANS (Continued)</b>	<b>2014 USD</b>	<b>2013 USD</b>
Maturing:		
Within one year	139,011,328	180,250,190
One year to three years	197,935,701	171,802,645
Three to five years	147,262,380	127,572,104
Over five years	140,644,222	127,301,511
	<b>624,853,631</b>	<b>606,926,450</b>

The aggregate non performing project loans were USD 25,075,966 (December 2013: USD 34,924,449). The impairment allowance related to these loans amounted to USD 14,695,398 (December 2013: USD 22,617,326) hence the carrying value of the loans amounted to USD 10,380,568 (December 2013: USD 12,307,123) at the end of the year.

**17. IMPAIRMENT ALLOWANCE ON PROJECT AND TRADE FINANCE LOANS**

The movement in allowance is as follows:

	<b>Project finance loans USD</b>	<b>Trade finance loans USD</b>	<b>Total Allowance USD</b>
At 1 January 2013	25,635,932	22,641,929	48,277,861
Amounts written-off	(9,653,738)	(37,346)	(9,691,084)
Charge for the year	6,635,132	15,665,842	22,300,974
- Specific provisions	6,635,132	15,665,842	22,300,974
- General provisions	-	-	-
At 31 December 2013	<b>22,617,326</b>	<b>38,270,425</b>	<b>60,887,751</b>
At 1 January 2014	22,617,326	38,270,425	60,887,751
Amounts written-off	(13,392,864)	(4,346,458)	(17,739,322)
Charge for the year	5,470,933	19,321,381	24,792,314
- Specific provisions	2,893,071	11,087,522	13,980,593
- General provisions	2,577,862	8,233,859	10,811,721
At 31 December 2014	<b>14,695,395</b>	<b>53,245,348</b>	<b>67,940,743</b>

**18. EQUITY INVESTMENTS**

## i) Equity participation

Share-holding	Beginning Cost	(Disposals)/ Additions at Cost	Total Ending Cost	Investment Carrying Value		Fair value gain/(loss) / Adjustment for the year*	
	USD	USD	USD	2014 USD	2013 USD	2014 USD	2013 USD
31 December 2014							
At fair value through profit or loss							
ZEP-RE (PTA Reinsurance Company)	8.28	9,336,468	-	9,336,468	12,141,991	12,200,551	(58,560)
Aureos East Africa Fund	5.00	487,996	(132,301)	355,695	512,300	1,741,296	(1,096,695)
		9,824,464	(132,301)	9,692,163	12,654,291	13,941,847	(1,155,255)
At cost							
African Export Import Bank	0.48	1,182,080	-	1,182,080	1,182,080	2,872,893	(1,690,813)
Tanonoka	5.00	628,653	-	628,653	628,653	413,550	215,103
Tanruss	4.06	1,755,000	-	1,755,000	1,755,000	879,174	875,826
Africa Trade Insurance Agency	0.10	100,000	900,000	1,000,000	1,000,000	-	3,101
Gulf African Bank	5.33	1,978,734	-	1,978,734	1,978,734	1,507,488	471,246
Pan African Housing Fund	2.38	41,769	88,839	130,608	130,608	-	-
		5,686,236	988,839	6,675,075	6,675,075	5,811,773	(125,537)
<b>TOTAL</b>		<b>15,510,700</b>	<b>856,538</b>	<b>16,367,238</b>	<b>19,329,366</b>	<b>19,753,620</b>	<b>(1,280,792)</b>

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 2013, all equity investments were measured using the Bank's proportionate share of the average net assets of the investee company. At 31 December 2014, only investments in Aureos East Africa and ZEP-RE (PTA Reinsurance Company) were 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 cannot be reliably measured. An over the counter market exists where market participants can trade in the shares on willing buyer willing seller basis. The Bank does not intend to dispose the shares in the short term, and none of the shares have been derecognized. An adjustment amounting to USD 125,537 has been made write back to cost the investments previously held at fair value.

**18. EQUITY INVESTMENTS**

i) Equity participation (Continued)  
31 December 2013:

i) Equity participation (Continued)							
31 December 2013:							
Share- holding %	Beginning Cost	Additions/ disposals at cost	Total Ending Cost		Investment Carrying Value 2013	Investment Carrying Value 2012	Fair Value Gain for the Year
			USD	USD			
At fair value through profit or loss							
8.28	2,527,498	6,808,970	9,336,468	12,200,551	4,627,652	763,929	
5.00	1,328,891	(840,895)	487,996	1,741,296	1,669,415	912,775	
0.48	1,182,080	-	1,182,080	2,872,893	2,420,819	452,074	
5.00	628,653	-	628,653	413,550	405,012	8,539	
4.06	1,755,000	-	1,755,000	879,174	819,013	60,161	
0.10	100,000	-	100,000	96,899	96,317	582	
5.33	1,435,141	543,593	1,978,734	1,507,488	817,202	146,692	
2.38	-	41,769	41,769	41,769	-	-	
	8,957,263	6,553,437	15,510,700	19,753,620	10,855,430	2,344,752	
At Cost							
	-	-	-	-	-	-	
TOTAL	8,957,263	6,553,437	15,510,700	19,753,620	10,855,430	2,344,752	



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>18. EQUITY INVESTMENTS (Continued)</b>		<b>2014 USD</b>	<b>2013 USD</b>
ii)	Instalments paid:		
	Total subscribed capital	18,454,565	17,686,866
	Less: Instalments not due – Note 18 (ii)	(2,087,327)	(2,176,166)
	Instalments paid as at end of year – Note 18 (I) and (iii)	16,367,238	15,510,700
i)	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	17,935
	Pan African Housing Fund*	869,392	958,231
		2,087,327	2,176,166
ii)	Movement in the instalments paid:		
	At beginning of year	15,510,700	8,957,263
	Net additions at cost – Note 18 (i)	856,538	6,553,437
	At end of year	16,367,238	15,510,700

\*Unpaid subscriptions are payable on call.

<b>19. INVESTMENTS IN GOVERNMENT SECURITIES</b>		<b>2014 USD</b>	<b>2013 USD</b>
Treasury Notes: Held to maturity			
Maturing within 180 days after period end (at face value)		-	-
Additions during year		216,000,000	-
Matured bonds		-	-
Income earned during the year		-	-
Less: Unearned discount		-	-
		216,000,000	-

The treasury notes issued by the Government of Malawi, represent investments made in Malawi Kwacha equivalent to USD 216 million bearing interest at a rate of 6.50% per annum. These investments are managed by the Reserve bank of Malawi and FDH Bank.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>20. OTHER RECEIVABLES</b>	<b>2014 USD</b>	<b>2013 USD</b>
Down-sold assets*	279,578,800	-
Prepayments and other receivables**	8,169,564	5,525,671
Appraisal fees***	805,000	1,318,263
Staff loans and advances****	566,289	462,101
	289,119,653	7,306,035
<i>Appraisal fees receivable***</i>		
As at 1 January	1,318,263	1,624,502
Accrued income	240,007	1,083,004
Receipts	(753,270)	(1,256,356)
Amounts written off (Note 11)	-	(132,887)
At 31 December	805,000	1,318,263
Analysis of other receivables by maturity:		
Amounts due within one year	288,968,165	7,131,216
Amounts due after one year	151,488	174,819
	289,119,653	7,306,035

\*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.

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

\*\*\*\*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 4.35% (December 2013: 4.32%) per annum. These staff loans and advances have various repayment terms ranging from 3 to 36 months.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>21. DEFERRED EXPENDITURE</b>	<b>2014 USD</b>	<b>2013 USD</b>
<b>COST</b>		
At beginning of year	27,766,430	12,646,280
Additions	3,650,788	15,120,150
Disposals	(3,355,199)	-
At end of year	28,062,019	27,766,430
<b>AMORTISATION</b>		
At beginning of year	8,612,338	5,143,059
Disposals	(3,355,199)	-
Charge for the year	6,177,606	3,469,279
At end of year	11,434,745	8,612,338
<b>NET CARRYING AMOUNT</b>		
At end of year	16,627,274	19,154,092

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 year.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>22. PROPERTY AND EQUIPMENT</b>						
	<b>Freehold land USD</b>	<b>Building USD</b>	<b>Motor vehicles USD</b>	<b>Furniture and fittings USD</b>	<b>Office equipment USD</b>	<b>Total USD</b>
At 31 December 2014:						
COST						
At 1 January 2014	140,400	23,454,596	395,073	1,156,755	1,253,301	26,400,125
Additions	-	304,212	60,349	107,703	154,527	626,791
Reclassification	2,453,865	(2,453,865)	-	-	-	-
Disposals	-	-	-	-	(30)	(30)
At 31 December 2014	2,594,265	21,304,943	455,422	1,264,458	1,407,798	27,026,886
DEPRECIATION						
At 1 January 2014	-	4,211,010	247,365	556,851	967,499	5,982,725
Charge for the period	-	340,502	45,263	72,632	119,806	578,203
Disposals	-	-	-	-	(10)	(10)
At 31 December 2014	-	4,551,512	292,628	629,483	1,087,295	6,560,918
NET CARRYING AMOUNT						
At 31 December 2014	2,594,265	16,753,431	162,794	634,975	320,503	20,465,968
At 31 December 2013:						
COST						
At 1 January 2013	140,400	23,076,068	302,691	638,314	1,052,671	25,210,144
Additions	-	407,083	92,382	580,763	200,630	1,280,858
Disposals	-	(28,555)	-	(62,322)	-	(90,877)
At 31 December 2013	140,400	23,454,596	395,073	1,156,755	1,253,301	26,400,125
DEPRECIATION						
At 1 January 2013	-	3,774,773	220,330	580,149	898,228	5,473,480
Charge for the year	-	464,792	27,035	33,670	69,271	594,768
Disposals	-	(28,555)	-	(56,968)	-	(85,523)
At 31 December 2013	-	4,211,010	247,365	556,851	967,499	5,982,725
NET CARRYING AMOUNT						
At 31 December 2013	140,400	19,243,586	147,708	599,904	285,802	20,417,400

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

Land and buildings represent costs of the Bank's Headquarters Building in Burundi and Harare and Nairobi office properties. The land on which the Headquarters building stands was granted by the Government of Burundi. There are no unfulfilled conditions in relation to this grant.

The reclassification is in relation to the cost of the land amounting to USD 2,453,865 located on LR 1 /184 Lenana Road , which was previously classified under land and buildings.

<b>23. INTANGIBLE ASSETS</b>	<b>2014 USD</b>	<b>2013 USD</b>
<b>COST</b>		
At beginning of year	1,515,999	1,444,175
Additions	218,533	71,824
At end of year	1,734,532	1,515,999
<b>AMORTISATION</b>		
At beginning of year	1,211,403	1,130,428
Charge for the year	115,692	80,975
At end of year	1,327,095	1,211,403
<b>NET CARRYING AMOUNT</b>		
At end of year	407,437	304,596

Intangible assets relate to cost of acquired computer software.

**24. 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

25. SHORT TERM BORROWINGS	2014 USD	2013 USD
(A) SHORT TERM PLACEMENTS		
Lender		
Reserve Bank of Malawi	216,000,000	-
Bank of the Republic of Burundi	40,000,000	-
Banque Commerciale du Congo	10,000,000	-
Banque International pour l'Afrique au Congo	10,000,000	-
African Trade Insurance Agency	1,200,000	1,200,000
	277,200,000	1,200,000

Short Term Placements relate to borrowings that are payable within one year.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>25. SHORT TERM BORROWINGS (Continued)</b>					
<b>OTHER SHORT TERM BORROWINGS</b>					
	<b>Date of renewal/ advance</b>	<b>Maturity Date</b>	<b>Currency</b>	<b>2014 USD</b>	<b>2013 USD</b>
Syndicated Loan	Oct-14	Sep-16	USD	320,500,000	150,000,000
Mashreq Bank	Dec-14	Jun-15	USD	267,589,338	30,790,160
Sumitomo Mitsui Banking Corporation	Aug-14	Aug-15	USD	120,439,978	-
Standard Chartered Bank	Dec-14	Apr-15	USD	106,217,201	37,357,089
African Export Import Bank	Nov-14	Aug-15	EUR	91,113,968	39,262,586
FirstRand Bank Ltd	Dec-14	Apr-15	USD	88,759,198	89,898,400
Commerzbank	Nov-14	Mar-15	USD	72,338,464	74,981,717
Fimbank	Nov-14	Mar-15	EUR	56,453,926	22,102,656
FBN Bank	Dec-14	Jun-15	EUR	50,676,028	14,112,404
British Arab Commercial Bank	Aug-14	Feb-15	EUR	50,724,868	-
Africa Finance Corporation	Dec-14	Feb-15	USD	50,000,000	50,000,000
Bank One Ltd	Dec-14	Jan-15	USD	50,000,000	-
Afrasia Bank Ltd-Mauritius	Jan-14	Jan-15	USD	40,000,000	-
ABC Bank Inc.Mauritius	Dec-14	Feb-15	USD	35,909,933	-
Standard Corporate and Merchant Bank	Dec-14	Mar-15	USD	31,962,618	40,259,109
ING Bank	Oct-14	Feb-15	USD	30,512,729	44,835,034
Commercial Bank of Africa	Oct-14	Jan-15	USD	29,522,767	62,690,655
Banque Cantonale Vaudoise	Sep-14	Mar-15	EUR	29,173,440	10,519,304
BMCE Bank International PLC	Aug-14	Apr-15	EUR	27,264,511	-
Ghana International Bank	Dec-14	Sep-15	USD	20,000,000	20,000,000
Standard Chartered Bank Tanzania	Dec-14	Apr-15	TZS	18,634,645	-
KBC Bank	Oct-14	Feb-15	USD	13,513,387	-
BHF Bank	Nov-14	Feb-15	USD	11,240,088	10,845,586
Banque BIA	Jul-14	Jan-15	EUR	10,174,237	-
State Bank of Mauritius	Nov-14	Mar-15	USD	2,900,268	-
Citibank New York	Oct-14	Jan-15	USD	2,432,559	-
Banque de Commerce et de Placement	Nov-14	Feb-15	USD	927,277	-
Mauritius Commercial Bank	Dec-13	Mar-14	USD	-	94,756,505
Deutsche Bank	Oct-13	Jun-14	USD	-	62,118,016
Byblos Bank S.A.L	Dec-13	Jun-14	EUR	-	38,421,929
HSBC Bank	Dec-13	Mar-14	USD	-	44,424,757
United Bank for Africa	May-13	May-14	USD	-	20,000,000
NIC Bank	Nov-13	Mar-14	USD	-	9,718,664

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>25. SHORT TERM BORROWINGS (Continued)</b>					
<b>OTHER SHORT TERM BORROWINGS</b>					
	<b>Date of renewal/ advance</b>	<b>Maturity Date</b>	<b>Currency</b>	<b>2014 USD</b>	<b>2013 USD</b>
Sub total for other short term borrowings				1,628,891,428	967,094,571
INTEREST PAYABLE				13,238,037	4,560,448
Short Term Placements (Note 25a)				277,200,000	1,200,000
<b>TOTAL SHORT TERM BORROWINGS</b>				<b>1,919,329,465</b>	<b>972,855,019</b>

The effective interest rate during the year was 3.41% (December 2013: 3.31%) per annum. The short term borrowings are unsecured.



**26. LONG TERM BORROWINGS**

LENDER	Date of Renewal/ disbursement	Maturity Date	Currency	Amount in Currency	Amounts as at 31 December 2014			Amounts as at 31 December 2013		
					Balance outstanding	Amount due within one year	Amount due after one year	Balance outstanding	Amount due within one year	Amount due after one year
					USD	USD	USD	USD	USD	USD
African Development Bank	Dec-04	Aug-23	USD	63,156,500	63,156,500	8,156,500	55,000,000	46,145,657	8,000,000	38,145,657
Africa Agriculture and Trade Investment Fund	Sep-12	Sep-19	USD	30,000,000	30,000,000	-	30,000,000	30,000,000	-	30,000,000
China Development Bank	Dec-08	Mar-20	USD	111,449,715	111,449,715	9,938,095	101,511,620	54,721,414	3,271,429	51,449,985
KBC Bank	Various	Jul-19	USD	16,643,546	16,643,546	3,891,014	12,752,532	20,533,684	3,889,971	16,643,713
Kenya local currency bonds II	Oct-07	Oct-14	KES	-	-	-	-	2,314,082	2,314,082	-
Exim Bank of India Loan	Various	Various	USD	4,958,575	4,958,575	2,970,901	1,987,674	9,909,774	5,181,942	4,727,832
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
US\$ 1.0 Billion Euro Medium Term Note Programme: First Tranche	Nov-10	Jan-16	USD	98,746,000	98,746,000	-	98,746,000	101,594,525	2,848,525	98,746,000
FMO	Mar-10	Jan-18	USD	26,000,000	26,000,000	8,000,000	18,000,000	34,000,000	8,000,000	26,000,000
Geskoslovenska Obchodni Banka AS	Jul-07	May-17	USD	2,052,658	2,052,658	821,265	1,231,393	2,873,869	821,265	2,052,604
BHF Bank	Various	Sep-15	USD	588,912	588,912	588,912	-	1,613,608	1,024,696	588,912
Development Bank of Southern Africa	Mar-07	Jun-23	USD	67,187,500	67,187,500	11,875,000	55,312,500	86,897,912	19,674,995	67,222,917
OPEC Fund for International Development	Jun-13	Jun-16	USD	50,000,000	50,000,000	-	50,000,000	50,000,000	-	50,000,000
Overseas Private Investment Corporation	Sep-03	Mar-15	USD	350,000	350,000	350,000	-	1,050,000	700,000	350,000
Private Export Funding Corporation	Aug-11	Oct-21	USD	40,902,909	40,902,909	5,949,514	34,953,395	46,852,423	5,949,514	40,902,909
KfW	Dec-13	Dec-18	USD	30,000,000	30,000,000	-	30,000,000	30,000,000	-	30,000,000
Uganda local currency fixed rate bond	Oct-09	Oct-16	UGX	237,804,756	86,036	30,956	55,080	129,513	33,882	95,631
Uganda local currency floating rate bond	Oct-09	Oct-16	UGX	2,832,514,833	1,024,706	525,081	499,625	1,695,930	574,718	1,121,212
Sub total for long term borrowings					843,147,057	53,097,238	790,049,819	820,332,391	62,285,019	758,047,372
Interest payable					6,255,432	6,255,432	-	3,266,261	3,266,261	-
Total long term borrowings					849,402,489	59,352,670	790,049,819	823,598,652	65,551,280	758,047,372

The effective interest rate during the year was 4.52% (2013: 4.69%). The borrowings are either at variable or fixed rate.

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>27. OTHER PAYABLES</b>	<b>2014 USD</b>	<b>2013 USD</b>
Provident fund*	6,060,132	5,314,726
Other creditors**	5,417,786	3,634,329
Accrued fees-Trade Finance	5,374,235	6,410,694
Accrued expenses	3,831,692	1,414,022
Accrued fees-Project Finance	263,015	809,101
Rental deposit	51,622	51,622
Unspent African Development Bank Grant***	2,113	2,113
	<b>21,000,595</b>	<b>17,636,607</b>

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

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

\*\*\*This relates to the minimum balance being held in a bank account where the grant is banked.

	<b>2014 USD</b>	<b>2013 USD</b>
Analysis of other payables by maturity:		
Amounts due within one year	17,062,895	14,766,974
Amounts due after one year	3,937,700	2,869,633
	<b>21,000,595</b>	<b>17,636,607</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>28. PROVISION FOR SERVICE AND LEAVE PAY</b>		<b>2014 USD</b>	<b>2013 USD</b>
(i)	PROVISION FOR SERVICE PAY		
	At beginning of year	3,845,311	3,330,699
	Increase in provision	645,858	571,044
	Payment of service pay	(267,111)	(56,432)
	At end of period	4,224,058	3,845,311
(ii)	PROVISION FOR LEAVE PAY		
	At beginning of year	1,008,078	870,725
	Increase in provision	255,000	162,297
	Payment of leave pay	(69,142)	(24,944)
	At end of period	1,193,936	1,008,078
	<b>TOTAL PROVISION FOR SERVICE AND LEAVE PAY</b>	<b>5,417,994</b>	<b>4,853,389</b>

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
FOR THE YEAR ENDED 31 DECEMBER 2014

29. SHARE CAPITAL	As at 31 December 2014			As at 31 December 2013		
	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
220,584 Class 'B' ordinary shares of USD 4,533.420375 each	-	1,000,000,000	1,000,000,000	-	1,000,000,000	1,000,000,000
Less: Unsubscribed						
• Class 'A'	(604,687,481)	-	(604,687,481)	(692,703,442)	-	(692,703,442)
• Class 'B'	-	(938,880,425)	(938,880,425)	-	(977,332,898)	(977,332,898)
Subscribed capital: 61,557 Class 'A' (2013: 57,674) ordinary shares of USD 22,667 each	1,395,312,519	-	1,395,312,519	1,307,296,558	-	1,307,296,558
13,482 Class 'B' (2013: 5,000) ordinary shares of USD 4,533.420375 each	-	61,119,575	61,119,575	-	22,667,102	22,667,102
Less: Callable capital	(1,116,250,015)	-	(1,116,250,015)	(1,045,837,246)	-	(1,045,837,246)
Payable capital	279,062,504	61,119,575	340,182,079	261,459,312	22,667,102	284,126,414
Less: Amounts not yet due	(25,453,397)	-	(25,453,397)	(14,525,015)	-	(14,525,015)
Capital due	253,609,107	61,119,575	314,728,682	246,934,297	22,667,102	269,601,399
Less: subscriptions in arrears	(6,766,121)	-	(6,766,121)	(17,160,851)	-	(17,160,851)
Paid up capital	246,842,986	61,119,575	307,962,561	229,773,446	22,667,102	252,440,548

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>29. SHARE CAPITAL (Continued)</b>				
<b>Share Premium:</b>	<b>Number of Shares</b>	<b>Share Value USD</b>	<b>Price Paid USD</b>	<b>Share Premium USD</b>
As at 31 December 2014:				
At 1 January 2014	5,000	22,667,102	30,001,980	7,334,878
Additions during the year	8,482	38,452,473	50,896,001	12,443,528
At 31 December 2014	13,482	61,119,575	80,897,981	19,778,406
As at 31 December 2013:				
As at 1 January 2013:	-	-	-	-
Additions during the year	5,000	22,667,102	30,001,980	7,334,878
As at 31 December 2013:	5,000	22,667,102	30,001,980	7,334,878

**Class A and B shares**

As at 31 December 2014, there were 61,557 Class 'A' ordinary shares (2013: 57,674) and 13,482 Class 'B' ordinary shares (2013: 5,000). Class 'A' shares have a par value of USD 22,667 each 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 reserves**

Class 'B' shares are issued at a premium of USD 1,467 that is determined after a valuation of the Bank's shares. The share premium is used to finance the operations of the Bank.

**Proposed dividend**

A dividend amounting to USD 19,244,435 was proposed after the reporting date by the directors in respect of the year ended 31 December 2014.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**29. SHARE CAPITAL (Continued)**

	As at 31 December 2014			As at 31 December 2013		
	CLASS 'A' SHARES USD	CLASS 'B' SHARES USD	TOTAL USD	CLASS 'A' SHARES USD	CLASS 'B' SHARES USD	TOTAL USD
Movement in paid up share capital:						
At beginning of year	229,773,446	22,667,102	252,440,548	193,678,294	-	193,678,294
African Development Bank	-	-	-	-	15,109,890	15,109,890
National Pension Fund- Mauritius	-	-	-	-	7,557,212	7,557,212
Mauritian Eagle Insurance Company	-	1,224,024	1,224,024	-	-	-
Seychelles Pension Fund	-	3,019,258	3,019,258	-	-	-
Rwanda Social Security Board	-	9,266,311	9,266,311	-	-	-
Banco Nationale De Investment	-	3,780,873	3,780,873	-	-	-
Africa Reinsurance Corporation	-	2,266,710	2,266,710	-	-	-
ZEP-RE (PTA Reinsurance Company)	-	3,780,873	3,780,873	-	-	-
Belarus	1,000,068	-	1,000,068	-	-	-
Burundi	207,336	-	207,336	451,457	-	451,457
China- People's Republic	-	15,114,424	15,114,424	-	-	-
Congo DRC	6,069,838	-	6,069,838	2,402,836	-	2,402,836
Djibouti	-	-	-	1,190,536	-	1,190,536
Egypt	-	-	-	2,420,836	-	2,420,836
Ethiopia	-	-	-	2,420,836	-	2,420,836
Kenya	-	-	-	2,420,836	-	2,420,836
Malawi	-	-	-	598,409	-	598,409
Rwanda	-	-	-	565,770	-	565,770
Seychelles	-	-	-	122,401	-	122,401
Sudan	-	-	-	9,850,338	-	9,850,338
Tanzania	4,555,647	-	4,555,647	4,508,325	-	4,508,325
Uganda	4,403,580	-	4,403,580	2,930,000	-	2,930,000
Zambia	833,071	-	833,071	3,701,068	-	3,701,068
Zimbabwe	-	-	-	2,511,504	-	2,511,504
	17,069,540	38,452,473	55,522,013	36,095,152	22,667,102	58,762,254
At the end of the year	246,842,986	61,119,575	307,962,561	229,773,446	22,667,102	252,440,548

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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>30. NOTES TO THE STATEMENT OF CASH FLOWS</b>		<b>2014 USD</b>	<b>2013 USD</b>
(a)	Reconciliation of profit for the year to cash generated from operations:		
	Profit for the year	76,977,738	66,630,376
	Adjustments:		
	Depreciation	578,203	594,768
	Gain in foreign exchange	(557,313)	(1,345,903)
	Loss on disposal of property and equipment	20	5,354
	Fair value (gain) on revaluation of equity investments	1,280,792	(2,344,752)
	Amortisation of intangible assets	115,692	80,975
	Profit before changes in operating assets and liabilities	78,395,132	63,620,818
	Increase in other receivables	(281,813,618)	(2,136,656)
	Increase in hedging derivative asset	(34,189,322)	(24,150,934)
	(Decrease)/Increase in hedging derivative liability	(126,423)	25,510,145
	(Increase) in trade finance loans	(458,214,995)	(595,813,859)
	(Increase) in project loans	(25,849,111)	(107,889,397)
	Decrease/(Increase) in deferred expenditure	2,526,818	(11,650,871)
	(Decrease)/Increase in collection accounts deposits	(75,766,346)	57,689,093
	Increase in other payables	3,363,988	9,144,115
	Increase in provision for service and leave pay	564,605	651,965
	Increase in borrowings 30 (b)	972,278,283	466,887,739
		181,169,011	(118,137,842)
(b)	Analysis of changes in borrowings:		
	Short term borrowings:		
	At beginning of year	972,855,019	681,326,318
	Loans received	3,247,694,788	1,754,645,870
	Repayments	(2,301,220,342)	(1,463,117,169)
	At end of year	1,919,329,465	972,855,019
	Long term borrowings:		
	At beginning of year	823,598,652	648,239,614
	Loans received	127,554,556	465,016,171
	Repayments	(101,750,718)	(289,657,133)
	At end of year	849,402,489	823,598,652

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

30. NOTES TO THE STATEMENT OF CASH FLOWS (Cont)	2014 USD	2013 USD
Total borrowings:		
At beginning of year	1,796,453,671	1,329,565,932
Loans received	3,375,249,343	2,219,662,041
Repayments	(2,402,971,060)	(1,752,774,302)
At end of year	2,768,731,954	1,796,453,671
Increase in total borrowings (30 a)	972,278,283	466,887,739
(c) Analysis of cash and cash equivalents		
Cash and balances with other banks - Note 13	435,996,933	404,006,930

For purposes of the Statement of Cash Flows, borrowings received for on-lending are treated as normal operations of the Bank and therefore, are classified as cash generated from operations.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>30. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)</b>			
<b>SHORT-TERM FACILITIES LENDER</b>	<b>Facilities Available USD</b>	<b>Facilities utilized USD</b>	<b>Facilities unutilised USD</b>
(d) Facilities available for lending			
As at 31 December 2014 the following facilities were available to the Bank for lending			
Government of Malawi	277,200,000	277,200,000	-
Mashreq Bank	232,171,960	231,763,705	408,255
Mauritius Commercial Bank	160,000,000	-	160,000,000
Standard Chartered Bank	150,000,000	147,399,662	2,600,338
Commerzbank	121,556,000	118,489,383	3,066,617
Rand Merchant Bank	100,000,000	80,696,352	19,303,648
AFREXIM Bank	125,000,000	125,000,000	-
ING Bank	109,400,400	30,512,729	78,887,671
Standard Bank South Africa	90,000,000	54,742,414	35,257,586
Commercial Bank of Africa	80,000,000	29,522,767	50,477,233
FBN Bank London	80,000,000	79,683,220	316,780
BNP Paribas Group	75,000,000	-	75,000,000
HSBC Bank	72,000,000	7,731,207	64,268,793
Citibank Nairobi	65,000,000	48,000,000	17,000,000
British Arab Commercial Bank	60,778,000	50,724,867	10,053,133
Deutsche Bank	60,000,000	30,317,274	29,682,726
Sumitomo Mitsui Banking Corporation	55,000,000	55,000,000	-
Kenya Commercial Bank	50,000,000	-	50,000,000
UBA, New York	50,000,000	-	50,000,000
Societe Generale	50,000,000	13,859,175	36,140,825
NIC Bank	40,000,000	-	40,000,000
BCV-Banque Cantonale Vaudoise	36,466,800	29,173,440	7,293,360
KBC Bank	30,389,000	13,637,835	16,751,165
BMCE Bank	30,389,000	27,264,510	3,124,490
Fim Bank	29,439,759	26,742,319	2,697,440
Natixis	30,000,000	-	30,000,000
CFC Stanbic Bank	30,000,000	-	30,000,000
African Finance Corporation	50,000,000	50,000,000	-
Byblos Bank	24,311,200	208,804	24,102,396
Banque BIA France	24,311,200	10,174,237	14,136,963
BHF Bank	24,311,200	20,697,118	3,614,082
International Islamic Trade Finance Corporation	20,000,000	-	20,000,000
Opec Fund for International Development	20,000,000	20,000,000	-
Ghana International Bank	20,000,000	20,000,000	-
Banque de Commerce et de Placement	18,233,400	10,770,386	7,463,014
DZ Bank	15,000,000	-	15,000,000
State Bank of Mauritius	15,000,000	3,487,400	11,512,600
	2,520,957,919	1,612,798,804	908,159,115

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**30. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)**

<b>LONG TERM FACILITIES LENDER</b>		<b>Facilities Available USD</b>	<b>Facilities utilised USD</b>	<b>Facilities unutilised USD</b>
(d)	Facilities available for lending (continued)			
	Eurobond	398,746,000	398,746,000	-
	African Development Bank	150,000,000	125,000,000	25,000,000
	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	30,000,000	30,000,000
	KBC Bank	51,403,510	36,854,139	14,549,371
	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
	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	<u>No limit</u>	-	<u>No limit</u>
		1,337,644,776	1,092,450,405	245,194,371
	<b>TOTAL FACILITIES</b>			
	At 31 DECEMBER 2014	3,858,602,695	2,705,249,209	1,153,353,486

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**30. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)**

<b>SHORT-TERM FACILITIES LENDER</b>		<b>Facilities available USD</b>	<b>Facilities utilised USD</b>	<b>Facilities unutilised USD</b>
(d)	Facilities available for lending (Continued)			
	As at 31 December 2013, the following facilities were available to the Bank for lending			
	Syndicated Loan	150,000,000	150,000,000	-
	Commerzbank	137,940,000	115,423,750	22,516,250
	Mauritius Commercial Bank	160,000,000	159,379,820	620,180
	Rand Merchant Bank	130,000,000	90,152,767	39,847,233
	AFREXIM Bank	125,000,000	110,594,926	14,405,074
	Standard Bank of South Africa	90,000,000	58,596,589	31,403,411
	BNP Paribas	75,000,000	134,608	74,865,392
	Mashreq Bank	65,000,000	30,950,000	34,050,000
	Commercial Bank of Africa	86,000,000	85,509,222	490,778
	FBN Bank London	80,000,000	27,312,120	52,687,880
	HSBC Bank	72,000,000	44,424,757	27,575,243
	Deutsche Bank	60,000,000	60,000,000	-
	Sumitomo Mitsui Banking Corporation	55,000,000	-	55,000,000
	Standard Chartered Bank	50,000,000	37,542,388	12,457,612
	Kenya Commercial Bank	50,000,000	-	50,000,000
	United Bank of Africa, New York	50,000,000	-	50,000,000
	Societe Generale	50,000,000	35,686,412	14,313,588
	BCV-Banque Cantonale Vaudoise	41,382,000	10,519,305	30,862,695
	NIC Bank	40,000,000	2,299,882	37,700,118
	KBC Bank	34,485,000	26,451,451	8,033,549
	Byblos	33,413,339	32,694,882	718,457
	Natixis	30,000,000	-	30,000,000
	CfC Stanbic Bank	30,000,000	-	30,000,000
	Banque de Commerce et de placement	20,691,000	-	20,691,000
	African Finance Corporation	25,000,000	25,000,000	-
	International Islamic Trade Finance Corporation	20,000,000	-	20,000,000
	Opec Fund for International Development	20,000,000	20,000,000	-
	Ghana International Bank	20,000,000	20,000,000	-
	BHF Bank	20,691,000	20,691,000	-
	DZ Bank	15,000,000	-	15,000,000
	State Bank of Mauritius	15,000,000	10,465,071	4,534,929
	FIM Bank	39,845,188	39,792,903	52,285
	Barclays /Absa Bank	15,000,000	-	15,000,000
	ING Bank	55,176,000	44,835,034	10,340,966
		1,961,623,527	1,258,456,887	703,166,640

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**30. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)**

<b>LONG TERM FACILITIES LENDER</b>		<b>Facilities available USD</b>	<b>Facilities utilised USD</b>	<b>Facilities Unutilized USD</b>
(d)	Facilities available for lending (Continued)			
	Eurobond	398,746,000	398,746,000	-
	Exim Bank India	100,000,000	75,000,000	25,000,000
	African Development Bank	150,000,000	100,000,000	50,000,000
	Development Bank of South Africa	95,000,000	95,000,000	-
	Industrial development Corporation	30,000,000	-	30,000,000
	Private Export Funding Corporation(PEFCO)	60,000,000	60,000,000	-
	FMO	50,000,000	50,000,000	-
	KBC Bank	51,403,510	36,854,139	14,549,371
	KfW	60,000,000	30,000,000	30,000,000
	OFID	50,000,000	50,000,000	-
	Africa Agriculture Trade and Investment Fund (AATIF)	30,000,000	30,000,000	-
	China Development Bank	62,900,000	62,900,000	-
	BHF Bank	18,000,000	7,300,000	10,700,000
	Kenya Local Currency Bond II	13,975,818	13,975,818	-
	Japan Bank for International Corporation (JBIC)	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
		1,194,375,594	1,021,426,223	172,949,371
	<b>TOTAL FACILITIES</b>			
	At 31 December 2013	3,155,999,121	2,279,883,110	876,116,011

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**31. 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 2014:	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
<b>ASSETS</b>				
Derivative financial instruments	-	34,189,322	-	34,189,322
Equity investments – at fair value through profit or loss	-	12,141,991	512,300	12,654,291
	-	46,331,313	512,300	46,843,613
<b>LIABILITIES</b>				
Derivative financial instruments	-	-	-	-
	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>31. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)</b>				
<b>At 31 December 2013:</b>	<b>Level 1 USD</b>	<b>Level 2 USD</b>	<b>Level 3 USD</b>	<b>Total USD</b>
<b>ASSETS</b>				
Derivative financial instruments	-	-	-	-
Equity Investments – at fair value through profit or loss	-	-	19,753,620	19,753,620
	-	-	19,753,620	19,753,620
<b>LIABILITIES</b>				
Net Derivative financial instruments	-	126,423	-	126,423
	-	126,423	-	126,423

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 2014, the equity holding in ZEP-RE (PTA Reinsurance Company) was transferred from level 3 to level 2 of the fair value hierarchy. The transfer was due to a change in the valuation technique used to value the equity holding in ZEP-RE (PTA Reinsurance Company) from use of the average equity method to the use of the last transaction price as the basis of valuation. The last transaction price is deemed to be a more accurate measure of the fair value as it represents an observable transaction involving the trade in the shares of ZEP-RE (PTA Reinsurance Company). There were no transfers made between levels of the fair value hierarchy as at 31 December 2013.

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 (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**31. 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 2014			As at 31 December 2013		
	Realised USD	Unrealised USD	Total gains/ (losses) USD	Realised USD	Unrealised USD	Total gains/ (losses) USD
ASSETS						
Net Derivative financial instruments:						
- Interest rate swap	-	(149,585)	(149,585)	-	(149,585)	(149,585)
- Currency swap	-	442,584	442,584	-	-	-
Equity investments - at fair value through profit or loss	-	(1,280,792)	(1,280,792)	-	2,344,752	2,344,752
	-	(987,793)	(987,793)	-	2,195,167	2,195,167
LIABILITIES						
Derivative financial instruments	-	-	-	-	(387,178)	(387,178)
	-	-	-	-	(387,178)	(387,178)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

Quantitative information of significant unobservable inputs – Level 3:

Description	Valuation Technique	Unobservable input	Range (weighted average)	2014 USD	2013 USD
Equity investments – at fair value through profit or loss	International Private Equity Valuation Guidelines	Multiple variables	n/a	512,300	19,753,620

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

As at 31 December 2014:

Description	Input	Sensitivity used	Effect on fair value USD
Equity investments – at fair value through profit or loss	Multiple variables	5%	25,615

As at 31 December 2013:

Description	Input	Sensitivity used	Effect on fair value USD
Equity investments – at fair value through profit or loss	Average equity of investee companies	5%	987,681

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



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**31. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

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:

	<b>2014 USD</b>	<b>2013 USD</b>
Balance as at 31 January	19,753,620	10,855,430
Financial assets recognized at FV-Level 2	(12,141,991)	-
Financial assets recognized at cost in current year	(6,675,075)	-
	936,554	10,855,430
Total FV gains and losses in profit or loss	(1,155,255)	2,344,752
Additions	863,302	7,394,333
Retirements	(132,301)	(840,895)
Balance as at 31 December	512,300	19,753,620

**32. 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 of 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**32. SEGMENT REPORTING (Continued)**

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

<b>STATEMENT OF COMPREHENSIVE INCOME</b>				
<b>Year Ended 31 December 2014:</b>	<b>Trade finance USD</b>	<b>Project finance USD</b>	<b>Other USD</b>	<b>Total USD</b>
Gross interest income	108,073,658	46,000,222	2,665,575	156,739,455
Interest expense and other borrowing costs	(62,198,376)	(22,742,730)	(3,052,145)	(87,993,251)
Net interest income	45,875,282	23,257,492	(386,570)	68,746,204
Fee and commission income	34,501,313	7,498,654	-	41,999,967
Other income	-	-	671,651	671,651
Interest on capital arrears	-	-	1,261,075	1,261,075
Other assets recovered	714,193	8,329,006	-	9,043,199
Operating expenses	(15,939,996)	(2,489,675)	(105,000)	(18,534,671)
Depreciation and amortisation	(657,378)	(36,516)	-	(693,894)
Impairment on loans	(19,321,381)	(5,470,933)	-	(24,792,314)
Foreign exchange loss	557,313	-	-	557,313
Fair value gain on equity investments	-	-	(1,280,792)	(1,280,792)
Profit for the year	45,729,346	31,088,028	160,364	76,977,738
Year Ended 31 December 2013:				
Gross interest income	72,255,395	37,921,552	1,406,639	111,583,586
Interest expense and other borrowing costs	(38,713,787)	(20,496,686)	(1,904,806)	(61,115,279)
Net interest income	33,541,608	17,424,866	(498,167)	50,468,307
Fee and commission income	37,850,109	5,829,370	-	43,679,479
Other income	-	-	612,423	612,423
Other assets written off	-	(132,887)	-	(132,887)
Interest on capital arrears	-	-	1,687,805	1,687,805
Other assets recovered	567,647	4,168,449	-	4,736,096
Operating expenses	(12,180,695)	(2,954,090)	-	(15,134,785)
Depreciation and amortisation	(605,666)	(70,077)	-	(675,743)
Impairment on loans	(15,665,842)	(6,635,132)	-	(22,300,974)
Foreign exchange gain	1,345,903	-	-	1,345,903
Fair value gain on equity investments	-	-	2,344,752	2,344,752
Profit for the year	44,853,064	17,630,499	4,146,813	66,630,376

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>32. SEGMENT REPORTING (Continued)</b>				
<b>STATEMENT OF FINANCIAL POSITION</b>				
<b>As at 31 DECEMBER 2014:</b>	<b>Trade finance USD</b>	<b>Project finance USD</b>	<b>Other USD</b>	<b>Total USD</b>
Assets:				
Cash and balances held with other banks	-	-	435,996,933	435,996,933
Investment on Government securities held to maturity			216,000,000	216,000,000
Derivative financial instruments	-	-	34,189,322	34,189,322
Trade finance loans	1,901,553,050	-	-	1,901,553,050
Project loans	-	610,158,235	-	610,158,235
Equity investments at fair value through profit or loss	-	-	12,654,291	12,654,291
Equity investments at cost	-	-	6,675,075	6,675,075
Other receivables	-	-	289,119,653	289,119,653
Deferred expenditure	-	-	16,627,274	16,627,274
Property and equipment	-	-	20,465,968	20,465,968
Intangible assets	-	-	407,437	407,437
<b>Total assets</b>	<b>1,901,553,050</b>	<b>610,158,235</b>	<b>1,032,135,953</b>	<b>3,543,847,238</b>
Liabilities:				
Collection account deposits	126,774,345	-	-	126,774,345
Short term borrowings	1,919,329,465	-	-	1,919,329,465
Long term borrowings	-	849,402,489	-	849,402,489
Other payables	-	-	21,000,595	21,000,595
Provision for service and leave pay	-	-	5,417,994	5,417,994
<b>Total liabilities</b>	<b>2,046,103,810</b>	<b>849,402,489</b>	<b>26,418,589</b>	<b>2,921,924,888</b>
Equity	-	-	621,922,350	621,922,350
	<b>2,046,103,810</b>	<b>849,402,489</b>	<b>648,340,939</b>	<b>3,543,847,238</b>

**32. SEGMENT REPORTING (Continued)****STATEMENT OF FINANCIAL POSITION****As at 31 DECEMBER 2014:**

	<b>Trade finance USD</b>	<b>Project finance USD</b>	<b>Other USD</b>	<b>Total USD</b>
As at 31 December 2013:				
Assets:				
Cash and balances held with other banks	-	-	404,006,930	404,006,930
Trade finance loans	1,443,338,055	-	-	1,443,338,055
Project loans	-	584,309,124	-	584,309,124
Equity investments at fair value through profit or loss	-	-	19,753,620	19,753,620
Other receivables	-	-	7,306,035	7,306,035
Deferred expenditure	-	-	19,154,092	19,154,092
Property and equipment	-	-	20,417,400	20,417,400
Intangible assets	-	-	304,596	304,596
<b>Total assets</b>	<b>1,443,338,055</b>	<b>584,309,124</b>	<b>470,942,673</b>	<b>2,498,589,852</b>
Liabilities:				
Collection account deposits	202,540,691	-	-	202,540,691
Derivative financial instruments	-	-	126,423	126,423
Short term borrowings	972,855,019	-	-	972,855,019
Long term borrowings	-	823,598,652	-	823,598,652
Other payables	-	-	17,636,007	17,636,007
Provision for service and leave pay	-	-	4,853,389	4,853,389
<b>Total liabilities</b>	<b>1,175,395,710</b>	<b>823,598,652</b>	<b>22,615,819</b>	<b>2,021,610,781</b>
Equity	-	-	476,979,071	476,979,071
	<b>1,175,395,710</b>	<b>823,598,652</b>	<b>499,594,890</b>	<b>2,498,589,852</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>33. CONTINGENT LIABILITIES AND COMMITMENTS</b>	<b>2014 USD</b>	<b>2013 USD</b>
(a) Capital commitments		
Approved but not contracted	2,665,894	2,613,800
Approved and contracted	-	334,636
(b) Loans committed but not disbursed		
Project finance loans	271,798,340	398,629,705
Trade finance loans	377,243,504	516,628,179
	649,041,844	915,257,884

## (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.

	<b>2014 USD</b>	<b>2013 USD</b>
Letters of credit - Project finance loans	64,489,727	21,698,552
- Trade finance loans	405,146,928	491,583,857
Guarantees	20,377,524	84,079,960
	490,014,179	597,362,369

## (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 USD 227,460 (2013 - USD 223,760). At reporting date, the Bank had contracted with tenants for the following future lease receivables:

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

<b>33. CONTINGENT LIABILITIES AND COMMITMENTS</b>	<b>2014 USD</b>	<b>2013 USD</b>
Within one year	128,408	222,960
In the second and third year inclusive	-	93,150
	128,408	316,110

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.

## (d) Operating lease arrangements (Continued)

*The Bank as a lessee*

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

	<b>2014 USD</b>	<b>2013 USD</b>
Within one year	262,647	243,871
In the second to fifth year inclusive	990,553	1,079,152
Over five years	-	161,343
	1,253,200	1,484,366

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 2014, there were legal proceedings involving the Bank amounting to USD 18,200,000 (December 2013 - USD 4,200,000) 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**34. RELATED PARTY TRANSACTIONS**

## (a) Membership and Governance

As a supranational development financial institution with a membership comprising eighteen (18) COMESA / African States (the "Member States"), two (2) non-African State and eight (8) institutional member, 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 nine (9) 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.

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

	2014 USD	2013 USD
(b) Loans with Member States		
Outstanding loans at 1 January	803,299,392	361,380,300
Loans disbursed during the year	2,220,727,959	1,282,707,362
Loans repaid during the year	(1,867,922,530)	(840,788,270)
Outstanding loan balances at 31 December	1,156,104,821	803,299,392

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 with Member States are performing and the Bank has not made any provision for doubtful debts relating to amounts owed by related parties (2013: Nil). The loans are granted for an average period of one year.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**34. RELATED PARTY TRANSACTIONS (Continued)**

	2014 USD	2013 USD
(c) Borrowings from Members		
Outstanding borrowings at 1 January	46,145,657	54,165,851
Borrowings received during the year	241,739,266	946,889
Borrowings repaid during the year	(8,728,423)	(8,967,083)
Outstanding balances at 31 December	279,156,500	46,145,657

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.

	2014 USD	2013 USD
(d) Income and expenses		
· Interest income from loans to Members earned during the period	65,956,299	25,627,866
· Interest expense from borrowings with Members incurred during the period	(1,152,774)	(837,763)
· Fees and commission	17,324,372	40,319,704

## (e) Other related parties

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

	2014 USD	2013 USD
Salaries and other short-term benefits	1,873,716	1,765,257
Post employment benefits: Defined contribution: Provident Fund	469,607	435,438
Board of Directors and Board of Governors allowances	181,800	131,200
	2,525,122	2,331,895



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**35. 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:

	2014	2013
British Pound	0.6426	0.6067
Euro	0.8227	0.7250
Sudanese Pound	5.6692	5.6605
Zambian Kwacha	6.3420	5.2512
South Africa Rand	11.5561	10.4222
Ethiopian Birr	20.0150	18.8740
Mauritian Rupee	31.6780	30.2016
Kenya Shilling	90.6000	86.4000
Japanese Yen	119.6700	105.0300
Malawi Kwacha	445.0000	406.0000
Burundi Franc	1537.0000	1527.0000
Tanzania Shilling	1738.6100	1591.4900
Uganda Shilling	2764.2060	2525.4700

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**36. 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.

**37. COMPARATIVES**

Derivative financial assets and liabilities for the year ended 31 December, 2013 which were previously shown separately in the statement of financial position as 'Derivative financial assets' and 'Derivative financial liabilities' have now been off-set and reclassified as either 'Net derivative financial assets' or 'Net derivative financial liabilities'. The derivative financial assets and liabilities are held with the same counterparties, and the cash flows arising from the derivative instruments are settled net.

Effect on statement of financial position as at 31 December 2013 and 31 December 2012:

	<b>Gross amount</b>	<b>Amount off-set</b>	<b>Net amount presented in the statement of financial position</b>
	USD	USD	USD
<b><i>Derivative financial assets</i></b>			
31 December 2013	37,691,976	37,691,976	-
31 December 2012	13,541,042	12,308,254	1,232,788
<b><i>Derivative financial liabilities</i></b>			
31 December 2013	37,818,399	37,691,976	126,423
31 December 2012	12,308,254	12,308,254	-

The net amount presented in the statement of financial position as at 31 December 2013 amounted to USD 126,423 (Note 14) (2012: USD 1,232,788). The change did not have an impact on statement of profit or loss and other comprehensive income, equity, earnings per share or the Bank's operating, investing and financing cash flows for the year ended 31 December 2013 (2012: Nil).

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**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 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.

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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**38. FINANCIAL RISK MANAGEMENT (Continued)****(b) CREDIT RISK (Continued)**

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 2014, all country exposures were within this limit.

Notes 41 and 42 of the Financial Statements contain the country exposure analysis as at 31 December 2014 and 31 December 2013.

*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 33(c).

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**38. FINANCIAL RISK MANAGEMENT**

## (b) CREDIT RISK (Continued)

Maximum Exposure to Credit Risk before Collateral Held:

	2014 USD	%	2013 USD	%
Credit Exposures				
<u>On - statement of financial position Items</u>				
Cash and Balances held with other banks	435,996,933	12	404,006,930	16
Investment in Government securities	216,000,000	6	-	-
Other receivables	280,950,089	8	1,780,364	-
Loans and advances	2,579,652,028	74	2,088,534,930	84
-Project loans	624,853,631		606,926,450	-
-Trade finance loans	1,954,798,397		1,481,608,480	-
Sub Total	3,512,599,050	100	2,494,322,224	100
<u>Off - statement of financial position Items</u>				
Letters of Credit	469,636,655	41	513,282,409	34
Loan Commitments not disbursed	649,041,844	57	915,257,884	61
Guarantees and Performance Bonds	20,377,524	2	84,079,960	6
Sub Total	1,139,056,023	100	1,512,620,253	100
Total Credit Exposure	4,646,363,322		3,601,155,183	

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 80% in 2014 (2013 - 90%) of the total maximum credit exposure.

Other than cash and bank balances amounting to USD 435,996,933 (2013 -USD 404,006,930) 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, 2014, the fair value of collateral held for impaired loans and advances was USD 155,728,529 (2013 - USD 103,062,921) and provided sufficient cover over the gross exposure of USD 78,337,447 (2013-USD 92,532,352) and over the net exposure of USD 21,208,427 (2013-USD 31,664,602) after deducting the impairment allowances.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**38. FINANCIAL RISK MANAGEMENT**

## (b) CREDIT RISK (Continued)

Maximum Exposure to Credit Risk before Collateral Held:

*Classification of Loans and advances*

For year ended 31 December 2014:

Category	Gross amount USD	Impairment allowance USD	Net amount USD	%
Neither past due nor impaired	2,298,846,349	(10,811,721)	2,288,034,628	91
Past due but not impaired	202,468,232	-	202,468,232	8
Impaired	78,337,447	(57,129,021)	21,208,426	1
Total	2,579,652,028	(67,940,742)	2,511,711,286	100

For year ended 31 December 2013:

Category	Gross amount USD	Impairment allowance USD	Net amount USD	%
Neither past due nor impaired	1,896,796,963	-	1,896,796,963	93
Past due but not impaired	99,205,614	(60,887,750)	99,205,614	5
Impaired	92,532,353	(60,887,750)	31,644,603	2
Total	2,088,534,930	(60,887,750)	2,027,647,180	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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**38. FINANCIAL RISK MANAGEMENT****(b) CREDIT RISK (Continued)**

Maximum Exposure to Credit Risk before Collateral Held:

Ageing of arrears for past due loans and advances not impaired

	<b>2014 USD</b>	<b>2013 USD</b>
Below 30 Days	132,376,019	95,383,429
31 to 90 Days	70,092,213	3,822,185
<b>Total arrears</b>	<b>202,468,232</b>	<b>99,205,614</b>
Ageing of arrears for impaired loans and advances		
Below 30 Days	2,776,708	1,443,001
31-90 Days	927,249	3,588,513
91-180 Days	27,025,050	6,215,171
181-360 Days	9,043,049	29,490,203
Over 360 Days	88,981,122	39,857,591
<b>Total arrears</b>	<b>128,753,178</b>	<b>80,594,479</b>
(Restructured loans)/Amounts not in arrears	(50,415,731)	11,937,873
<b>Total</b>	<b>78,337,447</b>	<b>92,532,352</b>

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 'Acceptable' in line with its Loan Classification Policy.

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 'Special Mention' 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', 'Doubtful' and 'Loss'. 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.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**38. FINANCIAL RISK MANAGEMENT****(b) CREDIT RISK (Continued)**

Maximum Exposure to Credit Risk before Collateral Held:

*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 2014 and 31 December 2013, the Bank's collateral exceeded the outstanding gross portfolio.

	2014 USD	2013 USD
(i) Total portfolio:		
Mortgages on properties	701,496,217	586,374,377
Fixed charge on plant and equipment	316,495,621	522,832,664
Cash security deposits	889,584,657	144,848,515
Floating all asset debentures	252,868,715	146,525,910
Sovereign undertakings / guarantees	662,766,017	456,202,525
insurance	768,543,694	462,500,000
Total security cover	3,591,754,921	2,319,283,991
Gross portfolio	(2,579,652,028)	(2,088,534,930)
Net cover	1,012,102,893	230,749,061



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**38. FINANCIAL RISK MANAGEMENT**

## (b) CREDIT RISK (Continued)

Maximum Exposure to Credit Risk before Collateral Held:

*Collateral held for loan portfolio (Continued)*

	2014 USD	2013 USD
(ii) Past due but not impaired:		
Mortgages on properties	264,133,360	77,598,907
Fixed charge on plant and equipment	61,265,841	163,012,886
Cash security deposits	-	459,643
Other floating all asset debentures	103,000,000	39,663,608
Sovereign undertakings / guarantees	202,322,881	-
insurance	30,000,000	-
	660,722,082	280,735,044
Portfolio	(202,468,232)	( 99,205,614)
Net cover	458,253,850	181,529,430
(iii) Impaired loans:		
Mortgages on properties	64,591,539	65,440,952
Fixed charge on plant and equipment	13,818,000	37,621,969
Sovereign undertakings / guarantees	77,318,990	-
	155,728,529	103,062,921
Portfolio	(78,337,447)	(92,532,353)
Net cover	77,391,082	10,530,568

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### FOR THE YEAR ENDED 31 DECEMBER 2014

### 38. FINANCIAL RISK MANAGEMENT

(b) CREDIT RISK (Continued)  
Concentration of risk  
As at 31 December 2014

	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	12,026,498	1	68,716,001	6	-	-	80,742,499	4
Agribusiness	639,378,047	25	268,766,721	24	(206,445,940)	(30,000,000)	671,698,828	31
Banking and Financial Services	247,091,966	10	79,261,203	7	-	-	326,353,169	15
Education	8,247,326	-	376,468	-	-	-	8,623,794	-
Hospitality	59,847,013	2	3,606,551	-	-	-	63,453,564	3
Manufacturing and Heavy Industries	95,564,830	4	162,826,820	14	-	-	258,391,650	12
Other	31,153,240	1	32,459,811	3	-	-	63,613,051	3
Health Services	28,633,901	1	29,143,285	3	-	-	57,777,186	3
Energy	95,478,518	4	51,946,335	5	-	-	147,424,853	7
Petrochemicals	1,059,096,021	41	402,240,897	35	(611,723,436)	(712,867,992)	136,745,490	6
Real Estate	62,560,702	2	26,022,323	2	-	-	88,583,025	4
Telecommunications	35,738,016	1	8,085,974	1	-	(6,209,696)	37,614,294	2
Infrastructure	92,300,731	4	5,603,634	-	-	-	97,904,365	5
Transport and Logistics	112,535,219	4	-	-	-	-	112,535,219	5
	2,579,652,028	100	1,139,056,023	100	(818,169,376)	(749,077,688)	2,151,460,987	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 2014, all loan and advances sectoral concentrations were within the stipulated limit

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
FOR THE YEAR ENDED 31 DECEMBER 2014

**38. FINANCIAL RISK MANAGEMENT**

(b) CREDIT RISK (Continued)

Maximum Exposure to Credit Risk before Collateral Held:

Concentration of risk

As at 31 December 2013

	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	21,654,996	1	53,504,912	4	-	-	75,159,908	3
Agribusiness	433,517,152	21	585,107,621	39	(177,785,008)	(30,000,000)	810,839,765	22
Banking and Financial Services	238,447,444	11	37,710,543	2	-	-	276,157,987	13
Education	6,548,525	-	2,100,000	-	-	-	8,648,525	-
Hospitality	66,606,987	3	5,898,914	0	-	-	72,505,901	3
Manufacturing and Heavy Industries	56,322,622	3	34,576,282	2	22	(2,500,000)	88,398,926	3
Other	27,627,027	1	14,344,839	1	-	-	41,971,865	1
Health Services	26,452,394	1	23,489,464	2	-	-	49,941,858	2
Energy	76,241,568	4	44,176,433	3	-	(17,357,833)	103,060,169	4
Petrochemicals	783,947,354	38	615,955,901	41	(576,515,705)	(400,000,000)	423,387,550	31
Real Estate	65,490,148	3	27,901,995	2	-	-	93,392,143	4
Telecommunications	35,361,750	2	11,416,318	1	-	(4,231,176)	42,546,892	2
Infrastructure	118,091,812	6	5,613,825	-	-	-	123,705,637	5
Transport and Logistics	132,225,151	6	50,823,206	3	-	-	183,048,358	7
	2,088,534,930	100	1,512,620,253	100	(754,300,691)	(454,089,008)	2,392,765,483	100

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**38. FINANCIAL RISK MANAGEMENT**

## (b) CREDIT RISK (Continued)

	2014 USD	2013 USD
<i>Restructured loans</i>		
Project finance loans	30,559,636	37,528,338
Trade finance loans	180,824,733	-
	211,384,369	37,528,332

## (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 Unit 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 (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**38. FINANCIAL RISK MANAGEMENT****(c) LIQUIDITY RISK (Continued)**

Maturities of financial assets and financial liabilities are as follows:

At 31 December 2014	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
<b>FINANCIAL ASSETS</b>							
Cash and balances with other banks	435,082,303	914,630	-	-	-	-	435,996,933
Investment in Government securities	-	-	-	-	216,000,000	-	216,000,000
Other receivables	108,722	279,638,674	144,564	101,640	151,489	-	280,145,089
Derivative financial instruments	-	-	-	-	34,189,322	-	34,189,322
Trade finance loans	553,780,658	363,608,299	216,706,268	736,549,062	30,908,763	-	1,901,553,050
Project loans	31,633,890	19,199,013	20,976,147	52,506,882	345,198,081	140,644,222	610,158,235
Equity investments	-	-	-	-	-	-	-
At fair value through profit or loss	-	-	-	-	12,654,291	-	12,654,291
At cost	-	-	-	-	6,675,075	-	6,675,075
Total financial assets	1,020,605,573	663,360,616	237,826,979	789,157,584	645,777,021	140,644,222	3,497,371,995
<b>FINANCIAL LIABILITIES</b>							
Short term borrowings	389,832,778	579,734,616	333,957,011	295,305,060	320,500,000	-	1,919,329,465
Long term borrowings	9,000,165	9,449,711	11,397,700	29,505,095	727,781,354	62,268,464	849,402,489
Collection Account	4,204,577	-	-	122,569,768	-	-	126,774,345
Other payables	12,257,290	3,858,918	396,680	496,271	2,530,712	1,406,989	20,946,860
Total liabilities	415,294,810	593,043,245	345,751,391	447,876,194	1,050,812,066	63,675,453	2,916,453,159
Net liquidity gap	605,310,763	70,317,371	(107,924,412)	341,281,390	(405,035,045)	76,968,769	580,918,836
Cumulative gap	605,310,763	675,628,134	567,703,722	908,985,112	503,950,067	580,918,836	580,918,836

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### FOR THE YEAR ENDED 31 DECEMBER 2014

### 38. FINANCIAL RISK MANAGEMENT

#### (b) CREDIT RISK (Continued)

Maturities of financial assets and financial liabilities are as follows:

At 31 DECEMBER 2013	Up to 1 month USD	1 to 6 months USD	6 to 12 months USD	1 to 5 years USD	Over 5 years USD	Total USD
<b>FINANCIAL ASSETS</b>						
Cash and balances with other banks	403,425,557	581,373	-	-	-	404,006,930
Other receivables	1,390,625	118,435	96,485	174,819	-	1,780,364
Derivative financial instruments	-	-	26,818,040	10,873,936	-	37,691,976
Trade finance loans	495,364,969	643,820,204	236,408,512	54,439,457	13,304,913	1,443,338,055
Project loans	28,552,056	37,385,155	114,312,979	276,757,423	127,301,511	584,309,124
Equity investments	-	-	-	19,753,620	-	19,753,620
<b>Total financial assets</b>	<b>928,733,207</b>	<b>681,905,167</b>	<b>377,636,016</b>	<b>361,999,255</b>	<b>140,606,424</b>	<b>2,490,880,069</b>
<b>FINANCIAL LIABILITIES</b>						
Short term borrowings	257,646,326	514,008,693	150,000,000	51,200,000	-	972,855,019
Long term borrowings	17,341,719	19,687,611	25,255,686	372,990,511	388,323,125	823,598,652
Derivative financial instruments	-	-	27,734,896	10,083,503	-	37,818,399
Collection Account	23,386,835	94,829,235	38,296,927	46,027,694	-	202,540,691
Other payables	7,345,623	4,213,330	1,435,366	4,588,553	-	17,582,872
<b>Total financial liabilities</b>	<b>305,720,503</b>	<b>632,738,869</b>	<b>242,722,875</b>	<b>484,890,261</b>	<b>388,323,125</b>	<b>2,054,395,633</b>
<b>Net liquidity gap</b>	<b>623,012,704</b>	<b>49,166,298</b>	<b>134,913,141</b>	<b>(122,891,006)</b>	<b>(247,716,701)</b>	<b>436,484,436</b>
<b>Cumulative gap</b>	<b>623,012,704</b>	<b>672,179,002</b>	<b>807,092,143</b>	<b>684,201,137</b>	<b>436,484,436</b>	<b>436,484,436</b>

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 (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**38. FINANCIAL RISK MANAGEMENT****(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 unit 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 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.

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### FOR THE YEAR ENDED 31 DECEMBER 2014

### 38. FINANCIAL RISK MANAGEMENT

Interest rate risk continued (Continued)

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

At 31 December 2014:	Up to 1 month USD	1 to 6 Months USD	6 to 12 months USD	1 to 5 years USD	* Fixed interest Rate USD	Non-interest bearing USD	Total USD
FINANCIAL ASSETS							
Cash and balances with other banks	190,835,202	914,630	-	-	-	244,247,101	435,996,933
Investment in Government securities	-	-	-	-	216,000,000	-	216,000,000
Other receivables	-	-	-	-	491,057	288,628,596	289,119,653
Derivative financial instruments	1,301,542	-	-	-	-	32,887,780	34,189,322
Trade finance loans	439,738,455	490,477,922	141,595,230	19,144,927	810,580,391	16,125	1,901,553,050
Project finance loans	295,859,554	101,530,285	9,090,751	-	193,295,655	10,381,990	610,158,235
Equity investments	-	-	-	-	-	-	-
- At fair value through profit or loss	-	-	-	-	-	12,654,291	12,654,291
- At cost	-	-	-	-	-	6,675,075	6,675,075
Total financial assets	927,734,753	592,922,837	150,685,981	19,144,927	1,220,367,103	595,490,958	3,506,346,559
FINANCIAL LIABILITIES							
Short term borrowings	760,332,778	862,491,627	79,305,060	-	217,200,000	-	1,919,329,465
Long term borrowings	128,079,774	577,576,715	-	-	143,746,000	-	849,402,489
Collection Accounts	-	-	-	-	-	126,774,345	126,774,345
Other payables	-	-	-	-	4,923,992	16,076,603	21,000,595
Provision for Service and leave pay	-	-	-	-	-	5,417,994	5,417,994
Total financial liabilities	888,412,552	1,440,068,342	79,305,060	-	365,869,992	148,268,942	2,921,924,888
Net interest rate exposure	39,322,201	(847,145,505)	71,380,921	19,144,927	854,497,111	447,222,016	584,421,671
Cumulative interest rate exposure	39,322,201	(807,823,304)	(736,442,383)	(717,297,456)	137,199,655	584,421,671	584,421,671

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



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
FOR THE YEAR ENDED 31 DECEMBER 2014

**38. FINANCIAL RISK MANAGEMENT**

d) MARKET RISK (Continued)

i. Interest rate risk

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

At 31 December 2013:	Up to 1 month USD	1 to 6 months USD	6 to 12 months USD	1 to 5 years USD	Fixed interest USD	Non-Interest USD	Total USD
<b>FINANCIAL ASSETS</b>							
Cash and balances with other banks	403,425,557	581,373	-	-	-	-	404,006,930
Other receivables	-	-	-	-	-	7,306,035	7,306,035
Derivative financial instruments	-	-	26,818,040	10,873,936	-	-	37,691,976
Trade finance loans	348,510,578	716,243,204	172,288,869	-	144,569,675	61,725,729	1,443,338,055
Project loans	243,426,188	152,008,958	-	-	185,228,728	3,645,250	584,309,124
Equity investments	-	-	-	-	-	19,753,620	19,753,620
<b>Total financial assets</b>	<b>995,362,323</b>	<b>868,833,535</b>	<b>199,106,909</b>	<b>10,873,936</b>	<b>329,798,403</b>	<b>92,430,634</b>	<b>2,496,405,740</b>
<b>FINANCIAL LIABILITIES</b>							
Short term borrowings	307,646,326	664,008,693	-	-	1,200,000	-	972,855,019
Long term borrowings	196,617,503	528,235,149	-	-	98,746,000	-	823,598,652
Derivative financial instruments	-	10,083,503	27,734,896	-	-	-	37,818,399
Collection Account	-	-	-	-	-	202,540,691	202,540,691
Provision for Service and Leave pay	-	-	-	-	-	4,853,389	4,853,389
Other payables	-	-	-	-	3,748,488	13,888,119	17,636,607
<b>Total financial liabilities</b>	<b>504,263,829</b>	<b>1,202,327,345</b>	<b>27,734,896</b>	<b>-</b>	<b>103,694,488</b>	<b>221,282,199</b>	<b>2,059,302,757</b>
<b>Net interest rate exposure</b>	<b>491,098,494</b>	<b>(333,493,810)</b>	<b>171,372,013</b>	<b>10,873,936</b>	<b>226,103,915</b>	<b>(128,851,565)</b>	<b>437,102,983</b>
<b>Cumulative interest rate exposure</b>	<b>491,098,494</b>	<b>157,604,684</b>	<b>328,976,697</b>	<b>339,850,633</b>	<b>565,954,548</b>	<b>437,102,983</b>	<b>437,102,983</b>

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**38. FINANCIAL RISK MANAGEMENT**

## (d) MARKET RISK (Continued)

## II. 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 2014 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 2014 would increase or decrease by USD 7,185,990 (2013 - USD 1,400,851) as follows:

Effect on the Bank's Net Profit:

The profit for the year ended 31 December 2014 would increase to USD 84,163,728 (2013: USD 68,031,227) or decrease to USD 69,796,748 (2013: USD 65,229,525).

The potential change is 9.3% (2013 - 2.1%) of the year's profit.

## III. 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 (Continued)**  
FOR THE YEAR ENDED 31 DECEMBER 2014

**38. FINANCIAL RISK MANAGEMENT**

(d) MARKET RISK (Continued)

III. Currency Risk (Continued)

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

The Bank's currency position as at 31 December 2014 was as follows:

	USD	GBP	EURO	KES	SDG	UGX	TZSH	OTHER	TOTAL
<b>FINANCIAL ASSETS</b>									
Cash and balances with other banks	293,297,063	1,227	12,278,756	26,335	127,861,520	994,544	724,300	813,188	435,996,933
Investment in Government securities	216,000,000	-	-	-	-	-	-	-	216,000,000
Other receivables	289,119,653	-	-	-	-	-	-	-	289,119,653
Derivative financial instruments	422,543,703	-	(388,354,381)	-	-	-	-	-	34,189,322
Trade finance loans	923,605,593	-	977,947,457	-	-	-	-	-	1,901,553,050
Project finance loans	584,389,389	-	5,167,260	-	-	1,504,437	19,097,149	-	610,158,235
Equity investments									
At fair value through profit or loss	12,654,291	-	-	-	-	-	-	-	12,654,291
- At cost	6,675,075	-	-	-	-	-	-	-	6,675,075
<b>Total financial assets</b>	<b>2,748,284,767</b>	<b>1,227</b>	<b>607,039,092</b>	<b>26,335</b>	<b>127,861,520</b>	<b>2,498,981</b>	<b>19,821,449</b>	<b>813,188</b>	<b>3,506,346,559</b>
<b>FINANCIAL LIABILITIES</b>									
Short term borrowings	1,285,614,569	-	615,080,251	-	-	-	18,634,645	-	1,919,329,465
Long term borrowings	848,291,747	-	-	-	-	1,110,742	-	-	849,402,489
Collection account	4,203,278	-	-	-	122,569,768	-	-	1,299	126,774,345
Other payables	20,963,898	-	-	34,065	-	-	-	2,632	21,000,595
Provision for Service and Leave pay	5,417,994	-	-	-	-	-	-	-	5,417,994
<b>Total financial liabilities</b>	<b>2,164,491,486</b>	<b>-</b>	<b>615,080,251</b>	<b>34,065</b>	<b>122,569,768</b>	<b>1,110,742</b>	<b>18,634,645</b>	<b>3,931</b>	<b>2,921,924,888</b>
<b>NET POSITION</b>	<b>583,793,281,</b>	<b>1,227</b>	<b>(8,041,159)</b>	<b>(7730)</b>	<b>5,291,752</b>	<b>1,388,239</b>	<b>1,186,804</b>	<b>809,257</b>	<b>584,421,671</b>

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### FOR THE YEAR ENDED 31 DECEMBER 2014

### 38. FINANCIAL RISK MANAGEMENT

#### (d) MARKET RISK (Continued)

##### III. Currency Risk (Continued)

The Bank's financial assets and financial liabilities are reported in USD.  
The Bank's currency position as at 31 December 2013 was as follows:

	USD	GBP	EURO	KES	TZS	UGX	MK	OTHER	TOTAL
<b>FINANCIAL ASSETS</b>									
Cash and balances with other banks	258,311,130	26,022	21,297,953	507,433	122,758,154	584,966	139,438	381,834	404,006,930
Other receivables	7,306,035	-	-	-	-	-	-	-	7,306,035
Derivative financial instruments	37,691,976	-	-	-	-	-	-	-	37,691,976
Trade finance loans	1,189,558,857	-	253,779,198	-	-	-	-	-	1,443,338,055
Project loans	562,779,934	-	10,003,967	8,767,810	-	2,757,413	-	-	584,309,124
Equity investments	19,753,620	-	-	-	-	-	-	-	19,753,620
<b>Total financial assets</b>	<b>2,075,401,552</b>	<b>26,022</b>	<b>285,081,118</b>	<b>9,275,243</b>	<b>122,758,154</b>	<b>3,342,379</b>	<b>139,438</b>	<b>381,834</b>	<b>2,496,405,740</b>
<b>FINANCIAL LIABILITIES</b>									
Short term borrowings	832,255,701	-	140,599,318	-	-	-	-	-	972,855,019
Long term borrowings	819,459,130	-	-	2,314,074	-	1,825,448	-	-	823,598,652
Derivative financial instruments	-	-	378,183,399	-	-	-	-	-	378,183,399
Collection Account	79,643,916	-	-	-	122,758,154	-	138,621	-	202,540,691
Provision for Service and Leave pay	4,853,389	-	-	-	-	-	-	-	4,853,389
Other payables	17,543,022	-	-	75,306	-	-	-	18,279	17,636,607
<b>Total financial liabilities</b>	<b>1,753,755,158</b>	<b>-</b>	<b>178,417,717</b>	<b>2,389,380</b>	<b>122,758,154</b>	<b>1,825,448</b>	<b>138,621</b>	<b>18,279</b>	<b>2,059,302,757</b>
<b>NET POSITION</b>	<b>321,646,394</b>	<b>26,022</b>	<b>106,663,401</b>	<b>6,885,863</b>	<b>-</b>	<b>1,516,931</b>	<b>817</b>	<b>363,555</b>	<b>437,102,983</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**38. FINANCIAL RISK MANAGEMENT****(d) MARKET RISK (Continued)**

## Currency risk - Sensitivity Analysis

The Bank is mainly exposed to Euros, Pound Sterling, Kenya Shillings, Tanzania Shillings, Malawi Kwacha, 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 relevant 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	MWK	UGX
2014	(144)	(1,104,303)	2,981	68	-	(12,690)
2013	4,360	13,767,594	4,212,572)	-	(22)	(7,175)

**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 (Continued)**

FOR THE YEAR ENDED 31 DECEMBER 2014

**38. CAPITAL MANAGEMENT (Continued)**

Risk-weighted assets are measured by means of a hierarchy of five 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.

	2014 USD	2013 USD
RISK WEIGHTED ASSETS		
On-Statement of financial position assets	1,739,613,887	1,238,983,956
Off- Statement of financial position assets	104,116,093	134,416,156
Total risk weighted assets	1,843,729,980	1,373,400,112
CAPITAL		
Paid up capital	307,962,561	252,440,548
Retained earnings and reserves	313,959,788	224,538,523
Total capital	621,922,348	476,979,071
CAPITAL ADEQUACY RATIO	33.7%	34.7%

In addition to its paid-up capital, the Bank has access to additional capital in the form of callable capital. During the periods, the Bank complied with its capital adequacy requirements. There were no events after the reporting date.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
FOR THE YEAR ENDED 31 DECEMBER 2014

**40. FINANCIAL INSTRUMENTS CATEGORIES**

The table below sets out the Bank's analysis of financial instrument categories.

As at 31 December 2014:	Loans and receivables USD	Held to maturity USD	At fair value through profit or loss USD	Available for sale USD	Hedging instruments USD	Loans and borrowings USD	Total carrying amount USD
<b>Financial assets</b>							
Cash and balances held with banks	435,996,933	-	-	-	-	-	435,996,933
Investment in Government securities held to maturity	-	216,000,000	-	-	-	-	216,000,000
Trade finance loans	1,901,553,050	-	-	-	-	-	1,901,553,050
Project finance loans	610,158,235	-	-	-	-	-	610,158,235
Equity investments at fair value through profit or loss	-	-	12,654,291	-	-	-	12,654,291
Equity investments at cost	-	-	-	6,675,075	-	-	6,675,075
Derivative financial instruments	-	-	-	-	34,189,322	-	34,189,322
<b>Total financial assets</b>	<b>2,947,708,218</b>	<b>216,000,000</b>	<b>12,654,291</b>	<b>6,675,075</b>	<b>34,189,322</b>	<b>-</b>	<b>3,217,226,906</b>
<b>Financial liabilities</b>							
Collection account deposits	-	-	-	-	-	126,774,345	126,774,345
Derivative financial instruments	-	-	-	-	-	-	-
Short term borrowings	-	-	-	-	-	1,919,329,465	1,919,329,465
Long term borrowings	-	-	-	-	-	849,402,489	849,402,489
Other payables	-	-	-	-	-	20,946,860	20,946,860
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,916,453,159</b>	<b>2,916,453,159</b>

# NOTES TO THE FINANCIAL STATEMENTS (Continued)

## FOR THE YEAR ENDED 31 DECEMBER 2014

### 40. FINANCIAL INSTRUMENTS CATEGORIES (Continued)

As at 31 December 2013:	Loans and receivables	Held to maturity	At fair value through profit or loss	Available for sale	Hedging instruments	Loans and borrowings	Total carrying amount
	USD	USD	USD	USD	USD	USD	USD
Financial assets							
Cash and balances held with banks	404,006,930	-	-	-	-	-	404,006,930
Trade finance loans	1,443,338,055	-	-	-	-	-	1,443,338,055
Project finance loans	584,309,124	-	-	-	-	-	584,309,124
Equity investments	-	-	19,753,620	-	-	-	19,753,620
Derivative financial instruments	-	-	-	-	-	-	-
Total financial assets	2,431,654,109	-	19,753,620	-	-	-	2,451,407,729
Financial liabilities							
Collection account deposits	-	-	-	-	-	202,540,691	202,540,691
Derivative financial instruments	-	-	-	-	126,423	-	126,423
Short term borrowings	-	-	-	-	-	972,855,019	972,855,019
Long term borrowings	-	-	-	-	-	823,598,652	823,598,652
Other payables	-	-	-	-	-	17,582,872	17,582,872
Total financial liabilities	-	-	-	-	126,423	2,016,577,234	2,016,703,657



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
FOR THE YEAR ENDED 31 DECEMBER 2014

**41. TRADE FINANCE LOAN PORTFOLIO**

Country	Balance outstanding USD	Amounts due within six months USD	Amounts due after six months USD	Balance outstanding USD	Amounts due within six months USD	Amounts due after six months USD
Ethiopia	61,666,968	12,371,335	49,295,633	20,845,019	3,052,251	17,792,768
Kenya	74,403,775	63,403,775	11,000,000	37,180,892	37,032,115	148,777
Malawi	204,126,016	128,596,516	75,529,500	230,661,773	230,422,551	239,222
Mauritius	3,234	3,234	-	115,487	115,487	-
Rwanda	-	-	-	747,227	747,227	-
Seychelles	42,262,613	23,120,558	19,142,055	39,996,801	33,089,187	6,907,614
Sudan	700,034,021	165,269,559	534,764,462	258,594,660	258,594,660	-
Tanzania	129,389,290	70,657,456	58,791,834	78,085,633	78,085,633	-
Uganda	3,717,490	1,765,659	1,951,831	4,224,381	1,653,057	2,571,324
Zambia	530,845,445	530,845,445	-	574,125,922	574,125,922	-
Zimbabwe	208,349,545	138,061,688	70,287,857	237,030,685	158,675,595	78,355,090
Gross Loans	1,954,798,397	1,134,095,225	820,703,172	1,481,608,480	1,375,593,685	106,014,795
Less: Impairment on trade finance loans (Note 17)	(53,245,347)	-	(53,245,347)	(38,270,425)	-	(38,270,425)
NET LOANS	1,901,553,050	1,134,095,225	767,457,825	1,443,338,055	1,375,593,685	67,744,370

# NOTES TO THE FINANCIAL STATEMENTS (Continued)

## FOR THE YEAR ENDED 31 DECEMBER 2014

### 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 2014			As at 31 December 2013		
							Balance Outstanding USD	Due within One year USD	Due after One year USD	Balance Outstanding USD	Within One year USD	Due after One year USD
Burundi	40,115,973	35,815,973	35,035,710	139,767	(12,379,631)	295,211	13,091,057	1,951,688	11,139,369	9,415,721	1,309,793	8,105,928
Congo DRC	84,200,000	84,200,000	-	-	-	164,892	164,892	164,892	-	-	-	-
Eritrea	403,652	403,652	403,652	-	(403,652)	-	-	-	-	-	-	-
Ethiopia	140,464,439	66,464,439	43,936,954	522,176	(28,630,454)	720,943	16,549,619	4,833,726	11,715,893	16,696,802	4,760,584	11,936,218
Kenya	398,252,129	325,052,129	263,002,296	1,532,900	(211,930,775)	361,600	52,966,021	13,630,249	39,335,772	135,829,598	81,228,868	54,600,730
Malawi	61,713,723	61,713,723	60,793,336	2,920	(37,767,140)	471,893	23,501,009	5,011,360	18,489,649	29,647,812	5,812,216	23,835,596
Mauritius	67,100,000	16,000,000	16,000,000	-	(8,396,610)	16,343	7,619,733	549,679	7,070,054	8,000,000	820,747	7,179,253
Rwanda	158,697,670	148,998,954	138,704,572	2,974,471	(41,760,608)	955,764	100,874,199	10,861,244	90,012,955	81,048,256	8,458,177	72,590,079
Seychelles	47,500,000	41,500,000	37,048,542	-	(28,839,568)	2,134	8,211,108	2,580,862	5,650,246	23,682,785	10,471,884	13,210,901
Sudan	78,381,910	78,381,910	44,272,673	5,473,714	(23,675,642)	2,421,769	28,492,513	3,798,699	24,693,814	19,510,217	1,201,480	18,308,737
Tanzania	311,822,792	227,822,792	185,155,463	682,910	(85,015,318)	2,211,067	103,034,122	19,680,798	83,353,324	78,645,382	23,834,305	54,811,077
Uganda	162,004,291	157,004,291	155,050,455	4,959,273	(84,191,892)	879,649	76,697,485	22,033,929	54,663,556	85,397,948	18,303,581	67,094,367
Zambia	140,902,661	129,824,151	131,567,409	25,586,250	(101,811,703)	1,377,598	56,719,555	8,793,598	47,925,957	66,183,446	9,471,686	56,711,760
Zimbabwe	312,390,312	307,040,327	180,621,574	673,044	(46,305,635)	1,943,335	136,932,318	30,425,208	106,507,110	52,868,483	14,576,869	38,291,614
Gross loans	2,003,949,552	1,680,222,341	1,291,592,636	42,547,425	(711,108,628)	11,822,198	624,853,631	124,315,932	500,557,699	606,926,450	180,250,190	426,676,260
Less: Impairment on project loans [note 17]							(14,695,396)	-	(14,695,396)	(22,617,326)	-	(22,617,326)
NET LOANS							610,158,235	124,315,932	485,862,303	584,309,124	180,250,190	404,058,934

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2014

**43. STATEMENT OF SUBSCRIPTIONS TO THE CAPITAL STOCK**

As at 31 DECEMBER 2014:

CLASS 'A' shares	Shares Subscribed	Percentage of total	Value USD	Callable capital USD	Payable capital USD	Instalments due as at 31.12.2014 USD	Instalments paid as at 31.12.2014 USD
Belarus	1,103	1.79	25,001,701	20,001,361	5,000,340	1,000,068	1,000,068
Burundi	1,230	2.00	27,880,410	22,304,328	5,576,082	5,576,082	5,576,082
China	3,400	5.52	77,067,800	61,654,240	15,413,560	15,413,560	15,413,560
Comoros	54	0.09	1,224,018	979,214	244,804	244,804	122,400
Djibouti	312	0.51	7,072,104	5,657,683	1,414,421	1,414,421	1,414,421
Congo DRC	5,340	8.67	121,041,780	96,833,424	24,208,356	14,525,013	9,972,673
Egypt	5,340	8.67	121,041,780	96,833,424	24,208,356	24,208,356	24,208,356
Eritrea	240	0.39	5,440,080	4,352,064	1,088,016	1,088,016	544,000
Ethiopia	5,340	8.67	121,041,780	96,833,424	24,208,356	24,208,356	24,208,356
Kenya	5,340	8.67	121,041,780	96,833,424	24,208,356	24,208,356	24,208,356
Malawi	1,320	2.29	29,920,440	23,936,352	5,984,088	5,984,088	5,984,088
Mauritius	1,566	2.72	35,496,522	28,397,218	7,099,304	7,099,304	7,099,304
Rwanda	1,641	2.67	37,196,547	29,757,238	7,439,309	5,657,683	5,657,683
Seychelles	1,370	2.23	31,053,790	24,843,032	6,210,758	1,224,018	1,224,018
Somalia	318	0.52	7,208,106	5,766,485	1,441,621	1,441,621	720,800
Sudan	4,920	7.99	111,521,640	89,217,312	22,304,328	22,304,328	22,304,328
Tanzania	5,214	8.47	118,185,738	94,548,590	23,637,148	23,637,148	23,637,148
Uganda	3,600	5.85	81,601,200	65,280,960	16,320,240	16,320,240	15,493,700
Zambia	5,369	8.72	121,699,123	97,359,298	24,339,825	19,338,409	19,338,409
Zimbabwe	5,540	9.00	125,575,180	100,460,144	25,115,036	25,115,036	25,115,036
African Development Bank	3,000	4.87	68,001,000	54,400,800	13,600,200	13,600,200	13,600,200
	61,557	100	1,395,312,519	1,116,250,015	279,062,504	253,609,107	246,842,986

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
FOR THE YEAR ENDED 31 DECEMBER 2014

**43. STATEMENT OF SUBSCRIPTIONS TO THE CAPITAL STOCK**

As at 31 DECEMBER 2013:

CLASS 'A' shares	Shares Subscribed	Percentage of total	Value USD	Callable capital USD	Payable capital USD	Instalments due as at 31.12.2013 USD	Instalments paid as at 31.12.2013 USD
Burundi	1,230	2.13	27,880,410	22,304,328	5,576,082	5,576,082	5,368,747
China	3,400	5.90	77,067,800	61,654,240	15,413,560	15,413,560	15,413,560
Comoros	54	0.09	1,224,018	979,214	244,804	244,804	122,400
Djibouti	312	0.54	7,072,104	5,657,683	1,414,421	1,414,421	1,414,421
Congo DRC	5,340	9.26	121,041,780	96,833,424	24,208,356	9,683,342	3,902,834
Egypt	5,340	9.26	121,041,780	96,833,424	24,208,356	24,208,356	24,208,356
Eritrea	240	0.42	5,440,080	4,352,064	1,088,016	1,088,016	544,000
Ethiopia	5,340	9.26	121,041,780	96,833,424	24,208,356	24,208,356	24,208,356
Kenya	5,340	9.26	121,041,780	96,833,424	24,208,356	24,208,356	24,208,356
Malawi	1,320	2.29	29,920,440	23,936,352	5,984,088	5,984,088	5,984,088
Mauritius	1,566	2.72	35,496,522	28,397,218	7,099,304	7,099,304	7,099,304
Rwanda	1,248	2.16	28,288,416	22,630,733	5,657,683	5,657,683	5,657,683
Seychelles	270	0.47	6,120,090	4,896,072	1,224,018	1,224,018	1,224,018
Somalia	318	0.55	7,208,106	5,766,485	1,441,621	1,441,621	720,800
Sudan	4,920	8.53	111,521,640	89,217,312	22,304,328	22,304,328	22,304,328
Tanzania	5,214	9.04	118,185,738	94,548,590	23,637,148	23,637,148	19,081,501
Uganda	3,600	6.24	81,601,200	65,280,960	16,320,240	16,320,240	11,090,120
Zambia	4,082	7.08	92,526,694	74,021,355	18,505,339	18,505,338	18,505,338
Zimbabwe	5,540	9.61	125,575,180	100,460,144	25,115,036	25,115,036	25,115,036
African Development Bank	3,000	5.20	68,001,000	54,400,800	13,600,200	13,600,200	13,600,200
	57,674	100	1,307,296,558	1,045,837,246	261,459,312	246,934,297	229,773,446

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
FOR THE YEAR ENDED 31 DECEMBER 2014

**43. STATEMENT OF SUBSCRIPTIONS TO THE CAPITAL STOCK**

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
At USD 4,533.420375 per share	220,584	100	1,000,000,000				
As at 31 December 2014:							
Africa Reinsurance Corporation	500	0.23	2,266,710	2,266,710	2,266,710	733,290	3,000,000
African Development Bank	3,333	1.51	15,109,890	15,109,890	15,109,890	4,890,110	20,000,000
Banco Nationale de Investiment	834	0.38	3,780,873	3,780,873	3,780,873	1,223,127	5,004,000
Maurititien Eagle Insurance Company Limited	270	0.12	1,224,024	1,224,024	1,224,024	395,976	1,620,000
National Pension Fund - Mauritius	1,667	0.76	7,557,212	7,557,212	7,557,212	2,444,768	10,001,980
People's Republic of China	3,334	1.51	15,114,424	15,114,424	15,114,424	4,889,576	20,004,000
Rwanda Social Security Board	2,044	0.93	9,266,311	9,266,311	9,266,311	2,997,690	12,264,001
Seychelles Pension Fund	666	0.30	3,019,258	3,019,258	3,019,258	980,742	4,000,000
ZEPRE (PTA Reinsurance company)	834	0.38	3,780,873	3,780,873	3,780,873	1,223,127	5,004,000
	13,482	6.12	61,119,575	61,119,575	61,119,575	19,778,406	80,897,981
As at 31 December 2013:							
African Development Bank	3,333	1.51	15,109,890	15,109,890	15,109,890	4,890,110	20,000,000
National Pension Fund - Mauritius	1,667	0.76	7,557,212	7,557,212	7,557,212	2,444,768	10,001,980
	5,000	2.27	22,667,102	22,667,102	22,667,102	7,334,878	30,001,980

Class 'B' shares were first issued in 2013 following approval by the Board of Governors in December 2012 to increase the Bank'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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