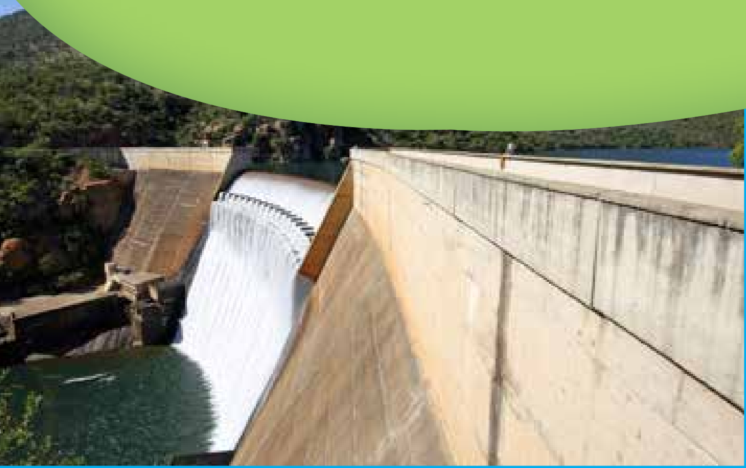
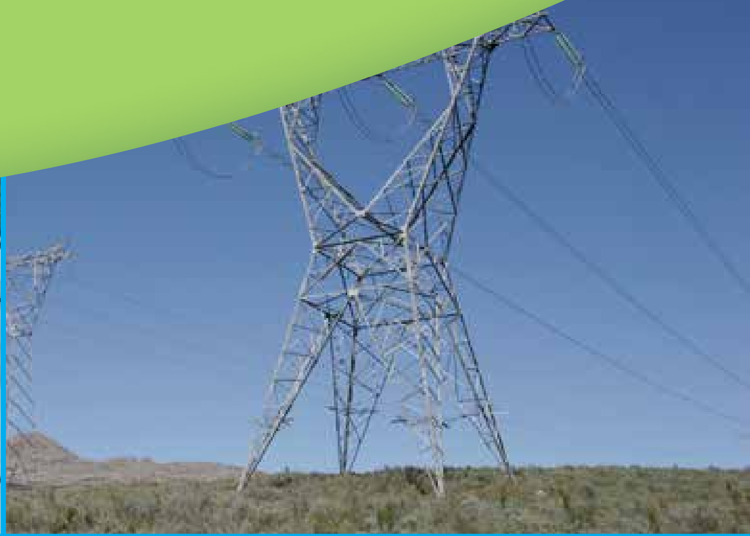
PTA BANK

BANQUE DE LA ZEP

THE EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK





Annual Report & Financial Statements

2012

INTEGRATING & ADVANCING THE REGION'S ECONOMIES

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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 2012.

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 2013.

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

SULLEIMAN KAMOLLEH
Chairman of the Board of Directors

The Chairman's Statement

SULLEMAN KAMOLLEH

Chairman, Board of Directors

Unlike in the Eurozone and in most other developed regions, 2012 was marked with continued and heightened optimism in Africa's growth and development prospects. During the year, the region continued to register strong economic growth, maintaining the positive trend of recent years. Among the best performers in the region were Ethiopia, Uganda, Rwanda and the Congo which grew at rates of between 6 and 9 percent, with the rest of the continent growing at an average of 5.5 percent. Although the region was not immune to economic challenges, it proved resilient and several of its economies featured among the top ten best GDP growth performers globally.

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For the Bank, the year under review was exceptional. The Bank registered record levels of growth and profitability, several times the rate of the region. Our assets grew by an impressive 35% and net profits grew, even more, by 50% to reach US$ 51.23 million, which raised the return on capital by an all-time high of 14.9%, with non-performing loans remaining steady. Importantly, the escalation in growth was guided and involved increased financing in economies where the Bank has relatively lower exposure.

The attainment of these results was achieved despite competitive pressures, a low interest rate environment, and notably, a leadership transition in the Bank. It was in 2012 that Mr. Admassu Tadesse took over as the new President and Chief Executive, following an open, competitive and transparent recruitment process in 2011. On behalf of the Board, I would like to salute Mr. Tadesse for steering the Bank smoothly through the transition, and leading the Bank through exceptional performance in 2012. I would also like to convey, once again, the Board's appreciation to Dr Michael Gondwe, the former President of the Bank, for his 25 years of dedicated service and well-deserved appointment as Governor of the Bank of Zambia.

The approval by the Board of Governors of a new 5 year Corporate Plan covering the period 2013-2017 was yet another important milestone. The Plan, which was approved in December, 2012, aims to reposition the Bank as the leading and preferred development finance institution of the wider Eastern, Central and Southern African region, in alignment with the Tripartite Agreement between COMESA, SADC and EAC. The Plan sets out a road map to transform the Bank from a mid-sized regional development financial institution into a prominent and respected trans-regional financial institution that is world-class in its governance and operations, and with credit ratings stronger than present. The Plan has several strategic thrusts, notably growth and innovation in financial and non-financial services, portfolio diversification, new business initiatives and institutional strengthening in terms of core capital and geographic coverage. The planning process was underpinned by various reforms that have resulted in the introduction of enhancements in the areas of corporate governance, risk management and human resource management.

During the year, Member States continued to support the Bank by discharging their General Capital Increase (GCI) obligations as approved by Board of Governors at the 2007 Annual Meeting held in Mauritius. The GCI decision obligated Members to discharge their GCI obligations over a five-year

Admassu Tadesse received the African Business Leader of the Year award from the Corporate Council on Africa

period 2009 to 2013 and I am pleased to report that many Members have paid up on time. Notably, several countries with multi-year capital arrears resumed making payments after a long hiatus. These include Tanzania, Uganda, Sudan and Djibouti; commendably, the latter two countries extinguished all their arrears, fully regularizing their capital subscriptions account. I extend the Board's appreciation to all Member States who have paid their dues in time and call upon those with remaining obligations to discharge them in 2013 in line with the Board of Governors' decision.

In recognition of the Bank's performance, reforms and leadership, it was gratifying to witness the Bank being honoured during the year. The Bank was awarded the Best Trade Finance Bank of the Year by Global Trade Review. In December, the Bank's President was recognized as the 2012 African Business Leader of the Year by the US Corporate Council on Africa in Washington DC, along with three other prominent African business leaders in the continent. Earlier in October, African Investor Magazine also named Mr. Tadesse the Future Leader of the Year on the sidelines of the World Bank/IMF Annual meetings in Tokyo in October, 2012. I heartily congratulate the leadership and management of the Bank on the attainment of these awards, which reflect the growing respect and confidence in our institution.

As the Bank continues on its journey to becoming a world class institution, the Board of Directors will continue to support the modernization and capacitation of the Bank, both in terms of its capital and organizational development. The introduction of class B shares is one such measure and, in addition to financial strengthening, is aimed at growing the Bank's membership and partnerships. The class B shares are expected to attract institutional members on account of their simple structure devoid of callable capital obligations, however, the shares are also available to existing shareholders and provide an opportunity for increased investments in return for enhanced financial as well as developmental returns. The Bank will also be looking to attract quasi-equity into its capital structure, in support of the Bank's tier 1 capital and callable capital.

In conclusion, I am pleased to underscore that 2012 has been an outstanding year for the Bank, operationally, financially, and strategically. My deep appreciation therefore goes to our customers, partners and shareholders for their interest and confidence in the Bank, and to the President, Management and Staff of the Bank for their commitment and invaluable contributions which made 2012 such as a resounding success.

We look forward to the continued engagement of all stakeholders as we embark further on the transformation of the Bank into a world class trade and development finance institution that is better able to serve the growing financial needs of the region.

SULLEMAN KAMOLLEH
Chairman, PTA Bank Board of Directors

President's Report

ADMASSU TADESSE

President & CEO

STRATEGIC OVERVIEW

The year 2012 was a momentous one.

It commenced with a leadership transition and the honour of my being sworn-in as the 4th President of the Bank, to succeed Dr. Michael Gondwe, who retired from the Bank after 25 years of successful leadership and dedicated service. I salute the Board of Governors, my predecessor, the Board of Directors and the Management and Staff of the Bank for their support during the smooth transition.

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PTA Bank was presented two awards for the best local Trade Finance bank in Zambia and best local Trade Finance bank in Zimbabwe for 2012 by Global Trade Review (GTR), at their 7th Annual Africa Trade & Export Finance Conference, held in Cape Town, South Africa on 6th March, 2013. The Trade Finance Department was rewarded for its outstanding achievement in Africa's Financial Sector.

The year concluded with the Bank recording all-time highs in its operations and financial performance, with the balance sheet expanding annually by 35%, non-performing loans holding steady at the 5% level, and net profits rising to USD 51 million, 50% higher than in 2011, lifting our return on equity to 14.9% (2011: 12.3%). Our performance was recognized at the 7th Annual Africa Trade & Export Finance Conference held in Cape Town in March, 2013 when the Bank was awarded the best local trade finance bank in Zambia and Zimbabwe for 2012 by Global Trade Review, a leading international trade finance magazine. The Bank also received other awards for excellence at major forums in Tokyo and Washington DC during the year.

The Bank's strong performance is attributable to several factors, notably, a strong business drive with focused origination, innovation and marketing efforts, at the operational and strategic level. Importantly, this took place in a conducive external and internal environment. Execution was enabled by key support functions, such as treasury, legal, and risk management, among others.

Income diversification thrusts also contributed to the Bank's overall profitability and improved risk management, along with effective cost management. We got traction in growing the Bank's lending into hitherto underserved markets and explored opportunities in new markets. We also stepped up the Bank's interventions in support of infrastructure development and strengthened our capacity to lead and execute loan syndications. The Bank's funds management initiative got off to a good start as the Bank was granted the mandate to advance and champion the COMESA Infrastructure Fund as a joint venture partner and co-investor alongside Member States and institutional investors.

These are indeed very exciting times for the region and PTA Bank. The region has been growing well for a full decade now, and the pre-crisis growth levels returned in 2012, with continued expansion in investment, internal demand, infrastructure development and trade, which have maintained a favourable business environment for the Bank's financing operations.

The year under review also marked the conclusion of the 2008–2012 Corporate Plan and the emergence of a new five year plan for the period ahead. The new plan was prepared through a rigorous and interactive process of review, analysis, benchmarking, strategic thinking and workshops, involving management and staff, external consultants, the Board of Directors and consultations with various stakeholders, notably the Members of the Board of Governors of the Bank and strategic partner institutions. I am grateful to all role players for their active engagement and contributions.

The new 2013-2017 Corporate Plan, which was adopted unanimously by the Board of Governors on 20th December 2012, builds on the successes of the past five years, and aims to propel the Bank to new heights through the implementation of a number of business and corporate initiatives notably, the expansion of the capital, shareholder and partnership base, and deepening of the Bank's operations. The new plan also led to reforms of the Charter of the Bank, which re-positions the Bank as the specialized trade and development finance institution potentially covering all of eastern and southern Africa, an area known as the Grand Free Trade Area of the Tripartite, the new partnership between COMESA, SADC and the EAC, which is inclusive of IGAD, the IOC and large parts of central Africa.

On the resource mobilization front, we initiated new partnerships with development finance partners and pension funds in South Africa, France, Germany and Luxembourg and diversified the Bank's funding base with the successful launch of a debut US$ 150 million syndicated loan, which was over-subscribed by 12 different commercial banks. The syndicated loan involved 5 commercial banks from the region notably, South Africa, Mauritius, Egypt, Ghana and Nigeria. Also, new relationships were formed with Banks in the Gulf and the far-east (China and Japan) which extended credit to the Bank for the first time.

On stakeholder management, in particular shareholders, we deepened our relationships with several Member States in active follow up of implementation of the General Capital Increase. We succeeded in convincing several Member States to resume payments for capital subscriptions, after several years of suspended payments. Five Member States resumed payments and three extinguished arrears dating back several years, in one case, dating back over a decade. We also began exploring ways in which Members could exploit the new investment opportunity created with the revised Charter, that is the new Class B shares.

In the years to come, the Bank plans to implement the five-year Corporate Plan with a focus on business and capital growth alongside diversification, innovation, membership expansion, expanded partnerships, institutional modernization and organizational development. We intend to keep the Bank at the forefront of mobilizing and intermediating capital to promote and finance trade transactions and projects that advance regional economic integration and the development of the economies and enterprises of the region.

OPERATIONS

Project and Infrastructure Finance

In 2012, we intensified our origination and marketing efforts directed at increasing the Bank's foothold in the growth sectors of our Member States' economies. Our main sectors of intervention included agribusiness, energy, transport and logistics, banking and financial services, hospitality, real estate, health services, and manufacturing and heavy industries.

We held business promotion workshops in a number of Member States to sensitize the business community on the Bank's product offering. We pursued repeat business opportunities from our existing clients and participated in syndications and co-financing arrangements. In pursuing our business development agenda, diversification of the Bank's portfolio remained an important consideration.

In 2012, we attained record approvals of USD 297.28 million for twenty two projects spread out in nine Member States, exceeding the USD 210 million budget for the year by a 42% margin. The 2012 approvals were 48% higher than the 2011 approvals of USD 200.30 million.

During the year, we committed projects amounting to USD 169.16 million, 85% of the annual target of USD 200 million. Disbursements for projects and infrastructure loans amounted to USD 160.5 million, which compares favorably with the annual budget of USD 175.20 million and the USD 176.06 million disbursed in 2011. The 2011 disbursements included an exceptionally large disbursement to a regional airline to finance the acquisition of aircraft.

TRADE FINANCE

Under our trade finance window, we laid the foundation for sustained growth by implementing a number of business initiatives. These include diversification into underserved markets, promotion of intra-regional trade through the Export Development Fund, reduction of transaction costs through the regional value chain and trade guarantee program and the use of factoring and forfaiting instruments.

Under the trade finance diversification agenda, we signed new facilities with borrowers in Malawi and Sudan in addition to renewing existing facilities with borrowers in other markets. We extended our business development efforts in markets such as the Democratic Republic of Congo, Djibouti, Sudan, Ethiopia and Egypt and expect to transact new business in the coming year. Our focus going forward is to exploit emerging trade opportunities among the COMESA, SADC and EAC Member States.

We registered a robust 36% growth in trade finance volumes from USD 2.46 billion in 2011 to USD 3.4 billion in 2012. Direct trade finance disbursements amounted to USD 1.50 billion compared to the USD 1.18 billion recorded in 2011 while letters of credit amounted to USD 1.70 billion compared to the USD 1.28 billion recorded in 2011. Strategic import facilities and lines of credit to financial institutions accounted for the bulk of the trade finance volumes.

RISK MANAGEMENT

In 2012, we implemented a number of measures aimed at strengthening the Bank's risk management capacity. We upgraded the Compliance and Risk Management Unit into a fully-fledged department and put in motion the process of establishing a Credit Risk Unit to strengthen that aspect of risk management. We also continued with the implementation of the Credit Risk Assessment System, a system aimed at automating the assessment, monitoring and reporting of credit risk.

RESOURCE MOBILISATION

Our key strategy on resource mobilization was the building of new partnerships and diversification of the Bank's funding base. During the year, we signed partnership agreements and memoranda of understanding with Agence Française de Développement, the Public Investment Corporation of South Africa, and the Industrial Development Corporation of South Africa. We initiated relationships with a host of other potential funding partners including BNDES of Brazil, European Investment Bank and KfW of Germany.

We launched our debut USD 150 million, 2-year syndicated loan and achieved satisfactory outcomes in terms of oversubscription, pricing as well as the diversity of participation. We also signed a USD 30 million, 7 year facility with the African Agricultural Trade and Investment Fund, a specialised German investment fund and concluded negotiations with Industrial Development Corporation of South Africa for a USD 30 million 8 year line of credit. We diversified our Export Credit Agency (ECA) relationships by forging a relationship with FINVERA, the Finish ECA and succeeded in raising US$ 24 million of long term funding from a European Bank to finance the importation of a power plant from Finland into Zambia.

We also grew the Bank's risk participation and mitigation capacity by signing Master Risk Participation Agreements with new counterparties and enhancing existing capacity. Through a strategic partnership with the African Trade Insurance Agency, we managed to increase our credit insurance cover from USD100 million to USD150 million and initiated a process of augmenting the cover to USD 400 million.

INTERNATIONAL RATINGS

We secured an outlook review from "stable" to "positive" by Fitch Ratings and secured favourable and stable ratings from the other two agencies - Global Credit Ratings (GCR) and Moody's. The Bank's long term international ratings were upheld at BB-, BB+ and Ba1 by Fitch, GCR and Moody's respectively.

FINANCIAL MANAGEMENT

Portfolio growth impacted favourably on the Bank's financial performance. Total interest income grew by 43% from USD 69.59 million in 2011 to USD 99.34 million. Increased commodity prices coupled with new business opportunities contributed to 22% growth in gross fee and commission income from USD 36.28 million in 2011 to USD 44.09 million in 2012. Net Fees and commission income, however, grew by a modest 7% to USD 33.44 million from USD 31.22 million in 2011 as a result of increased risk down-selling costs of USD 10.65 million (2011: USD 5.06 million). The risk down-selling costs are incurred as part of the Bank's strategy to mitigate concentration and compliance risks.

Despite the significant growth in business volumes, the Bank's operating expenses were effectively controlled and increased by a modest 2% to reach USD 12.33 million. The level of non-performing loans, however increased to USD 71.62 million from the USD 52.03 million reported in 2011 on account of the deterioration of a significant exposure in Zimbabwe's financial sector. Consequently, the Bank recorded a higher impairment charge of USD 26.10 million compared to the USD 17.97 million recorded in 2011. As at 31st December 2012, our cumulative impairment provisions amounted to USD 48.28 million thereby achieving a 67% coverage of the gross non-performing loans exposure.

Despite the higher impairment charge, 2012's financial performance was positively impacted by the improved loan recoveries which saw the Bank record USD 4.76 million (2011: USD 3.09 million) in recoveries of previously written off loans.

Overall, the Bank recorded a healthy 50% increase in Net profits from USD 34.27 million in 2011 to USD 51.23 million in 2012. As a result, we returned a Return on Equity (RoE) of 14.9% compared to 12.3% in 2011. With total assets growing by 35% to reach USD 1.84 billion, the Bank recorded an improved 2.78% Return on Assets (RoA) compared to the 2.50% RoA recorded in 2011.

HUMAN RESOURCE INITIATIVES

Given the robust growth momentum of recent years, the human resource capacity of the Bank continued to expand along with the growing demands on the Bank's products and services and growing financing capacity. Accordingly, various vacancies were filled during 2012, across several business units and support functions, notably, in the Legal Department and the Compliance and Risk Management Unit, which was upgraded into a fully-fledged department. In respect of the latter, the position of Director for Risk Management was filled through competitive interviews.

Also, as part of the corporate planning exercise, we carried out an assessment of the human capital requirements of the Bank, given the strong growth trajectory of the Bank in recent years, and further growth projected in the years to come with expansion in the Bank's capital and shareholding base and new initiatives within existing business lines and related new lines of business. As part of the new corporate plan, added capacity has been planned for our existing and new business units to support our on-going growth, innovation and diversification. Accordingly, the organisational structure evolved and was updated. Plans were laid for strengthening and extending the Bank's network of regional and satellite offices, as well as upgrading the Bank's existing headquarters as well as regional offices.

During the year, the Bank also purchased office premises for the development of a permanent regional office in Nairobi at a cost of USD 4 million.

A review of the Bank's compensation philosophy and approach was also undertaken, and a policy framework was adopted by the Board of Directors to introduce a results and performance based compensation framework, involving variable as well as guaranteed pay in relation to a recognition and reward system that enables the Bank to attract and retain talent as well as motivate the Bank's human capital. In the same vein, a study was undertaken on incentive schemes among development finance institutions and related comparators. A scheme for a recognition and reward regime was deliberated upon by the Board of Directors, and adopted for implementation in 2013 as part of the performance plan, incentives and budget for the year. A specific salary and benefits survey was also undertaken to create a competitive salary range for the positions of Chief Financial Officer, Chief Operating Officer and Treasurer.

With the view to entrenching the Bank's high performance culture, we invested considerably in streamlining our performance management systems and reward structures. We engaged consultants to benchmark the Bank's compensation system and to advise on the implementation of a balanced scorecard system and the introduction of a performance incentive system.

As in previous years, we continued to invest in our staff through provision of appropriate training programs.

OTHER STRATEGIC INITIATIVES

During the year, we engaged a specialist on multilateral treaties to review the Bank's Charter from the perspective of company law, public international law and corporate governance. The review was identified as one of the pillars of enhanced growth, diversification and institutional expansion strategy as outlined in the 2013-2017 Corporate Plan. At its meeting held in December 2012 in Lusaka, Zambia, the Board of Governors unanimously adopted the proposed amendments to the Charter. The key amendments include an increase of the authorized capital of the Bank, the splitting of the capital stock into Class A and Class B shares, the enlargement of the composition of the Board of Directors to include independent directors, and the formation of additional committees of the Board.

With technical and grant assistance from the African Development Bank, we embarked on a process of identifying a Legal Consultant to undertake a review and revision of the Bank's lending instruments' documentation. The review is expected to result in stronger and efficiently structured legal documentation for the Bank's loan products.

In line with our decentralization strategy, we acquired a property in Nairobi which, upon completion of its development, will house the Bank's regional office and generate significant levels of investment income.

CONCLUSION

2012 was an important year for the Bank. It was the final year for the 2008-2012 Corporate Plan period and also the year of ushering in the new 2013-2017 Corporate Plan. More importantly, it was a year of a leadership transition and the beginnings of organizational transformation.
In this report, I have enumerated some of our accomplishments which make 2012 one of the most successful periods in the Bank's history. Even though there are challenges, the momentum of our performance and new initiatives give us good reason to expect a bright future for the Bank.

I wish to take this opportunity to thank our customers and business partners for their support during the year. I pay a special tribute to the Board of Governors and the Board of Directors for their wise counsel, commitment and support, which were instrumental to the realization of our 2012 results and the adoption of important reforms that will enable the Bank to grow to greater heights and advance into a world class African financial institution. My deep gratitude goes to my Management Team and Staff of the Bank for their commitment and enthusiasm in what has turned out to have been a truly exciting year.

With plenty of optimism, I am looking forward to another year of strong performance and institutional enhancements as we pursue the Bank's vision of advancing economic development, integration and prosperity of the Eastern and Southern African region.

ADMASSU TADESSE
President and CEO

PTA Bank President Admassu Tadesse (right) receives an African Investor award as the Up and Coming Future Leader of the Year 2012 in Tokyo, Japan.

Statement on Corporate Governance

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:

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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 principles 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 and identifies 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, 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 strategic direction and general conduct of the 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 currently consists of 8 Directors, of which 7 are non-executive and one executive (The President). Of the 7 Non-Executive Directors, five represent groups of Member States and have alternates, one represents African institutions, and one represents Non-Regional Member Countries. This is in line with the recently amended Charter of the Bank and now also provides three board seats for independent Class B shareholders and non-executive directors.

Every year, Board Members elect a director, on a rotational basis, to chair the meetings. 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.

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 of Directors in the performance of their 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. In 2012, the Bank's internal audit function continued to be outsourced to KPMG, Nairobi, which concluded 10 years of internal audit services. In 2013, Deloitte, Nairobi, following a request for proposals, was appointed to provide the outsourced internal audit function for the Bank. Internal coordination capacity is also being strengthened to enhance the synergy and linkages between internal audit, risk management and compliance, in line with best practice..

OTHER BOARD COMMITTEES

The Board of Directors may constitute or reconstitute any standing or ad hoc committee. It was resolved in 2012 that two new sub-committees would be formed: an Investment and Credit Committee, and a Remuneration and Nominations Committee.

THE PRESIDENT

According to the Bank's Charter, the President shall be a person of integrity and of the highest competence on matters pertaining to the activities, management and administration of the Bank. He/She shall preside over the affairs of the Bank, serving as an executive Board Member, Chief Executive and legal representative of the Bank, and conduct the business of the Bank in line with the resolutions of the Board of Directors and Board of Governors. The President is assisted in his or her role by a Management Team.

The table below shows attendance by Board Members in 2012.

	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	3/4	Non-Member
Mr. Latanraj Ghoorah	3/4	Non-Member
Mr. Gao Dingxin	4/4	4/4
Mr. Alfred Helm	4/4	3/3
Mr Willard Manungo	4/4	1/1
Mr Rupert Simeon	4/4	1/1
Mr Ahmed Nos'hy (deceased October, 2012)	3/3	Non-Member
Mr. Tarek Fayed (appointed November, 2012)	1/1	Non-Member
Mr. S. Kamolleh	4/4	3/3
Mr. Lawrence Kiiza	2/4	Non-Member
Mr. Admassu Tadesse (Ex-Officio)	3/3	3/3

Economic Environment

GLOBAL ECONOMIC OVERVIEW

Following the slow start of global real GDP growth in the first half of 2012, economic conditions picked up slightly in the third quarter of 2012 as global growth is estimated to have increased to about 3%. The upswing in growth was largely from the emerging market economies surprised within the third quarter as growth expanded more than earlier projections. Furthermore, financial conditions stabilized somewhat while capital flows to emerging markets continued to remain strong. With these factors in play, global growth is estimated to have averaged 3.2% in 2012 compared to 3.9% in 2011.

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ON A REGIONAL BASIS

In the United States, the economy is estimated to have expanded, unexpectedly, by an estimated 2.3% in 2012 compared to 1.8% in 2011. The underlying drive was the recovery of the housing market which saw residential fixed investment rising to 14.2%, second quarter increase in defense spending and faster than expected inventory accumulation by businesses. During the second half of 2012, real GDP growth momentum picked up with the third quarter growing by about 2.7% but declined again in the final quarter of 2012 by 0.1%, making it the economy's weakest performance since the second quarter of 2009.

In the **Eurozone**, the path to recovery was very slow as growth contracted quarter by quarter throughout 2012. After stagnating in the first quarter of 2012, the zone started to contract in the second quarter with GDP falling by 0.7% which was partly caused by government budget cutting. Annually, the contraction is estimated at 0.4% in 2012 compared to a moderate growth of 1.4% in 2011. Despite disappointing growth, the European Central Bank's policy greatly diminished the risk of a break-up of the zone. Progress was also made towards a banking union with the policy mix shifting from sole focus to austerity measures designed to foster growth. At the end of 2012, the near-term outlook of the Eurozone seemed better than at the start of the year.

In **Asia and the Pacific region** growth started strong in the first quarter of 2012 but activity slowed markedly as the weaknesses in the Eurozone adversely affected exports from the region. Although real GDP growth averaged 5.5 % in the first half of 2012, which was well above the global average, it was the lowest growth rate since the 2008 global financial crisis. China's growth which appeared to be slowing in the first half of 2012 rebounded in the latter part of the year with industrial production rising higher than expected at 9.2% in September.

In the **Middle East and North Africa region**, political uncertainty and unrest in several countries characterized a significant part of 2012. Regional GDP is estimated to have expanded by 3.8% in 2012 compared to growth of 2.4% in 2011. The expansion was from the region's oil exporting countries which are estimated to have posted solid growth in 2012 partly due to Libya's better than expected recovery while the non-oil exporting countries are expected to have registered lackluster growth. Furthermore, countries in the Gulf Cooperation Council are estimated to have registered robust growth following expansionary fiscal policies and accommodative monetary conditions.

In the **Latin American and Caribbean region**, GDP growth declined to an estimated 3% in 2012 compared to 4.3% in 2011 with the growth rate of the region's largest economy Brazil at only 0.9% in 2012.

SUB - SAHARA AFRICA

Sub-Saharan Africa (SSA) remained moderately shielded from the negative factors constraining growth in developed countries with a third of countries in the region growing by at least 6%. The robust economic performance which is estimated to have grown by 5.3% in 2012 compared to 5.2% in 2011 was mainly anchored by the prudent macroeconomic policies and improved fundamentals in most countries. Strong domestic demand which accounts for 60% of GDP contributed significantly to the region's growth story supported by real income growth and this is particularly evident in the increase of real per capita incomes by an average of 2.3% annually. Consequently, in 2012, approximately twenty one Sub Saharan African countries were classified as middle-income economies compared to only nine a decade ago. Furthermore, high commodity prices, increased export volumes (due to new capacity in the natural resource sector particularly in Mozambique, Niger, and Sierra Leone) and steady remittance flows supported growth in 2012.

Nonetheless, there was downward pressure on growth throughout 2012 from both external forces such as the weaker global economy and internal forces which included monetary policy tightening in the east African countries of Kenya and Uganda, lengthy labor disputes in South Africa, and political unrest in Mali and Guinea Bissau.

As is the case throughout the region, economic activity was varied across the regions. The three regional economic communities that make up the Tripartite saw the EAC and SADC maintaining the same growth of the previous year at 5.5% and 3.9% respectively in 2012. COMESA on the other hand showed a slight decline from 5.7% in 2011 to 5.4% in 2012.

Monetary policy was fairly accommodative across most of SSA with many central banks cutting policy rates in response to a weaker global economy throughout most of 2012. This move supported credit growth to the real economy assisting many businesses. The most aggressive cuts were noted in Kenya and Uganda although credit growth was constrained for the greater part of 2012 due to lags in the transmission of monetary policy and because interest rates though declining remained high. Consequently, inflation rate (GDP weighted average) which started the year at 9.9% fell to 7.7% in September 2012 as food and fuel price inflation eased following a surge during 2011. The easing price pressure in food inflation was as a result of an improvement in weather conditions in the Sahel and the Horn of Africa. The annual average inflation rate is expected to have averaged 8% in 2012 compared to 10.1% in 2011. Bucking this trend, however, was Nigeria and Malawi which registered rising inflation rates following the upward adjustment in fuel prices at the beginning of the year and the unsustainable exchange rate regime in Nigeria and Malawi respectively.

The overall fiscal deficit across SSA is expected to have widened to 2.3% of GDP in 2012 compared to 1.5% of GDP in 2011 of which non-oil exporting countries recording higher deficits while the oil exporting countries recorded a slight narrowing of the fiscal deficit supported by favourable world prices of fuel. The widening of the fiscal deficit was largely due to a reduction in government revenue which declined to 26.4% of GDP in 2012 compared to 27.3% of GDP in the same period of 2011. Government expenditure is projected to have declined very marginally to stand at 26.5% of GDP and was not enough to offset the fall in revenue during 2012.

Net private capital flows to the region increased to a record high of USD 54.5 billion growing by 3.3% in 2012 following continued high commodity prices and comparatively robust growth prospects. The increase in net capital flows emanated from increased foreign direct investment flows which increased to USD 37.7 billion in 2012 from USD 35.7 billion in 2011. This is despite the 6.6% drop in foreign direct investment flows to developing countries in 2012. A large portion of the FDI was directed towards the extractive industries sector which saw several mines expanded and new ones built, while prospecting yielded major gas discoveries along the east coast of Africa and new commercially viable oil wells were drilled in West Africa and East Africa and a number of countries across West, Central and Southern Africa found new minerals. FDI continued to be attracted to the region due to the high level of commodity prices in 2012 (albeit lower than 2011), the rich natural resources across the region, and the relatively high rates of returns on investment in sub-Saharan Africa.

The benefits of earlier investments in export development and promotion are paying dividends for the SSA region as exports performed strongly during the first seven months of 2012 growing by 4.5% compared to a global average of 3.6%. Furthermore, the growth in trade with emerging Asia helped buffer export growth. Agricultural commodities continued to dominate SSA exports and are estimated to have risen by 17.1% year on year during the first seven months of 2012. Oil exports grew by 5% from increased output mainly from Angola, offsetting the slight decline of output in Nigeria. Metal and other industrial raw material producers (excluding South Africa), grew by 13.9% year-on-year during the first seven months of 2012 as a result of the coming on-stream of new mineral exports from Sierra Leone, Mozambique and Niger.

OUTLOOK FOR 2013

Although downside risks to the global economy have lessened, they will continue to persist throughout most of 2013. These appear set to include prolonged stagnation in the Eurozone, debt and fiscal issues in the United States, the possibility of declining investment in China, and a disruption in global oil supplies. Notwithstanding, the global outlook for 2013 is positive with real GDP growth expected to increase gradually to average 3.5% on an annual basis. Underlying this growth projection is the moderate recovery of the US economy as domestic consumption is expected to firm up, given a more supportive financial market environment and the turnaround of the housing market that will help improve household balance sheets.

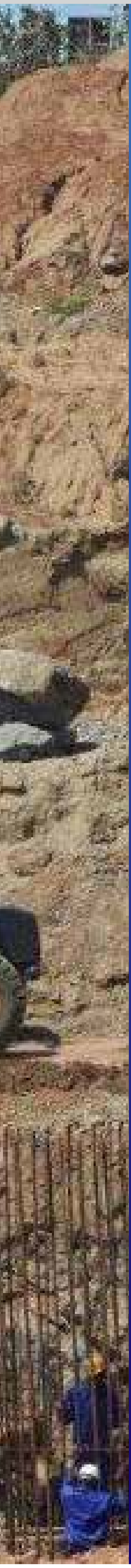
Emerging markets will play a significant role in contributing to real GDP growth with China, India and Brazil projected to contribute around half of global economic growth in 2013. Combined with developing economies, the two sub-regions will continue to register robust growth compared to the rest of the world at 5.5% in 2013. Underpinning this growth will be the continued supportive policies that have spurred recent acceleration economic activity in many economies. Be this as it may, there will be downside risk associated with the weakness in advanced economies which may put downward pressure on commodity prices affecting external demand for the region's commodity exports.

Despite the strengthened EU-wide policy response to the euro area crisis which reduced tail risks and improved financial conditions for member countries, growth in the zone is expected to contract by an estimated 0.2%. This is as a result of delays in the transmission of the policy response as well as the continued high uncertainty about the ultimate resolution of the crisis. Within the single currency area, Spain and Italy will continue to have recession during 2013, while the two largest economies, Germany and France are expected to grow at 0.6% and 0.3% respectively.

Robust real GDP growth will characterize Sub-Saharan Africa in 2013 and is expected to average 5.3%. Behind this forecast will be strong domestic demand and increased investment. In particular, oil exporting countries such as Angola, Cameroon, Chad, Equatorial Guinea and Ghana will benefit from rising hydrocarbons output. Improved weather conditions will also help sustain the robust growth in the sub-region while low income countries will be further supported from stronger policy frameworks, improving institutional capacity, and sharply reduced external debt burdens. On a sub-regional basis, COMESA and EAC are forecast to grow above Sub- Sahara average expanding strongly at 5.9% and 6.1% while SADC will expand below the average at 4.2%.

Following the increase in investment to over 22% of GDP in 2012 compared to 15.9% of GDP 2011, forecasts indicate that this trend will continue into 2013. In particular and following Zambia's successful debut in issuing a USD 750 million Eurobond which was oversubscribed by 15 times, it is expected that more countries in the region will consider tapping international capital markets to help address the scarcity of infrastructure financing, though the extent of this will depend on the prevailing conditions in international capital markets.


KOMATSU



Operations

GLOBAL ECONOMIC OVERVIEW

In 2012, the region saw a return of the pre-crisis growth levels marked by continued expansion in investment and infrastructure development and trade. This has maintained a favorable business environment for the Bank's financing operations.

The Bank has strengthened both its new and existing partnerships to advance its business initiatives and markets in Project and Infrastructure Finance as well as Trade Finance activities. The Bank registered exceptional performance in 2012 and further plans to expand and diversify its operations in emerging opportunities within the COMESA, SADC and EAC Member states.

More >>

PROJECT AND INFRASTRUCTURE FINANCE

BUSINESS DEVELOPMENT

The year 2012 saw increased marketing efforts directed at increasing the Bank's foothold in the growth sectors of the sub-region. Particularly, there was heightened focus on agribusiness, real estate, energy, banking and financial services, hospitality, transport and logistics, health services, and manufacturing and heavy industries.

Business promotion workshops were mounted in Uganda and Tanzania during the year 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 of the Bank in 2012.

LOANS APPROVED

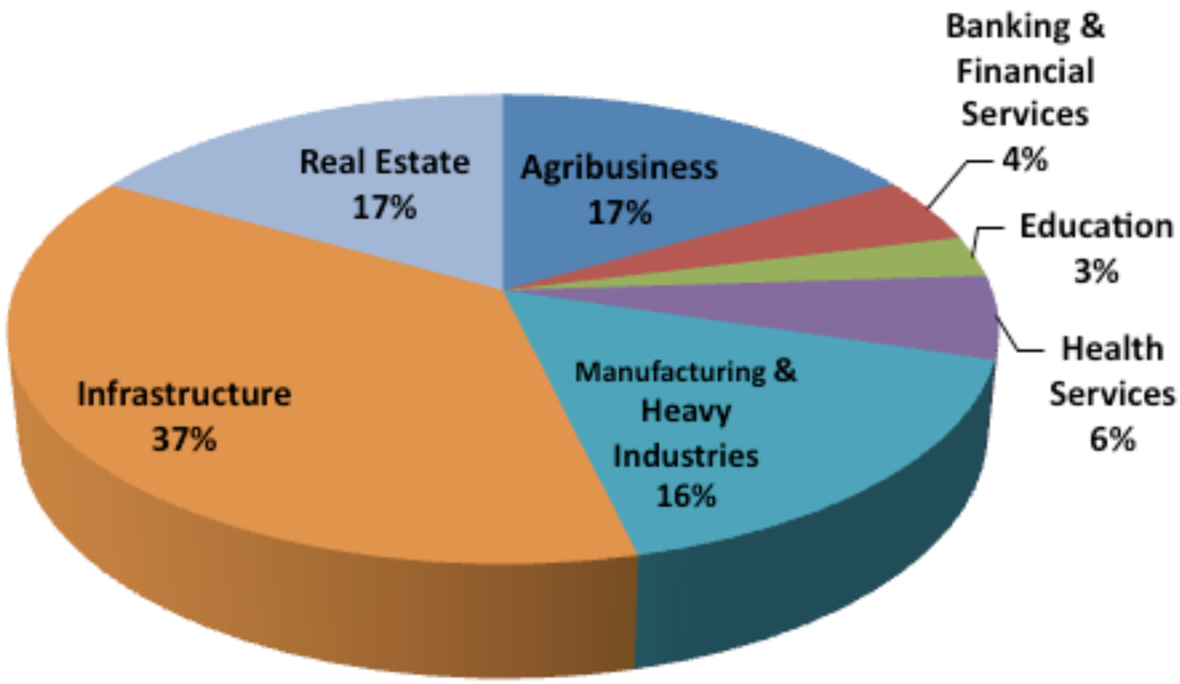
In 2012, the Bank approved a total of USD 297.28 million for twenty two projects spread out in nine member countries.

In comparison to the performance in 2011 that stood at USD 200.3 million, there was an increase of about 48%. Further details of the Bank's interventions in project and infrastructure finance are given in the sections below.

APPROVALS BY SECTOR

The sectoral distribution of the approved projects is as follows: Agri-business – US$49.5 million (17%); Banking & Financial Services – US$13.38 million (4%); Education – US$ 8.4 million (3%); Health services – US$17million (6%); Manufacturing & Heavy Industries – US$49.3 Million (16%); Real Estate – US$49.7 million (17%) and Infrastructure – US$110 million (37%). (Chart 1)

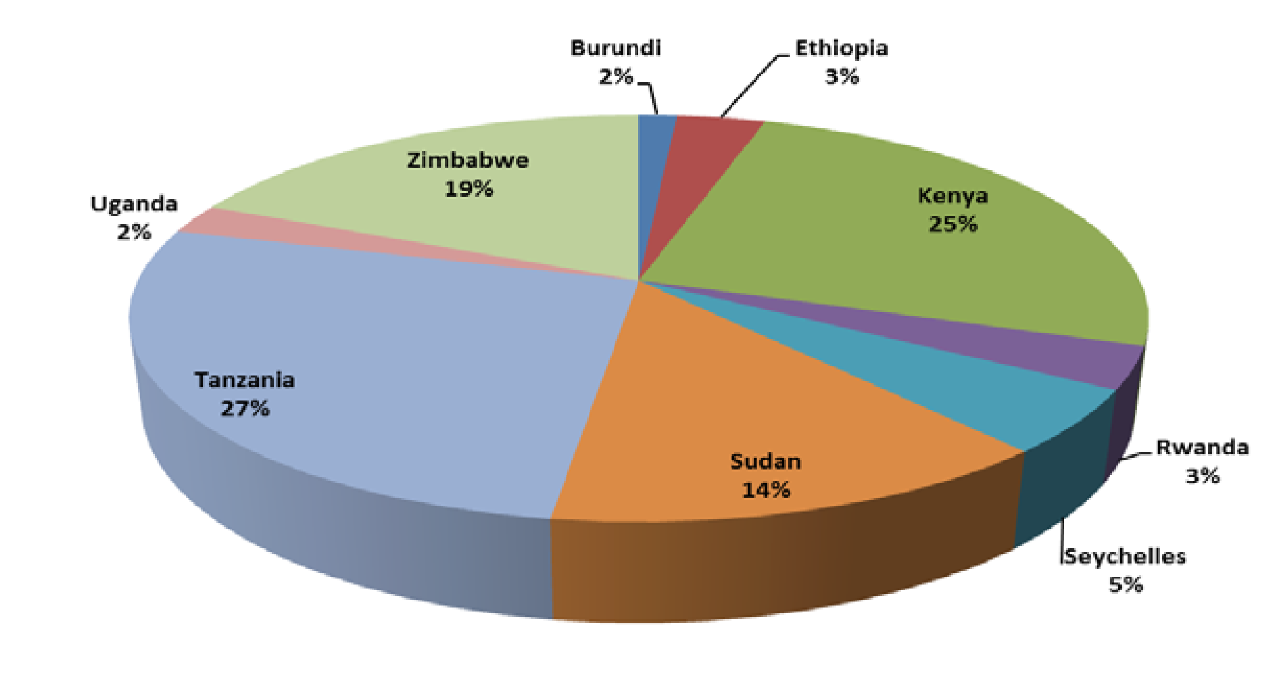
Chart 1 - Approvals by Sector



APPROVALS BY COUNTRY

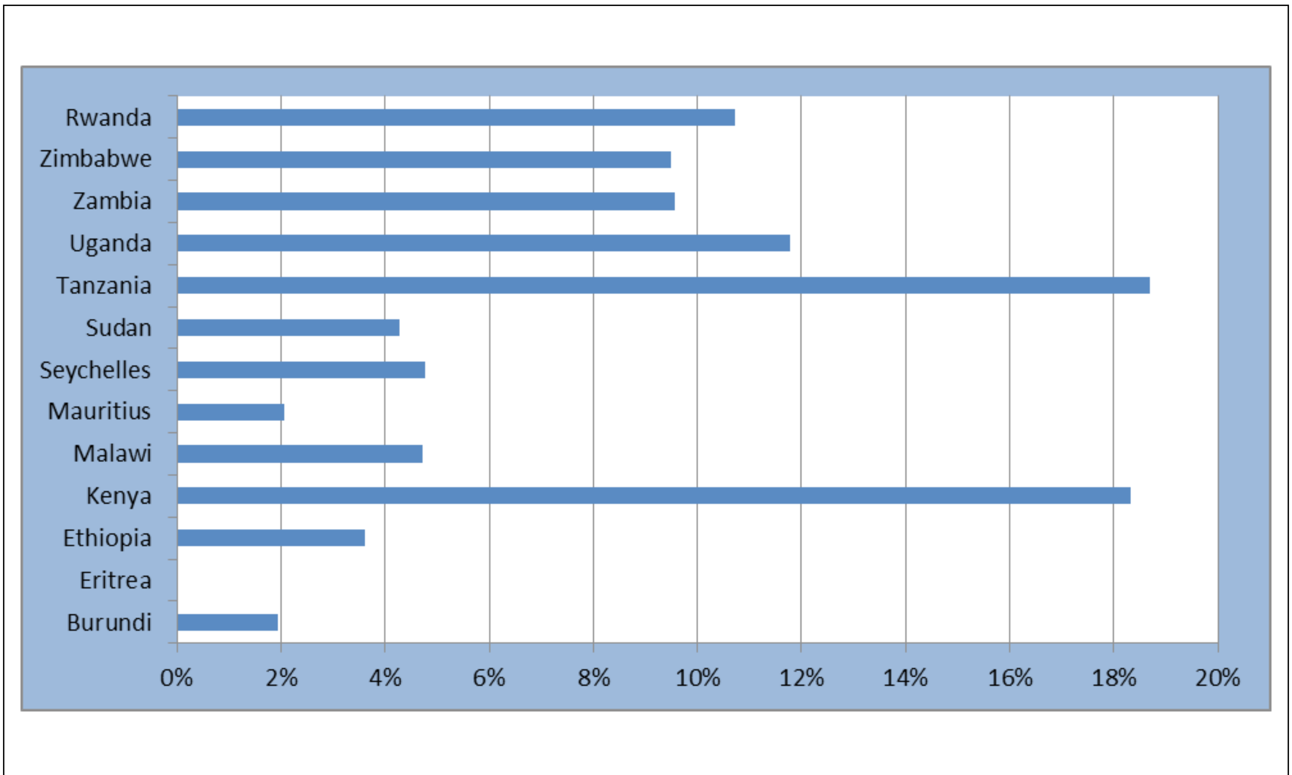
The geographical distribution of approved project finance interventions for the year was spread in nine Member Countries. The distribution is as follows: Burundi – USD 4.3 million (2%); Ethiopia – USD 10 million (3%); Kenya – USD 75.08 million (25%); Rwanda – USD 10 million (3%); Seychelles – USD 15 million (5%); Sudan – USD 41.1 million (14%); Tanzania – USD 80 million (27%); Uganda – USD 7 million (2%); and Zimbabwe – USD 54.8 million (19%). (Chart 2)

Chart 2 - Approvals by Country



At year end, the cumulative project finance approval was distributed by country as shown in Chart 3 below.

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

A significant milestone in project finance is commitments and disbursement. In 2012, the value of projects committed amounted to USD 169.16 million being 85% of the annual target of USD 200 million.

PROJECT DISBURSEMENTS

In 2012, project and infrastructure disbursements amounted to USD 160.48 million which compares favorably with the annual budget of USD180 million and the USD 176.06 million disbursed in 2011. The 2011 disbursements included an exceptionally large disbursement to a regional airline to finance the acquisition of aircraft. (Chart 4)

The chart below shows the annual growth of disbursements in the last five years.

PROFILES OF PROJECTS APPROVED

The Bank approved the following projects in 2012:

Microking Savings & Credit Co. Private Limited – Zimbabwe

MicroKing Savings & Credit Company (Private) Limited is a Zimbabwean registered microfinance institution. The Bank's facility of USD 3 million was granted as part of a senior unsecured co-financed term loan of USD 8 million with the balance of USD 5 million being financed by FMO, the Dutch Development Company. The facility is for on- lending to eligible micro, small and medium size enterprises that have limited access to finance.

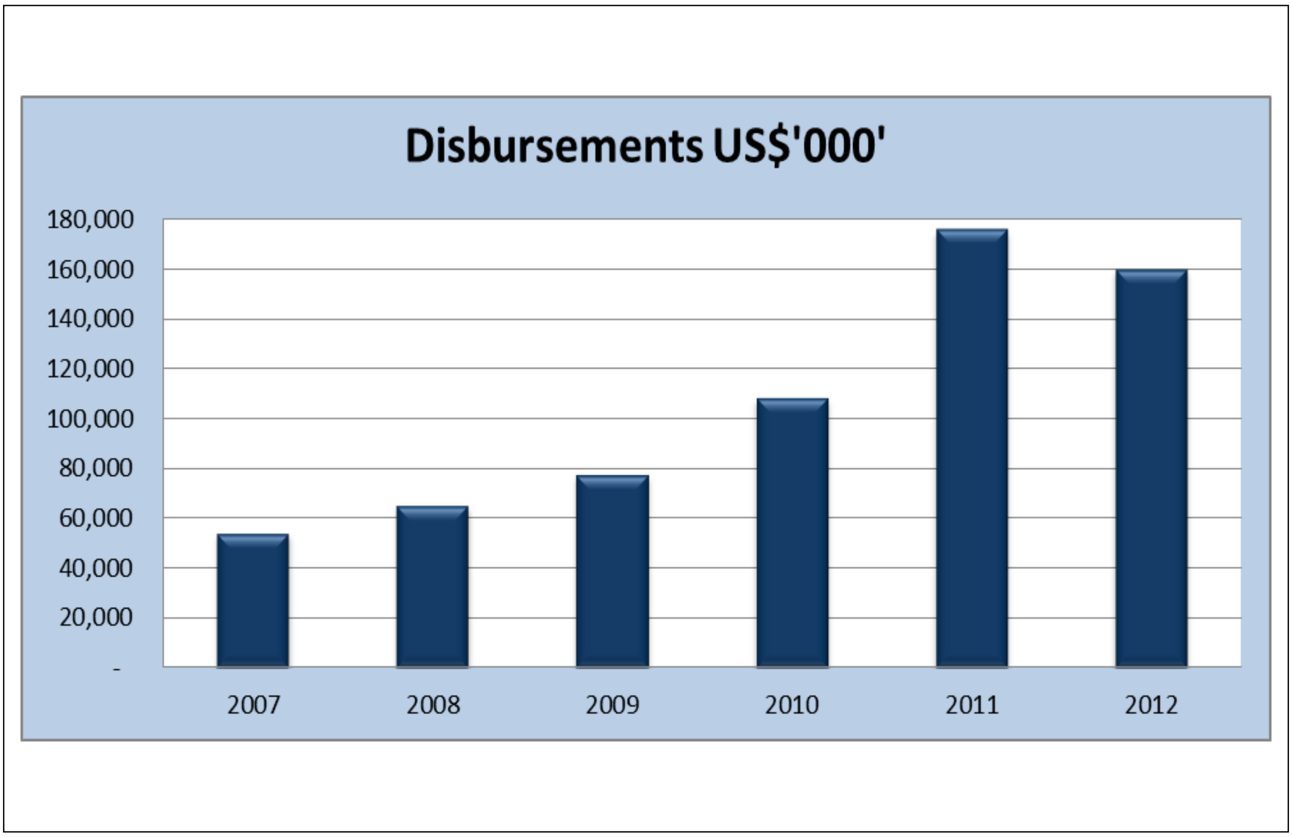
Abacus Parenteral Drugs Limited – Uganda

Abacus Parenteral Drugs Limited is an existing client. The Board had previously approved facilities amounting to USD 16.1 million for the establishment and expansion of a pharmaceuticals manufacturing facility at Mukono, Uganda. An additional facility of USD 7 million was approved in 2012 to finance the expansion of the parenterals line.

Nairobi Urological Services Ltd – Kenya

A term loan of USD 2.2 million was approved by the Bank for Nairobi Urological Services Ltd to part-finance the development of a mixed-use commercial complex in Nairobi. The complex, located in the Ongata Rongai suburb, will offer about 73,625 square feet of rentable space to be used by a variety of tenants, including supermarket chains, banks and doctor clinics. This is the second time that the company is being supported by the Bank, the first time being 2004 when

Chart 4 - Project Disbursements



MAJOR PROJECT FINANCE TRANSACTIONS

$120m

MLA
Kwale International
Sugar Co. Ltd

$35m

Eden Island Dev. Co. Ltd
Seychelles
Malawi

$60m

Lead Arranger
RwandaAir Express S.A.R.L

$40m

Ethiopian Airlines
Ethiopia

$600m

Lead Arranger
Government of Kenya

$15m

Syndicated Facility
Government of Tanzania

$8.4m

Peterhouse School Limited
Zimbabwe

$20m

Ndola Energy Co. Limited
Zambia

$11m

Kenya Ports Authority
Kenya

$29m

Tanzania Airports Authority
Tanzania

$20m

Tanzania Ports Authority
Tanzania

$18m

Hotelier Limited
(Radison Blu Hotel Lusaka)
Zambia

$11m

Civil Aviation Authority
Uganda

$21.1m

Sudanese Sugar
Co. Ltd. Sudan

a loan of USD140,000 was approved to assist the company procure a specialized kidney treatment equipment. The first loan has since been fully repaid.

Varichem Limited – Zimbabwe

Varichem is a private company incorporated in Zimbabwe engaged in the manufacturing, distribution and retailing of pharmaceutical, healthcare and personal care products. The Bank approved a long-term loan of USD 10 million to finance the expansion of the existing plant and improvements in production processes in order to capitalise on increasing demand for the company's products across Africa.

Central Plaza Company Limited – Tanzania

The Bank approved a term loan of USD 10 million to Central Plaza Company Limited. The loan will part-finance the construction and finishing of the first phase of the multi-use office and retail complex to be located in the Central Business District of Arusha, Tanzania.

Societe Industrielle Pharmaceutique (SIPHAR) S.A. – Burundi

This project entails building construction, acquisition and installation of a pharmaceutical plant in Bujumbura, Burundi as part of an expansion program. The Bank's loan will be used to finance machinery, equipment, electrical and laboratory equipment.

Government of Kenya

The Bank approved a USD 50 million, 2 year facility as part of a syndicated facility of USD 600 million facility syndicated amongst thirteen lenders. The Bank participated as a Mandated Lead Arranger alongside Citibank, Standard Bank and Standard Chartered Bank who were also the book-runners. The funding was required to finance infrastructure development and institutional reforms in Kenya.

Tanga Cement Company Limited – Tanzania

Following an invitation by Citibank to participate in a USD 165 million syndicated long term facility, the Bank approved a USD 20 million loan to part-finance the second clinker kiln by Tanga Cement Company Limited.

Ethiopian Airlines Enterprise – Ethiopia

Alongside FMO, the Bank approved a USD 10 million funded participation to a junior loan financing of ten Boeing 787 airplanes for Ethiopian Airlines, the national airline of Ethiopia. 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 facility was the third consortium funding arrangement that the Bank had participated in relation to the funding of Ethiopian Airlines.

Kilwa Energy Company Limited (KEC) – Tanzania

The Bank approved a medium-term loan of USD 25 million being part-financing of the construction of a natural gas-fired power generation plant with a capacity of 210 MW in Tanzania. The project, to be co-financed with the Development Bank of Southern Africa, will include a 220 kV double circuit transmission line for 230 km from Somanga Funga to Dar-es-Salaam where it will be connected to the national TANESCO grid.

Peterhouse School Limited – Zimbabwe

Peterhouse School is one of the oldest independent private boarding schools in Zimbabwe that has a rich tradition in quality education provision that spans over the last 57 years. Peterhouse has a total population of 1,390 students across all its schools that range from preschool, primary school and secondary school. The Bank approved a long-term loan of USD 8.4 million to part-finance the expansion of the school's facilities at SpringVale House at Marondera in Zimbabwe.

Premier Services Medical Investments Limited ("PSMI") – Zimbabwe

The Bank approved a long term loan of USD 17 million to Premier Services Medical Investments Limited for the purposes of equipping Parkview Hospital, a new specialised referral hospital, with medical equipment and refurbishing and retooling existing clinics and hospitals. The health services conglomerate currently operates 75 medical services institutions in various disciplines across Zimbabwe including medical clinics, eye care, ambulance, hospitals, retail pharmacies, radiology, and rehabilitation services.

Pan African Housing Fund

The Pan African Housing Fund is a newly established private equity fund promoted by Shelter-Afrique. The fund is designed to respond to an ever growing housing shortage in Eastern and Southern Africa. The fund will initially focus its activities in Kenya, Uganda, Rwanda, Tanzania, Mozambique and Zambia. The Bank approved an equity participation of USD 1 million into the fund.

Mutare Bottling Company Limited ("MBCL") – Zimbabwe

Mutare Bottling Company Limited is an authorised bottler of Coca-Cola products serving Manicaland province in Zimbabwe. The Bank approved a medium-term loan of USD 8 million to replace aging equipment and modernize its production process in Mutare and enhance its distribution capacity to enable it meet current and projected levels of demand.

The United Republic of Tanzania – Tanzania

The Bank's funding of USD 25 million is part of a USD 350 million syndicated global medium-term facility for the Government of Tanzania. The financing is to support infrastructure projects in line with the government's strategy of prioritizing infrastructural development.

Sudanese Sugar Company Ltd – Sudan

The Bank approved a lease finance facility of USD 21.1 million for Sudanese Sugar Company Ltd to enable the company to setup an ethanol plant. The facility will be utilized to finance the acquisition of machinery and equipment. The project, which is located at the company's Sennar sugar factory, will produce motor grade ethanol fuel intended mainly for export. Molasses, a by-product of sugar processing, will be used as the main raw material.

Gulf African Bank (GAB) – Kenya

The Bank made an additional equity investment of Kshs 45. 6 million (approximately USD 536,000) in Gulf African Bank, an Islamic bank in Kenya offering fully Shari'ah compliant products and services with fourteen branches across the country. The Bank is one of the founder shareholders having invested in GAB at its inception in 2006. The Bank's investment was part of a capital increase programme under which the International Finance Corporation took up a 16 per cent stake in GAB. During the four years of its operations, GAB has distinguished itself as one of the fastest growing banks in Kenya's banking sector.

Eden Island Development Company Ltd – Seychelles

The Bank approved a loan of US$D 15 million for Eden Island Development Company Ltd to part-finance the development of the infrastructure and private moorings amongst other facilities in Phase 3 of this iconic property development project in Seychelles. This is a third loan extended by PTA Bank to the project, with the first two loans (USD 10 million each) having part-financed the first two Phases of the project. Eden Island private residential marina development comprises of 578 high-end residential units, a marina with 250 commercial moorings, 578 private moorings, a retail centre with a supermarket and supporting infrastructure to make the island self-sufficient.

White Nile Sugar Company (WNSC) – Sudan

The Bank's USD 20 million finance lease facility will be used to finance the installation of an excess bagassse handling system at WNSC's integrated sugar factory project located in Sudan. This facility augments an existing USD 20 million facility signed in 2011 which was used to finance various equipment and machinery. When fully completed, WNSC's sugar factory will have a capacity of crushing 24,000 tons of cane per day and produce 450,000 tons of white sugar, 45 million litres of ethanol per annum and 100 tons of animal feed per annum.

Tanganda Tea Company Ltd – Zimbabwe

Tanganda is the largest producer, packer and distributor of tea products in Zimbabwe. The Bank approved a term loan of USD 8.4 million to finance purchase of mechanical plucking machines, tractors, motor vehicles and equipment for further re-capitalizing of its operations and upgrading of its beverage division as well as for expansion of its agricultural division. This is the third loan to be approved by the Bank for Tangada Tea Company Ltd.

UAP Properties Kenya Limited – Kenya

The Bank approved long-term facility of USD 21.5 million to UAP Properties Ltd, a subsidiary of UAP Holdings Ltd, a leading insurance company in East Africa. The facility will be utilized to part-finance construction of UAP Towers in the Upper Hill area Nairobi in Kenya. Upper Hill is designated as the financial hub of the city of Nairobi in the Country's Vision 2030. The UAP Towers project will be a landmark iconic building comprising of 30 storeys that will provide approximately 316,104 square feet of lettable space to be used for office and retail use, and a total of 798 car parks. Once developed, the unique architecture will richly contribute to the city's skyline by taking the opportune advantage of the unique location of the property at the brow of the Hill area thus benefiting from uninterrupted spectacular views across the entire city.

Bank of Kigali – Rwanda

Bank of Kigali is the largest bank in Rwanda in terms of total assets, net loans and customer deposits. The Bank approved a line of credit of USD 10 million to be used by Bank of Kigali for on-lending to small and medium enterprises and the mortgage sector in Rwanda..

TRADE FINANCE

Performance Review

In the financial year 2012, the Bank achieved yet another robust performance in Trade Finance activities with a 33% growth in business volumes to US$3.27 billion compared to US$ 2.46 billion achieved in the previous financial year. Direct disbursements at US$ 1.5 billion were 11% above budget while Letters of Credit at US$1.7 billion were 41% above budget. Total income at US$106 million was 27% above the annual budget.

Achievements

During the year, the Bank was recognized by Global Trade

Review (GTR) Africa Leaders in Trade as the best Trade Finance Bank in Zambia and Zimbabwe respectively. The award came on the backdrop of continued positive impact of framework lending activities in the two markets, which has sustained economic activities in key sectors such as energy (petroleum supply security), agriculture and distribution.

The Bank's Framework Lending Programs are designed with the aim of assisting Member States in hiving off commercial transactions from mainstream fiscal activities (de-fiscalization effect) hence allowing sustainable investment by governments in critical social sectors whilst the Bank continues to enhance support towards self-liquidating commercial activities.

Growth Areas

While import facilities especially for petroleum and petrochemical products such as fertilizers remained significant in the portfolio due to strong demand for energy as well as agricultural inputs across the region, Diversification efforts in the Bank's trade finance activities have resulted in increased financing of 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.

Strategy Execution

On-going market access creation activities, through which the Bank intermediates between regional as well as overseas buyers on one hand and trade flow originating Member States on the other, has led to development of enduring value chains for cash crops such as tobacco resulting in market expansion for Member States.

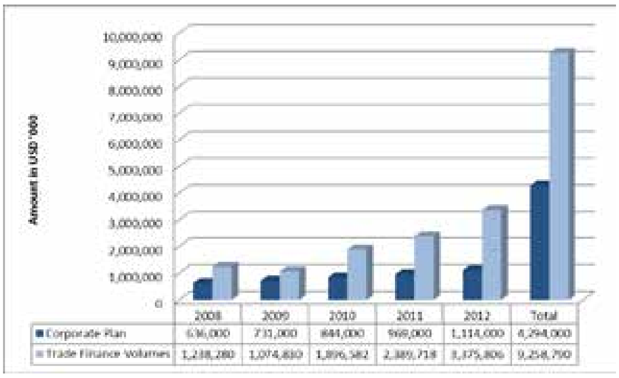
While these interventions continue to have a positive impact on socio-economic wellbeing especially for small-scale rural farming communities, significant downstream benefits also accrue to urban centres due to attendant increased distribution as well as pre-export value addition activities in tobacco processing factories leading to growth in both seasonal and permanent employment in urban communities.

Strategic Anchors

In the new Five Year Corporate Plan, the Bank will continue rolling out framework lending initiatives in Member States which involves interventions that affect multiple strategic sectors in specific economies as a way of maximizing developmental impact of its activities.

Review of FY CORP IV

Measured against targets set out in the Fourth Five Year Corporate Plan (2008 - 2012), which comes to a conclusion at the end of this financial year, the Bank performed strongly as shown in the following Chart:



	2008	2009	2010	2011	2012	Total
Corporate Plan	636,000	731,000	844,000	969,000	1,114,000	4,294,000
Trade Finance Volumes	1,218,280	1,074,810	1,896,582	2,389,718	3,375,806	9,254,790

KEY TRADE FINANCE FACILITIES

We profile below some of the key trade finance interventions made in 2012.

Ministry of Mines, Energy and Water Development-Zambia

The Bank opened various import letters of credit for the importation of crude and refined oil products for resale in Zambia under an existing strategic imports facility granted to the Ministry of Mines, Energy and Water Development.

Dalbit Petroleum – Kenya

Dalbit Petroleum, a Nairobi based oil company, was awarded a contract to supply the Zambian Ministry of Mines, Energy and Water Development Zambia with refined petroleum products. The supply contract between Dalbit and the Ministry is key to the maintenance of energy security for the Zambian economy.

Reserve Bank of Malawi

The Bank provided a strategic imports facility to finance imports of fertilizer and fuel by the government of Malawi. The Bank's funding has assisted in alleviating fuel shortages and ensuring timely provision of inputs for the important agriculture sector.

Alliance One Tobacco Malawi and Malawi Leaf Company Ltd – Malawi

The Bank provided export finance to the two leading tobacco export merchants in Malawi. With support from the Reserve Bank of Malawi, the facilities support a currency swap arrangement under which the Bank advances local currency in exchange for US dollar receivables from tobacco export sales.

MAJOR TRADE FINANCE TRANSACTIONS IN 2012

$500m
MINISTRY OF ENERGY
Zambia
Oil Import Facility

$250m
RESERVE BANK OF MALAWI
Malawi
Dual Tranche Line of Credit

$40m
MINISTRY OF FINANCE ZIMBABWE
Zimbabwe
Line of Credit

KenolKobil
$110m
KENOLKOBIL
Kenya
Oil Import Facility

ALLIANCEOne
$170m
ALLIANCE ONE
COMESA Regional Export
Import Finance Facility

NOCMA
$100m
NATIONAL OIL COMPANY
Malawi
Oil Import Facility

Dalbit Petroleum
$100m
DALBIT PETROLEUM
Kenya
Oil Import Facility

€140m
AGRICULTURAL BANK OF SUDAN
Lines of Credit

Kilwa Energy Company Ltd
$50m
KILWA ENERGY
Tanzania
Bridge Loan

$40m
SEYCHELLES PETROLEUM
Seychelles
Oil Import Facility

MAJOR TRADE FINANCE TRANSACTIONS IN 2012

€200 m
MINISTRY OF FINANCE
Sudan
Dual Tranche Facility

$50 m
FUTURE FLOW BACKED
Line of Credit

$60m
EGYPTIAN BANKS
Confirmation Line

$50 m
CBZ
Zimbabwe
Direct Line of Credit

$10m
INDE BANK
Line of Credit

$25m
ECONET WIRELESS
Zimbabwe
Syndicated Loan

$30m
WORLD LEAF TRADING
Mauritius
Syndicated Inventory Credit

$65m
MALAWI LEAF COMPANY
Malawi
Tobacco Export Pre-Finance

$20m
ULTIMATE CONCEPTS
Rwanda
Bridge Facility

$50m
MEA LIMITED
Kenya
Structured Import Facility

Ministry of Finance - Sudan

The Bank approved a strategic imports facility for Sudan's Ministry of Finance. Under the facility, the Bank issued various letters of credit for the importation of oil into Sudan.

Agricultural Bank of Sudan

The Bank issued and refinanced letters of credit to facilitate importation of fertilizer by the Agricultural Bank of Sudan. The letters of credit were secured by Irrevocable Reimbursement Undertakings issued by the Central Bank of Sudan.

CBZ Bank – Zimbabwe

The Bank approved a three year line of credit to CBZ Bank, the largest commercial bank in Zimbabwe. The line of credit is used to finance the import requirements of CBZ Bank's corporate clientele.

Seychelles Petroleum

In 2012, Seychelles Petroleum continued to enjoy the Bank's support through a receivables-backed oil import finance facility. The facility finances the procurement of refined petroleum products for sale and distribution in local and export markets.

PORTFOLIO MANAGEMENT

The Bank's gross loan portfolio grew by 21% standing at USD 1.37 billion at the end of 2012, compared to USD 1.14 billion at the end of 2011. The Bank continued to capitalize on the relatively strong economic growth in the regional economies to achieve this steady and robust growth.

The Bank has identified various strategic initiatives that will drive its agenda over the next five years and key to this, is securing rating upgrades to investment grade status. Overall, asset quality remains a critical area in determining the attractiveness of the Bank to new institutional investors and lenders. Consequently, the vetting of new business continues to be rigorous to ensure that credit risk is adequately mitigated, while the growth of the portfolio is not unnecessarily curtailed.

Portfolio quality is by and large complimented by a robust and credible new business pipeline, however, it is also obvious that the quality of portfolio is partially determined at entry level, mainly through rigorous due diligence and credit appraisal processes. Efficient and effective implementation of newly approved project and infrastructure transactions remained a priority. Emphasis was put on prudent risk assessment of individual loans, monitoring the quality of loan approvals and assessment, creating generic information and operational performance data on borrowers and trailing key risk indicators within the loans portfolio.

Timely project work-out and restructuring remained a core activity mainly targeted at supporting projects that are in distress through designing innovative turn-around business solutions. The activity does not only ensure loan recovery but also saves jobs which could otherwise be lost in the event that the projects are foreclosed.

Through direct intervention in various project and trade finance transactions, the Bank contributes to the creation of employment for both skilled and unskilled labour in the Member States. Further, the projects financed create backward and forward linkages thus creating indirectly jobs in the economies. In the year under review, the Bank approved project and trade finance transactions which are expected to generate 13,679 jobs. Upon implementation, the cumulative number of direct jobs created by the Bank's intervention in the region is estimated at 60,381 as at December, 2012. Out of the total jobs created, about 30% are female employees. The empowering of women within the small and medium scale enterprise sector remains a key goal for the Bank in its quest to ensure improvement in the socio-economic development of Member States.

Sustainable financing continues to be an important consideration in development financial institutions. As a regional Bank, PTA Bank has taken strides in making investment decisions for the long-term sustainability of industries and investments. This is in tandem with the Bank's environmental and social policies whose main objective is to ensure that, in additional to financial and economic viability, Bank-financed operations and activities also exhibit environmental and social sustainability.

COMPLIANCE AND RISK MANAGEMENT

As part of the Bank's strategic repositioning process, the Compliance and Risk Management function was upgraded to departmental status following Board approval in December 2011. The upgrade was in line with global industry best practices with the objective of ensuring that the risk function has sufficient stature and authority in the Bank's overall operational and control framework.

The department continued to play an active and independent control and assurance function in the risk identification, assessment, mitigation, monitoring and reporting processes. Meetings of the Management Risk Committee were convened, on a bi-monthly basis, to review and discuss the overall risk profile of the Bank. On a quarterly basis, the department presented reports to the Audit Committee of the Board detailing the Bank's risk profile with particular focus to the key risks to which the Bank was exposed to with corresponding mitigation measures.

The regular risk reporting to Management and the Board ensures that there is continuous and active top level

Mary Kamari and James Kasuyi, (right) accept two awards on behalf of PTA Bank for Best Local Trade Finance Bank in Zambia and Zimbabwe (2012) at the 7th Annual Africa Trade and Export Finance Conference in Cape Town, South Africa.

risk oversight of the Bank's Enterprise Risk Management framework by the two organs. During the year, the Bank maintained an overall risk profile rating of "Moderate" and "Stable".

The Bank has a well laid out plan to invest in appropriate risk infrastructure to improve on both the efficiency and effectiveness of risk assessment, monitoring and reporting processes. In this regard, the implementation Credit Risk Assessment System project, which began in late 2011, was substantially completed by the end of 2012. This system shall integrate the credit flow processes from origination through to relationship management stage. A key feature of the system shall be the rating of loans at single obligor and global portfolio levels based on a simplified internal rating based method. User acceptance testing and "Go-Live" of the platform was expected to be completed in the first half of 2013.

The Bank shall continue to strengthen the risk management framework and capacity in a bid to cope with the rapid growth of the loan portfolio and scope of operations. In 2013, the Bank shall enhance its risk capacity with recruitment of specialist staff beginning with credit risk to be followed by staffing in internal audit co-ordination, market and operational risks. In addition, plans to roll out other risk infrastructure including implementing an operational platform will be pursued in order to facilitate efficient and effective assessment, monitoring and reporting of risks.

Legal Documentation Review

During the year, the Bank commenced the process of engaging a consultant to undertake a review of lending instruments and legal documentation standards against international best practice. In this regard, the Bank carried out a competitive selection process aimed at engaging an international law firm to undertake the review. The review is expected to result in stronger and efficiently structured legal documentation for the Bank's loan products.

Review of the Bank's Charter

The Bank engaged an international specialist on multilateral treaties to review the Bank's Charter from the perspective of company law, public international law and corporate governance. This review was identified as one of the pillars of the enhanced growth, diversification and institutional expansion as outlined in the 2013-2017 Corporate Plan. The Board of Governors, at its meeting held in December 2012 in Lusaka, Zambia, unanimously adopted the amendments to the Charter. Notably, the amendments include the increase of the authorized capital of the Bank, the splitting of the capital stock into different classes of shares, the enlargement of the composition of the Board of Directors to include independent directors, and the formation of additional committees of the Board. The changes are intended to facilitate the successful implementation of the Bank's new corporate plan.

HUMAN RESOURCES & ADMINISTRATION

The Bank's performance during the year is largely credited to the professionalism and competence of its staff drawn from several member countries. During the year, recruitment for professional and non-professional staff was undertaken to meet the growing human capital needs of the Bank.

During the year, we conducted a diagnostic study to review the Bank's business model, organizational and operating structures in order to make recommendations aimed at reinforcing diversified growth. We undertook a salary and benefits survey aimed at benchmarking the Bank's compensation structure in preparation for the planned recruitment of a number of senior executives. We engaged a consultant to advise on a proposed framework for introducing an incentive scheme and secured Board of Directors approval for its introduction in 2013. We also engaged a consultant to advise on the implementation of a Balanced Score Card performance management system.

To enhance the skill levels of our staff, various training programs were carried out during the year. The training programs covered a variety of areas including structured commodity and trade finance, syndicated lending, project finance, public private partnerships and financial modelling. We also organized a number of training programs for members of the Board of Directors.

In line with the Bank's decentralization strategy, we acquired a property in Nairobi which, upon completion of its development, will house the Bank's regional office and generate significant levels of investment income.

At the end of the year, the Bank had a staff complement of 84 employees, 52 of whom were professionals. 40% of the staff were of the female gender.

INFORMATION SERVICES

SAP remains the Bank's main enterprise resource planning and information system. In 2012, we carried out preparatory work for the introduction of new functionality such as enhanced management reports, employee self-service, leave and travel management work flows in 2013.

Another major activity was the on-going implementation of the Credit Risk Assessment System whose project completion was planned for 2013. The system will provide the Bank with increased automation and improved standardization around credit cycle processes.

2012 also saw a number of IT infrastructure enhancements being implemented. We installed a virtualized server environment at the Bujumbura Head Office thereby bringing the office in line with the Nairobi Regional Office. Apart from reducing server and storage footprint, a key benefit that will be realized from this, with planned optimization in connectivity between the two offices, is the capability, in the near future, of using the Bujumbura Head Office, as a remote back-up site for the core applications hosted in Nairobi. We also carried out several improvements to the computer network and related infrastructure at the Harare Office.

The Bank undertook an independent review of its Wide-Area Network Security coupled with a re-design of its Voice-over-Internet Protocol setup. The benefits realized from this exercise include hardening of configuration, a standardization of devices across all three of the Bank's locations and the implementation of new remote access tools.

A revamp of the Bank's website was undertaken culminating in a new look and added features, to emphasize the website's important role as a marketing and information tool.

FINANCIAL MANAGEMENT

Despite it being a year of leadership succession, 2012, the ultimate year of the 2008-2012 plan period witnessed significant successes in the Bank's financial and operational performance. The Bank continued its growth trajectory and achieved significant levels of approvals, disbursements, profits as well as cash flows, out-performing both the 2012 Budget and the 2008-2012 Five Year Corporate Plan targets.

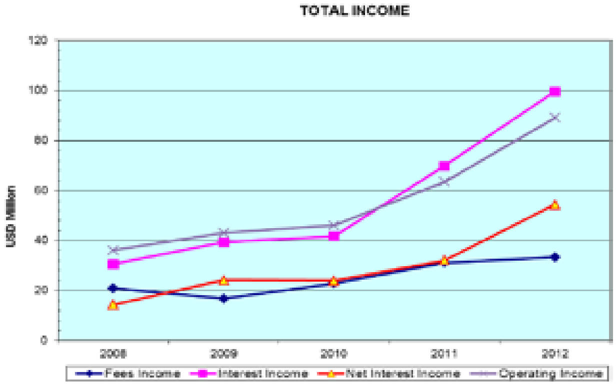
Income Growth

Total interest income grew by 43% from USD 69.59 million in 2011 to USD 99.34 million, surpassing the budget by 15%. While interest rates during the year recorded modest increases, the growth in interest income is largely attributable to the portfolio growth recorded during the year.

Increases in borrowing activity necessitated by growth in lending volumes resulted in a 19% rise in borrowing costs which amounted to USD 49.17 million. By registering a higher growth in interest income than the growth in borrowing costs, the Bank was able to significantly improve its net interest income which increased by 77% to USD 50.17 million from the USD 28.40 million recorded in 2011. The net interest income recorded also exceeded the year's budget of USD 39.87 million by 26%.

Increased commodity prices coupled with new business opportunities contributed to 22% growth in gross fee and commission income from USD 36.28 million in 2011 to USD 44.09 million in 2012. Net Fees and commission income, however, grew by a modest 7% to USD 33.44 million from USD 31.22 million in 2011 as a result of increased risk down-selling costs of USD 10.65 million (2011: USD 5.06 million). The risk down-selling costs are incurred as part of the Bank's strategy to mitigate concentration and compliance risks. Operating Income, which comprises net interest income and net fee income, was recorded at USD 89.15 million, a 40% growth from the USD 63.53 million recorded in 2011.

The following chart depicts the steady growth in the Bank's income over the last 5 years.



Operating Expenditure and Provisions

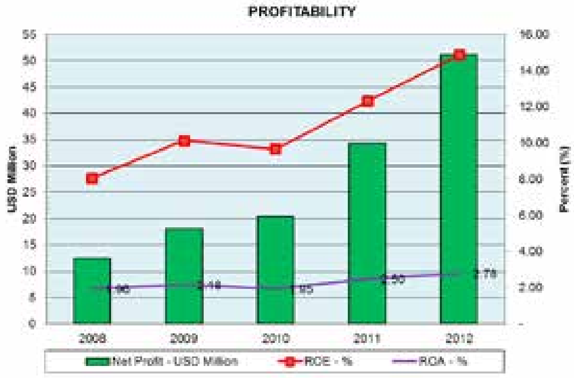
In 2012, the Bank's operating expenses increased by 2% to reach USD 12.33 million. The level of non-performing loans, however increased to USD 71.62 million from the USD 52.03 million reported in 2011 on account of the deterioration of a significant exposure in Zimbabwe's financial sector. Consequently, the Bank recorded a higher impairment charge of USD 26.10 million compared to the USD 17.97 million recorded in 2011. As at 31st December 2012, our cumulative impairment provisions amounted to USD 48.28 million thereby achieving a 67% coverage of the gross non-performing loans exposure.

Despite the higher impairment charge, 2012's financial performance was positively impacted by the improved loan recoveries which saw the Bank record USD 4.76 million (2011: USD 3.09 million) in recoveries of previously written off loans.

Profitability

Against an operating income of USD 89.15 million (USD 63.53 million in 2011), the Bank recorded USD 37.92 million (USD 29.27 million in 2011) of operating expenditure. The Net Profit for the year was therefore USD 51.23 million, up 49% from the USD 34.27 million recorded in 2011. This Net Profit translates into a return on capital employed (ROE) of 14.9% which compares favorably with the 12.3% ROE registered in 2011. The Net Profit also translates into a 2.78% return on assets, an improvement from the 2.50% recorded in 2011.

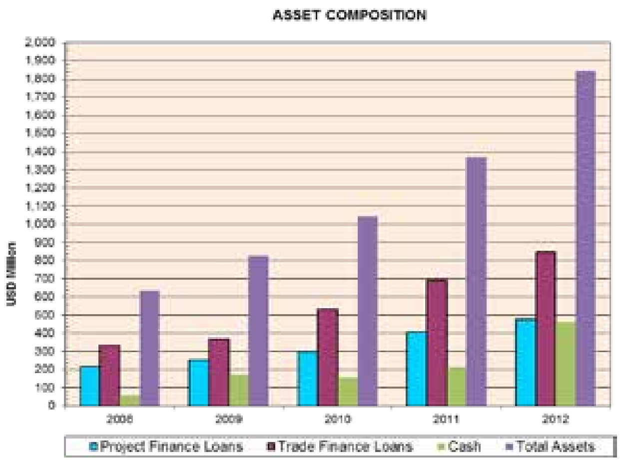
The graph below depicts the trajectory of the Bank's net profit and profitability ratios over the last 5 years.



Assets and Liabilities

The Bank's balance sheet grew by 35% to USD 1.84 billion in 2012 from USD 1.37 billion in 2011. New disbursements contributed to a USD 155.72 million net increase in trade finance loans and USD 68.68 million net increase in project finance loans resulting in Net trade finance loans and net project loans of USD 847.52 million and USD 476.42 million respectively as at 31st December, 2012. Boosted by client receipts and collection account deposits, cash balances increased from USD 214.71 million to USD 462.60 million, a 115% growth.

The graph below presents the growth of projects and trade finance loans as well as cash balances over a 5 year period 2008 - 2012.



The Bank funded its asset growth by increasing its shareholders' equity and borrowings. Total borrowings increased by 36% from USD 978.74 million to USD 1.33 billion. Of this amount, long-term borrowings amounted to USD 648.24 million compared to USD 643.18 million in 2011. Short-term borrowings amounted to USD 681.33 million up from USD 335.55 million in 2011. The 2012 short-term borrowings include the USD 150 million debut syndicated loan which was issued in October 2012.

Paid-in capital as at 31st December, 2012 amounted to USD 193.68 million compared to USD 179.02 million in 2011. Capital subscription instalments totalling to USD 14.66 million were received from Egypt, Djibouti, Seychelles, Burundi, Ethiopia, Zimbabwe, Kenya, Malawi, Rwanda, Sudan, Zambia and Tanzania. Shareholders' funds were also boosted by the USD 51.23 million net profit earned and retained during the year.

The chart below depicts the growth in the Bank's shareholders' funds during the 5 year period 2008 - 2012.

RESOURCE MOBILISATION

The Bank's key strategy on resource mobilization was the building of new partnerships and diversification of the Bank's funding base. We maintained a visible presence at key international events and conferences including the annual meetings of the African Development Bank, the Association of African Development Financial Institutions (AADFI) and the World Bank/International Monetary Fund. We attended the 5th Ministerial Conference of the Forum on China-Africa Cooperation held in Beijing, China as well as the Annual Conference of the EXIM Bank of USA held in Washington, USA.

During the year, we signed partnership agreements and memoranda of understanding with Agence Française de Développement, the French Development Agency, Public Investment Corporation of South Africa and the Industrial Development Corporation of South Africa. We initiated contacts with a host of other potential partners including BNDES of Brazil, European Investment Bank and KfW of Germany.

We launched our debut USD 150 million, 2-year syndicated loan and achieved satisfactory outcomes in terms of oversubscription, pricing as well as the diversity of participation. We also signed a USD 30 million, 7 year facility with the African Agricultural Trade and Investment Fund, a specialised German investment fund and concluded negotiations with Industrial Development Corporation of South Africa for a USD 30 million 8 year line of credit. We diversified our Export Credit Agency (ECA) relationships by forging a relationship with FINVERA, the Finish ECA and succeeded in raising US$ 24 million of long term funding from a European Bank to finance the importation of a power plant from Finland into Zambia.

We also grew the Bank's risk participation and mitigation capacity by signing Master Risk Participation Agreements with new counterparties and enhancing existing capacity. Through a strategic partnership with the African Trade Insurance Agency, we managed to increase our credit insurance cover from USD100 million to USD150 million and initiated a process of augmenting the cover to USD 400 million.

Favourable ratings by our international rating agencies Moody's, Fitch and Global Credit Ratings (GCR) continued to facilitate our resource mobilisation activities. In 2012, Fitch upgraded the Bank's rating outlook from Stable to Positive, while maintaining the rating at BB- (BB minus). Moody's maintained the Bank's rating at Ba1 (Stable) while GCR maintained the Bank's BB+ (long term, international) and AA+ (long term, national) rating with stable outlook.

VISION:

A world class African financial institution advancing the economic development, integration and prosperity of the region.

MISSION STATEMENT

Our mission is to be at the forefront of extending development capital and services to advance regional growth and integration through customer focused and innovative financing instruments.

CORE VALUES

Client Orientation
Integrity
Adaptability
Teamwork
Innovation

THE EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK

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Annual Report & Financial Statements

2012

BOARD OF GOVERNORS

HON. ALEXANDER B. CHIKWANDA	**Minister of Finance and National Planning** **Republic of Zambia** *Chairman of the Board of Governors*
HON. CHARLES GAETAN XAVIER-LUC DUVAL	**Vice Prime Minister and Minister of Finance and Economic Development** *Republic of Mauritius*
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*
H.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. ENGINEER HAPEM SALEH	**Minister of Foreign Trade and Industry** *Republic of Egypt*
HON. BERHANE ABREHE	**Minister of Finance** *State of Eritrea*
HON. PHYLLIS CHEPKOSGEI KANDIE	**Cabinet Secretary, Ministry of East African Affairs, Commerce and Tourism** *Republic of Kenya*
HON. DR. KEN LIPENGA	**Minister of Finance** *Republic of Malawi*
HON. TENDAI BITI	**Minister of Finance** *Republic of Zimbabwe*
HON. CLAVER GATETE	**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** *United Republic of Tanzania*
S.E. MATATA PONYO MAPON	**Minister of Finance** *Democratic Republic of Congo*
MR. GILBERT MBESHRUBUSA	**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. SULLEMAN KAMOLLEH	*Director for Kenya, Zambia and Somalia* *Chairman*
MR. TAREK FAYED	*Director for Egypt, Tanzania and Djibouti* *Vice-Chairman –Appointed November 2012*
MR. AHMED MAHMOUD KAMEL NO'SHY	*Director for Egypt, Tanzania and Djibouti, Deceased October 2012*
MR. WILLARD L. MANUNGO	*Director for Zimbabwe, Mauritius, Rwanda and Eritrea*
MR. RUPERT SIMEON	*Director for Seychelles, Ethiopia, Burundi and Malawi*
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*
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
LAWYERS	**Various**
HEADQUARTERS	**Eastern and Southern African Trade and Development Bank** Chaussee, Prince Louis, Rwagasore P O Box 1750, Bujumbura, Burundi Telephone: +257 (22) 4966 / +257 (22) 4625 Fax: +257 (22) 4983 E-mail: official@ptabank.org Web-Site: http:\\www.ptabank.org
REGIONAL OFFICES	**NAIROBI, KENYA** 22nd and 23rd Floors, NSSF Building, Bishops Road P O Box 48596 - 00100 Nairobi, Kenya Telephone: +254 (20) 2712250 Fax: +254 (20) 2711510 **HARARE, ZIMBABWE** 70 Enterprise Road Harare, Zimbabwe Telephone: +263(4)252235 **MAURITIUS, EBENE** 2nd Floor, Blue Tower, Rue de L'Institute, Ebene P.O. Box 43, Reduit, Mauritius Telephone: +230 496 7204

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 2012.

1. PRINCIPAL ACTIVITIES

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

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

2. RESULTS

The results for the period are set out on page 45.

3. BOARD OF GOVERNORS

The current members of the Board of Governors are shown on page 40.

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 41.

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

5 April 2013

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

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

Nothing has come to the attention of the directors to indicate that the Bank will not remain a going concern for at least the next twelve months from the date of this statement.

Director

5 April --2013

Director

5 April --2013

Report of the Independent Auditors

To the memebers of Eastern and Southern African Trade and Development Bank (PTA Bank)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Eastern and Southern African Trade and Development Bank (PTA Bank), which comprise the statement of financial position as at 31 December 2012, 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 45 to 118.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2012 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

10 April 2013

	Note	2012 USD	2011 USD
INCOME			
Interest income	4	99,339,222	69,592,116
Interest expense	5	(45,183,510)	(37,711,551)
Other costs related to borrowing	6	(3,986,011)	(3,510,927)
Interest and similar expense		(49,169,521)	(41,222,478)
Net interest income		50,169,701	28,369,638
Fees and commission income	7	33,440,291	31,255,251
Net trading income		83,609,992	59,624,889
Other income	8	5,539,205	3,909,995
OPERATING INCOME		89,149,197	63,534,884
EXPENDITURE			
Operating expenses	9	(12,333,826)	(12,133,122)
Impairment on other financial assets	11	(58,155)	(325,725)
Impairment on project and trade finance loans	17	(26,102,743)	(17,969,615)
Fair value gains on equity investments at fair value through profit or loss	18	682,980	1,174,560
Net foreign exchange losses		(108,884)	(15,607)
TOTAL EXPENDITURE		(37,920,628)	(29,269,509)
PROFIT FOR THE YEAR		51,228,569	34,265,375
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS		51,228,569	34,265,375
EARNINGS PER SHARE:			
Basic and diluted	12	892	596

Statement of Financial Position

As at 31st December 2012

	Note	2012 USD	2011 USD
ASSETS			
Cash and balances held with other banks	13	462,607,857	214,712,178
Derivative financial instruments	14	13,541,042	14,265,639
Trade finance loans	15	847,524,196	691,802,179
Project loans	16	476,419,727	407,735,793
Equity investments – at fair value through profit or loss	18	10,855,430	10,172,450
Investment in Government securities – held to maturity	19	-	2,834,075
Other receivables	20	5,169,379	4,767,899
Deferred expenditure	21	7,503,221	7,765,691
Property and equipment	22	19,736,664	16,250,547
Intangible assets	23	313,747	104,067
TOTAL ASSETS		1,843,671,263	1,370,410,518
LIABILITIES AND EQUITY			
LIABILITIES			
Collection account deposits	24	144,851,598	92,684,416
Derivative financial instruments	14	12,308,254	12,661,807
Short term borrowings	25	681,326,318	335,554,876
Long term borrowings	26	648,239,614	643,181,728
Other payables	27	8,492,492	3,413,013
Provision for service and leave pay	28	4,201,424	4,548,291
TOTAL LIABILITIES		1,499,419,700	1,092,044,131
EQUITY			
Share capital	29	193,678,294	179,021,687
Retained earnings		150,573,269	99,344,700
TOTAL EQUITY		344,251,563	278,366,387
TOTAL LIABILITES AND EQUITY		1,843,671,263	1,370,410,518

The financial statements were approved by the board of directors on 5th April 2013 and were signed on its behalf by:

President

Director

	Share capital USD	Retained earnings USD	Total equity USD
At 1 January 2011	145,161,487	65,079,325	210,240,812
Capital subscriptions (Note 29)	33,860,200	-	33,860,200
Total comprehensive income for the year	-	34,265,375	34,265,375
At 31 December 2011	179,021,687	99,344,700	278,366,387
At 1 January 2012	179,021,687	99,344,700	278,366,387
Capital subscriptions (Note 29)	14,656,607	-	14,656,607
Total comprehensive income for the year	-	51,228,569	51,228,569
At 31 December 2012	193,678,294	150,573,269	344,251,563

	Note	2012 USD	2011 USD
OPERATING ACTIVITIES			
Net cash generated from operations	30(a)	234,784,251	25,129,596
INVESTING ACTIVITIES			
Purchase of property and equipment	22	(4,026,036)	(994,583)
Purchase of intangible assets	23	(244,334)	(74,813)
Proceeds from disposal of equity investments		-	455,347
Net cash used in investing activities		(4,270,370)	(614,049)
FINANCING ACTIVITIES			
Proceeds from capital subscriptions	29	14,656,607	33,860,200
Net cash generated from financing activities		14,656,607	33,860,200
INCREASE IN CASH AND CASH EQUIVALENTS		245,170,488	58,375,747
Foreign exchange loss on cash and cash equivalents		(108,884)	(15,607)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		217,546,253	159,186,113
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	30(c)	462,607,857	217,546,253
FACILITIES AVAILABLE FOR LENDING	30(d)	598,360,476	435,602,753

1. CORPORATE INFORMATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

Statement of compliance

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

Presentation of financial statements

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

(b) Revenue recognition

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Borrowing costs

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

(d) Foreign currencies

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

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

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

(e) Property and equipment

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Intangible assets

The Bank's intangible assets relate to the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets are stated at cost less accumulated amortisation. 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 derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

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

(g) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs 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 recognised 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 recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation and amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Deferred expenditure

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

(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.

(k) Financial instruments

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

Initial measurement of 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 depending on the purpose and characteristics of the asset and management's intention in acquiring them. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets at fair value through profit or loss

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

Loans, advances and receivables

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

Held-to-maturity investments

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

Hedge accounting

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

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

Fair value hedges

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

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

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in equity in the Cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in Net trading income in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

Hedge accounting (Continued)

Cash flow hedges (Continued)

When the hedged transaction affects profit and 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 recognised when the hedged forecast transaction is ultimately recognised in profit or loss. When a forecast is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to profit and loss.

Available-for-sale financial assets

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

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

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 amortisation and impairment losses are recognised in profit or loss.

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).

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans, advances and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of “financial assets at fair value through profit or loss” are included in profit or loss in the period in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

Subsequent measurement (Continued)

Gains and losses on instruments measured at amortised cost is recognised in profit or loss and related to the effective interest rate, impairment and derecognition. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income in the available-for-sale reserve, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised 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.

Derecognition

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

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

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

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

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

Financial liabilities

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

Initial measurement of financial liabilities

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

Subsequent measurement

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

Derecognition

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

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

Offsetting

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

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.

Impairment of financial assets

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

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

Financial assets carried at amortised cost

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

Financial assets carried at amortised cost (Continued)

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

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

(l) Employee entitlements

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

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

(m) Retirement benefit costs

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

(n) Contingent liabilities

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

(o) Cash and cash equivalents

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Leases

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

Bank as a lessee

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

Bank as a lessor

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

(q) Provisions for other liabilities

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, 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.

(r) Government grants

Government grants are not recognized unless there is reasonable assurance that the grants will be received and that the Bank will comply with the conditions attaching to the grant.

(s) Comparatives

When necessary, comparative figures have been adjusted to conform to changes in presentation in the current year (Note 34).

(t) Critical judgements in applying the Bank's accounting policies

In the process of applying the Bank's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances of assets and liabilities within the next financial year.

i) *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for 'longer–dated' derivatives and discount rates, prepayment rates and default rate assumptions for 'asset-backed' securities. The fair value of financial instruments is described in more detail in Note 31.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Critical judgements in applying the Bank's accounting policies (Continued)

ii) *Impairment losses on loans and advances*

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

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

iii) *Property and Equipment*

In applying the Bank's accounting policy management makes judgement in determining the useful life for property and equipment. The depreciation rates used are set out in the accounting policy (e) above. See Note 22 for the depreciation charge for the year.

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

  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:
- Financial assets are derecognised in their entirety, but where the entity has a continuing involvement in them, financial assets are not derecognised in their entirety.

This had no impact on the Bank, as it did not have transfer of financial assets.

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. 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 has assessed the possible impact.

IFRS 7 *Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7*
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Bank's financial position or performance and will become effective for annual periods beginning on or after 1 January 2013. However, the Bank will disclose information about rights to set-off and related arrangements.

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

Standards issued but not yet effective (Continued)

IFRS 13 – Fair Value measurement
The standard becomes effective for annual periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. There are also additional disclosure requirements. The Bank is still considering the impact of the new standard.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has no impact on the Bank since the Bank has no Other Comprehensive Income. The amendment became effective for annual periods beginning on or after 1 July 2012.

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 recognised 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 will not affect the way the Bank defines them.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the Bank by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The adoption of these amendments is not expected to have any effect on the Bank as it does not normally offset financial assets against financial liabilities. These amendments become effective for annual periods beginning on or after 1 January 2014.

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.

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

Standards issued but not yet effective (Continued)

IFRS 9 Financial Instruments: Classification and Measurement (Continued)

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 liabilities' 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.

IAS 34 Interim Financial Reporting
The amendment aligns the disclosure requirements in IAS 34 with those of IFRS 8 *Operating Segments.* The amendment clarifies that total assets for a particular reportable segment need only be disclosed when both:

- the amounts are regularly provided to the chief operating decision maker, and
- there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements.

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

Annual Improvements May 2012

These improvements will not have an impact on the Bank, but include:

IAS 1 Presentation of Financial Statements
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment
This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation
This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting
The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

4. INTEREST INCOME

	2012 USD	2011 USD
On loans and facilities:		
Project finance loans	34,988,023	24,300,946
Trade finance loans	62,386,892	44,274,996
	97,374,915	68,575,942
On placements:		
Deposits/Held-to-maturity investments	1,964,307	1,016,174
	99,339,222	69,592,116

5. INTEREST EXPENSE

	2012 USD	2011 USD
Interest payable on funds borrowed from:		
Banks and financial institutions	18,284,802	12,467,154
Regional and International Bond Markets	19,974,646	20,044,317
Other institutions	6,924,062	5,200,080
	45,183,510	37,711,551

6. OTHER COSTS RELATED TO BORROWING

	2012 USD	2011 USD
Facility and management fees	1,047,576	1,024,531
Amortisation of deferred expenditure	2,292,575	1,925,678
Drawdown fees	44,307	355,064
Other costs	549,979	147,892
Bank commissions and charges	51,574	57,762
	3,986,011	3,510,927

7. FEE AND COMMISSION INCOME

	2012 USD	2011 USD
Upfront fees in trade finance	17,996,073	14,310,141
Letter of credit fees in trade finance	17,559,266	15,198,424
Guarantee fees in trade finance	871,233	115,690
Management fees in trade finance	167,311	-
Drawdown fees in trade finance	1,141,161	1,219,702
Document handling fees in trade finance	494,545	284,308
Other fees in trade finance	10,646	2,694
Appraisal & facility fees on project finance	3,159,106	1,810,810
Commitment fees on project finance	879,481	767,217
Letter of credit fees in project finance	1,227,730	1,455,190
Other project finance fees	586,885	1,118,258
*Risk down-selling costs	(10,653,146)	(5,027,183)
	33,440,291	31,255,251

*These costs represent the income foregone as a result of the Bank selling down part of its large credit exposures to certain counterparties. The risk down-selling strategy aims to reduce concentration risk especially in the petrochemicals sector and allows the retention of large clients whose financing requirements may exceed the Bank's lending limits. As at 31 December 2012, the Bank had secured from various counterparties risk management capacity amounting to USD 325 million (31 December 2011: USD 205.5 million).

8. OTHER INCOME

	2012 USD	2011 USD
Grant income *	-	235,511
Impaired assets recovered **	4,763,441	3,096,983
Other income	545,103	289,084
Rental income	222,960	208,735
(Loss) on hedging derivative	(215,473)	(294,075)
Interest on staff loans	15,223	18,702
Interest on capital arrears***	207,951	355,055
	5,539,205	3,909,995

*The grant is provided by the African Development Bank (AFDB) to fund various consultancies and training. The proceeds are credited to the AFDB deferred income account and included in other payables (Note 27). Transfers are made to income when the costs which the grant relates to have been incurred.
**Impaired assets recovered relate to previously written off loans that were recovered during the period.

***Interest on capital arrears relates to interest charged to capital subscriptions from member states that are in arrears.

9. OPERATING EXPENSES

	2012 USD	2011 USD
Staff costs (Note 10)	8,593,298	8,766,025
Consultants and advisors	1,077,680	670,019
Official missions	660,601	729,826
Other operating expenses	688,423	588,271
Depreciation of property and equipment	534,493	468,532
Board of Directors meetings	350,632	379,445
Board of Governors meeting	227,317	380,885
Business promotion	128,227	86,152
Audit fees	38,500	35,000
Amortisation of intangible assets	34,655	28,967
	12,333,826	12,133,122

10. STAFF COSTS

	2012 USD	2011 USD
Salaries and wages	5,573,481	5,426,675
Service and leave pay expenses	721,186	1,048,823
Staff Provident fund contributions –defined contribution plan	1,072,476	1,070,494
Other costs	1,226,155	1,220,033
	8,593,298	8,766,025

11. IMPAIRMENT ON OTHER FINANCIAL ASSETS

	2012 USD	2011 USD
Other receivables (Note 20)	58,155	325,725

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

12. EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the year of USD 51,228,569 (2011: USD 34,265,375) 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 (2011: 57,416) (Note 29). Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares.

13. CASH AND BALANCES HELD WITH OTHER BANKS

	2012 USD	2011 USD
Current accounts – Note 13 (i)	5,317,075	9,916,916
Call and term deposits with banks – Note 13 (ii)	457,290,782	204,795,262
	462,607,857	214,712,178
(i) Current accounts:		
Amounts maintained in United States Dollars (USD)	3,678,811	8,902,618
Amounts maintained in other currencies:		
Euro	1,374,466	551,819
Kenyan Shillings	62,321	289,268
South African Rand	16,100	15,141
British Pounds	19,414	17,811
Ugandan Shillings	161,035	7,992
Malawi Kwacha	1,462	13,209
Burundi Francs	2,718	1,866
Japanese Yen	556	618
Tanzania Shillings	192	116,574
	1,638,264	1,014,298
	5,317,075	9,916,916

The average effective interest rate on current accounts was 0.47% (December 2011: 0.07%) per annum.

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

(ii) Call and term deposits with banks:	2012 USD	2011 USD
United States Dollars (USD)	452,470,721	129,696,104
Amounts maintained in other currencies:		
Malawi Kwacha	4,123,196	74,149,070
Kenya Shillings	696,865	950,088
	4,820,061	75,099,158
	457,290,782	204,795,262

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

Uganda Shillings	16.77%	-
Kenya Shillings	12.86%	4.64%
Malawi Kwacha	5.58%	5.00%
United States Dollars	2.35%	1.42%

14. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

14. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

			2012 USD	2011 USD
Assets :				
a)	Cross Currency Swap:			
	Balance as at 1 January		12,647,889	13,407,919
	Exchange loss		1,251,007	-
	Receipts under swap agreement		(1,878,962)	(760,030)
	Balance as at 31 December		12,019,934	12,647,889
b)	Interest Rate Swap:			
	(i)	Fair value movements		
		Balance as at 1 January	598,334	747,919
		(Amortisation)/gain interest rate swap	(149,585)	(149,585)
		Balance as at 31 December	448,749	598,334
	(ii)	Cashflows		
		Balance as at 1 January	1,019,416	280,521
		Amounts due from counterparties	1,788,402	1,934,118
		Amount received from counterparties	(1,735,459)	(1,195,223)
		Balance as at 31 December	1,072,359	1,019,416
		Balance as at 31 December 2011 (i and ii)	1,521,108	1,617,750
		Total derivative assets (a and b)	13,541,042	14,265,639
Liabilities:				
		Cross Currency Swap:		
		Balance as at 1 January	12,661,807	13,407,919
		Exchange gain	1,545,763	-
		Fair value movement - loss on valuation	65,889	144,491
		Payments under swap agreement	(1,965,205)	(890,603)
		Balance as at 1 December	12,308,254	12,661,807

In December 2010, the Bank entered into interest rate swaps to hedge USD 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 USD 13,407,919. The Bank's exposure under derivative interest rate swaps is monitored as part of the overall management of its market risk (Note 36 (d)).

15. TRADE FINANCE LOANS

	2012 USD	2011 USD
Principal loans	822,862,027	666,221,062
Interest receivable	47,304,098	41,611,131
Gross loans	870,166,125	707,832,193
Impairment on trade finance loans (Note 17)	(22,641,929)	(16,030,014)
Net loans	847,524,196	691,802,179

The weighted average effective interest rate was 6.40% (December 2011: 6.09%) per annum.

	2012 USD	2011 USD
Maturing:		
Within one year	784,395,274	595,530,227
One to three years	49,824,009	74,097,023
Over three years	13,304,913	22,174,929
	847,524,196	691,802,179

The gross non performing trade finance loans were USD 29,322,950 (December 2011: USD 22,554,361). The impairment allowance related to these loans amounted to USD 22,641,929 (December 2011: USD 16,030,014) hence the carrying value of the loans amount to USD 6,681,021 (December 2011: USD 6,524,347).

16. PROJECT LOANS

		2012 USD	2011 USD
Approved loans less cancellations		1,408,489,234	1,109,589,234
Less: Unsigned loans		(269,328,701)	(233,332,665)
Loans signed		1,139,160,533	876,256,569
Less: Undisbursed	- Letters of credit opened	(22,077,264)	(36,654,156)
	- Letters of credit not yet opened	(206,549,762)	(87,318,449)
Loans disbursed		910,533,507	752,283,964
Interest capitalized*		35,740,773	28,951,239
Loans repaid		(453,799,655)	(363,449,939)
Principal loan balances		492,474,625	417,785,264
Interest receivable		9,581,034	10,100,672
Gross loans		502,055,659	427,885,936
Impairment on project loans (Note 17)		(25,635,932)	(20,150,143)
Net loans		476,419,727	407,735,793

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

The average effective interest rate was 7.51% (December 2011: 7.21%) per annum.

	2012 USD	2011 USD
Maturing:		
Within one year	115,585,499	131,436,712
One year to three years	166,232,064	140,799,075
Three to five years	110,271,847	76,989,344
Over five years	84,330,317	58,510,662
	476,419,727	407,735,793

The aggregate non performing project loans were USD 42,294,656 (December 2011: USD 29,473,930). The impairment allowance related to these loans amounted to USD 25,635,932 (December 2011: USD 20,150,143) hence the carrying value of the loans amounted to USD 16,658,724 (December 2011: USD 9,323,787) at the end of the period.

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

17. IMPAIRMENT ALLOWANCE ON PROJECT AND TRADE FINANCE LOANS

The movement in allowance is as follows:

	Project finance loans USD	Trade finance loans USD	Total allowance USD
At 1 January 2011	22,904,969	16,229,985	39,134,954
Amounts written-off	(15,924,412)	(5,000,000)	(20,924,412)
Charge for the year	13,169,586	4,800,029	17,969,615
At 31 December 2011	20,150,143	16,030,014	36,180,157
At 1 January 2012	20,150,143	16,030,014	36,180,157
Amounts written -off	(4,313,950)	(9,691,089)	(14,005,039)
Charge for the year	9,799,739	16,303,004	26,102,743
At 31 December 2012	25,635,932	22,641,929	48,277,861

18. EQUITY INVESTMENTS

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

	Share holding	Cumulative Cost to 31 Dec	Net additions/ disposals at cost in year to 31 Dec	Total Cost as at 31 Dec	Additions/ disposals at cost in year to 31 Dec	Total cost to 31 Dec	Investment Fair value as at 31 Dec	Fair Value Gains/(losses) in year to 31 Dec	Investment Fair value as at 31 Dec	Fair Value Adjustment for period to 31 Dec	Fair Value Adjustment for period to 31 Dec
	%	2011 USD	2011 USD	2011 USD	2012 USD	2012 USD	2012 USD	2012 USD	2011 USD	2012 USD	2011 USD
PTA Reinsurance	8.28	1,683,176	-	1,683,176	-	1,683,176	4,627,652	2,944,476	4,138,947	488,705	1,041,570
Aureos East Africa Fund	5.00	1,462,879	(133,988)	1,328,891	-	1,328,891	1,669,415	340,524	1,784,502	(115,087)	155,544
African Export Import Bank	0.48	1,182,080	-	1,182,080	-	1,182,080	2,420,819	1,238,739	2,195,044	225,775	173,443
Tononoka	5.00	628,653	-	628,653	-	628,653	405,012	(223,641)	331,459	73,553	-
Tanruss	4.06	1,755,000	-	1,755,000	-	1,755,000	819,013	(935,987)	860,688	(41,675)	(191,665)
Africa Trade Insurance Company	0.10	100,000	-	100,000	-	100,000	96,317	(3,683)	95,207	1,110	(11,898)
Gulf African Bank	5.33	1,435,141	-	1,435,141	-	1,435,141	817,202	(617,939)	766,603	50,599	7,566
		8,246,929	(133,988)	8,112,941	-	8,112,941	10,855,430	2,742,489	10,172,450	682,980	1,174,560

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.

18. EQUITY INVESTMENTS (Continued)

	2012 USD	2011 USD
(i) Instalments paid:		
Total subscribed capital	9,331,157	9,331,157
Less: Instalments not due – Note 18 (iii)	(1,218,216)	(1,218,216)
Instalments paid as at end of year – Note 18 (iv)	8,112,941	8,112,941
(ii) 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*	18,216	18,216
	1,218,216	1,218,216
(iii) Movement in the instalments paid:		
At beginning of year	8,112,941	8,246,929
Net (disposals) at cost – Note 18 (i)	-	(133,988)
- Capital distribution	-	(455,387)
- Realised gains/(losses)	-	321,399
At end of year	8,112,941	8,112,941

*Unpaid subscriptions are payable on call.

19. INVESTMENTS IN GOVERNMENT SECURITIES

	2012 USD	2011 USD
Treasury bills: Held to maturity		
Maturing within 180 days after period end (at face value)	2,834,075	2,928,639
Additions during year	-	8,308,634
Matured bills	(2,834,075)	(8,440,739)
Income earned during the year	-	132,105
Less: Unearned discount	-	(94,564)
	-	2,834,075

The treasury bills, issued by the Bank of Uganda, represent investments made in Uganda Shillings bearing interest at a rate of 21.50% (December 2011: 12.35%) per annum. These investments were managed by Standard Chartered Bank Uganda Limited.

20. OTHER RECEIVABLES

	2012 USD	2011 USD
Appraisal fees*	1,624,502	1,102,915
Prepayments	3,148,522	3,055,888
Staff loans and advances	284,238	428,707
Sundry receivables	112,117	180,389
	5,169,379	4,767,899

*Appraisal fees receivable**		
As at 1 January	1,102,915	1,659,607
Accrued income	2,059,777	579,175
Receipts	(1,480,035)	(810,142)
Amounts written off (Note 11)	(58,155)	(325,725)
At 31 December	1,624,502	1,102,915
Amounts due within one year	1,958,511	1,572,650
Amounts due after one year	3,210,868	3,195,249
	5,169,379	4.767.899

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 4.18% (December 2011: 4.19%) per annum. These staff loans and advances have various repayment terms ranging from 3 to 36 months.

21. DEFERRED EXPENDITURE

	2012	2011
COST	**USD**	**USD**
At beginning of year	10,914,134	9,498,805
Additions	2,030,104	2,381,045
Disposals	(297,958)	(965,716)
At end of year	12,646,280	10,914,134
AMORTISATION		
At beginning of year	3,148,443	2,188,480
Disposals	(297,958)	(965,716)
Charge for the year	2,292,574	1,925,679
At end of year	5,143,059	3,148,443
NET BOOK VALUE		
At end of year	7,503,221	7,765,691

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

22. PROPERTY AND EQUIPMENT

At 31 December 2012:	Freehold land and building USD	Motor vehicles USD	Furniture and fittings USD	Office equipment USD	Total USD
COST					
At 1 January 2012	19,265,481	302,693	628,923	1,084,825	21,281,922
Additions	3,950,987	-	18,293	56,756	4,026,036
Disposals	-	-	(8,901)	(88,913)	(97,814)
At 31 December 2012	23,216,468	302,693	638,315	1,052,668	25,210,144
DEPRECIATION					
At 1 January 2012	3,336,782	195,589	577,425	921,579	5,031,375
Charge for the period	437,989	24,738	11,354	60,412	534,493
Disposals	-	-	(8,853)	(83,535)	(92,388)
At 31 December 2012	3,774,771	220,327	579,926	898,456	5,473,480
NET CARRYING AMOUNT					
At 31 December 2012	19,441,697	82,366	58,389	154,212	19,736,664
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

Land and buildings represent costs of the Bank's Headquarters Building in Burundi, Harare and Nairobi office properties. The land on which the Headquarters building stands was granted by the Government of Burundi.

23. INTANGIBLE ASSETS

	2012 USD	2011 USD
COST		
At beginning of year	1,199,841	1,125,028
Additions	244,334	74,813
At end of year	1,444,175	1,199,841
AMORTISATION		
At beginning of year	1,095,774	1,066,807
Charge for the year	34,654	28,967
At end of year	1,130,428	1,095,774
NET CARRYING AMOUNT		
At end of year	313,747	104,067

Intangible assets relate to cost of acquired computer software.

24. COLLECTION ACCOUNT DEPOSITS

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

25. SHORT TERM BORROWINGS

	2012 USD	2011 USD
(a) CERTIFICATES OF DEPOSITS		
Lender		
Africa Trade Insurance	1,250,000	1,250,000
PTA Reinsurance Company	10,697,031	10,697,031
	11,947,031	11,947,031

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

25. SHORT TERM BORROWINGS (Continued)

(b) OTHER SHORT TERM BORROWINGS

	Date of renewal/ advance	Maturity Date	Currency	2012 USD	2011 USD
Syndicated Term Loan Facility	Dec-12	Sep-14	USD	150,000,000	-
Standard Corporate Merchant Bank	Oct-12	Jun-13	USD	97,747,246	6,972,500
Commercial Bank of Africa	Oct-12	Feb-13	USD	40,087,663	37,334,220
Commerzbank Frankfurt am Main	Oct-12	Mar-13	USD	36,578,540	46,786,800
Standard Chartered Bank	Oct-12	Mar-13	USD	36,450,323	21,767,171
United Bank for Africa PLC	Dec-12	Mar-13	USD	32,203,598	-
NIC Bank	Oct-12	Feb-13	USD	32,093,948	17,169,886
African Export Import Bank	Oct-12	Nov-13	USD	30,323,118	-
Mauritius Commercial Bank	Oct-12	Apr-13	USD	29,540,720	-
Banque de Commerce et de Placement	Oct-12	Mar-13	USD	26,374,845	-
Africa Finance Corporation	Dec-12	Jul-13	USD	25,000,000	25,000,000
HSBC Bank USA	Dec-12	Mar-13	USD	20,687,556	21,307,597
KBC Bank	Dec-12	Mar-13	USD	20,417,840	2,631,338
Ghana International Bank PLC	Dec-12	Jun-13	USD	20,000,000	-
Opec Fund for International Development	Oct-12	Apr-13	USD	20,000,000	20,000,000
Firstrand Bank	Oct-12	Jan-13	USD	19,392,856	-
FIM Bank	Dec-12	Jun-13	USD	13,187,566	-
Mashreq Bank	Dec-12	Mar-13	USD	12,885,427	-
International Islamic Trade Finance Corporation	June -12	Jan-13	USD	464,020	-
AFREXIM Bank	Dec-11	Jun-12	USD	-	50,000,000
Kenya Commercial Bank	Dec-11	Feb-12	USD	-	47,504,856
BNPParibasFortis Bank	Nov-11	Mar-12	USD	-	24,180,000
Sub total for other short term borrowings				663,435,266	320,654,368
INTEREST PAYABLE				5,944,021	2,953,477
Certificate of Deposits (Note 25a)				11,947,031	11,947,031
TOTAL SHORT TERM BORROWINGS				681,326,318	335,554,876

The effective interest rate during the year was 3.44% (December 2011: 3.61%) per annum.

26. LONG TERM BORROWINGS

					Amounts as at 31 December 2012			Amounts as at 31 December 2011		
Lender	Date of Renewal/ disbursement	Maturity Date	Currency	Amount in Currency	Balance outstanding USD	Amount due within one year USD	Amount due after one year USD	Balance outstanding USD	Amount due within one year USD	Amount due after one Year USD
African Development Bank	December-04	January-20	USD	54,165,850	54,165,850	8,000,000	46,165,850	62,657,133	8,000,000	54,657,133
Africa Agriculture and Trade Investment Fund	September-12	September-19	USD	29,999,845	29,999,845	-	29,999,845	-	-	-
China Development Bank	December-08	March-20	USD	17,992,904	17,992,904	3,271,761	14,721,143	21,261,938	3,272,000	17,989,938
KBC Bank	Various	July-19	USD	22,601,150	22,601,150	3,302,643	19,298,507	1,508,346	1,126,859	381,487
Kenya local currency bonds I	July-05	July-12	KES	-	-	-	-	1,903,090	1,903,090	-
Kenya local currency bonds II	October-07	October-14	KES	400,000,000	4,645,761	2,322,880	2,322,881	6,885,180	2,286,483	4,598,697
Exim Bank of India Loan	Various	Various	USD	16,042,175	16,042,175	6,922,309	9,119,866	22,965,474	7,297,777	15,667,697
M & T Bank	September-07	February-13	USD	-	-	-	-	563,231	563,231	-
US$1.0 Billion Euro Medium Term Note Programme: First Tranche *	November-10	January-16	USD	300,000,000	300,000,000	-	300,000,000	300,058,583	-	300,058,583
FMO	March-10	January-18	USD	42,000,344	42,000,344	8,000,344	34,000,000	50,000,139	8,000,000	42,000,139
Ceskoslovenska Obchodni Banka AS	July-07	May-17	USD	3,695,207	3,695,207	822,647	2,872,560	4,485,108	822,178	3,662,930
BHF Bank	Various	September-15	USD	3,075,476	3,075,476	1,461,868	1,613,608	4,535,882	871,563	3,664,319
Development Bank of South Africa	March-07	June-23	USD	86,248,951	86,248,951	7,188,070	79,060,881	91,414,862	2,500,000	88,914,862
Overseas Private Investment	September-03	March-15	USD	1,402,149	1,402,149	352,149	1,050,000	1,402,092	-	1,402,092
Private Export Funding Corporation	August-11	October-21	USD	52,799,719	52,799,719	5,947,296	46,852,423	58,751,527	5,205,825	53,545,702
Uganda local currency fixed rate bond	October-09	October-16	UGX	412,648,144	153,611	31,853	121,758	254,628	27,620	227,008
Uganda local currency floating rate bond	October-09	October-16	UGX	5,735,351,856	2,135,011	540,305	1,594,706	2,805,218	468,506	2,336,712
Sub total for long term borrowings					636,958,153	48,164,125	588,794,028	631,452,431	42,345,132	589,107,299
Interest payable					11,281,461	11,281,461	-	11,729,297	11,729,297	-
Total long term borrowings					648,239,614	59,445,586	588,794,028	643,181,728	54,074,429	589,107,299

The effective interest rate during the period was 5.09% (December 2011 – 5.10%)

The Bank repays these borrowings in either quarterly or semiannual installments. The Bank has not given any security for the borrowings. It has not defaulted on any of them.

27. OTHER PAYABLES

	2012 USD	2011 USD
Other creditors*	3,427,767	757,317
Provident fund**	3,318,483	2,392,818
Cross Currency Swap receipt	1,109,389	-
Accrued expenses	583,118	209,078
Prepaid rent	51,622	51,622
Unspent Africa Development Bank Grant***	2,113	2,178
	8,492,492	3,413,013

*Other creditors mainly relate to cash cover deposits by customers.
**Provident fund relates to the Bank's contribution to the fund that is payable.
***This relates to the minimum balance being held in a bank account where the grant is banked.

28. PROVISION FOR SERVICE AND LEAVE PAY

	2012 USD	2011 USD
At beginning of period	4,548,291	3,941,953
Increase in provision for service pay	568,075	814,463
Increase in provision for leave pay	121,545	195,062
Payment of leave pay	(147,365)	(127,958)
Payment of service pay	(889,122)	(275,229)
At end of period	4,201,424	4,548,291

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

29. SHARE CAPITAL

	2012 USD	2011 USD
Authorised capital:		
88,234 ordinary shares of USD 22,667 each	2,000,000,000	2,000,000,000
Less: Unsubscribed	(698,551,528)	(698,551,528)
Subscribed capital:		
57,416 ordinary shares of USD 22,667 each	1,301,448,472	1,301,448,472
Less: Callable capital	(1,041,158,778)	(1,041,158,778)
Payable capital	260,289,694	260,289,694
Less: Amounts not yet due	(39,361,025)	(69,934,800)
Capital due	220,928,669	190,354,894
Less: subscriptions in arrears	(27,250,375)	(11,333,207)
Paid up capital	193,678,294	179,021,687

29. SHARE CAPITAL (Continued)

	2012 USD	2011 USD
Movement in paid up share capital		
At beginning of period	179,021,687	145,161,487
Burundi	456,424	557,649
Democratic Republic of Congo	-	1,500,000
Djibouti	101,485	-
Egypt	2,420,836	7,262,508
Ethiopia	2,420,836	6,262,529
Kenya	2,420,836	2,420,836
Malawi	1,595,327	199,950
Rwanda	565,768	1,131,536
Seychelles	122,402	122,472
Sudan	1,302,870	-
Tanzania	633,111	2,121,493
Zambia	100,471	5,451,302
Zimbabwe	2,516,241	6,829,925
Total Receipts	14,656,607	33,860,200
At end of period	193,678,294	179,021,687

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 is payable over a one-year period commencing 01 January 2013. 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.

30. NOTES TO THE STATEMENT OF CASH FLOWS

	2012 USD	2011 USD
(a) Reconciliation of profit for the period to cash generated from operations:		
Profit for the year	51,228,569	34,265,375
Adjustments:		
Depreciation	534,493	468,532
Loss in foreign exchange	108,884	15,607
Loss on de-recognition of property and equipment	5,426	50,000
Fair value (gain) on revaluation of equity investments	(682,980)	(1,174,560)
Amortisation of intangible assets	34,654	28,967
Profit before working capital changes	51,229,046	33,653,921

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

		2012 USD	2011 USD
Profit before working capital changes (previous page)		51,229,046	33,653,921
(Increase) in other receivables		(401,480)	(1,628,093)
Decrease in hedging derivative asset		724,597	170,720
(Decrease) in hedging derivative liability		(353,553)	(746,112)
(Increase) in trade finance loans		(155,722,017)	(158,956,811)
(Increase) in project loans		(68,683,934)	(106,500,902)
Decrease/(Increase) in deferred expenditure		262,470	(455,366)
Increase in collection accounts deposits		52,167,182	20,445,971
Increase/(decrease) in other payables		5,079,479	(68,736)
(Decrease)/Increase in provision for service and leave pay		(346,867)	606,338
Increase in borrowings (Note 30(b))		350,829,328	238,608,666
		234,784,251	25,129,596
(b) Analysis of changes in borrowings:			
Short term borrowings:			
At beginning of year		335,554,876	216,191,928
Loans received		1,514,714,183	1,154,166,922
Repayments		(1,168,942,741)	(1,034,803,974)
At end of year		681,326,318	335,554,876
Long term borrowings:			
At beginning of year		643,181,728	523,936,010
Loans received		89,922,499	153,115,941
Repayments		(84,864,613)	(33,870,223)
At end of year		648,239,614	643,181,728
Total borrowings:			
At beginning of year		978,736,604	740,127,938
Loans received		1,604,636,682	1,307,282,863
Repayments		(1,253,807,354)	(1,068,674,197)
At end of year		1,329,565,932	978,736,604
Total at beginning of year		978,736,604	740,127,938
Increase in total borrowings	(30 a)	350,829,328	238,608,666
(c) Analysis of cash and cash equivalents			
Cash and balances with other banks - Note 13		462,607,857	214,712,178
Investment in Government securities (Treasury Bills) – Note 19		-	2,834,075
		462,607,857	217,546,253

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.

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

(d) Facilities available for lending

As at 31 December 2012 the following facilities were available to the Bank for lending:

LONG TERM FACILITIES	Facilities available USD	Facilities utilised USD	Facilities unutilised USD
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	51,403,510	36,854,139	14,549,371
Africa Agriculture Trade and Investment Fund (AATIF)	30,000,000	30,000,000	-
China Development Bank	22,900,000	22,900,000	-
Standard Chartered Bank Limited	20,000,000	20,000,000	-
BHF Bank	18,000,000	7,300,000	10,700,000
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 (JBIC)	12,700,000	-	12,700,000
Ceskoslovenska Obchodni Banka AS	6,575,954	6,575,954	-
Uganda Shillings Local Currency Bond	3,674,312	3,674,312	-
Overseas Private Investment	1,400,000	1,400,000	-
Exim Bank USA	No limit	-	No limit
	899,236,925	836,287,554	62,949,371

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

(d) Facilities available for lending (Continued)

SHORT-TERM FACILITIES	Facilities available USD	Facilities utilised USD	Facilities unutilised USD
LENDER			
Syndicated Loan	150,000,000	150,000,000	-
Commerzbank	131,882,000	58,684,188	73,197,812
Mauritius Commercial Bank	125,000,000	114,243,667	10,756,333
Rand Merchant Bank	100,000,000	37,495,879	62,504,121
Standard Bank of South Africa	90,663,042	90,663,042	-
BNP Paribas	75,000,000	12,180,000	62,820,000
Mashreq Bank	70,000,000	34,671,449	35,328,551
Commercial Bank of Africa	68,082,443	68,082,443	-
HSBC Bank	62,797,802	62,797,802	-
Deutsche Bank	60,000,000	34,880,880	25,119,120
Sumitomo Mitsui Banking Corporation	55,000,000	17,970,790	37,029,210
ING Bank	52,000,000	-	52,000,000
AFREXIM Bank	50,000,000	30,323,118	19,676,882
Standard Chartered Bank	50,000,000	48,424,148	1,575,852
Kenya Commercial Bank	50,000,000	-	50,000,000
United Bank of Africa, New York	50,000,000	33,877,823	16,122,177
NIC Bank	40,000,000	32,400,036	7,599,964
KBC Bank	32,970,500	23,372,650	9,597,850
Natixis	30,000,000	25,309,642	4,690,358
Banque de Commerce de placement	30,000,000	26,374,845	3,625,155
African Finance Corporation	25,000,000	25,000,000	-
International Islamic Trade Finance Corp.	20,000,000	464,020	19,535,980
Opec Fund for International Development	20,000,000	20,000,000	-
Ghana International Bank	20,000,000	20,000,000	-
BHF Bank	20,000,000	-	20,000,000
DZ Bank	16,356,203	16,356,203	-
State Bank of Mauritius	15,000,000	-	15,000,000
FIMbank	13,881,332	13,881,332	-
ING Bank	9,231,740	-	9,231,740
	1,532,865,062	997,453,957	535,411,105
TOTAL FACILITIES			
At 31 December 2012	2,432,101,987	1,833,741,511	598,360,476

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

(d) Facilities available for lending (Continued)

As at 31 December 2011, the following facilities were available to the Bank for lending

LONG TERM FACILITIES LENDER	Facilities Available (USD)	Facilities Utilised (USD)	Facilities Unutilised (USD)
Eurobond*	300,000,000	300,000,000	-
Exim Bank India	100,000,000	75,000,000	25,000,000
Development Bank of South Africa	95,000,000	95,000,000	-
African Development Bank	100,000,000	100,000,000	-
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	14,401,862
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	4,265,258
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

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

(d) Facilities available for lending (Continued)

SHORT-TERM FACILITIES LENDER	Facilities Available (USD)	Facilities Utilised (USD)	Facilities Unutilised(USD)
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

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

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments recorded at fair value

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

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

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

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have significant effect on the recorded fair value that are not based on observable market data.

At 31 DECEMBER 2012:	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
ASSETS				
Derivative financial instruments	-	13,541,042	-	13,541,042
Equity investments – at fair value through profit and loss	-	-	10,855,430	10,855,430
	-	13,541,042	10,855,430	24,396,472
LIABILITIES				
Derivative financial instruments	-	12,308,254	-	12,308,254
	-	12,308,254	-	12,308,254

31. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

At 31 December 2011:	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
ASSETS				
Derivative financial instruments	-	14,265,639	-	14,265,639
Equity Investments – at fair value through profit and loss	-	-	10,172,450	10,172,450
	-	14,265,639	10,172,450	24,438,089
LIABILITIES				
Derivative financial instruments	-	12,661,807	-	12,661,807
	-	12,661,807	-	12,661,807

32. SEGMENT REPORTING

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

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

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

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

32. SEGMENT REPORTING (Continued)

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

STATEMENTOF COMPREHENSIVE INCOME

Year Ended 31 December 2012:	Trade finance USD	Project finance USD	Other USD	Total USD
Gross interest income	62,386,892	34,988,023	1,964,307	99,339,222
Interest expense and other borrowing costs	(29,347,349)	(17,583,330)	(2,238,842)	(49,169,521)
Net interest income	33,039,543	17,404,693	(274,535)	50,169,701
Fee and commission income	27,587,090	5,853,201	-	33,440,291
Other income	-	-	567,812	567,812
Other assets written off	-	(58,155)	-	(58,155)
Interest on capital arrears	-	-	207,951	207,951
Other assets recovered	155,366	4,608,076	-	4,763,441
Operating expenses	(9,274,243)	(2,490,457)	-	(11,764,700)
Depreciation and amortisation	(512,213)	(56,913)	-	(569,126)
Impairment on loans	(16,303,004)	(9,799,739)	-	(26,102,743)
Foreign exchange loss	-	-	(108,884)	(108,884)
Fair value gain on equity investments	-	-	682,980	682,980
Profit for the year	34,692,539	15,460,706	1,075,324	51,228,569
Year Ended 31 December 2011:				
Gross interest income	44,274,996	24,300,946	1,016,174	69,592,116
Interest expense and other borrowing costs	(29,275,211)	(10,242,317)	(1,704,950)	(41,222,478)
Net interest income	14,999,785	14,058,629	(688,776)	28,369,638
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	(8,729,406)	(2,906,215)	-	(11,635,621)
Depreciation and amortisation	(432,826)	(64,675)	-	(497,501)
Impairment on loans	(4,800,030)	(13,169,585)	-	(17,969,615)
Foreign exchange gain	-	-	(15,607)	(15,607)
Fair value gain on equity investments	-	1,174,560	-	1,174,560
Profit for the year	28,819,629	5,837,117	108,629	34,265,375

32. SEGMENT REPORTING (Continued)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012:	Trade finance USD	Project finance USD	Other USD	Total USD
Assets:				
Cash and balances held with other banks	-	-	462,607,857	462,607,857
Derivative financial instruments	-	-	13,541,042	13,541,042
Trade finance loans	847,524,196	-	-	847,524,196
Project loans	-	476,419,727	-	476,419,727
Equity investments at fair value through profit or loss	-	-	10,855,430	10,855,430
Other receivables	-	-	5,169,379	5,169,379
Deferred expenditure	-	-	7,503,221	7,503,221
Property and equipment	-	-	19,736,664	19,736,664
Intangible assets	-	-	313,747	313,747
Total assets	847,524,196	476,419,727	519,727,340	1,843,671,263
Liabilities:				
Collection account deposits	144,851,598	-	-	144,851,598
Derivative financial instruments	-	-	12,308,254	12,308,254
Short term borrowings	681,326,318	-	-	681,326,318
Long term borrowings	-	648,239,614	-	648,239,614
Other payables	-	-	8,492,492	8,492,492
Provision for service and leave pay	-	-	4,201,424	4,201,424
Total liabilities	826,177,916	648,239,614	25,002,170	1,499,419,700
Equity	-	-	344,251,563	344,251,563
	826,177,916	648,239,614	369,253,733	1,843,671,263

32. SEGMENT REPORTING (Continued)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011:	Trade finance USD	Project finance USD	Other USD	Total USD
Assets:				
Cash and balances held with other banks	-	-	214,712,178	214,712,178
Derivative financial instruments	-	-	14,265,639	14,265,639
Trade finance loans	691,802,179	-	-	691,802,179
Project loans	-	407,735,793	-	407,735,793
Equity investments at fair value through profit or loss	-	-	10,172,450	10,172,450
Investment in Government securities – held to maturity	-	-	2,834,075	2,834,075
Other receivables	-	-	4,767,899	4,767,899
Deferred expenditure	-	-	7,765,691	7,765,691
Property and equipment	-	-	16,250,547	16,250,547
Intangible assets	-	-	104,067	104,067
Total assets	691,802,179	407,735,793	270,872,546	1,370,410,518
Liabilities:				
Collection account deposits	92,684,416	-	-	92,684,416
Derivative financial instruments	-	-	12,661,807	12,661,807
Short term borrowings	335,554,876	-	-	335,554,876
Long term borrowings	-	643,181,728	-	643,181,728
Other payables	-	-	3,413,013	3,413,013
Provision for service and leave pay	-	-	4,548,291	4,548,291
Total liabilities	428,239,292	643,181,728	20,623,111	1,092,044,131
Equity	-	-	278,366,387	278,366,387
	428,239,292	643,181,728	298,989,498	1,370,410,518

33. CONTINGENT LIABILITIES AND COMMITMENTS

	2012 USD	2011 USD
(a) Capital commitments		
Approved but not contracted	3,218,000	3,635,000
(b) Loans committed but not disbursed		
Project finance loans	206,549,761	87,318,449
Trade finance loans	316,049,615	73,457,251
	522,599,376	160,775,700

(c) Contingencies

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

	2012 USD	2011 USD
Letters of credit - Project finance loans	22,077,264	36,654,156
- Trade finance loans	406,291,726	198,335,731
Guarantees	74,579,806	5,336,006
	502,948,796	240,325,893

(d) Operating lease arrangements

The Bank as a lessor

This relates to the Bank's building in Bujumbura of which part has been leased out. Rental income earned during the year was USD 222,960 (2011 - USD 208,735). At reporting date, the Bank had contracted with tenants for the following future lease receivables:

	2012 USD	2011 USD
Within one year	222,960	62,100
In the second and third year inclusive	-	-
	222,960	62,100

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.

33. CONTINGENCIES AND COMMITMENTS (Continued)

(d) Operating lease arrangements (Continued)
The Bank as a lessee
At year end, the Bank had outstanding commitments under operating leases which fall due as follows:

	2012 USD	2011 USD
Within one year	46,476	181,636
In the second to fifth year inclusive	-	44,880
	46,476	226,516

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

34. RELATED PARTY TRANSACTIONS

(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, subscription to the capital of the Bank is made by all its Members. All the powers of the Bank are vested in the Board of Governors, which consists of the Governors appointed by each Member of the Bank, who exercise the voting power of the appointing Member. The Board of Directors, which is composed of seven (7) Directors elected by the Members is responsible for the conduct of the general operations of the Bank, and for this purpose, exercises all the powers delegated to it by the Board of Governors. The Bank makes loans to some of its Member States. The Bank also borrows funds from some of its Members. Such loans granted to Member States are approved by the Board of Directors.

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

	2012 USD	2011 USD
(a) Loans with Member States		
Outstanding loan balances at 31 December	361,380,300	321,543,549

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.

	2012 USD	2011 USD
(b) Borrowings from Members		
Outstanding borrowings at 1 January	62,657,133	70,317,981
Borrowings received during the period	1,386,883	1,092,939
Borrowings repaid during the period	(9,878,165)	(8,753,787)
	54,165,851	62,657,133

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

34. RELATED PARTY TRANSACTIONS (Continued)

(c) Income and expenses

	2012 USD	2011 USD
• Interest income from loans to Members earned during the period	23,601,991	16,966,326
• Interest expense from borrowings with Members incurred during the period	(628,165)	(1,062,321)
• Fees and commission	30,068,393	23,110,935

(d) Other related parties

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

	2012 USD	2011 USD
Salaries and other short-term benefits	1,557,212	1,489,053
Post employment benefits: Defined contribution: Provident Fund	376,348	376,683
Board of Directors and Board of Governors allowances	142,940	178,450
	2,076,500	2,044,186

35. CURRENCY

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

	2012 USD	2011 USD
British Pound	0.6197	0.6488
Euro	0.7583	0.7730
South Africa Rand	8.4995	8.1875
Kenya Shilling	86.1000	77.5430
Japanese Yen	86.1100	85.1500
Malawi Kwacha	333.7000	163.7349
Burundi Franc	1530.0000	1291.2742
Tanzania Shilling	1580.8000	1590.6020
Uganda Shilling	2686.3200	2505.9645

36. FINANCIAL RISK MANAGEMENT

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

(a) INTRODUCTION

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

Risk management structure

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

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

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

Risk measurement and reporting systems

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

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

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

(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.

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Risk Management Policies and Processes

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

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

Client-Specific Risk

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

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

Country risk

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

The Bank limits its exposure to any single Member country to 30% of its total loan portfolio. As at 31 December 2012, all country exposures were within this limit.

Notes 39 and 40 of the Financial Statements contain the country exposure analysis as at 31 December 2012 and 31 December 2011.

Credit-related commitment risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies. These are further disclosed under Note 33(c).

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Maximum Exposure to Credit Risk before Collateral Held:

	2012 USD	%	2011 USD	%
Credit Exposures				
On - statement of financial position Items				
Cash and Balances held with other banks	462,607,857	26	214,712,178	16
Investment in Government Securities	-	-	2,834,075	-
Loans and advances	1,323,943,923	74	1,099,537,972	84
Sub Total	1,786,551,780	100	1,317,084,225	100
Off - statement of financial position Items				
Letters of Credit	428,368,990	42	234,989,887	59
Loan Commitments not disbursed	522,599,376	51	160,775,700	40
Guarantees and Performance Bonds	74,579,806	7	5,336,006	1
Sub Total	1,025,548,172	100	401,101,593	100
Total Credit Exposure	2,812,099,952		1,718,185,818	

The above figures represent the worst case scenario of credit exposure for the two years without taking into account any collateral held or other credit enhancements. Loan and advances and off-statement of financial position items took up 84% in 2012 (2011 - 87%) of the total maximum credit exposure.

Other than cash and bank balances amounting to USD 462,607,857 (2011 -USD 214,712,178) 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, 2012, the fair value of collateral held for impaired loans and advances was USD 88,774,529 (2011 - USD 55,407,224) and provided sufficient cover over the net exposure of USD 23,339,745 after deducting the impairment allowances.

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Classification of Loans and advances

For year ended 31 December 2012:

Category	Gross amount USD	Impairment allowance USD	Net amount USD	%
Neither past due nor impaired	1,132,455,000	-	1,132,455,000	86
Past due but not impaired:				
- Private sector lending	168,149,178	-	168,149,178	12
Impaired	71,617,606	(48,277,861)	23,339,745	2
Total	1,372,221,784	(48,277,861)	1,323,943,923	100

For year ended 31 December 2011:

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

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Ageing of arrears for past due loans and advances not impaired

	2012 USD	2011 USD
Below 30 Days	72,716,415	70,367,831
31 to 90 Days	11,116,755	15,407,040
Total arrears	83,833,170	85,774,871
Amounts not in arrears	84,316,008	63,097,427
Total	168,149,178	148,872,298
Below 30 Days	1,435,794	1,185,883
31-90 Days	1,689,156	284,436
91-180 Days	2,664,565	715,659
181-360 Days	9,164,878	11,664,258
Over 360 Days	14,060,091	13,599,658
Total arrears	29,014,484	27,449,894
Amounts not in arrears	42,603,122	24,578,397
Total	71,617,606	52,028,291

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.

36. 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

	2012 USD	2011 USD
Mortgages on properties	426,588,522	427,458,782
Fixed charge on plant and equipment	451,496,545	453,794,765
Cash security deposits	144,848,515	93,695,265
Floating All Asset Debentures	147,710,429	275,858,806
Sovereign Undertakings / Guarantees	424,814,214	474,481,490
Insurance	275,000,000	225,000,000
Total security cover	1,870,458,225	1,950,289,108
Past due but not impaired		
Mortgages on properties	78,538,867	83,834,038
Fixed charge on plant and equipment	156,507,010	170,272,268
Cash security deposits	459,643	-
Other Floating All Asset Debentures	39,663,608	79,663,608
	275,169,128	333,769,914
Impaired loans		
Mortgages on properties	54,652,560	34,251,035
Fixed charge on plant and equipment	34,121,969	21,156,189
	88,774,529	55,407,224

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Concentration of risk

Loans and advances to customers	2012 USD	%	2011 USD	%
Sector:				
Mining and Quarrying	5,805,442	-	6,568,548	1
Agribusiness	261,235,967	19	104,071,954	9
Banking and Financial Services	195,034,515	14	254,030,718	22
Education	-	-	52,822	-
Hospitality	62,268,965	5	52,576,040	5
Manufacturing and Heavy Industries	82,619,358	6	87,601,781	8
Other	13,283,785	1	1,620,490	-
Health Services	11,057,539	1	11,160,243	1
Agriculture and Forestry	38,848	-	60,699	-
ICT	-	-	13,742,049	1
Energy	71,857,571	5	56,805,379	5
Petrochemicals	389,805,253	29	328,912,621	28
Real Estate	74,687,013	5	63,994,103	6
Telecommunications	32,148,729	2	33,434,165	3
Infrastructure	82,226,554	6	19,342,326	2
Transport and Logistics	90,152,245	7	101,744,191	9
Total	1,372,221,784	100	1,135,718,129	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 2012, 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 USD 144.85 million (2011 – USD 92.68 million) and had insured exposure amounting to USD 184 million (2011 – USD 165 million).

Off- statement of financial position Items:

	2012 USD	%	2011 USD	%
Sector				
Mining and Quarrying	3,601,468	-	3,311,000	1
Agribusiness	269,384,441	26	57,866,175	14
Banking and Financial Services	122,386,661	12	27,697,443	7
Education	8,400,000	1	5,000,000	1
Hospitality	14,316,513	1	11,258,908	3
Manufacturing and Heavy Industries	20,409,556	2	29,860,739	7
Other	8,592,219	1	29,646,593	7
Health Services	10,485,044	1	2,179,654	1
ICT	-	-	11,315,773	3
Energy	786,496	-	12,807,677	3
Petrochemicals	476,861,109	46	187,995,360	47
Real Estate	53,155,248	5	5,072,819	1
Telecommunications	2,269,551	-	6,201,472	2
Infrastructure	34,395,006	3	-	-
Transport and Logistics	504,860	-	10,887,980	3
Total	1,025,548,172	100	401,101,593	100

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Restructured Loans

	2012 USD	2011 USD
The following loans were renegotiated during the year		
Project finance loans	55,760,122	41,371,041
Trade finance loans	-	42,408,743
	55,760,122	83,779,784

(c) LIQUIDITY RISK

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

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

The prudential minimum level of liquidity is updated quarterly.

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

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

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

36. FINANCIAL RISK MANAGEMENT (Continued)

(c) LIQUIDITY RISK (Continued)

Maturities of financial assets and financial liabilities are as follows:

At 31 December 2012:	Up to 1month USD	1 to 6 months USD	6 to 12 months USD	1 to 5 years USD	Over 5 years USD	Total USD
FINANCIAL ASSETS						
Cash and balances with other banks	462,607,857	-	-	-	-	462,607,857
Other receivables	1,802,767	82,210	73,534	62,346	-	2,020,857
Derivative financial instruments	-	-	-	13,541,042	-	13,541,042
Trade finance loans	142,763,593	484,475,164	157,156,517	49,824,008	13,304,913	847,524,196
Project loans	33,057,944	35,837,732	46,689,823	276,503,909	84,330,319	476,419,727
Equity investments	-	-	-	10,855,430	-	10,855,430
Total financial assets	640,232,161	520,395,106	203,919,874	350,786,735	97,635,232	1,812,969,108
FINANCIAL LIABILITIES						
Short term borrowings	188,317,403	292,529,741	50,479,174	150,000,000	-	681,326,318
Long term borrowings	18,023,122	14,420,398	27,001,912	488,526,133	100,268,049	648,239,614
Derivative financial instruments	-	-	-	12,308,254	-	12,308,254
Collection Account Deposits	144,851,598	-	-	-	-	144,851,598
Other payables	3,442,035	322,429	373,266	2,608,520	-	6,746,250
Total financial liabilities	354,634,158	307,272,568	77,854,352	653,442,907	100,268,049	1,493,472,034
Net liquidity gap	285,598,003	213,122,538	126,065,522	(302,656,172)	(2,632,817)	319,497,074
Cumulative gap	285,598,003	498,720,541	624,786,063	322,159,891	319,497,074	319,497,074

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.

36. FINANCIAL RISK MANAGEMENT (Continued)

(c) LIQUIDITY RISK (Continued)

Maturities of financial assets and financial liabilities are as follows:

	Up to 1month USD	1 to 6 months USD	6 to 12 months USD	1 to 5 years USD	Over 5 years USD	Total USD
At 31 December 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
Derivative financial instruments	-	-	-	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
Derivative financial instruments	-	-	-	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	2,129,940	-	3,150,135
Total financial liabilities	204,860,765	242,007,543	22,479,923	509,643,352	108,241,379	1,087,232,962
Net liquidity gap	323,167,773	32,378,165	121,191,745	(193,180,460)	(27,555,860)	256,001,363
Cumulative gap	323,167,773	355,545,938	476,737,683	283,557,223	256,001,363	256,001,363

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.

36. FINANCIAL RISK MANAGEMENT (Continued)

(c) LIQUIDITY RISK (Continued)

I. Liquidity and funding management

The Bank's liquidity and funding policies require:

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

II. Contingency Plans

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

- Unutilised lines of credit, including standby facilities, from different counter-parties.
- Term deposits with counter-parties and prospects of withdrawal and rollovers.
- Investment portfolio and its defeasance period.
- Amount of short-term resources with a time period, required to raise such resources.
- Amount which can be raised from other counter parties based on the Bank's past relationships.

(d) MARKET RISK

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

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

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

36. FINANCIAL RISK MANAGEMENT (Continued)

d) MARKET RISK (Continued)

I. Interest rate risk

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

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

	Up to 1 month USD	1 to 6 months USD	6 to 12 months USD	1 to 5 Years USD	Fixed interest Rate USD	Non-interest bearing USD	Total USD
At 31 December 2012:							
FINANCIAL ASSETS							
Cash balances with other banks	462,607,857	-	-	-	-	-	462,607,857
Other receivables	-	-	-	-	-	5,169,379	5,169,379
Derivative financial instruments	-	13,541,042	-	-	-	-	13,541,042
Trade finance loans	184,226,065	505,724,283	20,000,000	-	115,873,850	21,699,998	847,524,196
Project loans	200,816,472	218,933,827	-	-	49,331,362	7,338,066	476,419,727
Equity investments	-	-	-	-	-	10,855,430	10,855,430
Total financial assets	847,650,394	738,199,152	20,000,000	-	165,205,212	45,062,873	1,816,117,631
FINANCIAL LIABILITIES							
Short term borrowings	213,317,403	453,226,772	14,782,143	-	-	-	681,326,318
Long term borrowings	360,549,695	137,689,919	-	-	150,000,000	-	648,239,614
Derivative financial instruments	-	12,308,254	-	-	-	-	12,308,254
Collection Account Deposits	-	-	-	-	-	144,851,598	144,851,598
Provision for service and leave pay	-	-	-	-		4,201,424	4,201,424
Other payables	-	-	-	-	-	8,492,492	8,492,492
Total financial liabilities	573,867,098	603,224,945	14,782,143	-	150,000,000	157,545,514	1,499,419,700
Net interest rate exposure	273,783,296	134,974,207	5,217,857	-	15,205,212	(112,482,641)	316,697,931
Cumulative interest rate exposure	273,783,296	408,757,503	413,975,360	413,975,360	429,180,572	316,697,931	316,697,931

36. FINANCIAL RISK MANAGEMENT (Continued)

d) MARKET RISK (Continued)

I. Interest rate risk (Continued)

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

	Up to 1 month USD	1 to 6 months USD	6 to 12 months USD	1 to 5 Years USD	Fixed interest Rate USD	Non-interest bearing USD	Total USD
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
Derivative financial instruments	-	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
Derivative financial instruments	-	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

36. 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 2012 were outstanding at those levels for the whole year,
- Interest-bearing assets and liabilities denominated in currencies other than USD experienced similar movements in interest rates, and
- All other variables are held constant.

If interest rates had been 100 basis points higher or lower with the above assumptions applying, the Bank's net profit for the year ended 31 December 2012 would increase or decrease by USD 590,818 (2011 - USD 878,501) as follows:

Effect on the Bank's Net Profit:

The profit for the year ended 31 December 2012 would increase to USD 51,819,387 (2011: USD 35,143,876) or decrease to USD 50,708,751 (2011: USD 33,386,874).

The potential change is 1.2% (2011 - 1%) 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.

36. FINANCIAL RISK MANAGEMENT (Continued)

d) MARKET RISK (Continued)

II. Currency risk (Continued)

The Bank's currency position as at 31 December 2012 was as follows:

	USD	GBP	EURO	KES	TZS	UGX	MK	OTHER	TOTAL
FINANCIAL ASSETS:									
Cash and balances with other banks	456,149,532	19,414	1,374,466	759,185	194	161,035	4,124,658	19,373	462,607,857
Other receivables	5,169,379	-	-	-	-	-	-	-	5,169,379
Derivative financial instruments	13,541,042	-	-	-	-	-	-	-	13,541,042
Trade finance loans	768,230,809	-	79,293,387	-	-	-	-	-	847,524,196
Project finance loans	456,808,866	-	11,595,241	5,037,568	-	2,978,052	-	-	476,419,727
Equity investments	10,855,430	-	-	-	-	-	-	-	10,855,430
Total financial assets	1,710,755,058	19,414	92,263,094	5,796,753	194	3,139,087	4,124,658	19,373	1,816,117,631
FINANCIAL LIABILITIES:									
Short term borrowings	602,209,049	-	79,117,269	-	-	-	-	-	681,326,318
Long term borrowings	641,305,230	-	-	4,645,761	-	2,288,623	-	-	648,239,614
Collection account	140,728,402	-	-	-	-	-	4,123,196	-	144,851,598
Derivative financial instruments	-	-	12,308,254	-	-	-	-		12,308,254
Other payables	8,453,678	-	-	35,271	-	-	-	3,543	8,492,492
Provision for Service and Leave pay	4,201,424	-	-	-	-	-	-	-	4,201,424
Total financial liabilities	1,396,897,783	-	91,425,523	4,681,032	-	2,288,623	4,123,196	3,543	1,499,419,700
NET POSITION	313,857,275	19,414	837,571	1,115,721	194	850,464	1,462	15,830	316,697,931

36. FINANCIAL RISK MANAGEMENT (Continued)

d) MARKET RISK (Continued)

II. Currency risk (Continued)

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

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

	USD	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
Derivative financial instruments	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
Derivative financial instruments	-	-	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	986,019,036	-	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

36. FINANCIAL RISK MANAGEMENT (Continued)

II. Currency risk (Continued)

Currency risk - Sensitivity Analysis

The Bank is mainly exposed to Euros, Pound Sterling, Kenya Shillings, Tanzania Shillings, Malawi Kwacha, and Uganda Shilling. The following analysis details the Bank's sensitivity to a 10% increase and decrease in the value of the USD against the relevant other currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes cash and term deposits, securities, loans and borrowings in currencies other than United States Dollars. A positive number below indicates a decrease in profit and reserves when the USD strengthens by 10% against the other currencies in which the Bank has a net asset position. For a 10% weakening of the USD against the relevant currencies, there would be an equal opposite impact on the net profit.

	GBP	EURO	KES	TSH	MWK	UGX
2012	3,324	107,107	(6,144)	254	(412)	457
2011	2,655	(38,734)	16,018	(5,033)	(1,121)	(8,970)

37. 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.

37. 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.

	2012 USD	2011 USD
RISK WEIGHTED ASSETS		
On-Statement of financial position assets	854,604,192	673,365,143
Off- Statement of financial position assets	122,963,700	70,726,880
TOTAL RISK WEIGHTED ASSETS	977,567,892	744,092,023
CAPITAL		
Paid up capital	193,678,294	179,021,687
Retained earnings	150,573,269	99,344,700
Total capital	344,251,563	278,366,387
CAPITAL ADEQUACY RATIO	35%	37%

In addition, to its regulatory capital the Bank has access to additional capital in the form of callable capital. During the periods, the Bank complied with its capital adequacy requirements. There were no events after the reporting date.

38. FINANCIAL INSTRUMENTS CATEGORIES

The table below sets out the Bank's analysis of financial instruments categories.

	Loans and receivables USD	Held to maturity USD	At fair value through profit or loss USD	Hedging instruments USD	Loans and borrowings USD	Total carrying amount USD
As at 31 December 2012:						
Financial assets						
Cash and balances held with banks	462,607,857	-	-	-	-	462,607,857
Trade finance loans	847,524,196		-	-	-	847,524,196
Project finance loans	476,419,727	-	-	-	-	476,419,727
Equity investments	-	-	10,855,430	-	-	10,855,430
Derivative financial instruments	-	-	-	13,541,042		13,541,042
Total financial assets	1,786,551,780	-	10,855,430	13,541,042	-	1,810,948,252
Financial liabilities						
Collection account deposits	-	-	-	-	144,851,598	144,851,598
Derivative financial instruments	-	-	-	12,308,254	-	12,308,254
Short term borrowings	-	-	-	-	681,326,318	681,326,318
Long term borrowings	-	-	-	-	648,239,614	648,239,614
Total financial liabilities	-	-	-	12,308,254	1,474,417,530	1,486,725,784
As at 31 December 2011:						
Financial assets						
Cash and balances held with banks	214,712,178	-	-	-	-	214,712,178
Trade finance loans	691,802,179	-	-	-	-	691,802,179
Project finance loans	407,735,793	-	-	-	-	407,735,793
Equity investments	-	-	10,172,450	-	-	10,172,450
Investment in government securities	-	2,834,075	-	-	-	2,834,075
Derivative financial instruments	-	-	-	14,265,639	-	14,265,639
Total financial assets	1,314,250,150	2,834,075	10,172,450	14,265,639	-	1,341,522,314
Financial liabilities						
Collection account deposits	-	-	-	-	92,684,416	92,684,416
Derivative financial instruments	-	-	-	12,661,807	-	12,661,807
Short term borrowings	-	-	-	-	335,554,876	335,554,876
Long term borrowings	-	-	-	-	643,181,728	643,181,728
Total financial liabilities	-	-	-	12,661,807	1,071,421,020	1,084,082,827

39. TRADE FINANCE LOAN PORTFOLIO

Country	As at 31 December 2012			As at 31 December 2011		
	Balance outstanding USD	Amounts due within six months USD	Amounts due after six months USD	Balance outstanding USD	Amounts Due within six months USD	Amounts Due after six months USD
Kenya	20,559,300	20,028,555	530,745	34,673,103	34,673,103	-
Malawi	110,564,716	90,564,716	20,000,000	113,865,402	113,865,402	-
Mauritius	5,660,685	3,879	5,656,806	48,550,445	48,550,445	-
Rwanda	23,143,380	23,143,380	-	21,493,463	-	21,493,463
Seychelles	40,144,163	19,634,605	20,509,558	30,092,051	15,092,051	15,000,000
Sudan	80,082,962	789,575	79,293,387	-	-	-
Tanzania	65,843,346	58,076,127	7,767,219	59,150,686	10,091,516	49,059,170
Uganda	1,129,988	569,339	560,649	1,767,200	778,216	988,984
Zambia	325,418,788	325,021,186	397,602	200,525,660	200,525,660	-
Zimbabwe	197,618,797	89,407,395	108,211,402	197,714,183	126,931,335	70,782,848
Gross Loans	870,166,125	627,238,757	242,927,368	707,832,193	550,507,728	157,324,465
Less: Impairment on trade finance loans (Note 17)	(22,641,929)	-	(22,641,929)	(16,030,014)	-	(16,030,014)
NET LOANS	847,524,196	627,238,757	220,285,439	691,802,179	550,507,728	141,294,451

40. PROJECT LOAN PORTFOLIO

Country	Amounts Approved	Amounts Signed	Amounts Disbursed	Interest Capitalized	Amounts Repaid	Amounts Written off	Exchange Rates Adjust-ment	Interest Receiv-able	As at 31 December 2012 Balance Out-standing	As at 31 December 2012 Due within One year	As at 31 December 2012 Due after One year	As at 31 December 2011 Balance Out-standing	As at 31 December 2011 Within One year	As at 31 December 2011 Due after One year
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Burundi	31,574,208	27,274,208	15,250,230	139,767	(10,795,663)	(327,251)	-	83,527	4,350,610	1,918,973	2,431,637	4,133,710	853,689	3,280,021
Eritrea	403,652	403,652	403,652	-	-	(403,652)	-	-	-	-	-	-	-	-
Ethiopia	49,472,668	33,972,668	33,972,668	522,176	(15,455,609)	(2,421,192)	-	117,589	16,735,632	4,559,499	12,176,133	21,133,150	6,066,912	15,066,238
Kenya	254,952,539	233,952,539	188,652,561	1,532,900	(99,229,347)	(15,632,506)	374,253	1,587,652	77,285,513	13,680,887	63,604,626	50,924,243	23,556,749	27,367,494
Malawi	61,713,723	61,713,723	60,597,691	-	(25,550,132)	(1,086,107)	-	304,604	34,266,056	4,703,177	29,562,879	30,860,635	11,179,528	19,681,107
Mauritius	28,000,000	8,000,000	8,000,000	-	(566,515)	-	(701,878)	111,360	6,842,967	1,545,656	5,297,311	8,127,000	984,142	7,142,858
Rwanda	146,670,851	116,972,135	94,895,378	-	(22,141,606)	-	-	3,545,952	76,299,724	19,483,416	56,816,308	76,991,674	14,044,345	62,947,329
Seychelles	65,000,000	49,000,000	33,864,275	-	(12,232,499)	-	571,608	227,670	22,431,054	12,582,007	9,849,047	27,564,365	9,790,898	17,773,467
Sudan	78,381,910	78,381,910	26,685,457	5,455,627	(7,707,883)	(13,647,197)	-	322,470	11,108,474	1,244,109	9,864,365	2,930,520	1,328,507	1,602,013
Tanzania	255,322,792	151,322,792	125,676,701	114,319	(52,449,907)	(6,333,418)	(231,680)	406,611	67,182,626	17,682,306	49,500,320	62,668,244	21,887,470	40,780,774
Uganda	168,304,291	154,774,291	139,421,412	3,534,222	(54,971,953)	(7,323,643)	(41,824)	1,988,134	82,606,348	19,391,169	63,215,179	65,493,085	15,279,573	50,213,512
Zambia	138,952,661	127,452,661	122,734,048	24,324,048	(63,261,313)	(16,549,939)	-	364,793	67,611,637	8,977,552	58,634,085	53,310,658	21,592,803	31,717,855
Zimbabwe	129,739,939	95,939,954	60,379,434	117,714	(22,755,233)	(2,927,569)	- -	520,672	35,335,018	9,816,748	25,518,272	23,748,652	4,872,096	18,876,556
Gross loans	1,408,489,234	1,139,160,533	910,533,507	35,740,773	(387,117,660)	(66,652,474)	(29,521)	9,581,034	502,055,659	115,585,499	386,470,160	427,885,936	131,436,712	296,449,224
Less: Impairment on project loans (Note 17)									(25,635,932)	-	(25,635,932)	(20,150,143)	-	(20,150,143)
NET LOANS									476,419,727	115,585,499	360,834,228	407,735,793	131,436,712	276,299,081

41. STATEMENT OF SUBSCRIPTIONS TO THE CAPITAL STOCK

As at 31 DECEMBER 2012:

	Shares Subscribed	Percentage of total	Value USD	Callable capital USD	Payable capital USD	Instalments Due as at 31.12.2012 USD	Instalments paid as at 31.12.2012 USD
Burundi	1,230	2.14	27,880,410	22,304,329	5,576,081	5,018,472	4,917,289
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	220,320	122,400
Djibouti	54	0.09	1,224,018	979,214	244,804	223,885	223,885
Congo DRC	5,340	9.30	121,041,780	96,833,424	24,208,356	4,841,671	1,500,000
Egypt	5,340	9.30	121,041,780	96,833,424	24,208,356	21,787,344	21,787,344
Eritrea	240	0.42	5,440,080	4,352,064	1,088,016	979,204	544,000
Ethiopia	5,340	9.30	121,041,780	96,833,424	24,208,356	21,787,343	21,787,343
Kenya	5,340	9.30	121,041,780	96,833,424	24,208,356	21,787,344	21,787,343
Malawi	1,320	2.30	29,920,440	23,936,352	5,984,088	5,385,636	5,385,636
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	5,091,872	5,091,872
Seychelles	270	0.47	6,120,090	4,896,072	1,224,018	1,101,960	1,101,960
Somalia	318	0.55	7,208,106	5,766,485	1,441,621	1,297,448	720,800
Sudan	4,920	8.57	111,521,640	89,217,312	22,304,328	20,073,732	12,454,870
Tanzania	5,214	9.08	118,185,738	94,548,590	23,637,148	21,273,260	14,573,004
Uganda	3,600	6.27	81,601,200	65,280,960	16,320,240	14,688,096	8,160,000
Zambia	4,082	7.11	92,526,694	74,021,355	18,505,339	16,654,669	14,804,135
Zimbabwe	5,540	9.65	125,575,180	100,460,144	25,115,036	22,603,349	22,603,349
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	220,928,669	193,678,294

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

As at 31 December 2011:

	Shares Subscribed	Percentage of total	Value USD	Callable capital USD	Payable capital USD	Instalments Due as at 31.12.11 USD	Instalments paid as at 31.12.11 USD
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

ADMASSU TADESSE
President & CEO

PREMCHAND MUNGAR
Corporation Secretary, Director Legal

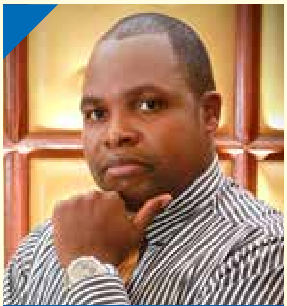
ALEX GITARI
Director, Finance

KINGSLEY MUWOWO
Director, Risk and Compliance Management

ABRAHAM BYANYIMA
Treasurer

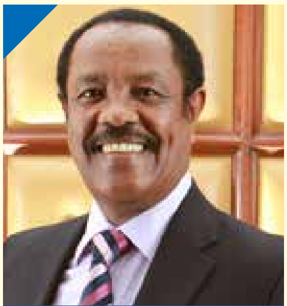
PATIENCE MATSHE
Director, Strategic Business Initiatives

JAMES KABUGA
Director, Project and Infrastructure Finance

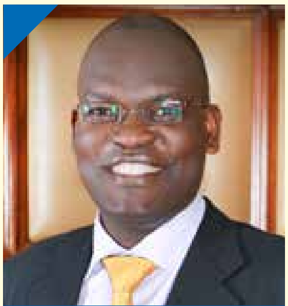


GEORGE MUDANGE
Director, Trade Finance

CHAKANYUKA GOODMAN
Head, Credit Risk Management

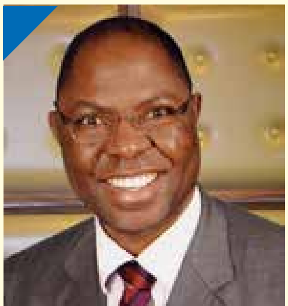


KIFLE HAMZA
Director, Human Resources and Administration



WYCLIFF BBOSSA
Director, Portfolio Management

MARY U. KAMARI
Head, Corporate Affairs



FRANCIS NAMBOYA
Head, Mauritius Office

	2013* USD	2012 USD
ADMINISTRATIVE EXPENDITURE BUDGET		
Personnel Costs	10,772,514	8,766,025
Board of Governors	232,9800	380,885
Board of Directors	431,300	379,445
Consultants and Advisors	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

* The 2013 approved budget includes provisions for various capacity building interventions some of which are funded by the Bank's strategic partners.

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK

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