TABLE OF CONTENTS

MAJOR TRADE FINANCE TRANSACTIONS IN 2011

$500m
MINISTRY OF ENERGY
Zambia
Petroleum Import Facility

$50m
MEA LIMITED
Kenya
Structured Import Facility

$20m
FBC BUILDING SOCIETY
Zimbabwe
Line of Credit

$50m
DALBIT PETROLEUM
Kenya
Petroleum Import Facility

$12.5m
WORLDLEAF TRADING AFRICA
Mauritius
Syndicated Inventory Credit Facility

$100m
NATIONAL OIL COMPANY
Malawi
Petroleum Import Facility

$20m
CENTRAL AFRICA BUILDING SOCIETY
Zimbabwe
Line of Credit

$5m
INDEBANK
Malawi
Line of Credit

$15m
NATIONAL BANK OF MALAWI
Malawi
Line of Credit

$100m
KENOLKOBIL
Kenya
Petroleum Import Facility

$12.5m
ALLIANCE ONE TOBACCO
Malawi
Export Finance Facility

$60m
CBZ
Zimbabwe
Line of Credit

$20m
NBS BANK
Malawi
Line of Credit

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 2011.

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 2012.

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

RUPERT SIMEON
Chairman of the Board of Directors

RUPERT SIMEON

Chairman, Board of Directors

The Chairman's Statement

In 2011, the global economy continued its recovery, albeit slowly. Annual growth was projected at 4.5 per cent down from 5 per cent recorded in 2010, with Real GDP in advanced economies and emerging and developing economies expected to expand by about 2.5 per cent and 6.5 per cent respectively. Economic growth was strong in the emerging and developing economies, with growth in Sub-Saharan Africa of 5.2 percent in 2011. In contrast, growth in the advanced economies, at 1.6 percent, continued to be sluggish largely on account of unsustainable sovereign debts in some Euro zone countries and weak demand in the United States of America.

In developed economies, weak sovereign balance sheets and still-moribund real estate markets continued to present major concerns, especially in some euro area economies. New risks emerged on account of commodity prices, notably oil, and, relatedly, geopolitical uncertainty as well as overheating and booming asset markets in emerging market economies. However, there remained also the potential for upside surprises to growth in the short term, owing to strong corporate balance sheets in advanced economies and buoyant demand in emerging and developing economies.

In Africa, strong growth in emerging economies and political unrest in North Africa and the Middle East kept international commodity prices high. The price of oil averaged US $109.9 per barrel in the first ten months of 2011, higher than the US $79 in 2010. International food prices were also generally high in 2011 mainly on account of supply constraints. High commodity prices presented both opportunities and risks to the regional economies. In contrast, high oil prices increased the cost of production thereby increasing inflationary pressures in most regional economies.

As part of a broader agenda to diversify their economies, develop resilience to shocks, and build productive capacity for high and sustained economic growth, the creation of employment opportunities and substantial poverty reduction, African countries have in recent years demonstrated renewed commitment to industrialization. South Africa is adopting industrial policies aimed at diversifying the production and export structure, promoting labour absorbing industrialization, moving towards a knowledge economy, and contributing to the industrial development of the region. Some of the other countries that have taken steps recently to build a modern, competitive, and dynamic industrial sector include Egypt, Ethiopia, Kenya, Namibia, Nigeria and Uganda.

For most African economies, however, growth in 2011 remained on a fairly steady upward trajectory, reflecting robust domestic demand and high commodity prices. However, since mid-2011, the faltering global recovery has affected export and output growth, particularly in countries that are more globally integrated and whose economies are heavily reliant on trade.

Against this backdrop, I am pleased to note that the Bank continued to thrive, proof that the informed policy direction the Bank has taken continues to cushion it against the adversities being experienced on the global arena.

It is a hallmark of a sound and effective leadership that, even in times of turbulence, the PTA Bank's assets grew by 31 percent while net profits grew by a robust 69 percent to reach US$ 34.26 million. The 2011 results offer ample proof of the Bank's resilience and success in implementing its strategic road map as encapsulated in its Fourth Five-Year Plan covering the period 2008 - 2012.

On membership, I join my Board colleagues as well as the Board of Governors in extending a warm welcome to the Democratic Republic of Congo (DRC) as the twentieth member following the accession to the Bank's Charter in December 2011. I note with appreciation that DRC's membership provides immense financing and diversification opportunities for the Bank and paves the way for other eligible African states to join the Bank's membership.

As the Bank formulates its Fifth Corporate Plan (2013 - 2017) , I take cognisance of the fact that the benchmark has been set quite high. Given this level of performance, the Bank is on the verge of taking off on a steep growth tangent, with the attendant benefits to regional development.

I am also extremely gratified to note that many shareholders continued to discharge their capital subscription obligations during the year, which is clear proof of the unequalled support and goodwill the Bank enjoys amongst its shareholders. On behalf of the Board of Directors, I highly commend members who have fully settled their outstanding subscriptions in 2011, for their steadfastness and urge those who are in arrears to meet their obligations to enable the Bank strengthen its resource base as well as its credit ratings.

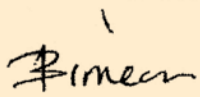
My appreciation goes to my colleagues on the Board, ably led by my predecessor, Mr. Willard Manungo, for steering the Bank to unprecedented heights during the year. The Board deserves credit for successfully steering the Bank to its current size and stature and for ensuring strong corporate governance structures were put in place.

My heartfelt appreciation goes to the alternate board members, who, in 2011, strongly supported the new Board of Directors that was constituted in December, 2010. Their wealth of knowledge and expertise has greatly contributed in building the Bank to its present size and stature by putting strong structures in place that have ensured our institution remains highly regarded regionally and globally. We will continue to seek your wise counsel.

I also congratulate Management and Staff of the Bank for their dedication, team work and resilience which has continued to manifest itself in yet better results for the Bank. I urge them to work harder in the days ahead in order to tackle the unpredictable and challenging times in the banking industry today.

Let me also, on behalf of the Board, take this opportunity to appreciate the role played by the Board of Governors for their continued counsel, guidance and commitment in running the affairs of the Bank. Specifically in 2011, Governors spearheaded and concluded the recruitment of a new President of the PTA Bank in a process ably led by Hon. Danny Faure, the immediate past Chairman of the Board of Governors. On behalf of the Board of Directors, it is with pleasure that I welcome the new President of the PTA Bank, Mr. Admassu Tadesse and wish him every success as he steers the the Bank to even greater heights.

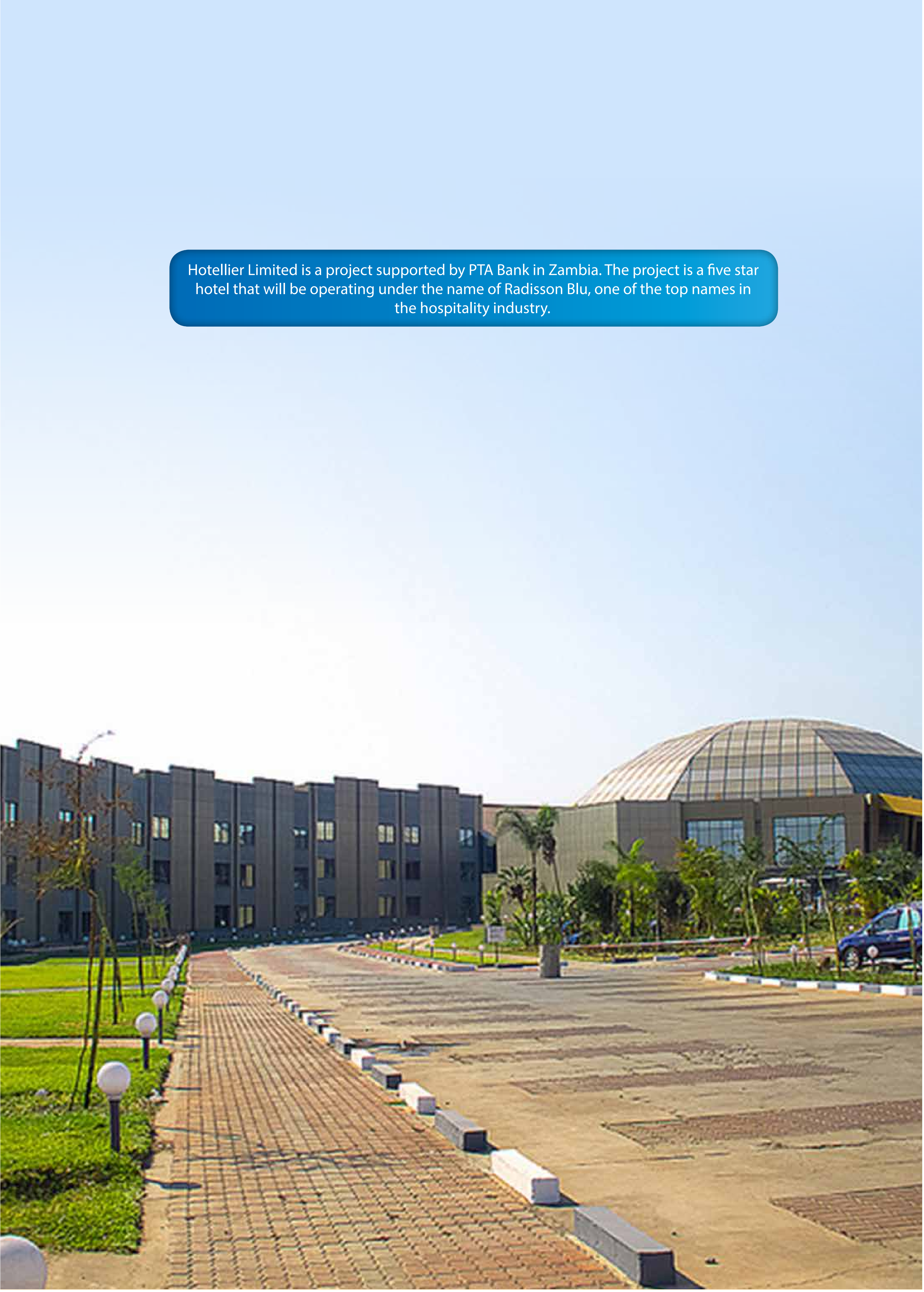
Finally, and on behalf of the Board of Directors, I warmly congratulate Dr. Michael Gondwe, the outgoing President of the PTA Bank for having successfully completed his two 5-Year terms at the helm of the PTA Bank and for steering the Bank from its humble beginnings to its current formidable and respected stature. We wish him well in his new duties as Governor, Bank of Zambia, and thank him for dedicating more than 25 years of service to the PTA Bank.



RUPERT SIMEON

Chairman of the Board of Directors

Hotellier Limited is a project supported by PTA Bank in Zambia. The project is a five star hotel that will be operating under the name of Radisson Blu, one of the top names in the hospitality industry.



ADMASSU TADESSE

President & CEO

President's Report

STRATEGIC OVERVIEW

2011 marked the penultimate year of implementing the Fourth Five Year Corporate Plan for the period 2008-2012. In line with the Plan's objectives, focus was laid on business development, portfolio growth and diversification, risk management and resource mobilisation activities.

The Bank also continued to lay special emphasis on ensuring that available funds were profitably and effectively deployed in various economic activities. Having raised significant levels of untied funds through the Eurobond issued in November 2010, the Bank's funding capacity remained strong throughout 2011. As a result, the Bank was also able to enter into some transactions which it had erstwhile found difficult to fund due to the restrictive nature of some of its facilities, thereby impacting positively on performance and client diversification.

In line with the Corporate Plan, the year recorded above target performance for both project and trade finance approvals and disbursements. The Bank also continued exploring new markets within its Member States, without losing sight of the need to maintain focus on the existing portfolio.

OPERATIONS

Through its projects, infrastructure and trade financing interventions, the Bank continued providing support to the key sectors of the Member States economies, including energy, infrastructure, tourism, mining, real estate, healthcare, agro processing among others.

The Bank emphasized its product diversification strategy as well as boosting its levels of intervention in under-serviced markets. In particular, the Bank intensified efforts to secure new business in Seychelles and Mauritius, and succeeded in financing a number of flagship projects in both countries.

With the coming on board of the Democratic Republic of Congo as a new member, the Bank hopes to open up a new business frontier in this resource, rich country.

Project and Infrastructure Finance

2011 was characterised by increased marketing efforts directed at entrenching the Bank's foothold in the growth sectors of the Member States. The Bank's business development efforts under its projects and infrastructure finance window focused on identifying opportunities in agribusiness, real estate, energy, banking and financial services, hospitality, tourism and hotels, transport and logistics, health services, and manufacturing and heavy industries.

Duirng the year, business promotion workshops were mounted in several Member States to sensitize the business communities on the Bank's product offering. Emphasis on repeat business from existing clients with good track records also helped the Bank to further the demand for its financial products. Participation in syndications and co-financing arrangements also brought in several transactions during the year. Diversification of the loan portfolio remained one of the important business development guidelines during the year.

In 2011, the Bank approved 20 projects valued at US$ 200.3 million. The approved projects are spread out in ten member countries and translate into a 100 % budget implementation for the year. However, in comparison to the performance in 2010 that stood at US$ 243 million, the 2011 approvals declined by about 18%. The 2010 aprovals included an exceptionally large approval to a regional airline for aircraft acquisition financing.

Project commitments amounted to US$ 283.85 million, a 231% increase over the US$ 85.70 million recorded in 2010. In line with the growth in project commitments, disbursements grew by a healthy 63% from US$108 million in 2010 to US$ 176.06 million in 2011.

Trade Finance

The year 2011 marked yet another milestone in the Bank's trade finance activities with unprecedented growth in business volumes to US$ 2.46 billion against a budget of US$ 2.02 billion for the year. Direct disbursements amounted to US$ 1.18 billion compared to US$ 1.02 bilion in 2010 while letters of credit amounted to US$ 1.28 billion compared to the US$ 829 million of letters of credit recorded in 2010.

While import facilities especially petro-chemical products remained the main drivers of the business, the Bank continued to diversify trade finance activities by increasing support towards non-traditional exports such as sugar, timber and grains which, coupled with funding towards traditional soft commodity exports like cotton and tobacco as well as re-exports of petroleum products, led to the remarkable growth in business volumes.

Going forward, the Bank will continue tapping into intra-regional trade opportunities which are steadily rising and also establish a foothold in new frontiers within the COMESA region. In view of the increasingly unpredictable exogenous factors, the Bank's growth strategy for intra-regional trade activities will focus on building an 'ecosystem' of importers and exporters within the COMESA region.

Portfolio Management

By year end 2011, the Bank's gross loan portfolio stood at US$ 1.14 billion, 29% higher than the US$ 886 million posted at the end of 2010. The remarkable portfolio growth was achieved notwithstanding the macro economic challenges witnessed in various economies within the sub Saharan region. The Bank continues to balance its intervention and support to all active Member States. Priority is given to projects and trade transactions that have cross border developmental impact.

In an effort to enhance economic integration and inter-regional trade, the Bank continues to intervene in all key sectors of the Member States economies. The petrochemicals sector remains critical to the growth and development of the regional Member States, hence its dominance on the Bank's portfolio. Demand for financing by the banking and financial services sector is also strong and is propelled by the Bank's policy of reaching the small and medium enterprises through financial intermediaries.

Resource Mobilisation

Following the issuance of its debut US$ 300 million Eurobond in November 2010, the Bank refocused its attention in 2011 to ensuring that the funds were profitably deployed. Consequently, and given the funding resources at its disposal, the Bank increased its projects, infrastructure and trade finance disbursement levels significantly, thereby boosting its earnings capacity. Going forward, the Eurobond funding strategy promises to be a key pillar of the Bank's resource mobilization strategy with additional tranches planned under the existing US$ 1.0 billion Euro Medium Term Note programme. Implementation of this strategy is also expected to continue impacting positively on the Bank's visibility and international profile.

With a view to further augmenting and diversifying its resource capacity, the Bank secured long term funding lines from a number of partner institutions. The Development Bank of Southern Africa led the way in this effort and availed a US$ 75 million line of credit thereby consolidating its partnership with the Bank which began in 2006 when the first line of credit of US$ 20 million was extended. Under a guarantee provided by the Export-Import Bank of the United States, the US based Private Export Funding Corporation extended US$ 60.0 million of long term funding to the Bank, with the proceeds going to fund the acquisition of two Boeing 737-800 aircraft for a regional airline.

The Bank also leveraged on its relationships with European based Export Credit Agencies to secure medium term financing for imports of various capital goods into its Member States while short term funding lines were augmented through limit increases and broadening of correspondent relationships. Under the latter strategy, the Bank established a formal correspondent relationship with Sumitomo Mitsui Banking Corporation thereby expanding to include Japan within its coverage of correspondent relationships.

In addition to growing its funding lines in 2011, the Bank undertook to increase its risk down-selling and insurance capacity. By December, 2011, the Bank's capacity to down-sell credit risk to other counterparties amounted to US$ 173 million while US$ 130 million worth of insurance policies syndicated by the African Trade Insurance Agency provided additional risk mitigation capacity in the form of credit risk insurance. The risk down-selling and insurance approaches enabled the Bank undertake large value transactions and provide innovative financing solutions within the context of a fairly challenging and dynamic economic environment.

The Bank's resource mobilisation initiatives continued to be aided by favourable international ratings by Global Credit Ratings (GCR), Moody's and Fitch Ratings. During the year, the Bank secured its first international ratings upgrade from GCR from BB to BB+. The top tier rating agencies, Moody's and Fitch Ratings, reaffirmed the existing ratings of Ba1 and BB- respectively with stable outlook being assigned for each rating. With Moody's and GCR's ratings being placed only a notch below investment grade status, there is a compelling case for the Bank's strategic thrust over the short to medium term focus on improving these ratings through all round performance improvements.

In preparation for the implementation of several of these performance improvement initiatives, the Bank secured, in 2011, an approval of a EUR 500,000 grant from AFD, the French Development Agency. AFD's study and capacity building fund is expected to fund a diagnostic study aimed at repositioning the Bank and to provide technical assistance to boost capacity in the key areas of infrastructure financing, credit risk management, environmental and social risk management and anti-money laundering policies.

During the year, capital subscription payments from Members amounted to US$ 33.86 million, a record level in the context of the Bank's General Capital Increase programme. Subscription payments were received from Burundi, Egypt, Ethiopia, Kenya, Malawi, Rwanda, Seychelles, Tanzania, Zambia and Zimbabwe. In addition, the Bank's membership expansion drive received a boost in February, 2011 with the admission of the Democratic Republic of Congo which became the 20th Member.

Financial Management

For the Bank, 2011 was a reasonably successful year. It was a year during which new heights were scaled in terms of financial and budgetary performance in addition to consolidating, in a significant way, the attainment of the financial management targets set out in the 2008-2012 Corporate Plan.

Total interest income grew by 67% from US$ 41.77 million in 2010 to US$ 69.59 million, despite the US$ LIBOR rates remaining at almost similar levels to those registered in 2010. The interest income growth is attributable to the significantly higher disbursement levels recorded on the Bank's project and infrastructure finance and trade finance loans. Fees and commission income also grew by a significant 37% to US$ 31.26 million from US$ 22.87 million in 2010. The increase is mainly as a result of the high demand for trade and project finance facilities coupled with the firming up of commodity prices during the year, especially petroleum.

Despite interest on the Eurobond pushing borrowing costs to a high level of US$ 41.22 million, the Bank registered a satisfactory 30% increase in it's net interest income to reach US$ 28.37 million from the US$ 21.82 million recorded in 2010.

In 2011, the Bank's portfolio quality continued to improve with gross non-performing loans reducing to US$ 51.78 million from US$ 57.13 million in 2010. In addition to loan write-offs, recoveries contributed to this improvement.

Notwithstanding this improvement, the Bank increased its impairment provisions in 2011 to cover specific loans that deteriorated during the year and also to increase the provisioning coverage on existing non-performing loans. As a result, the impairment provisions charge increased to US$ 17.97 million compared to US$ 12.94 million charged in 2010. As at 31st December 2011, cumulative impairment provisions amounted to US$ 36.18 million, equivalent to 3.2% of total gross loans and 70% of the non-performing loans. The 30% net exposure on non-performing loans is adequately secured in line with the Bank's collateral management policies.

In line with the business growth recorded during the year, operating expenses increased by 15% from the US$ 10.58 million recorded in 2010 to US$ 12.13 million in 2011. The net profit for the year amounted to US$ 34.26 million, a 69% increase from the US$ 20.32 million recorded in 2010. The 2011 net profit translates into a return on capital employed of 12.3% compared to 9.7% in 2010 and a 2.60% return on assets, a significant improvement from the 1.95% return on assets recorded in 2010.

The Bank's balance sheet grew by 31% to US$ 1.37 billion of total assets in 2011 from US$ 1.04 billion in 2010. This growth is as a result of new disbursements made in 2011which led to a US$ 158.96 million net increase in trade finance loans and US$ 106.51 million growth in project finance loans. Improved loan collections, build-up of collection account deposits and selling down of excess credit exposures resulted in improved liquidity as attested to by the 37% increase in cash and bank balances from US$ 156.56 million in 2010 to US$ 214.71 million.

The Bank's asset growth during the year was funded through a combination of shareholders' equity and borrowings. Total borrowings increased by 32% from US$ 740.13 million to US$ 978.73 million. Of the total borrowings, long-term borrowings amounted to US$ 643.18 million compared to US$ 523.94 million in 2010. The increase is due to the drawdowns of US$ 60 million and US$ 75 million effected respectively from the Private Export Funding Corporation and Development Bank of Southern Africa's facilities. In line with trade finance growth, short-term borrowings increased to US$ 335.55 million up from the US$ 216.19 million recorded in 2010.

Human Resources and Administration

In 2011, increased business transactions neccessitated additional investment in the Bank's human resource capacity. In addition to recruitment of new staff, the Bank continued to bolster its capacity by investing in staff development programs to enhance core capacities. Several training programs, funded under the technical assistance grant provided by the African Development Bank, were undertaken during the year at individual and group level.

The training programs covered various themes such as corporate governance and professional ethics, fraud risk management, team building, financial modelling and information technology. Board members participated in a number of training courses offered during the year.

The Bank's staff complement at the end of the year was 81 employees, out of which 50 were professional and the rest support staff. The ratio of female employees improved to 39% of the workforce. The Bank's regional office in Harare was significantly strengthened by the deployment and recruitment of several staff and the acquisition of office premises at a cost of US$750,000.

Information Services

A technical upgrade of the Bank's SAP system was undertaken in the latter half of the year, as a result of which the Bank is now using the latest version of SAP's Enterprise Resource Planning software. By utilising in-house IT personnel on the project, the Bank was able to carry out the upgrade project without the need to engage external consultant services thereby minimizing costs. The upgrade will enable the Bank to exploit the functionality offered by the new version of SAP.

During the year, remote access to the SAP system was extended to the Harare office, thereby contributing to the decentralization of various accounting and procurement functions to the office. The Bank engaged a vendor to supply and implement a Credit Risk Assessment System. The project is currently underway and is scheduled for completion in the second-half of

2012. The system will go a long way in enabling the Bank to automate and standardize various credit procedures.

Compliance and Risk Management

The Bank has adopted an Enterprise-wide Risk Management (ERM) approach, which aligns strategy, policies, procedures and processes in evaluating and managing business opportunities, threats and uncertainties. In pursuit of its developmental mandate, ERM seeks to integrate risk management across the Bank based on a clearly defined risk universe comprising the following risk categories: credit, earnings, market, liquidity, capital adequacy, operational, legal, reputational, organizational/governance, strategic, environmental & social and compliance.

The Bank's ERM approach is premised on best practice "three lines of defence" model. This comprises the Board and Senior Management providing an active risk oversight role; an independent Compliance and Risk mangement function responsible for policy formulation and review, assessment, monitoring and reporting; and the audit function providing an objective review of the status of the risk management practices.

Throughout the year, the Bank's Enterprise Management Framework continued to be resilient with the overall risk profile rated as "Moderate with a Stable Outlook", which is consistent with the Bank's risk appetite.

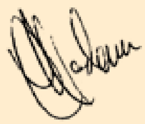
Conclusion

Despite the numerous challenges in the operating environment, 2011 was yet another remarkably successful year for the Bank. In line with strategic objectives set out in its Corporate Plan, targets were met, and in several instances, the Bank's performance exceeded the expectations set out in the Plan.

During the year, the Bank received overwhelming support from our valued clients and business partners and our gratitude goes out to all of them. I also take this opportunity to congratulate Management and Staff of the Bank for their dedication, team work and resilience which continues to manifest itself in the growth and financial performance of the Bank. I urge them to rededicate themselves in order to deal with the challenges that lie ahead.

My predecessor, Dr. Michael Gondwe did a commendable job during his two 5-year terms in office. I congratulate him on his outstanding achievements at the helm of the PTA Bank and on his appointment as Governor of the Bank of Zambia. I shall build on the strong foundation he laid to steer this institution to greater heights of prosperity.

Finally, my sincere appreciation goes to the Board of Directors whose support, guidance and dedicated service has ensured continuous improvement and to the Board of Governors for their wise counsel and guidance, and for managing a seamless leadership succession plan. Their wealth of knowledge and expertise has made this Bank to be highly regarded regionally and globally. I will continue to seek your wise counsel, as I take over the Office of President of the PTA Bank.



ADMASSU TADESSE
President and CEO

FARGO LIMITED

The Bank has provided two lease facilities totalling US$3.6 million to Fargo Limited, one of the local medium-sized Civil Engineering Construction Company located in Malawi. The funding from the Bank was utilized to acquire various pieces of high performance construction equipment which has enhanced the company's capacity to participate in the infrastructure development projects in the country. The Bank's intervention in the company has enabled it to undertake major infrastructure projects which include construction of dams, roads and structural buildings throughout Malawi.

The project has significant socio-economic benefits to the economy of Malawi. Improved infrastructure enhances the development in most sectors of the economy and is a pre-requisite for the attraction of investment in the country. Further Fargo Limited being a local contractor has assisted the country in saving foreign currency since specialised contracts that have hitherto been awarded to foreign contractors can be executed locally. The project also contributes in important ways in regard to economic empowerment of the people and skills development. It employs more than 1,500 Malawians in various trades depending on volumes of contracts.

Statement on Corporate Governance

CORPORATE GOVERNANCE REPORT

GOVERNANCE STATEMENT

The Board of Governors and Board of Directors recognize the importance of good corporate governance and remain committed to promoting best practice in this area. Our overriding aim is to create and protect value to our shareholders and other stakeholders through ethical, transparent and equitable business processes. The key aspects of our approach to corporate governance are as follows:

CORPORATE GOVERNANCE STANDARDS

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

To demonstrate its commitment to sound corporate governance, the Bank signed a joint approach statement on corporate governance alongside 30 international development finance institutions in October, 2007.

GOVERNANCE STRUCTURE

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

The Bank has two policy organs namely the Board of Governors and the Board of Directors.

Board of Governors

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

The Board of Governors generally comprises Ministers of Finance or Ministers of Economic Planning from Member States as well as appointees of Members other than the Member States.

The Board of Governors, which has delegated executive powers to the Board of Directors, ordinarily meets once a year. Although it has delegated executive powers to the Board of Directors, certain specific powers, such as the increase or decrease of the Bank's authorised capital, amendment of the Charter and approval of the Bank's audited accounts, are retained by the Board of Governors.

Board of Directors

The Board of Directors has responsibility for the general conduct of the ordinary operations of the Bank and, in this regard, exercises all the powers delegated to it by the Board of Governors to discharge its responsibility. The Bank's Charter outlines specific roles and responsibilities for the Board of Directors.

The Board consists of not more than seven Directors (each of whom is elected for a 3-year term, but is eligible for re-election) and the Bank's President as an ex-officio member. Five of the Directors and their alternates are appointed by Member States. Members of the Bank other than the Member States elect the remaining two and their alternates. The Board meets once every three months and, in addition to these scheduled meetings, as often as the business of the Bank may require. The meetings are held at the Bank's Headquarters or branch locations or at any other location specified in the notice convening the meeting.

Board Members elect a director to serve as Chairman for a period of one year. The role and responsibilities of the Chairman and of the President are distinct and held separately.

Quorum for any board meeting is a majority of the total number of directors representing not less than two-thirds of the voting rights of the Bank. In 2011, all Board Meetings satisfied this quorum criteria.

To assist members of the Board in the discharge of their responsibilities, the Bank has in place Rules of Procedure to guide the conduct of meetings and a Code of Conduct for Directors.

Audit Committee

To assist the Board in the performance of its duties, an Audit Committee of the Board has been established. This Committee operates under a clearly defined mandate which spells out its responsibilities, scope, authority and procedure for reporting to the Board.

The Committee serves in an advisory capacity to the Board and ensures that the Bank's assets are safeguarded, adequate internal controls are in place and that material risks are effectively managed.

The Audit Committee has unlimited access to Bank information, the advice and services of Management and may seek independent professional advice on any matter within its purview. External and Internal Auditors are invited to the Committee's meetings whenever necessary. The Bank's internal audit function continues to be outsourced to KPMG, Nairobi.

Other Board Committees

The Board of Directors may constitute or reconstitute any standing or ad hoc committee.

The President

According to the Bank's Charter, the President shall be a person of integrity and of the highest competence to matters pertaining to the activities, management and administration of the Bank. He/She shall be the Chief Executive and legal representative of the Bank and shall conduct, under the direction of the Board of Directors, the current business of the Bank. The President is assisted in his or her role by a Management Team.

The table below shows attendance by Board Members in 2011.

	Board Meetings	Audit Committee Meetings
Mr. Melaku Kifle	4/4	Non-member
Mr. Moses K. Nawa	4/4	Non-Member
Mr. William Mlaki	4/4	Non-Member
Mr Elgaili Elbashir	4/4	Non-Member
Mr. Latanraj Ghoorah	4/4	Non-Member
Mr. Gao Dingxin	3/4	3/4
Mr. Bu Yu (alternate to Mr. Gao Dingxin)	1/1	1/1
Mr. Alfred Helm (appointed October, 2011)	2/2	2/2
Ms. Domina Buzingo	1/1	1/1
Mr Willard Manungo	4/4	Non-Member
Mr Rupert Simeon	4/4	Non-Member
Mr Ahmed Nos'hy	3/4	Non-Member
Mr S. Khamolleh	4/4	4/4
Mr. Lawrence Kiiza	2/4	Non-Member
Dr. Michael Gondwe (Ex Officio)	4/4	Non-member

CONSOLIDATED FARMING LIMITED

The Bank financed the establishment of the sugar-processing plant in Zambia by granting a loan to Consolidated Farming Limited (CFL) in the sum of US$8.25 million. The loan was utilized in the procurement of plant and machinery for the establishment of a factory and procurement of irrigation equipment for the sugarcane farm. The factory had a production capacity of 1,500 tonnes per day (TPD). The Bank extended further financial assistance to CFL in the similar amount of US$8.25 million to the project to finance its expansion programme which was aimed at increasing its capacity of the factory to 2,500 TPD.

Additionally, the Bank provided several seasonal-finance facilities to the project for the procurement of fertilizer and chemicals which are applied in the 5,000 hectare sugarcane farm of CFL.

The project has significant socio-economic benefits to the economy of Zambia. It contributes to savings of foreign exchange by producing locally quantities of sugar which would otherwise have to be imported. The project also contributes in important ways in regard to economic empowerment of the people. It employs more than 2,100 Zambians who work in the various departments of the project.

Economic Environment

WORLD

Despite the positive sentiment of a global economic recovery in 2011, this was not realised as activity slumped and global output growth recovered at a slower pace than had been anticipated. The decline was more pronounced in the advanced economies compared to the emerging and developing countries. The advanced economies are estimated to have grown at only 1.5% in 2011 as a result of slower demand growth in the USA and sovereign debt and banking sector problems in the euro area. Furthermore, the unanticipated shocks of the Japan earthquake and tsunami, as well as the spreading unrest in the Middle East and North Africa (MENA) region and the related surging oil prices, adversely affected growth prospects.

In the emerging and developing economies, there was a varying performance across the various regions and overall, growth was weaker than had been anticipated. Growth was forecast to have slowed to 6.2% in 2011 compared to 7.3% in 2010. Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS) rebounded fairly strongly after the crisis.

Latin America registered high growth while activity in developing Asia weakened modestly in response to global supply-chain disruptions and destocking in the face of more uncertain demand from advanced economies. Sub-Sahara Africa continued on its robust pace following high commodity prices. However the exception was the MENA region which suffered political and social conflicts although the oil exporting countries in the sub region benefitted from the high commodity prices

As the year end approached, the USA and Japan seemed to have recorded more activity while the emerging and developing economies slowed more than anticipated. However, the euro area crisis which intensified in the latter half of 2011 continued to dampen growth prospects. Therefore global growth forecasts for 2011 were put at 3.8% compared to 5.2% in 2010.

AFRICA

The resilience of most sub- Sahara countries continued on into 2011 and real GDP growth averaged 5.25% compared to 5.4% on 2010. The growth was mainly driven by strong domestic demand and higher commodity prices. Growth in the various groupings was varied with Middle-Income Countries (MICs) showing the least growth during 2011. Growth in oil exporting countries is estimated to have grown by 6% in 2011 from higher oil and gas production levels sustained by continued strong oil demand, with Equatorial Guinea and Nigeria showing the strongest growth in the grouping at 7.1% and 6.9% in 2011 respectively. This was as a result of strong commodity prices helping to support growth, the terms of trade, and foreign exchange reserves.

Low income countries are also estimated to have performed better in Sub-Sahara Africa with an expected average growth rate of 6% in 2011. This growth was supported by buoyant domestic demand along with export diversification into higher value added production and to fast growing emerging markets. However, higher food and fuel prices constrained growth somewhat. The fastest growing within this grouping was Ethiopia and Mozambique, which grew by 7.5% and 7.0% respectively. MICs, now numbering 11, are estimated to have grown by about 4% in 2011 despite the new entrants and star performers, Ghana and Zambia, which grew by 13.5% and 6.7% in 2011 respectively.

Inflationary pressures rose in many countries in Sub-Sahara Africa with IMF estimates showing that inflation averaged 10% in 2011 with some countries exhibiting double digit inflation. In particular, East African countries registered very high inflation following the drought that hit the region coupled with higher fuel prices.

Continued higher commodity prices during 2011 resulted in an increase in Sub-Saharan African export revenues. Many of the low-income countries experienced a rise in the volumes of exported goods

ECONOMIC INDICATORS FOR THE SUB SAHARA AFRICA AND SUB REGIONS

	Real GDP Growth		Consumer Prices (%)		Exports (% of GDP)		Imports (% of GDP)	
	2010	2011	2010	2011	2010	2011	2010	2011
Sub Sahara Africa	5.6	5.4	7.5	8.4	34.8	37.2	35.2	35.0
EAC-5	5.8	5.9	7.2	8.5	23.6	26.5	37.7	42.2
COMESA	5.2	5.2	6.2	11.9	31.6	35.3	45.1	46.9
SADC	5.7	5.8	6.9	7.7	35.2	37.0	35.0	35.7

Source: *IMF*

and services during 2011, particularly Central African Republic, Eritrea, Guinea and Niger largely from expanding natural resources. Ethiopia, Kenya and Rwanda diversified into higher value-added production and found new country markets which aided exports. Imports also registered the same buoyant growth following high commodity prices. The current account deficit moved into a surplus position of 0.7% of GDP compared to 1.0% of GDP in 2010.

BURUNDI

The economy is expected to have grown by about 4.2% in 2011, lower than earlier projected, owing to a weakening in aggregate demand related to food and fuel price shock as well as persistent power cuts that affected industrial production. The power supply shortage in Burundi worsened in 2011, and in late September 2011 the state electricity authority (Regideso) reduced the daily electricity supply to just four hours. The reason for the shortage was the falling electricity output from the country's hydroelectric plants caused by poor rainfall and lack of investment in new power generation.

The agricultural sector was adversely affected by poor weather conditions during early 2011. In early February 2011, the second vice-president, Gervais Rufyikiri, launched a new US$ 90 million agro-pastoral programme, to last for nine years, with the aim of boosting rice production and milk output, to which the International Fund for Agricultural Development (IFAD) has contributed US$ 39.5 million. Furthermore, coffee production, the main export commodity was markedly lower than forecast owing to the cyclical nature of production.

Monetary Policy

Monetary policy remained prudent and somewhat restrictive during 2011. The Ministry of Finance and the Central Bank agreed that close coordination of fiscal and monetary policies is essential to achieving the inflation target. The monetary situation during 2011 was characterized by much weaker broad money growth due to the sharp fall in net foreign assets, which more than offset the expansion of credit to the economy. In an effort to stem inflation, the Central Bank raised the interest rate on the marginal lending facility to curtail private sector demand for credit. However, inflationary pressures continued to be significant during 2011, with year and annual inflation estimated to have increased by an average 9.6% compared to 6.4% in 2010.

Fiscal Policy

Government revenue for the first eight months of 2011 was 28% higher than in the same period of 2010, reaching BIF 36 billion (US$ 28.4 million). The increase was mainly due to a recovering economy and a steady improvement in tax collection by the Office Burundais des Recettes. Furthermore, a donation of US$ 35 million in mid-August 2011 from the European Commission for health projects and a Chinese government lending of Rmb100m (US$ 15m) to the country contributed towards improvement in the fiscal deficit to 4.1% of GDP in 2011 compared to 4.3% in 2010.

External Sector and Foreign Exchange

Total imports in the first eight months of the year rose by 33% to BIF565 billion compared to the same period in 2010. The rise in imports, was mainly a result of higher international oil prices and a rise in construction material imports particularly imports of asphalt and bitumen, which are estimated to have risen from BIF1.1 billion during the first eight months of 2010 to BIF20 billion in the first eight months of 2011. Meanwhile, iron and steel imports rose from BIF15.9 billion to BIF26.9 billion over the same period.

Tea export revenues rose to US$ 21.2 million during the first eleven months of 2011, against US$ 18.8 million over the same period in 2010. Meanwhile, coffee export revenue fell to US$ 52.1 million in 2010/11, a 37% drop on the US$ 82.8 million earned the previous season, according to the national coffee regulator, ARFIC. This is largely owing to a fall in production, which reached just 13,000 tonnes, compared with 24,000 tonnes in 2010. Low coffee output was expected in 2011 as the crop is typically high one year and low the next. However, a more worrying trend, outside the cyclical variation, is the declining yield on old bushes. The government plans to increase annual production to 50,000 tonnes within five years by replacing old bushes with new, higher-yielding ones, but progress has been slow.

On an annual basis, total exports increased to US$ 108.9 million in 2011 compared to US$ 101 million in 2010. Imports, which are almost four times the value of exports, rose to US$ 534.4 million in 2011 compared to US$ 440.3 million in 2010. The Burundi Franc was relatively stable all year, albeit with a slight depreciation during 2011. The franc averaged BIF1,261 against the US dollar.

COMOROS

The growth momentum of the Union of Comoros economy in 2011 continued to expand in line with the performance over the last two years. The expansion was on the back of improved agricultural output, expansion in the financial services sector and the gradual resumption of Foreign Direct Investment (FDI) particularly in tourism. The FDI was mainly from the Middle East and was largely a response to improved political stability in the Union. With this, estimates indicate that the Union registered growth of about 2.6% in 2011 compared to 2.1% in 2010.

The Union´s energy sector received a significant boost in

November 2011 through the African Development Bank (AfDB) Comorian investment programme. An amount of US$ 25.2 million of the programme will be focused on supporting renewable energy projects which the Comoros have significant potential particularly in hydroelectricity, biomass, solar and wind-power. These projects are expected to bring significant energy gains by cutting the cost of producing electricity by 40% over the next four years, increasing the rate of electrification from some 35% at present to 60% and cutting the country's fuel-import bill by 20%.

In an effort to increase economic diversification, part of the AfDB funds will be applied to support the underdeveloped fishing sector, budgetary aid and euro 470,000 on four studies to formulate a masterplan for the tourism industry, boost the output of cash crops, profile the existing sector and evaluate future growth sources.

Monetary Policy

The Union's management of monetary policy is tied closely 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. During 2011, inflation rose marginally to 3.8% from 2.2% in 2010, tempered by a good food harvest. However, the rise was as a result of imported inflation as the Union's main staple rice is largely imported which registered a 2.4% in price increase. Furthermore, high price of fuel also contributed to the rise in inflation which is estimated to have risen by 36%.

Fiscal Policy

The government is under pressure to improve public finance management and restore fiscal discipline as conditions for reaching HIPC completion which is anticipated in mid-2012. The short-term fiscal prospects improved as a result of a supplementary budget which was approved by Parliament in June 2011, which reset the civil service wage bill at a level more compatible with the government's revenue mobilization capacity. Furthermore, improvements in tax administration were achieved in 2011, lowering the fiscal deficit to 1.5% of GDP compared to 1.6% of GDP in 2010. However, due to slippages in the first three quarters of the year, the domestic primary fiscal deficit was estimated to be higher than anticipated under the IMF program.

External Sector and Foreign Exchange

Total exports which consist mainly of ylang-ylang, vanilla and cloves rose marginally to US$ 18.7 million in 2011 compared to US$ 13.2 million in 2010. The increase in exports was as a result of an increase in the international price of cloves following a series of crop failures due to disease from the world´s largest producer of cloves, in the Manado and Java regions of Indonesia. As a result of this, the price of Comorian cloves rose to US$ 10,000 per tonne in 2011 from US$ 6,000 per tonne in 2010. Imports also rose significantly to US$ 220.7 million in 2011 from US$ 194 million in 2010 largely due to the high import bill from high oil prices. The current account deficit is estimated to have narrowed to 6.9% of Gross Domestic Product from 7.3% of GDP in 2010. Foreign reserves are estimated to have remained healthy at a comfortable equivalent of six months of imports. The Comorian franc which is pegged to the euro is estimated to have remained at the prevailing rate exchanging at Cfr 352.6 to the dollar supported by a healthy stock of foreign-exchange reserves.

CHINA

In 2011, in the face of complex situations both at home and abroad, policies aimed at macro-economic management were adopted, producing good results. The growth rate of the Chinese economy and the growth of overall price levels gradually stabilized, Balance of Payments (BOP) continued to improve, employment figures were fairly good, and the performance of the macro economy was consistent with the anticipated direction of the macro-economic management. In 2011 the Gross Domestic Product registered 47.1 trillion yuan, up 9.2 percent year on year, and the Consumer Price Index (CPI) rose by 5.4 percent year on year. Of this total, the value added of the primary industry was 4.8 trillion yuan, up by 4.5 percent; that of the secondary industry was 22.1 trillion yuan, up by 10.6 percent and the tertiary industry was 20.3 trillion yuan, up by 8.9 percent. The value added of the primary industry accounted for 10.1 percent of the GDP, that of the secondary industry accounted for 46.8 percent, and that of the tertiary industry accounted for 43.1 percent.

Monetary Policy

In 2011, the People's Bank of China (PBC) implemented a prudent monetary policy and when necessary carried out fine-tuning. In the first three quarters, facing growing inflation pressures, in accordance with the overall plan of the State Council, the PBC, regarding inflation control as the top priority of macro-economic management, employed a mix of various monetary policy instruments. The deposit reserve requirement ratio was raised six times by a total of three percentage points, and the benchmark lending and deposit rates were raised three times by a total of 0.75 percentage points. Open market operations were conducted in a flexible manner, and a mechanism for dynamic adjustments of differentiated deposits required by the reserve ratio mechanism was adopted to guide the growth of money and credit to gradually re-adjust and to keep the all-system financing aggregate at an appropriate volume. In the last three months of 2011, in view of the spreading sovereign debt crisis in Europe, deceleration of the domestic growth rate, and moderation of the price hike, the PBC improved the targeting, flexibility, and effectiveness of policy measures, and took precautionary measures for adjustments and fine-tuning; meanwhile, the issuance of three-year central bank bills was suspended, the deposit reserve requirement ratio was reduced by 0.5 percentage points, and the parameters for the dynamic adjustment of the differentiated reserve requirement were adjusted and optimized to guide financial institutions to step up credit support to small and micro enterprises, rural borrowers, the agricultural sector, and follow-up projects of key national projects. In general, the prudent monetary policy gradually produced results.

Growth of broad money supply gradually moderated and the RMB exchange rate became more flexible. At end-2011, M2 recorded 85.2 trillion yuan, up 13.6 percent year on year, representing a deceleration of 6.1 percentage points from the previous year. Outstanding RMB loans were up 15.8 percent year on year, representing growth of 7.47 trillion yuan from the beginning of the year and a deceleration of 4.1 percentage points. In 2011, all-system financing aggregates posted 12.83 trillion yuan and bond financing recorded a large increase. In general, loan interest rates moved up. The weighted average lending rate offered to non-financial enterprises and other sectors posted 8.01 percent. At end-2011, the central parity of the RMB against the US dollar was 6.3009 yuan, up 5.11 percent over end-2010.

Fiscal Policy

In 2011, fiscal revenue (excluding debt income) surged by 24.8 percent year on year to 10.4 trillion yuan, representing an acceleration of 3.5 percentage points from the previous year, whereas fiscal expenditures registered 10.9 trillion yuan, up 21.2 percent year on year, representing an acceleration of 3.4 percentage points from the previous year. As a result, revenue was 519 billion yuan less than expenditure.

As for the structure of fiscal revenue, tax revenue posted 9.0 trillion yuan for the whole year, up 22.6 percent year on year and representing a deceleration of 0.4 percentage points from the previous year. In particular, the domestic VAT, business tax, consumption tax, the VAT and excise tax on imported products, the corporate income tax, and the personal income tax were up 15 percent, 22.6 percent, 14.2 percent, 29.3 percent, 30.5 percent, and 25.2 percent respectively year on year.

As for the structure of fiscal expenditures in 2011, spending for housing subsidies, transportation, and medical services registered relatively rapid growth of 60.8 percent, 36.1 percent, and 32.5 percent respectively year on year. In the expenditure basket, the three largest items were education, social security and employment, and general public services, posting 1,611.6 billion yuan, 1,114.4 billion yuan, and 1,110.9 billion yuan respectively, accounting for 14.8 percent, 10.2 percent, and 10.2 percent.

Real Sector

Supported by the stable income gains of urban residents and the rapid income gains of rural residents, domestic consumer demand remained stable. In 2011, the per capita disposable income of urban households posted 21,810 yuan, representing year-on-year growth of 14.1 percent and price-adjusted real growth of 8.4 percent. The per capita cash income of rural households registered 6,977 yuan, up 17.9 percent in nominal terms or 11.4 percent in real terms. The PBC survey of urban depositors in the fourth quarter shows that the residents' income index rebounded by 0.5 percentage points from the previous quarter to 50.9 percent, thus ending the drastic downward trend in the previous two quarters; the propensity to consume remained stable. In 2011, retail sales of consumer goods totaled 18.1 trillion yuan, representing a year-on-year increase of 17.1 percent, or 11.6 percent in real terms and a deceleration of 3.2 percentage points from 2010. Consumption growth in the urban areas slightly outpaced that in the rural areas. In 2011, retail sales in the urban areas registered 15.7 trillion yuan, up 17.2 percent year on year, whereas retail sales in the rural areas grew 16.7 percent year on year to 2.4 trillion yuan.

BOP and Exchange Rates

The total value of imports and exports in 2011 reached 3.6 trillion US dollars, up by 22.5 percent over the previous year. Of this total, the value of goods export was 1.9 trillion US$, increased by 20.3 percent, and the value of goods import was 1.7 trillion US$, up by 24.9 percent. The balance of imports and exports was 155.1 billion US$, a decrease of 26.4 billion US$ over the previous year.

The PBC further improved the RMB exchange rate regime reform in line with the principle of making it a self-initiated, controllable, and gradual process. Focusing on the role of market supply and demand, the PBC enhanced RMB exchange rate resilience with reference to a basket of currencies and kept the RMB exchange rate basically stable at an adaptive and equilibrium level. In 2011, the central parity of the RMB against the US dollar peaked at 6.3009 per dollar and reached a trough of 6.6349 per dollar. During the 244 trading days, the interbank foreign exchange market saw an appreciation of the RMB against the US dollar on 143 days and a depreciation on 101 days. The largest intraday appreciation in 2011 was 0.30 percent, whereas the largest intraday depreciation was 0.22 percent.

The RMB exchange rate moved in both directions against the euro, Japanese yen, and other major international currencies. At end-2011, the central parity of the RMB against the euro registered 8.1625 per euro, an appreciation of 7.89 percent from end-2010, and the central parity of the RMB against the Japanese yen stood at 8.1103 per 100 Japanese yen, an appreciation of 0.19 percent from end-2010. Beginning from the RMB exchange-rate regime reform in 2005 to end-2011, on a cumulative basis the RMB appreciated 22.68 percent against the euro and depreciated 9.92 percent against the Japanese yen.

In 2011, China's balance of payments continued to post a twin surplus in the current account and the capital and financial account, and foreign exchange reserves continued to build up. The current account surplus declined by 30.7 percent year on year to US$ 141.2 billion, the capital and financial account surplus was up 92.2 percent year on year to US$ 250.1 billion, and foreign exchange reserves increased by US$ 375.4 billion. Since the beginning of the fourth quarter of 2011, affected by the debt crisis in Europe and the U.S., changes in market expectations, adjustments in the foreign administration policies oriented toward surplus reductions and economic rebalancing, the net flows of cross-border funds moderated and bank-intermediated foreign exchange sales posted deficits for several months, thus easing pressures from the BOP imbalance. As of end-2011, foreign exchange reserves amounted to US$ 3,181.1 billion.

It is expected that the current foreign exchange receipts and sales momentum will last for some time, in general foreign exchange funds will be net inflows in 2012, but notably fewer than during the past several years. The import and export surplus and FDI will remain the major channels for foreign exchange inflows. On the one hand, domestic savings exceed investments in the domestic market during the current period, the pattern in the current account, in particular the trade surplus, will not be reversed given the existing division of labor in the international market. On the other hand, the domestic market enjoys tremendous potential as China's economy continues to grow in a sustainable and relatively rapid manner, which is likely to continue to attract inflows of long-term capital. However, the impact of the debt problems in Europe and the U.S. and developments in international financial markets on China's BOP remain to be seen.

The volume of external debt increased. As of end-September 2011, the stock of China's external debt stood at US$ 697.16 billion, up 27.6 percent year on year. Of this total, the stock of registered external debt posted US$ 440.56 billion, up 34.9 percent year on year and accounting for 63.2 percent of the total; short-term external debt posted US$ 507.63 billion, a year-on-year increase of 37.4 percent and accounting for 72.8 percent of the total.

DEMOCRATIC REPUBLIC OF CONGO

Initial growth estimates for the DR Congo, the Bank's newest member, had been put at 6.5% but in the second half of the year, the Banque Centrale du Congo, the Central Bank, revised growth estimates upwards for 2011 to 6.9%. Compared to real GDP growth in 2010, this represents a small decline from 7.1%. The upward revision in growth was as a result of higher international commodity prices for the country's mineral exports and improved domestic demand.

The structure of the DR Congo economy has changed over the last decade. Agriculture, although employing about 75% of the working population, now accounts for a declining proportion of Congolese GDP of 35% in 2008 compared to a contribution of 57% in 2001. In 2001, the mining sector contributed only 9.8% to GDP and this grew to a contribution of 24% of GDP in 2008. The mining sector has become a key sector of the DRC's economy contributing between 70% and 80% of export earnings. The mining sector has an extremely varied range of minerals from copper, cobalt, diamonds and gold being the most abundant.

Estimates indicate that copper output in the first half of 2011 was lower by 7% compared to the same period of 2010, while cobalt production was 54% higher. Industrial diamond-mining output rose from zero in the first half of 2010 to 45,000 carats in the first half of 2011. (Production during the same period of 2005 was around 3 million carats.) Gold production continued to remain insignificant with only 52 kg of gold output recorded in January-April 2011, compared with 107 kg in the same period of 2010 and 748 kg in 2005. However, gold production is expected to have increased dramatically from the last quarter of 2011, with the opening of the Twangiza mine, the country's first new gold mine for more than 50 years.

The agricultural sector is estimated to be growing at about 2%. The sector has suffered from the dilapidation of the transportation infrastructure and in particular the road networks through which production is distributed around the country. Furthermore the sector's production suffered from the steady shift of labor to the much more lucrative mining sector. Timber production rose during the first three months of 2011 by a 66% year-on-year increase. In the manufacturing sector which accounts for only around 5% of GDP, production of beer and soft drinks rose during the first half of 2011 by 2.6% and 24.5% year-on-year respectively.

The DR Congo began discussions on joining the Free Trade Area (FTA) of the Common Market for Eastern and Southern Africa (COMESA). The DRC joined COMESA's PTA Bank in February 2011 and is also a member of the COMESA African Trade Insurance scheme. Much of the DRC's trade is with COMESA states, which is very significant but goes unrecorded. The DRC's formally recorded trade with other African countries has increased markedly in recent years, from just US$ 25 million in 2000 to US$ 1.3 billion in 2010 (equivalent to

26% of the total), according to IMF data.

Monetary Policy

Monetary policy was tightened at the beginning of the year which saw interest rates rising by 7.5 percentage points moving the discount rate which is the main policy rate to 29.5% in January 2011. Because the domestic economy is so dollarised, there are limits to what the government can do through monetary policy to contain inflation. There was significant inflationary pressure during the first half of 2011 driven mainly by food price inflation and higher oil prices. Year-on-year inflation started at 7% in January and reached 18% in June as inflationary pressures persisted throughout the year. Annual average inflation is estimated to have been 17% during 2011. The Banque Centrale du Congo, however, loosened monetary policy in late 2011 as the elections approached.

Fiscal Policy

Latest data available from the Central Bank indicate that the government ran a budget surplus during the first quarter of 2011. Government spending is estimated to have reached FC660 billion (US$ 716 million) during the first quarter of 2011 while government income was FC671 billion. Government revenue rose on the back of rising commodity prices, which boosted the DRC's export earnings and the government's tax-take and lower debt-servicing requirement, following the international debt relief that the DRC received last year. Government spending rose particularly in March 2011 averaging FC8 billion per month in 2010 and FC11 billion per month during the first quarter of 2011.

External Sector and Foreign Exchange

Total exports for 2011 are expected to have increased significantly to US$ 10.9 billion compared to US$ 8.4 billion in 2010. Behind the rise in exports was the rise in mining and oil exports which rose to US$ 10.7 billion in 2011 compared to US$ 8.2 billion in 2010. This was reflective of higher prices of commodities during the year as well as the fact that mining and oil made up 97% of exports. Mining output also rose owing mainly to higher output from the Tenke Fungurume copper-cobalt mine at Kolwezi in Katanga, but also to increased production at other mines.

Imports rose to US$ 9 billion in 2011 compared US$ 7.8 billion largely because of the rise in international fuel prices and strong demand for intermediate and capital goods for Chinese-financed mining and infrastructure projects. With more exports, the trade balance surplus is expected to have risen massively to US$ 1.8 billion from a surplus of US$ 520 million previously. The current account deficit is expected to have narrowed to US$ 419 million, less than half the estimated US$ 898 million deficit in 2010. The Congolese franc is estimated to have averaged FC1,000 to the US dollar in 2011 supported by growing foreign exchange reserves, from savings generated by debt relief, the recovery in export earnings and higher inflows of foreign direct investment.

DJIBOUTI

Djibouti's economy was hard hit in 2011 by high commodity prices and the severe drought in the Horn of Africa. However despite these shocks, real GDP is expected to have grown at a rate of about 4.6% in 2011 compared to 3.5% in 2010, largely due to normalization of port activities and renewed FDI. Port activity is the cornerstone of the economy and following a significant drop in traffic at the port in 2010, it picked up significantly in 2011. The number of inbound containers increased by 96% year-on-year in the first half of 2011. This increase was entirely due to the rapid expansion of trans-shipment traffic as opposed to general cargo, which rose sevenfold year-on-year in the first half of 2011 and quadrupled in the second quarter. The increase in traffic was largely helped by the instability at the Aden port in Yemen, its main competitor in the region. Resurgence of FDI which is mainly from the Gulf Cooperation Council countries has been mainly directed into capital-intensive projects at the port of Djibouti and in the construction and tourism sectors.

Monetary Policy

Inflationary pressures which began at the end of 2010 carried on into the first half of 2011 with annual inflation peaking at 5.2% in May. Although inflation started to moderate in the latter half of 2011, it rose again in November to 7.2% as food prices continued to remain high. Food accounts for 36% of the urban consumption budget. Despite the impact of the drought on the Djibouti economy, the impact on inflation was rather moderate as Djibouti imports most of its cereal requirements implying that inflation was imported rather than domestic. In this regard, average annual inflation for 2011 is estimated to have increased to 5.3% compared to 4% in 2010.

Fiscal Policy

In 2011, the fiscal deficit is estimated to have expanded to 2% of GDP from 0.8% in 2010 due to an increase in expenditure directed towards elections and the tackling of the rise of food security resulting from drought.

External Sector and Foreign Exchange

During 2011, exports are estimated to have risen to US$ 80.4 million from US$ 70.4 million in the previous year, while imports also rose to US$ 415.5 million in 2011 from US$ 364.9 million in 2010. The rise in imports was due to increase in the import bill from increased prices of imported foodstuff and oil. The current account deficit is expected to have narrowed significantly to 0.4% of GDP in 2011 from 2% of GDP in 2010. The Djibouti franc continues to be pegged to the US dollar and stood at Dfr177.72 underpinned by healthy foreign exchange reserves in excess of three months import cover.

EGYPT

The annual GDP growth for the year 2010/2011 was expected to have fallen to 1.8% from 5.1% recorded in 2009/2010. While a marked decline in economic activity was expected, the magnitude was larger than anticipated at the outset of the revolution. This came on the back of significant declines in the tourism, manufacturing and construction sectors. The tourism sector registered a negative growth rate of 5.9% in fiscal year 2010/11 compared to a 12% growth rate in 2009/10. Tourists stayed away from Egypt because of the political uncertainty and disruption. The manufacturing sector declined to a negative growth of 0.9% in 2010/11 compared to a positive growth of 5.1% in the previous fiscal year while the construction sector declined to 3.7% compared to a growth rate of 13.2% in 2009/10. Despite the negative downturn, Suez Canal registered an increase of 11.5% in 2010/11 compared to a negative growth of 2.9% in the previous fiscal year.

Monetary Policy

The Central Bank of Egypt (CBE) started loosening monetary policy at the beginning of 2009 and last cut its rates in September 2009, when the overnight deposit and lending rates were reduced by 25 basis points each, to 8.25% and 9.75% respectively, and this stance continued throughout most of 2011. However in November 2011, this trend was reversed as the Central Bank decided to raise the overnight deposit rate by 100 basic points to 9.25%, and the overnight lending rate and the 7- day Repurchase Agreement (repo) by 50 basis points to 10.25% and 9.75%, respectively. The discount rate was also raised by 100 basic points to 9.5%. The decision to increase rates was to support the Egyptian pound and boost local currency deposits.

During 2011, inflation pressures increased following the rise in international food and fuel prices as well as the depreciation of the pound following the political instability. It rose throughout the first quarter of 2011 and started to ease after April 2011. It is estimated that inflation averaged 9.9% in 2011.

Fiscal Policy

The fiscal deficit for 2010/11 widened to 9.4% of GDP compared to 8.2% of GDP in the previous fiscal year. The widening was as a result of higher expenditure which is estimated to have risen to E£430.6 billion in fiscal year 2010/11 from E£396.8 billion in the previous fiscal year. Pushing expenditure was an increase in subsidies, grants and social benefits. Revenue during 2010/11 declined marginally to E£296.3 billion from E£303.4 billion in the previous fiscal year as a result of a significant decline in other revenues from E£128.5 billion in fiscal year 2009/10 to E£103 billion. However, tax revenues rose from E£170.5 billion to E£19.6 billion

External Sector and Foreign Exchange

Egypt's balance of payments moved into an overall deficit position of US$ 9.8 billion during fiscal year 2010/11 compared to a surplus of US$ 3.4 billion in the 2009/10 fiscal year. This was reflected in a decline in net international reserves at the CBE. Data analysis demonstrated that in the second half of the fiscal year (January/June 2011), the BOP ran an overall deficit of US$ 10.3 billion, against an overall surplus of US$ 571.7 million in the first half (July/December 2010).

The current account deficit during fiscal year 2010/11 improved by 35.9% to US$ 2.8 billion, compared to US$ 4.3 billion in 2009/10. This was reflective of a slight fall in trade deficit, by 5.3% to US$ 23.8 billion, and an increase in net unrequited transfers by 25.6% to US$ 13.1 billion, while services balance surplus retreated by 23.8% to US$ 7.9 billion against US$ 10.3 billion

The trade deficit narrowed by US$ 1.3 billion to US$ 23.8 billion during 2010/11 from US$ 25.1 billion during 2009/10. The trade volumes rose by 6.7% to reach US$ 77.8 billion. Exports (FOB) increased by 13.1% to US$ 27.0 billion, due to the increase in both oil exports by 18.3% (45.0 percent of total exports) and non-oil exports by 9.1% (55.0 percent of the total) respectively. Imports (CIF) went up by 3.6% to US$ 50.8 billion, due to a rise in both oil imports by 15.2% (11.7 percent of total imports) and non-oil imports by 2.3% (88.3 percent of the total).

The services balance surplus during 2010/11 fell by 23.8% to US$ 7.9 billion (33.1% of trade deficit) from US$ 10.3 billion a year earlier. The fall came from a decrease by 7.2% in services receipts and an increase in services payments by 5.8%

The capital and financial account had a net outflow of US$ 4.8 billion during fiscal year 2010/11 against a net inflow of US$ 8.3 billion a year earlier. This was reflective of the reversal of the net inflow of portfolio investment of US$ 7.9 billion recorded a 2009/10, to a net outflow of US$ 2.6 billion in the year under review, in addition to a significant drop in net FDI in Egypt by 67.6% to US$ 2.2 billion compared to US$ 6.8 billion. Net international reserves (NIR) decreased by US$ 8.7 billion during fiscal year 2010/11, to reach US$ 26.6 billion at end of June 2011, covering 6.3 months of merchandise imports.

The Central Bank managed a gradual depreciation of the Egyptian pound since the revolution. The Egyptian pound fell to its weakest level against the US dollar in nearly seven years end November 2011. The currency traded as low as E£6.0036 to the US dollar on the second day of voting in the first round of parliamentary elections. The depreciation came as Standard and Poor's downgraded Egypt's credit rating for the fourth time this year, to B+ from BB- on November 24th.

ERITREA

The estimated double digit growth for Eritrea in 2011 was largely driven by the gold and silver mining at Bisha and the production of cement from the Chinese built factory near Massawa. Growth is estimated to have soared to 17% in 2011 compared to 4% in 2010. Estimates indicate that just over 100,000 troy oz of gold was produced at the Bisha mine in the fourth quarter of 2011, bringing total production for the year to 379,000 troy oz worth about US$ 590 million. The mining sector registered robust activity as construction of a copper processing plant started mid 2011 with expected completion date in 2013.

Monetary Policy

Monetary policy has continued to accommodate the budget deficit and as such has resulted in a rapid expansion of broad money fuelling inflation which has remained firmly in double digits for much of the last decade and is estimated to have been 20% in 2011, compared to 18% in 2010.

Fiscal Policy

The government does not publish national budgets, which limits assessments of fiscal policy. However, IMF estimates indicate that Eritrea continues to suffer from chronic fiscal deficits since independence. The IMF has estimated that the fiscal deficit narrowed somewhat in 2011 to 10.4% of GDP in 2011 compared to 13.9% in 2010. The narrowing deficit was as a result of increased tax revenues boosted by tax collection from increased mining activity.

External Sector and Foreign Exchange

Exports performed extremely well in 2011 due to increased mining activity in the economy. They are estimated to have risen fourteen fold to US$ 415.4 million in 2011 compared to US$ 29 million in 2010. Imports also rose strongly in line with increased capital goods imports to cater for the increased activity of the mining sector to US$ 900 million in 2011 from US$ 689.5 million in 2010. As a result, the trade deficit is estimated to have declined substantially to roughly 17% of GDP in 2011. The services balance is expected to have fallen slightly as imports of mining-related services rose. The current account deficit is estimated to have narrowed in 2011 to US$ 116.4 million from US$ 282.4 million in 2010. Remittances from the diaspora are expected to have remained fairly constant at roughly 10% of GDP.

The Nafka which is overvalued, underpinned by double digit inflation and large current account deficits continued to be pegged to the US dollar exchanging at Nfa 15.38 to the dollar. However, the parallel is significantly higher, exchanging at 50% higher rate than the official rate.

ETHIOPIA

Ethiopia experienced one of the worst droughts in 60 years, and large parts of the south, south-east and north-east of Ethiopia were affected, which left more than 4.8 million people in need of assistance. However, despite the drought, it is expected that growth in agriculture will continue to drive economic expansion as agriculture and agro-industry benefit from the movement of subsistence farmers into the commercial economy, helped by the expansion of road, power and market networks. Real GDP growth was forecast at 11.4% by government although IMF estimates puts it at 7.5%.

Remittances have become a significant source of foreign exchange in Ethiopia. The government estimates that remittances through formal banking channels almost doubled to US$ 1.5 billion in 2010/11 compared to US$ 790 million the previous fiscal year. In efforts to consolidate the banking sector, the National Bank of Ethiopia, the Central Bank, issued a directive to raise the minimum capital requirement for commercial banks. The paid-up minimum capital requirement was raised by a staggering 566%, from Birr75 million (US$ 4.4 million) to Birr500 million.

In June 2011, the government, in a policy reversal removed most of the price caps that it had imposed on around 20 commodities in early 2011. The policy was to limit rising inflation by setting price ceilings estimated at between 5% and 45% lower than market prices for some goods. However, with year-on-year inflation continuing to rise, the caps had no beneficial impact on prices with the ceilings leading to extensive shortages of some commodities, as well as the proliferation of black market trading in listed goods at even higher prices.

Monetary Policy

The National Bank of Ethiopia closely monitored monetary and financial developments so as to achieve a relatively stable inflation rate and conducive macroeconomic environment. Despite protracted monetary and fiscal policy measures, annual average general inflation continued to increase. The fundamental reasons behind the upward pressure in inflation was imported inflation associated with increasing oil and food prices, rising domestic aggregate demand, money supply and oligopolistic market structure. The annual inflation rate rose to 40.6% in August 2011, compared with just 5.3% in August 2010. Food prices had been rising steeply throughout 2011 and inflation was around the record levels with food accounting for 57% of Ethiopia's consumer price index. Annual average inflation is estimated to have averaged 33% in 2011.

Fiscal Policy

According to the Ethiopian Revenues and Customs Authority, tax and customs revenue collected in fiscal year 2010/11 stood at around Birr51 billion (US$ 2.8 billion), just missing its Birr54 billion target. Despite missing the target, domestic revenue increased steeply compared with Birr35.6 billion collected in 2009/10. A windfall tax on bank profits arising from the 16.7% devaluation of the birr in September 2010 bolstered government coffers in fiscal year 2010/11. Overall, budget deficit was expected to have edged higher, to have an average of 2.3% of GDP in 2010/11.

External Sector and Foreign Exchange

In the first three quarters of 2010/11, total exports rose by about 48% to US$ 1,876.5 million compared to US$ 1,268.7 million in 2009/2010 fisical year. This was mainly driven by the surge in earnings from export of coffee, gold, leather and leather products, meat and meat products, live animals, pulses, flower, chat and oilseeds. Imports registered a small decline to US$ 6,096.6 million in the first three quarters of 2010/11 from US$ 6,270.50 registered in the same period in 2009/10. In line with higher exports and lower imports, the trade balance narrowed from US$ 5,001.8 million in 2009/10 to US$ 4,220.1 million in the first three quarters of 2010/11.

On a calendar year basis, Ethiopia's current-account deficit narrowed significantly to 1.3% of GDP in 2011 compared to a deficit of 8.4% of GDP in 2010. Total export earnings rose significantly to US$ 2,941 million in 2011 compared to US$ 1,716.4 million in the previous year while imports were up to US$ 8,336 million in 2011 compared to US$ 6,991.4 million in the previous year. On average the birr exchanged at Birr17.20 to the US dollar in 2011 compared to Birr14.41 in 2010.

KENYA

After bouncing back in 2010, the Kenyan economy faced a number of challenges in 2011, which included severe drought in the Horn of Africa and high international commodity prices. Despite these significant challenges, the growth momentum continued particularly in the first quarter of 2011 which was driven by rapidly expanding credit to the private sector. First quarter growth was 4.8% which then slowed to 4.1% during the second quarter putting the average growth for the first half of 2011 at 4.5%. However, growth slowed during the rest of the year as a result of the continued impact of the unfavourable weather conditions resulting in power shortages, high inflation and the deterioration in global conditions. On an annual basis, estimates indicate real GDP growth grew by 4.2% in 2011 from 5.6% in 2010.

Monetary Policy

Monetary policy for 2011 was tightened significantly in an effort to rein in the high inflationary pressures experienced throughout most of 2011. The first move to tighten monetary policy was carried out in March 2011 when the Central Bank Rate (CBR) was raised to 6%. The CBR was further increased by 25 basis points and the Cash Reserve Ratio (CRR) was also increased by 25 basis points in June 2011, in an effort to slow inflationary pressures which had risen from 9.19% in March to 12.95% in May and to enhance exchange rate stability.

However, inflation continued to persist and increase in the latter half of 2011 and further tightening continued with the CBR increasing to 7% in September and again to 11.5% in October, 16.5% in November and eventually ended the year at 18% in December. On average, overall inflation is estimated to have been 19% which was significantly higher than the 4.0% of 2010 with inflationary pressures mainly fuelled by high food prices and high fuel and energy costs.

Fiscal Policy

Fiscal policy during 2010/11 moved towards consolidation. The fiscal deficit narrowed to Ksh 137.6 billion on commitment basis compared with a deficit of Ksh 157.9 billion in a similar period of 2009/10. As a proportion to GDP, the fiscal deficit declined from 6.4% to 5.0% on commitment basis. The budget deficit during the period was within the programmed target of 6.8% of GDP on commitment basis. During fiscal year 2010/11, government revenue and grants increased to Ksh 679.5 billion compared to Ksh 560.8 billion in a similar period of the fiscal year 2009/10. The increase during the fiscal year was from a Ksh 118.7 billion increase in revenue collections and grants received.

However, the increase was below the target by Ksh 50.6 billion. Tax revenue expanded by 19.9% from Ksh 487.7 billion at the end of 2009/10 fiscal year to Ksh 584.6 billion at the end of 2010/11 fiscal year with all tax components performing well. Government expenditure grew by 13.7% to Ksh 817.1 billion on the back of Ksh 61.6 billion and Ksh 36.8 billion increases in recurrent and development expenditures respectively. Expenditure and net lending targets were missed by Ksh 101.1 billion as a result of delays in domestically financed investment and restraint on current spending.

External Sector and Foreign Exchange

The overall balance of payments moved from a surplus position of US$ 365 million in the year to September 2010 to a deficit of US$ 220 million in the year to September 2011. This was as a result of a significant widening of the current account deficit from US$ 2,073 million in the year to September 2010 to US$ 4,017 million in the year to September 2011. This widening was on the back of higher drought-related food and energy imports coupled with higher international prices, and strong domestic demand.

Imports increased by 22.7% to US$ 14,483 million in the year to September 2011, mainly from increased payments for imports of oil, manufactured goods and machinery and transport equipment. Oil imports rose by 42.2% to US$ 3,742 million in the year to September 2011 from higher oil prices in the global market. Manufactured goods imports, which accounted for 15% of the import bill, increased from US$ 458 million in the year to September 2010 to US$ 2,177 million in the year to September 2011. Machinery and transport equipment, which account for 27.3% of total import bill, increased from US$ 3,430 million in the year to September 2010 to US$ 3,958 million in the year to September 2011.

Exports rose in the year to September 2011 by US$ 750 million to US$ 5,760 million. The increase was as a result of an increase in export earnings from coffee, manufactured goods, raw materials and chemicals and related products. Coffee and horticulture exports rose by US$ 18 million and US$ 6 million respectively, in the year to September 2011, reflecting higher export prices for the two commodities. Tea exports, which accounted for 19.6% of the total exports, declined from US$ 1,152 million in the year to September 2010 to US$ 1,131 million in the year to September 2011 from reduced exports volume.

Manufactured goods exports, which accounted for 12.5% of total exports rose by US$ 120 million in the year to September 2011 while exports of raw materials rose by 44% to US$ 311 million in the year to September 2011. The higher growth in imports led to the trade deficit widening by 28.4% or US$ 1,929 million. The services account deficit declined by US$ 16 million to US$ 4,706 million in the year to September 2011 mainly due to a decline in net receipts of nonfactor services and current transfers.

The Central Bank´s intervention in the foreign exchange market has been limited, and this has allowed the exchange rate to adjust to external shocks. Since mid-October 2011, when the Kenya shilling depreciated significantly hitting an all-time low of Ksh106 vis-a-vis the US dollar, the exchange rate stabilized on the back of Central Bank policy rate increase. The shilling is estimated to have exchanged at an average of Ksh88.81 vis-a-vis the US dollar. Gross official foreign exchange reserves declined from 4.0 months of import cover (US$ 4,054 million) in October 2010 to 3.6 months of import cover (US$ 3,985 million) in October 2011.

MALAWI

Real economic activity in 2011 is estimated to have grown by 6.9% compared to 6.7% in 2010. The growth was mainly driven by the agricultural sector, information and communications services, construction services, mining and financial and insurance services. The agricultural sector, which is the mainstay of the economy, recorded significant growth of 6.4% in 2011 compared to 2.0% in 2010. National crop production is estimated to have increased by 8.0% to 13.7 million metric tons in the 2010/11 season from 12.7 million metric tons in the 2009/10 season. Estimates for both major and minor crops indicate increases of 10.7% and 2.5% respectively. The favourable yield is attributed to good rainfall patterns and improved availability of farm inputs in almost all Agricultural Development Divisions (ADDs). Maize production is estimated at 3.9 million metric tons, representing an increase of 13.9% from a total of 3.4 million metric tons produced in the preceding season.

The volume of tobacco sales for the year to end-November amounted to 228 million kilograms compared to 220 million kilograms sold in a corresponding period in 2010. Tea sales for the year to end- November 2011 amounted to 12.1 million kilograms valued at US$ 19.5 million compared to 15.2 million kilograms sold for US$ 23.6 million in a corresponding period in 2010.

Other sectors - mining and manufacturing - of the economy registered positive growth albeit at a slower pace. The manufacturing industry is projected to have grown at 3.5% in 2011 compared to a growth rate of 4.3% in 2010. The slowdown is due to supply side constraints owing to shortages of foreign exchange that adversely affected importation of raw materials and fuel. Intermittent supply of electricity has also set back the pace of growth in the manufacturing sector. The mining and quarrying sector is estimated to have grown by 33.1% in 2011 following a growth rate of 80.2% in 2010. The slower growth is as a result of limited capacity of the operational mines.

Monetary Policy

The Reserve Bank of Malawi (RBM, the Central Bank) maintained its discount rate at 13%. This posed limited risks to inflation, as financial markets are thin and money supply remains the main monetary policy instrument. Inflation was on an upward trend for much of 2011, rising from 6.6% in January to 8.9% in November. The inflationary pressures mainly emanated from non-food inflation particularly from the fuel scarcity which has been a major cause of the transport sub-component of inflation which increased by 20.1% year-on-year in November 2011.

Fiscal Policy

On an annual fiscal year basis, domestic revenue was revised upwards from an initial growth projection of 17.5% in fiscal year 2010/11. The revenue target was exceeded in the first half of the year, underpinned by a new source of revenue, uranium mining. Furthermore, improvements in revenue collection by the Malawi Revenue Authority also contributed to increased revenues. With the improved outlook for revenue collection, the government raised its expenditure target, and public spending to grow by 16% in 2010/11, driven mostly by current expenditure. Education received the largest share of the budget (roughly 16%), followed by health, transport and agriculture. Grants are projected to have fallen by 7% to MK85 billion (US$ 563 million).

External Sector and Foreign Exchange

Total exports fell in 2011 to US$ 912 million due to a slump in tobacco exports as a result of weak prices and low demand. However, the decline was tempered by an increase in uranium prices. Imports are estimated to have remained fairly constant at US$ 1.7 billion. The trade balance widened marginally for 2011 and the current account deficit widened significantly to 12% of GDP from 8.7% in 2010 due to a reduction in receipts in the services account. The kwacha remained stable at MK150.8:US$ 1 since February 2010, as the government continued to manage the exchange rate heavily. The currency is over-valued and foreign exchange shortages re-emerged after September 2010. During 2011, the kwacha is estimated to have depreciated to MK156.93. Gross official reserves declined to US$ 203.8 million in November 2011 from US$ 250.1 million in October 2011. Subsequently, the import cover for November 2011 stood at 1.6 months from 1.9 months in October.

MAURITIUS

Real GDP growth rate in 2011 barely moved from the growth in 2010. It declined to 4.1% in 2011 compared to 4.2% registered in 2010. This growth was supported by all three sector groupings which registered positive growth despite some individual industry declines. The primary sector which comprises agriculture and mining activities registered growth of 2.8% compared to a decline of 1.3% in 2010. The growth in the primary sector was supported by a 2.9% growth in the agricultural sector on the back of increased sugarcane production. The secondary sector which comprises mainly manufacturing and construction grew at a slower pace of 2.1% in 2011 compared to 2.8% in 2010. This slower growth was due to a lower growth in construction which grew by 1.8% in 2011 compared to 4.3% in 2010 despite the manufacturing sector registering growth of 3.5% in 2011 compared 2.1% in 2010.

The tertiary sector which contributes significantly to Mauritius' GDP is estimated to have grown by 5.0% in 2011, slightly lower than the 5.1% growth in 2010. The lower growth rate was as a result of slow growth in tourism which was hit by the economic crisis in Europe, which is Mauritius' largest market, accounting for 62.4% of arrivals in the first nine months of 2011, down from 66.5% in 2009. Year-on-year growth in arrivals from France, the largest single market, fell from 9.6% in the first nine months of 2010 to 1.7% in the same period of 2011, while arrivals from the UK and Italy also declined, by 9.7% and 4.6% respectively. There was also a slowdown in growth in tourist arrivals from African continent, from 10.7% to 3.6%.

Monetary Policy

Inflation rose significantly in December 2010 and this continued on into 2011 where year-on-year inflation continued to rise through the first quarter. With this background, the Bank of Mauritius (BOM) tightened monetary policy by raising the repurchase (repo) policy rate from 4.75% in March 2011 (the first increase since July 2008) to 5.25%. The Central Bank's view was that even though the growth outlook remained uncertain, inflation was the greater risk and indeed inflation continued to rise peaking in May 2011 at 7.1%.

In June 2011, the Bank of Mauritius further tightened monetary policy raising the repo rate by 25 percentage points to 5.5% which led to inflation falling throughout the second half of 2011 although it shot up again to 7% in October before ending the year at 4.8%. With inflation tamed, the BOM loosened monetary policy by cutting the repo rate from 5.5% to 5.4% in December 2011. This followed the BOM perception that imported inflationary pressure were abating and domestic growth prospects were weakening, and a cut in the rate would stimulate demand without the risk of further stoking inflation.

Fiscal Policy

Government remained committed to the high levels of investment and fiscal policy for 2011 continued on its expansionary stance. To support the increased spending there were tax increases which were introduced, while some unpopular taxes were dropped.

Government revenue is projected to have grown by 11.7%, with tax revenue, which accounts for 85% of total revenue, growing slightly more quickly. Current expenditure is projected to have increased by 7% to MRs 72.6 billion (US$ 2.3 billion) and capital expenditure by 36% to MRs 11.4 billion, raising overall projected expenditure by 10.2%. The fiscal deficit was therefore estimated at 4.3% of GDP in 2011.

External Sector and Exchange Rates

Total exports for the first nine months of 2011 rose by 14.6% to MRs 56,273 million compared to the same period of 2010. The increase was a result of an increase in the largest component of exports 'Miscellaneous manufactured articles' which represented 48.9% of total exports. It increased by 10.0% compared to the corresponding period of 2010. Exports of 'Articles of apparel & clothing accessories' which make up the largest proportion of 'Miscellaneous manufactured articles' at 82.5% increased by 12.1% compared to the first nine months of 2010. Exports of 'Food and live animals' rose by 6.1% during the first nine months of 2011 amounting to MRs 15,227 million. Sugar exports went up by 25.1% while those for "Fish and fish preparations" declined by 2.9%. Total imports for the first nine months of 2011 amounted to MRs 105,716 million, showing increases of 5.3% over the previous quarter and 10.0% over the corresponding period of 2010.

Total imports for the first nine months of 2011 amounted to MRs 105,716 million, showing an increase of 10.0% over the corresponding period of 2010.

The rise in imports was from a rise in mineral fuels, lubricants & related products which registered a 29.5% increase and manufactured goods rose by 12.7%. Imports of machinery & transport equipment declined to 6.7%. With imports significantly larger that exports, provisional estimates indicated that Mauritius' trade deficit was MRs49.4 billion (US$ 1.7 billion) in the first nine months of 2011, 5.3% higher than 2010.

On an annual basis, estimates indicate that total exports for the year 2011 were expected to be in the order of MRs76,000 million, against MRs155,000 million for imports. The trade deficit was expected to widen to around MRs 79,000 million. The current account deficit was also expected to have widened to 9.6% of GDP in 2011 compared to 8.2% of GDP in 2010. The rupee appreciated against the US dollar to exchange at MRs28.70 in 2011 compared to MRs30.78 in 2010. Total International reserves stood at US$ 2.4 billion in 2011 lower than the US$ 2.6 billion in 2010.

RWANDA

The Rwandan economy is estimated to have performed better than initially estimated. Estimates had put real GDP growth at 7%, a decline from the 2010 growth rate which stood at 7.5%. According to the Ministry of Finance and Economic planning, economic growth was later estimated at 8.8%. The revision upwards was mainly driven by the agricultural sector which grew by 8.2% reflecting the on-going reforms. The industrial sector grew by 15.1% and the services sector grew by 8.5% both boosted by a significant improvement in credit markets. The good performance of the agricultural sector was from good harvest for 2011 seasons A and B which grew by 10.4% more than the harvest recorded in the same seasons of 2010 which grew by 9.5%, due to favourable weather conditions. Furthermore the Government Crop Intensification Program which focuses on increased supply and use of fertilizers and selected seeds and land consolidation program has helped boost the sector performance.

Rwanda was ranked the 45th easiest country in the world to do business according to the World Bank, making it far more business friendly than its COMESA neighbours with the exception of Mauritius. There are a total of 183 countries in the index and Rwanda has been a consistently strong performer. The World Bank acknowledged Rwanda's broad and sustained approach to regulatory reform. Over the past year, the government introduced three reforms that pushed the country up another five places from its ranking of 50th in 2010. These reforms included the lowering of business registration fees, the reduction in the frequency of Value-Added Tax (VAT) filings for companies from monthly to quarterly and the commencement of the distribution of information from utility companies, improving the credit information system.

In an effort to deepen the capital markets, the Rwanda Stock Exchange (RSE) was launched on January 31st 2011 replacing the Rwanda-Over-The-Counter market. Under its privatisation drive, the Rwanda government offered 25% of the of the country's national brewer and biggest industrial company, Brasseries et Limonaderies du Rwanda shares through a successful Initial Public Offering (IPO). The IPO was nearly three times oversubscribed, with applications totalling US$ 80 million for stock sold worth US$ 29.5 million. State-owned Bank of Kigali was the second Initial Public Offering divestment on the Rwandan Stock Exchange.

Monetary Policy

Despite the upward trend in inflation, monetary policy stance during the first three quarters of 2011 was focused on sustaining the country's macroeconomic stability by maintaining moderate levels of inflation while stimulating the economic financing and releasing more liquidity to the banking system as well as limiting incentives for banks to invest with money markets. As a result, the policy rate – the Key Repo Rate (KRR) was unchanged at 6% since November 2010 and despite high inflationary pressures from oil and non-oil commodity prices on international and regional markets and a shortage of food, the overall inflation in Rwanda remained moderate. However, with inflation still persisting, as year-end approached, the authorities tightened monetary policy in the last quarter of 2011 to contain inflation. The Central Bank increased the KRR rate by 50 basis points in both October and December, bringing it up to 7%.

Fiscal Policy

The overall thrust of Government's expenditure was to strengthen the fundamentals of the economy and increase private sector's resilience and make it the engine of growth. In managing expenditure, emphasis was put on enhancing efficiency and cost effectiveness. Spending outlays were dominated by capacity building and infrastructural development projects as the main spending priorities highlighted in the economic development and poverty reduction.

Rwanda continued to receive significant budgetary support through grants which contributed about a third of revenue in 2010/11 while tax revenues increased mainly from an improvement in trade taxes as exports performed strongly and the sale of the country's third mobile phone licence. Following the strong revenue performance, the government approved extra spending of SRs 103.2 million (US$ 8.5 million), about 0.8% of GDP, for 2011 in a supplementary budget in October 2011. The extra spending comprised SRs 29.3 million for goods and services, SRs 27.7 million for the public-sector transfers and SRs 17.5 million for public-sector wages and salaries. The extra spending is expected to have made little difference to the budget balance, which is estimated to show a surplus of 1.8% of GDP in 2011.

External Sector and Foreign Exchange

For the first eight months of the 2011, Rwanda's external trade performed well. Exports are estimated to have increased both in volume and value by 42.1% and 52.3% respectively. In value terms exports rose to US$ 241.49 million in the first eight months of 2011 compared to US$ 158.54 million in the same period of 2010. Rwanda's exports comprised mainly coffee, tea and minerals which accounted for 74.6% of total exports during the first 8 months of 2011. Tin was the main component of mineral exports which rose to US$ 64.9 million compared US$ 22 million in the same period of the previous year. Coffee and tea exports amounted to US$ 84.2 million representing 34.9% of total export earnings against 44.1% in the same period of 2010.

The value of mineral exports was US$ 96.0 million representing 39.7% of total export earnings against 23.5% in 2010, while coffee and tea amounted to US$ 84.2 million, a 34.9% of total export earnings against 44.1% in 2010. Imports during the same period also increased in both volume and value terms by 18.7% and by 21.3% respectively. The trade deficit is therefore estimated to have decreased by 14.3% standing at US$ 806.7 million after US$ 706.0 million in the first eight months of 2010.

On an annual basis, the current account deficit is estimated to have widened to 11.9% of GDP in 2011 compared to 7.6% of GDP in 2010. The Rwandan franc exchanged at Rwfr601.43 to the US$ dollar in 2011 compared to Rwfr583.11 in 2010 showing a depreciation.

SEYCHELLES

The economy of Seychelles continued to show increased level of activity during the first half of 2011 despite a pessimistic outlook on global growth. The increased activity was on the back of the islands' main economic activity, tourism. The tourism sector continued to improve on the record performance of 2010. Tourism arrivals continued to set new records, with 192,000 visitors in 2011, up by 10% year-on-year. Annual real GDP is estimated to have increased by an estimated 5% surpassing expectations in 2011. In addition, the positive impact of economic reforms helped create an enabling environment for increased business confidence and economic activity.

The IMF was highly complimentary of Seychelles strong commitment to reforms under the Extended Fund Facility (EFF) and coupled with a strong economic performance in 2010, the positive sentiments for the Seychelles were further strengthened when Fitch Ratings upgraded the islands' long-term foreign-exchange rating from "B-" to "B", and its local currency rating from "B" to "B+", with a stable outlook in February 2011. As part of the reform agenda, the government part-privatised the Seychelles Savings Bank (SSB), in a two-stage process that started with the sale of shares to around 25,000 eligible account holders and staff.

Monetary Policy

After remaining close to zero for most part of 2010, signs of inflationary pressures emerged during the first half of 2011. Seychelles high dependency on imports meant that the rise in international commodity prices had inflationary effects on the domestic economy. For the first half of 2011, year-on-year inflation stood at 2.2% compared to a negative inflation of 3.6% in the first half of 2010. The rise in inflation was in spite of the appreciation of the rupee against the US dollar, the islands' major trading currency. In response to these pressures the central bank tightened its monetary policy stance in April to contain inflation by increasing the minimum reserve requirement (MRR) from 10% to 13%. On an annual basis, inflation is estimated to have risen and averaged 2.4% in 2011 compared to a deflation of 2.4% in 2010.

Fiscal Policy

The increased level of economic activity in 2011 was accompanied by a positive fiscal performance, primarily through higher than expected revenue collection. Strong government revenue performance and delays in capital budget execution led to a higher-than-projected primary balance in the first half of 2011. Fiscal revenues at the end of June 2011 exceeded the target by the equivalent of 1.4 percentage point of GDP, primarily on account of higher-than-projected revenues from excise and business taxes. Moreover, government expenditure remained contained which allowed for a reduction in public debts (external and domestic). Overall strong fiscal discipline, including strict spending controls imposed as part of an IMF adjustment programme, produced an estimated primary budget surplus (excluding interest payments) of 4.5% of GDP in 2011—

and an overall surplus of 1.8% of GDP, according to the IMF, in compliance with the EFF targets.

External Sector and Foreign Exchange

The current account deficit is estimated to have narrowed in the first half of 2011 to US$ 60.7 million, from US$ 100.8 million in 2010. This was from a strong rise in the service surplus, driven by tourism, more than compensating for an increase in the merchandise trade shortfall. Services surplus rose by 15.6%. Total exports which primarily constitute canned tuna and oil re-exports rose by 22.5% during the first half of 2011 mainly driven by higher oil prices. On an annual basis, the same fundamentals continued to play out with the current account deficit estimated to narrow to 17% of GDP in 2011 compared to 24% of GDP in 2010.

For the period January to June 2011, the average traded value of the Seychelles rupee against the US dollar remained stable but showed a slight appreciation underpinned by growth in tourism earnings and foreign exchange reserves. As the year end approached, the rupee weakened slightly again the US dollar. The rupee is estimated to have exchange at SRs12.3 against the US dollar in 2011 compared to SRs12.1 against the US dollar in 2010 import cover of 2.5 months amounted to US$ 257 million in June 2011.

SOMALIA

The political instability resulting from the civil war which broke out in 1991 has continued to impact adversely on economic growth throughout Somalia. This situation was exacerbated by the most severe drought to hit the region during 2011. The UN and the US government's Famine Early Warning System Network (FEWSNet) estimates that four million Somalis were in crisis. This disaster continues to threaten the long term social and economic prospects for the country and has deepened the chronic instability that the country continues to face.

With the high levels of poverty and dependence on pastoralism for livelihoods the drought has adversely affected many rural households' main productive assets, which are livestock (particularly goats and camels), which have now been lost through lack of water. Livestock is the main legitimate economic activity and had been growing rapidly since 2007, when Saudi Arabia lifted the ban on Somali exports that had been imposed because of fears of Rift Valley fever.

However, Somalia's main source of income, annual remittances, are estimated to have remained unchanged at around US$ 1 billion from Somalis in the diaspora. This was mainly as a result of the global recovery and improvements in money transfer technology.

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. The port accounts for about 80% of government revenue. Significant investments to the port were pledged in 2011 from Chinese investors who signed a preliminary agreement for several major infrastructure projects in Somaliland. These include the expansion of Berbera port, construction of gas pipelines from Ethiopia to Berbera, and upgrading of the road linking Berbera to Wajale, a town on the Ethiopia-Somaliland border. Further FDI investment in the form of US$ 10 million Coca Cola plant in Hargeisa helped boost the confidence in the Somaliland economy.

The Somaliland government embarked on the process of enacting a Banking Act in an attempt to open up the economy and allow conventional private banking for the first time. This announcement was well received with four international banks applying for banking licenses. Somaliland's financial system currently comprises two banks which are both state-owned. During 2011, they exchanged billions of Somali shilling banknotes for the Somaliland shilling which was introduced in 1994 in an attempt to stop the usage of the Somali shilling.

SUDAN

The real GDP growth rates of the first and the second half of 2011 were very different for Sudan following the secession of South Sudan in July 2011. Growth in the first half was supported by significant oil exports which rose significantly from higher international prices of oil. In the second half, growth is estimated to have slowed from a significant loss of oil revenue and a loss in private domestic consumption due to a 20% drop in population. From a growth rate of 4.4% in 2010, the economy is estimated to have contracted by about 1.9% in 2011.

Monetary Policy

The Central Bank manages monetary policy largely by issuing Islamic financial certificates, setting reserve requirements and manipulating the exchange rate. After a period of supporting liquidity by making deposits at commercial banks, the Central Bank is now adopting a more austere monetary policy, with higher reserve requirements to tackle inflation. Annual inflation eased to 18.9 % in December 2011and is estimated to have averaged 18.9% during 2011.

Fiscal Policy

The Sudanese government has announced a three-year emergency austerity programme in response to the economic impact of southern secession. In this regard and as part of an effort to boost revenues following the secession of South Sudan, the government announced increases in a number of taxes to make up for the revenue shortfall. It was indicated that tax on "communication services" would rise from 20% to 30%, and the profit tax on communication companies would rise from 15% to 30%. Basic income tax would be raised from 3% to 5%. Estimates indicate that the fiscal deficit widened to 3.2% of GDP in 2011 compared to 3.0%.

External Sector and Exchange Rates

Total exports of the first nine months of 2011 rose to US$ 8,657.3 million higher than the US$ 8,363.3 million registered in 2010. The driver of exports was petroleum which accounted for 83% of total exports in 2011 which grew to US$ 7,226.1 million marginally less than the US$ 7,613.80 million in 2010. On a yearly basis it is estimated that the decline in petroleum exports between the two years widened further following the secession of South Sudan. According to the Central Bank of Sudan, petroleum exports declined by 74% in the third quarter of 2011 with exports reaching US$ 600.5 million compared to US$ 2.311.5 million in the third quarter of 2010. Gold, the second largest export accounting for 11% of total exports in 2011 rose significantly to US$ 977.6 million from US$ 727.2 million in the first nine months of 2010. Imports declined to US$ 6,069.3 million in the first nine months of 2011 from US$ 6,435.1 million in the same period of 2010. The current account surplus widened during the first nine months of 2011 to US$ 1,432.4 million compared to US$ 240.9 million in the same period of 2010.

In July 2011, Central Bank of Sudan launched new currency notes for Sudan, replacing the Sudanese pound notes that were in use in north and south. The new currency is still called the Sudanese pound and is estimated to have exchanged at SDG2.64 to the US dollar.

TANZANIA

Tanzania weathered the global financial crisis well, and economic growth remained robust. During the first three quarters of 2011 real GDP growth is estimated to have grown by 6.3%. This was supported by growth in most of the major economic sectors. Agriculture is estimated to have grown by 4.0% during the first three quarters of 2011 supported by increases in food crop production despite the slow start in the first quarter with growth at 2.6%.

Another key sector that is driving growth include manufacturing which continues to show strong growth despite on-going problems in the power sector. Growth during the first three quarters of 2011 averaged 6.4% with the highest quarterly growth at 8.3% in the third quarter. Supporting this growth was a vibrant cement production, a trend which also ties in closely with the fact that growth in the construction sector has also remained robust.

In addition, decent growth levels have also been recorded in the wholesale and retail trade and the hotel and restaurant sectors, a trend which seems to be the same across many African countries, where companies operating in the retail sector continue to perform very strongly despite a slowdown in the overall growth rate.

Monetary Policy

Monetary policy has been accommodative throughout the years with a target of controlling growth of broad money supply and credit to the private sector to keep inflation down and promote a conducive environment for economic growth. In a meeting in Nairobi, the Kenyan capital, in October 2011, the governors of the central banks of the four main East Africa countries met to discuss the twin problems of rising inflation and exchange rate volatility which the sub-region was facing during 2011. It was agreed that all central banks in the region would seek to tighten monetary policy, stem volatility in the foreign exchange markets and curb speculation activities. Tanzanian authorities tightened monetary conditions to contain inflationary pressures which persisted throughout 2011 with inflation reaching 19.2% in November 2011. The rise in inflation was mostly driven by food price inflation and a rise in the international price of fuel. As such, annual average inflation rose significantly and averaged 12.6% in 2011 compared to 5.6% in 2010.

Fiscal Policy

Fiscal policy has been expansionary over the last few years and has led to the widening fiscal deficit which stood at 6.9% of GDP in fiscal year 2010/11 compared to 6.4% of GDP in fiscal year 2009/10. In fiscal year 2010/11, government expenditure reached TZS 9,399.3 billion, against an estimate of TZS 10,769.6 billion. The lower than expected expenditure was recorded in both recurrent and, more pronouncedly, in development expenditure which was below the estimated target due to lower disbursement of project funds and delays in realisation of non-concessional loans.

As a percentage of GDP, total government expenditure was estimated at 27% of GDP, compared to 26.3% of GDP in 2009/10. Tax revenue during fiscal year 2010/11 was below the targeted estimates and amounted to 93.9% of the estimate or TZS 5,295.6 billion. Non-tax revenue was also below target and amounted to TZS 284.7 billion, equivalent to 78.0% of budget. Domestic revenue collection was 92.3% of the estimate or 16.1% of GDP, which was slightly above the fiscal year 2009/10 which stood at 14.9% of GDP.

External sector and Exchange rate

The increase in the price of Tanzania´s main export commodities in the international market led to a 21.7% increase in exports of goods and services for the year ended October 2011 to US$ 6.7 billion compared to US$ 5.5 billion recorded in the year ended October 2010. Gold earnings, the main export commodity rose to US$ 2 billion in the year to October 2011 compared to US$ 1.5 billion in the same period of 2010. Manufactured goods exports rose to US$ 905.4 million from US$ 863.1 million while traditional exports which comprise mainly tobacco, coffee, and cashew nuts rose to US$ 669.5 million in the year ended October 2011 from US$ 487.6 million in the year ended October 2010. Tourism receipts which comprise a significant portion of services rose to US$ 1.4 billion in the year 2011 from US$ 1.2 billion during the same period of the previous year.

Import of goods and services rose significantly by 30.4% to US$ 11.3 billion compared to US$ 8.6 billion recorded during the year ended October 2010. The increase was mainly reflective of high commodity prices in the world market. The value of oil imports increased by 43.8% to US$ 2.8 billion due to rise in oil prices in the world market, as well as volume by 11.4% to 3.5 million tons, partly associated with increased demand for thermal power generation. Capital goods imports are estimated to have risen by 30.3% to US$ 3.4 billion while consumer goods are estimated to have risen by 29.6% to US$ 2.1 billion in the year to October 2011. As a result of these developments, the current account deficit widened by 65.4% to US$ 4.1 billion compared to a deficit recorded in the year ended October 2010.

The Tanzanian shillings weakened substantially in the first three quarters of 2011 against the background of a sharp rise in inflation, large fiscal deficits and broader global economic uncertainty. However, towards the end of 2011, the Tanzanian shilling strengthened as a result of the tightening of monetary policy and a slowdown in the rise in the inflation rate. The gross official reserves rose to US$ 3,622.4 million in October 2011 representing 4 months of projected imports of goods and services.

UGANDA

On the backdrop of the global economic crisis, real GDP growth declined to 5.9% in 2009/10, but recovered in 2010/11, with real GDP growing by 6.7%. This growth was registered despite the poor performance of the agricultural sector, which was adversely affected by drought. During 2011, the economy went through supply-side shocks which induced inflationary pressures, exchange rate depreciation and volatility stemming from the turbulence in the international financial markets. Growth in 2010/11 was in line with the economy's long term potential growth of 6-7% per annum.

The services sector, which has remained the dominant sector in the Ugandan economy, contributing over 50% to total output remains the main driver of economic growth, registering a growth rate of 8.4% in 2010/11. The Industrial sector also registered a strong positive growth of 7.9% during the same time period. The impressive growth in the services and industrial sector was on the back of the good performance of manufacturing, construction, and wholesale and retail trade sector. As indicated earlier the agriculture sector performed poorly with growth during 2010/11 at only 0.7%. This poor showing in the agricultural sector was on account of adverse weather conditions experienced during the adversely affecting cash crops and fishing sub-sectors.

Monetary Policy

The monetary policy stance was accommodative for most of 2010 but with significantly high inflationary pressures and expectations, the Bank of Uganda (BoU) took firm action to tighten the monetary stance particularly in the early part of 2011. The benchmark central bank rate was tightened for four consecutive months from 13% in July to 23% in November 2011. The acceleration in inflation during 2011 was mainly due to external factors, including the regional spike in food prices and global volatility which impacted Uganda through weaker investor appetite for emerging and frontier market assets. Despite the tightening of monetary policy, inflation continued to persist and is estimated to have risen significantly to have averaged 18.6% in 2011.

Fiscal Policy

The fiscal strategy in 2010/11 focused on strengthening investments aimed at reducing infrastructure gaps which are a key constraint to economic growth and productivity enhancement. The management of fiscal policy during 2010/11 was expansionary compared to the previous fiscal year as the rise in government spending exceeded the Shs 80 billion gain in tax revenue collections over the year's target. The expansionary stance resulted in a fiscal deficit (excluding grants and oil revenues) of 9.6% of GDP compared to the programmed level of 6.2%. Including grants and oil revenue, the deficit was 4.3% of GDP, which is within the 5% medium-term target for fiscal prudence.

External Sector and Foreign Exchange

Uganda´s exports during 2011 are estimated to have soared with total exports rising by 76.1% in the year to October 2011. The rise in exports was mainly supported by increases in coffee exports, and trade between Uganda and South Sudan which constitute mainly maize, beans, sugar, bananas, and fish. Coffee export earnings grew by 68% to US$ 456 million, largely driven by higher prices, as well as an 18% increase in volume.

The balance of payments weakened in 2010/11, mainly because of a widening of the trade deficit by almost 2 percentage points of GDP. Imports grew more strongly during 2010/11 to US$ 4.6 billion compared to US$ 4 billion in the previous fiscal year. This increase was due to higher international fuel prices, as well as a rebound in domestic demand and large one-off government imports. Export growth, on the other hand remained similar to 2009/10 levels at US$ 2.3 billion. The current account of the BOP was boosted by the receipt of about 1 billion dollars in capital gains tax revenues from the oil industry, and these resources were being held in a petroleum fund in the BOU. Thus, the overall BOP was projected to have incured a deficit of approximately US$ 581.4 million in 2010/11, reducing gross international reserves to the equivalent of 3.4 months of imports of goods and services, compared to 4.7 months in the previous fiscal year.

The Uganda shilling weakened substantially in the first three quarters of 2011 owing to the lead up to elections against the background of a sharp rise in inflation, large fiscal deficits and broader global economic uncertainty. However, towards the end of 2011, the Ugandan shilling strengthened as a result of the tightening of monetary policy and a slowdown in the rise in the inflation rate. It is estimated to have exchanged at an average of Ush2,322.30 against the US dollar.

ZAMBIA

The year 2011 was a positive one for Zambia. After receiving a B+ credit rating from Fitch Ratings and Standard & Poor's in the early part of 2011, Zambia was reclassified as a lower middle income country by the World Bank following an increase in the country's per capita Gross National Income (GNI) to US$ 1,070. The Bank World defines lower middle-income countries as those with a per capita GNI of US$ 1,006-3,975. Real GDP growth is also estimated to have remained strong and according to the preliminary estimates of GDP by kind of economic activity, the Zambian economy is expected to have grown by 6.5% in 2011 compared to 5.8% in 2010. The services or tertiary sector is expected to have been the main source of economic growth, recording the highest growth rate of 6.9% in 2011 from 6.6% in 2010. This growth was on the back of an increase in transport, storage and communication. This was followed by the secondary sector which is estimated to have grown at 6.4% on the back of electricity, gas and water and construction. This is mainly due to increased demand for electricity for both industrial as well as domestic use.

The primary sector, which comprises agriculture, forestry and fishing and mining and quarrying, is expected to have grown by 4.8% in 2011 from 10.2% in 2010. Growth in this sector was mainly spurred by agriculture, forestry and fishing industry which is expected to have grown by 7.7% in 2011, due to high crop output in maize, soya-beans, seed cotton, both burley and Virginia tobacco and wheat. The slower growth in the primary sector is attributed to the expected smaller increase in the mining output. Copper output marginally increased while cobalt output declined. There was no recorded production in the coal mining industry by the second quarter of 2011 though production was expected to resume in the third quarter. As a result, the mining and quarrying sector grew by only 1.3% in 2011 compared to a growth of 15.2% in 2010.

Monetary Policy

In an effort to reduce the liquidity overhang that characterized 2010 and minimize the second round effects arising from the anticipated increase in oil prices, monetary policy during the first half of 2011 was tightened. The main focus was to achieve an end-year inflation target of 7%. With this focus, broad money (M3) was projected to have grown by no more than 4.9% to K18,792 billion at the end of June 2011. The annual inflation rate remained within single digits throughout the first half of 2011 despite increasing from 7.9% in December 2010 to 9.0% in June 2011. For the second half, inflationary pressures are estimated to have diminished due to increased food production and annual inflation is estimated to have averaged 8.7% in 2011 compared to 8.5% in 2010. The Bank of Zambia managed to keep inflation at single digit level although it was above the year end inflation target of 7%.

Fiscal Policy

Preliminary data indicate that the central Government budget recorded a deficit of K361.1 billion during the first half of 2011, 78.9% lower than the programmed deficit of K1,712.9 billion. This outturn was mainly due to strong tax revenues. Total revenue and grants were K8,663.7 billion, 1.9% above the programmed amount of K8,500.6 billion due to higher than programmed tax revenues. Tax revenues at K8,079.9 billion were above target by K635.4 billion, mainly attributed to an increase in mining income tax and customs duty by 49.2% and 23.7%, respectively. Total expenditure at K10,122.0 billion, was marginally higher than the programmed level of K10,036.5 billion during the first half of 2011. This largely indicated higher expenditures on ordinary use of goods and services, ordinary grants and other payments as well as social benefits. Overall, the annual fiscal deficit is estimated to have widened to 3.9% of GDP in 2011 compared to 3.2% of GDP in 2010.

External Sector and Exchange rates

Total exports for the first three quarters of 2011 rose significantly and amounted to US$ 6.5 billion compared to US$ 4.9 billion in the same period of 2010. The rise in exports was from Zambia´s main export commodity copper - which constitutes 82% of all exports - which registered an increase to US$ 5.2 billion in the first three quarters of 2011 compared to US$ 4.2 billion previously. The increase is as a result of more production and therefore higher export volumes. Cobalt exports on the other hand registered a decline to US$ 229.6 million compared to US$ 212.2 million. Non-traditional exports rose significantly during the first three quarters of 2011 to US$ 1.1 billion compared to US$ 896 million. This was on the back of increases in the sugarcane and copper wire exports which rose to US$ 129 million and US$ 121.1 million in the first three quarters of 2011 respectively.

Total imports for the first three quarters in 2011 rose to US$ 4.6 billion compared to US$ 3.4 billion. This was due to higher import bills associated with commodity groups such as petroleum products, equipment and electrical machinery and equipment, fertiliser, plastic and rubber products, motor vehicles and paper and paper products. With higher exports, the current account surplus grew to US$ 760.9 from US$ 337.1 million. This was on the back of the large trade surplus coupled with increases in current transfers. The overall balance of payments surplus expanded to US$ 287.3 billion from US$ 151.5 million.

The Kwacha was relatively stable against the US dollar during most part of the year and is estimated to have depreciated marginally to K4,861 against the US dollar in 2011 compared to K4,797 against the US dollar in 2010. Total international reserves are estimated to have remained healthy at US$ 2.9 billion in 2011 compared to US$ 2.1 billion in 2010.

ZIMBABWE

Zimbabwe is estimated to have grown by 9.3% in 2011 compared to 8.4% in 2010. This growth was on the back of favourable commodity prices coupled with a stable macroeconomic environment. The significant expansion in 2011 was underpinned by mining which grew by 25.8%, agriculture which registered growth of 7.4%, finance and insurance growing at 24%, distribution and tourism which grew at 10.3% and manufacturing which grew the least at 3.5%. The sluggish growth in the manufacturing sector, is a result of a scarcity of long term finance to recapitalize operations as well as the negative repercussions of frequent power outages.

Most of the economic sectors continued to operate below capacity although increases were noted. During the first half of the year to June 2011, overall average capacity utilisation in the manufacturing sector improved substantially while capacity utilisation in some of the higher performing sub-sectors also improved significantly. However, capacity utilisations in the clothing textiles and printing sub-sector remained poor. The major factors constraining capacity utilisation are low product demand, obsolete machinery susceptible to frequent breakdowns, lack of working capital and raw materials.

The partial recovery of tourism saw growth in average bed occupancy from 36% in 2010 to 37% in 2011 following the re-branding of Zimbabwe's tourism facilities and infrastructure. Foreign Direct Investment, which averaged 18% of GDP in the 1980s and 20% in the 1990s, dropped to 1.1% between 2000 and 2009. In 2011 foreign direct investment levels stood at US$ 125 million.

Monetary Policy

Under the multiple currency system, the efficiency of the instrument of monetary aggregates as a tool to fend off inflationary pressures is highly limited, as money supply in the economy becomes exogenous to Monetary Authorities' discretionary policy framework. Reflecting sustained price stability that has typified the multiple currency system, annual inflation remained low and stable in 2011 at levels below 5%.

Annual headline inflation which stood at 3.5% in January 2011, dropped to 2.5% in May 2011. Inflation, however, took an upward trend, rising to 4.9% in December 2011. The major drivers of inflation in 2011 have been housing and rental costs, alcohol and food.

Fiscal Policy

The full year outturn indicates that total revenues to December 2011 were expected to marginally increase to US$ 2.95 billion, against the original budget target of US$ 2.75 billion. Revenues for the period January to September 2011 stood at US$ 2.1 billion, against total expenditures for the same period of US$ 1.9 billion. Of the total revenue collections to September, VAT constituted a major component at 31%. Recurrent expenditures continue to be skewed towards employment costs, which were originally budgeted at US$ 1.4 billion, but are estimated at around US$ 1.8 billion or 63% of the total budget, following the salary and wage review for civil servants effected in July 2011. This translates into a US$ 400 million expenditure overrun on employment costs.

External Sector and Foreign Exchange

On the back of favourable international commodity prices and improved industrial capacity utilization, merchandise exports increased significantly by 30.2% from US$ 3,380 million in 2010 to US$ 4,339 million in 2011. This notwithstanding, imports grew by 23.3% from US$ 5,161.8 million in 2010 to US$ 6,365.4 million in 2011, thereby surpassing exports earnings. Main exports remain minerals, tobacco and manufactured products. This development culminated in the recurrence of an current account deficit estimated at US$ 1,887 million in 2011, representing 23.4% of GDP.

The financing of the current account balance has, however, remained a challenge in the backdrop of subdued capital account inflows. Although the capital account is estimated to have improved from a surplus of US$ 6,170.5 million in 2010 to a surplus US$ 1,219.6 million in 2011, the inflows remain inadequate to finance the current account deficit projected for 2011.
Accordingly, the overall balance of payments position is estimated to remain challenging, particularly in view of reserve inadequacy and slow growth in manufactured exports.

ETHIOPIAN AIRLINES ENTERPRISE

The Bank granted a medium-term loan of US$20.0 million to the Ethiopian Airlines Enterprises towards the acquisition of five brand new Boeing 777-200LR aircrafts whose total purchase price was US$668.0 million. In the transaction, the Bank partnered with other financial institutions under a syndicated financial arrangement to finance the multi-million dollar transaction.

The airline purchased the five Boeing 777-200LR in order to leverage on their versatility and long-distance capability which includes operating efficiency, performance, payload-range, environmental compatibility, and noise sensitivities. The 777-200LR aircrafts will provide needed additional lift for the long-haul markets. Due to their excellent operating characteristics, the 777-200LR aircrafts are able to reach many of the airline's international markets non-stop out of Addis Ababa.

Ethiopian Airlines is the national airline of Ethiopia, it was founded in 1945 and has over 65 years of experience. The airline provides essential transportation links for passenger and cargo traffic between Ethiopia and the rest of the world, as well as within Ethiopia.

The Bank's support shall also help support the employment of close to 6,000 people who work in the various sections of the company including pilots and co-pilots, cabin crew, maintenance and engineering, marketing and sales, finance, cargo handling, etc.

Operations

BUSINESS DEVELOPMENT

2011 was characterised by increased marketing efforts directed at increasing the Bank's foothold in the growth sectors of the sub-region. Business development efforts focused on agribusiness, real estate, energy, banking and financial services, hospitality, tourism and hotels, transport and logistics, health services, and manufacturing and heavy industries.

During the year, business promotion workshops were mounted in Mauritius and Malawi to sensitize the business communities on the Bank's product offering. Emphasis on repeat business from existing clients with good track records also helped the Bank to further the demand for its financial products during the year. Participation in syndications and co-financing arrangements also brought in sizeable deals during the year. Diversification of the loan portfolio remained one of the important business development guidelines during the year.

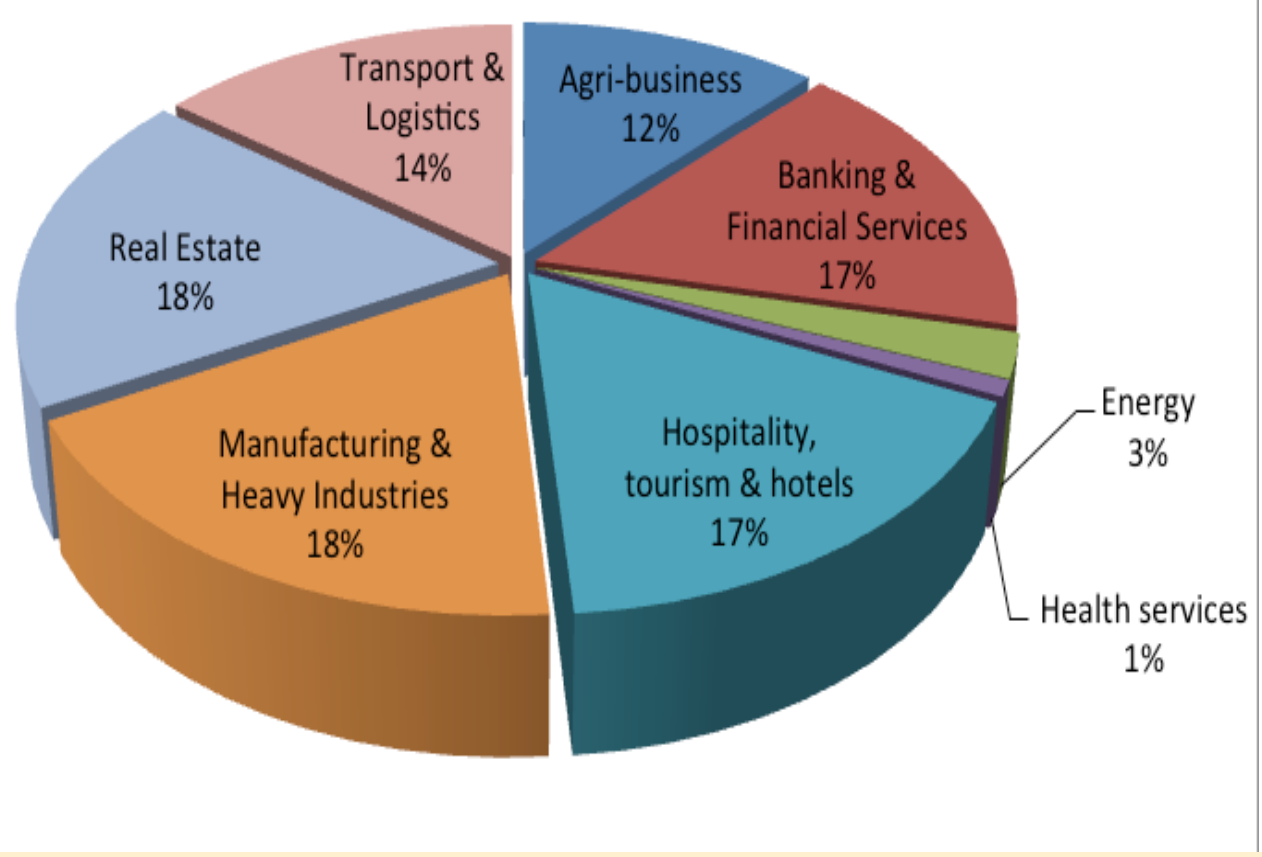
Loans Approved

In 2011, the Bank approved a total of US$ 200.30 million for 20 projects spread out in ten (10) Member Countries. This approval figure translates into 100.15% of the budget for the year, which was US$ 200 million. However, in comparison to the performance in 2010 that stood at US$ 243 million, the 2011 approvals decreased by 18%. The 2010 approvals included an exceptionally large approval granted to a regional airline for aircraft acquisition. Further details of the Bank's interventions in project and infrastructure finance are given in the following sections.

Approvals by Sector

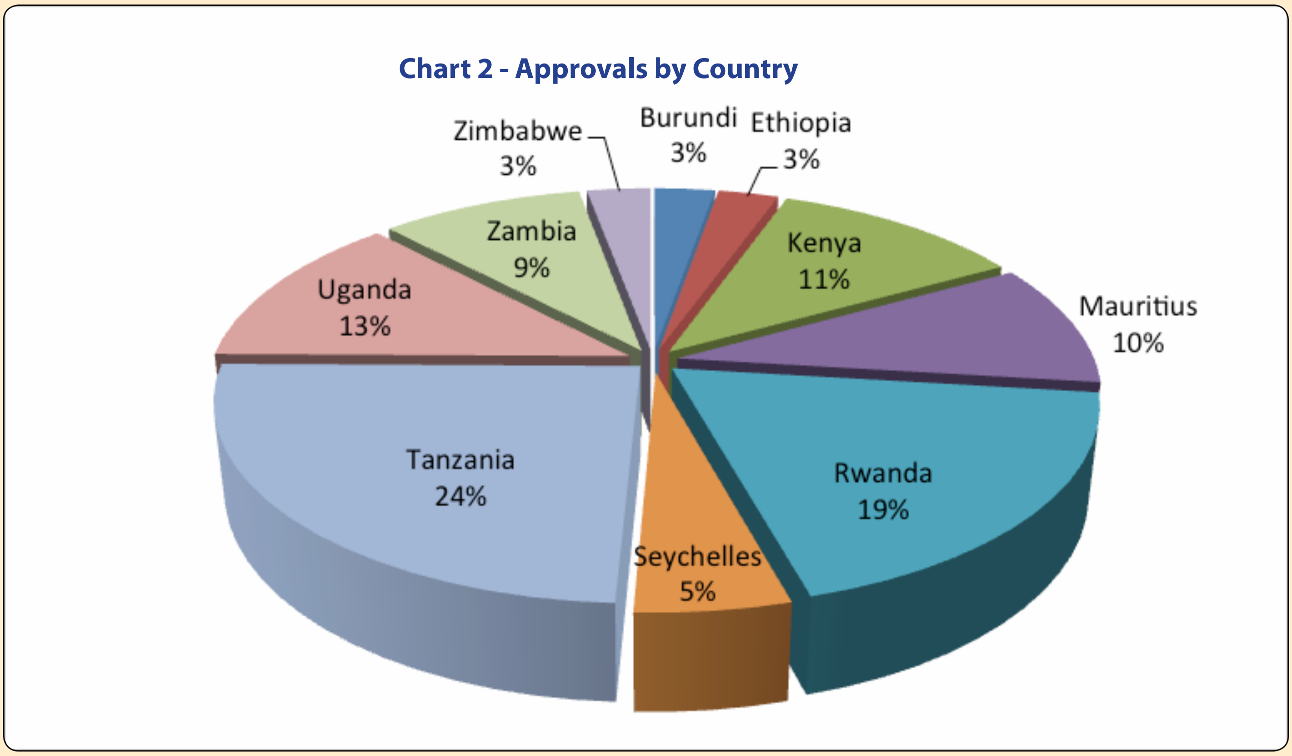
The sectoral distribution of the approved projects is as follows: Agri-business – US$ 24.02 million (12%); Banking & Financial Services – US$ 33.3 million (17%); Energy – US$ 5 million (3%); Health services – US$ 1.8 million (1%); Hospitality, tourism & hotels – US$ 33.63 million (17%); Manufacturing & Heavy Industries – US$ 36.5 million (18%); Real Estate – US$ 37.03 million (18%); and Transport & Logistics – US$ 29 million (14%).

Chart 1 - Approvals by Sector



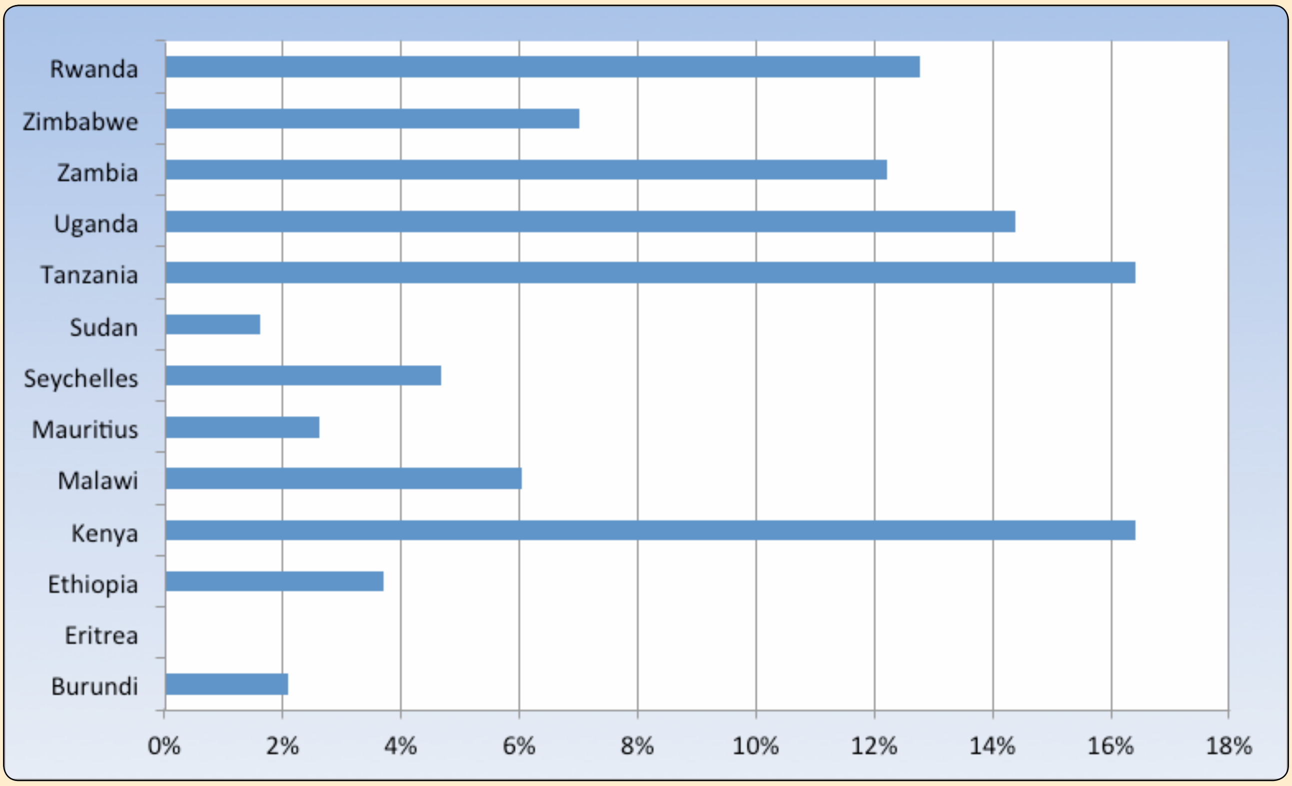
Approvals by Country

The 2011 approved project finance interventions for the year were geographically distributed in ten Member Countries as follows: Burundi – US$ 5.5 million (3%); Ethiopia - US$ 5.5 million (3%); Kenya – US$ 22.93 million (11%); Mauritius – US$ 20 million (10%); Rwanda – US$ 37.63 million (19%); Seychelles – US$ 10 million (5%); Tanzania – US$ 49 million (24%); Uganda – US$ 25.4 million (13%); Zambia – US$ 18.5 million (9%); and Zimbabwe – US$ 5.82 million (3%).



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

Chart 3 – Cumulative Project Approvals by Country



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 spread its investments and mitigate concentration risk.

PROJECT COMMITMENTS

In 2011, the value of projects committed amounted to US$ 283.85 million, being 59% above the annual target of US$ 178.29 million. The commitments for the year surpassed those achieved in 2010 representing a 231% increase over the US$ 85.7 million recorded in 2010.

The satisfactory commitment performance is a reflection of the good quality of projects approved as well as efficiency in business processes across the entire value chain. This level of commitment guarantees that the Bank will have a sufficient pipeline of transactions to generate disbursements.

PROJECT DISBURSEMENTS

A total amount of US$ 176.06 million was disbursed in the year surpassing the budget of US$ 130 million for the period by 35%. Compared to disbursement of US$ 108 million in 2010, the disbursements in 2011 represented an increase of about 63%.

The table below shows the annual growth of disbursements in the last 5 years.

PROFILES OF PROJECTS APPROVED

The Bank approved the following projects in 2011:

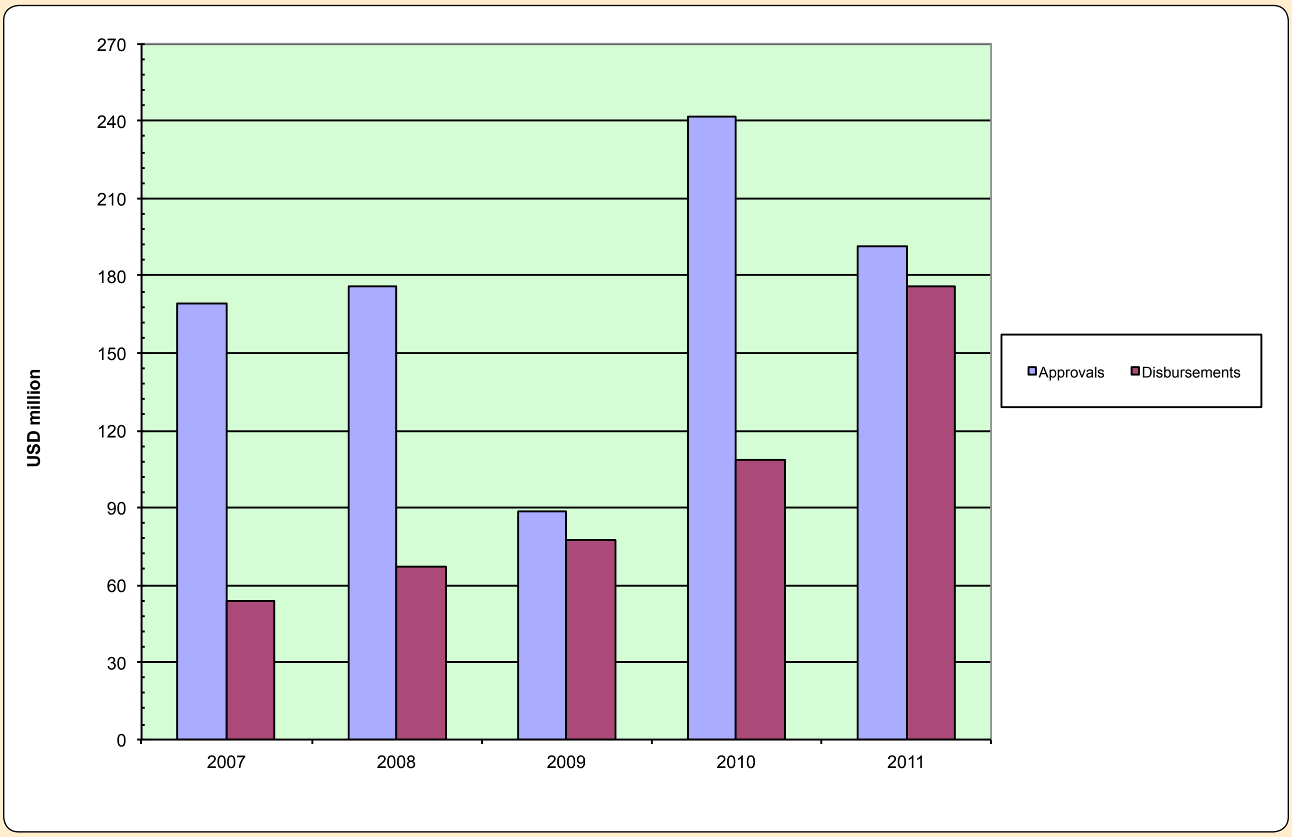
K-Rep Bank Limited – Kenya

A short-term Line of Credit loan of Kshs 650 million (equivalent to US$ 7.9 million) to K-Rep Bank Limited was approved for the purpose of on lending to the micro-finance sector and small and medium enterprises.

Eden Island Development Company Ltd – Seychelles

The Bank approved a loan of US$ 10 million for Eden Island Development Company Ltd to finance the building of seven villas including installation of the relevant electrical and civil equipment and acquisition of furniture and construction of additional infrastructure and foundations for apartments and maisonnettes under Phase 2 of this property development project. This is a second loan, with the first loan (US$ 10 million) having been granted in 2010 to part finance the construction of 533 residential units, a marina with 250 commercial moorings, and retail center with

PROJECT APPROVALS & DISBURSEMENTS



a supermarket, restaurants, shops, and supporting infrastructure to make the island self-sufficient.

Market Shopping Centre Limited – Rwanda

The Bank approved a term loan of US$ 10 million to part finance the cost of completing an up market commercial complex in Kigali city. The complex will provide approximately 36,000 square metres of lettable space to be used for offices, retail, and serviced apartments.

Access Resort Hotels P.L.C. – Ethiopia

A term loan of US$ 5.5 million was made to Access Resort Hotels to enable the borrower finance reconfiguration, refurbishment and upgrading of Imperial Hotel, an existing hotel in Addis Ababa, Ethiopia.

Dairibord Holdings Limited ("DHL") – Zimbabwe

The Bank approved a medium term loan of US$ 4.02 million for the purpose of retooling and refurbishing of DHL's Group operations. The retooling involves acquisition of equipment and machinery for processing dairy products and other foodstuff.

21st Century Food and Packaging Limited – Tanzania

A term loan of US$ 20 million was extended to this company to part finance the expansion of a wheat-milling project located in Dar es Salaam, Tanzania. The Bank's loan will be utilized to finance the importation of machinery and equipment.

Bamus Holdings Limited – Uganda

The Bank approved a term loan of US$ 1.53 million for Bamus Holdings Ltd, a property deveopment project in Kampala, Uganda. The loan is to assist in financing the purchase of building materials, construction works, electrical, air-conditioning and fire-fighting installations. The planned building will consist of two towers (one for offices and the other for residences and a basement parking for 20 vehicles.

Casablanca Motel Ltd – Rwanda

The Bank approved a term loan of US$ 2.63 million to part finance the cost of completing a 4-star boutique hotel located at an up market residential neighborhood of Kigali. The hotel will have 54 rooms, restaurants, conference facilities and a spa. The Bank's loan will be utilized to finance part of the costs of finishes, machinery, equipment and furniture and fittings.

Cliff of Macondé Property Holdings Limited ("CMPHL") – Mauritius

A long-term loan of US$ 20 million was approved to CMPHL to part finance the construction of a 5-Star Hotel forming part of an integrated resort scheme project to be known as The Oberoi Cape Macondé Resorts in the South West of Mauritius. The syndicated long-term loan will be utilized to finance construction costs, specifically, civil works, superstructure, finishes, furniture, fittings and equipment.

DFCU Limited – Uganda

The Bank approved a US$ 5 million corporate finance facility to DFCU Limited to part finance the construction of a head office building in Kampala and to finance the Bank's expansion. The facility is part of a co-financing arrangement with the East African Development Bank.

Ndola Energy Company Limited – Zambia

A term loan of US$ 5 million was extended to Ndola Energy Company Limited for the development of a 50MW HFO thermal power station at the Indeni Petroleum Refinery in Ndola, Zambia. This is a second loan which will bring the total exposure of the Bank to the project to US$ 20 million. The project provides an opportunity to the Bank to provide support to an infrastructure project which will provide much needed power generation capacity in a fast-growing economy.

Opulent (B) Ltd – Burundi

The Bank approved a term loan of US$ 5.5 million to Opulent (B) Limited (OBL) to part finance the refurbishment and expansion of an existing hotel previously branded as Novotel Bujumbura into a 4-star rated hotel to be re-branded as Double Tree by Hilton. The project is located in the central business district of Bujumbura.

UAP Properties Ltd – Uganda

The Bank approved a term loan of US$ 15.5 million to UAP Properties Ltd to part finance the construction and finishing of a four-tower, eight-storey office park. The office Park will offer tenants the options of multiple configurations. Tenants may opt to take up the whole office park, whole tower, whole floors / wings or partial office space in the respective wings of the towers.

Universal Mining and Chemicals Industries Limited – Zambia

The Bank approved a Sharia compliant facility of US$ 11.5 million to Universal Mining and Chemicals Industries Limited (UMCIL) to finance the purchase of a drect reduced iron plant. The plant will be used to produce sponge iron from iron ore as part of the second phase of an integrated iron and steel production plant which involves the mining of iron ore at Sanje Hill. The third and final phase will entail establishment of a ferro alloy plant, which will produce a higher grade of steel products using local iron and steel additives such as sand, manganese and nickel ores.

St Anne's Hospital ("St Anne's") – Zimbabwe

The Bank approved a term loan of US$ 1.8 million for St Anne's Hospital for the purpose of establishing an accident and emergency unit and a retail pharmacy, undertake equipment replacement and refurbishment programme for the hospital. The loan will specifically be utilised to finance the procurement of medical equipment.

Mercantile Credit Bank Limited – Uganda

A local currency Line of Credit of Ushs 8 billion (approximately US$ 2.8 million) was extended to Mercantile Credit Bank Limited. The credit line will be on-lent to small and medium size enterprises in Uganda.

Alios Finance Zambia Limited – Zambia

The Bank approved a medium term Line of Credit of US$ 2 million for Alios Finance Zambia Limited to fund the company's lease portfolio growth. The eligible lessees will be corporate clients and small and medium size enterprises who have US dollar or US dollar-linked revenue to mitigate foreign exchange risks.

Tanzania Airports Authority – Tanzania

The Bank approved a loan of Euro 20 million (US$ 29 million) to Tanzania Airports Authority to part finance the construction of a new terminal building at Julius Nyerere International Airport at a total cost of Euro 147.1 million (approximately US$ 211.8 million). The loan is to be co-financed with HSBC who will provide the Export Credit Agency backed portion of the funding requirements. The loans will be guaranteed by the Ministry of Finance, Government of Tanzania.

La Cimentrie Du Rwanda ("CIMERWA") – Rwanda

The Bank approved a term-loan of US$ 25 million to CIMERWA Ltd following an invitation from Bank of Kigali to participate in a syndicated facility of US$ 103.7 million. The project aims at increasing CIMERWA's cement production capacity by constructing a new plant with 450,000 metric tons per annum of clinkerisation capacity. With the rapid infrastructure development in Rwanda, this project is considered strategic to the medium term growth prospects of the country. In conjunction with Bank of Kigali, PTA Bank is playing the role of co-arranger bringing together a number of local and international banks into the transaction.

Family Bank Limited – Kenya

The Bank approved a loan of US$ 15 million to Family Bank Limited. The facility comprises a US$ 13.90 million for on-lending to small and medium size enterprises and a US$ 1.10 million tranche for the acquisition of IT infrastructure. New IT Systems are required to assist Family Bank implement a branch network expansion and to introduce new products and services.

TRADE FINANCE

The year 2011 marked yet another milestone in the Bank's trade finance activities with unprecedented growth in business volumes to US$ 2.46 billion against a budget of US$ 2.0 billion for the year. Despite the challenging economic environment, direct disbursements amounted to US$ 1.18 billion compared to the US$ 1.02 billion recorded in 2010 while letters of credit amounted to US$ 1.28 billion compared to the US$ 829 million of letters of credit recorded in 2010.

While import facilities especially petro-chemical products remained the main drivers of the business, the Bank continued to diversify its trade finance activities by increasing support towards non-traditional exports such as sugar, timber and grains which, coupled with funding towards traditional soft commodities exports like cotton and tobacco as well as re-exports of petroleum products led to the remarkable growth in business volumes.

Going forward, the Bank will continue tapping into intra-regional trade opportunities which are steadily rising and also establish a foothold in new frontiers within the COMESA region. In view of the increasingly unpredictable exogenous factors, the Bank's growth strategy for intra-regional trade activities will focus on building an 'ecosystem' of importers and exporters within the COMESA region.

Measured against the target set out in the Fourth Five Year Corporate Plan (2008 - 2013), the Bank has considerably out-performed the Plan as depicted in the following Chart:

The strong performance vis-a-vis the Corporate Plan targets is largely attributable to large ticket transactions in the petroleum sub-sector including facilities to players in Zambia, Kenya, Malawi and Seychelles as well as Lines of Credit to Zimbabwean banks among other sizeable facilities transacted during the Plan period.

PORTFOLIO MANAGEMENT

By year-end 2011, the Bank's gross loan portfolio continued to grow, with the portfolio standing at US$ 1.14 billion at the end of 2011, 29% higher than the US$ 886 million at the end of 2010. The remarkable portfolio growth was achieved notwithstanding the macro economic challenges witnessed in various economies within the sub Saharan region.

The Bank continues to balance its intervention and support to all active Member States. Priority is given to projects and trade transactions that have cross border developmental impact.

During the year, the Bank continued to strengthen its credit appraisal and risk management processes to ensure that credit risks are managed, monitored and controlled. Emphasis was put on assessment of individual loan accounts, control of the quality of loan approvals creating of operational and financial Information on borrowers and monitoring of key risk indicators within the loans portfolio. To enhance continuous improvement of the credit processes, documentation of project risks and the lessons learnt in the implementation processes was prioritized during the year.

Proactive monitoring and supervision of the Bank's loan portfolio remains a core activity at the Bank. Frequent project visits are carried out to enhance compliance and enable the Bank to understand and resolve issues affecting Bank-financed projects. Special attention was given to projects that are vulnerable to global or economic economic challenges and appropriate remedial measures and turn around strategies are implemented promptly.

Through intervention in various project and trade finance transactions, the Bank contributes to the creation of employment for both skilled and unskilled labour. In the year under review, the Bank approved project and trade finance transactions which are expected to generate 8,589 jobs. Upon the approved projects being implemented, the cumulative number of direct jobs created by the Bank's financing in the region shall be 46,702 as at December, 2011. Out of the total jobs created, it is estimated that 30% are female employees. The Bank continues to make strides in ensuring more women are employed and empowered in the Bank financed projects.

During the year, the Bank continued to enhance its internal capacity in environmental and social risk assessment of projects. Training remains a core strategy in this area and officers are encouraged to attend relevant courses on environmental and social risk analysis. In addition, emphasis is placed on ensuring that borrowers comply, on a continuous basis, with their environmental plans as recommended by their respective national environmental authorities. To this end, borrowers are encouraged to incorporate environmental risk analysis as an integral part of their business processes.

COMPLIANCE AND RISK MANAGEMENT

In pursuit of its developmental mandate, the Bank has adopted an Enterprise-wide Risk Management (ERM) approach, which aligns strategy, policies, procedures and processes in evaluating and managing business opportunities, threats and uncertainties. ERM seeks to integrate risk management across the Bank based on a clearly defined risk universe comprising the following 12 risk categories: credit, earnings, market, liquidity, capital adequacy, operational, legal, reputational, organizational/governance, strategic, environmental & social and compliance.

The Bank's ERM approach is premised on best practice "three lines of defence" model. This comprises the Board and senior management providing an active risk oversight role, an independent Compliance and Risk Mangement function responsible for policy formulation and review, assessment, monitoring and reporting and the audit function providing an objective review of the status of the risk management practices.

Throughout the year, the Bank's Enterprise Management Framework continued to be resilient with the overall risk profile rated as "Moderate with a Stable Outlook", which is consistent with the Bank's risk appetite.

During the year, the Bank intensified its awareness and skills enhancement programme of anti-money laundering and combating the financing of terrorism. A training seminar was organized on fraud risk management and money laundering. The training program was aimed at equipping Bank staff with skills for identification, management, control, reporting of actual and potential financial fraud and money laundering activities.

HUMAN RESOURCES & ADMINISTRATION

The Bank's human resource policies are aimed at attracting, developing and retaining a motivated workforce. In pursuit of these objectives, twelve additional staff were recruited during the year to meet organizational requirements. The position for the Director of Portfolio Management Department was filled through competitive selection. In addition, with the pending retirement of the incumbent President after having served the maximum two five-year terms, the recruitment and selection process for the new President was carried out.

The Bank's regional office in Harare was significantly strengthened by the deployment and recruitment of several staff and the acquisition of office premises at a cost of US$ 750,000.

The training programs covered various themes such as corporate governance and professional ethics, fraud risk management, team building, financial modelling and Information Technology. Board members participated in a number of training courses offered during the year.

In addition to recruitment of new staff, the Bank continued to bolster its capacity by investing in staff development programs to enhance core capacities. Several training programs, funded under the technical assistance grant provided by the African Development Bank, were undertaken during the year at individual and group level.

The Bank's staff complement at the end of the year was 81 employees, out of which 50 were professional and the rest support staff. The ratio of female employees improved to 39% of the workforce.

INFORMATION SERVICES

A technical upgrade of the Bank's SAP system was undertaken in the latter half of the year, as a result of which the Bank is now using the latest version of SAP's Enterprise Resource Planning software. By utilising in-house IT personnel on the project, the Bank was able to carry out the upgrade project without engagement of external consultants thereby minimizing costs. The upgrade will enable the Bank to exploit the new functionality offered by the new version of SAP.

During the year, remote access to the SAP system was extended to the Harare office thereby contributing to the decentralization of various accounting and procurement functions to the office. The Bank engaged a vendor to supply and implement a Credit Risk Assessment System (CRAS). The project is currently underway and is scheduled for completion in the second-half of 2012. The system will go a long way in enabling the Bank to automate and standardize various credit procedures.

Enhancements to IT infrastructure that were carried out included deployment of additional storage in order to provide sufficient capacity to cater for the CRAS as well as for future growth. The hardware will also enable the Bank to use the Bujumbura Head Office as a remote backup site for the core applications currently residing in Nairobi office infrastructure and thereby bolster the Bank's IT Disaster Recovery setup.

Initiatives to improve Telephony were also undertaken involving the installation of an E1 line at the Nairobi office and enabling the commissioning of direct lines to all Nairobi users. Furthermore, direct extension calling over the internet between the Harare office and the Bank's other two locations was enabled reducing costs relating to international calls made between offices.

As has been the case in previous years, the Bank replaced obsolete hardware and software to ensure that users benefited from the latest technology available. Key in this regard was the replacement of desktop computers, local area network equipment and the upgrade of the Office suite application to the latest version.

The Bank's IT strategy lays emphasis on building internal capacity to better support its activities and provide improved services to users, while also managing costs that would otherwise arise from outsourcing for certain competencies. As a result, considerable investment was made in the training of IT staff in various areas ranging from Information Security, Virtualization, and SAP, amongst others

Improvements in IT Governance were also made through various interventions including training of the Information Management Planning Council members, and by way of quarterly council meetings. It is expected that with time IMPC members will play a greater role in helping to identify user needs within their respective business functions, and ultimately lead to improved IT service delivery.

FINANCIAL MANAGEMENT

In 2011, uncertainties surrounding the impact of the Eurozone crisis continued to weigh heavily against the provision of credit and international banking services. Most banks remained wary of lending to each other for fear of being indirectly affected by exposure to Greek bonds resulting in a liquidity squeeze and lending at premium levels.

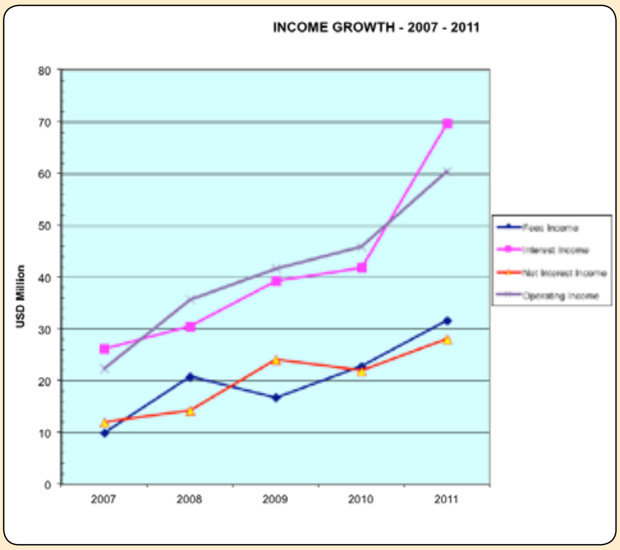
For the Bank, however, 2011 was a reasonably successful year. It was a year during which new heights were scaled in terms of financial and budgetary performance in addition to consolidating, in a significant way, the attainment of the financial management targets set out in the 2008-2012 Corporate Plan.

Income Growth

Total interest income grew by 67% from US$ 41.77 million in 2010 to US$ 69.59 million, despite the US$ LIBOR rates remaining at almost similar levels to those registered in 2010. The interest income growth is attributable to the significantly higher disbursement levels recorded on the Bank's project and infrastructure finance and trade finance loans. Fees and commission income also grew by a significant 37% to US$ 31.26 million from US$ 22.87 million in 2010. The increase is mainly as a result of the increased demand for trade and project finance facilities coupled with the firming up of commodity prices during the year, especially petroleum.

Despite interest on the Eurobond pushing borrowing costs to a high level of US$ 41.22 million, the Bank registered a satisfactory 30% increase in the net interest income to US$ 28.37 million from the US$ 21.82 million recorded in 2010.

The following chart depicts the growth in the Bank's interest, net interest and fee and commissions income over the last 5 years.



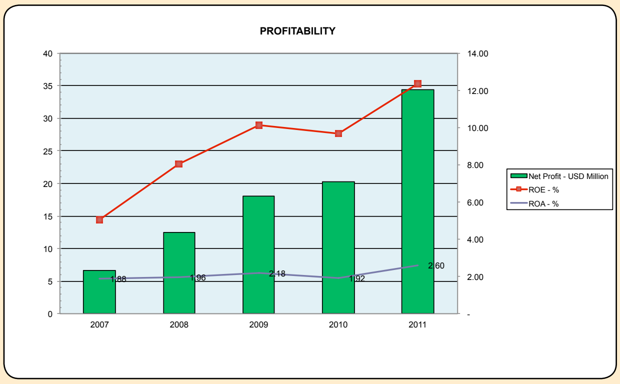
Impairment Provisions and Operating Expenditure

In 2011, the Bank's portfolio quality continued to improve with gross non-performing loans reducing to US$ 51.78 million from US$ 57.13 million in 2010. In addition to loan write-offs, recoveries contributed to this improvement. Despite this improvement, the Bank increased its impairment provisions in 2011 to cover specific loans that deteriorated during the year and also to increase the provisioning coverage on existing non-performing loans. As a result, the impairment provisions charge increased to US$ 17.97 million compared to US$ 12.94 million charged in 2010. As at 31st December 2011, cumulative impairment provisions amounted to US$ 36.18 million, equivalent to 3.2% of total gross loans and 70% of the non-performing loans. The 30% net exposure on non-performing loans is adequately secured in line with the Bank's collateral management policies.

In line with the business growth recorded during the year, operating expenses increased by 15% from the US$ 10.58 million recorded in 2010 to US$ 12.13 million in 2011.

Profitability

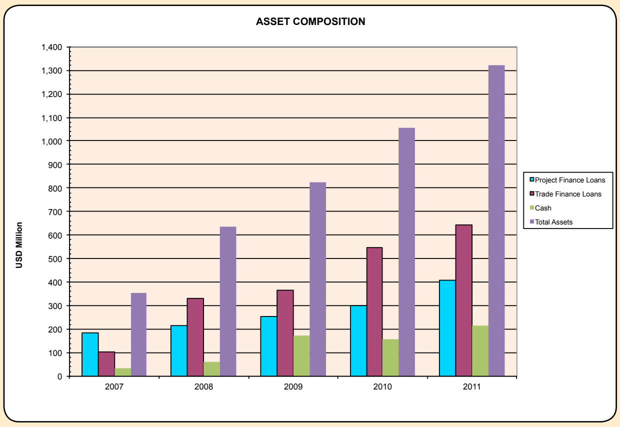
Net profit for the year amounted to US$ 34.26 million, a 69% increase from the US$ 20.32 million recorded in 2010. The 2011 net profit translates into a return on capital employed of 12.3% compared to 9.7% in 2010 and a 2.60% return on assets, a significant improvement from the 1.95% return on assets recorded in 2010.



Assets and Liabilities

The Bank's balance sheet grew by 31% to US$ 1.37illion of total assets in 2011 from US$ 1.04 billion in 2010. This growth is as a result of new disbursements made in 2011 which led to a US$ 158.96 million net increase in trade finance loans and US$ 106.51 million growth in project finance loans. Trade finance loans stood at US$ 691.80 million up from US$ 532.84 million in 2010 while project finance loans increased to US$ 407.74 million from US$ 301.23 million in 2010. Improved loan collections, build-up of collection account deposits and selling down of excess credit exposures resulted in improved liquidity as attested to by the 37% increase in cash and bank balances from US$ 156.56 million in 2010 to US$ 214.71 million.

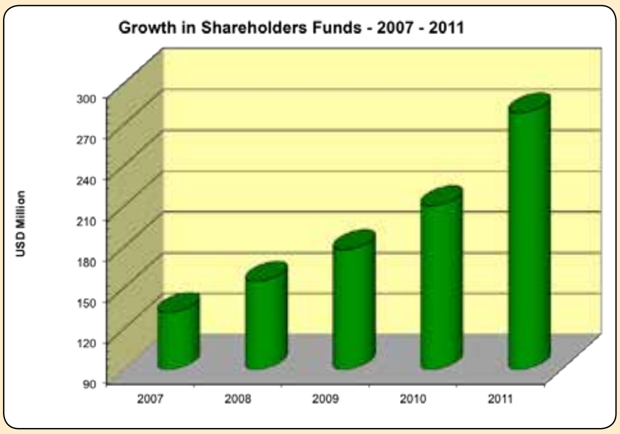
The following chart presents the growth of projects and trade finance loans and cash balances in 2011 over the 5 year period 2007 to 2011.



The Bank's asset growth during the year was funded through a combination of shareholders' equity and borrowings. Total borrowings increased by 32% from US$ 740.13 million to US$ 978.73 million. Of the total borrowings, long-term borrowings amounted to US$ 643.18 million compared to US$ 523.94 million in 2010. The increase is due to the drawdowns of US$ 60 million and US$ 75 million effected respectively from the Private Export Funding Corporation and Development Bank of Southern Africa's facilities. In line with trade finance growth, short-term borrowings increased to US$ 335.55 million up from the US$ 216.19 million recorded in 2010.

As at 31st December, 2011, the Bank's paid-in capital amounted to US$ 179.02 million compared to US$ 145.16 million in 2010. Capital subscription payments amounting to US$ 33.86 million were received during the year compared with the US$ 11.54 million received in 2010. The 2011 payments were received from the Democratic Republic of Congo, Egypt, Seychelles, Burundi, Ethiopia, Zimbabwe, Kenya, Malawi, Rwanda, Zambia and Tanzania. Improved profitability and capital subscription payments strengthened the Bank's net-worth considerably with shareholders' equity growing by 32% to reach US$ 278.37 million. Thus, notwithstanding the significant growth levels achieved, the Bank was able to preserve its capital adequacy during the period.

The following chart depicts the growth in the Bank's shareholders' funds during the 5 year period 2007 to 2011.



Resource Mobilisation

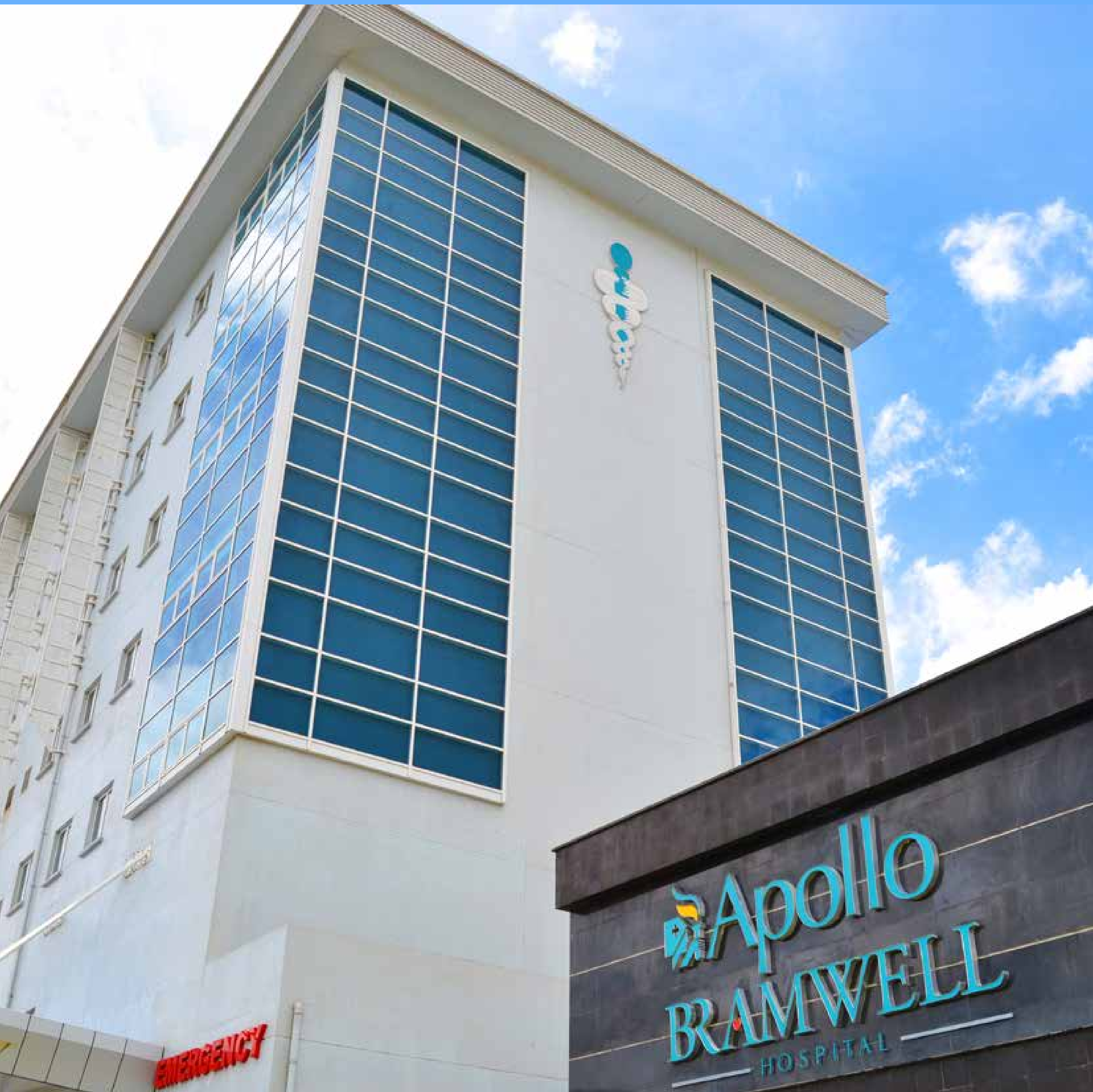
Following the issuance of its debut US$ 300 million Eurobond in November 2010, the Bank refocused its attention in 2011 to ensuring that the funds were profitably deployed. Consequently, and given the funding resources at its disposal, the Bank increased its projects, infrastructure and trade finance disbursement levels significantly, thereby boosting its earnings capacity. Going forward, the Eurobond funding strategy promises to be a key pillar of the Bank's resource mobilization strategy with additional tranches planned under the existing US$ 1.0 billion Euro Medium Term Note programme. Implementation of this strategy is also expected to continue uplifting the Bank's visibility and international profile.

With a view to further augmenting and diversifying its resource capacity, the Bank secured long term funding lines from a number of partner institutions. The Development Bank of Southern Africa led the way in this effort and availed a US$ 75 million line of credit thereby consolidating its partnership with the Bank which began in 2006 when the first line of credit of US$ 20 million was extended. Under a guarantee provided by the Export-Import Bank of the United States, the US based Private Export Funding Corporation extended US$ 60.0 million of long term funding to the Bank with the proceeds going to fund the acquisition of two Boeing 737-800 aircraft for a regional airline. The Bank also leveraged on its relationships with European based Export Credit Agencies to secure medium financing for imports of various capital goods into its Member States while short term funding lines were augmented through limit increases and broadening of correspondent relationships. Under the latter strategy, the Bank established a formal correspondent relationship with Sumitomo Mitsui Banking Corporation thereby expanding to include Japan within its coverage of correspondent relationships.

In addition to growing its funding lines in 2011, the Bank undertook to increase its risk down-selling and insurance capacity. By December, 2011, the Bank's capacity to down-sell credit risk to other counterparties amounted to US$ 173 million while US$ 130 million worth of insurance policies syndicated by the African Trade Insurance Agency provided additional risk mitigation capacity in the form of credit risk insurance. The risk down-selling and insurance approaches enabled the Bank undertake large value transactions and provide innovative financing solutions within the context of a fairly challenging and dynamic economic environment.

The Bank's resource mobilisation initiatives continued to be aided by favourable international ratings by Global Credit Ratings (GCR), Moody's and Fitch Ratings. During the year, the Bank secured its first international ratings upgrade from GCR from BB to BB+. The top tier rating agencies, Moody's and Fitch Ratings, reaffirmed the existing ratings of Ba1 and BB- respectively with stable outlook being assigned for each rating. With Moody's and GCR's ratings being placed only a notch below investment grade status, there is a compelling case for the Bank's strategic thrust over the short to medium term to be towards improving these ratings through all round performance improvements.

In preparation for the implementation of several of these performance improvement initiatives, the Bank secured, in 2011, an approval of a EUR 500,000 grant from AFD, the French Development Agency. AFD's study and capacity building fund is expected to fund a diagnostic study aimed at repositioning the Bank and to provide technical assistance to boost capacity in the key areas of infrastructure financing, credit risk management, environmental and social risk management and anti-


Apollo
BRAMWELL
HOSPITAL
EMERGENCY

PTA BANK
BANQUE DE LA ZEP

FINANCIAL STATEMENTS

31 DECEMBER 2011

OUR VISION

To be the Preferred Development Financial Institution in the Region

MISSION STATEMENT

To be at the fore front of providing development capital in the region, through customer focused and innovative financing instruments backed by competitively priced funds.

CORE VALUES

Client Orientation
Integrity
Adaptability
Teamwork
Innovation

TABLE OF CONTENTS

BOARD OF GOVERNORS

Hon. Charles Gaetan Xavier-Luc Duval	**Vice Prime Minister and Minister of Finance and Economic Empowerment** *Republic of Mauritius* *Chairman of the Board of Governors*
Hon. Monsieur Pierre Laporte	**Minister of Finance** *Republic of Seychelles*
Hon. Sufian Ahmed	**Minister of Finance and Economic Development** *Republic of Ethiopia*
Hon. Maria Kiwanuka	**Minister of Finance, Planning and Economic Development** *Republic of Uganda*
S.E. Monsieur Tabu Abdallah Manirakiza	**Minister of Finance** *Republic of Burundi*
S.E. Mohamed Soilihi	**Minister of Finance, Budget, Trade and Investments** *Federal Islamic Republic of Comoros*
H.E. Ilyas Moussa Dawaleh	**Minister of Economy, Finance and Planning** *Republic of Djibouti*
H.E. Dr. Mahmoud Abdel Rahman Eissa	**Minister of Foreign Trade and Industry** *Republic of Egypt*
Hon. Berhane Abrehe	**Minister of Finance** *State of Eritrea*
Hon. Moses Wetangula	**Minister for Trade** *Republic of Kenya*
Hon. Dr. Ken Lipenga	**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. Ali Mahmoud Hassab Alrasoul	**Minister of Finance and National Economy** *Republic of Sudan*
Hon. Dr. William Mgimwa	**Minister of Finance and Planning** *United Republic of Tanzania*
Hon. Alexander B. Chikwanda	**Minister of Finance and National Planning** *Republic of Zambia*
S.E. Matata Ponyo Mapon	**Minister of Finance** *Democratic Republic of Congo*
Mr. Gilbert Mbeshrubusa	**Acting Vice President - Infrastructure, Private Sector and Regional Integration** *African Development Bank (AFDB)*
H.E. Dr. Zhou Xiaochuan	**Governor, People's Bank of China** *People's Republic of China*

BOARD OF DIRECTORS

Mr. Rupert Simeon	*Director for Seychelles, Ethiopia, Burundi and Malawi Chairman*
Mr. Sulleman Kamolleh	*Director for Kenya, Zambia and Somalia Vice-Chairman*
Mr. Willard L. Manungo	*Director for Zimbabwe, Mauritius, Rwanda and Eritrea*
Mr. Ahmed Mahmoud Kamel Nos'hy	*Director for Egypt, Tanzania and Djibouti*
Mr. Lawrence Kiiza	*Director for Uganda, Sudan and Comoros*
Mr. Gao Dingxin	*Director for China*
Mr. Alfred Helm	*Director for African Development Bank (AFDB)*
Mr. Bu Yu	*Alternate Director for China*
Ms. Jeremiah Mutonga	*Alternate Director for African Development Bank (AFDB)*
Mr. Latanraj Ghoorah	*Alternate Director for Zimbabwe, Mauritius, Rwanda and Eritrea*
Mr. Melaku Kifle	*Alternate Director for Seychelles, Ethiopia, Burundi and Malawi*
Mr. William A Mlaki	*Alternate Director for Egypt, Tanzania and Djibouti*
Mr. Moses K Nawa	*Alternate Director for Kenya, Zambia and Somalia*
Mr. Elgaili Elbashir	*Alternate Director for Uganda, Sudan and Comoros*
Dr. Michael Gondwe	*President – Retired on 01 April 2012*
Mr. Admassu Tadesse	*President – With effect from 02 April 2012*

AUDITORS

ERNST & YOUNG
Kenya Re Towers, Upperhill
Off Ragati Road
P. O. Box 44286 – 00100 Nairobi, Kenya

HEADQUARTERS

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK
BUJUMBURA, BURUNDI
Chaussee, Prince Louis, Rwagasore
P O Box 1750, Bujumbura, Burundi
Telephone: 257 (22) 4966 / 257 (22) 4625
Fax: 257 (22) 4983

OTHER OFFICES

NAIROBI, KENYA
22nd and 23rd Floors, NSSF Building, Bishops Road
P O Box 48596 - 00100 Nairobi, Kenya
13th Floor, Social Security Centre
Telephone: 254 (20) 2712250
Fax: 254 (20) 2711510
Swift: ESATKENA

HARARE, ZIMBABWE
70 Enterprise road
Newlands
Harare
ZIMBABWE
Tel: (+263) 4 788331-3, 788336-9, 788345
www.ptabank.org

Board of Directors

MR. RUPERT SIMEON
Chairman, Director for Seychelles, Ethiopia, Burundi and Malawi

MR. LAWRENCE KIIZA
Director for Uganda, Sudan and Comoros

MR. MOSES K NAWA
Alternate Director for Kenya, Zambia and Somalia

MR. ELGAILI ELBASHIR
Alternate Director for Uganda, Sudan and Comoros

MR. AHMED MAHMOUD KAMEL NOS'HY
Director for Egypt, Tanzania and Djibouti

MR. LATANRAJ GHOORAH
Alternate Director for Zimbabwe, Mauritius, Rwanda and Eritrea

MR. ALFRED HELM
Director for African Development Bank (AFDB)

MR. WILLIAM A MLAKI
Alternate Director for Egypt, Tanzania and Djibouti

MR. SULLEMAN KAMOLLEH
Director for Kenya, Zambia and Somalia

MR. WILLARD L. MANUNGO
Director for Zimbabwe, Mauritius, Rwanda and Eritrea

MR. GAO DINGXIN
Director for China

MR. MELAKU KIFLE
Alternate Director for Seychelles, Ethiopia, Burundi and Malawi

MR. ADMASSU TADESSE
President

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 2011.

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 59.

3. BOARD OF GOVERNORS

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

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

4. DIRECTORS

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

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, have expressed their willingness to continue in office in accordance with Article 26 (2) (e) of the Charter of the Bank.

By Order of the Board

Chairman

Nairobi

..30 March,...........2012

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	Director
March 30th, 2012	March 30th, 2012

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Eastern and Southern African Trade and Development Bank (PTA Bank), which comprise the statement of financial position as at 31 December 2011, 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 as set out on pages 59 to 132.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Bank's charter, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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, the auditor considers the internal controls relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2011 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Bank's Charter.

Ernst & Young

Nairobi

3 April ………………………………………………..2012

	Note	2011 US$	2010 US$
INCOME			
Interest income	4	69,592,116	41,772,856
Interest expense	5	(37,711,551)	(17,883,475)
Other costs related to borrowing	6	(3,510,927)	(2,064,728)
		(41,222,478)	(19,948,203)
Net interest income		28,369,638	21,824,653
Fee and commission income	7	31,255,251	22,870,108
Other income	8	3,909,995	1,357,383
		35,165,246	24,227,491
Operating income		63,534,884	46,052,144
EXPENDITURE			
Operating expenses	9	(12,133,122)	(10,578,177)
Impairment on other financial assets	11	(325,725)	(881,428)
Impairment on project and trade finance loans	18	(17,969,615)	(12,938,007)
Fair value gains/(losses) on equity investments at fair value through profit or loss	19	1,174,560	(18,289)
Net foreign exchange losses		(15,607)	(1,315,649)
TOTAL EXPENDITURE		(29,269,509)	(25,731,550)
PROFIT FOR THE YEAR		34,265,375	20,320,594
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		34,265,375	20,320,594
EARNINGS PER SHARE			
Basic and diluted	12	596	390

Statement of Financial Position
As At 31 December 2011

	Note	2011 US$	2010 US$
ASSETS			
Cash and balances held with other banks	13	214,712,178	156,560,506
Investment in Government securities – held to maturity	14	2,834,075	2,625,607
Other receivables	15	4,767,899	3,139,805
Hedging derivatives	33	14,265,639	14,436,359
Trade finance loans	16	691,802,179	532,845,368
Project finance loans	17	407,735,793	301,234,892
Equity investments – at fair value through profit or loss	19	10,172,450	9,453,237
Deferred expenditure	20	7,765,691	7,310,325
Property and equipment	21	16,250,547	15,774,496
Intangible assets	22	104,067	58,221
TOTAL ASSETS		1,370,410,518	1,043,438,816
LIABILITIES AND EQUITY			
LIABILITIES			
Short term borrowings	23	335,554,876	216,191,928
Long term borrowings	24	643,181,728	523,936,010
Hedging derivatives	33	12,661,807	13,407,919
Collection account deposits	25	92,684,416	72,238,445
Provision for service and leave pay	26	4,548,291	3,941,953
Other payables	27	3,413,013	3,481,749
TOTAL LIABILITIES		1,092,044,131	833,198,004
EQUITY			
Paid up capital	28	179,021,687	145,161,487
Retained earnings		99,344,700	65,079,325
TOTAL EQUITY		278,366,387	210,240,812
TOTAL LIABILITIES AND EQUITY		1,370,410,518	1,043,438,816

The financial statements were approved by the board of directors on 30th, March 2012 and were signed on its behalf by:

Director

Director

	Share capital US$	Retained earnings US$	Total equity US$
At 1 January 2010	133,622,440	44,758,731	178,381,171
Capital paid (Note 28)	11,539,047	-	11,539,047
Total comprehensive income	-	20,320,594	20,320,594
Other comprehensive income for the year	-	-	-
At 31 December 2010	145,161,487	65,079,325	210,240,812
At 1 January 2011	145,161,487	65,079,325	210,240,812
Capital paid (Note 28)	33,860,200	-	33,860,200
Total comprehensive income	-	34,265,375	34,265,375
Other comprehensive income for the year	-	-	-
At 31 December 2011	179,021,687	99,344,700	278,366,387

Statement of Cash Flows

For The Year Ended 31 December 2011

	Note	2011 US$	2010 US$
OPERATING ACTIVITIES			
Net cash generated from/(used in) operations	29 (a)	25,129,596	(30,848,157)
INVESTING ACTIVITIES			
Purchase of property and equipment	21	(994,583)	(115,159)
Purchase of intangible assets	22	(74,813)	(54,650)
Proceeds on disposal of property and equipment		-	(1,526)
Proceeds on disposal of equity investments	19	455,347	223,834
		-	-
Net cash (used in) /generated from investing activities		(614,049)	52,499
FINANCING ACTIVITIES			
Receipt of capital subscriptions	28	33,860,200	11,539,047
INCREASE/(DECREASE)IN CASH AND CASH EQUIVALENTS		58,375,747	(19,256,611)
Foreign exchange (loss)/gain		(15,607)	2,695,473
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		159,186,113	175,747,251
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	29 (c)	217,546,253	159,186,113
FACILITIES AVAILABLE FOR LENDING	29 (d)	435,602,753	628,914,788

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 (COMESA).

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

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 reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 37.

(b) Revenue recognition

Income from loans and investments is recognized as profit or loss when it accrues, by reference to the principal outstanding and the effective interest rate applicable. Interest on arrears of payable capital is taken to revenue when received.

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

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

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

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

(c) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. Other borrowing costs are expensed in the period in which they are incurred. Discounts and premiums or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity are calculated on an effective interest basis.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Foreign currencies

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to profit or loss.

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

(e) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment loss. Repairs and maintenance costs are capitalized if the recognition criteria are complied with. All other repairs and maintenance costs are expensed as incurred.

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

Computer equipment	3 years
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 disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

(f) Intangible assets

Intangible assets are stated at cost less accumulated amortisation. Amortisation is calculated at rates which are estimated to write-off the cost of the intangible assets in equal annual instalments over 3 years.

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

The intangible assets' useful lives and methods of depreciation are reviewed at each financial year-end, and adjusted prospectively if appropriate.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of non-financial assets

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

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

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

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

(h) Deferred expenditure

Expenditure incurred in relation to a borrowing facility from which the Bank will derive benefits over a period beyond the year in which the facility is secured, if material, is capitalized and amortised over the life of the facility.

(i) Tax

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

(j) Share capital

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments

A financial asset or liability is recognized 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 are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets at fair value through profit or loss

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

Loans, advances and receivables

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

Held-to-maturity investments

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

Subsequent measurement

After initial measurement, loans and advances to customers are subsequently measured at amortised cost using the effective interest rate, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization and impairment losses are recognised in the income statement. The Bank may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held–for–trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss. Where the loan, on drawdown, is expected to be retained by the Bank, and not sold in the short term, the commitment is recorded only when the commitment is an onerous contract and it is likely to give rise to a loss (for example, due to a counterparty credit event).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (continued)

Financial assets (continued)

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

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:
- The rights to receive cash flows from the asset have expired, or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Bank determines the classification of its financial liabilities at initial recognition.

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

Subsequent measurement

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (continued)

Financial liabilities (continued)

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

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

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

(l) Borrowings

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

(m) Payables

Payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

(n) Hedge accounting

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

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

Fair value hedges

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Hedge accounting (continued)

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

Cash flow hedges

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

(o) Offsetting

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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense will not be offset in profit or loss unless required or permitted by any accounting standard or interpretation, and is specifically disclosed in the accounting policies of the Bank.

(p) 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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Impairment of financial assets (continued)

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

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

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

(r) Employee entitlements

Employee entitlements to service pay and annual leave are recognized when they accrue to employees.
A provision is made for the estimated liability of service pay as a result of services rendered by employees up to the year end. Employees are entitled to a full month pay for every year of service completed. A provision is made for the estimated liability of annual leave as a result of services rendered by employees up to the year end.

(s) Retirement benefit costs

The Bank operates a defined contribution provident fund scheme for its employees. The Bank's contributions to the contribution plan are charged to profit or loss in the year to which they relate. The funds of the scheme are held independently of the Bank's assets.

(t) 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.

(u) Comparatives

When necessary, comparative figures have been adjusted to conform to changes in presentation in the current year (note 36).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Cash and cash equivalents

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

(w) Leases

Bank as a lessee

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

Bank as a lessor

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

(x) Government grants

The values of Government grants are not reflected in the financial statements.

(y) 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) Going concern
The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(ii) 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 profit or loss, 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) Impairment losses on loans and advances (Continued)
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) Property and Equipment
Critical estimates are made in determining depreciation rates for property and equipment. The rates used are set out in the accounting policy (e) above.

(z) Provisions for other liabilities

Provisions are recognized 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.

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

The accounting policies adopted are consistent with those of the previous financial year.
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 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (Amendment) – 1 July 2010
IAS 24 Related party disclosures (Revised) – 1 January 2011
IAS 32 Classification of Rights Issues (Amendment) – 1 February 2010
IFRIC 14 Prepayments of a minimum funding requirement (Amendment)
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – 1 July 2010
Improvements to IFRSs (issued in May 2010)

The adoption of the standards or interpretations is described below:

IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendment)
The amendment to IFRS 1 is effective for annual periods beginning on or after 1 July 2010. The amendment allows first-time adopters to utilise the transitional provisions of IFRS 7 Financial Instruments: Disclosures as they relate to the March 2009 amendments to the standard. These provisions give relief from providing comparative information in the disclosures required by the amendments in the first year of application. To achieve this, the transitional provisions in IFRS 7 were also amended. This is not applicable to the Bank as it is not a first-time adopter.

IAS 24 Related Party Disclosures (Revised)
The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified and simplifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities.

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

The amendment had no impact, as the definitions were already applied according to these amendments.

IAS 32 Classification of Rights Issues (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. This amendment had no impact on the Bank as no such transactions were entered into.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment corrects an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment had no impact on the financial statements of the Bank.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation had no effect on the financial position or performance of the Bank, as no such transactions were entered into.

Improvements to IFRSs (issued in May 2010)

IFRS 1 First-time Adoption of International Financial Reporting Standards (effective from 1 January 2011)

- Accounting policy changes in the year of adoption - The amendment clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 Interim Financial Reporting, it has to explain those changes and update the reconciliations between previous GAAP and IFRS.

- Revaluation basis as deemed cost - The amendment allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first IFRS financial statements are issued. When such re-measurement occurs after the date of transition to IFRS, but during the period covered by its first IFRS financial statements the adjustment is recognised directly in retained earnings (or if appropriate, another category of equity).

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

- Use of deemed cost for operations subject to rate regulation - The amendment expands the scope of 'deemed cost' for property, plant and equipment or intangible assets to include items used subject to rate regulated activities. The exemption will be applied on an item-by-item basis. All such assets will also need to be tested for impairment at the date of transition. The amendment allows entities with rate-regulate activities to use the carrying amount of their property, plant and equipment and intangible balances from their previous GAAP as its deemed cost upon transition to IFRS. These balances may include amounts that would not be permitted for capitalisation under IAS 16, Property, Plant and Equipment, IAS 23, Borrowing Costs, and IAS 38, Intangible Assets.

The amendments to IFRS 1 had no impact on the Bank, as it already reports in terms of IFRS.

IFRS 3 Business Combinations (effective from 1 July 2010):

- Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS. - The amendment clarifies that the amendments to IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). The amendment is applied retrospectively. This had no impact on the Bank, as there is no contingent consideration on business combinations.

- Measurement of non-controlling interests (NCI) - The amendment limits the scope of the measurement choices only to the components of NCI that are present ownership interests which entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation. Other components of NCI are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS. This had no impact on the Bank, as there is no NCI.

- Un-replaced and voluntarily replaced share-based payment awards - The amendment requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether by obligation or voluntarily), i.e., split between consideration and post-combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognised as post-combination expenses. This had no impact on the Bank, as there has been no share-based payment transactions entered into.

IFRS 7 Financial Instruments — Disclosures (effective 1 January 2011) — Clarification of Disclosures:
The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Bank reflects the revised disclosure requirements in the notes.

IAS 1 Presentation of Financial Statements (effective 1 January 2011) – Clarification of statement of changes in equity: The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment is applied retrospectively. This amendment has no impact as the Bank has no other comprehensive income.

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

IAS 27 Consolidated and Separate Financial Statements (effective from 1 July 2010):

The amendment clarifies that the consequential amendments from IAS 27 made to IAS 21 The Effect of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier. The amendment is applied retrospectively. This had no impact on the Bank as there are no transactions subject to these amendments.

IAS 34 Interim Financial Statements - Significant events and transactions

The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around circumstances likely to affect fair values of financial instruments and their classification. This will have an impact on interim reports, but not the annual financial statements.

IFRIC 13 Customer Loyalty Programmes - Fair value of award credit (effective 1 January 2011)

The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme is to be taken into account. The amendment is applied retrospectively. This had no impact on the Bank as it has no customer loyalty programs.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt those standards when they become effective. The Bank expects that adoption of these standards, amendments and interpretations in most cases not to have any significant impact on the Bank's financial position or performance in the period of initial application but additional disclosures will be required. In cases where it will have an impact the Bank is still assessing the possible impact.

IAS 1 Financial statements presentation - Presentation of items in Other Comprehensive Income (Amendment)

The amendment is effective for annual periods beginning on or after 1 January 2012 and requires that items of other comprehensive income be grouped in items that would be reclassified to profit or loss at a future point and items that will never be reclassified. This amendment will affect the presentation in the financial statements.

IAS 12 Income taxes - Deferred taxes: Recovery of underlying assets (Amendment)

The amendment is effective for annual periods beginning on or after 1 January 2012 and introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognised on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed a use basis should be adopted. This amendment will have no impact on the Bank after initial application, as it has no investment properties or non-depreciable assets that are revalued.

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

IAS 19 Employee benefits (Revised)

The amendments are effective for annual periods beginning on or after 1 January 2013. There are changes to post employee benefits in that pension surpluses and deficits are to be recognised in full (no more deferral mechanisms) and all actuarial gains and losses recognised in other comprehensive income as they occur with no recycling to profit or loss. Past service costs as a result of plan amendments are to be recognized immediately. Short and long-term benefits will now be distinguished based on the expected timing of settlement, rather than employee entitlement. Although the Bank will not be impacted by amendments relating to defined benefit plans, the impact on the definitions of short-term and long-term employee benefits is still being assessed.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Bank does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Bank as the Ban does not have any investments in associates and interests in joint arrangements.

IAS 32 Financial Instruments: Presentation (Amendment) – Offsetting Financial Assets and Financial Liabilities

The IASB issued an amendment to clarify the meaning of "currently has a legally enforceable right to set off the recognised amounts". This means that the right of set-off:

- must not be contingent on a future event; and,
- must be legally enforceable in all of the following circumstances:
    - the normal course of business;
    - the event of default; and,
    - the event of insolvency or bankruptcy of the entity and all of the counterparties.

IFRS 1 First-time Adoption of international Financial Reporting Standards (Amendment) -

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment). The amendment is effective for annual periods beginning on or after 1 July 2011. The IASB has provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. A further amendment to the standard is the removal of the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions have also been removed. The standard now has these dates coinciding with the date of transition to IFRS. This had no impact on the Bank, as it has no operations in hyperinflationary economies.

IFRS 7 Financial Instruments: Disclosures - Transfers of financial assets (Amendment)

The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, where:

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

IFRS 7 Financial Instruments: Disclosures - Transfers of financial assets (Amendment) (continued)

- Financial assets are derecognised in their entirety, but where the entity has a continuing involvement in them (e.g., options or guarantees on the transferred assets)
- Financial assets are not derecognised in their entirety - The amendments may be applied earlier than the effective date and this fact must be disclosed. Comparative disclosures are not required for any period beginning before the effective date.

This amendment will result in additional disclosures with regard to transfers of financial assets.

IFRS 7 Financial Instruments: Disclosures (Amendment) – Disclosures – Offsetting Financial Assets and Financial Liabilities.

The amendment amends the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendment is effective for annual periods beginning on or after 1 January 2013 and the Bank is still in the process of determining how it will impact the note disclosures upon adoption.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected during 2013.

The adoption of the first phase of IFRS 9 will primarily have an effect on the classification and measurement of the Bank's financial assets but will potentially have no impact on classification and measurements of financial liabilities. The Bank is currently assessing the impact of adopting IFRS 9. However, since the impact of adoption depends on the assets held by the Bank at the date of adoption, it is not practical to quantify the effect.

Financial assets

All financial assets are measured at fair value at initial recognition. Debt instruments may, if the Fair Value Option (FVO) is not invoked, be subsequently measured at amortised cost if:

- The asset is held within a business model that has the objective to hold the assets to collect the contractual cash flows, and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding

All other debt instruments are subsequently measured at fair value.

All equity investment financial assets are measured at fair value either through Other Comprehensive Income (OCI) or profit or loss. Equity instruments held for trading must be measured at fair value through profit or loss. However, entities have an irrevocable choice to recognise fair value changes in OCI by instrument for all other equity financial assets.

Financial liabilities

For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other IAS 39 classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

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

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model with a new definition of control that applies to all entities. The changes will require management to make significant judgment to determine which entities are controlled and therefore required to be consolidated by the parent. Therefore, IFRS 10 may change which entities are within a group.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 and SIC-13. Joint control under IFRS 11 is defined as the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. IFRS 11 also changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories:

- Joint operation — An arrangement in which the parties with joint control have rights to the assets and obligations for the liabilities relating to that arrangement. Joint operations are accounted for by showing the party's interest in the assets, liabilities, revenues and expenses, and/or its relative share of jointly controlled assets, liabilities, revenue and expenses, if any.
- Joint venture — An arrangement in which the parties with joint control have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity accounting method.

The option to account for joint ventures (as newly defined) using proportionate consolidation has been removed. Under this new classification, the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either a joint operation or a joint venture, which is a change from IAS 31. Under IFRS 11, parties are required to consider whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances.

This standard becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Bank as it is not party to any joint arrangements.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact, as the Bank does not have subsidiaries, associates or joint arrangements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single framework for all fair value measurement (financial and non-financial assets and liabilities) when fair value is required or permitted by IFRS. IFRS 13 does not change when an entity is required to use fair value but rather describes how to measure fair value under IFRS when it is permitted or required by IFRS. There are also consequential amendments to other standards to delete specific requirements for determining fair value. Clarifications on certain aspects are also provided. The Bank will need to consider the new requirements to determine fair values going forward. IFRS 13 will be effective for the Bank on 1 January 2013.

4. INTEREST INCOME

	2011 US$	2010 US$
On loans and facilities:		
Project finance loans	24,300,946	18,614,796
Trade finance loans	44,274,996	22,609,042
	68,575,942	41,223,838
On placements:		
Held-to-maturity investments	1,016,174	549,018
	69,592,116	41,772,856

5. INTEREST EXPENSE

	2011 US$	2010 US$
Interest payable on funds borrowed from:		
Banks and financial institutions	12,467,154	10,017,013
Regional and International Bond markets	20,044,317	4,425,165
Other institutions (financial instruments)	5,200,080	3,441,297
	37,711,551	17,883,475

6. OTHER COSTS RELATED TO BORROWING

	2011 US$	2010 US$
Facility and management fees	1,024,531	753,264
Amortisation of deferred expenditure	1,925,678	658,213
Drawdown fees	355,064	461,322
Other costs	147,892	114,841
Bank commissions and charges	57,762	77,088
	3,510,927	2,064,728

7. FEE AND COMMISSION INCOME

	2011 US$	2010 US$
Upfront fees in trade finance	14,310,141	8,528,722
Letter of credit fees in trade finance	15,198,424	12,026,282
Letter of credit fees in project finance	1,455,190	540,629
Appraisal fees on project finance	1,810,810	2,406,211
Drawdown fees in trade finance	1,622,394	1,839,679
Commitment fees on project finance	767,217	863,285
Other project finance fees	1,118,258	169,590
*Risk down-selling costs	(5,027,183)	(3,504,290)
	31,255,251	22,870,108

* These costs represent the income foregone as a result of the Bank selling down part of its large credit exposures to certain counterparties. The risk down-selling strategy aims to reduce concentration risk especially in the oil/petroleum sector and allows the retention of large clients whose financing requirements may exceed the Bank's lending limits. As at 31 December 2011, the Bank had secured from various counterparties risk management capacity amounting to US$ 205.5 million (31 December 2010: US$ 115.5 million).

8. OTHER INCOME

	2011 US$	2010 US$
Impaired assets recovered	3,096,983	76,595
Grant income *	235,511	134,522
Other income	289,084	21,167
Dividends receivable	-	144,327
Rental income	208,735	217,475
(Loss)/gain on hedging derivative	(294,075)	747,919
Interest on capital arrears	355,055	-
Interest on staff loans	18,702	15,378
	3,909,995	1,357,383

*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 when the costs which the grant relates to have been incurred.

	2011 US$	2010 US$
9. OPERATING EXPENSES		
Staff costs (note 10)	8,766,025	7,509,402
Official missions	729,826	749,084
Consultants and advisers	670,019	713,766
Depreciation on property and equipment	468,532	471,161
Board of Directors meetings	379,445	309,770
Board of Governors meetings	380,885	156,288
Business promotion	86,152	82,177
Auditors' remuneration	35,000	32,500
Amortisation of intangible assets	28,967	8,264
Other operating expenses	588,271	545,765
	12,133,122	10,578,177

10. STAFF COSTS

	2011 US$	2010 US$
Salaries and wages	5,426,675	4,494,298
Staff provident fund contributions – defined contribution plan	1,070,494	921,603
Service and leave pay expenses	1,048,823	1,247,348
Other costs	1,220,033	846,153
	8,766,025	7,509,402

11. IMPAIRMENT OF OTHER FINANCIAL ASSETS

	2011 US$	2010 US$
Other receivables (appraisal fees written off – note 15)	325,725	881,428

12. EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the year of US$ 34,265,375 (2010: US$ 20,320,594) 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 57,416 (2010: 52,076). Diluted earnings per share is the same as the basic earnings per share as there were no potential dilutive ordinary shares.

13. CASH AND BALANCES HELD WITH OTHER BANKS

	2011 US$	2010 US$
Current accounts – Note 13 (i)	9,916,916	3,656,446
Call and term deposits with banks – Note 13 (ii)	204,795,262	152,904,060
	214,712,178	156,560,506
(i) Current accounts:		
Accounts maintained in United States Dollars (US$)	8,902,618	1,995,040
Amounts maintained in other currencies:		
Euro	551,819	549,425
Kenyan Shillings	289,268	958,123
Tanzania Shillings	116,574	(667)
British Pounds	17,811	29,319
South African Rand	15,141	1,726
Malawi Kwacha	13,209	14,012
Ugandan Shillings	7,992	25,015
Burundi Francs	1,866	83,866
Japanese Yen	618	587
	1,014,298	1,661,406
	9,916,916	3,656,446

The average effective interest rate on current accounts was 0.07% (2010: 1.00%) per annum.

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

	2011 US$	2010 US$
(ii) Call and term deposits with banks:		
United States Dollars (US$)	129,696,104	117,965,612
Accounts maintained in other currencies:		
Malawi Kwacha	74,149,070	27,831,823
Kenya Shillings	950,088	7,106,625
	75,099,158	34,938,448
	204,795,262	152,904,060

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

	2011	2010
United States Dollars	1.42%	0.25%
Kenya Shillings	4.64%	4.47%
Malawi Kwacha	5.00%	7.28%

14. INVESTMENTS IN GOVERNMENT SECURITIES

	2011 US$	2010 US$
Treasury bills: Held to maturity		
Maturing within 180 days after year end (at face value):		
At 1 January	2,928,639	2,667,282
Additions during the year	8,308,634	5,987,934
Matured bills	(8,440,739)	(6,078,017)
Income earned during the year	132,105	90,083
Less: Unearned discount	(94,564)	(41,675)
	2,834,075	2,625,607

The treasury bills, issued by the Bank of Uganda, represent investments made in Uganda Shillings bearing interest at a rate of 12.35% per annum (2010- 7.73%). These investments are managed by Standard Chartered Bank Uganda Limited.

15. OTHER RECEIVABLES

	2011 US$	2010 US$
Appraisal fees*	1,102,915	1,659,607
Staff loans and advances	428,707	380,433
Prepayments	3,055,888	988,280
Sundry receivables	180,389	111,485
	4,767,899	3,139,805
*Appraisal fees receivable		
As at 01 January	1,659,607	1,240,454
Accrued income	579,175	1,763,354
Receipts	(810,142)	(462,773)
Amounts written - off	(325,725)	(881,428)
At 31 December	1,102,915	1,659,607

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 4.19% (2010 - 4.17%) per annum. These staff loans and advances have various repayment terms ranging from 3 to 36 months.

16. TRADE FINANCE LOANS

	2011 US$	2010 US$
Principal loans	666,221,062	549,430,411
Interest receivable	41,611,131	12,144,942
Gross loans	707,832,193	561,575,353
Impairment on trade finance loans (note 18)	(16,030,014)	(16,229,985)
Net loans	691,802,179	545,345,368
Less: Reclassification of deposit held against credit risk sold to counter parties (Trade finance loans - note 36)	-	(12,500,000)
Balance	691,802,179	532,845,368

The weighted average effective interest rate was 6.09% (2010 – 5.34%) per annum.

16. TRADE FINANCE LOANS (Continued)

	2011 US$	2010 US$
Maturing:		
Within one year	595,530,227	476,410,624
One to three years	90,127,037	85,164,729
Over three years	22,174,929	-
	707,832,193	561,575,353

The gross non performing trade finance loans were USD 22,554,361 (2010 - USD 20,765,150 The impairment provisions related to these loans amounted to USD 16,030,014 (2010 - USD16,229,985) hence the carrying value of the loans amounted to USD 6,524,347 (2010 - USD4,535,165).

17. PROJECT FINANCE LOANS

		2011	2010
Approved loans less cancellations		1,109,589,234	865,650,568
Less: Unsigned loans*		(233,332,665)	(188,299,986)
Loans signed		876,256,569	677,350,582
Less: Undisbursed	- Letters of credit opened	(36,654,156)	(23,564,155)
	- Letters of credit not yet opened	(87,318,449)	(75,338,885)
Loans disbursed		752,283,964	578,447,542
Interest capitalized		28,951,239	29,167,360
Loans repaid		(363,449,939)	(293,298,875)
Principal loan balances		417,785,264	314,316,027
Interest receivable		10,100,672	9,823,834
Gross loans		427,885,936	324,139,861
Impairment on project loans (note 18)		(20,150,143)	(22,904,969)
Net loans		407,735,793	301,234,892

The average effective interest rate was 7.21% (2010 – 8.08%) per annum.

17. PROJECT FINANCE LOANS (Continued)

	2011 US$	2010 US$
Maturing:		
Within one year	131,436,712	77,375,087
One year to three years	160,949,218	90,288,619
Three to five years	76,989,344	63,055,920
Over five years	58,510,662	93,420,235
	427,885,936	324,139,861

The aggregate non performing project loans were US$ 29,473,930 (2010- US$ 36,361,137). The impairment provisions related to these loans amounted to US$ 20,150,143 (2010 – US$ .22,904,969) hence the carrying value of the loans amounted to US$ 9,323,786 (2010 – US$ .13,456,168) at the end of the year.

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

18. IMPAIRMENT ON PROJECT AND TRADE FINANCE LOANS

The movement in provisions for impairment is as follows:

	Project finance loans US$ (Note 17)	Trade finance loans US$ (Note 16)	Total provisions US$
At 1 January 2010	21,924,674	21,641,507	43,566,181
Amounts written-off	(8,242,420)	(9,126,814)	(17,369,234)
Charge for the year	9,222,715	3,715,292	12,938,007
At 31 December 2010	22,904,969	16,229,985	39,134,954
At 1 January 2011	22,904,969	16,229,985	39,134,954
Amounts written-off	(15,924,411)	(5,000,000)	(20,924,411)
Charge for the year	13,169,585	4,800,029	17,969,615
At 31 December 2011	20,150,143	16,030,014	36,180,157

19. EQUITY INVESTMENTS

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

							COST	FAIR VALUE			
	Share-Holding %	Original cost as at 2003 US$	Cumulative Additions/ (Disposals) US$	Additions/ disposals in year to 31 Dec 2010 US$	Total Cost As at 31-Dec 2010 US$	Additions/ Disposals in year to 31-Dec 2011 US$	Total Cost As at 31-Dec 2011 US$	Fair value gain/ (losses) to 31 Dec 2010 US$	Fair value gain/ (losses) 31-Dec 2011 US$	Total value as at 31-Dec 2010 US$	Total value as at 31-Dec 2011 US$
PTA Reinsurance	8.28	841,588	841,588	-	1,683,176	-	1,683,176	587	1,041,570	3,097,377	4,138,947
Aureos East Africa Fund	5.00	419,638	1,184,176	(223,834)	1,379,980	(455,347)	924,633	1,336	155,544	2,084,305	1,784,502
African Export Import Bank	0.48	400,000	782,080	-	1,182,080	-	1,182,080	37,771	173,443	2,021,601	2,195,044
Tononoka	5.00	600,000	28,653	-	628,653	-	628,653	67,330	-	331,459	331,459
Tanruss	4.06	1,940,000	(185,000)	-	1,755,000	-	1,755,000	-	(191,665)	1,052,353	860,688
Africa Trade Insurance Company	0.10	-	100,000	-	100,000	-	100,000	10,995	(11,898)	107,105	95,207
Gulf African Bank	5.33	-	1,435,141	-	1,435,141	-	1,435,141	(136,308)	7,566	759,037	766,603
		4,201,226	4,186,638	(223,834)	8,164,030	(455,347)	7,708,683	(18,289)	1,174,560	9,453,237	10,172,450

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

19. EQUITY INVESTMENTS (Continued)

		2011 US$	2010 US$
(ii)	Instalments paid:		
	Total subscribed capital	8,926,624	9,785,411
	Less: Instalments not due – note 19 (iii)	(1,217,941)	(1,621,381)
	Instalments paid as at end of year – note 19 (iv)	7,708,683	8,164,030
(iii)	Unpaid subscriptions expressed in US Dollars at year-end rates comprised:		
	African Export-Import Bank	1,200,000	1,200,000
	Aureos East Africa Fund	17,941	421,381
		1,217,941	1,621,381
(iv)	Movement in the instalments paid:		
	At beginning of year	8,164,030	8,387,864
	(Disposals) at cost – note 19 (i)	(455,347)	(223,834)
	At end of year	7,708,683	8,164,030

20. DEFERRED EXPENDITURE

	2011 US$	2010 US$
COST		
At beginning of year	9,498,805	3,607,828
Additions	1,415,329	5,890,977
At end of year	10,914,134	9,498,805
AMORTISATION		
At beginning of year	2,188,480	1,696,950
Charge for the year	959,963	491,530
At end of year	3,148,443	2,188,480
NET CARRYING AMOUNT		
At end of year	7,765,691	7,310,325

Deferred expenditure comprises Eurobond issuance costs, export credit insurance costs and costs incurred in raising local currency bonds in the Bank's member countries. These costs are amortized over the life of the underlying borrowings and bonds.

21. PROPERTY AND EQUIPMENT

	Freehold land and building US$	Motor vehicles US$	Furniture and fittings US$	Office equipment US$	Total US$
At 31 December 2011:					
COST					
At 1 January 2011	18,520,559	325,363	603,905	969,998	20,419,825
Additions	744,922	109,816	25,018	114,827	994,583
Disposals	-	(132,486)	-	-	(132,486)
At 31 December 2011	19,265,481	302,693	628,923	1,084,825	21,281,922
DEPRECIATION					
At 1 January 2011	2,962,646	248,962	567,178	866,543	4,645,329
Charge for the year	374,136	29,113	10,247	55,036	468,532
Disposals	-	(82,486)	-	-	(82,486)
At 31 December 2011	3,336,782	195,589	577,425	921,579	5,031,375
NET CARRYING AMOUNT					
At 31 December 2011	15,928,699	107,104	51,498	163,246	16,250,547
At 31 December 2010:					
COST					
At 1 January 2010	18,520,559	275,363	602,022	906,722	20,304,666
Additions	-	50,000	1,883	63,276	115,159
At 31 December 2010	18,520,559	325,363	603,905	969,998	20,419,825
DEPRECIATION					
At 1 January 2010	2,592,235	208,507	558,566	814,860	4,174,168
Charge for the year	370,411	40,455	8,612	51,683	471,161
At 31 December 2010	2,962,646	248,962	567,178	866,543	4,645,329
NET CARRYING AMOUNT					
At 31 December 2010	15,557,913	76,401	36,727	103,455	15,774,496

21. PROPERTY AND EQUIPMENT (Continued)

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

22. INTANGIBLE ASSETS

	2011 US$	2010 US$
COST		
At beginning of year	1,125,028	1,070,378
Additions	74,813	54,650
At end of year	1,199,841	1,125,028
AMORTISATION		
At beginning of year	1,066,807	1,058,543
Charge for the year	28,967	8,264
At end of year	1,095,774	1,066,807
NET CARRYING AMOUNT		
At end of year	104,067	58,221

Intangible assets relate to cost of acquired computer software.

23. SHORT TERM BORROWINGS

(a) CERTIFICATES OF DEPOSIT

	Currency	2011 US$	2010 US$
COMESA Yellow Card Reinsurance pool	US$	-	1,386,124
Africa Trade Insurance Agency	US$	1,250,000	-
PTA Reinsurance Company	US$	10,697,031	10,697,031
Southern Africa Media Development Fund	US$	-	360,873
		11,947,031	12,444,028

23. SHORT TERM BORROWINGS (Continued)

(b) OTHER SHORT TERM BORROWINGS

	Date of renewal/ advance	Maturity Date	Currency	2011 US$	2010 US$
AFREXIM Bank	December-11	June-12	US$	50,000,000	19,286,000
Kenya Commercial Bank	December-11	February-12	US$	47,504,856	10,529,692
Commerzbank	December-11	March-12	US$	46,786,800	29,065,042
Commercial Bank of Africa	October-11	March-12	US$	37,334,220	-
Africa Finance Corporation	December-11	May-12	US$	25,000,000	12,500,000
Fortis Bank	November-11	March-12	US$	24,180,000	-
Standard Chartered Bank	October-11	March-13	US$	21,767,171	28,570,304
HSBC Bank	December-11	January-12	US$	21,307,597	9,767,646
OFID	October-11	March-12	US$	20,000,000	20,000,000
NIC Bank	October-11	January-12	US$	17,169,886	-
Standard Bank of South Africa	October-11	February-12	US$	6,972,500	10,735,320
KBC Bank	December-11	February-12	US$	2,631,338	-
Mauritius Commercial Bank	August-11	January-12	US$	-	38,441,686
FMO*	January-09	April-11	US$	-	20,000,000
CRDB Bank	February-10	August-11	US$	-	2,500,000
Sub total for other short term borrowings				320,654,368	201,395,690
(c) INTEREST PAYABLE				2,953,477	2,352,210
Certificate of Deposits (Note 23a)				11,947,031	12,444,028
TOTAL SHORT TERM BORROWINGS				335,554,876	216,191,928

The effective interest rate during the period/year was 3.61% (2010 - 3.55%) per annum.

* Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V.

24 LONG TERM BORROWINGS

Lender	Date of Renewal/ disbursement	Maturity Date	Currency	Amount in Currency	Amounts as at 31 December 2011 Balance outstanding US$	Amount due within one year US$	Amount due after one year US$	Amounts as at 31 December 2010 Balance outstanding US$	Amount due within one year US$	Amount due after one Year US$
African Development Bank	December-04	January-20	US$	62,657,133	62,657,133	8,000,000	54,657,133	70,317,981	8,000,000	62,317,981
China Development Bank	December-08	March-20	US$	21,261,938	21,261,938	3,272,000	17,989,938	22,897,995	1,286,219	21,611,776
KBC Bank	Various	September-13	US$	1,508,346	1,508,346	1,126,859	381,487	2,635,240	1,126,859	1,508,381
Kenya local currency bonds I	July-05	July-12	KES	160,162,526	1,903,090	1,903,090	-	4,040,086	1,981,424	2,058,662
Kenya local currency bonds II	October-07	October-14	KES	602,250,704	6,885,180	2,286,483	4,598,697	9,841,230	2,476,780	7,364,450
Exim Bank of India Loan	Various	Various	US$	22,965,474	22,965,474	7,297,777	15,667,697	28,859,889	7,297,777	21,562,112
M & T Bank	September-07	February-13	US$	563,231	563,231	563,231	-	1,116,522	553,648	562,874
US$ 1.0 Billion Euro Medium Term Note Programme: First Tranche	November-10	January-16	US$	300,058,583	300,058,583	-	300,058,583	300,000,000	-	300,000,000
FMO	March-10	January-18	US$	50,000,139	50,000,139	8,000,000	42,000,139	50,000,000	-	50,000,000
Ceskoslovenska Obchodni Banka AS	July-07	May-17	US$	4,485,108	4,485,108	822,178	3,662,930	5,305,507	821,265	4,484,242
BHF Bank	Various	September-15	US$	4,535,882	4,535,882	871,563	3,664,319	3,052,095	871,563	2,180,532
Development Bank of South Africa	March-07	June-23	US$	91,414,863	91,414,862	2,500,000	88,914,862	16,286,366	2,500,000	13,786,366

24 LONG TERM BORROWINGS (Continued)

Lender	Date of Renewal/ disbursement	Maturity Date	Currency	Amount in Currency	Amounts as at 31 December 2011 Balance outstanding US$	Amount due within one year US$	Amount due after one year US$	Amounts as at 31 December 2010 Balance outstanding US$	Amount due within one year US$	Amount due after one Year US$
Export Development Corporation of Canada	September-05	January 11	US$	71,913	-	-	-	71,913	71,913	-
Overseas Private Investment	September-03	March-15	US$	1,402,091	1,402,092	-	1,402,092	1,401,080	-	1,401,080
Private Export Funding Corporation	August-11	October-21	US$	58,751,527	58,751,527	5,205,825	53,545,702	-	-	-
Bank of Uganda	August-04	June-11	UGX	-	-	-	-	51,218	51,218	-
Uganda local currency fixed rate bond	October-09	October-16	UGX	498,216,048	254,628	27,620	227,008	254,628	33,284	221,344
Uganda local currency floating rate bond	October-09	October-16	UGX	7,186,783,952	2,805,218	468,506	2,336,712	3,378,656	564,577	2,814,079
Sub total for long term borrowings					631,452,431	42,345,132	589,107,299	519,510,406	27,636,527	491,873,879
Interest payable					11,729,297	11,729,297	-	4,425,604	4,425,604	-
Total long term borrowings					643,181,728	54,074,429	589,107,300	523,936,010	32,062,131	491,873,879

The effective interest rate during the period was 5.10% (2010 - 3.92%)

25. COLLECTION ACCOUNT DEPOSITS

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

26. PROVISION FOR SERVICE AND LEAVE PAY

	2011 US$	2010 US$
At beginning of year	3,941,953	2,762,672
Increase in provision for leave pay	814,463	992,244
Increase in provision for service pay	195,062	216,324
Payment of leave pay	(127,958)	(14,512)
Payment of service pay	(275,229)	(14,775)
At end of year	4,548,291	3,941,953

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

27. OTHER PAYABLES

	2011 US$	2010 US$
Deposit held against credit risk sold to counter parties	-	12,500,000
Provident fund	2,392,818	1,965,574
Other creditors	757,317	838,321
Unspent AfDB Grant *	2,178	215,787
Accrued expenses	209,078	410,445
Prepaid rent	51,622	51,622
	3,413,013	15,981,749
Less Reclassification of deposit held against credit risk sold to counter parties to trade finance loans (note 36)	-	(12,500,000)
	3,413,013	3,481,749

* The Bank has not yet incurred the qualifying expenditure under AfDB's FAPA Technical assistance grant.

28. SHARE CAPITAL

	2011 US$	2010 US$
Authorized capital:		
88,234 ordinary shares of US$ 22,667 each	2,000,000,000	2,000,000,000
Less: Unsubscribed capital	(698,551,528)	(819,593,308)
Subscribed capital:		
57,416 (2010-52,076) ordinary shares of US$ 22,667 each	1,301,448,472	1,180,406,692
Less: Callable capital	(1,041,158,778)	(944,325,354)
Payable capital	260,289,694	236,081,338
Less: Amounts not yet due	(69,934,800)	(76,887,755)
Capital due	190,354,894	159,193,583
Less: subscriptions in arrears	(11,333,207)	(14,032,096)
Paid up capital	179,021,687	145,161,487
Movement in paid up share capital		
At beginning of year	145,161,487	133,622,440
Burundi	557,649	557,550
China	-	3,853,390
Democratic Republic of Congo	1,500,000	-
Egypt	7,262,508	-
Ethiopia	6,262,529	499,982
Kenya	2,420,836	4,841,671
Malawi	199,950	598,359
Rwanda	1,131,536	565,768
Seychelles	122,472	122,402
Tanzania	2,121,493	-
Zambia	5,451,302	-
Zimbabwe	6,829,925	499,925
Total receipts	33,860,200	11,539,047
At end of year	179,021,687	145,161,487

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 two-year period commencing 01 January 2012 or earlier, where possible. The remaining four fifths of the subscribed capital constitutes callable capital. The Bank's Board of Governors may, on the recommendation of the Board of Directors make a call only when the amount thereof is required to repay existing borrowings or to meet guaranteed commitments. Note 41 contains the status of subscriptions to the capital stock by member countries.

29. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of profit for the year to cash generated from operations:

		2011 US$	2010 US$
Profit for the year		34,265,375	20,320,594
Adjustments:			
Depreciation of property and equipment		468,532	471,161
Amortisation of intangible assets		28,967	8,264
Derecognition of property and equipment		50,000	1,526
Unrealized gain on derivatives		-	(747,919)
Loss (gain) on foreign exchange		15,607	(2,695,473)
Fair value (gain)/loss on revaluation of equity investments		(1,174,560)	18,289
Profit before operating assets and liabilities		33,653,921	17,376,442
(Increase) in other receivables		(1,628,093)	(1,376,069)
Decrease in hedging derivative asset		170,720	-
(Decrease) in hedging derivative liability		(746,112)	-
(Increase) in trade finance loans		(158,956,811)	(165,360,755)
(Increase) in project finance loans		(106,500,902)	(48,104,889)
(Increase) in deferred expenditure		(455,366)	(5,399,445)
Increase/(decrease) in collection accounts deposits		20,445,971	(118,185,816)
(Decrease)/increase in other payables		(68,736)	855,116
Increase in provision for service and leave pay		606,338	320,809
Increase in borrowings	29(b)	238,608,666	289,026,450
Net cash (used in)/ generated from operations		25,129,596	(30,848,157)

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

(b) Analysis of changes in borrowings:

		2011 US$	2010 US$
Short term borrowings:			
At beginning of year		216,191,928	265,428,006
Loans received		1,154,166,922	755,363,294
Repayments		(1,034,803,974)	(804,599,372)
At end of year		335,554,876	216,191,928
Long term borrowings:			
At beginning of year		523,936,010	185,673,482
Loans received		153,115,941	375,805,779
Repayments		(33,870,223)	(37,543,251)
At end of year		643,181,728	523,936,010
Total borrowings:			
At beginning of year		740,127,938	451,101,488
Loans received		1,307,282,863	1,131,169,073
Repayments		(1,068,674,197)	(842,142,623)
At end of year		978,736,604	740,127,938
Increase in total borrowings:			
Total at beginning of year		740,127,938	451,101,488
Total at end of year		978,736,604	740,127,938
Increase in total borrowings	29(a)	238,608,666	289,026,450

(c) Analysis of cash and cash equivalents

	2011 US$	2010 US$
Cash and balances held with other banks (Note 13)	214,712,178	156,560,506
Investment in Government securities - Treasury bills– (Note 14)	2,834,075	2,625,607
	217,546,253	159,186,113

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

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

(d) Facilities available for lending

(i)As at 31 December 2011, the following facilities were available to the Bank for lending:

LONG TERM FACILITIES	Facilities Available (US$)	Facilities Utilized (US$)	Facilities Unutilized(US$)
LENDER			
Eurobond*	300,000,000	300,000,000	-
Exim Bank India	100,000,000	75,000,000	25,000,000
African Development Bank	100,000,000	100,000,000	-
Development Bank of South Africa	95,000,000	95,000,000	-
Private Export Funding Corporation (PEFCO)	60,000,000	60,000,000	-
FMO	50,000,000	50,000,000	-
KBC Bank	27,664,750	13,262,888	14,401,252
China Development Bank	22,900,000	22,900,000	-
Standard Chartered Bank Limited	20,000,000	20,000,000	-
BHF Bank	18,000,000	7,282,656	10,717,344
Kenya Local Currency Bond II	13,975,818	13,975,818	-
M & T Bank	13,607,331	13,607,331	-
Japan Bank for International Corporation	12,656,092	-	12,656,092
Kenya Local Currency Bond I	12,500,000	12,500,000	-
Ceskoslovenska Obchodni Banka AS	6,578,954	6,578,954	-
Uganda Shillings Local Currency Bond	4,500,000	234,742	4,625,258
Overseas Private Investment Corporation	1,400,000	1,400,000	-
Exim Bank USA	No limit	-	No limit
	858,782,945	791,742,389	67,040,556

* Utilization under the US$ 1 billion Euro Medium Term Note (EMTN) programme.

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

(d) Facilities available for lending (Continued)

	Facilities Available (US$)	Facilities Utilized (US$)	Facilities Unutilized(US$)
SHORT-TERM FACILITIES			
LENDER			
Commerzbank	129,360,000	120,709,363	8,650,637
Standard Bank of South Africa	90,000,000	13,236,434	76,763,566
Mauritius Commercial Bank	90,000,000	15,654,441	74,345,559
African Export & Import Bank	50,000,000	30,000,000	20,000,000
Standard Chartered Bank	50,000,000	40,058,120	9,941,880
Kenya Commercial Bank	50,000,000	44,207,854	5,792,146
BNB Paribas	49,156,800	32,732,467	16,424,333
HSBC	45,000,000	42,146,768	2,853,232
Deutsche Bank	40,000,000	1,925,848	38,074,152
Sumitomo Mitsui Banking Corporation	40,000,000	36,539,116	3,460,884
Commercial Bank of Africa	40,000,000	37,334,218	2,665,782
KBC Bank	32,340,000	3,546,133	28,793,867
International Islamic Trade Finance Corporation	20,000,000	-	20,000,000
Africa Finance Corporation	25,000,000	25,000,000	-
Rand Merchant Bank	25,000,000	-	25,000,000
NIC Bank	20,000,000	12,169,884	7,830,116
Opec Fund For International Development	20,000,000	20,000,000	-
DZ Bank	15,000,000	14,025,157	974,843
BHF Bank	12,936,000	-	12,936,000
ING Bank	9,055,200	-	9,055,200
Natixis	5,000,000	-	5,000,000
	857,848,000	489,285,803	368,562,197
TOTAL FACILITIES			
At 31 December 2011	1,716,630,945	1,281,028,192	435,602,753

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

(d) Facilities available for lending (Continued)

(i) As at 31 December 2010, the following facilities were available to the Bank for lending:

LONG TERM FACILITIES	Facilities available US$	Facilities utilized US$	Facilities unutilized US$
LENDER			
Eurobond	300,000,000	192,358,339	107,641,661
Exim Bank India	100,000,000	75,000,000	25,000,000
African Development Bank	100,000,000	100,000,000	-
Development Bank of South Africa	95,000,000	20,000,000	75,000,000
FMO	70,000,000	70,000,000	-
China Development Bank	50,000,000	22,900,000	27,100,000
KBC Bank	21,159,750	7,588,499	13,571,251
Standard Chartered Bank Limited	20,000,000	20,000,000	-
Japan Bank for International Corporation	16,226,742	-	16,226,742
Kenya Local Currency Bond II	15,673,981	10,200,000	5,473,981
BHF Bank	15,000,000	3,923,209	11,076,791
M & T Bank	14,375,505	11,097,731	3,277,774
Ceskoslovenska Obchodni Banka AS	7,234,161	6,578,954	655,207
Uganda Shillings Local Currency Bond	4,414,360	1,095,834	3,318,526
Export Development Corporation of Canada	3,452,878	3,452,878	-
Overseas Private Investment Corporation	1,400,000	1,400,000	-
Bank of Uganda	503,038	503,038	-
Exim Bank USA	No limit	-	No limit
	834,440,415	546,098,482	288,341,933

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

(d) Facilities available for lending (Continued)

SHORT TERM FACILITIES	Facilities available US$	Facilities utilized US$	Facilities unutilized US$
LENDER			
Commerzbank	132,915,000	70,316,045	62,598,955
Standard Bank of South Africa	90,000,000	30,683,134	59,316,866
Mauritius Commercial Bank	85,000,000	55,647,924	29,352,076
BNB Paribas	62,356,142	12,366,924	49,989,218
Kenya Commercial Bank	40,000,000	16,720,784	23,279,216
International Islamic Trade Finance Corporation	30,000,000	-	30,000,000
African Export & Import Bank	30,000,000	19,286,000	10,714,000
HSBC	25,000,000	12,994,000	12,006,000
Standard Chartered Bank	25,000,000	19,670,076	5,329,924
Africa Finance Corporation	25,000,000	25,000,000	-
Opec Fund For International Development	20,000,000	20,000,000	-
DZ Bank	15,000,000	-	15,000,000
NIC Bank	15,000,000	10,232,150	4,767,850
BHF Bank	12,187,500	-	12,187,500
ING Bank	8,531,250	-	8,531,250
KBC Bank	7,500,000	-	7,500,000
Deutsche Bank	5,000,000	-	5,000,000
Natixis	5,000,000	-	5,000,000
	633,489,892	292,917,037	340,572,855
TOTAL FACILITIES			
At 31 December 2010	1,467,930,307	839,015,519	628,914,788

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	Level 2	Level 3	Total
	US$	US$	US$	US$
As at 31 December 2011:				
ASSETS				
Equity investments	-	10,172,450	-	10,172,450
	-	10,172,450	-	10,172,450
LIABILITIES	-	-	-	-
As at 31 December 2010:				
ASSETS				
Equity investments	-	9,453,237	-	9,453,237
	-	9,453,237	-	9,453,237
LIABILITIES	-	-	-	-

31. SEGMENT REPORTING

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

The main types of loan products are:

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

Other Bank's operations comprise of other miscellaneous income like rental of office premises which cannot be directly attributed to the main Bank's business. The Bank also participates in the investment of Government securities and other unlisted equity investments.

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

31. SEGMENT REPORTING (Continued)

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

STATEMENT OF COMPREHENSIVE INCOME

Year Ended 31 December 2011	Trade finance US$	Project finance US$	Other US$	Total US$
Gross interest income	44,274,996	24,300,946	1,016,174	69,592,116
Interest expenses	(29,275,211)	(10,242,317)	(1,704,950)	(41,222,478)
Net interest income	14,499,785	14,058,629	(688,776)	28,369,638
Net fee and commission income	26,103,776	5,151,475	-	31,255,251
Other income	-	-	457,957	457,957
Other assets written off	-	(325,725)	-	(325,725)
Interest on capital arrears	-	-	355,055	355,055
Other assets recovered	1,678,330	1,418,653	-	3,096,983
Operating expenses	(9,162,232)	(2,970,890)	-	(12,133,122)
Impairment on loans	(4,800,030)	(13,169,585)	-	(17,969,615)
Foreign exchange loss	-	-	(15,607)	(15,607)
Fair value gain on equity investments	-	1,174,560	-	1,174,560
Profit for the year	28,819,629	5,337,117	108,629	34,265,375
Year Ended 31 December 2010				
Gross interest income	22,609,042	18,614,796	766,493	41,990,331
Interest expenses	(12,913,047)	(6,223,646)	(811,510)	(19,948,203)
Net interest income	9,695,995	12,391,150	(45,017)	22,042,128
Net fee and commission income	18,890,393	3,979,715	-	22,870,108
Other income	-	76,595	1,063,313	1,139,908
Other assets written off	-	(881,428)	-	(881,428)
Operating expenses	(7,365,909)	(2,713,709)	(498,559)	(10,578,177)
Impairment on loans	(3,715,292)	(9,222,715)	-	(12,938,007)
Foreign exchange loss	-	-	(1,315,649)	(1,315,649)
Fair value loss on equity investments	-	-	(18,289)	(18,289)
Profit for the year	17,505,187	3,629,608	(814,201)	20,320,594

31. SEGMENT REPORTING (Continued)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011:	Trade finance US$	Project finance US$	Other US$	Total US$
Total Assets	691,802,179	407,735,793	270,872,546	1,370,410,518
Total Liabilities	428,239,290	643,181,728	20,623,114	1,092,044,132
Equity	-	-	278,366,386	278,366,386
	428,239,290	643,181,728	298,989,500	1,370,410,518
As at 31 December 2010:				
Total Assets	532,845,368	301,234,892	209,358,556	1,043,438,816
Total Liabilities	300,930,373	523,936,010	8,831,621	845,698,004
Equity	-	-	210,240,812	210,240,812
	300,930,373	523,936,010	218,572,433	1,043,438,816

32. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Pending litigation

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

As at 31 December 2011, there were legal proceedings involving the Bank amounting to US$ 12,000,000 (2010 - US$ 6,680,000) that are yet to be determined. No provision has been made as, in the opinion of the Directors, and the Bank's lawyers, it is unlikely that any significant loss will crystallise.

(b) Capital commitments	2011 US$	2010 US$
Approved but not contracted	3,635,000	2,401,739

32. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

	2011 US$	2010 US$
(c) Loans committed but not disbursed		
Project finance loans	87,318,449	75,338,885
Trade finance loans	73,457,251	82,902,111
	160,775,700	158,240,996

(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.

		2011 US$	2010 US$
Letters of credit	- Project finance loans	36,654,156	23,564,155
	- Trade finance loans	198,335,731	131,008,902
Guarantees		5,336,006	11,727,161
		240,325,893	166,300,218

(e) Operating lease arrangements

The Bank as a lessor

This relates to the Bank's building in Bujumbura whose part has been leased out. Rental income earned during the year was US$ 208,735 (2010 - US$ 217,475). At year end, the Bank had contracted with tenants for the following future lease receivables:

32. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

(e) Operating lease arrangements (Continued)

	2011 US$	2010 US$
Within one year	62,100	218,910
In the second and third year inclusive	-	124,200
	62,100	343,110

Leases are negotiated for an average term of 2 years and rentals are reviewed every 2 years. The leases are cancelled with a penalty when the tenants do not give 3 months' notice to vacate the premises.

The Bank as a lessee

The Bank has a lease agreement for the premises it occupies in Kenya. At year-end, the Bank had outstanding commitments under operating leases which fall due as follows:

	2011 US$	2010 US$
Within one year	181,636	28,110
In the second to fifth year inclusive	44,880	-
	226,516	28,110

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

33. DERIVATIVE FINANCIAL INSTRUMENTS

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

Interest rate swaps relate to contracts taken out by the Bank with other financial institutions in which the Bank either receives or pays a floating rate interest in return for paying or receiving, a fixed rate of interest. The payment flows are usually netted against each other, with difference being paid by one party to the other.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross- settled.

33. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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

	2011	2010
Assets :	US$	US$
a) Cross Currency Swap:		
Balance as at 1 January	13,407,919	-
Additions	-	13,407,919
Receipts under swap agreement	(760,030)	-
Balance as at 31 December	12,647,889	13,407,919
b) Interest Rate Swap:		
i. Fair value movements		
Balance as at 1 January	747,919	-
(Amortisation)/gain interest rate swap	(149,585)	747,919
	598,334	747,919
ii. Cashflows		
Balance as at 01 January	280,521	-
Amounts due from counterparties	1,934,118	280,521
Amount received from counterparties	(1,195,223)	-
	1,019,416	280,521
Balance as at 31 December (i and ii)	1,617,750	1,028,440
Total derivative assets (a and b)	14,265,639	14,436,359

33. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

	2011 US$	2010 US$
Liabilities:		
Cross Currency Swap:		
Balance as at 1 January	13,407,919	-
Additions	-	13,407,919
Fair value movement-loss on valuation	144,491	
Payments under swap agreement	(890,603)	-
Balance as at 31 December	12,661,807	13,407,919

In December 2010, the Bank entered into interest rate swaps to hedge US$ 150,000,000 of funds received from the Fixed Rate Eurobond issued in November 2010. The swaps exchanged the fixed rate for floating rate in order to match the floating rates offered on loans. Also, in December 2010, the Bank entered into a cross currency swap by exchanging a Euro receivable (loan) of EUR 10,113,078 for a US dollar receivable of US$ 13,407,919.

34. RELATED PARTY TRANSACTIONS

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

(a) Membership and Governance

As a supranational development financial institution with a membership comprising eighteen COMESA /African States (the "Member States"), one non-African State and one institutional member, subscriptions to the capital of the Bank are made by all its Members. All the powers of the Bank are vested in the Board of Governors, which consists of Governors appointed by each Member of the Bank. Members' subscriptions and voting powers are disclosed on Note 41. 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 and borrowings from members are approved by the Board of Directors.

(b) Loans to Member States

	2011 US$	2010 US$
Outstanding loan balances at 31 December	321,543,549	260,276,754

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

34. RELATED PARTY TRANSACTIONS (Continued)

(c) Borrowings from Members

	2011 US$	2010 US$
Outstanding borrowings at 1 January	93,215,976	89,169,032
Borrowings received during the year	1,095,446	11,146,486
Borrowings repaid during the year	(10,392,351)	(7,099,542)
	83,919,071	93,215,976

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

(d) Income and Expenses

During the year, the Bank earned/incurred the following incomes/expenses from its Members and Member States.

	2011 US$	2010 US$
- Interest income	16,966,326	17,076,939
- Interest expenses	(1,445,398)	(1,420,373)
- Fees and commission	23,110,935	17,588,814

(e) Other Related Parties

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

	2011 US$	2010 US$
Salaries and other short-term benefits	1,353,484	1,256,043
Post- employment benefits-defined contribution: Provident Fund	341,102	306,272
	1,694,586	1,562,315

35. CURRENCY

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

	2011	2010
	US$	US$
British Pound	0.6488	0.6481
UAPTA	0.6514	0.6493
Euro	0.7730	0.7524
South Africa Rand	8.1875	6.6310
Japanese Yen	77.5430	81.5000
Kenya Shilling	85.1500	80.7500
Malawi Kwacha	163.7349	151.2500
Burundi Franc	1291.2742	1220.7500
Tanzania Shilling	1590.6020	1505.0000
Uganda Shilling	2505.9645	2322.0000

36. COMPARATIVES

Trade finance loans and Other payables

During the year ended 31 December 2010, the Bank down-sold risk amounting to US$ 12.5 million to Africa Finance Corporation. The Bank recognized an asset (trade finance loan) and a liability (other payables). The financial statements for the year ended 31 December 2010 have been restated to conform to the presentation in the current year. The effect of the restatement is summarized below. There is no effect on the balances at 01 January 2010.

	Effect in 2010
	US$
Decrease in trade finance loans (note 16)	(12,500,000)
Decrease in other payables (note 27)	(12,500,000)

37. 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 stakeholders understand their roles and obligations.

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

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

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 US$ 1 million are assessed and approved by the Bank's Board of Directors.

37. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Client-Specific Risk

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

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

Country risk

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

The Bank limits its exposure to any single Member country to 30% of its total loan portfolio. As at 31 December 2011, all country exposures were within this limit.

Notes 39 and 40 of the Financial Statements contain the country exposure analysis as at 31 December 2011 and 31 December 2010.

Maximum Exposure to Credit Risk before Collateral Held:

	2011		2010	
	US$	%	US$	%
Credit Exposures				
<u>*On - statement of financial position Items*</u>				
Cash and Balances from other Banks	214,712,178	16	156,560,506	16
Investment in Government Securities	2,834,075	0	2,625,607	0
Loans and advances	1,099,537,972	84	834,080,260	84
Sub Total	1,317,084,225	100	993,266,373	100
<u>*Off - statement of financial position Items*</u>				
Letters of Credit	234,989,887	59	154,573,057	47
Loan Commitments not disbursed	160,775,700	40	158,240,996	49
Guarantees and Performance Bonds	5,336,006	1	11,727,161	4
Sub Total	401,101,593	100	324,541,214	100
Total	1,718,185,818		1,317,807,587	

37. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

The above figures represent the worst case scenario of credit exposure for the two years without taking into account any collateral held or other credit enhancements. Loan and advances and off-statement of financial position items took up 87% in 2011 (2010 - 88%) of the total maximum credit exposure.

Other than cash and Bank balances amounting to US$ 214,712,178 (2010 -US$ 156,560,506) all other credit risk exposures are secured by collateral in the form of cash liens, mortgages on land and buildings, securities charged over plant and machinery and third party guarantees.

As at 31 December, 2011, the fair value of collateral held for impaired loans and advances was US$ 55,407,224 (2010 - US$ 75,155,603) and provided sufficient cover over the net exposure of US$ 19,227,067 after deducting the impairment allowances.

Classification of Loans and advances

For year ended 31 December 2011:

Category	Gross amount US$	Impairment allowance US$	Net amount US$	%
Neither past due nor impaired	934,817,540	-	934,817,540	85
Past due but not impaired:				
- Sovereign backed lending	45,218,798	-	45,218,798	
- Private sector lending	103,653,500	-	103,653,500	
	148,872,298	-	148,872,298	14
Impaired	52,028,291	(36,180,157)	15,848,134	1
Total	1,135,718,129	(36,180,157)	1,099,537,972	100

For year ended 31 December 2010:

Category	Gross amount US$	Impairment allowance US$	Net amount US$	%
Neither past due nor impaired	686,893,567	-	686,893,567	83
Past due but not impaired:				
- Sovereign backed lending	45,035,103	-	45,035,103	
- Private sector lending	84,160,255	-	84,160,255	
	129,195,358	-	129,195,358	15
Impaired	57,126,289	(39,134,954)	17,991,333	2
Total	873,215,214	(39,134,954)	834,080,260	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.

37. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Ageing of arrears for past due loans and advances not impaired

	2011 US$	2010 US$
Below 30 Days	70,367,831	18,387,063
31 to 90 Days	15,407,040	64,791,185
Total arrears	85,774,871	83,178,248
Amounts not in arrears	63,097,427	46,017,110
Total	148,872,298	129,195,358
Ageing of arrears for impaired loans and advances		
Below 30 Days	1,185,883	677,235
31-90 Days	284,436	502,323
91-180 Days	715,659	1,025,614
181-360 Days	11,664,258	2,891,708
Over 360 Days	13,599,658	34,044,007
Total arrears	27,449,894	39,140,887
Amounts not in arrears	24,578,397	17,985,402
Total	52,028,291	57,126,289

Loans and advances that are neither past due nor impaired

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

Past due but not impaired

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

Impaired loans and advances

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

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

Collateral held for loan portfolio

	2011 US$	2010 US$
Mortgages on properties	427,458,782	289,325,618
Fixed charge on plant and equipment	453,794,765	373,812,015
Cash security deposits	93,695,265	73,927,167
Floating All Asset Debentures	275,858,806	227,179,305
Sovereign Undertakings / Guarantees	474,481,490	298,969,050
Insurance	225,000,000	80,000,000
Total security cover	1,950,289,108	1,343,213,155
Past due but not impaired		
Mortgages on properties	83,834,038	81,096,543
Fixed charge on plant and equipment	170,272,268	198,038,760
Other Floating All Asset Debentures	79,663,608	39,663,608
	333,769,914	318,798,911
Impaired loans		
Mortgages on properties	34,251,035	44,572,238
Fixed charge on plant and equipment	21,156,189	22,983,365
Floating All Asset Debentures	-	7,600,000
	55,407,224	75,155,603

37. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Concentration of risk

Loans and advances to customers	2011 US$	%	2010 US$	%
Sector:				
Mining and Quarrying	6,568,548	1	6,330,984	1
Agribusiness	100,937,233	9	87,393,546	10
Banking and Financial Services	254,030,718	22	186,589,796	21
Education	52,822	0	55,700	0
Hospitality	52,576,040	5	47,187,688	5
Manufacturing and Heavy Industries	87,601,781	8	90,415,119	10
Other	1,620,490	0	3,108,555	0
Health Services	11,160,243	1	20,038,495	2
Agriculture and Forestry	60,699	0	51,818	0
ICT	13,801,771	1	13,756,386	2
Energy	66,926,269	6	-	-
Petrochemicals	328,912,621	29	299,679,170	34
Real Estate	63,994,103	6	34,388,723	4
Telecommunications	33,434,165	3	42,165,888	5
Transport and Logistics	114,040,626	10	42,053,346	5
Total	1,135,718,129	100	873,215,214	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 2011, all loan and advances sectoral concentrations, except for Petrochemical were within the stipulated limit. Against the Petrochemical sector exposure, the Bank held cash collateral amounting to US$ 92.68 million (2010 – US$ 72.24 million) and had insured exposure amounting to US$ 165 million (2010 – Nil).

37. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Off- statement of financial position Items:

	2011 US$	%	2010 US$	%
Sector				
Mining and Quarrying	3,311,000	1	3,311,000	1
Agribusiness	57,866,175	14	30,869,864	10
Banking and Financial Services	27,697,443	7	2,609,720	1
Education	5,000,000	1	5,000,000	2
Hospitality	11,258,908	3	17,499,095	5
Manufacturing and Heavy Industries	29,860,739	7	27,251,073	8
Other	29,646,593	7	5,389,046	2
Health Services	2,179,654	1	593,359	0
ICT	11,315,773	3	1,315,773	0
Energy	12,807,677	3	4,104,802	1
Petrochemicals	187,995,360	47	199,516,713	61
Real Estate	5,072,819	1	3,127,543	1
Telecommunications	6,201,472	2	11,397,108	4
Transport and Logistics	10,887,980	3	12,556,118	4
Total	401,101,593	100	324,541,214	100

	2011 US$	2010 US$
Restructured loans		
The following loans were renegotiated during the year		
Project finance loans	41,371,041	22,817,128
Trade finance loans	42,408,743	-
	83,779,784	22,817,128

37. FINANCIAL RISK MANAGEMENT (Continued)

(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.

37. FINANCIAL RISK MANAGEMENT (Continued)

c) LIQUIDITY RISK (Continued)

Maturities of financial assets and financial liabilities are as follows:

	Up to 1month US$	1 to 6 months US$	6 to 12 months US$	1 to 5 years US$	Over 5 years US$	Total US$
At 31 December 2011						
FINANCIAL ASSETS						
Cash and balances with other banks	214,211,778	500,400	-	-	-	214,712,178
Investments in Government securities	-	2,834,075	-	-	-	2,834,075
Other receivables	1,316,056	134,097	122,497	139,361	-	1,712,011
Hedging derivatives	-	-	-	14,265,639	-	14,265,639
Trade finance loans	252,497,098	240,839,207	102,193,996	74,097,023	22,174,855	691,802,179
Project loans	60,003,606	30,077,929	41,355,175	217,788,419	58,510,664	407,735,793
Equity investments	-	-	-	10,172,450	-	10,172,450
Total financial assets	528,028,538	274,385,708	143,671,668	316,462,892	80,685,519	1,343,234,325
FINANCIAL LIABILITIES						
Short term borrowings	162,926,179	151,590,696	-	21,038,001	-	335,554,876
Long term borrowings	22,978,854	16,057,351	22,090,540	473,813,604	108,241,379	643,181,728
Hedging derivative	-	-	-	12,661,807	-	12,661,807
Collection Account Deposits	18,535,346	74,149,070	-	-	-	92,684,416
Other payables	420,386	210,426	389,383	2,392,818	-	3,413,013
Total financial liabilities	204,860,765	242,007,543	22,479,923	509,906,230	108,241,379	1,087,495,838
Net liquidity gap	323,167,773	32,378,165	121,191,745	(193,443,338)	(27,555,860)	255,738,485
Cumulative gap	323,167,773	355,545,938	476,737,683	283,294,345	255,738,485	255,738,485

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

37. FINANCIAL RISK MANAGEMENT (Continued)

(c) LIQUIDITY RISK (Continued)

Maturities of financial assets and financial liabilities are as follows:

	Up to 1month US$	1 to 6 months US$	6 to 12 months US$	1 to 5 years US$	Over 5 years US$	Total US$
At 31 December 2010:						
FINANCIAL ASSETS						
Cash and balances with other banks	150,560,106	6,000,400	-	-	-	156,560,506
Investments in Government securities	-	2,625,607	-	-	-	2,625,607
Other receivables	1,827,759	116,583	114,634	92,549	-	2,151,525
Hedging derivatives	-	-	-	14,436,359	-	14,436,359
Trade finance loans	101,319,665	281,364,657	81,226,302	68,934,744	-	532,845,368
Project loans	55,369	32,479,117	44,840,602	152,550,763	71,309,041	301,234,892
Equity investments	-	-	-	9,453,237	-	9,453,237
Total financial assets	253,762,899	322,586,364	126,181,538	245,467,652	71,309,041	1,019,307,494
FINANCIAL LIABILITIES						
Short term borrowings	100,084,032	88,487,189	560,040	27,060,667	-	216,191,928
Long term borrowings	3,488,876	16,151,867	14,176,715	427,155,611	62,962,941	523,936,010
Hedging derivative	-	-	-	13,407,919		13,407,919
Collection Account Deposits	38,320,209	33,918,236	-	-	-	72,238,445
Other payables	2,896,552	270,085	315,112	-	-	3,481,749
Total financial liabilities	144,789,669	138,827,377	15,051,867	467,624,197	62,962,941	829,256,051
Net liquidity gap	108,973,230	183,758,987	111,129,671	(222,156,545)	8,346,100	190,051,443
Cumulative gap	108,973,230	292,732,217	403,861,888	181,705,343	190,051,443	190,051,443

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

37. FINANCIAL RISK MANAGEMENT (Continued)

(c) LIQUIDITY RISK (Continued)

I. Liquidity and funding management

The Bank's liquidity and funding policies require:

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

II. Contingency Plans

The Bank carries out contingency funding planning at the beginning of the year. This details the following measures to combat liquidity crisis:

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

37. FINANCIAL RISK MANAGEMENT (Continued)

d) MARKET RISK (Continued)

I. Interest rate risk

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

	Up to 1 month US$	1 to 6 months US$	6 to 12 months US$	1 to 5 Years US$	Fixed interest Rate US$	Non-interest bearing US$	Total US$
At 31 December 2011							
FINANCIAL ASSETS							
Cash balances with other banks	214,211,778	500,400	-	-	-	-	214,712,178
Investment in Government Securities	-	2,834,075	-	-	-	-	2,834,075
Other receivables	-	-	-	-	-	4,767,899	4,767,899
Hedging derivative	-	14,265,639	-	-	-	-	14,265,639
Trade finance loans	281,365,630	240,056,448	-	-	164,304,218	6,075,883	691,802,179
Project loans	346,921,039	49,717,696	-	-	-	11,097,058	407,735,793
Equity investments	-	-	-	-	-	10,172,450	10,172,450
Total financial assets	842,498,447	307,374,258	-	-	164,304,218	32,113,290	1,346,290,213
FINANCIAL LIABILITIES							
Short term borrowings	207,714,180	126,590,696	-	1,250,000	-	-	335,554,876
Long term borrowings	284,787,802	208,393,926	-	-	150,000,000	-	643,181,728
Hedging derivative	-	12,661,807	-	-	-	-	12,661,807
Collection Account Deposits	-	-	-	-	-	92,684,416	92,684,416
Provision for service and leave pay	-	-	-	-	-	4,548,291	4,548,291
Other payables	-	-	-	-	2,392,818	1,020,195	3,413,013
Total financial liabilities	492,501,982	347,646,429	-	1,250,000	152,392,818	98,252,902	1,092,044,131
Net interest rate exposure	349,996,465	(40,272,171)	-	(1,250,000)	11,911,400	(66,139,612)	254,246,082
Cumulative interest rate exposure	349,996,465	309,724,294	309,724,294	308,474,294	320,385,694	254,246,082	254,246,082

37. FINANCIAL RISK MANAGEMENT (Continued)

d) MARKET RISK (Continued)

I. Interest rate risk (Continued)

	Up to 1 month US$	1 to 6 months US$	6 to 12 months US$	1 to 5 Years US$	Fixed interest Rate US$	Non-interest bearing US$	Total US$
At 31 December 2010							
FINANCIAL ASSETS							
Cash balances with other banks	150,560,106	6,000,400	-	-	-	-	156,560,506
Investment in Government Securities	-	2,625,607	-	-	-	-	2,625,607
Other receivables	-	-	-	-	-	3,139,805	3,139,805
Hedging derivative	-	14,436,359	-	-	-	-	14,436,359
Trade finance loans	101,319,666	291,990,537	-	-	135,000,000	4,535,165	532,845,368
Project loans	286,556,247	293,987	-	920,000	-	13,464,658	301,234,892
Equity investments	-	-	-	-	-	9,453,237	9,453,237
Total financial assets	538,436,019	315,346,980	-	920,000	135,000,000	30,592,865	1,020,295,774
FINANCIAL LIABILITIES							
Short term borrowings	87,584,032	100,987,189	27,620,707	-	-	-	216,191,928
Long term borrowings	74,358,066	296,119,546	-	-	150,000,000	3,458,398	523,936,010
Hedging derivative	-	13,407,919	-	-	-	-	13,407,919
Collection Account Deposits	-	-	-	-	-	72,238,445	72,238,445
Provision for service and leave pay	-	-	-	-	-	3,941,953	3,941,953
Other payables	-	-	-	-	-	3,481,749	3,481,749
Total financial liabilities	161,942,098	410,514,654	27,620,707	-	150,000,000	83,120,545	833,198,004
Net interest rate exposure	376,493,921	(95,167,764)	(27,620,707)	920,000	(15,000,000)	(52,527,680)	187,097,770
Cumulative interest rate exposure	376,493,921	281,326,157	253,705,450	254,625,450	239,625,450	187,097,770	187,097,770

37. 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 2011 were outstanding at those levels for the whole year.
- Interest-bearing assets and liabilities denominated in currencies other than US$ 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 31 December 2011 would increase or decrease by US$ 878,501 (2010 - US$ 318,616) as follows:

Effect on the Bank's Net Profit:

The net profit for the year ended 31 December 2011 would increase to US$ 35,481,880 (2010: US$ 20,639,210) or decrease to US$ 34,048,868 (2010: US$ 20,001,978).

The potential change is 1% (2010 - 2%) of the year's profit.

II. Currency risk

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

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

37. FINANCIAL RISK MANAGEMENT (Continued)

d) MARKET RISK (Continued)

II. Currency Risk (Continued)

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

The Bank's currency position as at 31 December 2011 was as follows:

	US$	GBP	EURO	KES	TZS	UGX	MK	OTHER	TOTAL
FINANCIAL ASSETS:									
Cash and balances with other banks	131,479,684	17,811	7,670,857	1,239,356	116,574	7,992	74,162,279	17,625	214,712,178
Other receivables	4,767,899	-	-	-	-	-	-	-	4,767,899
Hedging Derivative	14,265,639	-	-	-	-	-	-	-	14,265,639
Investment in Government securities	-	-	-	-	-	2,834,075	-	-	2,834,075
Trade finance loans	691,802,179	-	-	-	-	-	-	-	691,802,179
Project finance loans	385,755,343	-	12,031,774	9,523,117	425,559	-	-	-	407,735,793
Equity investments	10,172,450	-	-	-	-	-	-	-	10,172,450
Total financial assets	1,238,243,194	17,811	19,702,631	10,762,473	542,133	2,842,067	74,162,279	17,625	1,346,290,213
FINANCIAL LIABILITIES:									
Short term borrowings	328,453,012	-	7,101,864	-	-	-	-	-	335,554,876
Long term borrowings	631,161,292	-	-	8,953,767	-	3,066,669	-	-	643,181,728
Collection account	18,535,346	-	-	-	-	-	74,149,070	-	92,684,416
Hedging Derivative	-	-	12,661,807	-	-	-	-	-	12,661,807
Other payables	3,321,095	-	-	90,114	-	-	-	1,804	3,413,013
Provision for Service and Leave pay	4,548,291	-	-	-	-	-	-	-	4,548,291
Total financial liabilities	989,019,036	-	19,763,671	9,043,881	-	3,066,669	74,149,070	1,804	1,092,044,131
NET POSITION	252,224,158	17,811	(61,040)	1,718,592	542,133	(224,602)	13,209	15,821	254,246,082

37. FINANCIAL RISK MANAGEMENT (Continued)

MARKET RISK (Continued)

II. Currency Risk (Continued)

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

The Bank's currency position as at 31 December 2010 was as follows:

	US$	GBP	EURO	KES	TZS	UGX	MK	OTHER	TOTAL
FINANCIAL ASSETS									
Cash and balances with other banks	119,960,652	29,319	549,425	8,064,748	25,014	83,866	27,845,834	1,648	156,560,506
Hedging derivative	14,436,359	-	-	-	-	-	-	-	14,436,359
Other receivables	3,139,805	-	-	-	-	-	-	-	3,139,805
Investments in Government securities	-	-	-	-	-	2,625,607	-	-	2,625,607
Trade finance loans	531,818,135	-	-	163,988	-	863,245	-	-	532,845,368
Project finance loans	281,340,829	-	13,441,798	5,717,898	678,577	55,790	-	-	301,234,892
Equity investments	9,453,237	-	-	-	-	-	-	-	9,453,237
TOTAL FINANCIAL ASSETS	960,149,017	29,319	13,991,223	13,946,634	703,591	3,628,508	27,845,834	1,648	1,020,295,774
FINANCIAL LIABILITIES									
Short term borrowings	211,696,017	-	1,138,951	-	-	-	-	3,356,960	216,191,928
Long term borrowings	506,352,552	-	-	13,892,072	-	3,691,386	-	-	523,936,010
Collection account deposits	44,406,622	-	-	-	-	-	27,831,823	-	72,238,445
Hedging derivative	-	-	13,407,919	-	-	-	-	-	13,407,919
Provision for service and leave pay	3,941,953	-	-	-	-	-	-	-	3,941,953
Other payables	3,447,189	-	-	34,326	-	-	-	234	3,481,749
TOTAL FINANCIAL LIABILITIES	769,844,333	-	14,546,870	13,926,398	-	3,691,386	27,831,823	3,357,194	833,198,004
NET POSITION	190,304,684	29,319	(555,647)	20,236	703,591	(62,878)	14,011	(3,355,546)	187,097,770

37. FINANCIAL RISK MANAGEMENT (Continued)

CURRENCY RISK (Continued)

Currency risk - Sensitivity Analysis

The Bank is mainly exposed to Euros, Pound Sterling, Kenya Shillings, Tanzania Shillings, Malawi Kwacha, Uganda Shilling and South African Rand. The following analysis details the Bank's sensitivity to a 10% increase and decreases in the value of the US$ 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 US$ strengthens by 10% against the other currencies in which the Bank has a net asset position. For a 10% weakening of the US$ against the relevant currencies, there would be an equal opposite impact on the net profit .

	GBP	EURO	KES	TSH	JPY	ZAR	UGX	MWK
2011	2,655	(38,734)	16,018	(5,033)	5	241,190	(8,970)	(1,121)
2010	4,748	(168,209)	4,788	(30,792)	8	(16,040)	(482)	3

38. CAPITAL MANAGEMENT

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

Based on the need to protect against increased credit risks associated with projects and infrastructure financing in developing African economies, the Bank's capital management policy aims to maintain a capital adequacy ratio of at least 30 per cent. This ratio is computed in line with recommendations of the paper prepared by the Basel Committee on Banking Supervision entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1988 as amended from time to time (Basel I paper) and the paper prepared by the Basel Committee entitled "International Convergence of Capital Measurement and Standards: A Revised Framework" dated June 2004 as amended from time to time (Basel II Paper).

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

- To have sufficient capital to support its development mandate;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns to shareholders and benefits to Member States and other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy is monitored monthly by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee. Currently, the Bank's capital is entirely Tier 1 capital which is: Paid-up share capital and retained earnings.

38. CAPITAL MANAGEMENT (Continued)

Risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-statement of financial position exposure, with some adjustments to reflect the more contingent nature of the potential losses.

A summary of the Bank's capital adequacy computations is provided below.

	2011 US$	2010 US$
RISK WEIGHTED ASSETS		
On-Balance sheet Assets	673,365,143	513,927,221
Off-Balance sheet Assets	70,726,880	66,729,235
TOTAL RISK WEIGHTED ASSETS	744,092,023	580,656,456
CAPITAL		
Paid up capital	179,021,687	145,161,487
Retained earnings	99,344,700	65,079,325
Total capital	278,366,387	210,240,812
CAPITAL ADEQUACY RATIO	37%	36%

In addition, to its regulatory capital the Bank has access to additional capital in the form of callable capital.

During the year, the Bank complied with its capital adequacy requirements.

39. TRADE FINANCE LOAN PORTFOLIO

	As at 31 December 2011			As at 31 December 2010		
Country	**Balance outstanding US$**	**Amounts due within six months US$**	**Amounts due after six months US$**	**Balance outstanding US$**	**Amounts Due within six months US$**	**Amounts Due after six months US$**
Kenya	34,673,103	34,673,103	-	51,023,559	41,962,264	9,061,295
Malawi	113,865,402	113,865,402	-	53,833,289	35,856,654	17,976,635
Mauritius	48,550,445	48,550,445	-	1,395,728	1,395,728	-
Rwanda	21,493,463	-	21,493,463	20,034,074	34,074	20,000,000
Seychelles	30,092,051	15,092,051	15,000,000	30,199,230	16,773,084	13,426,146
Tanzania	59,150,686	10,091,516	49,059,170	11,577,474	-	11,577,474
Uganda	1,767,200	778,216	988,984	3,801,108	1,436,284	2,364,824
Zambia	200,525,660	200,525,660	-	212,765,505	212,765,505	-
Zimbabwe	197,714,183	126,931,335	70,782,848	164,445,386	91,752,809	72,692,577
Gross Loans	707,832,193	550,507,728	157,324,465	549,075,353	401,976,402	147,098,951
Less: Impairment on trade finance loans (note 18)	(16,030,014)	-	(16,030,014)	(16,229,985)	-	(16,229,985)
NET LOANS	691,802,179	550,507,728	141,294,451	532,845,368	401,976,402	130,868,966

40. PROJECT LOAN PORTFOLIO

								As at 31 December 2011			As at 31 December 2010		
Country	Amounts Signed US$	Amounts Disbursed US$	Interest Capitlized US$	Amounts Repaid US$	Amounts Written off US$	Interest Receivable US$	Exchange Rates Adjustment US$	Balance Outstanding US$	Due within One year US$	Due after One year US$	Balance Outstanding US$	Due within One year US$	Due after One year US$
Burundi	16,774,208	14,529,209	-	(10,297,768)	(327,251)	229,520	(1)	4,133,710	853,689	3,280,021	1,433,385	248,400	1,184,985
Eritrea	403,652	403,652	-	-	(403,652)	-	-	-	-	-	-	-	-
Ethiopia	33,972,668	33,972,668	522,176	(11,630,086)	(2,421,192)	689,584	(0)	21,133,150	6,066,912	15,066,238	3,381,004	-	3,381,004
Kenya	150,252,539	127,362,002	1,532,900	(64,157,004)	(15,476,423)	1,699,982	(37,214)	50,924,243	23,556,749	27,367,494	52,534,997	8,399,968	44,135,029
Malawi	64,532,268	57,492,851	-	(25,255,391)	(1,071,561)	411,974	(717,238)	30,860,635	11,179,528	19,681,107	19,252,527	3,290,417	15,962,110
Mauritius	8,000,000	8,000,000	-	-	-	127,000	-	8,127,000	984,142	7,142,858	7,999,999	-	7,999,999
Rwanda	98,837,275	89,747,479	-	(13,634,700)	-	878,893	-	76,991,674	14,044,345	62,947,329	24,363,673	14,644,884	9,718,789
Seychelles	34,000,000	30,230,200	-	(2,253,769)	-	-	(412,066)	27,564,365	9,790,898	17,773,467	19,303,744	1,796,040	17,507,704
Sudan	37,281,910	17,501,466	5,265,454	(6,277,608)	(13,647,197)	(101,769)	190,174	2,930,520	1,328,507	1,602,013	13,580,717	914,844	12,665,873
Tanzania	126,322,792	111,496,616	-	(45,638,235)	(3,616,803)	645,441	(218,775)	62,668,244	21,887,470	40,780,774	64,769,010	18,327,078	46,441,932
Uganda	128,901,610	112,863,902	3,534,222	(45,814,930)	(5,750,456)	660,345	2	65,493,085	15,279,573	50,213,512	59,980,499	13,213,350	46,767,149
Zambia	117,452,661	101,255,139	17,978,773	(53,916,604)	(16,549,939)	4,543,290	(1)	53,310,658	21,592,803	31,717,855	48,371,533	14,361,251	34,010,282
Zimbabwe	57,139,954	44,673,120	-	(17,834,785)	(2,927,569)	354,414	(516,528)	23,748,652	4,872,096	18,876,556	9,168,773	2,178,855	6,989,918
Gross loans	873,871,537	749,528,304	28,833,525	(296,710,880)	(62,192,043)	10,138,674	(1,711,647)	427,885,936	131,436,712	296,449,224	324,139,861	77,375,087	246,764,774
Less: Impairment on project loans (note 18)								(20,150,143)	-	(20,150,143)	(22,904,969)	-	(22,904,969)
NET LOANS								407,735,793	131,436,712	276,299,081	301,234,892	77,375,087	223,859,805

41. STATEMENT OF SUBSCRIPTIONS TO THE CAPITAL STOCK

As at 31 December 2011:

	Shares Subscribed	Percentage of total	Value US$	Callable capital US$	Payable capital US$	Instalments due as at 31.12.11 US$	Instalments paid as at 31.12.11 US$
Burundi	1,230	2.14	27,880,410	22,304,329	5,576,081	4,460,865	4,460,865
China	3,400	5.92	77,067,800	61,654,240	15,413,560	15,413,560	15,413,560
Comoros	54	0.09	1,224,018	979,214	244,804	171,360	122,400
Djibouti	54	0.09	1,224,018	979,214	244,804	171,360	122,400
Democratic Republic of Congo	5,340	9.30	121,041,780	96,833,424	24,208,356	1,500,000	1,500,000
Egypt	5,340	9.30	121,041,780	96,833,424	24,208,356	19,366,508	19,366,508
Eritrea	240	0.42	5,440,080	4,352,064	1,088,016	761,602	544,000
Ethiopia	5,340	9.30	121,041,780	96,833,424	24,208,356	19,366,507	19,366,507
Kenya	5,340	9.30	121,041,780	96,833,424	24,208,356	19,366,508	19,366,508
Malawi	1,320	2.30	29,920,440	23,936,352	5,984,088	4,188,818	3,790,309
Mauritius	1,566	2.73	35,496,522	28,397,218	7,099,304	7,099,304	7,099,304
Rwanda	1,248	2.17	28,288,416	22,630,733	5,657,683	4,526,104	4,526,104
Seychelles	270	0.47	6,120,090	4,896,072	1,224,018	979,558	979,558
Somalia	318	0.55	7,208,106	5,766,485	1,441,621	1,009,124	720,800
Sudan	4,920	8.57	111,521,640	89,217,312	22,304,328	15,612,866	11,152,000
Tanzania	5,214	9.08	118,185,738	94,548,590	23,637,148	16,545,830	13,939,893
Uganda	3,600	6.27	81,601,200	65,280,960	16,320,240	11,424,048	8,160,000
Zambia	4,082	7.11	92,526,694	74,021,355	18,505,339	14,703,664	14,703,664
Zimbabwe	5,540	9.65	125,575,180	100,460,144	25,115,036	20,087,108	20,087,107
African Development Bank	3,000	5.23	68,001,000	54,400,800	13,600,200	13,600,200	13,600,200
	57,416	100	1,301,448,472	1,041,158,778	260,289,694	190,354,894	179,021,687

41. STATEMENT OF SUBSCRIPTIONS TO THE CAPITAL STOCK (Continued)

As at 31 December 2010:

	Shares Subscribed	Percentage of total	Value US$	Callable capital US$	Payable capital US$	Instalments due as at 31.12.11 US$	Instalments paid as at 31.12.11 US$
Burundi	1,230	2.36	27,880,410	22,304,329	5,576,081	3,903,166	3,903,107
China	3,400	6.53	77,067,800	61,654,240	15,413,560	15,413,447	15,413,447
Comoros	54	0.10	1,224,018	979,214	244,804	146,880	122,400
Djibouti	54	0.10	1,224,018	979,214	244,804	146,880	122,400
Egypt	5,340	10.26	121,041,780	96,833,424	24,208,356	14,524,836	12,104,000
Eritrea	240	0.46	5,440,080	4,352,064	1,088,016	652,801	544,000
Ethiopia	5,340	10.25	121,041,780	96,833,424	24,208,356	14,524,835	13,103,957
Kenya	5,340	10.25	121,041,780	96,833,424	24,208,356	16,945,672	16,945,672
Malawi	1,320	2.54	29,920,440	23,936,352	5,984,088	3,590,400	3,590,359
Mauritius	1,566	3.01	35,496,522	28,397,218	7,099,304	7,099,304	7,099,304
Rwanda	1,248	2.40	28,288,416	22,630,733	5,657,683	3,394,568	3,394,568
Seychelles	270	0.52	6,120,090	4,896,072	1,224,018	857,156	857,157
Somalia	318	0.61	7,208,106	5,766,485	1,441,621	864,962	720,800
Sudan	4,920	9.45	111,521,640	89,217,312	22,304,328	13,382,433	11,152,000
Tanzania	5,214	10.01	118,185,738	94,548,590	23,637,148	14,182,115	11,818,400
Uganda	3,600	6.91	81,601,200	65,280,960	16,320,240	9,792,024	8,160,000
Zambia	4,082	7.84	92,526,694	74,021,355	18,505,339	11,103,067	9,252,533
Zimbabwe	5,540	10.64	125,575,180	100,460,144	25,115,036	15,068,837	13,257,183
African Development Bank	3,000	5.76	68,001,000	54,400,800	13,600,200	13,600,200	13,600,200
	52,076	100	1,180,406,692	944,325,354	236,081,338	159,193,583	145,161,487

Key Members of Staff

ADMASSU TADESSE
President & CEO

ALEX GITARI
Director, Finance

JAMES KABUGA
Director, Project and Infrastructure Finance

GEORGE MUDANGE
Director, Trade Finance

WYCLIFF BBOSSA
Director, Portfolio Management

KINGSLEY MWOWO
Director, Compliance and Risk Management

PREMCHAND MUNGAR
Director, Corporate and Legal Services

HAMZA KIFLE
Director, Human Resources and Administration

Annex II

Administrative Expenditure

	2012 USD	2011 USD
ADMINISTRATIVE EXPENDITURE		
Personnel Costs	10,772,514	8,766,025
Board of Governors	232,980	380,885
Board of Directors	431,300	379,445
Consultants and Advisers	1,515,484	670,019
Official Missions	850,500	729,825
Business Promotion	134,120	86,151
Other Operating Expenses	735,646	588,270
Total Administration Expenditure	14,672,543	11,600,621