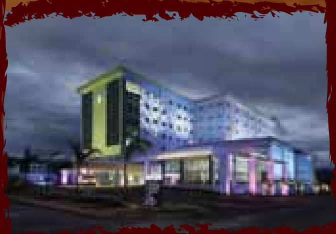
PTA BANK



Eastern & Southern African Trade and Development Bank

ANNUAL REPORT AND AUDITED ACCOUNTS 2009

The Oasis Mall in Kampala, a project that was financed by the PTA Bank

PTA BANK

Eastern & Southern African Trade and Development Bank

Our Vision

To be The Preferred Development Financial Institution in the Region

Our Mission

To be at the forefront of providing development capital in the region through customer focused and innovative financing instruments

PTA BANK
Board of Directors

Seated Left to Right:
Mr. Moses K. Nawa, Dr. Michael Gondwe (President), Mr. Melaku Kifle (Chairman), Mr. William Mlaki

Standing Left to Right:
Mr. Elhafiz A. E. Taha, Mr. Latanraj Ghoorah, Mr. Bu Yu, Mr. Bhargav Purohit

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LETTER OF TRANSMITTAL

The Chairman
Board of Governors
Eastern and Southern African
Trade and Development Bank

Dear Mr. Chairman,

In accordance with Article 35 (2) of the Bank's Charter, I have the honour, on behalf of the Board of Directors, to submit herewith the Annual Report of the Bank for the period 1 January to 31 December 2009.

The report covers the year's activities and audited financial statements as well as the administrative budget for the period 1 January to 31 December 2010.

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

Melaku Kifle
Chairman

Chairman's Statement

On behalf of the Board, I have the pleasure of presenting the Annual Report and financial statements for the Bank for the year ended 31st December, 2009. Against the background of the global economic crisis, the report evidences satisfactory performance outcomes, with the Bank recording a 45% increase in net profits and a 30% balance sheet growth. The President's Statement provides more details on these and other performance highlights for the year.

In order to contextualize the Bank's performance, let me begin my statement by commenting on the operating environment.

In 2009, the global economy entered into a recession which saw global output fall by an estimated 2.2% with a further contraction of 1.1% expected in 2010. However, despite severe turbulence in the financial markets, preliminary indications are that the global economy has began to emerge from the deep global recession, with global growth expected to return to positive territory in 2010. Global growth is projected at 3.1% in 2010 following a wide range of policy interventions which supported demand and reduced uncertainty and systemic risk in financial markets.

Despite initial estimates indicating that commodity prices would remain at the low levels observed at the end of 2008, prices of most major commodities rebounded in 2009. Oil prices rose from US$42 per barrel in February 2009 to a high of US$75 per barrel in December 2009. The prices of base metals such as copper and other key commodities also followed similar trends during the year which was a positive development in boosting foreign exchange earnings of commodity exporting countries. However, despite the improvement in international commodity prices, global trade volumes are expected to decline by 12% and a modest economic growth of 2.5% is projected in 2010. The sharp decline in trade volumes will have a significant impact on Africa's growth prospects.

The global economic crisis negatively impacted on economic performance in Sub-Saharan Africa. Per capita GDP declined by an estimated 0.8% in 2009, the fist decline in a decade. As a major commodity exporting region, falling export demand, commodity prices and capital flows exacerbated the downturn and overall, growth in Sub-Saharan Africa, declined to an estimated 1.2% in 2009, down from 5.6% in 2008. The slowdown has been uneven across countries in Sub-Saharan Africa with oil exporters and middle-income countries affected more severely than the low-income, fragile and less globally integrated countries.

In a nutshell, 2009 was a challenging year, more so for banks and financial institutions and also for Sub-Saharan economies. As we forge ahead in 2010, we expect that recovery from the global recession will be slow and uncertain. However, we remain positive about the Bank's prospects especially in view of the strong earnings performance achieved in 2009 despite the challenges brought forth by the global economic crisis.

"We remain positive about the Bank's prospects especially in view of the strong earnings performance achieved in 2009 despite the challenges brought forth by the global economic crisis."

Chairman's Statement

Based on its competitive advantages and market niche, we expect the Bank to remain focused on promoting trade, investments and regional integration, concentrating its efforts on those underserved sectors that have significant developmental impact on Member States' economies. In line with its strategic objectives outlined in the Fourth Five-Year Corporate Plan (2008 – 2012), the Bank will continue to mobilize financial resources and to support lending activities with a view to maximizing the developmental benefits to its Member States. 2009 marked yet another year of above double digit growth for the Bank.

Fortunately, shareholders anticipated this rapid growth well in advance when in June, 2007 they agreed to augment the Bank's capital base through a General Capital Increase (GCI) approved at the Annual Meeting held in Mauritius. The GCI kicked off on a good trajectory, with the Republic of Mauritius becoming the first shareholder to fully discharge its General Capital Increase commitments in 2008 followed by the African Development Bank in the same year. The People's Republic of China discharged its obligations in February 2009 and February 2010. Other capital subscriptions received in 2009 were from Seychelles, Zimbabwe, Ethiopia and Burundi. Rwanda paid its 2009 installment in May 2010.

On behalf of the Board, I take this opportunity to convey our sincere gratitude to these shareholders for their steadfast support and commitment in discharging their capital subscription obligations despite the obvious constraints occasioned by the global economic crisis. I am also encouraged by the level of commitments made by the other shareholders and remain optimistic that these will be fulfilled in accordance with the time table set out under the GCI decision. In addition to boosting the Bank's international profile and credit ratings, the importance of a successful GCI in terms of availing much needed financial resources, boosting the Bank's capital base and facilitating growth through financial leverage and need not be over-emphasised.

In 2009, the Bank continued to enjoy favourable credit ratings and confidence levels from among its correspondent and business partners networks. These attributes account for the significant increases in financial resources mobilized from new partnerships such as the Dutch Development Finance Company (FMO) and the OPEC Fund for International Development, among others. The Bank maintained its BB- (Double B Minus) rating by Fitch Ratings, one of the top tier rating agencies and a BB (Double B Plain) rating by Global Credit Ratings of South Africa. In order to safeguard these ratings and assist the Bank to tap into the international financial markets for funding, shareholders are expected to continue supporting the Bank and, in particular, to ensure that the GCI is implemented successfully. We remain confident and anticipate unwavering support from all shareholders in respect of the implementation of the GCI.

The 2009 financial results are the product of good leadership, team work, dedication and support across all levels of the Bank and beyond. On behalf of the entire Board of Directors, therefore, I take this opportunity to express my gratitude to our shareholders, partners, valued customers and other stakeholders for their continued support and the confidence they have maintained in the Bank. I acknowledge and appreciate the valuable contributions and untiring commitment of my colleagues on the Board for successfully steering the Bank throughout the year. My appreciation also goes to my predecessor, Mr. Moses Nawa, for his exceptional leadership and the significant contributions he made during the year.

I also take this opportunity to congratulate Management and Staff of the Bank for their dedication, team work and resilience which resulted in the excellent results. I urge them to work even harder towards maintaining or surpassing this level of performance in 2010 and in the years ahead.

Finally, on behalf of the Board, I would like to record our appreciation to the Board of Governors for their continued counsel, guidance and commitment in running the affairs of the Bank.

Melaku Kifle
Chairman, Board of Directors

President's Statement

Strategic Overview

The global economic crisis witnessed in 2009 was characterized by the contraction of credit and, in particular, liquidity from the traditional commercial banking sources. 2009 also witnessed unprecedented reductions in the levels of interest rates especially US dollar rates. Notwithstanding these reductions, the overall cost of credit remained high due to the introduction of market risk premiums by commercial lenders to compensate for the scarce liquidity and increases in risk perceptions. Thus, while the contraction of commercial credit created new financing opportunities for development financial institutions, the uncertainties created by the crisis called for a cautious approach to lending with increased selectivity being exercised with respect to new business development initiatives.

Against these challenges, however, the Bank was able to pursue its growth and diversification objectives with reasonable success. The scaling down of business development activities enabled the Bank to focus meaningfully on the commitment of projects resulting into record disbursement volumes being transacted. Market diversification and expansion strategies were pursued leading to the broadening of the Bank's levels of intervention across its active Member States.

In an effort to re-balance certain risk concentrations, risk down selling strategies were successfully implemented in conjunction with a number of reputable counterparties thereby enabling the Bank to transact high value transactions at modest risk levels. The risk down-selling approach complements the loan syndication strategy and is part of the Bank's innovative tools for dealing with the challenges of dynamic markets.

As in previous years, 2009 also witnessed the pursuit of various portfolio management strategies. Proactive strategies were laid out to provide targeted assistance to clients who needed to be cushioned from the effects of the global economic crisis. Coordination and collaboration with co-financiers was also enhanced resulting in improved portfolio management processes and recovery outcomes.

On the resources front, we devoted considerable efforts towards diversifying the Bank's funding sources. New lines of credit were secured from a number of newly established international financing partnerships as well as from existing partnerships. Prospects for tapping into the international financial markets for funding were also explored and implementation is expected to be firmed up in 2010 subject to favorable market conditions prevailing.

Given its performance in 2009, the Bank is well poised to attain the targets set out in its Fourth Five-Year Corporate Plan covering the period 2008 to 2012. This

"Overall, the Bank posted a US$ 18.03 million net profit compared to the US$ 12.56 million recorded in 2008, a 45% increase. The balance sheet grew by 30% to reach US$ 826 million of total assets compared to US$ 637 million in 2008"

Plan highlights the key drivers of growth and lays out the strategic objectives that the Bank needs to achieve in order for it to become the "Preferred Development Financial Institution in Region".

An essential element of this Plan is the General Capital Increase (GCI) which obligates Members to pay their respective capital subscription obligations over a five - year period from 2009 to 2013. Three out of the 19 Members, Mauritius, China and the African Development Bank, have already fully discharged their obligations well ahead of time, and have in a very positive way, laid the bedrock for the successful implementation of the GCI. I note, with optimism, that the success of the GCI will determine, to a large extent, the Bank's ability to continue with its growth momentum and to deliver on its Corporate Plan targets and therefore, I join the Chairman of the Board of Directors in appealing to Members to honour their capital subscription obligations in time.

Looking ahead, we expect global economic recovery to be slow, uncertain and somewhat fragile. This notwithstanding, the Bank will continue with its growth and diversification strategies, while recognizing the threat of declining export demand and commodity prices, reduced capital flows and other macro economic challenges within its Member States and the region as a whole. In addition, we will continue to accord adequate attention to risk management with increased selectivity in terms of business development opportunities being exercised commensurate with the risk levels posed by the uncertain economic environment.

Lending Operations

In the year 2009, the Bank continued to finance projects in the key sectors of agri-business, infrastructure, manufacturing, transport, housing, and tourism. Due to the impact of the global economic crisis, the business environment in most Member States' economies remained sluggish thereby constraining the level of business development activities. As a result, project approvals were lower than in the previous year. A record level of project disbursements was, however, attained as a result of faster commitment of the loans approved during the year.

As in the previous year, commodity based import and export finance transactions accounted for the bulk of trade finance transactions.

Project and Infrastructure Finance

The Bank approved a total of 11 projects worth US$ 88.45 million during the year compared to 28 projects worth US$ 176 million in the previous year. The 2009 approvals represent a 50% reduction from the approval levels attained in 2008. Commitments for the year amounted to US$ 95.8 million and were 21% below the performance posted in 2008. The approvals and commitment performance reflects the effects of the economic slowdown arising from the global economic crisis.

Despite the economic slow down, the level of disbursements recorded during the year increased to US$ 77.5 million from US$ 65 million in 2008, the highest level ever attained. The 2009 disbursements represent a 19% growth and are attributable to the above-target approvals and commitments recorded in the previous year. Besides, improved loan processes contributed towards shortening the lead times between loan approval and disbursement considerably.

In an effort to improve portfolio quality and performance, the Bank reinforced its policy of blending the financing of start-ups and expansion projects. In terms of size, the Bank financed small and medium scale projects as well as large syndicated projects. Through syndications with a number of financial institutions, corporations and entrepreneurs in the region are able to implement large projects that would otherwise be difficult to finance as a single institution.

Trade Finance

In 2009, the Bank transacted substantial trade finance business volumes despite the global financial meltdown and the resultant crash in world commodity prices.

Activity was spurred by large ticket petroleum transactions in a number of Member States namely Zambia, Kenya and Malawi. Financing of other strategic commodities such as fertilizer and agro-chemicals also played a substantial role in securing the import finance volumes. The Bank also continued to support traditional exports such as cotton and tobacco as well as the re-exports of petroleum products into the COMESA region. The Bank also performed well by maintaining all its existing clients and establishing new strategic relationships with importers and exporters.

Overall, and despite a challenging trading environment brought on by the global credit crunch, the Bank had a successful year with total trade finance business volumes of US$ 1.06 billion being transacted compared to US$ 1.22 billion in 2008. Letters of credit opened during the year amounted to US$ 587 million compared to the US$ 633 million opened in 2008 while direct disbursements of US$ 474 million were recorded compared to US$ 588 million in 2008. The reduction in underlying commodity prices especially in the first half of 2009 accounts for the 13% reduction in overall trade finance volumes.

In 2010, the Bank will continue to expand its trade finance footprint by diversifying into new markets and replicating successful financing structures in strategic commodities such as fuel, fertilizer and grains.

Portfolio Management

The Bank's loan portfolio faced certain challenges related to the slowdown in demand and economic growth worldwide. These challenges, coupled with a growing loan portfolio, required the adoption of proactive portfolio management strategies in order to maintain loan portfolio quality.

The Bank employed short-term and medium-term strategies which focused on the timely monitoring of the impact of the global economic crisis. Early diagnosis, remedial management and nurturing of distressed projects and trade facilities was undertaken throughout the year with emphasis given to alleviating temporary cash flow problems through provision of short term working capital facilities. Loan rescheduling and other restructuring measures were also applied to eligible loans.

The Bank continued to strengthen its credit risk management practices with a view to controlling the levels of portfolio deterioration and bad debt. Risk mitigation strategies such as collateral management, field supervision and use of collection and escrow account arrangements were reinforced resulting into improved portfolio indicators. Collaboration with co-financiers was intensified leading to better coordination and improved recoveries during the year.

As a partner to several international financial institutions which subscribe to the Equator Principles of environmental and social risk management, the Bank continued to strengthen its role and capacity in this area by setting up an environmental and social risk reporting and mitigation system throughout its lending operations and creating awareness and follow up on related compliance issues.

Resource Mobilisation

Despite the global financial crisis, the Bank continued to receive overwhelming support from its funding partners. As at 31st December 2009, the Bank had a total of US$ 706 million in facilities availed by its correspondents. Of this amount, US$ 457 million had been utilized, leaving US$ 249 million available for utilization.

In June 2009, the Bank signed its seventh medium term line of credit with the Export-Import Bank of India worth US$ 15 million. With the signing of this facility, the cumulative level of funding availed amounts to US$ 75 million thereby positioning Export-Import Bank of India as one of the largest providers of medium term financing to the Bank.

In December 2009, the Bank signed a US$ 50 million medium term line of Credit with Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V. (FMO) under a syndicated arrangement involving the European Financing Partnership. Of the total funding, FMO's share amounted to US$ 20 million with the balance of US$ 30 million being provided by the European Investment Bank, CDC Group, PROPARCO, DEG, FINNFUND, IFU, NORFUND, SIFEM and SWEDFUND, amongst other members of the European Financing Partnership.

Also in December 2009, the Bank signed short term funding agreements with the OPEC Fund for International Development (US$ 20 million) and Standard Chartered Bank (US$ 20 million). During the year, the International Islamic Finance Corporation enhanced its short term facilities to the Bank to US$ 40 million from the previous level of US$ 13 million. Other correspondent partners who augmented their facilities to the Bank significantly during the year include Mauritius Commercial Bank, Commerzbank and HSBC.

In August 2009, the Bank received regulatory approvals to issue a Uganda Shillings 40 billion (approximately US$ 20 million) medium-term local currency bond programme. The first tranche of Uganda Shillings 4.45 billion (about US$ 4.5 million) was issued and listed on the Uganda Securities Exchange in October 2009.

In addition to these facilities, the Bank received capital subscriptions amounting to US$ 5.72 million of which US$ 3.85 million was from the People's Republic of China, US$ 0.61 million from Seychelles, US$ 0.56 million from Burundi, US$ 0.50 million from Ethiopia and US$ 0.2 million from Zimbabwe.

Financial Management

Despite the drastic fall in US dollar interest rates, the Bank grew its interest income by 29% to reach US$ 39.39 million. This increase is attributable to the growth in the Bank's project finance and trade finance

President's Statement

portfolio. In line with global interest rates movements, borrowing costs registered a 7% reduction from US$ 16.30 million in 2008 to US$ 15.20 million in 2009. The favourable movements in both interest income and borrowing costs resulted in the Bank's net interest income rising from US$ 14.33 million in 2008 to US$ 24.19 million, a 69% increase.

Fee income amounted to US$ 17.35 million, a 17% decrease over the US$ 20.90 million level recorded in 2008. The fall in most commodity prices especially in the first half of 2009 dictated lower utilization levels on most trade finance facilities, hence the reduced level of fees. Lower project loan approvals also accounted for the reduced appraisal fees earned during the year.

The Bank's operating expenses reduced by 3% to US$ 8.24 million from US$ 8.51 million reflecting effectiveness of the Bank's cost control measures. Provisions for impairment on project and trade finance loans, however, increased from US$ 15.71 million in 2008 to US$ 17.77 million in 2009. The increased provisions were necessitated by specific factors which adversely impacted some of the Bank's non-performing loans.

Overall, the Bank posted a US$ 18.03 million net profit compared to the US$ 12.46 million recorded in 2008, a 45% increase. The balance sheet grew by 30% to reach US$ 826 million of total assets compared to US$ 637 million in 2008.

Administration and Corporate Affairs

In order to align the Bank's processes and enable it to deliver on its corporate targets, the Bank adopted a new organisational structure during the year. The new structure recognises the tremendous potential to grow projects and infrastructure finance and trade finance in the region and therefore elevates the two functions to fully fledged departments. Under the previous structure, both functions were housed under the Credit Facilities and Business Development Department. The new structure also elevates the legal function to a department in order to improve efficiency with regard to the documentation and commitment of loan transactions.

During the year, the Harare branch office became fully operational through a process of upgrading communication links, staff recruitment and redeployment. The Bank also intensified its staff development programmes most of which were funded under the technical assistance grant provided by the African Development Bank. Training was also extended to the Board of Directors who attended a seminar on Risk Management. Recruitment for professional and non- professional staff was undertaken to meet the growing human capital needs of the Bank.
The Bank also implemented a new Code of Conduct and reviewed the Rules of Procedure for the Board of Directors in line with corporate governance principles agreed with other regional development financial institutions in 2007.

Risk Management

During the year, the Bank continued with its search for an appropriate Credit Risk Assessment System (CRAS) to assist in the management of credit risk. The system is expected to be implemented in 2010 after conclusion of the scope and design consultancy to be funded by the African Development Bank.

In the meantime, the Bank continues to build its risk management capacity through various training programmes for its officers in the Compliance and Risk Management Unit.

Conclusion

Notwithstanding the diversity and intensity of the economic challenges, 2009 was an exciting and successful year for the Bank. This success would, however, not have been possible without the continued commitment and dedication of the Management and Staff of the Bank. I take this opportunity to recognize their efforts and untiring commitment which have been instrumental in steering the Bank to higher levels of performance and prosperity attained in 2009.

Further, I wish to extend my gratitude to the Board of Directors for the guidance and support provided to the Bank during the year and the Board of Governors for their continued counsel, guidance and commitment in running the affairs of the Bank.

Finally, my appreciation and sincere thanks goes to our valued clients and business partners for their continued loyalty, support and confidence.

With your continued support, we look into the future with confidence and rededicate ourselves to realising the Bank's vision of becoming "the Preferred Development Financial Institution in the Region".

Michael Gondwe
PRESIDENT

Economic Environment

WORLD

Despite an expected stronger performance in the second half of 2009, global economic output is still estimated to have contracted by 1.1% in 2009. Advanced economies recorded negative growth of 3.4% in 2009 from a positive growth of 5.2% in 2008. Of this, the US economy recorded negative 3.4%, while the Euro area and Japan recorded negative growth rates of 4.2% and 5.4% in 2009 respectively. Emerging and developing economies on the other hand grew by 1.7% in 2009 compared to 6% in 2008.

There was a stronger performance in the second half of 2009 which indicated that the recession was ending and the global economy was back on its way to recovery. Responsible for this was the strong performance of the Asian economies which are estimated to have grown by 6.2% in 2009, of which China grew by 8.5% and India by 5.4%. Growth was led by a rebound in manufacturing and a turn in the inventory cycle, and there were some signs of gradually stabilizing retail sales, returning consumer confidence, and firmer housing market. Recovery however is expected to be slow and economic activity is still far below the pre-crisis levels.

Economic Indicators for the World (% Change)

	Real GDP Growth		Consumer Prices		Exports		Imports	
	2008	2009	2008	2009	2008	2009	2008	2009
World	3.0	-1.1	2.0	0.9				
Advanced World	0.6	-3.4	3.4	0.1	1.9	-13.9	0.5	-13.7
Emerging and Developing	6.0	1.7	9.3	5.5	4.6	-7.2	9.4	-9.5

Source: IMF

Economic fundamentals across the globe showed that monetary policy has been highly expansionary, with interest rates down to record lows in most advanced and in many emerging economies, while central bank balance sheets expanded to unprecedented levels in key advanced economies. There was significant downward inflationary pressure driven by lower prices of oil and commodities. As such advanced economies recorded inflation of 0.1% while emerging and developing economies registered lower inflation at 5.5% in 2009.

AFRICA

Although Sub Sahara Africa (SSA) seemed to have weathered the global financial crisis fairly well in 2008, the indirect effects of the crisis however affected SSA more adversely in 2009. Real GDP growth is estimated to have grown by 2.5% in 2009 compared to 5.5% in 2008. Export performance across many of the countries declined while capital flows were disrupted. Oil exporters and middle income countries have been particularly hard hit while low-income countries were somewhat spared the full effect of the crisis. However, prudent macroeconomic policies have helped many countries counter the effects of the down turn.

Oil exporting countries are estimated to have grown by only 1.9%, the lowest growth rate in a decade. Within this group, negative growth rates were registered with Equatorial Guinea and Gabon which contracted by 5.4% and 1% in 2009 respectively while the Republic of Congo grew by 7.4%. Angola and Nigeria grew by 0.2% and 2.9% in 2009 compared to 13.2% and 6% in 2008 respectively. The Middle Income Countries (MIC) registered negative growth of 2.5% in 2009. The decline in output was most pronounced in Botswana at negative 10.5% and Seychelles at negative 8.5%. Low income countries registered the highest growth within SSA at 4.5% in 2009 compared to 7% in 2008. Ethiopia, Uganda and Malawi were the strongest performers within this group with real

GDP growth rates at 7.5%, 7% and 5.9% respectively. Madagascar on the other hand recorded negative growth within this group at negative 0.4%. The fragile states also did not do too badly, with real GDP growth at 2.8% in 2009 compared to 3.9% in 2008. Inflation declined marginally across SSA to average 10.5% in 2009 compared to 11.6% in 2008. All the sub-regions recorded a decrease in prices reflecting lower inflationary pressures from lower food and fuel prices during the early part of 2009. For the region as a whole, the fiscal balance (including grants) has swung from a surplus of 1.25 percent of GDP in 2008 to an expected deficit of 4.75 percent in 2009.

Economic Indicators for Sub Sahara Africa and Sub Regions

	Real GDP Growth		Consumer Prices		Exports (% of GDP)		Imports (% of GDP)	
	2008	2009	2008	2009	2008	2009	2008	2009
Sub Sahara Africa	5.5	1.1	11.6	10.5	41.0	31.2	38.2	34.2
EAC-5	5.8	4.5	11.2	12.0	23.2	20.4	36.8	34.5
COMESA	8.6	3.1	14.2	17.7	47.7	33.2	47.3	39.5
SADC	5.1	-0.9	11.6	9.3	43.3	31.8	45.5	34.8

Source: IMF

Total investment during 2009 grew marginally to 24.1% of GDP compared to 21.1% in the previous year, most of which went to the oil exporting countries within the region. The other sub groups experienced a decline in total investments during 2009. The SSA current account moved into a deficit in 2009 of about 3.1% of GDP compared to 1% of GDP surplus previously. Oil exporting countries' surplus narrowed significantly to 1.6% of GDP in 2009 compared to 14% of GDP in 2008. In middle income countries, the deficit narrowed only marginally to 5.3% of GDP, while in low income countries the deficit narrowed to 9% of GDP. In fragile economies, the deficit in 2008 turned into a surplus of 6.1% of GDP.

Below are brief profiles of the Bank's Member Countries.

BURUNDI

Although the agricultural sector continues to remain the cornerstone of the Burundian economy, the indirect impact of the global financial crisis is estimated to have moderated growth in 2009 to around 3.2% from 4.5% in 2008. The moderation emanated from reduced demand for exports, a decline in world coffee prices, and lower private transfers and foreign direct investment. While Burundi's main cash crops - tea and coffee - are the main drivers of growth and make up a significant proportion of the country's exports, the services sector, particularly telecommunications is also beginning to play an important role within the economy.

Poor weather in May and June affected not just subsistence farming but also tea and coffee, which contribute the lion's share of the country's export earnings. Office du café du Burundi (OCIBU) announced in early June that the country had produced 24,015 tonnes of coffee in the year to March 2009, 20% lower than had been projected. National coffee production is cyclical, however, and another low crop is expected to be recorded in 2009-10. Tea production on the other hand is projected to rise in 2009, due to an anticipated increase in fertiliser usage. Output is estimated at 7,500 tonnes in 2009, up by 500 tonnes on 2008 despite the dry weather in May and June. Prices for the country's tea crop rose in May because of buyer concerns over a shortfall due to drought, rising from an average of US$2.19/kg in April to US$2.30/kg. Tea earned Burundi a recorded US$13.7 million in 2008 and earnings are estimated at US$11.4 million in 2009.

The Apollo Blamwell Hospital in Mauritius, a state-of-the-art health institution co-financed by the PTA Bank

Economic Environment

In late June 2009, the government launched international tenders for the sale of 133 state-owned coffee washing stations and two dry mills. The washing stations have been grouped into 29 saleable units, each of which averaged around 3,100 tonnes of coffee during 2004-08. The government is looking for investors to buy 75 percent stake, leaving the 25 percent balance for local farmers, a percentage that farmers co-operatives have complained is too low. The government intends to break up the coffee board, OCIBU, and replace it with a new coffee industry regulator and a private-sector-driven coffee industry association. On the other hand, the privatisation of the state-owned telecommunications company, Onatel, which the government announced in late March 2009 has stalled following disputes about the true value of the company.

Monetary Policy

Monetary policy during 2009 was mainly geared to stabilizing prices while allowing sufficient scope for economic growth. Estimates indicate that the reserve money grew by about 13.5% and broad money by about 14.5% in 2009 while growth in credit to the private sector was moderate because of the economic slowdown. The Ministry of Finance and the Central Bank agreed that close coordination of fiscal and monetary policies is essential to achieving the inflation target. Inflation is estimated to have declined significantly with 2009 year end figures reaching 4.3%. Annual average inflation also declined to 11.4% in 2009 compared to 24.1% in 2008. Good rains in the early part of the year helped boost food production causing inflation to fall in 2009.

Fiscal Policy

In July 2009, the government announced two expected tax reforms; the introduction of Value Added Tax (VAT) set at 18% and confirmation that the fiscal year would change in 2010. VAT would replace the 17% General Sales Tax (GST). This brings Burundi in line with the other members of the East African Community (EAC), all of which administer VAT. However, only companies with annual turnover of over Bufr100m (US$82,000) are required to register for VAT in the first 12 months of the tax. In July 2010 the threshold will be dropped to Bufr50m and in July 2011 the tax will be universally applied. Furthermore, in July 2010, Burundi will adjust its fiscal year (currently January-December) to July-June, bringing it in line with the four other members of the EAC.

The introduction of VAT saw the collection of government revenue increasing by 14.3% in 2009 to US$239 million. Government expenditure for 2009 was estimated to be lower by 7% at Bufr789.6bn, in the revised budget reflecting mainly underspending on capital projects. This resulted in a lower budget deficit at Bufr93.5bn, or 5.4% of GDP, compared to the estimated budgeted deficit of Bufr114.1bn

External Sector and Foreign Exchange

Total exports for 2009 were expected to rise marginally to US$ 68.2 million from US$ 60.9 million in the previous year. The increase in exports was owed to the good performance of tea exports as a result of strong tea prices on the international market despite the poor performance of coffee exports. Total imports declined significantly in 2009 to reach US$ 275.4 million from US$ 342.2 million. The decline in imports was attributed to lower global food and oil prices causing a drop in import costs. Although the current account deficit increased by 11.8% in absolute terms, it narrowed to 12.1% of GDP in 2009 from 12.2% of GDP the previous year. The Burundi franc has enjoyed an unusual level of stability, reflecting the weakness of the US dollar and significant donor inflows. The Franc is estimated to have marginally depreciated against the US dollar to average Bufr 1,234.9 vis-a-vis the US dollar in 2009 from Bufr 1,185.7 in 2008.

Import duties were reduced substantially from July 1st, 2009 following implementation of the East African Community (EAC) common tariff regime. The tax on raw materials was lowered from 15% to 0%, on semi-finished products from 35% to 15% and on finished products from 40% to 25%.

CHINA

The Chinese economy withstood the severe test of the global financial crisis in 2009. In the face of the extremely complex domestic and international situation, China kept a proactive fiscal policy and a moderately loose monetary policy, and continued to implement a package of policy measures with timely adjustments. As a result, China was among the first economies to recover and show an upturn in the economy. In 2009, China's Gross Domestic Product (GDP) grew 8.7 percent year-on-year to 33.5 trillion yuan, with the growth gaining pace quarter-on-quarter. The Consumer Price Index (CPI) declined 0.7 percent, despite a rise at the end of the year. The value added of the primary industry was 3,547.7 billion yuan, up by 4.2 percent, that of the secondary industry was 15,695.8 billion yuan, up by 9.5 percent and the tertiary industry was 14,291.8 billion yuan, up by 8.9 percent. The value added of the primary industry accounted for 10.6 percent of the GDP, which was 0.1 percentage point lower than that posted in the previous year, that of the secondary industry accounted for 46.8 percent, down 0.7 percentage point, and that of the tertiary industry accounted for 42.6 percent, up by 0.8 percentage point.

Monetary Policy

In accordance with the overall arrangements of the State Council, the People's Bank of China (PBC) implemented a relatively loose monetary policy. It maintained adequate liquidity in the banking system, guided financial institutions to increase credit extension and optimize the credit structure, and stepped up financial support for economic growth. In general, the relatively loose monetary policy was transmitted effectively, playing a key role in expanding aggregate demand, supporting the economic upturn, and alleviating the deflation expectations at the beginning of the year. The PBC also paid much attention to ensure steady and sustainable credit growth and to prevent financial risks. To this end, it adjusted its policy focus, intensity, and pace in a forward-looking and flexible manner. As a result, credit growth moderated in the third and fourth quarters at a more stable pace, which helped prevent and manage risks that may harm long-term economic stability and development. At end-2009 the outstanding balance of broad money M2 grew 27.7 percent year-on-year to 60.6 trillion yuan, an acceleration of 10 percentage points from 2008.

Fiscal Policy

In 2009, fiscal expenditure growth remained high. As fiscal revenue growth recovered with the recovery of economic growth, the fiscal pressures that mounted at the beginning of the year gradually eased.

Since the beginning of 2009, with the Chinese economy taking a turn for the better, year-on-year growth of fiscal revenues recovered from –17.1 percent in January to 55.8 percent in December. According to preliminary statistics, fiscal revenues totaled 6,847.7 billion yuan, representing growth of 11.7 percent, including central government revenues of 3,589.6 billion yuan (representing growth of 9.8 percent), and local government revenues of 3,258.1 billion yuan (representing growth of 13.7 percent). Tax revenues grew 9.8 percent to 5,951.5 billion yuan and non-tax revenues increased 26.1 percent to 896.2 billion yuan.

Throughout the year, the growth of fiscal expenditures remained high. In particular, in the first three months when the economy was sluggish, year-on-year expenditure growth was 32.5 percent, 42 percent, and 31.4 percent respectively. Later, due to the improvement in economic performance and the high expenditures in the base period in 2008, year-on-year growth of expenditures moderated but remained fairly high. According to preliminary statistics, total expenditures grew 21.2 percent to 7,587.4 billion yuan, representing a deceleration of 4.5 percentage points from 2008. Among the total, central government expenditures grew 14.5 percent year-on-year to 1,528.0 billion yuan, representing a deceleration of 2.1 percentage points from 2008 and accounting for 20.1 percent in total expenditures; local government spending grew 23 percent year-on-year to 6,059.4 billion yuan, representing a deceleration of 5.4 percentage points from 2008 and accounting for 79.9 percent of total expenditures.

Real Sector

Urban and rural household incomes increased and consumption in real terms grew steadily. In 2009 the per capita disposable income of urban households registered 17,175 yuan, representing a nominal increase of 8.8 percent and real growth of 9.8 percent, an acceleration of 1.4 percentage points over 2008. The per capita net income of farmers stood at 5,153 yuan, amounting to a nominal increase of 8.2 percent and real growth of 8.5 percent, an acceleration of 0.5 percentage points compared with the previous year.

BOP and Exchange Rates

The total value of imports and exports in 2009 reached 2,207.2 billion US dollars, down by 13.9 percent over the previous year. Of this total, the value of exports was 1,201.7 billion US dollars, down by 16.0 percent, and the value of imports was 1,005.6 billion US dollars, down by 11.2 percent. The balance of imports and exports was 196.1 billion US dollars, a decrease of 102.0 billion US dollars over the previous year.

Since the outbreak of the international financial crisis and affected by the fundamental changes at home and abroad, the balance of payments fluctuated. In general, the current account and the capital and financial account were both in surplus. According to preliminary statistics released by the State Administration of Foreign Exchange, in 2009 the current account surplus was down 35 percent year-on-year to US$284.1 billion whereas the capital and financial account surplus (including errors and omissions) was US$109.1 billion. At end-2009, foreign exchange reserves increased US$453.1 billion year-on-year to US$2,399.2 billion.

The size of the external debt shrunk. At end-September 2009, the outstanding external debt decreased 12.5 percent year-on-year to US$386.8 billion. In particular, the registered external debt was US$254.3 billion, accounting for 65.7 percent of the total and representing a year-on-year decrease of 11.8 percent; the short-term external debt was US$222 billion, accounting for 57.4 percent of the total and representing a year-on-year decline of 20.7 percent.

In 2009, the RMB exchange rate remained broadly stable at an equilibrium and adaptive level to cope with the global financial crisis. At end-2009, the central parity of the RMB against the US dollar was 6.8282 yuan per US dollar, an appreciation of 64bps, or 0.09 percent, from the end of 2008; the central parity of the RMB against the euro and Japanese yen was 9.7971 yuan per euro and 7.3782 yuan per Japanese yen respectively, depreciations of 1.41 percent and 2.53 percent respectively from the end of 2008. From the initiation of the exchange rate regime reform in July 2005 to end-2009, the RMB had appreciated by 21.21 percent against the US dollar and 2.21 percent against the euro, and had depreciated by 0.98 percent against the Japanese yen. According to the Bank for Iinternational Settlements calculation, from the initiation of the exchange rate regime reform to December 2009, the nominal effective exchange rate of the RMB had appreciated by 12.7 percent, whereas the real effective exchange rate had appreciated by 16.3 percent.

COMOROS

The Union of Comoros is slowly getting back on track following the gradual return of political stability and resumption of aid. The potential for improved government economic policy was further boosted by the country's graduation to a full Poverty Reduction and Growth Facility (PRGF) with the IMF, which was put in place by the end of 2009. This stability allowed for some positive impact on reform implementation and economic conditions in Comoros. This was reflected by an increase in credit to the private sector which was estimated to have risen by 10% in 2009, reflecting growth in trade-related activities. Vanilla exports improved following a recovery from serious fires in 2008 while imports (including petroleum products and construction materials) also continued to rise. Despite the positive developments, real GDP growth is estimated to have reached 1% for 2009 similar to the growth posted in 2008. This was due to the global economic recession which adversely impacted vital expatriate remittances.

The economy relies mainly on the agricultural sector and has a narrow export base with three export commodities, namely vanilla, cloves and ylang-ylang. Vanilla and cloves account for three-quarters of the Union's exports. Developments in the first half of 2009 indicated that vanilla production was hit by the 2008 forest fires that destroyed some 60 hectares of plants. As a result, production is unlikely to exceed 50 tonnes for 2009. Output of cloves is estimated at less than 2,200 tonnes in 2009 which is significantly lower than the totals in 2008 of 3,200 tonnes while production of ylang-ylang essence was hit by falling external demand and the collapse of world prices.

Monetary Policy

The Union's management of monetary policy is very much linked with its participation in the franc zone. As such, this has enabled the Union to contain inflation and maintain a stable exchange rate and an adequate level of foreign reserves despite major fiscal imbalances. Inflationary pressures on domestic prices continue to ease throughout 2009 and end-year inflation is expected to have been contained at 2.3% compared to 4.8% in 2008. This was reflective of lower oil and food prices. Monetary statistics indicate that money supply is projected to have increased by 7.7% in both 2008 and 2009 in parallel with a decline in net external assets.

Fiscal Policy

The budget deficit is expected to fall to 1.6% of GDP in 2009 compared to 2.7% of GDP in 2008. This was as a result of the gradual implementation of the measures to strengthen revenue collection and improve expenditure management, including the establishment of a cash flow committee. Government expenditures remain well above the capacity for revenue collection, thus justifying the accumulation of new payment arrears through the first half of 2009.

External Sector and Foreign Exchange

Despite the fall in production of the main export crops, this did not translate into lower export earnings. Exports of vanilla are estimated to have risen by 75% and reached 42 tonnes in the first half of 2009, while earnings rose from Cfr354 million (US$750,000) to Cfr720 million over the same period as growers took advantage of stronger world prices and sold stock held back in 2008. Exports of cloves also grew strongly, with exports of 700 tonnes, worth Cfr518 million, in the first half of 2009 compared with 100 tonnes, worth

Economic Environment

Cfr143 million, in the first half of 2008. It is estimated that Comoros sold out its 2009 crop, as demand from Asia has risen strongly.

Exports of ylang-ylang on the other hand declined - both in terms of volume from 30 tonnes to 19 tonnes and in value from Cfr622m to Cfr355 million. The current account deficit is expected to have narrowed in 2009 to 9.5% of GDP from 11.3% of GDP in 2008 reflecting mainly a reduction in remittances from the diaspora.

DJIBOUTI

Real GDP growth in 2009 is estimated to have averaged 6.4%, largely as a result of the strong growth in investments, particularly in port infrastructure. The Port of Djibouti remains the country's growth driver. The port is a very strategic entry point for goods into the Horn of Africa. After a shaky start early in 2009, the flow of traffic through the existing port of Djibouti may be recovering. In the first quarter of 2009 traffic fell by an estimated 22.1% compared with the same period in 2008, largely because of a fall in traffic to Ethiopia, the port's main customer. However, in the first nine months of the year traffic grew by 24.4%, with Ethiopian business growing by 38.3%. Transshipment business at this port continues to be weak, as the port operator, Dubai Ports World (DPW), hopes that this business will be handled by the giant new container terminal at Doraleh, which was inaugurated in February 2009 and which DPW also operates.

Djibouti is highly dependent on livestock production and has gone through a boom in exports of livestock over the last few years. The increase in livestock exports followed the opening of a new livestock export facility to inspect and quarantine live animals and the introduction of other health measures. However, this boom seems to be under threat after a decision in November 2009 by Saudi Arabia to lift a nine-year ban on livestock imports from Somalia and Somaliland.

Monetary Policy

Lower international oil and food prices are believed to have brought inflation down to 6% in 2009 compared to 8.1% in 2008. The drop in inflation was reflective of declining inflationary pressures throughout 2009 as a result of lower international oil and food prices.

External Sector and Foreign Exchange

Djibouti's current-account deficit narrowed significantly in the first nine months of 2009. This was largely due to a huge fall in imports but improving exports and the continued healthy balance on services also made a positive contribution. In the first nine months of 2009 exports grew at an annualised rate equivalent to 11%. This reflects, particularly, the inauguration of the new container terminal at Doraleh in February 2009. The fall in imports, down by 29.5% on an annualised basis, is partly explained by the fall in world oil and food prices, but again reflects the completion of construction work at Doraleh, which had greatly increased imports of capital goods during its construction. There was a small improvement in the services balance, reflecting increased services to French and US military bases and increased support for the international naval response to piracy in the Gulf of Aden. The Djibouti franc continues to be pegged to the US dollar at Dfr177.72.

EGYPT

Egypt's economy remained resilient against a background of a global economic recession in the first half of 2009. Real GDP growth was estimated at 4.7% in 2008/09 although this is well below the average of 7% recorded in the previous three years. Financial contagion was contained by limited direct exposure to structured products and low levels of financial integration with world financial markets. Sustained and wide-ranging reforms since 2004 have reduced fiscal, monetary, and external vulnerabilities, and improved the investment climate. These bolstered the economy's durability and provided breathing space for appropriate policy responses. Real GDP growth continued to accelerate in the first two quarters of 2009/10 (July-December), with year-on-year growth reaching 5.1%.

Domestic demand remained strong with the Egyptian economy spurred on by the government's fiscal stimulus programme and by robust activity in sectors such as construction and telecommunications which are estimated to have grown by 11.4% and 14.6% in 2008/09 respectively. However, some effects of the overall slowdown will be felt, especially through the labour market, and this means that private consumption will pick up only gradually.

Total revenues from transshipments through the Suez Canal are estimated to have declined by about 20% to US$4.3bn in 2009 from US$5.4bn in 2008. This drop was largely attributable to the reduction in global trade flows as well as the impact of piracy in the Gulf of Aden, which has led many shippers, particularly oil tankers, to re-route around the Cape of Good Hope. The number of ships passing through the Canal fell from 21,415 in 2008 to 17,228 in 2009, with a marked reduction in Chinese, German, Iranian, Israeli and Italian flag carriers. By contrast, there was a 19.5% increase in the number of US ships.

Monetary Policy

The Central Bank of Egypt (CBE) begun to move towards making inflation-targeting its main policy goal. However, it will be some time before the CBE's monetary instruments are fully in place. Starting early 2009 the CBE has been loosening monetary policy on the back of a gradual deceleration in the rate of inflation, which bottomed out at 9% in August, from a peak of 23.7% in August 2008. The CBE last cut its rates on September 17, when the overnight deposit and lending rates were reduced by 25 basis points each, to 8.25% and 9.75% respectively. The discount rate was left unchanged at 8.5%.

After having peaked at an average of 18.3% in 2008, the year-on-year rate of inflation fell for most of 2009, owing to base effects and the lagged effect of the tight monetary policy adopted by the CBE during 2008. However, because of price rigidities in product markets, month-on-month consumer price inflation actually increased between January and October. Inflation is estimated to have averaged 11.8% in 2009.

Fiscal Policy

Government expenditure in 2008/09 rose marginally to 34.4% of GDP compared to 34.1% in 2007/08. Government revenue on the other hand remained the same at 27.8% of GDP in 2008/09 reflecting the slow down in the economy. The impact of this led to the fiscal deficit narrowing to 6.6% of GDP for 2008/09. The government's fiscal stance continued to remain expansionary during the remainder of fiscal year 2009/10 (July-June). The 2009/10 budget contained an additional E£7bn (US$1.25bn) fiscal stimulus on top of the E£15bn package implemented in 2008/09 to boost economic growth, focusing particularly on infrastructure development and export support.

According to the preliminary budget, for the first eight months of 2009/10 fiscal year, the fiscal deficit is likely to be around 8.9% of GDP, slightly exceeding the budgeted level of 8.7% of GDP, and well ahead of the 2008/09 outturn of 6.6% of GDP.

External Sector and Foreign Exchange

The overall balance of payments moved into a deficit of 1.8% of GDP in fiscal year 2008/09 compared to the surplus 3.3% in 2007/08. Total exports declined to US$ 25 billion in 2008/09 compared to US$ 29.3 billion in 2007/08 from US$ 22 billion. The decline in exports was due to a drop in petroleum exports which stood at US$ 11 billion compared to US$ 14.5 billion in the previous fiscal year. The decline in petroleum exports was due to the lower prices oil fetched particularly in the first half of 2009. Imports also fell marginally to US$ 50.3 billion in fiscal year 2008/09 compared to US$ 52.8 billion in 2007/08.

The surplus on the service account reduced in 2008/09 to US$ 12.5 billion compared to US$ 15 billion in the previous fiscal year. This was from a reduction in services receipts which declined to US$ 23.8 billion from US$ 27.8 billion in the previous year following a decline in Suez Canal receipts and investment income.

In the second half of 2008 and early 2009 significant portfolio and other capital outflows and a strengthening of the US dollar led to some depreciation of the Egyptian pound to E£5.63:US$1 in March 2009. Since then, however, a strong interest rate differential and a robust economy compared with much of the rest of the world have catalysed trade inflows, causing the pound to appreciate steadily.

ERITREA

With the return of rains in 2009, agriculture is expected to have rebounded thereby pushing real GDP growth to an estimated 3.5% compared to 2% in the previous year. This growth was supported by economic support from China and countries in the Middle East and Asia as well as international funding of projects in the humanitarian and construction sectors and the government's own capital projects.

Eritrea's largest source of foreign exchange is the remittances from Eritreans in the diaspora. However the remittances have steadily declined over the past few years from 41% of GDP in 2005 to 23% of GDP in 2007. The impact of the global crisis adversely affected these remittances in both 2008 and 2009. Inflation in 2009 is estimated to have fallen to 15.5% compared to 18% in the previous year.

Monetary Policy

Monetary policy has continued to accommodate the budget deficit and as such has resulted in a rapid expansion of broad money and has fueled inflation. Shortages of foreign exchange, falling remittances,

Tourism is one of the sectors that have contributed significantly to the growth of Member States' economies. It is a sector that the Bank has laid particular emphasis on.

and heavy government borrowing from the banking sector crowded private sector activity while negative real interest rates limited financial intermediation.

External Sector and Foreign Exchange
The current account deficit continued to widen in 2009 to US$ 260.9 million from US$ 203.8 million in 2008. The current account deficit narrowed to 10.5% of GDP in 2009 compared to 10.7% the previous year. The narrowing was reflective of a decline in imports which are estimated to have fallen to US$ 587.4 million from US$ 601.5 million. The fall in imports was as a result of a lower import bill following lower oil prices on the international markets. Exports decreased marginally to US$ 10.9 million from US$ 11.2 million. The Nafka exchanged at Nfa15.38 in 2008 and remained the same for 2009.

There was a marked increase in Eritrea's foreign exchange reserves in the last two years from US$ 34.3 million in 2007 which was equivalent to 0.8 months of import cover to US$ 88.1 million in 2009 equivalent to 1.8 months of import cover. This increase was attributed to a steady increase in Eritrea's mineral deposits, which has resulted in strong investment in exploration and construction in the mining sector.

ETHIOPIA

Ethiopia has not been immune to the exogenous shocks and her economic growth rate of 7.5% in 2008/09 is reflective of this compared to a growth rate of 11.6% in the previous fiscal year. Behind this decline was a drop in growth rates for all the major economic sectors. The services sector declined the most, growing by 10.1% in 2008/09 compared to 16.2% in the previous fiscal year. Agriculture and industry are estimated to have grown by 6% and 8% in 2008/09 compared to 7.5% and 10.4% in the previous fiscal year respectively.

The global recession constrained export growth and limited key external resource inflows. However, the impact of these pressures on aggregate output is expected to be small given that subsistence agriculture still plays a very significant role within the Ethiopian economy. As such, growth is expected to be at least 9% in 2009/10 on the back of a 6.2% and 8.7% increase in agriculture and industry.

Monetary Policy
Broad money supply is estimated to have grown by about 20% in fiscal year 2008/09. Inflationary pressures seemed to increase as the end of 2009 approached. Inflation is estimated to have climbed to 7.1% year-on-year in December 2009, the highest for six months mainly as a result of higher non-food prices. Food prices which account for 57% of the consumer price index rose marginally by 0.6% in December after six months of decline, while non-food prices climbed by 18.3%, mainly due to higher imports costs stemming from the depreciation of the birr. Average inflation is therefore estimated to have declined to 8.5% in 2009, the lowest since 2004.

Fiscal Policy
The government maintained a relatively tight fiscal stance during the fiscal year 2008/09 because of the risk of macro-economic imbalances after several years of rapid growth. Ethiopia's budget deficit declined to an estimated 2.3% of GDP in fiscal year 2008/09 compared to 2.7% in 2007/08. This was on account of an increase in domestic revenues which rose to 16% of GDP in 2009 compared to 15.3% of GDP in the previous year. Government expenditure also rose but by a smaller percent to 18.3% of GDP in 2008/09 compared to 18% in the previous year. The fiscal deficit is expected to widen to 3% of GDP in 2009/10.

External Sector and Foreign Exchange
Total export earnings rose to US$ 1.62 billion in 2009 compared to US$ 1.55 billion in the previous year while imports also rose marginally to US$ 7.3 billion in 2009 compared to US$ 7.2 billion in the previous year. Ethiopia's current-account deficit grew to 6.7% of GDP in 2009, as net inflows from services, income and current transfers fell sharply mainly because of a slide in remittances from the diaspora affected by the recession in developed countries.

The birr is estimated to have depreciated by about 23% year-on-year in 2009 to average birr11.78 against the US dollar. This was as a result of a policy of gradual depreciation interspersed by sharper adjustments, intended to correct for the loss of competitiveness arising from high inflation and a strengthening real effective exchange rate. In 2008/09 increased donor support helped increase international reserves. They are estimated to have exceeded $1.5 billion by the end of 2008/09 which is equivalent to 1.8 months of the coming year's imports of goods and services.

Economic Environment

KENYA

The Kenyan economy remained subdued in 2009 with real GDP growing by 2.5%, as a result of recession in key markets and a prolonged drought. However this was a slight recovery from the 1.7% growth rate experienced in 2008.

The agricultural sector had mixed performance in the year to November 2009. The short rains expected between October and December were erratic with some areas receiving above normal rains while others got lower than average rains, causing food insecurity to remain high. Of the main cash crops, tea and horticultural produce fell due to the prolonged dry weather conditions. Total tea output fell continuously throughout the year to December 2009 with total production falling by 9.1% to 314,194 metric tonnes from 345,818 metric tonnes produced between January and December 2008. Horticultural export volumes declined by 6.4% to 193,117 metric tones in the year to December 2009 compared to a similar period in 2008. This was due to a reduction in the export volumes of flowers and vegetables which were affected by insufficient rainfall in 2009 while fruit exports on the other hand rose by 23.9% in the year to December 2009 to reach 21,223 metric tonnes compared to 17,122.4 metric tonnes in the same period of 2008.

The manufacturing sector showed mixed performance with sugar production for the year to December rising by 7% from 512,192.3 metric tonnes to 547,998 metric tonnes in the same period in 2008. Cement production is also estimated to have risen by 5.9%.

In the year to December 2009, tourist arrivals grew by 30.7% to stand at 952,481 visitors compared to 729,000 in the same period of the previous year. The high tourism season which began in June started well with arrivals increasing steadily from 69,059 visitors in June 2009 to peak at 100,314 visitors in August 2009 and ending the year with 99,261 visitors in December 2009. Tourism earnings declined only marginally to US$ 630.4 million for the the year 2009 compared to US$ 659.4 million in 2008.

Monetary Policy

Broad money supply, M3, grew by 16% in the year to December 2009 compared with 15.9% in the year to December 2008. The expansion of M3 in the year to December 2009 was attributed to the growth in Net Domestic Assets (NDA) as the Net Foreign Assets (NFA) of the banking system declined. Broad money, denominated in local currency, M2, that is, M3 excluding foreign currency deposits, grew by 17.1% in December 2009 compared with 14.9 percent in December 2008.

The Central Bank of Kenya loosened monetary policy in November 2009 by trimming the central bank rate by 75 basis points to 7% in response to the recalculation of inflation data by the Kenya National Bureau of Statistics (KNBS). This revealed that prices have not been rising as quickly as feared. Lower inflation also facilitated the decline in other key interest rates. The 91-day Treasury-bill rate dipped below 7% in December, for the first time in more than 18 months, while the new 364-day T-bill rate eased to 8%.

Under the new formula, the KNBS calculated that inflation averaged 9.3% in 2009 instead of nearer 20% under the old system. The KNBS will undertake a second phase of reforming the consumer price index using new updated weightings which will cut the share of food from 50% to 40%, include a larger basket of goods and extra sampling points.

Fiscal Policy

Fiscal operations in 2008/09 fell short of the intended stimulus of 2.1% of GDP. Both nominal revenue and expenditure were below the budgeted level, reflecting a slowing economy and low implementation rates for foreign-funded projects, respectively. Overall spending amounted to 26.5% of GDP in 2008/09 instead of a projected 28.5% of GDP. This was from a reduction in capital spending which amounted to 7.1% of GDP in 2008/09 and not 8% of GDP as planned owing to lapses in identifying, preparing, implementing and completing projects. Recurrent spending was below target, despite the extra costs caused by the formation of the grand coalition government. Revenue was also below target in 2008/09, at 22.5% of GDP because of slow growth in the economy and a small shortfall in projected donor grants.

External Sector and Foreign Exchange

The overall balance of payments improved significantly from a deficit of US$ 89 million in the year to November 2008, to a surplus of US$ 552 million in the year to November 2009. This was as a result of a larger increase of the surplus in the capital and financial account relative to the widening of the current account deficit. The current account deteriorated by 16.6% from a deficit of US$ 1,866 million in year to November, 2008 to a deficit of US$ 2,176 million in year to

November, 2009. This was attributed to the larger decline in the services account relative to the improvement in the merchandise account. The merchandise account improved slightly by 9.6% to a deficit of US$ 5,639 million in the year to November 2009 from a deficit of US$ 6,238 million in the year to November 2008.

Exports are estimated to have declined by about 10% from US$ 4,949 million in the year to November, 2008 to US$ 4,443 million in the year to November, 2009. Exports have remained low despite improving commodity prices in international markets. The decline in exports was reflective of a drop in growth in Horticulture and Manufactured goods industry. Imports also declined by 9.9% from US$ 11,187 million in the year to November 2008 to US$ 10,082 million in the year to November more than compensating for the fall in exports.

The Kenya shilling weakened against the US Dollar to exchange at Ksh 77.35 to the US dollar in 2009, compared with an average of Ksh 69.86 to the US dollar previously. Gross official foreign exchange reserves rose by 33.8% from US$ 2,875 million or 3.4 months of import cover in December 2008 to US$ 3,847 million or 4.2 months of import cover in December 2009.

MALAWI

Real GDP growth estimates in 2009 for Malawi were revised downwards to 7.7% compared to the initial forecast of 7.9% in 2008. The downward revision was on account of lower income from tobacco sales and a decline in the manufacturing sector. However, compared to the sub region, Malawi recorded one of the highest real GDP growth rates. The growth in 2009 was mainly driven by the agricultural sector as well as the construction, information and communications sectors, financial and insurance services and wholesale and retail. However, growth in the manufacturing sector is projected to slow down on account of foreign exchange shortages.

The agricultural sector continues to be the driving factor for Malawi's growth. The main cash crops in the agricultural sector are tobacco and tea which also make up a significant part of Malawi's export commodities. Agricultural output is estimated to have grown by 10.2% compared to 11.8% in 2008. The solid growth was on account of increased maize production that stood at 3.4 million tonnes compared to 3.7 million tonnes in 2008 as well as a 15.5% increase in tobacco production to 224.7 million kilograms from what was produced in the preceding year.

Total tobacco sales increased by 19% in 2009 to 232.1 million kilograms compared to 195 million kilograms sold in 2008. This largely constituted the burley variety which amounted to 208.3 million kilograms or 89.7% of the total. Total sales of flue cured tobacco stood at 20.5 million kilograms, compared to 23.1 million kilograms sold in 2008. SDDF tobacco sales notably declined to 56,800 kilograms from 155,710 kilograms sold in a similar period in 2008. Similarly, NDDF tobacco production dropped to 3.3 million kilograms from 3.8 million kilograms in a comparable period in 2008.

Total tea production for 2009 is estimated to have increased by 26%, from 10.9 million kilograms to 52.5 million kilograms. The increased production was attributed to favourable weather conditions following ample rainfall as well as good distribution of the rains that allowed for proper leaf development of the crop. Total tea sales through the Limbe market in 2009 amounted to 17.3 million kilograms compared to 14.1 million sold in 2008. Tea prices averaged US$1.56/kg in 2009 against US$1.36/kg fetched in 2008 due to a decrease in production in Kenya following drought in the country. As a result, earnings from tea sales stood at US$26.9 million compared to US$19.1 million realized in 2008.

The mining and quarrying sector is projected to have grown by 8.8% in 2009 against 7.2% in 2008. The growth was due to the commencement of mining at Kayerekera as well as an expansion in coal mining to support the increased tobacco processing this year.

Monetary Policy

Monetary policy during 2009 was tightened with Money supply at 25% compared to 62.6% in 2008. Interest rates remained unchanged during 2009 from 2008 and stood at 25.3%. Headline inflation dropped to 7.6% year-on-year in December, down from 10.1% at the start of 2009, owing to both lower food and non-food inflation. Overall, inflation averaged 8.4% in 2009 compared to 8.7% in 2008.

Fiscal Policy

Fiscal policy during the greater part of 2008 was expansionary and this stance continued into 2009. In fiscal year 2008/09, the government is estimated to have missed its target for domestic borrowing by a substantial margin, mainly reflecting overspending on imported fertilizer and goods and services. However the fiscal year 2009/10 budget reflects a prudent fiscal stance, targeting a repayment of net domestic borrowing in line with the medium-term objectives to maintain a low deficit and create room for private sector credit.

External Sector and Foreign Exchange

Total Malawian exports for 2009 rose to US$ 925.6 million from US$ 850.1 million in the previous year while imports are estimated to have increased to US$1,135.6 million from US$ 1,224.4 million. As such the trade deficit is estimated to have narrowed slightly to reach US$ 700 million in 2009 compared to US$ 737 million in 2008. The current account deficit also narrowed in 2009 to reach 6.9% of GDP compared to 7.8% of GDP in 2008.

The kwacha was relatively stable throughout most of 2009. The government has made known its intention to maintain the kwacha within the narrow band of MK139.1-MK143. By December 2009, total gross foreign reserves declined to US$205.2 million, from US$240 million which represents 1.6 months of imports cover.

MAURITIUS

The composition of Mauritius' GDP in 2009 continued to be dominated by the tertiary sector which accounts for 69% of GDP. This was followed by the secondary sector which contributed 27% while the primary sector contributed 4% to GDP. In terms of contributing to the growth rate in 2009, the tertiary sector contributed 1.6 percentage points while the primary sector and the secondary sector contributed 0.6 percentage points and 0.4 percentage points respectively.

Real GDP growth rate declined significantly in 2009 to 2.8%, compared to 5.1% registered in 2008. Excluding the contribution of the sugar sector the economy is estimated to have grown by 2.4% compared to 5.2% in 2008.

In growth terms, the tertiary sector grew by 3.0% in 2009 compared to 5.8% in 2008. The decline was mainly as a result of a decline in Hotels and restaurants in 2009 compared to a growth of 2.7% in 2008, reflecting a decline in tourist numbers to 860,000 tourist arrivals in 2009 compared to 930,456 in 2008. In tandem, tourist earnings declined to R 36,500 million compared to R 41,213 million in 2008.

The secondary sector grew by 1.3% in 2009 compared to 5.0% in 2008. The decline in the sector was a result of reduced growth in manufacturing compared to 3.2% in the previous year. Although the sugar milling industry grew by 21.1% compared to the previous year, the textile industry had a negative growth of 4% compared to zero growth in the previous year.

The primary sector which comprises mainly agriculture and related industries rebounded significantly by 13.5% in 2009 compared to a growth of 1.5% in 2007. The sugar sector is estimated to have grown by 21.1% compared to the initial 18.2% forecast. Higher production in food crops saw the forecasts of the agricultural sector increase to 8% compared to the 5% forecast. The construction and the hotel and restaurant industry also saw upward revisions in growth forecasts. However the mining and quarrying industry' declined to a negative growth of 8.7% in 2009 compared to zero growth in 2008.

Monetary Policy

In March 2009 the Monetary Policy Committee lowered the repurchase (repo) rate, the bank's main policy interest rate, by 100 basis points to 5.75%, the third cut since July 2008. This was to support the government's policy of stimulating the domestic economy in response to the global economic downturn. The repo rate remained unchanged through the remainder of 2009 reflecting sentiments that the economy was on the upturn and that the outlook for inflation would not worsen in the short term.

Inflationary pressure eased significantly during 2009 after peaking in July 2008. Overall inflation during 2009 is estimated to have declined to 2.5%, the lowest inflation rate in twenty years from 9.7% in 2008.

Fiscal Policy

Fiscal policy during 2009 was expansionary reflecting increased spending to counter the effects of the global financial crisis. The public-sector investment programme launched in mid-2009 in particular was intended to support both the economy during the world economic recession and to prepare it for the eventual recovery. As such, the deficit in the government's finances rose to 3.9% of GDP in fiscal year 2008/09. Total revenue was MRs1billion (US$32 million) below budget, reflecting a slow down in economic activity while spending was boosted by the implementation of the stimulus package introduced in December 2008 to counter the effects of the global economic slowdown. Government spending in the second half of 2009 was projected at MRs39bn, thereby leading to a deficit equivalent to 4.8% of GDP.

External Sector and Exchange Rates

In 2009, total exports amounted to Rs 61,784 million indicating a decline of 9.1% compared to the performance of 2008. This was reflective of a decline across all export goods categories. The biggest decline was noted in Machinery and transport equipment which is estimated to have declined by 64.5% in 2009. This was followed by manufactured goods which declined by 2.4%. Miscellaneous manufactured articles which contributed 49.7% of total exports for year 2009, declined by 0.6% from 2008. Imports also declined by 10.5% to reach Rs 118,303 million mainly from a decline in Mineral fuels, lubricants, and related products by 35.2% and Manufactured goods by 14.3%. As a result of this, the trade deficit narrowed by 12% to reach Rs 56,519 million compared to 2008.

Exports of services declined by 7.6% compared to a growth of 2.6% in 2008, resulting from lower tourist earnings due to a decrease in the number of tourist arrivals in 2009. Imports of services which include insurance and freight paid in respect of imported goods, declined by 5.2% compared to 2.9% in 2008. In totality, exports of goods and services decreased by 7.0% to Rs 130,373 million in 2009 from Rs 140,166 million in 2008 while imports of goods and services also declined to Rs 159,148 million compared to Rs 179,108 million in 2008, representing a decrease of 11.1%. Therefore exports of goods and services deficit narrowed to Rs 28,775 million in 2009, lower than the deficit of Rs 38,942 million registered in 2008. This represents 10.4% of GDP at market prices in 2009 compared to 14.7% in 2008.

The current account deficit also narrowed to reach 8.3% of GDP compared to 10.4% in 2008. The Mauritius rupee appreciated by almost 16% against the dollar between March and December 2009 to average MRs29.3 mainly as a result of a weakened dollar in the world markets.

RWANDA

Rwanda shrugged off the world economic slowdown in 2008 with real GDP growth averaging 11.2% in 2008. This was mainly on the back of robust expansion in agriculture, aided by the government's crop-intensification program (which includes the provision of fertilizer and seeds and the expansion of harvest storage facilities) and favorable weather conditions. Manufacturing, services and construction also registered strong growth; the latter due to the rapid private-sector credit increase and scaling up of the public investment program. However the impact of the global economic crisis led to a sharp fall in Rwandan export revenues and a slowdown of economic activity particularly in the construction, mining, and tourism sectors. The economy is estimated to have grown by 6% in 2009. The tourism sector which is Rwanda's main foreign exchange earner reported lower earnings of USD 175 million, 6% lower than those collected in 2008. Tourist numbers are estimated to have declined during the year.

Monetary Policy

The financial services sector in Rwanda was severely hit by a domestic liquidity squeeze after growing by over 20% annually in 2009. The monetary authorities responded vigorously to the liquidity squeeze, which had resulted in a fall of 3.6% in credit to the private sector. Commercial bank reserve requirements were reduced, the rollover of maturing Treasury bills was restricted and a new financing facility for banks was created. This helped to stabilise the situation, but banks tightened lending standards and raised interest rates to improve their asset position. The Banque Nationale du Rwanda (the central bank) lowered its lending rate from 9% to 7.5% in December 2009 in order to encourage private-sector lending.

Inflationary pressures eased significantly during 2009 and this was reflected in the downward trend of inflation throughout 2009 although heavy rains in the latter part of 2009 damaged crops and thus pushed prices slightly upwards. Inflation is estimated to have fallen from around 22% at the start of 2009 to around 6% at the end of 2009. On average, annual inflation is estimated to have declined to 10.4% in 2009 compared to 15.4% in 2008.

Zic Payson Resort in Seychelles. The Bank participated in a syndicated facility to finance this project

Fiscal Policy

The fiscal budget performance during of 2008 was positive and posted a surplus partly due to a one-off boost from sales of mobile-phone licences. The surplus stood at 0.1% of GDP. In 2009 however, the fiscal budget returned to a deficit position from slowing revenue growth following the tariff reduction from the implementation of the East African Community (EAC) Common External Tariff from July 1st 2009. Domestic revenue collection performed fairly well as the tax base widened under the improved performance of the Rwanda Revenue Authority. Expenditure continued to rise steeply as the government sought to make good on its poverty-reduction policies, which include substantial infrastructure investment. As such the 2009 fiscal deficit widened to 2.8% of GDP.

External Sector and Foreign Exchange

Rwanda's exports continue to remain fairly small compared to the region's average and mainly constitute the two main cash crops, tea and coffee and, recently, mineral products. Coffee export earnings are estimated to have declined to US$36.2 million in the first eleven months of 2009, 20% lower than the same period in 2008. Tea earnings on the other hand were up 5% compared to 2008, but were lower than expected. From the mining sector Cassiterite earnings fell by 37% to US$25.3 million in the first 11 months of the year owing to lower prices, despite higher production.

Rwanda's export and import cargo through Mombasa Port dropped by 12% to 133,188 tonnes during the first half of 2009 compared with the same period in 2008. Although the global downturn led to a fall in prices for many of the commodities that Rwanda produces, poor weather was also partly responsible for the fall in export earnings.

On an annual basis, total exports are expected to have declined sharply by 28% to US$ 191 million compared to 2008. The fall in exports was as a result of a fall in the international prices of tin, tantalum and tungsten ore, Rwanda's main exports. Also contributing to this was the poor performance of the coffee sector. Total imports continued to rise and are expected to have reached US$ 1.2 billion in 2009 a rise of 36% compared to 2008. This saw the trade deficit rising to over US$ 1 billion in 2009. The current account deficit is estimated to have widened to 6.2% of GDP in 2009 compared to 5.8% in 2008. The Balance of Payments recorded a surplus of US$ 57 million as a result of increased aid and investment inflows. The Rwandan franc, bolstered by rising exports and donor support depreciated to Rwfr568.22 against the dollar in 2009 compared to Rwfr549.30 in 2008.

SEYCHELLES

The liberalization of the exchange regime, a strong fiscal adjustment, and prudent monetary policies have contributed to restoring macroeconomic stability and setting the stage for recovery. Real GDP is now expected to decline by 7.6% in 2009, a revision upwards compared with an earlier projection of 10.7%. This upward adjustment to real GDP was reflective of the economy's response to the reforms, improving global conditions and the threat of piracy being addressed.

Although tourist arrivals started to recover in the second quarter of 2009, shorter trips and discounted prices are projected to have led to reduced earnings than total arrivals indicate. In totality, visitor numbers are expected to have reached 157,471 in 2009, marginally lower by 0.8% compared to 2008. However, the tourism sector performed better than expected, especially in rupee terms, with IMF estimates indicating that earnings from the sector fell by 12% in US-dollar terms to US$238 million in 2009 while in rupee terms, tourism earnings grew by around 30%.

In December 2009, the IMF Executive Board approved the third review of the stand-by agreement, which started in November 2008, and the stand-by agreement's replacement with a three-year Extended Fund Facility (EFF) worth about US$31 million in line with the recommendations of a visiting IMF mission. The Board confirmed Seychelles' impressive performance in stabilising the economy and pushing ahead with structural reforms, which gained new momentum in the 2010 budget. The EFF-backed programme will focus on improving fiscal management, promoting transparency, downsizing the public sector (including parastatals), strengthening the financial sector and boosting private business.

Monetary Policy

The Central Bank of Seychelles (CBS) monetary focus is meeting specific monetary and inflation targets. The CBS has now been granted additional autonomy from the Treasury, as part of an IMF sponsored reform process, to help with this task. Until recent reforms, the CBS relied on exchange rate management to tackle inflation as most consumer goods are imported, but since exchange controls were lifted, the CBS, with technical help from the IMF, is instead turning to indirect instruments, including new-style Treasury-bill auctions, to help manage liquidity and reserve money supply.

Monetary policy was tightened sharply when the reform process started in late 2008 but was loosened again in the third quarter of 2009 as inflation eased when the CBS scrapped the local asset ratio requirement freeing banks from mandatory investment in Treasury securities and reduced banks' minimum reserve requirement from 12% to 10%. The 91-day T-bill rate dropped from a high of 29.3% in January 2009 to 3.6% in December, and other rates have followed a similar downward trend.

Inflation has turned to deflation after consumer prices fell by 2.5% year-on-year in December. This showed that the price adjustment following the steep devaluation of the rupee in late 2008 had worked its way through the system, helped by the rupee's recovery during 2009 and the decline in both global commodity prices especially oil and transportation costs. Average annual inflation remained comparatively high in 2009, at 31.8% because of sharp price rises earlier in the year.

Fiscal Policy

Strong fiscal discipline enabled Seychelles to turn the budget deficit in 2008 and produce a surplus in 2009 of 2.9% of GDP as a result of strict spending controls as part of the IMF adjustment programme. The good performance in the fiscal budget particularly in the first quarter provided the fiscal space for a supplementary appropriation of about 2% of GDP to meet emergency and strategic expenditure needs.

As part of the 2010 budget, the government implemented sweeping reforms in December 2009, focusing on a fundamental overhaul of the tax system to make taxes fairer and clearer, broaden the tax base and bring the system in line with international norms. The key reforms are cuts in business taxes, the introduction of a personal income tax and the replacement of the goods and services tax by a value-added tax.

External Sector and Foreign Exchange

Total exports are estimated to have declined by 15% to US$ 427.9 million in 2009 from export earnings of US$ 502.3 million in 2008. The decline was as a result of an 8% drop in canned tuna exports to US$198 million and a 36% drop in re-export revenues consisting of mainly oil to US$174 million due of lower world oil prices. Total imports declined significantly by 30% to US$ 703.4 million in 2009 compared to imports of US$ 1,008.2 million. This was as a result of a 42% fall in oil costs to US$228 million and a 44% decline in imports related to foreign direct investment to US$15 million. The net result was a plunge in the merchandise trade deficit to US$280 million in 2009 compared to US$516 million in 2008.

The net surplus on services, income and current transfers was broadly unchanged in 2009 at US$108 million owing to counterbalancing trends. Tourism earnings fell by 12% to US$238 million, although service outflows also declined due to lower carriage, freight and insurance costs. As such, the current-account deficit estimated to have narrowed sharply in 2009 to around 22.5% of GDP as the recession cut trade flows, especially imports, leading to a smaller trade shortfall. The decline in tourism receipts was offset by a fall in service outflows.

The rupee averaged SRs13.6 to the US dollar in 2009 which was 30.3% weaker than the average in 2008. It rebounded strongly from a low of SRs16.8 in February 2009 to SRs11.1 to the US dollar by the end of 2009 in line with a perceived decline in emerging-market risk, renewed confidence in Seychelles' prospects and a rise in foreign-exchange reserves. The external current account deficit is expected to narrow, with exports of tourism services projected to increase as the global economy recovers and additional hotel accommodation comes on line. Gross reserves are expected to rise further to US$153 million by end-2009.

SOMALIA

The continued political instability resulting from the civil war which broke out in 1991 has continued to impact adversely on economic growth throughout Somalia. As a result of this there is little formal economic activity taking place making it very difficult to collect economic data or statistics on the country. As a main source of income Somalia depends heavily on the annual remittances of approximately US$ 825 million from Somalis in the diaspora. However the global economic crisis has put pressure on remittances which are expected to have declined slightly in 2009. The UN estimates that remittances to Somalia declined by 25% in the first half of 2009 owing to increased unemployment among the Somali diaspora.

An estimated 3.6 million people continue to need international food aid as Somalia faces a humanitarian crisis. Many of these people are concentrated in southern and central Somalia, where the delivery of international humanitarian assistance is hampered either by insecurity or by hard-line Islamist administrations suspicious of outside influence.

In the breakaway state of Somaliland (which is yet to be internationally recognized) economic activity is of a more formal nature with the port of Berbera being the main source of revenue. It accounts for about 80% of government revenue. The port is also important within the region as it is used by Ethiopia for international food aid. It is estimated that some 84,000 tonnes of international food aid for Ethiopia passed through the Berbera corridor in 2009. In November 2009, the port received a boost when Saudi Arabia lifted its nine-year ban on imported livestock from Somalia in time for Eid and Hajj season celebrations. The lifting of the ban, which was originally imposed for health reasons, provided an important boost to the largely pastoral economy of Somaliland.

The oil prospects of Somaliland seemed to have brightened in 2009. The Ministry of Water and Mineral Resources announced in early October 2009 that it was adding 6,221 sq km of onshore acreage in Block SL3 to its petroleum-licensing round, which closed in mid-December. The expansion brought the bid round to nine concession blocks, comprising more than 95,845 sq km of both onshore and offshore areas. Concessions were scheduled to be awarded in the first quarter of 2010.

SUDAN

Over the last few years, Sudan's economy has been driven mainly by the oil sector. The significance of this has been more pronounced with increased oil prices over the past few years causing growth to reach double figures. However, the fall in the international price of oil in early part of 2009 caused real GDP growth to fall in 2009 to only 3.8% compared 6.6% in 2008. Sudan's oil output is currently around 470,000 barrels/day (b/d). Although some new oil has been coming on stream, this has tended to be offset by downward fluctuations in output from blocks 1, 2 and 4. Moreover, a number of exploration wells drilled during the past year have not yielded any oil, prompting several oil companies to pull out of Sudan.

The government of Sudan continues to be keen to boost the non oil sector and diversify the economy. The main of focus has been on agriculture which was highlighted in the five-year plan launched in 2007.

Monetary Policy

Downward pressure on inflation was not as strong as that experienced by neighbouring countries. Following the sharp recession which caused a decline in inflation, prices fell only marginally in 2009 and by the end of the year, they had started to edge up again. Annual inflation is estimated to have averaged 12.9% in 2009 compared to 14.3% in 2008.

Fiscal Policy

The budget deficit is estimated to have narrowed in 2009. Total revenues are estimated to have been at SP17.9 billion while government spending stood at SP23.8 billion. The government was moderately successful in reining in expenditure and improving revenue collection in response to the temporary collapse in oil revenue in late 2008 and the first quarter of 2009.

In 2009, Sudan carried out some tax reforms with a cut in the corporate income tax rate from 30% to 15%. These reforms are meant to simplify the tax system and are part of the programme of reforms Sudan is carrying out in consultation with the IMF.

External Sector and Exchange Rates

In the first half of 2009, total exports declined significantly to stand at US$ 3 billion compared to US$ 11 billion in the first half of 2008. Of these, petroleum exports accounted for US$ 2.7 billion while non petroleum exports stood at US$ 371 million. The main constituents of the petroleum exports was crude at US$ 2.2 billion while the main constituents for non petroleum exports was gold at US$ 124 million and sesame seeds at US$ 65.8 million. Imports during the first half of 2009 stood at US$ 4.9 billion compared to US$9.4 billion in the first half of 2008. Both Machinery and equipment and manufactured goods were the main components of imports standing at US$ 1.3 billion of total imports for the first half of 2009.

Estimates show that total exports in 2009 will decline significantly reflecting the lower oil prices to US$ 8.5 billion while imports are estimated to decline also to US$ 7.4 billion. The Sudanese pound depreciated against the US dollar in 2009 to stand at SP2.32 compared to SP2.09 in 2008. The Central Bank operates a managed float of the pound through foreign-currency purchases and daily limits on the trading band, sometimes intervening to smooth out volatility related to oil exports and FDI flows.

Economic Environment

TANZANIA

Although there was no major direct impact on the Tanzanian banking sector, the global financial crisis impacted Tanzania through trade (including key services such as tourism and transport), and capital flows (including FDI). Real GDP growth is expected at 5.5% in 2009, which is significantly lower than the previous year's real GDP growth but higher than originally forecast for 2009 at 5%. The upward revision from 5% to 5.5% was due to the growth in the informal sector while the slow down in growth was mainly attributed to the mining, manufacturing, and construction sectors. The tourism sector was also not spared the impact of the global financial crisis as the number of international arrivals are estimated to have declined by 10.6% to reach 697,131 during the first eleven months of 2009.

Monetary Policy

Monetary policy was eased in 2009 with interest rates falling sharply since March 2009, as treasury-bill auction volumes were reduced and commercial banks scaled back private sector lending due to the uncertain prospects for the real economy and interest rates becoming negative in real terms. Inflationary pressures remained significantly high during 2009 and emanated from high food prices which reflected the impact of the drought affecting parts of Northern Tanzania and neighboring countries. Non-food inflation remained low in 2009, largely due to lower international oil prices.

Fiscal Policy

The fiscal deficit widened by almost 3% of GDP, slightly less than targeted. Total domestic revenue collection reached TSh 4,293 billion, implying an 18% growth over 2007/08 but a shortfall of 10% against budget estimate for 2008/09. The shortfall in collection was caused by impacts of the global financial crisis as well as the fact that some of the new revenue measures did not materialize. Tax revenues increased modestly over the previous year, but fell almost 2% of budget reflecting a decline in custom duties, domestic excises, income taxes and non-tax revenues. Recurrent expenditures were close to budget levels, but with a large shortfall (0.8 percent of GDP) in project financing.

External sector and Exchange rate

The overall Balance of Payments remained positive for the year ending December 2009, recording a surplus of US$ 428.9 million up from a surplus of US$148.2 million in the year ending December 2008. The positive development was largely attributed to the narrowing of the current account deficit by 23.4% to a deficit of US$2,208.1 million, following a decline in import bill and an increase in the official current transfers. Imports are estimated to have declined to US$5,775.7 million compared to US$ 6,483.4 million recorded in 2008. This development was largely due to a significant drop in imports of intermediate goods particularly oil products.

Exports for the year ending December 2009 declined by 2% to US$ 2,634 million largely due to a decrease in manufactured exports. Of this, total traditional exports amounted to US$ 470.8 million, an increase of 12.5% compared to the level recorded in 2008. This development is largely due to an increase in the export volumes of coffee, cotton, cashew nuts and cloves which resulted from favourable weather conditions, timely accessibility of agricultural inputs and extension services.

Non-traditional exports amounted to US$ 2,163.2 million of total exports compared to US$ 2,270.6 million recorded in 2008, reflecting a decline in manufactured goods, re-exports and fish products. The export value of manufactured goods was US$ 497.6 million, being lower than US$ 662.3 million recorded in 2008. The decline is partly attributable to the drop in demand for the manufactured products in the neighbouring countries following the global financial crisis. The value of re-exports, mainly wheat, tyres, vehicles and petroleum products went down to US$ 78.9 million from US$ 160.3 million recorded in 2008. Mineral exports amounted to US$ 1,114.8 million compared to the US$ 995.5 million recorded in 2008. This was as a result of an increase in exports of gold and other minerals. The value of gold exports was US$ 1,076.1 million, compared to US$ 932.4 million largely due to a rise in both gold prices in the world market and export volumes.

Services exports comprising of travel and insurance and other business receipts rose to US$ 2,059.6 million from the US$ 1,990.8 million registered in 2008. Travel which accounts for 60% of total service receipts amounted to US$ 1,260.1 million compared to US$ 1,288.7 million in 2008. The shilling depreciated against the US dollar to exchange at TZH 1,320 in 2009.

UGANDA

Uganda has managed to maintain high levels of growth over the past decade due to macroeconomic stability within the economy. However, bottlenecks still exist which need to be tackled such as transport and energy infrastructure to further propel economic growth. In 2009, the economy continued to grow and showed resilience despite the global economic crisis. The economy is estimated to have grown by 6.6% during 2009, which was slower than in 2008 but still one of the fastest growth rates in the world during the global recession.

In fiscal years 2008/09, Uganda is estimated to have grown by 7% compared to 9% in the previous fiscal year. The decline was attributed to a significant decline in the construction industry which is estimated to have declined to 2% in fiscal year 2008/09 compared to the growth of 11% in the previous fiscal year. The wholesale and retail trade sector also suffered a marked drop of 7 percentage points in real growth rate in 2008/09, which is indicative of weakening growth in domestic expenditure.

Two sectors of the Ugandan economy that proved to be resilient to the impact of the global crisis and helped to support the overall GDP growth rate was the agricultural sector which picked up modestly in 2008/09, albeit from a low base, while the 7% growth rate of manufacturing was only slightly less than in the previous year. The growth in informal cross border trade exports to the region, which are dominated by manufactured goods, provided an important boost in demand for this sector.

Monetary Policy

The Bank of Uganda's monetary policy is focused on containing inflation at low and stable levels and supporting economic growth through boosting of aggregate demand within the economy. The Central Bank notes that most of the inflation in Uganda is imported and largely caused by exogenous factors such as high regional food demand and weather patterns. In response to this, the monetary policy has been fairly lose throughout 2009. For the second year in a row, inflation rate was at double digits registering 13% in 2009 compared to 12.1% in 2008. Although inflationary pressures were significant during the year, the started to stem off in the latter part of 2009. Inflationary pressures were mainly driven by food prices, as demand for food remained high following the drought that hit the region causing high imported inflation. However as food prices began to fall in the latter part of the year, inflation started to ease off.

To support economic growth, the Central Bank used interest rates by lowering them to stimulate growth. As such, in March 2009, the Bank of Uganda cut interest rates by 3.3 percentage points and central rates remained low throughout the rest of the year. However, the lending rates charged by commercial banks stayed high with the average rate on shilling-denominated loans ranging between 19% and 24% in 2009.

Fiscal Policy

The government fiscal deficit is estimated to have narrowed to 4.4% of GDP in 2008/09 to 7.7% of GDP in 2007/08. The deficit was as a result of the underperformance in overall expenditures and revenue by 0.3% and 4.3% of GDP respectively. Tax revenues in Uganda shillings fell short of budgeted amounts by 5%, with most of this shortfall attributable to the weak performance of indirect taxes due to low aggregate demand. Total expenditures fell short of the budgeted amount by 20%, because of a 43% shortfall in development expenditures in domestically financed and donor funded projects. The underperformance of donor projects was as a result of lower-than-expected disbursement levels by donors.

External Sector and Foreign Exchange

The global economic crisis affected formal sector exports, tourism and remittances, all of which fell in the second half of 2008/09 compared to the first half of the year. Although import growth also slowed down, partly as a result of the exchange rate depreciation, the trade deficit was larger in 2008/09 than in the previous year by US$ 130 million.

On an annual basis, total exports are estimated to have risen significantly by an estimated 38% in 2009 despite the economic slowdown. This large expansion in exports was as a result of increased informal trade with Uganda's neighbouring countries, in particular Sudan. The informal trade which consists mainly of re-exports of manufactured goods, accounted for over 60% of export earnings in 2009. A high demand for food exports as neighbouring countries experienced drought also accounted fior the exports growth. On the other hand, traditional exports continued to be sluggish in 2009 as a result of stagnated performance in the fish, cotton and coffee exports. Total exports therefore stood at US$3.7 billion compared to US$ 2.7 billion in 2008. Imports grew even more slowly in 2009 and are expected to have averaged US$ 4.2

The Bank has financed many projects in the agricultural industry. Below is a sugar plantation for one of the Bank's clients.

billion. This was as a result of the fall in international oil prices. The trade deficit is thus expected to have narrowed in 2009 to US$ 460 million from US$ 1.3 billion in 2008. The current account balance deficit also narrowed significantly from 5.1% of GDP in 2008 to 0.1% of GDP in 2009.

The Uganda shilling appreciated by almost 20% against the US dollar during the first half of 2009. This was on the back of a weakening dollar caused by the global crisis. The shilling averaged UGX 2,840 against the US dollar during the year. By end-December 2009, the gross foreign reserves amounted to US$ 2,769.3 million, US$ 7.5 million and US$ 468.9 million higher than the November 2009 and December 2008 respective levels. This reserve level was equivalent to 5.7 months of future imports of goods and services.

ZAMBIA

Despite the global financial crisis and earlier fears that Zambia might be hard hit from a drop in commodity prices – in particular copper – the economy showed some resilience with economic growth expected to grow by 6.3% in 2009 compared to 6% in 2008. This increase was supported by growth in the mining, agriculture and construction sectors although the tourism and manufacturing sectors registered lower growth in 2009.

The mining sector is estimated to have grown by 13.1% in 2009 compared to 2.4% in 2008. This was as a result of increased copper production which is estimated to have risen from 575,000 metric tonnes in 2008 to 662,000 metric tonnes in 2009. The increased production was from the commencement of production at Lumwana Copper Mine and increased production capacity from investments at the Konkola Copper Mine, Mopani Copper Mine and Chambeshi Copper Smelter. Furthermore, copper prices which had dropped rather sharply in the second half of 2008, recovered steadily during 2009, reducing the impact of the crisis on the mining sector, and the economy as a whole. A conducive business environment also benefitted the sector.

The agricultural sector also showed strong recovery in 2009 growing by 5.2% compared to 1.9% in 2008. This growth was supported by a bumper maize harvest, with maize production rising by 27.9% to reach 1.9 million metric tones, the highest in 10 years. Government support to the small-scale farmers through the Farmer Input Support Programme added significant value to boosting the agricultural sector in 2009. The construction sector grew by 10% in 2009, as a result of increased public and commercial infrastructure investments, and continued high demand for housing.

However, the impact of the global crisis continued to adversely affect both the tourism and manufacturing sectors in Zambia. It is estimated that the tourism sector declined by about 15% in 2009 in terms of passenger arrivals at the airport and 23% drop in tourist arrivals to national parks. The adverse impact on the manufacturing sector was mainly from lower demand and rising costs of imported inputs.

Monetary Policy

Monetary policy in 2009 was aimed at achieving an end-year inflation target of 10% despite the revision of the projection to 12%. In pursuing its monetary policy objective, the Bank of Zambia utilized Open Market Operations and Government securities auctioning to maintain reserve money within the programmed growth path. These actions were complemented by prudent fiscal management.

Broad money growth in 2009 is projected to have declined to 10.7% from the 21.8% recorded in 2008. This is mainly attributed to a decline in domestic credit growth, which is projected to have slowed down to 12.3% from the 37.8% recorded in 2008. The lower growth in domestic credit is mainly attributed to weaker domestic demand and stricter lending conditions by commercial banks.

Inflation showed a downward trend throughout 2009 and averaged 10.2% compared to 13.4% in 2008. The downward pressure was from falling food prices, strengthening of the kwacha and the stability in domestic fuel prices and transport costs.

Fiscal Policy

The global financial crisis had a negative effect on Zambia's fiscal operations. Total spending during 2009 was lower by 8.3% at K14,013.1 billion compared to a target of K15,279.0 billion for the fiscal year. Total revenues were also 13.2% lower than the targeted revenues for 2009 at K11,647.8 billion. Lower revenues were attributed mainly to the significant reduction in trade taxes, in particular excise duty which declined by 40.3%, import VAT by 29.1% and customs duty by 23.0%. In contrast, domestic taxes performed well, and are expected to be above target by 7.4% by the end of 2009. This was attributed to the exceptional performance of mining tax revenue, which is projected to have been above target by 40.4%. As a result, the overall fiscal deficit is expected to widen marginally to 2.5% of GDP in 2009.

External Sector and Exchange rates

There was a significant drop in the level of international trade in 2009 compared to 2008 with both imports and exports falling by 26% and 19% respectively, during the first half of 2009. The reduction in imports was largely attributed to the steep depreciation of the Kwacha during the first half of the year, while exports were affected by weaker global demand for metals. However, the balance of payments position improved in the second half of 2009.

The current account deficit is projected to narrow to US $483.9 million in 2009, from the US $1,049.5 million recorded in 2008. This is largely attributed to the decline in imports, which are projected to fall by 24% in 2009. This also reflects, in part, the slowdown in investment expenditure owing to the effects of the global crisis.

Metal export earnings are expected to have declined to reach US $2,780.1 million in 2009. This indicates a 30.5% decline compared to the US $4,001 million recorded in 2008. The fall in earnings was mainly due to the lower world metal prices particularly during the first quarter of 2009. Export volumes of metal on the other hand rose by a projected 9.6% 648,489 metric tonnes from the 591,735 metric tonnes recorded in 2008. Non-traditional export earnings are also expected to have declined by 6.4% to US $820.2 million in 2009 compared to US $876.2 million earned in 2008.

During the first half of this year, the exchange rate of the Kwacha depreciated against major international currencies. This was mainly reflective of the continuing adverse effects arising from the global financial crisis in 2008. During the second half of the year however, the Kwacha began to appreciate following improved investor confidence in the Zambian economy. Against the US dollar, the kwacha appreciated to K4,612 in 2009 compared to K5,043 in 2008. Gross international reserves increased to US $1,887 million by end November 2009, representing 5 months of imports, the highest level in the last thirty-eight years.

ZIMBABWE

In 2009, the Zimbabwean economy, under the Short Term Economic Recovery Programme (STERP) experienced relative macro-economic stability which resulted in significant improvement in capacity utilisation in almost all sectors of the economy. This improvement marked the beginning of economic recovery and growth in the country with real GDP estimated to have grown by 4.7%, higher than the earlier projections of 3.7% for 2009. This growth was mainly supported by improvements in the agriculture, mining, manufacturing and tourism sectors.

The agricultural sector which registered cumulative declines of 85.7% since 2002 registered a 10% growth in 2009. This was on the back of good performances in tobacco, maize, groundnuts, soyabeans, sorghum and tea following a normal rainfall season and financial support from Government, contract farming arrangements as well as that of cooperating partners including SADC. However, cotton, wheat, sugar, dairy and horticulture output decreased slightly as a result of financial constraints.

The manufacturing sector, which recorded a cumulative decline of 91.1% between 2000 and 2008, is estimated to have registered a positive growth of 8% in 2009. The improved economic environment as a result of market friendly stabilisation policies such as the adoption of stable multiple currencies, liberalisation of the current account and the removal of price controls and distortions, as well as surrender requirements on exporters' foreign exchange earnings helped boost the manufacturing sector.

The mining sector which suffered closure of mines and operated well below capacity is estimated to have grown by about 2% compared to a decline of 22.1% in 2008. The removal of the forced foreign exchange surrender requirement and full retention of marketing proceeds significantly boosted the mining sector. Growth in output was particularly noted in gold, platinum and coal production which grew by 14.6%, 0.1% and 1% respectively. Despite the global recession the tourism sector is expected to grow by 6.5% in 2009 compared to -9% in 2008 mainly from the stable political environment.

Monetary Policy

The dollarization of the economy has rendered monetary policy somewhat ineffective in Zimbabwe. The government is looking at the possibility of joining the Rand Monetary Area. After the record high inflation in 2008, inflation fell dramatically following the dollarization of the economy. However, the high base set earlier in 2008 meant that overall inflation remained high in 2009. Once the highs of 2008 dropped out of the calculations, inflation rate fell rapidly. As a result of this, consumer prices are estimated to have fallen by 7.7% during 2009 with more than two-thirds of the prices of items in the consumer basket declining. Significant drops were noted in food prices which fell by 15%. However increases were noted in education, transport and housing costs, including water and electricity.

Fiscal Policy

Fiscal policy during 2009 was guided by the Cash Budgeting principle as outlined in STERP. During the first ten months of 2009, total tax revenue collections amounted to US$ 685.0 million, against a target of US$ 789.8 million with the main contributors being Value Added Tax (VAT) which contributed 39% of total revenue while Customs duty and Pay As You Earn (PAYE) contributed 26% and 15% respectively to total revenue. Cumulative expenditure during the first ten months of 2010 amounted to US$ 640.8 million, representing 46.1% of the 2009 Revised Budget of US$ 1.391billion with re-current expenditures amounting to US$ 608.7 million making up 95% of the total expenditures.

External Sector and Foreign Exchange

Total exports for the first ten months of 2009 are expected to have declined by 17.7% from US$1.2 billion to US$1 billion, as a result of a decline in agricultural exports. Annual estimates also indicate that total exports will post a decline to US$ 1.1 billion in 2009 compared to US$ 1.4 billion in 2008. Imports are also expected to have declined by 15% from US$1.5 billion to US$1.3 billion during the first eight months of 2009. Annual estimates on the other hand indicate that imports will rise only marginally in 2009. This will result in the trade deficit widening in 2009 due to the bigger drop in exports compared to imports. The current account deficit is estimated to have stood at US$ 929 million in 2009, increasing to more than US$ 1.9 billion on the overall balance of payments when capital outflows are taken into account.

Zimbabwe attracted US$ 225 million in private-sector capital flows in 2009, including US$ 105 million in foreign direct investment and US$ 67 million in portfolio investment. The private sector also borrowed US$ 310 million offshore, while banking sector inflows totaled US$ 18 million. Official grants (aid) amounted to US$391 million, while the outflows stood at US$ 1.38 billion, leaving a net capital-account deficit of US$ 490 million. Unrecorded outflows are estimated at US$ 491 million, leaving an overall deficit of US $1.9 billion. Zimbabwe received US$ 420 million in a special SDR allocation from the IMF and US$ 53 million was saved through debt-rescheduling. External debt arrears now exceed US$ 4.6 billion, or 115% of GDP.

Operations

BUSINESS DEVELOPMENT

The year saw increased marketing efforts directed at increasing the Bank's foothold in the growth sectors of agribusiness, information and communication technology, real estate, infrastructure and manufacturing. Co-financing arrangements with local commercial banks helped the Bank in securing a number of deals. Emphasis on repeat business from existing clients also helped the Bank to further the demand for its financial products during the year. Diversification of the loan portfolio remained one of the important business development guidelines of the Bank in 2009.

LOANS APPROVED

In the year, a total of US$ 88.45 million was approved for project finance while in trade finance, letters of credit amounting to US$ 587.24 million and disbursements worth US$ 474.21 million inclusive of rollovers were recorded. The aggregate approvals for project and trade finance transactions, standing at US$ 1,149.90 million, represents a 1.8% increase over the US$ 1,397 million recorded in 2008.

As at the end of 2009, cumulative values of approved loans were over US$ 5.65 billion in project finance and trade finance, representing an increase of 26% over the cumulative figures as at end of 2008.

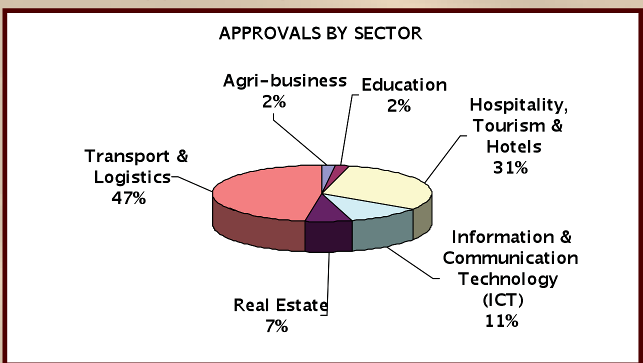
Further details of the Bank's interventions in project and trade finance windows are given as follows.

PROJECT FINANCE

The sectoral distribution of approved interventions were as follows: agribusiness – US$ 1.83 million (2%); education – US$ 1.6 million (2%); hospitality, tourism & hotels – US$ 27 million (31%); information & communication technology (ICT) – US$ 10 million (11%); real estate – US$ 6 million (7%); transport & logistics – US$ 42.05 million (47%).

Chart 1 shows the sectoral distribution of approved project finance.

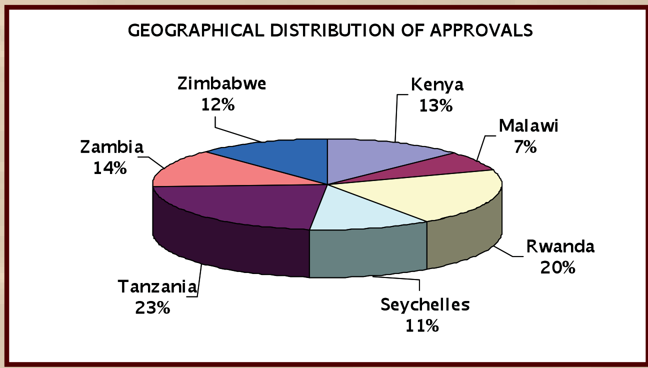
Chart 1 - Approvals by Sector



The geographical distribution of approved project finance interventions were as follows: Kenya – US$ 11.6 million (13%), Tanzania – US$ 20 million (23%), Malawi – US$ 6 million (7%), Zambia – US$ 12 million (14%), Seychelles – US$ 10 million (11%), Rwanda – US$ 18.05 million (20%), Zimbabwe – US$ 10.83 million (12%).

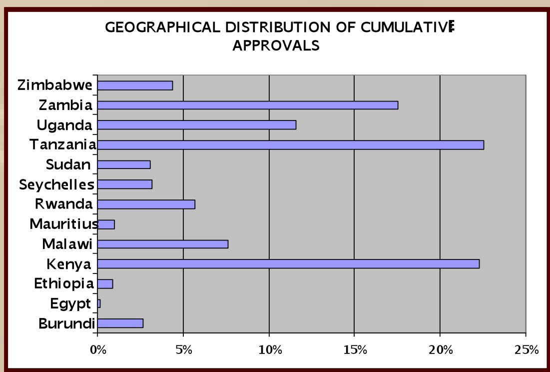
Chart 2 shows the geographical distribution of the approved project finance loans.

Chart 2 – Approvals by Country



At year end, the cumulative project finance approvals were distributed by country as shown in Chart 3.

Chart 3 – Cumulative Project approvals



The overall distribution of the Bank's intervention reflects the opportunities available from time to time in each Member State. The Bank, however, strives to diversify its intervention across its Member States and across various sectors so as to mitigate concentration risk.

PROJECT COMMITMENTS

The key milestones in project finance are commitment and disbursement of loans. In 2009, the value of projects committed amounted to US$ 95.8 million, a decrease of 21% over 2008 commitments which stood at US$ 121.2 million. The global economic crisis and world recession contributed significantly to the reduction of approvals and commitments in 2009.

PROJECT DISBURSEMENTS

Project loans amounting to US$ 77.5 million were disbursed in the year, well above the disbursements of US$ 65.3 million recorded in 2008. Comparatively, this represents an increase of 19% over the 2008 disbursements.

Wananchi Group Holdings – Kenya

The Bank approved a term loan of US$ 10 million for Wananchi Group Holdings to finance the cost of fibre optic, co-axial cable and other capital expenditure items for expansion of its telecommunication infrastructure network in Nairobi and Mombasa, Kenya.

The project will contribute to the development of the communications sector in the region through increased internet and video penetration thus contributing to achievement of the Millennium Development Goals. The project has a regional focus and will contribute to inter connectivity among COMESA countries.

St. Christopher's Holdings Limited – Kenya

The Bank approved an application from St. Christopher's Holdings Ltd for a loan of KShs 120 million (approximately US$ 1.6 million) to finance construction costs for the new kindergarten and primary schools. The purpose of the loan was to complete the construction of buildings at the Karen campus. The project has a strong development impact through increasing education opportunities, which are among the key Millennium Development Goals.

Lilongwe City Mall Limited – Malawi

The Bank approved a loan amounting to US$ 6 million for Lilongwe City Mall Limited to finance the cost of developing a shopping mall in Lilongwe city, Malawi. The project is being promoted by a number of institutional investors in Malawi.

The retail sector in Malawi is picking up and is indicative of the availability of disposable incomes in the economy. The development of modern shopping malls will further enhance developments in the retail sector, which has the added advantage of down stream benefits to the manufacturing and other sectors as outlets for the trading of locally as well as imported goods. These developments have led to an increased attraction of investments from within the region, manifested in the coming in of the anchor tenants from Zambia, Zimbabwe and South Africa to establish a presence in Lilongwe.

RwandAir Express Sarl - Rwanda

The Bank's loan of US$ 13.05 million to RwandAir Express Sarl was used to finance the acquisition of two factory-reconditioned CRJ-200 LR 43 Seater aircrafts. This acqusition is part of a larger project which entails procuring aircrafts, spares, airport equipment and construction of a hangar and office block in order to revamp Rwanda's national airline.

The project will generate foreign currency create healthy competition in the aviation industry and have a multiplier effect touching on all facets of the economy.

Hotel Vision Limited - Rwanda

The Bank's approved term loan of US$ 5 million to Hotel Vision Limited will finance the completion of a four-star hotel in Kigali, Rwanda. The project is co-financed with Rwanda Development Bank and Kenya Commercial Bank.

Felicite Island Development Limited - Seychelles

The Bank approved a term loan of USD US$10 million for Felicite Island Development Limited. The loan is required to finance the construction and equipping of 35 upmarket luxury-resort villas at Zic Payson Resort, Seychelles. The project is co-financed with Afrexim bank and Nouvobanq.

The company will generate employment opportunities for 240 people. In addition, the project will be an important source of much needed foreign currency.

Tanzania Ports Authority - Tanzania

The Bank was invited by CRDB Bank to participate in a US$ 60 million syndicated loan to finance the replacement of the single point mooring and pipeline systems at Ras Mjimwema-Kigamboni, Dar es Salaam. The project is promoted by Tanzania Ports Authority and PTA Bank's participation is US$ 20 million.

Hotelier Limited - Zambia

The Bank approved a term loan of US$ 12 million for Hotelier Limited to finance the establishment of a 142-room 5-star hotel in Lusaka, Zambia.

RwandAir received a loan of US$13.05 million to finance acqusition of two aircraft as a part of larger project which entails buying additional aircraft and equipment. Below, one of the aircraft after it landed at Kigali International Airport.

The project will facilitate further development of the tourism sector which is one of the strategic growth industries identified by the government of Zambia.

Star Africa Corporation Limited – Zimbabwe
The Bank's term loan of US$ 3 million to Star Africa Corporation Limited of Harare, Zimbabwe is to finance the renewal of the company's haulage capacity through the acquisition of 20 new horses.

Eastern Highlands Plantations Limited - Zimbabwe
A term loan of US$ 1.83 million was approved for Eastern Highlands Plantations Limited to finance the purchase of mechanical plucking machines, tractors, other farm equipment and motor vehicles. The company's operations involve production of bulk teas of which approximately 80% is exported. The project is projected to generate approximately USD 4 million per annum in foreign currency on average for Zimbabwe.

Tarcon (PVT) Limited - Zimbabwe
The Bank approved a term loan of US$ 6 million for Tarcon Limited to finance purchase of various earthmoving equipment required for civil and road construction.

Following the economic recovery currently being witnessed in Zimbabwe, the project will increase available capacity for civil, engineering and earthmoving contractors and playing an important role in the reconstruction of the economy and reversing the down turn experienced in the recent past.

TRADE FINANCE
The Trade Finance Department continued to book substantial business volumes in 2009 despite the global financial meltdown and the resultant crash in world commodity prices.

On the import financing side, activity was spurred by large ticket petroleum transactions in Member States of Zambia and Kenya while new opportunities were explored in Malawi. Financing of other strategic commodities such as fertilizer and agro-chemicals also played a substantial role in driving import volumes.

On the export financing side, the Bank continued to support traditional exports namely cotton and tobacco as well as re-exports or petroleum products into the COMESA region. Significant interventions were also made in support of the mining sector.

Letters of Credit volumes ended the year at US$ 587.24 million, a slight drop from the 2008 performance of US$633 million. Loan disbursements for the year amounted to US$ 474 million representing a 19 percent reduction from the US$ 588 million recorded in 2008.

Overall, despite a challenging economic environment, the Bank recorded total trade volumes of US$ 1.06 billion compared to the US$ 1.22 billion of volumes transacted in 2008.

The Bank maintained its existing clients and also forged new strategic relationships accross its member countries. With this strong client base, the outlook for 2010 looks promising and the Bank aims to upscale levels of interventions in strategic commodities such as fuel, fertilizer and agricultural products.

PORTFOLIO MANAGEMENT
2009 was relatively more challenging than the previous years in terms of portfolio performance due to the slowdown in demand for products and services and the overall economic growth. In portfolio management, the Bank focussed on the implementation of short and medium term turnaround strategies. Portfolio improvement strategies included enhancing capacity in such areas as effective relationship management, closer monitoring and supervision of projects' implementation.

The global economic crisis created a financing gap in the region which opened up new financing opportunities for the Bank in the form of working capital financing.

In 2009, the Bank continued to expand its short term financing interventions aimed at easing borrowers' working capital constraints, and availed bridge financing to mitigate the short term impact of the economic crisis. The strategy was to ensure borrowers continued to sustain their levels of business operations and thereby maintained regular loan servicing.

In addition, the Bank strengthened cooperation with co-financiers, local correspondent and with credit refrence bureaus within its Member States.

SOCIAL AND DEVELOPMENTAL IMPACT
During the year, the Bank continued to align its strategic initiatives and operational programmes in order to maximize on the developmental impact of its activities. In this regard, a framework for capturing basic development impact indicators such as employment

generation (both direct and indirect), foreign currency generation and savings, fiscal impact, co–financing generation, cross border trade activity and empowerment of women was instituted.

Creation of Jobs

The projects approved in 2009 are estimated to contribute to the creation and maintenance of approximately 878 direct jobs with a further 3,003 indirect jobs being created mainly during the projects construction period. It is estimated that approximately 70% of the jobs created will go towards supporting low income households with annual incomes of less than USD 3,000.

Co – financing

In 2009, in partnership with various local, international and regional Banks, the Bank undertook financing of projects amounting to US$ 187 million. More importantly, this partnership helped in further deepening the respective local financial markets in understanding, identifying and mitigating project risks hence enhancing their capacity to engage in future project financing.

Fiscal Impact

The approved projects will also impact directly on the generation of tax revenues for the Bank's Member States. The Banks intervention results in broadening the tax base and hence increased revenue collection in Member States. The total fiscal impact is an increase in revenue of USD 388 million.

Women Empowerment

In recognition of the importance of the role women play in society, the Bank has deliberately set out to ensure that the projects approved have a direct impact and will result in the development of women in society. Approximately 50% of the jobs created both directly and indirectly will be held by women. Going forward this is a key deliverable that the Bank will monitor closely.

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT:

In 2009, the Bank continued to improve its environmental and social management systems. In this respect, the process of standardizing the reporting systems and procedures is at advance stage.

The Bank continued to create awareness through monitoring and supervision on the need for compliance with the local and international environmental requirements. On specific projects, the Bank ensured that sufficient mitigants were put in place to address identified environmental and social risks.

CORPORATE AFFAIRS:

The Board of Governors:

The Board of Governors held its 25th Annual Meeting in Addis Ababa, Ethiopia, on 10th July 2009. Hon. Sufian Ahmed, Minister of Finance and Economic Planning of the Federal Republic of Ethiopia, was appointed as the Chairman of the Board of Governors, succeeding Hon. Syda Bbumba, the Minister of Finance, Planning and Economic Development of Uganda.

During the Annual Meeting, the Board of Governors adopted the 2008 Annual Report and the 2008 Audited Financial Statements and also appointed Ernst & Young as the Bank's External Auditors with effect from July 1, 2009. The Board also reviewed various strategic issues including progress on implementation of the First General Capital Increase.

The Board of Directors:

In 2009, the Board of Directors held four regular meetings. During the meetings, the Board reviewed progress on the implementation of the budgeted programmes and activities and provided strategic and policy direction as appropriate. The Board also reviewed reports of its Audit Committee and provided guidance on implementation of various recommendations.

HUMAN RESOURCES AND ADMINISTRATION

The Bank's human resource policies are aimed at attracting, developing and retaining a motivated workforce. In pursuit of these objectives, the Bank continued to redefine and augment its human resource policies in order to addresses the key issues impacting on productivity and employment relationships.

During the year, a survey was conducted to gauge employees' satisfaction level. Based on the results of this survey, a number of measures have been implemented. The Bank's organizational structure was revised to reflect the sharp increase in the volume of departmental activities and responsibilities over the years. Similarly, job descriptions were revised to reflect the new organizational structure.

In order to keep pace with the dynamics of change management, the Bank continued with its staff development programs to improve competencies at all levels in the Bank. By utilising ADB's Technical Assistance Grant, the Bank carried out various residential and in-house training programs aimed at improving competencies in the areas of leadership development, risk management, performance management, project management and environmental risk management.

The Bank's staff complement as at December 31, 2009 stood at 71 compared to 69 in 2008. Of the 71 employees, 47 were professionals and the rest were support staff. The ratio of female employees remained unchanged at 30 percent of the workforce.

Risk and Compliance

During the year, the Bank continued with its search for an appropriate Credit Risk Assessment System. The system is expected to be implemented in 2010 after the conclusion of a scope and design consultancy to be funded by the African Development Bank. Preparations for institutionalising an effective Operational Risk Software (ORS) System to capture the operations of the Bank in terms of identification, measuring, monitoring and overall management of operational risk were undertaken.It is expected that the ORS System will be fully operationalised by end of 2010.

In 2009, the Bank continued to monitor and evaluate on a continuous basis the key risk exposures to ensure that they are well within its prescribed risk appetite levels. At the management level, the Bank-wide Intergrated Risk Management Committee reviewed, on a regular basis, the Bank's risk profile and took the necessary mitigatory measures. At the Board level, the Audit Committee played its oversight role in the review of various risks facing the Bank.

Information Services

In 2009, preparatory work geared to undertaking a gap-analysis of the SAP system in 2010, was carried out. Automation of various risk profiling and Know-Your-Customer processes were undertaken. An upgrade of the communication links between the Bank's three office locations was also undertaken.

Operations

FINANCIAL MANAGEMENT

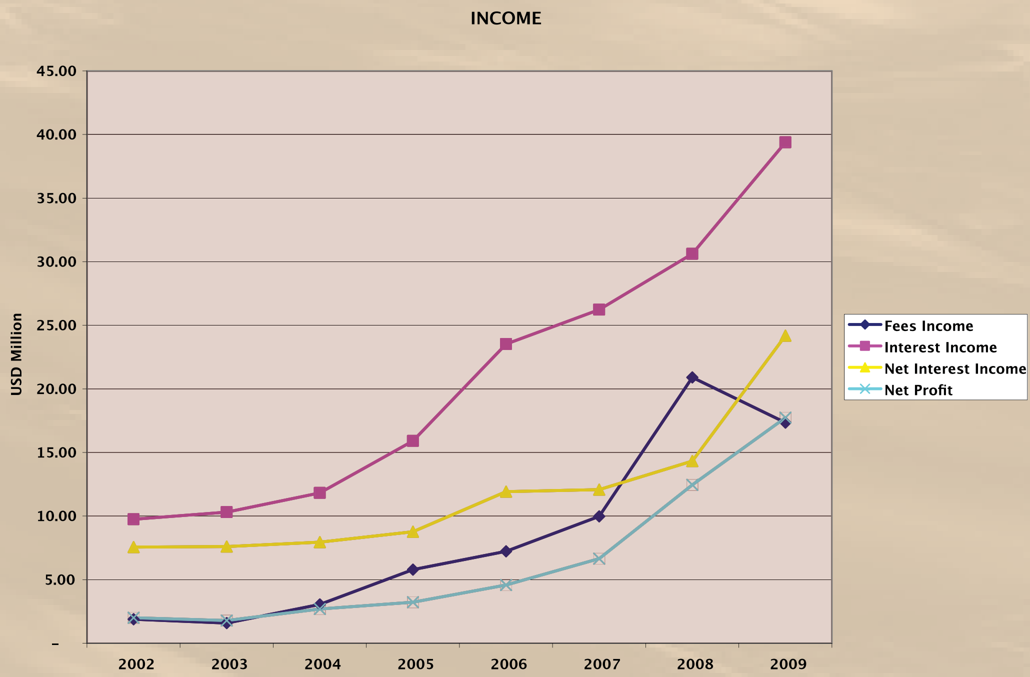
The year 2009 was a difficult year due to the effects of the global recession. For the Bank however, 2009 was another successful year characterized by increased business volumes, income, and resource flows.

Income Growth

Interest income grew by 29% to US$ 39.39 million from US$ 30.63 million in 2008 despite falling US dollar interest rates. The increase is attributable to the growth in the Bank's portfolio of project finance and trade finance loans. Net interest income rose from US$ 14.33 million in 2008 to US$ 24.19 million, a 69% increase.

Fee income dropped by 17% below the 2008 level of US$ 20.90 million to US$ 17.35 million. A reduction in trade finance disbursements due to the fall in commodity prices, especially petroleum, accounts for the fee income reduction. Despite the fee reduction, operating income increased by 19% to US$ 43.08 million from the US$ 36.14 million earned in 2008.

The graph below depicts the steady growth in the Bank's income over the last eight years.



Funding Costs

The Bank kept its borrowing costs under control resulting in a 7% reduction from US$ 16.30 million in 2008 to US$ 15.2 million in 2009.

In addition to drawing on short term facilities, the Bank received new advances from the African Development Bank, China Development Bank and Export-Import Bank of India. These borrowings were used to fund the growth of the Bank's project finance and trade finance portfolios. The Bank also issued the first tranche of its Ushs 40 billion local currency bond in Uganda.

Operating Expenditure and Provisions

In 2009, the Bank controlled its operating expenses which reduced by 3% to US$ 8.24 million from US$ 8.51 million in 2009. This reduction was secured despite the significant growth in business operations.

Provisions for impairment of project and trade finance loans amounted to US$ 17.77 million, a 13 percent increase from the US$ 15.71 million recorded in 2008. The increase was necessitated by specific factors which adversely impacted some of the non performing loans. As at 31st December 2009, cumulative impairment provisions amounted to US$ 43.57 million, or 6.6% of total loans.

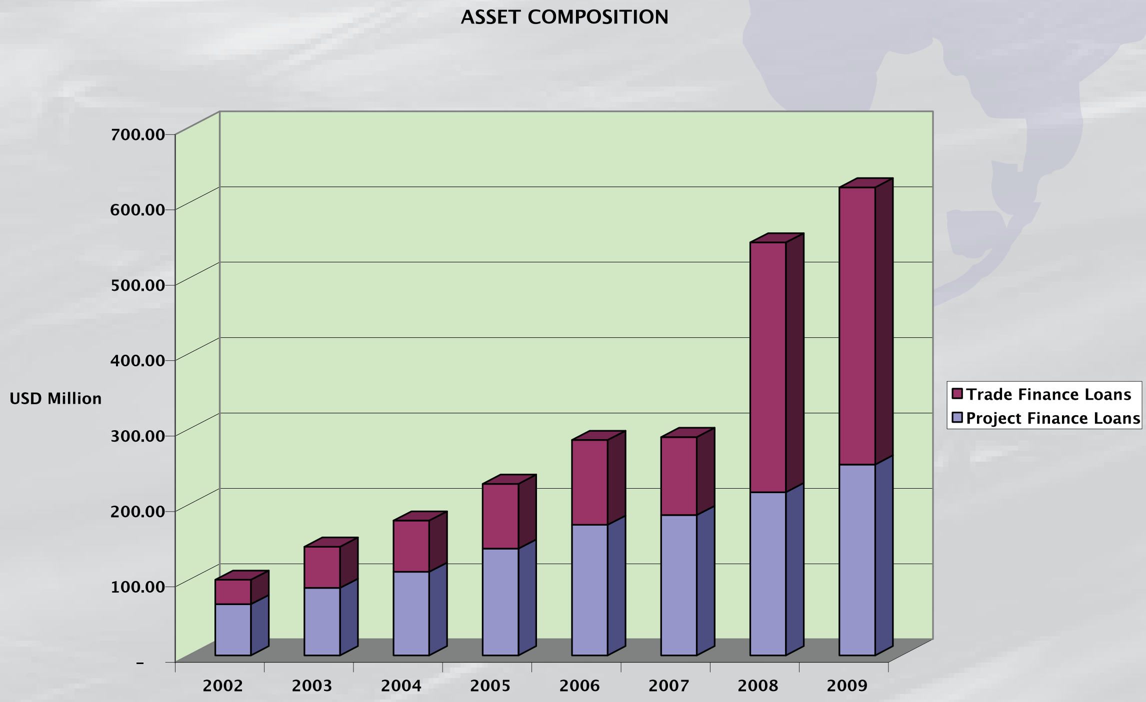
Profit for the Year

Overall, the Bank posted a US$18.03 million net profit compared to the US$ 12.46 million recorded in 2008. The improved income levels coupled with stringent cost controls account fior this favourable performance.

Assets and Liabilities

The Bank's assets base grew by 30% from US$ 636.95 million in 2008 to US$ 826.15 million. The growth is as a result of new disbursements made in 2009 which led to a US$ 36.38 million net increase in trade finance loans and US$ 36.64 million net increase in project finance loans. Net trade finance loans stood at US$ 367.48 million from US$ 331.10 million in 2008 while project finance loans rose to US$ 253.13 million from US$ 216.48 million in 2008. Cash and cash equivalents grew to US$ 171.33 million from US$ 59.95 million in 2008 on account of improved collections especially on structured trade facilities.

The graph below presents the growth trend of projects and trade finance loans over the eight year period 2002 to 2009.



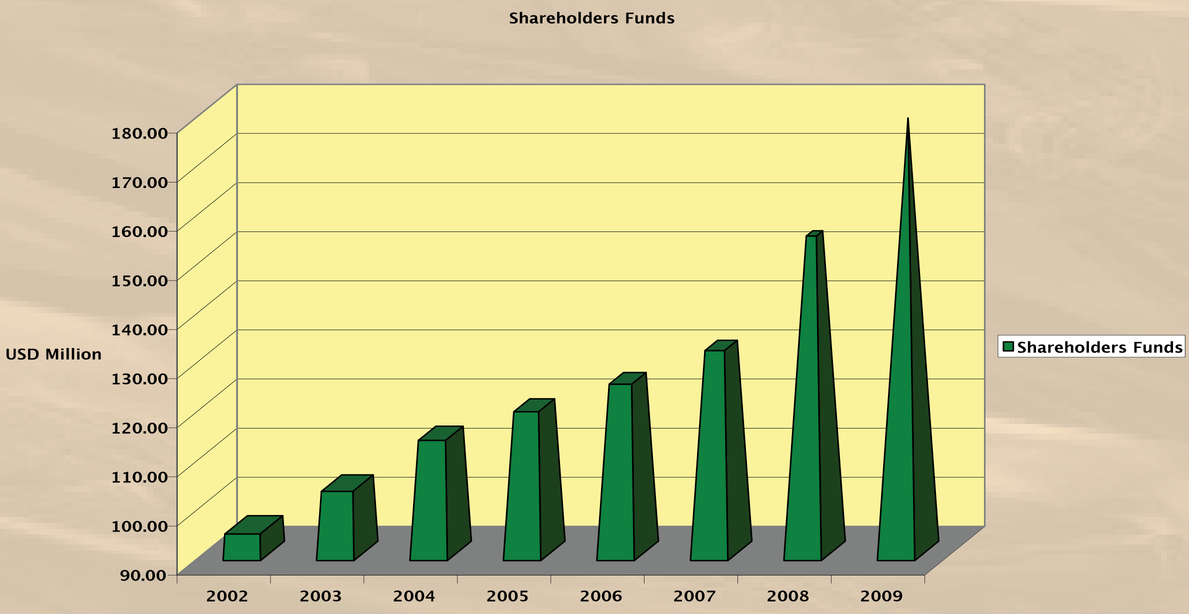
Excluding cash collections, the Bank's asset growth was largely funded from borrowings. Long-term borrowings amounted to US$ 185.67 million compared to US$ 161.95 million in 2008, a 15% increase. Short-term borrowings amounted to US$ 265.43 million compared to US$ 252.76 million in 2008, a 5% increase.

The paid-in capital as at 31st December, 2009 was US$ 133.62 million compared to US$ 127.90 million in 2008.

Capital subscriptions amounting to US$ 5.72 million were received from The People's Republic of China (US$ 3.85 million), Seychelles (US$ 0.61 million), Burundi (US$ 0.58 million), Ethiopia (US$ 0.50 million) and Zimbabwe (US$ 0.2 million). In addition to capital subscriptions, shareholders' funds were boosted by the year's US$ 18.03 million net profit.

Economic Environment

The chart below depicts the growth in the Bank's shareholders' funds since 2002.



Resource Mobilisation

Despite the global financial crisis, the Bank continued to receive overwhelming support from its funding partners. As at 31st December 2009, the Bank had a total of US$ 706 million in facilities availed by its correspondents. Of this amount, US$ 457 million had been utilized, leaving US$ 249 million available for utilization.

In June 2009, the Bank signed its seventh medium term line of credit with the Export and Import Bank of India worth US$ 15 million. With the signing of this facility, the cumulative level of funding availed amounts to US$ 75 million thereby positioning Export-Import Bank of India as one of the largest providers of medium term financing to the Bank.

In December 2009, the Bank signed a US$ 50 million medium term line of Credit with Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V. (FMO) under a syndicated arrangement involving the European Financing Partnership. Of the total funding, FMO's share amounted to US$ 20 million with the balance of US$ 30 million being provided by the European Investment Bank, CDC Group, PROPARCO, DEG, FINNFUND, IFU, NORFUND, SIFEM and SWEDFUND, amongst other members of the European Financing Partnership.

Also in December 2009, the Bank signed short term funding agreements with the OPEC Fund for International Development (US$ 20 million) and Standard Chartered Bank (US$ 20 million). During the year, the International Islamic Finance Corporation enhanced its short term facilities to the Bank to US$ 40.0 million from the previous level of US$ 13 million. Other correspondent partners who augmented their facilities to the Bank significantly during the year include Mauritius Commercial Bank, Commerzbank and HSBC.

In August 2009, the Bank received regulatory approvals to issue a Uganda Shillings 40 billion (approximately US$ 20 million) medium-term local currency bond programme. The first tranche of Uganda Shillings 4.45 billion (about US$ 4.5 million) was issued and listed on the Uganda Securities Exchange in October 2009.

Despite the global financial crisis, the Bank maintained its positive credit rating of AA (long term, national) and BB (long term, international) issued by Global Credit Rating of South Africa and BB- (long term, international) given by Fitch International.

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

PTA BANK

Eastern & Southern African Trade and Development Bank

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Corporate Information

BOARD OF GOVERNORS

Hon. Sufian Ahmed	Minister of Finance and Economic Development Federal Democratic Republic of Ethiopia Chairman of the Board of Governors
Hon. Mrs. Sydda Bbumba	Minister of Finance, Planning and Economic Development Republic of Uganda
Hon. Pravind Kumar Jugnauth	Vice Prime Minister and Minister of Finance and Economic Development Republic of Mauritius
H.E. Clotilde Nizigama	Minister of Finance Republic of Burundi
H.E. Mohamed Soilihi	Minister of Finance, Budget, Trade and Investments Federal Islamic Republic of Comoros
H.E. Ali Farah Assoweh	Minister of Economy, Finance and Planning Republic of Djibouti
H.E. Dr. Rachid Mohamed Rachid	Minister of Foreign Trade and Industry Republic of Egypt
Hon. Berhane Abrehe	Minister of Finance State of Eritrea
Hon. Amos Kimunya	Minister for Trade Republic of Kenya
Hon. Ken E. Kandodo	Minister of Finance Republic of Malawi
Hon. Tendai Biti	Minister of Finance Republic of Zimbabwe
Hon. John Rwangombwa	Minister of Finance and Economic Planning Republic of Rwanda
Hon. Danny Faure	Vice President, Minister of Finance & Trade, Public Administration and Information Communication Technology Republic of Seychelles
Hon. Dr. Awad Ahmed Aljaz	Minister of Finance and National Economy Republic of Sudan
Hon. Mustafa Mkulo	Minister of Finance United Republic of Tanzania
Hon. Dr. Situmbeko Musokotwane	Minister of Finance and National Planning Republic of Zambia
Mr. Mandla Gantsho	Vice President - Operations South, East and North African Region African Development Bank (AfDB)
H.E. Dr. Zhou Xiaochuan	Governor, People's Bank of China People's Republic of China

Corporate Information
(Continued)

DIRECTORS

Mr. Melaku Kifle	Director for Burundi, Malawi, Ethiopia and Seychelles Chairman
Mr. William A. Mlaki	Director for Tanzania, Egypt and Djibouti Vice-Chairman
Mr. Moses K. Nawa	Director for Kenya, Zambia and Somalia
Mr. Latanraj Ghoorah	Director for Zimbabwe, Rwanda, Eritrea and Mauritius
Mr. Elhafiz A. E. Taha	Director for Uganda, Sudan and Comoros
Mr. Gao Dingxin	Director for China
Mr. Bu Yu	Alternate Director for China
Dr. Kordje Bedoumra	Diector for the African Development Bank (AFDB)
Mr. Bhargav Purohit	Alternate Director for the African Development Bank (AfDB)
Dr. Michael Gondwe	President

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Report of the Directors

FOR THE YEAR ENDED 31 DECEMBER 2009

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 2009.

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 year are set out on page 54.

3. BOARD OF GOVERNORS

The current members of the Board of Governors are shown on page 49.
In accordance with the Bank's Charter, each member shall appoint one Governor.

4. DIRECTORS

The current members of the Board of Directors are shown on page 50.
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.

5. AUDITORS

The Bank's auditors, Ernst & Young, were appointed during the year and have indicated 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

....
27th April 2010

Statement of Director's Responsibilities

FOR THE YEAR ENDED 31 DECEMBER 2009

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 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

27th April 2010

Director

27th April 2010

Report of the Independent Auditors to the Members of Eastern and Southern African Trade and Development Bank (PTA BANK)

We have audited the accompanying financial statements of Eastern and Southern African Trade and Development Bank (PTA Bank), as set out on pages 54 to 111 which comprise the statement of financial position as at 31 December 2009 and the statement of 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.

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 the requirements of the Bank's Charter. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 our 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, we considered the internal controls relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the Bank's internal controls. 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 accompanying financial statements give a true and fair view of the state of financial affairs of the Bank as at 31 December 2009 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Bank's Charter.

Ernst & Young

Certified Public Accountants (Kenya)

Nairobi

27th April 2010

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 USD	2008 USD
Interest income	4	39,390,977	30,625,033
Interest expense	5	(13,013,044)	(15,001,373)
Other borrowing costs	6	(2,186,874)	(1,294,048)
		(15,199,918)	(16,295,421)
Net interest income		24,191,059	14,329,612
Fees and commissions income	7	17,352,559	20,895,710
Other income	8	1,540,803	910,225
		18,893,362	21,805,935
Operating Income		43,084,421	36,135,547
EXPENDITURE			
Operating expenses	9	(8,238,517)	(8,505,658)
Impairment on project and trade finance loans	18	(17,768,989)	(15,712,084)
Fair value gain on equity investments	19	295,759	1,247,411
Impairment on other assets	11	-	(128,928)
Net foreign exchange gain / (losses)		657,286	(577,295)
TOTAL EXPENDITURE		(25,054,461)	(23,676,554)
PROFIT FOR THE YEAR		18,029,960	12,458,993
Other comprehensive income, net of taxes		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS		18,029,960	12,458,993
EARNINGS PER SHARE:			
Basic and diluted	12	346.22	248.31

Statement of Financial Position

AS AT 31 DECEMBER 2009

	Note	2009 USD	2008 USD
ASSETS			
Cash and balances held with other banks	13	171,329,961	59,951,714
Investment in Government securities – held to maturity	14	4,417,290	-
Other receivables	15	2,044,257	2,157,262
Trade finance loans	16	367,484,613	331,099,730
Project finance loans	17	253,130,003	216,486,954
Equity investments – at fair value through profit or loss	19	9,695,360	9,374,406
Deferred expenditure	20	1,910,878	1,299,749
Property and equipment	21	16,130,498	16,559,933
Intangible assets	22	11,835	21,140
TOTAL ASSETS		826,154,695	636,950,888
LIABILITIES AND EQUITY			
LIABILITIES			
Short term borrowings	23	265,428,006	252,755,924
Long term borrowings	24	185,673,482	161,953,458
Collection account deposits	25	190,424,260	59,359,962
Provision for service and leave pay	26	2,762,672	2,441,863
Other payables	27	3,485,104	5,812,873
TOTAL LIABILITIES		647,773,524	482,324,080
EQUITY			
Paid up capital	28	133,622,440	127,898,037
Retained earnings		44,758,731	26,728,771
TOTAL EQUITY		178,381,171	154,626,808
TOTAL LIABILITES AND EQUITY		826,154,695	636,950,888

The financial statements were approved by the board of directors on ....27th April..........2010
and were signed on its behalf by:

President

Director

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital USD	Retained earnings USD	Total equity USD
At 1 January 2008	117,548,133	14,269,778	131,817,911
Capital paid (Note 28)	10,349,904	-	10,349,904
Total comprehensive income for the year	-	12,458,993	12,458,993
At 31 December 2008	127,898,037	26,728,771	154,626,808
At 1 January 2009	127,898,037	26,728,771	154,626,808
Capital paid (Note 28)	5,724,403	-	5,724,403
Total comprehensive income for the year	-	18,029,960	18,029,960
At 31 December 2009	133,622,440	44,758,731	178,381,171

Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 USD	2008 USD
OPERATING ACTIVITIES			
Net cash generated from operations	29 (a)	110,129,309	14,709,438
INVESTING ACTIVITIES			
Purchase of property and equipment		(33,039)	(16,500)
Purchase of intangible assets		-	(3,762)
Proceeds on disposal of property and equipment		59	6,866
Purchase of equity investments		(25,195)	(1,425,892)
Net cash used in investing activities		(58,175)	(1,439,288)
FINANCING ACTIVITIES			
Receipt of capital subscriptions	28	5,724,403	10,349,904
INCREASE IN CASH AND CASH EQUIVALENTS		115,795,537	23,620,054
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		59,951,714	36,331,660
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	29 (c)	175,747,251	59,951,714
FACILITIES AVAILABLE FOR LENDING	29 (d)	249,647,336	251,327,135

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2009

1. ESTABLISHMENT

Eastern and Southern African Trade and Development Bank ("the Bank") was established by 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.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements are prepared in compliance 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 financial statements are presented in United States Dollars.

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).

The Bank presents its statement of financial position broadly in the order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 35.

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

(b) Income recognition

Income from loans and investments is recognised in the statement of comprehensive income when it accrues, by reference to the principal outstanding and the interest rate applicable. Interest on arrears of payable capital is taken to revenue when received.

Fees and commissions are recognised at the time of effecting the transaction.

Dividend from investments is recognized when the Bank's right to receive payment has been established. Grants are accounted for when received or where firm commitment for the grant has been received. However, designated projects (restricted) grants are taken into income on the basis of related expenditure incurred, and any unexpended grants are carried forward as a liability at the year-end.

Unutilised funds are carried forward as unexpended grants.

(c) Borrowing costs

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.

(d) Foreign currencies

Assets and liabilities in foreign currencies are translated into United States Dollars at the rates of exchange ruling at year end. Foreign currency transactions during the year are translated at rates ruling at the dates of the transactions. The resulting exchange differences are dealt with in the statement of comprehensive income.

(e) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment loss.

Depreciation is calculated at rates which are estimated to write-off the cost of property and equipment in equal annual installments over their expected useful lives. The expected useful life of each class of asset is as follows:

Motor vehicles	5 years
Office equipment	5 years
Furniture and fittings	10 years
Buildings	50 years

Freehold land is not depreciated.

An item of property and equipment is derecognized upon diposal 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 the statement of comprehensive income in the year the asset is derecognized. The assets residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively if appropriate.

Notes to the Financial Statements *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2009

2. SIGNIFICANT ACCOUNTING POLICIES (cont)

(f) Intangible assets
Intangible assets comprise the cost of acquired computer software programmes. Expenditure on acquired computer software programmes is capitalised and amortised using the straight-line method over their estimated useful lives, generally not exceeding five years.

(g) Impairment
At each year end, the Bank reviews the carrying amounts of its financial, tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognized in the statement of comprehensive income.

(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.

(i) Allowances for credit losses
Allowances for credit losses are made against loans when, in the opinion of the directors, recovery is doubtful. The aggregate allowances which are made during the year, less amounts released and recoveries of credit losses previously written off are dealt with in the statement of comprehensive income. Credit losses are written off in part or in whole when the extent of the loss has been confirmed.

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

(k) Share capital
In accordance with Article 7 of the Charter, issued and called-up shares are paid for in installments by the members. Payable capital is credited as share capital and installments not yet due and due but not paid at year end are deducted there from.

(l) Financial instruments
A financial asset or liability is recognised when the Bank becomes party to the contractual provisions of the instrument.

Financial assets
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.

Financial assets at fair value through profit or loss.
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. Derivatives are also categorised as held for trading.

Loans, advances and receivables
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. Loans and advances are recognised when cash is advanced to borrowers.

Held to maturity
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 an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale.

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) financial assets held to maturity.

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 are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans, advances and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are included

Notes to the Financial Statements *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2009

2. SIGNIFICANT ACCOUNTING POLICIES (cont)

in the statement of comprehensive income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previouslyrecognised in equity is recognised in the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income when the Bank's right to receive payment is established.

Financial liabilities

After initial recognition, the Bank measures all financial liabilities other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

(m) Borrowings

Borrowings represent drawn downs on facilities extended to the Bank. These borrowings are recognised initially at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost using the effective interest method.

(n) Payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(o) Fair Value

Fair values of quoted investments in active markets are based on quoted bid prices. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models. Equity securities for which fair values cannot be measured reliably are measured at cost less impairment.

(p) Impairment of financial assets

The Bank assesses at each year end 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.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, 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 been incurred) 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 recognized in the statement of comprehensive income. 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.

As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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, 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. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are included in the statement of comprehensive income.

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 the statement of comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (cont)

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

(q) Employee entitlements

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

A provision is made for the estimated liability of annual leave and service pay as a result of services rendered by employees up to the year end.

(r) 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 the income statement in the year to which they relate. The funds of the scheme are held independently of the Bank's assets.

(s) 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.

(t) Comparatives

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

(u) Cash and cash equivalents

For the purpose of the cash flow statement, 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.

(v) 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 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. Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets.

ii. Estimates and uncertainties

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

iii. 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 2009

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

The Bank has adopted the following new standards, amendments and interpretations as at 1 January 2009.

- IFRS 7 Financial Instruments: Disclosures
  The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. Estimated fair value is the amount at which an instrument could be exchanged in a current transaction between willing parties other than enforced or liquidation sale. The fair value measurement disclosures are presented in note 30. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 35.
- IFRS 8 Operating Segments. This standard requires disclosure of information about the Bank's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Bank. IFRS 8 replaces IAS 14 Segment Reporting upon effective date. IFRS 8 disclosures are shown in note 31.
- IAS 1 (Revised 2007) Presentation of Financial Statements. The revised IAS 1 was issued in September 2007 and is effective for accounting periods beginning on or after 1 January 2009 with early application permitted. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income, which presents income and expense items recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements.
  The Bank has chosen to present one single statement as it has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has retrospective restatement, or reclassified items in the financial statements.
- IAS 23 Borrowing Costs (effective from 1 January 2009) - The IASB issued an amendment to IAS 23 in April 2007. The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. During the year, there were no borrowings for the acquisition of capital assets.

Improvements to IFRSs

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Bank.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Bank's chief operating decision maker does review segment assets and liabilities, the Bank has disclosed this information in Note 31.
- IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The Bank analysed whether the expected period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the statement of financial position.

Notes to the Financial Statements (continued)

- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2009 upon cash settlement.
- IAS 16 Property, Plant and Equipment: Replaces the term "net selling price" with "fair value less costs to sell". The Bank amended its accounting policy accordingly, which did not result in any change in the financial position.
- IAS 18 Revenue: IASB has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:
    - Has primary responsibility for providing the goods or service
    - Has inventory risk
    - Has discretion in establishing prices
    - Bears the credit risk
- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance: Loans granted with no or low interest will not be exempt from the requirement to impute interest.

Interest is to be imputed on loans granted with below-market interest rates. This amendment did not impact the Bank's financial position.

- IAS 23 Borrowing Costs: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Bank has amended its accounting policy accordingly which did not result in any change in its financial position.
- IAS 36 Impairment of Assets: When discounted cash flows are used to estimate 'fair value less cost to sell additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment had no immediate impact on the financial statements of the Bank because the recoverable amount of its cash generating units is currently estimated using 'value in use'. The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Bank as the annual impairment test is performed before aggregation.
- IAS 38 Intangible Assets: Expenditure on advertising and promotional activities is recognised as an expense when the Bank either has the right to access the goods or has received the service. This amendment has no impact on the Bank because it does not enter into such promotional activities. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed. The Bank reassessed the useful lives of its intangible assets and concluded that the straight-line method was still appropriate.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- IFRS 2 Share-based Payment
- IFRS 7 Financial Instruments: Disclosures
- IAS 8 Accounting Policies, Change in Accounting Estimates and Error
- IAS 10 Events after the Reporting Period
- IAS 19 Employee Benefits
- IAS 27 Consolidated and Separate Financial

Statements

- IAS 28 Investments in Associates
- IAS 31 Interest in Joint Ventures
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 40 Investment Properties
- IAS 39 Financial Instruments: Recognition and

Measurement

- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a

Foreign Operation

- IAS 32, Amendments to IAS 32 Financial Instruments
- IFRIC 13, Customer Loyalty Programmes
- IFRIC 15 Agreement for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The Bank has chosen not to early adopt the following standards, amendments and interpretations to existing standards that were issued, but not yet effective, for

Notes to the Financial Statements *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2009

accounting periods beginning on 1 January 2009. The Bank expects that adoption of these standards, amendments and interpretations will not to have significant impact on the Bank's financial statements in the period of their initial application but additional disclosures will
be required.

- IFRS 2 Share-based Payment (Revised): The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions and is effective for the periods beginning on or after 1 January 2010
- IFRS 3 (Revised) Business Combinations and IAS 27 (Revised) Consolidated and Separate Financial Statements (effective I July 2009)- The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests. The change in accounting policy had no material impact on the earnings per share.
- IAS 24 Related Party Disclosure (Revised): The revised Standard was issued in November 2009 and shall be applied retrospectively for annual periods beginning on or after 1 January 2011. The objective of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties. This Standard shall be applied in: identifying related party relationships and transactions; identifying outstanding balances, including commitments, between an entity and its related parties; identifying the circumstances in which disclosure of the items in (a) and (b) is required; and determining the disclosures to be made about those items. This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent, venturer or investor presented in accordance with IAS 27 Consolidated and Separate Financial Statements. This Standard also applies to individual financial statements.
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items - These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. As per management assessment, the amendment has no impact on the financial position or performance of the Bank as the Bank has not entered into such edges.
- IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement: This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.
- IFRIC 17 - Distribution of Non Cash Assets to Owners-effective for periods beginning on or after 1 July 2009-This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to

shareholders either as a distribution of reserves or as dividends. This standard has no effect on the Bank's financial statements.

- IFRIC 18 -Transfers of Assets from Customers effective for periods beginning on or after 1 July 2009 - This interpretation provides guidance on how to account for items of property, plant and equipment received from customers, or cash that is received and used to acquire or construct specific assets. This interpretation only applies to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. This standard has no effect on the Bank's financial statements.

Notes to the Financial Statements *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2009

4. INTEREST INCOME	2009 USD	2008 USD
On loans and facilities:		
Project finance loans	19,909,944	17,507,360
Trade finance loans	18,816,367	11,968,319
	38,726,311	29,475,679
On placements:		
Investments	664,666	1,149,354
	39,390,977	30,625,033

5. INTEREST EXPENSE

Interest payable on funds borrowed from:		
Banks and financial institutions	9,949,364	10,735,987
Other institutions	3,063,680	4,265,386
	13,013,044	15,001,373

6. OTHER BORROWING COSTS

Facility and management fees	1,370,028	613,890
Amortisation of deferred expenditure	468,539	372,931
Drawdown fees	258,000	200,000
Other costs	53,795	58,037
Bank commissions and charges	36,512	49,190
	2,186,874	1,294,048

7. FEES AND COMMISSIONS INCOME

Upfront fees in trade finance	6,891,089	8,876,608
Letter of credit fees in trade finance	5,225,626	8,202,332
Letter of credit fees in project finance	2,504,457	804,452
Appraisal fees on project finance	1,059,839	1,487,494
Other fees in trade finance	698,631	1,158,680
Commitment fees on project finance	680,330	272,188
Other project finance fees	292,584	93,956
	17,352,559	20,895,710

Notes to the Financial Statements *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2009

8. OTHER INCOME	2009 USD	2008 USD
Asset recoveries	1,289,440	328,773
Grant income *	96,547	279,178
Other income	93,417	37,699
Dividends receivable	42,709	239,680
Interest on staff loans	18,631	18,054
Profit on disposal of property and equipment	59	6,841
	1,540,803	910,225

*The grant is provided by the African Development Bank (AfDB) to fund various consultancies and training. The proceeds are credited to the AfDB liability account and included in other payables (note 27). Transfers are made to income upon utilisation of the grant funds.

	2009 USD	2008 USD
9. OPERATING EXPENSES		
Staff costs (note 10)	5,682,366	5,867,496
Official missions	577,133	656,290
Consultants and advisers	568,134	545,761
Depreciation of property and equipment	462,474	468,958
Board of Directors meetings	218,311	186,890
Board of Governors meetings	142,553	142,381
Business promotion	54,060	72,085
Audit fees	30,000	30,000
Amortisation of intangible assets	9,305	13,628
Other operating expenses	494,181	522,169
	8,238,517	8,505,658
10. STAFF COSTS		
Salaries and wages	3,664,950	3,484,519
Staff provident fund contributions	696,265	669,643
Service and leave pay expenses	475,630	631,041
Other costs	845,521	1,082,293
	5,682,366	5,867,496

11. IMPAIRMENT ON OTHER ASSETS	2009 USD	2008 USD
Appraisal fees	-	94,333
Other debtors	-	34,595
	-	128,928

12. EARNINGS PER SHARE

Earnings per share is calculated by dividing the total comprehensive income for the year of USD 18,029,960 (2008: USD 12,458,993) by the weighted average number of ordinary shares in issue during the year. The weighted average number of shares in issue during the year was 52,076 (2008: 50,176).

Diluted earnings per share is the same as earning per share as there were no potential dilutive ordinary shares.

13. CASH AND BALANCES HELD WITH OTHER BANKS	2009 USD	2008 USD
Current accounts – Note 13 (i)	3,322,014	3,035,246
Call and term deposits with banks – Note 13 (ii)	168,007,947	56,916,468
	171,329,961	59,951,714
(i) Current accounts:		
Amounts maintained in United States Dollars (USD)	1,065,520	2,078,562
Amounts maintained in other currencies:		
Kenyan Shillings	1,848,972	557,884
Euro	303,667	283,287
British Pounds	53,105	46,374
Ugandan Shillings	22,961	2,640
Tanzania Shillings	16,310	64,430
Burundi Francs	9,240	842
Malawi Kwacha	1,020	218
South African Rand	701	478
Japanese Yen	518	531
	2,256,494	956,684
	3,322,014	3,035,246

The average effective interest rate on current accounts was 0.15% (2008: 1.50%) per annum.

Notes to the Financial Statements *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2009

13. CASH AND BALANCES HELD WITH OTHER BANKS (Continued)

	2009 USD	2008 USD
(ii) Call and term deposits with banks:		
United States Dollars (USD)	118,105,621	53,254,612
Amounts maintained in other currencies:		
Malawi Kwacha	44,671,825	-
Kenya Shillings	5,143,496	3,433,383
Tanzania Shillings	-	145,761
Uganda Shillings	87,005	82,712
	49,902,326	3,661,856
	168,007,947	56,916,468

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

	2009	2008
United States Dollars	0.24%	2.32%
Kenya Shillings	7.49%	7.86%
Tanzania Shillings	4.56%	3.43%
Uganda Shillings	7.02%	6.81%
Malawi Kwacha	9.00%	-

14. INVESTMENTS IN GOVERNMENT SECURITIES	2009 USD	2008 USD
Treasury bills: Held to maturity		
Maturing within 98 days after year end		
Face value	1,398,524	-
Less: Unearned discount	(16,535)	-
	1,381,989	-

The treasury bills, issued by the Bank of Uganda, represented investments made in Uganda Shillings bearing interest at a rate of 8.50% per annum. These investments are managed by Standard Chartered Bank Uganda Limited and will mature on April 8th , 2010.

14. INVESTMENTS IN GOVERNMENT SECURITIES (Continued)

	2009 USD	2008 USD
Treasury bonds: Held to maturity		
Maturing within 147 days after year end:		
Face value	2,997,787	-
Add: Accrued coupon interest	37,514	-
	3,035,301	-
Total Investment in Government Securities	4,417,290	-

The treasury bonds, issued by the Bank of Uganda, represented investments made in Uganda Shillings bearing interest at a rate of 8.50% per annum. These investments are managed by Standard Chartered Bank Uganda Limited and will mature on April 29th, 2010 and May 27th, 2010.

15. OTHER RECEIVABLES

	2009 USD	2008 USD
Appraisal fees	1,240,454	1,306,468
Staff loans and advances	456,674	514,761
Prepayments	183,340	65,832
Sundry receivables	111,485	183,541
AfDB grant receivable*	52,304	86,660
	2,044,257	2,157,262

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 4.30% (2008 - 4.46%) per annum.

* AfDB grant receivable represents amounts utilized by PTA Bank but which are yet to be recovered from African Development Bank (AfDB) grant funds.

16. TRADE FINANCE LOANS

	2009 USD	2008 USD
Principal loans	381,575,808	340,708,828
Interest receivable	7,550,312	7,411,032
Gross loans	389,126,120	348,119,860
Impairment on trade finance loans (note 18)	(21,641,507)	(17,020,130)
Net loans	367,484,613	331,099,730

The weighted average effective interest rate was 5.96% (2008 - 6.40%) per annum.

16. TRADE FINANCE LOANS (Continued)	2009 USD	2008 USD
Maturing:		
Within one year	325,774,743	267,032,225
One to three years	63,351,377	81,087,635
	389,126,120	348,119,860

The gross non performing trade finance loans was USD 34,408,000 (2008 - USD 22,589,459). The impairment provisions related to these loans amounted to USD 21,641,507 (2008 - USD 12,005,438) hence the carrying value of the loans amount to USD 12,766,493 (2008 - USD 10,584,021).

17. PROJECT FINANCE LOANS	2009 USD	2008 USD
Approved loans less cancellations	722,951,292	651,854,001
Less: Unsigned loans	(144,663,670)	(161,030,985)
Loans signed	578,287,622	490,823,016
Less: Undisbursed - Letters of credit opened	(35,009,318)	(21,858,606)
- Letters of credit not yet opened	(81,856,564)	(87,049,898)
Loans disbursed	461,421,740	381,914,512
Interest capitalised	29,167,360	26,292,834
Loans repaid	(226,391,590)	(171,455,256)
Principal loan balances	264,197,510	236,752,090
Interest receivable	10,857,167	6,792,520
Gross loans	275,054,677	243,544,610
Impairment on project loans (note 18)	(21,924,674)	(27,057,656)
Net loans	253,130,003	216,486,954

The average effective interest rate was 8.08% (2008 - 9.51%) per annum.

	2009 USD	2008 USD
Maturing:		
Within one year	72,616,979	47,787,558
One year to three years	87,435,956	77,894,296
Three to five years	42,639,416	39,688,229
Over five years	72,362,326	78,174,527
	275,054,677	243,544,610

The aggregate non performing project loans was USD 43,083,513 (2008 - USD 47,571,308). The impairment provisions related to these loans amounted to USD 21,924,674 (2008 - USD 27,057,656) hence the carrying value of the loans amounted to USD 21,158,839 (2008 - USD 20,513,652) at the end of the year.

18. IMPAIRMENT ON PROJECT AND TRADE FINANCE LOANS

The movement in provisions is as follows:

	Project loans USD	Trade finance loans USD	Total provisions USD
At 1 January 2008	24,820,497	7,713,190	32,533,687
Amounts written-off	(4,070,845)	(69,543)	(4,140,388)
Amounts written-back	(12,500)	(15,097)	(27,597)
Charge for the year	6,320,504	9,391,580	15,712,084
At 31 December 2008	27,057,656	17,020,130	44,077,786
At 1 January 2009	27,057,656	17,020,130	44,077,786
Amounts written-off	(16,549,648)	(1,390,616)	(17,940,264)
Amounts written-back	(340,331)	-	(340,331)
Charge for the year	11,756,997	6,011,992	17,768,989
At 31 December 2009	21,924,674	21,641,507	43,566,180

The Bank assesses at every year end all its loans and recognizes provisions for individual loans when there is objective evidence of impairment loss. Loans for which there is no objective evidence of impairment loss are grouped in two categories; Acceptable and Special Mention in line with the Bank's loan classification policy, based on their credit risk characteristics and collectively assessed for impairment.

After collectively assessing the grouped loans for impairment, there was no objective evidence of impairment and hence no collective impairment losses have been recognized in these financial statements.

In the opinion of the directors, the current levels of provisions reflect a prudent assessment of the quality of the bank's loan portfolio.

Notes to the Financial Statements *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2009

19. EQUITY INVESTMENTS

(i) Equity participation - fair value through profit or loss:

	Share-holding %	Original cost USD	Fair value gain/ (losses) to 31 Dec 2007 USD	Additions at cost in year to 31 Dec 2008 USD	Fair value gain/ (losses) to 31 Dec 2008 USD	Fair value as at 31-Dec 2008 USD	Additions at cost in year to 31 Dec 2009 USD	Fair value gain/ (losses) to 31 Dec 2009 USD	Fair value as at 31-Dec 2009 USD
PTA Reinsurance	6.57	1,683,176	525,914	841,588	169,275	2,378,365	-	718,425	3,096,790
Aureos East Africa Fund	5.00	1,578,619	-	(226,429)	795,057	2,373,676	25,195	(92,068)	2,306,803
African Export Import Bank	0.48	1,182,080	292,659	782,080	231,479	1,706,218	-	277,612	1,983,830
Tononoka	5.00	628,653	(300,000)	28,653	-	328,653	-	(64,524)	264,129
Tanruss	4.06	1,755,000	(702,647)	-	-	1,052,353	-	-	1,052,353
AFGEM	0.33	48,400	-	-	(48,400)	-	-	-	-
Africa Trade Insurance Company	7.69	100,000	(100,000)	-	100,000	100,000	-	(3,890)	96,110
Gulf African Bank	5.33	1,435,141	-	-	-	1,435,141	-	(539,796)	895,345
			-	-	-				
		8,411,069	(284,074)	1,425,892	1,247,411	9,374,406	25,195	295,759	9,695,360

19. EQUITY INVESTMENTS (CONTINUED)

The Bank's main equity investments are in African Export-Import Bank, PTA Reinsurance, Aureos East Africa Fund and Africa Trade Insurance Company. 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.

	2009 USD	2008 USD
(ii) Installments paid:		
Total subscribed capital	10,057,645	10,032,450
Less: Installments not due – note 19 (iii)	(1,621,381)	(1,621,381)
Installments paid as at end of year – note 19 (iv)	8,436,264	8,411,069
(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	421,381	421,381
	1,621,381	1,621,381
(iv) Movement in the installments paid:		
At beginning of year	8,411,069	6,985,177
Additions at cost – note 19 (i)	25,195	1,425,892
At end of year	8,436,264	8,411,069

20. DEFERRED EXPENDITURE

	2009 USD	2008 USD
COST		
At beginning of year	2,528,160	2,192,915
Additions	1,079,668	335,245
At end of year	3,607,828	2,528,160
AMORTISATION		
At beginning of year	1,228,411	855,480
Charge for the year	468,539	372,931
At end of year	1,696,950	1,228,411
NET BOOK VALUE		
At end of year	1,910,878	1,299,749

20. DEFERRED EXPENDITURE (Continued)

Deferred expenditure comprises export credit insurance costs and costs incurred to raise, issue and list local currency bonds in the Bank's member countries. These costs are amortised over the life of the underlying borrowings and bonds.

21. PROPERTY AND EQUIPMENT

At 31 December 2009:	Freehold land and building USD	Motor vehicles USD	Furniture and fittings USD	Office equipment USD	Total USD
COST					
At 1 January 2009	18,520,559	279,867	598,150	879,760	20,278,336
Additions	-	-	3,872	29,167	33,039
Disposals	-	(4,504)	-	(2,205)	(6,709)
At 31 December 2009	18,520,559	275,363	602,022	906,722	20,304,666
DEPRECIATION					
At 1 January 2009	2,221,824	172,055	547,056	777,468	3,718,403
Charge for the year	370,411	40,956	11,510	39,597	462,474
Disposals	-	(4,504)	-	(2,205)	(6,709)
At 31 December 2009	2,592,235	208,507	558,566	814,860	4,174,168
NET BOOK VALUE					
At 31 December 2009	15,928,324	66,856	43,456	91,862	16,130,498
At 31 December 2008					
COST					
At 1 January 2008:	18,520,559	352,501	598,371	889,697	20,361,128
Additions	-	-	2,755	13,744	16,499
Disposals	-	(72,634)	(2,976)	(23,681)	(99,292)
At 31 December 2008	18,520,559	279,867	598,150	879,760	20,278,336
DEPRECIATION					
At 1 January 2008	1,851,413	203,733	531,467	762,098	3,348,711
Charge for the year	370,411	40,956	18,540	39,051	468,958
Disposals	-	(72,634)	(2,951)	(23,681)	(99,266)
At 31 December 2008	2,221,824	172,055	547,056	777,468	3,718,403
NET BOOK VALUE					
At 31 December 2008	16,298,735	107,812	51,094	102,292	16,559,933

21. PROPERTY AND EQUIPMENT (Continued)

Land and buildings represent costs incurred in the construction of the Bank's Headquarters Building in Burundi. The land on which the building stands was granted by the Government of Burundi. The value of this land has not been reflected in the financial statements.

Included in furniture, fittings and office equipment are assets with a cost of USD 1,302,913 (2008: 1,175,578) which were fully depreciated. The normal annual depreciation charge on these assets would have been USD 208,925 (2008:- USD 193,997).

		2009 USD	2008 USD
22.	INTANGIBLE ASSETS		
	COST		
	At beginning of year	1,070,378	1,066,616
	Additions	-	3,762
	At end of year	1,070,378	1,070,378
	AMORTISATION		
	At beginning of year	1,049,238	1,035,610
	Charge for the year	9,305	13,628
	At end of year	1,058,543	1,049,238
	NET BOOK VALUE		
	At end of year	11,835	21,140

Intangible assets relate to cost of acquired computer software.

Included in intangible assets is software with a cost of USD 1,033,803 (2008: 999,530) which was fully amortised. The normal annual amortisation charge on these assets would have been USD 206,761 (2008 - USD 199,906).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 DECEMBER 2009

23. SHORT TERM BORROWINGS

(a) CERTIFICATES OF DEPOSIT

Lender	Date of renewal/ advance	Maturity Date	Currency	2009 USD	2008 USD
Southern African Media Development Fund	11/06/2009	11/06/2010	USD	700,000	700,000
PTA Reinsurance	29/06/2009	29/03/2010	USD	444,009	437,259
PTA Reinsurance	09/10/2009	12/07/2010	USD	410,559	-
PTA Reinsurance	30/07/2009	30/04/2010	USD	855,674	848,438
PTA Reinsurance	17/08/2009	18/05/2010	USD	1,414,055	1,374,119
PTA Reinsurance	17/08/2009	18/05/2010	USD	118,428	115,111
PTA Reinsurance	25/06/2009	25/03/2010	USD	537,142	-
PTA Reinsurance	08/07/2009	08/04/2010	USD	1,397,186	-
PTA Reinsurance	27/07/2009	27/04/2010	USD	638,120	-
PTA Reinsurance	30/07/2009	27/04/2010	USD	399,960	-
PTA Reinsurance	27/07/2009	27/04/2010	USD	630,721	-
PTA Reinsurance	10/08/2009	10/05/2010	USD	837,189	-
PTA Reinsurance	28/08/2009	27/05/2010	USD	441,171	-
PTA Reinsurance	09/09/2009	09/06/2010	USD	298,191	-
PTA Reinsurance	11/09/2009	11/06/2010	USD	400,000	-
PTA Reinsurance	22/09/2009	14/06/2010	USD	130,000	-
PTA Reinsurance	21/09/2009	21/06/2010	USD	95,037	-
PTA Reinsurance	24/09/2009	22/06/2010	USD	379,980	-
PTA Reinsurance	08/10/2009	05/07/2010	USD	40,480	-
PTA Reinsurance	06/10/2009	05/07/2010	USD	101,296	-
PTA Reinsurance	13/10/2009	12/07/2010	USD	250,902	-
PTA Reinsurance	21/10/2009	20/07/2010	USD	169,960	-
PTA Reinsurance	28/10/2009	26/07/2010	USD	263,803	-
PTA Reinsurance	06/08/2009	08/02/2010	USD	106,214	-
PTA Reinsurance	03/08/2010	08/02/2010	USD	154,694	-
PTA Reinsurance	30/11/2009	30/08/2010	USD	162,097	-
PTA Reinsurance	11/12/2009	11/09/2010	USD	704,426	-
PTA Reinsurance	28/12/2009	20/09/2010	USD	874,975	-
PTA Reinsurance	18/12/2009	20/09/2010	USD	1,150,000	-
PTA Reinsurance	02/07/2009	02/04/2010	USD	720,472	700,000
PTA Reinsurance	21/10/2009	20/07/2010	USD	504,960	-
Comesa yellow Cards Insurance Pool	03/08/2009	06/05/2010	USD	281,771	274,129
PTA Reinsurance	11/09/2009	11/06/2010	USD	167,096	-
Comesa yellow Cards Insurance Pool	17/08/2009	24/05/2010	USD	107,072	104,066
PTA Reinsurance	09/09/2009	09/06/2010	USD	110,644	-
Comesa yellow Cards Insurance Pool	24/08/2009	17/05/2010	USD	340,147	330,507
Comesa yellow Cards Insurance Pool	06/07/2009	06/04/2010	USD	102,196	99,415
Comesa yellow Cards Insurance Pool	21/07/2009	21/04/2010	USD	120,853	117,736
Comesa yellow Cards Insurance Pool	14/10/2009	12/07/2010	USD	278,522	-
Comesa yellow Cards Insurance Pool	13/10/2009	12/07/2010	USD	124,975	-
Comesa yellow Cards Insurance Pool	31/12/2009	30/09/2010	USD	99,983	-
Comesa yellow Cards Insurance Pool	21/07/2009	21/04/2010	USD	53,124	52,044
Sub total for Certificates of Deposit				17,118,084	5,152,824

23. SHORT TERM BORROWINGS (Continued)

(b) OTHER SHORT TERM BORROWINGS

Lender	Date of renewal/ advance	Maturity Date	Currency	2009 USD	2008 USD
AFREXIM Bank	22/12/2009	21/06/2010	USD	29,500,000	5,000,000
FMO*	01/07/2009	27/03/2010	USD	20,000,000	20,000,000
Fortis Bank	16/10/2009	21/04/2010	USD	15,533,067	-
Finance Bank Zambia	19/10/2009	16/04/2010	USD	5,107,932	-
Commerzbank	02/11/2009	16/03/2010	USD	60,071,014	25,809,841
HSBC Bank	19/10/2009	18/01/2010	USD	33,805,907	-
Standard Bank of South Africa	07/07/2009	23/03/2010	USD	36,517,872	39,876,083
Barclays Bank	30/10/2008	01/03/2009	USD	-	80,921,571
Bank of Tanzania	24/11/2008	24/02/2009	USD	-	5,000,000
BHF Bank	29/12/2008	27/02/2009	USD	-	12,831,703
CRDB Bank	01/08/2009	02/02/2010	USD	2,500,000	2,500,000
KBC Bank	05/11/2009	01/03/2010	USD	9,283,198	-
Dresdner Bank AG	29/12/2008	30/03/2009	USD	-	13,377,119
Mauritius Commercial Bank	02/11/2009	18/01/2010	USD	14,912,110	24,267,075
DZ Bank	29/12/2008	29/01/2009	USD	-	5,710,528
Standard Chartered Bank	21/12/2009	23/03/2010	USD	18,568,400	11,084,834
Sub total for other short term borrowings				245,799,500	246,378,754
(c) INTEREST PAYABLE				2,510,421	1,224,346
Certificate of Deposits (Note 23a)				17,118,084	5,152,824
TOTAL SHORT TERM BORROWINGS				265,428,006	252,755,924

The effective interest rate during the year was 3.65% (2008: 4.52%) per annum.
* Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V.

Notes to the Financial Statements *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2009

24. LONG TERM BORROWINGS

					Amounts as at December 31, 2009			Amount as at December 31, 2008		
Lender	Date of Renewal/ disburse-ment	Maturity Date	Currency	Amount in Currency	Amount in 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	17/12/2008	31/05/2020	USD	66,268,449	66,268,449	5,268,449	61,000,000	49,272,511	4,921,558	44,350,953
China Development Bank	18/11/2008	29/06/2013	USD	22,900,584	22,900,584	-	22,900,584	18,000,000	4,165,713	13,834,287
Tanzania local currency bonds	01/09/2003	15/08/2010	TSH	3,000,000,000	2,249,140	2,249,140	-	4,602,749	2,301,496	2,301,253
KBC Bank	Various	30/09/2013	USD	5,875,670	5,875,670	3,529,072	2,346,598	9,116,040	3,529,072	5,586,968
Kenya local currency bonds I	04/07/2005	05/07/2012	KES	400,000,000	6,256,551	2,105,263	4,151,288	8,242,112	2,060,528	6,181,584
Kenya local currency bonds II	12/10/2007	31/10/2014	KES	1,000,000,000	13,267,415	2,631,579	10,635,836	12,878,300	-	12,878,300
Exim Bank of India Loan	29/11/1999	Various	USD	27,872,090	27,872,090	6,976,018	20,966,112	21,774,095	4,827,852	16,946,243
M & T Bank	03/12/2003	30/09/2010	USD	3,219,540	3,219,540	2,103,664	1,115,876	5,321,243	2,103,664	3,217,579
Export Development Corporation of Canada	01/09/2005	31/12/2010	USD	1,435,688	1,435,688	1,381,158	54,529	3,165,068	1,725,241	1,439,827
Ceskoslovenska Obchodni Banka AS	03/07/2005	30/05/2017	USD	6,126,829	6,126,829	904,245	5,222,584	6,578,954	1,732,605	4,846,349
BHF Bank	30/12/2009	30/06/2014	USD	3,923,209	3,923,209	871,563	3,051,646	-	-	-
Development Bank of South Africa	02/03/2007	30/06/2017	USD	18,786,440	18,786,440	1,250,000	17,536,440	20,035,386	660,386	19,375,000
Overseas Private Investment	17/09/2003	15/03/2015	USD	1,401,200	1,401,200	-	1,401,200	1,400,000	-	1,400,000
Bank of Uganda	31/12/2004	30/06/2011	UGX	357,893,499	170,995	120,497	50,498	307,462	122,987	184,475

24. LONG TERM BORROWINGS (Continued)

					Amounts as at December 31, 2009			Amount as at December 31, 2008		
Lender	Date of Renewal/ disburse-ment	Maturity Date	Currency	Amount in Currency	Amount in 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
Uganda local currency fixed rate bond	14/10/2009	14/10/2016	UGX	541,000,000	282,507	-	282,507	-	-	-
Uganda local currency floating rate bond	14/10/2009	14/10/2016	UGX	7,912,500,000	4,131,854	-	4,131,854	-	-	-
Sub total for long term borrowings					184,168,161	29,390,648	154,847,553	160,693,920	28,151,102	132,542,818
Interest payable					1,505,320	1,505,320	-	1,259,538	1,259,538	-
Total long term borrowings					185,673,482	30,895,968	154,847,553	161,953,458	29,410,640	132,542,818

The effective interest rate during the year was 4.87% (2008 - 6.48%)

25. COLLECTION ACCOUNT DEPOSITS

These represent deposits collected by the Bank on behalf of the customers but not yet applied in loan repayments as the loans are not yet due.

	2009 USD	2008 USD
26. PROVISION FOR SERVICE AND LEAVE PAY		
At beginning of year	2,441,863	2,202,385
Increase in provision for leave pay	88,975	151,298
Increase in provision for service pay	322,739	457,994
Payment of leave pay	(43,209)	(68,368)
Payment of service pay	(47,696)	(301,446)
At end of year	2,762,672	2,441,863

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

27. OTHER PAYABLES	2009 USD	2008 USD
Insurance claim proceeds	-	3,790,861
Provident fund	1,674,124	1,289,869
Other creditors	1,101,300	522,727
Unspent ADB Grant	403,137	-
Accrued expenses	254,921	170,394
Prepaid rent	51,622	39,022
	3,485,104	5,812,873

The insurance claim proceeds in 2008 related to amounts received by the Bank in respect of a client under receivership and for which accountability was made to co-lenders. These amounts were repaid during year 2009.

28. SHARE CAPITAL	2009 USD	2008 USD
Authorised capital:		
88,234 ordinary shares of USD 22,667 each	2,000,000,000	2,000,000,000
Less: Unsubscribed	(819,593,308)	(819,593,308)
Subscribed capital:		
52,076 (2008: 52,076) ordinary shares of USD 22,667 each	1,180,406,692	1,180,406,692
Less: Callable capital	(944,325,354)	(944,325,354)
Payable capital	236,081,338	236,081,338
Less: Amounts not yet due	(102,458,898)	(107,937,301)
Capital due	133,622,440	128,144,037
Less: subscriptions in arrears	-	(246,000)
Paid up capital	133,622,440	127,898,037

28.	SHARE CAPITAL (Continued)	2009 USD	2008 USD
	Movement in paid up share capital		
	At beginning of year	127,898,037	117,548,133
	China	3,853,391	-
	Seychelles	613,554	-
	Burundi	557,558	-
	Ethiopia	499,975	-
	Zimbabwe	199,925	-
	African Development Bank	-	6,800,200
	Mauritius	-	3,549,704
	Total receipts	5,724,403	10,349,904
	At end of year	133,622,440	127,898,037

The share capital is made up of:

The payable capital is one fifth of the subscribed capital. Pursuant to a Board of Governors' resolution dated 27 June 2007, the payable capital not due will be paid over a five-year period commencing 01 January 2009 or earlier, where possible.

The remaining four fifths of the subscribed capital constitutes callable capital.

Note 39 contains the status of subscriptions to the capital stock by member countries.

29.	NOTES TO THE STATEMENT OF CASH FLOWS		2009 USD	2008 USD
(a)	Reconciliation of profit for the year to cash generated from operations:			
	Profit for the year		18,029,960	12,458,993
	Adjustments:			
	Depreciation of property and equipment		462,474	468,958
	Amortisation of intangible assets		9,305	13,628
	Profit on disposal of property and equipment		(59)	(6,841)
	Fair value gain on revaluation of equity investments		(295,759)	(1,247,411)
	Profit before working capital changes		18,205,921	11,687,327
	Decrease /(increase) in other receivables		113,005	(212,872)
	Increase in trade finance loans		(36,384,883)	(227,538,131)
	Increase in project finance loans		(36,643,049)	(30,483,041)
	(Increase)/ decrease in deferred expenditure		(611,129)	37,686
	Increase in collection accounts deposits		131,064,298	42,938,843
	(Decrease) /increase in other payables		(2,006,960)	4,018,968
	Increase in borrowings	29(b)	36,392,106	214,260,658
	Net cash generated from operations		110,129,309	14,709,438

29.	NOTES TO THE STATEMENT OF CASH FLOWS (Continued)	2009 USD	2008 USD
(b)	Analysis of changes in borrowings:		
	Short term borrowings:		
	At beginning of year	252,755,924	75,543,942
	Loans received	471,017,973	573,550,094
	Repayments	(458,345,891)	(396,338,112)
	At end of year	265,428,006	252,755,924
	Long term borrowings:		
	At beginning of year	161,953,458	124,904,783
	Loans received	51,901,388	72,094,765
	Repayments	(28,181,364)	(35,046,090)
	At end of year	185,673,482	161,953,458
(c)	Analysis of cash and cash equivalents		
	Cash and balances held with other banks -Note 13	171,329,961	59,951,714
	Investment in Government securities (Treasury bills/bonds)- Note 14.	4,417,290	-
		175,747,251	59,951,714

For purposes of the cash flow statement, borrowings received for on-lending are treated as normal operations of the Bank and therefore, are classified as cash generated from operations.

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

(d) Facilities available for lending

(i) As at 31 December 2009, the following facilities were available to the Bank for lending:

	Facilities available USD	Facilities utilised USD	Facilities unutilised USD
LONG TERM FACILITIES			
LENDER			
FMO	50,000,000	-	50,000,000
African Development Bank	50,000,000	40,000,000	10,000,000
China Development Bank	50,000,000	32,559,694	17,440,306
KBC Bank	21,159,750	7,588,499	13,571,251
Exim Bank India	40,000,000	27,941,930	12,058,070
Development Bank of South Africa	20,000,000	20,000,000	-
Kenya Local Currency Bond II	15,673,981	10,200,000	5,473,981
Japan Bank for International Corporation (JBIC)	16,226,742	-	16,226,742
BHF Bank	15,000,000	3,923,209	11,076,791
Uganda Shillings Local Currency Bond	4,414,360	-	4,414,360
Export Development Corporation of Canada	3,452,878	3,452,878	-
Overseas Private Investment	1,400,000	1,400,000	-
Bank of Uganda	503,038	503,038	-
	287,830,749	147,569,248	140,261,501
SHORT-TERM FACILITIES			
LENDER			
Commerzbank	60,071,014	60,071,014	-
Mauritius Commercial Bank	53,167,304	53,167,304	-
DZ Bank	10,411,929	10,411,929	-
Standard Bank of South Africa	42,815,498	42,815,498	-
African Export- Import Bank	30,000,000	29,500,000	500,000
ING Bank	10,033,800	-	10,033,800
International Islamic Trade Finance Corporation	40,000,000	-	40,000,000
Standard Chartered Bank Limited	41,209,546	21,209,546	20,000,000
Opec Fund	20,000,000	-	20,000,000
KBC Bank	9,283,198	9,283,198	-
BNP Paribas	21,501,000	15,301,534	6,199,466
Fortis Bank	25,801,200	25,801,200	-
HSBC	23,793,203	23,793,203	-
BHF Bank	10,468,191	10,468,191	-
NIC Bank	5,000,000	-	5,000,000
Finance Bank Zambia	10,107,932	5,107,932	5,000,000
Natixis	5,000,000	2,347,431	2,652,569
	418,663,815	309,277,980	109,385,835
TOTAL FACILITIES			
At 31 December 2009	706,494,564	456,847,228	249,647,336

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

(d) Facilities available for lending

(ii) As at 31 December 2008, the following facilities were available to the Bank for lending:

	Facilities available USD	Facilities utilised USD	Facilities unutilised USD
LONG TERM FACILITIES			
LENDER			
African Development Bank	50,000,000	20,000,000	30,000,000
China Development Bank	50,000,000	18,000,000	32,000,000
KBC Bank	21,159,750	15,146,387	6,013,363
Exim Bank India	25,000,000	9,162,017	15,837,983
Japan Bank for International Corporation (JBIC)	12,656,092	-	12,656,092
BHF Bank	15,000,000	-	15,000,000
	173,815,842	62,308,404	111,507,438
SHORT-TERM FACILITIES			
LENDER			
Commerzbank	51,213,000	25,809,841	25,403,159
DZ Bank	10,000,000	5,710,528	4,289,472
Standard Bank of South Africa	42,000,000	39,876,083	2,123,917
African Export - Import Bank	30,000,000	5,000,000	25,000,000
ING Bank	10,579,875	-	10,579,875
International Islamic Trade Finance Corporation	13,000,000	-	13,000,000
Standard Chartered Bank Limited	15,000,000	11,084,834	3,915,166
KBC Bank	7,500,000	-	7,500,000
BNP Paribas	21,159,750	6,515,305	14,644,445
Fortis Bank	21,159,750	-	21,159,750
HSBC	5,000,000	2,668,331	2,331,669
Bank Muscat	5,000,000	-	5,000,000
Natixis	5,000,000	127,756	4,872,244
	236,612,375	96,792,678	139,819,697
TOTAL FACILITIES			
At 31 December 2008	410,428,217	159,101,082	251,327,135

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
ASSETS				
Investments in Government Securities	4,417,290	-	-	4,417,290
Equity Investments	-	9,695,360	-	9,695,360
Trade finance loans	-	367,484,613	-	367,484,613
Project loans	-	253,130,003		253,130,003
	4,417,290	630,309,976	-	634,727,266
LIABILITIES				
Short term borrowings	-	265,428,006	-	265,428,006
Long term borrowings	-	185,673,482	-	185,673,482
	-	451,101,488	-	451,101,488

The fair value of financial instruments approximate to their carrying amounts as they bear variable interest rates determined under market conditions.

31. SEGMENT REPORTING

Business segments

The Bank's main business comprises the following business segments:

Trade finance – Short term and structured medium term financing in support of for 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 Bank's operations comprise of other miscellaneous income like rental income that cannot be directly attributed to the main Bank's business. The Bank also participates in the investment of Government securities and other non listed equity investments.

Transactions between the business segments are on normal commercial terms and conditions. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position.

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

31. SEGMENT REPORTING (Continued)

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2009:	Trade finance USD	Project finance USD	Other USD	Total USD
Net interest income	10,996,240	12,530,152	664,666	24,191,058
Net fees and commission income	12,972,956	4,379,604	-	17,352,560
Other income	-	1,289,440	251,363	1,540,803
Operating expenses	(4,252,877)	(3,498,230)	(487,410)	(8,238,517)
Impairment on loans	(6,011,992)	(11,756,997)	-	(17,768,989)
Foreign Exchange gain	-	-	657,286	657,286
Fair value gain on equity investments	-	-	295,759	295,759
Profit for the year	13,704,327	2,943,969	1,381,664	18,029,960
For the Year Ended 31 December 2008:				
Net interest income	3,659,061	9,521,197	1,149,354	14,329,612
Net fees and commission income	18,237,620	2,658,090	-	20,895,710
Other income	-	1,447,256	581,452	2,028,708
Operating expenses	(4,652,811)	(3,214,399)	(638,448)	(8,505,658)
Impairment on loans	(9,391,580)	(6,320,504)	-	(15,712,084)
Foreign exchange gain	-	-	(577,295)	(577,295)
Profit for the year	7,852,290	4,091,640	515,063	12,458,993

STATEMENT OF FINANCIAL POSITION

As at 31 December 2009:	Trade finance USD	Project finance USD	Other USD	Total USD
Total Assets	367,484,613	253,130,003	205,244,320	825,858,936
Total Liabilities	455,852,266	185,673,482	6,247,776	647,773,524
Shareholders' funds	-	-	178,085,412	178,085,412
	455,852,266	185,673,482	184,333,188	825,858,936
As at 31 December 2008:				
Total Assets	331,099,730	216,486,955	89,364,205	636,950,890
Total Liabilities	312,115,886	161,953,458	8,254,737	482,324,081
Shareholders' funds	-	-	154,626,809	154,626,809
	312,115,886	161,953,458	162,881,546	636,950,890

32. CONTINGENCIES AND COMMITMENTS

(a) Pending litigation

As at 31 December 2009, there were legal proceedings involving the Bank amounting to USD 8,443,651 (2008 - USD 8,133,352) 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.

	2009 USD	2008 USD
(b) Capital commitments		
Approved but not contracted	2,784,640	2,142,553
(c) Loans committed but not disbursed		
Project finance loans	81,856,564	87,049,896
Trade finance loans	54,375,485	158,062,939
	136,232,049	245,112,835

(d) 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.

	2009 USD	2008 USD
Letters of credit - Project finance loans	35,009,318	21,858,606
- Trade finance loans	167,937,256	79,495,380
Guarantees	13,829,551	17,279,605
	216,776,125	118,633,591

(e) Operating lease arrangements

The Bank as a lessor

Rental income earned during the year was USD 206,400 (2008 - USD 157,100). At year end, the Bank had contracted with tenants for the following future lease receivables:

32. CONTINGENCIES AND COMMITMENTS (Continued)

(e) Operating lease arrangements (Continued)

	2009 USD	2008 USD
Within one year	210,360	206,400
In the second and third year inclusive	160,860	371,220
	371,220	577,620

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 Bank as a lessee

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

	2009 USD	2008 USD
Within one year	112,661	109,810
In the second to fifth year inclusive	27,572	134,573
	140,233	244,383

Operate Lease payment rentals payable by the Bank for use of its office premise. These leases are negotiated for an average term of 6 years.

33. RELATED PARTY TRANSACTIONS

(a) Membership and Governance

As a supranational development financial institution with a membership comprising 17 COMESA States (the "Member States"), one non-African State and one 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. Members subscriptions and voting powers are disclosed on Note 39. The Board of Directors, which is composed of seven (7) 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 with Member States	2009 USD	2008 USD
Outstanding loan balances at 31 December	121,143,702	196,300,916

Loans to related parties are made at market interest rates and subject to commercial negotiations on the terms and conditions

(c) Borrowings from Members	2009 USD	2008 USD
Outstanding borrowings at 1 January	49,272,511	31,497,224
Borrowings received during the year	21,848,334	21,862,782
Borrowings repaid during the year	(4,852,397)	(4,087,495)
	66,268,448	49,272,511

Borrowings from related parties are borrowed at market interest rates and subject to commercial negotiations on the terms and conditions.

	2009 USD	2008 USD
(d) Interest income earned during the year	10,740,025	6,505,202
Interest expense incurred on borrowings during the year	2,036,626	2,057,967
Fees and commission earned during the year	11,271,280	16,655,211

Notes to the Financial Statements *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2009

33. RELATED PARTY TRANSACTIONS(Continued)

(e) Other Related Parties

Other related parties include staff loans and advances which are disclosed on Note 15.

Interest income received on staff loans and advances during the year amounted to USD 18,631 (2008 - USD 18,054). The staff loans and advances are fully recoverable and therefore, no impairment losses have been made against these advances.

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

	2009 USD	2008 USD
Salaries and other short-term benefits	1,061,056	848,610
Post employment benefits	160,148	177,972
	1,221,204	1,026,582

34. CURRENCY

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

	2009	2008
British Pound	0.6222	0.6930
UAPTA	0.6379	0.6492
Euro	0.6976	0.7089
South Africa Rand	7.3950	9.3800
Kenya Shilling	75.8000	77.6500
Japanese Yen	92.4400	90.2350
Malawi Kwacha	146.5000	143.0500
Burundi Franc	1,225.0000	1,139.1000
Tanzania Shilling	1,333.5000	1,303.5000
Uganda Shilling	1,915.0000	1,940.1000

Notes to the Financial Statements *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2009

35. FINANCIAL RISK MANAGEMENT

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

(a) INTRODUCTION

This section of the audited financial statements provides a summary of the specific risks which the Bank faces.
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 stake holders 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.

The most important types of risk are:
- Credit risk
- Liquidity risk
- Market risk
- Interest rate risk
- Foreign exchange risk
- Operational risk
- Compliance risk
- Reputation risk

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

(b) CREDIT RISK

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

Risk Management Policies and Processes

The Bank manages credit risk through an integrated risk management policy framework and processes which place great emphasis on rigorous screening of borrowers at loan origination.
The risk management policies and processes are designed to identify, measure, manage and control credit risk throughout the whole project cycle. The lending process follows a formalised system of strict procedures and processes and committee-based decision-making processes.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) CREDIT RISK (CONTINUED)

The Bank does not allow individual mandates and authorities and therefore all investment proposals are assessed and approved by the Bank's Credit Committee. In addition, all project loan applications above USD 1 million are assessed and approved by the Bank's Board of Directors.

The Bank, through its Arrears Recovery Committee, undertakes periodic reviews of all loans on an individual basis. Management of the portfolio level risks is the responsibility of the Bank-wide Integrated Risk Management Committee (BIRMC) which meets on a monthly basis. The BIRMC's key duties include setting policies on credit, country, currency, interest rate and liquidity risks, and capital adequacy.

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 USD 20 million.

Country Risk

The Bank considers country-specific political, social and economic events which may have adverse impact on the credit quality of its borrowers. To mitigate such risks, the Bank uses prudent country exposure man agement 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 2009, all country exposures, except for Zambia, were within this limit. The Bank held cash de posits amounting to USD 136.5 million against the Zambian exposure.

Notes 37 and 38 of the Financial Statements contain the country exposure analysis as at 31 December 2009 and 31 December 2008.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) CREDIT RISK (CONTINUED)

Maximum Exposure to Credit Risk before Collateral Held:

Asset Class	2009 USD	%	2008 USD	%
Credit Exposures				
On-Balance Sheet Items				
Cash and Balances from other Banks	171,329,961	22	59,951,714	10
Investment in Government Securities	4,417,290	1	-	-
Loans and advances	620,614,616	78	547,586,684	90
Sub Total	796,361,867	100	607,538,398	100
Off-Balance Sheet Items				
Letters of Credit	202,946,574	57	101,353,986	28
Loan Commitments not disbursed	136,232,049	39	245,112,835	67
Guarantees and Performance Bonds	13,829,551	4	17,279,605	5
Sub Total	353,008,174	100	363,746,426	100
Total	1,149,370,041		971,284,824	

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-Balance Sheet items took up 85% in 2009, (2008:- 94%) of the total maximum credit exposure.

Other than cash and bank balances amounting to USD 171,329,961, 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 31st December, 2009, the fair value of collateral held for impaired loans and advances was USD 160,770,158 and provided sufficient cover over the net exposure of USD 33,925,332 after deducting the impairment allowances.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) CREDIT RISK (CONTINUED)

Classification of Loans and advances

2009

Category	Gross amount USD	Impairment allowance USD	Net amount USD	%
Neither past due nor impaired	462,909,272	-	462,909,272	75
Past due but not impaired	123,780,012	-	123,780,012	20
Impaired	77,491,513	43,566,181	33,925,332	5
Total	664,180,797	43,566,181	620,614,616	100

2008

Category	Gross amount USD	Impairment allowance USD	Net amount USD	%
Neither past due nor impaired	382,130,582	-	382,130,582	70
Past due but not impaired	139,373,121	-	139,373,121	25
Impaired	70,160,767	44,077,786	26,082,981	5
Total	591,664,470	44,077,786	547,586,684	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.

Ageing of arrears for past due loans and advances not impaired

	2009 USD	2008 USD
Below 30 Days	6,785,261	26,895,282
31 to 90 Days	21,254,736	41,319,722
Total	28,039,997	68,215,004

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) CREDIT RISK (CONTINUED)

Ageing of arrears for impaired loans and advances

	2009 USD	2008 USD
Below 30 Days	11,558,526	1,106,228
31-90 Days	864,522	1,024,739
91-180 Days	3,529,451	1,848,566
181-360 Days	5,571,756	3,623,111
Over 360 Days	34,627,474	26,881,292
Total	56,151,729	34,483,936

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.

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.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) CREDIT RISK (CONTINUED)

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 counterparties. In addition, the Bank places limits on counter-party exposures which are set, monitored and reviewed by the Bank-Wide Integrated Risk Management Committee.

Collateral held for loan portfolio

	2009 USD	2008 USD
Mortgages on properties	287,006,377	206,067,263
Fixed charge on plant and equipment	316,538,309	283,956,505
Cash security deposits	165,563,599	57,640,950
Other	260,737,315	250,957,195
Total security cover	1,029,845,600	798,621,913
Past due but not impaired		
Mortgages on properties	223,925,157	61,096,494
Fixed charge on plant and equipment	294,943,389	92,905,141
Cash security deposits	165,563,599	1,708,000
Other	184,643,297	71,000,000
	869,075,442	226,709,635
Impaired loans		
Mortgages on properties	63,081,220	56,951,782
Fixed charge on plant and equipment	21,594,920	5,727,000
Other	76,094,018	56,424,018
	160,770,158	119,102,800

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) CREDIT RISK (CONTINUED)

Concentration of risk

Loans and advances to customers

Sector	2009 USD	%	2008 USD	%
Manufacturing	84,601,224	13	95,915,696	16
Agribusiness	79,416,454	12	88,232,320	15
Petroleum	292,904,572	44	239,446,775	41
Infrastructure	59,568,281	9	43,889,487	7
Finance and Banking	63,518,224	10	61,657,583	9
Aviation	22,255,160	3	13,184,740	2
Other	10,178,083	2	13,870,992	3
Mining	23,105,444	3	19,784,704	3
Transport	1,732,793	0	2,985,974	1
Tourism	26,900,562	4	12,696,199	2
Total	664,180,797	100	591,664,470	100

The Bank, as part of its prudent management of credit risk arising from high sectoral concentration, limits exposure to any sector to 25% of the Bank's total loan book. As at 31 December 2009, all loan and advances sectoral concentrations, except for Petroleum were within the stipulated limit. Against the Petroleum exposure, the Bank held cash deposits amounting to USD 189,387,305.

All the Bank's deposits were placed with commercial banks that the Bank has dealings with. To mitigate counter-party default risk, the Bank limits exposures to each bank depending on its credit profile or rating.

Off-Balance Sheet Items

Sector	2009 USD	%	2008 USD	%
Petroleum	185,920,464	53	199,352,143	55
Finance & Banking	2,609,720	1	19,272,549	5
Manufacturing	15,121,902	4	10,925,772	4
Agribusiness	52,544,865	15	52,473,585	14
Tourism	22,607,232	6	19,858,555	5
Infrastructure	35,786,500	10	36,996,081	10
Mining	11,970,983	3	24,867,741	7
Transport	3,000,000	1	-	-
Other	23,446,508	7	-	-
Total	353,008,174	100	363,746,426	100

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) CREDIT RISK (CONTINUED)

	2009 USD	2008 USD
Restructured loans The following loans were renegotiated during the year		
Project finance loans	14,687,111	16,624,182
Trade finance loans	37,001,573	-
	51,688,684	16,624,182

(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 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 2009

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) (i) LIQUIDITY RISK (Continued)

Maturities of financial assets and financial liabilities are as follows:

	Up to 1month USD	1 to 6 months USD	6 to 12 months USD	1 to 5 years USD	Over 5 years USD	Total USD
At 31 December 2009						
FINANCIAL ASSETS						
Cash and balances held with other banks	159,851,536	11,478,426	-	-	-	171,329,961
Investments in Government securities	-	4,417,290	-	-	-	4,417,290
Other receivables	1,716,611	120,287	101,338	106,021	-	2,044,257
Trade finance loans	81,337,785	216,132,560	28,304,397	41,709,871	-	367,484,613
Project loans	701,982	35,458,240	36,456,755	105,075,372	75,437,654	253,130,003
Equity participation	-	-	-	9,695,360	-	9,695,360
Total financial assets	243,607,914	267,606,803	64,862,490	156,586,624	75,437,654	808,101,485
FINANCIAL LIABILITIES						
Short term borrowings	118,424,287	126,791,781	20,211,938	-	-	265,428,006
Long term borrowings	4,570,331	19,251,339	14,385,819	76,294,283	71,171,710	185,673,482
Collection Account Deposits	61,067,926	99,367,839	29,988,496	-	-	190,424,261
Other payables	456,691	658,058	696,231	4,436,796	-	6,247,776
Total financial liabilities	184,519,235	246,069,017	65,282,484	80,731,079	71,171,710	647,773,525
Net liquidity gap	59,088,679	21,537,786	(419,994)	75,855,545	4,265,944	160,327,960
Cumulative gap	59,088,678	80,626,464	80,206,471	156,062,015	160,327,959	160,327,959

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

Notes to the Financial Statements *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2009

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) (ii) LIQUIDITY RISK (Continued)

Maturities of financial assets and financial liabilities are as follows:

	Up to 1month USD	1 to 6 months USD	6 to 12 months USD	1 to 5 years USD	Over 5 years USD	Total USD
At 31 December 2008						
FINANCIAL ASSETS						
Cash and balances held with other banks	59,011,954	939,760	-	-	-	59,951,714
Other receivables	1,753,338	121,229	115,220	167,475	-	2,157,262
Trade finance loans	51,485,941	200,034,948	15,511,336	64,067,505	-	331,099,730
Project loans	935,329	21,908,600	24,943,629	90,524,870	78,174,526	216,486,954
Equity participation	-	-	-	9,374,406	-	9,374,406
Total financial assets	113,186,562	223,004,537	40,570,185	164,134,256	78,174,526	619,070,066
FINANCIAL LIABILITIES						
Short term borrowings	74,718,955	154,021,403	4,015,566	20,000,000	-	252,755,924
Long term borrowings	9,563,576	12,884,250	14,712,315	85,093,835	39,699,483	161,953,459
Collection Account Deposits	10,570,086	48,789,876	-	-	-	59,359,962
Other payables	-	3,171,939	1,482,567	3,600,221	-	8,254,727
Total financial liabilities	94,852,617	218,867,468	20,210,448	108,694,056	39,699,483	482,324,072
Net liquidity gap	18,333,945	4,137,069	20,359,737	55,440,200	38,475,043	136,745,994
Cumulative gap	18,333,945	22,471,014	42,830,751	98,270,951	136,745,994	136,745,994

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

35. 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. Contigency 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 optimize 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.

Interest rate risk is the risk that the value 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 repricing 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 2009

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) (i) MARKET RISK (Continued)

I. 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. This risk is summarised in the Table below:

	Up to 1 month USD	1 to 6 months USD	6 to 12 months USD	1 to 5 Years USD	Non-interest bearing USD	Total USD
At 31 December 2009						
FINANCIAL ASSETS						
Cash and balances with other banks	159,851,536	11,478,426	-	-	-	171,329,961
Investment in Government Securities	-	4,417,290	-	-	-	4,417,290
Other receivables	-	-	-	-	2,044,257	2,044,257
Trade finance loans	84,682,616	270,034,752	-	-	12,767,245	367,484,613
Project loans	230,603,695	1,259,247	846,358	3,375,557	17,045,146	253,130,003
Equity participation	-	-	-	-	9,695,360	9,695,360
Total financial assets	475,137,846	287,189,715	846,358	3,375,557	41,552,008	808,101,484
FINANCIAL LIABILITIES						
Short term borrowings	118,424,287	139,841,781	7,161,938	-	-	265,428,006
Long term borrowings	51,769,369	129,765,784	-	-	4,138,329	185,673,482
Collection Account Deposits	-	-	-	-	190,424,260	190,424,260
Other payables	-	-	-	-	6,247,776	6,247,776
Total financial liabilities	170,193,656	269,607,565	7,161,938	-	200,810,366	647,773,524
Net interest rate exposure	304,944,191	17,582,150	(6,315,580)	3,375,557	(159,258,358)	160,327,960
Cumulative interest rate exposure	304,944,191	322,526,341	316,210,761	319,586,318	160,327,959	160,327,960

Notes to the Financial Statements *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2009

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) MARKET RISK (Continued)

I. Interest rate risk (Continued)

	Up to 1 month USD	1 to 6 months USD	6 to 12 months USD	1 to 5 Years USD	Over 5 years USD	Non-interest bearing USD	Total USD
At 31 December 2008							
FINANCIAL ASSETS							
Cash and balances with other banks	59,011,954	939,760	-	-	-	-	59,951,714
Other receivables	-	-	-	-	-	2,157,261	2,157,261
Trade finance loans	17,485,940	308,228,103	-	-	-	5,385,687	331,099,730
Project loans	189,375,543	1,704,870	1,702,057	4,466,109	-	19,238,375	216,486,954
Equity participation	-	-	-	-	-	9,374,406	9,374,406
Total financial assets	265,873,437	310,872,733	1,702,057	4,466,109	-	36,155,729	619,070,065
FINANCIAL LIABILITIES							
Short term borrowings	159,501,997	93,253,927	-	-	-	-	252,755,924
Long term borrowings	16,775,424	99,257,472	42,074,862	3,845,700	-	-	161,953,458
Collection Account Deposits	-	-	-	-	-	59,359,962	59,359,962
Other payables	-	-	-	-	-	8,254,736	8,254,736
Total financial liabilities	176,277,421	192,511,399	42,074,862	3,845,700	-	67,614,698	482,324,080
Net interest rate exposure	89,596,016	118,361,334	(40,372,805)	620,409	-	(31,458,969)	136,745,985
Cumulative interest rate exposure	89,596,016	207,957,350	167,584,545	168,204,954	168,204,954	136,745,985	136,745,985

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) MARKET 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 2009 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.
- 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 31st December 2009 would increase or decrease by USD 3,375,265 (2008:– USD 1,937,452).
- The potential change is 19% (2008:- 16%) of the year's net 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 frequent basis.

Foreign currency risk is addressed through the following measures:

- The single currency exposure, irrespective of short or long positions should not exceed the limit of 10% of the Bank's net worth.
- Intra-day foreign exposures are limited within limits strictly defined by the Board of Directors.

Notes to the Financial Statements *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2009

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) CURRENCY RISK (Continued)

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

The Bank's currency position as at 31 December 2009 was as follows:

	USD	GBP	EURO	KES	TZS	UGX	MWK	OTHER	TOTAL
FINANCIAL ASSETS									
Cash and balances with other banks	119,171,141	53,105	303,668	6,992,468	16,310	109,966	44,672,845	10,458	171,329,961
Investments in Government Securities	-	-	-	-	-	4,417,290	-	-	4,417,290
Other receivables	2,044,257	-	-	-	-	-	-	-	2,044,257
Trade finance loans	366,747,487	-	-	737,126	-	-	-	-	367,484,613
Project finance loans	224,918,193	-	12,326,837	11,440,124	4,241,906	202,942	-	-	253,130,002
Equity investments	9,695,360	-	-	-	-	-	-	-	9,695,360
Total financial assets	722,576,438	53,105	12,630,505	19,169,718	4,258,216	4,730,198	44,672,845	10,458	808,101,483
FINANCIAL LIABILITIES									
Short term borrowing	265,110,810	-	-	-	-	-	-	317,196	265,428,006
Long term borrowings	159,291,900	-	-	19,531,186	2,249,140	4,601,256	-	-	185,673,482
Collection Account Deposits	145,752,435	-	-	-	-	-	44,671,825	-	190,424,260
Other payables	6,190,740	-	-	54,835	-	-	-	2,201	6,247,776
Total financial liabilities	576,345,885	-	-	19,586,021	2,249,140	4,601,256	44,671,825	319,397	647,773,524
NET POSITION	146,230,553	53,105	12,630,505	(416,303)	2,009,077	128,942	1,020	(308,939)	160,327,959

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Notes to the Financial Statements *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2009

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) CURRENCY RISK (Continued)

The Bank's currency position as at 31 December 2008 was as follows:

	USD	GBP	JPY	EURO	KES	TZS	UGX	OTHER	TOTAL
FINANCIAL ASSETS									
Cash and balances with other banks	55,333,174	46,374	531	283,287	3,991,266	210,191	85,353	1,539	59,951,715
Other receivables	2,157,261	-	-	-	-	-	-	-	2,157,261
Trade finance loans	327,290,580	-	-	-	3,809,151	-	-	-	331,099,731
Project finance loans	193,377,386	2,497,400	-	171,998	14,831,368	5,274,941	333,861	-	216,486,954
Equity investments	9,374,406	-	-	-	-	-	-	-	9,374,406
Total financial assets	587,532,807	2,543,774	531	455,285	22,631,785	5,485,132	419,214	1,539	619,070,067
FINANCIAL LIABILITIES									
Short term borrowings	250,051,481	-	-	-	2,704,443	-	-	-	252,755,924
Long term borrowings	135,815,380	-	-	-	21,227,867	4,602,749	307,462	-	161,953,458
Collection Account Deposits	59,359,962								59,359,962
Other payables	8,233,725	-	-	-	21,010	-	-	-	8,254,735
Total financial liabilities	453,460,548	-	-	-	23,953,320	4,602,749	307,462	-	482,324,079
NET POSITION	134,072,259	2,543,774	531	455,285	(1,321,535)	882,383	111,752	1,539	136,745,988

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) CURRENCY RISK (Continued)

Currency risk - Sensitivity Analysis

The Bank is mainly exposed to Euros, Pound Sterling, Kenya Shillings and Tanzania Shillings. 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 and reserves.

		GBP	EURO	KES	TSH	JPY	Total USD
2009	Net Profit	279,961	72,263	(493,577)	243,905	(14)	102,538
2008	Net Profit	255,580	51,595	(95,796)	88,617	40,249	340,245

36. CAPITAL MANAGEMENT

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 bi-annually by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee. The Bank's capital is divided into two tiers:
- Tier 1 capital: Paid-up share capital, retained earnings and reserves created by appropriations of retained earnings; and
- Tier 2 capital: qualifying subordinated loan capital, long-term bonds, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

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-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank has a much higher risk profile than commercial banks and, on average, its level of risk weighting of assets is much higher than for most commercial banks. Accordingly the Bank maintains a higher capital adequacy ratio compared to the regulatory minimum of 8% BIS ratio recommended by the Basel Committee. In addition to its regulatory capital the Bank has access to additional capital in the form of callable capital.

During the two years, 2009 and 2008, the Bank complied with its capital adequacy requirements.

Notes to the Financial Statements *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2009

37. TRADE FINANCE LOAN PORTFOLIO

		As at 31 December 2009			As at 31 December 2008		
Country	Number of loans	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
Kenya	10	47,869,275	30,839,236	17,030,039	23,668,326	3,346,405	20,321,921
Malawi	3	29,442,359	22,775,028	6,667,331	16,175,004	7,502,275	8,672,729
Sudan	1	3,202,749		3,202,749	3,202,749	-	3,202,749
Tanzania	1	14,020,814		14,020,814	14,255,670	-	14,255,670
Uganda	3	6,023,373	319,648	5,703,725	5,522,952	329,757	5,193,195
Zambia	3	232,369,424	226,369,233	6,000,191	217,982,059	217,865,289	116,770
Zimbabwe	8	56,198,126	17,167,200	39,030,926	67,313,100	22,477,165	44,835,935
Gross Loans	29	389,126,120	297,470,345	91,655,775	348,119,860	251,520,891	96,598,969
Less: Impairment on trade finance loans (note 18)		(21,641,507)	-	(21,641,507)	(17,020,130)	-	(17,020,130)
Net loans		367,484,613	297,470,345	70,014,268	331,099,730	251,520,891	79,578,839

Notes to the Financial Statements *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2009

38 PROJECT LOANS PORTFOLIO

										As at 31 December 2009			As at 31 December 2008		
Country	No of Loans	Amounts Approved USD	Amounts Signed USD	Amounts Disbursed USD	Interest Capita-lized USD	Amounts Repaid USD	Amounts Written off USD	Interest Receivable USD	Exchange Rates Adjust-ment USD	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	10	23,854,019	16,254,019	10,700,019	-	(9,785,952)	-	24,443	1	938,511	586,817	351,694	3,077,019	2,170,704	906,315
Eritrea	1	403,652	403,652	403,652	-	-	(403,652)	-	-	-	-	-	-	-	-
Ethiopia	3	4,464,439	4,464,439	4,464,439	522,176	(98,384)	(627,397)	1,646,656	-	5,907,490	524,956	5,382,534	5,286,158	769,410	4,516,748
Kenya	39	154,994,223	118,735,539	94,080,443	1,532,900	(44,088,117)	(10,609,548)	3,058,628	(3,158)	43,971,148	14,535,220	29,435,928	56,716,843	12,133,234	44,583,609
Malawi	13	58,183,953	49,808,953	33,716,478	-	(18,621,930)	(1,071,561)	2,014,977	(717,238)	15,320,726	3,737,582	11,583,144	7,003,527	2,532,333	4,471,194
Mauritius	1	8,000,000	8,000,000	6,638,907	-	-	-	110,103	-	6,749,010	-	6,749,010	-	-	-
Rwanda	8	30,876,135	21,876,135	16,011,135	-	(1,590,836)	-	203,818	-	14,624,117	3,280,594	11,343,523	1,236,206	406,021	830,185
Seychelles	2	24,000,000	14,000,000	12,759,390	-	(330,000)	-	3,058	(105,611)	12,326,837	3,450,000	8,876,837	9,778	-	9,778
Sudan	8	37,281,910	17,281,910	17,281,910	5,265,454	(4,671,210)	(2,604,069)	286,000	1	15,558,086	914,842	14,643,244	15,733,413	457,421	15,275,992
Tanzania	27	137,980,250	104,980,250	83,268,452	-	(33,195,931)	(3,616,803)	1,015,956	278,647	47,750,321	16,401,149	31,349,172	36,649,776	6,218,676	30,431,100
Uganda	26	97,042,138	97,042,138	81,020,398	4,102,237	(24,010,622)	(4,077,677)	1,769,925	(117,693)	58,686,568	13,676,190	45,010,378	45,693,098	9,159,666	36,533,432
Zambia	27	102,952,661	91,452,661	78,474,590	17,744,593	(37,577,298)	(13,641,354)	657,726	(142,857)	45,515,400	12,298,432	33,216,968	64,325,971	11,240,760	53,085,211
Zimbabwe	16	42,917,912	33,987,928	22,601,928	-	(13,472,912)	(850,587)	65,878	(637,842)	7,706,463	3,211,197	4,495,266	7,812,821	2,699,334	5,113,487
Gross loans	181	722,951,292	578,287,622	461,421,740	29,167,360	(187,443,192)	(37,502,648)	10,857,167	(1,445,750)	275,054,677	72,616,979	202,437,698	243,544,610	47,787,559	195,757,051
Less: Impairment on project loans (note 18)										(21,924,674)	-	(21,924,674)	(27,057,656)	-	(27,057,656)
NET LOANS										253,130,003	72,616,979	180,513,024	216,486,954	47,787,559	168,699,395

Notes to the Financial Statements *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2009

39. STATEMENT OF SUBSCRIPTIONS TO THE CAPITAL STOCK AS AT 31 DECEMBER 2009

	Shares Subscribed	Percentage of total	Value USD	Callable capital USD	Payable capital USD	Instalments due as at 31.12.09 USD	Instalments paid as at 31.12.09 USD
Burundi	1,230	2.36	27,880,410	22,304,328	5,576,082	3,345,649	3,345,558
China	3,400	6.53	77,067,800	61,654,240	15,413,560	9,248,136	11,560,057
Comoros	54	0.10	1,224,018	979,215	244,803	146,882	122,400
Djibouti	54	0.10	1,224,018	979,214	244,804	146,882	122,400
Egypt	5,340	10.25	121,041,780	96,833,424	24,208,356	14,525,014	12,104,000
Eritrea	240	0.46	5,440,080	4,352,064	1,088,016	652,810	544,000
Ethiopia	5,340	10.25	121,041,780	96,833,424	24,208,356	14,525,014	12,603,975
Kenya	5,340	10.25	121,041,780	96,833,424	24,208,356	14,525,014	12,104,000
Malawi	1,320	2.53	29,920,440	23,936,352	5,984,088	3,590,453	2,992,000
Mauritius	1,566	3.01	35,496,522	28,397,218	7,099,304	4,259,583	7,099,304
Rwanda	1,248	2.40	28,288,416	22,630,733	5,657,683	3,394,610	2,828,800
Seychelles	270	0.52	6,120,090	4,896,072	1,224,018	734,411	734,755
Somalia	318	0.61	7,208,106	5,766,485	1,441,621	864,973	720,800
Sudan	4,920	9.45	111,521,640	89,217,312	22,304,328	13,382,597	11,152,000
Tanzania	5,214	10.01	118,185,738	94,548,590	23,637,148	14,182,289	11,818,400
Uganda	3,600	6.91	81,601,200	65,280,960	16,320,240	9,792,144	8,160,000
Zambia	4,082	7.84	92,526,694	74,021,355	18,505,339	11,103,203	9,252,533
Zimbabwe	5,540	10.64	125,575,180	100,460,144	25,115,036	15,069,022	12,757,258
African Development Bank	3,000	5.76	68,001,000	54,400,800	13,600,200	8,160,120	13,600,200
	52,076	100	1,180,406,692	944,325,354	236,081,338	141,648,803	133,622,440

Annex I
Senior Management

Dr. Michael Gondwe	President
Mr. Alex Gitari	Director, Finance
Mr. Yitaferu Kassaye	Director, Portfolio Management
Mr. Kifle Hamza	Director, Human Resources and Administration
Mr. James Kabuga	Head, Projects and Infrastructure Finance
Mr. Premchand Mungar	Head, Legal Services and Corporate Affairs
Mr. George Mudange	Head, Trade Finance
Mr. Kingsley Muwowo	Head, Compliance and Risk Management Unit

Annex II
Administrative Budget

	2010 USD	2009 USD
Personnel Costs	7, 238,000	7, 124,000
Board of Governors	201,000	199,000
Board of Directors	307,000	207,000
Consultants and Advisers	1,242,000	990,000
Official missions	699,000	673,000
Business Promotion	72,000	86,000
Other Operating Expenses	660,000	689,000
Total Administrative Expenditure	10,419,000	9,968,000

Equipment at Brarudi, one of the largest companies in Burundi and a client of the Bank.

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