Our Vision

To be the Preferred Development Financial Institution in the region

Our Mission

To be at the forefront of providing development capital in the region, through customer focused and innovative financing instruments backed by competitively priced funds in order to maximise returns to our shareholders

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Letter of Transmittal

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

Dear Mr. Chairman,

In accordance with Article 35 (2) of the Bank's Charter, I have the honour, on behalf of the Board of Directors, to submit herewith the Annual Report of the Bank for the period 1 January to 31 December 2008.

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 2009.

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

M.K. Nawa
Chairman

Chairman's Statement

2008 was a year of significant challenges for businesses across the globe and more so for banks and financial institutions. This was the year when loss of confidence among key global financial sector players and credit tightening reached unprecedented levels precipitating the economic recession that has continued well into 2009. Notwithstanding these challenges, 2008 remains a year of resounding success for the Bank, with new performance standards set and important milestones attained. Against this backdrop, it gives me immense pleasure to present, on behalf of the Board of Directors, this Annual Report and Audited Financial Statements for the year ended 31st December, 2008.

At the global level, world economic growth slowed from 3.7% in 2007 to 2.5% in 2008. This was on account of the onset of the recession triggered by the turbulence in the financial markets of advanced economies. The economic slowdown impacted significantly on commodity prices. Oil prices peaked at USD 147 per barrel in July and then fell to USD 48 per barrel at the end of the year as the USA, other developed and developing economies slumped into recession. The prices of base metals such as copper and other key commodities also followed similar trends during the year.

Sub-Saharan Africa's limited integration with the global financial system saw the continent posting more robust growth compared to advanced economies. Growth in the sub-region was projected at 5.4% compared with 1.3% recorded in advanced economies.

Despite the economic slow down, it is gratifying to note that the Bank was able to post an 88% increase in net profits to reach USD 12.46 million and record an 80% growth in its balance sheet which closed the year at USD 636.95 million. The favourable results attest to the soundness of the strategies that the Bank has been pursuing, the tremendous support from its diverse stakeholders and the depth and commitment of its staff and management teams.

Mr. M.K. Nawa, Chairman
Board of Directors

Chairman's Statement

During the year, the Bank commenced the implementation of its General Capital Increase. This programme which was approved in June, 2007, long before the onset of the global financial crisis, aims to strengthen the Bank and enable it implement the plans laid out in its 2008-2012 Corporate Plan.

The programme kicked off on an early and positive trajectory, with the Republic of Mauritius becoming the first shareholder to fully discharge its General Capital Increase obligations in May, 2008 followed by the African Development Bank in October, 2008. The People's Republic of China also partly discharged its obligations in February 2009 and has undertaken to meet the balance of its obligations by 2010. I also note with appreciation that many Member States have committed to commence payment of their capital subscriptions in 2009 and I urge them to honour their respective commitments to enable the Bank maintain its growth momentum and contribute meaningfully to the region's development initiatives.

In line with its conservative decentralization policy, the Bank opened a representative office in Harare in October, 2008. This move is aimed at bringing the Bank's services closer to its clients and enable it pursue activities that will support its growth strategy more effectively. In addition to supplementing the Bank's physical presence in Bujumbura, Burundi and Nairobi, Kenya, the Harare office will service clients based in Zimbabwe and the larger Southern Africa sub-region.

During the year, the Bank undertook various corporate governance initiatives. A review of the Code of Conduct for the Board members was undertaken and refinements made in line with international best practice. A joint initiative with a number of international financial institutions aimed at instituting an evaluation framework for Board members was also launched. In 2009, your Board will continue to work on these and other corporate governance initiatives as this is the key to achieving the Bank's stated aim of becoming a globally acclaimed institution.

A number of changes took place at the Board level in 2008 and early 2009. In April, 2008, Mr Abi Tsige representing the Ethiopia, Burundi, Malawi and Seychelles constituency retired from the Board and was replaced by Mr Melaku Kifle. In December, 2008, Mr Mukaila Ojelade, the alternate director for the African Development Bank retired from the Board and was replaced by Mr Bhargav Purohit. Finally, in March, 2009, my predecessor, Mr Mohit Dhoorundur retired from the Board and was replaced by Mr. Latanraj Ghoorah. My appreciation goes to Mr Dhoorundhur for his able leadership and the significant contributions he made during his tenure. I also wish to thank most sincerely Mr Tsige and Mr Ojelade for their dedication and valuable contributions to the Board and extend a warm welcome to Mr Melaku Kifle, Mr Purohit and Mr. Ghoorah.

While the outlook for the global economy in 2009 remains uncertain, I am encouraged by the support the Bank received from its stakeholders in 2008 and remain optimistic that this support will continue in the years ahead. On behalf of the entire Board, I take this opportunity to thank our valued customers, business partners and other stakeholders for their continued support and confidence. I also commend Staff and Management for ensuring that the Bank was able to achieve record performance levels both in terms of income and profitability.

Finally, on behalf of the Board, I would like to record our appreciation to the Board of Governors for the wise counsel and guidance extended in steering the affairs of the Bank.

M. Nawa
Chairman, Board of Directors

President's Statement

STRATEGIC OVERVIEW

Despite the turbulence witnessed in the international financial markets in 2008, the Bank was able to accelerate its growth momentum and record fairly significant improvements in its operational and financial performance. 2008 also marked the first year of implementing the Bank's Five-Year Corporate Plan and the performance attained was crucial in terms of anchoring the Plan and providing a solid start towards its implementation.

The Bank intensified its business development efforts and undertook various improvements aimed at enhancing the efficiency and effectiveness of its critical business processes. Improved service delivery to clients through decentralized operations and optimization of IT investments were undertaken. These efforts culminated in significant increases in the volume of transactions concluded and accounted for the remarkable improvement recorded in terms of financial performance. In pursuit of portfolio balance and diversification of markets, a number of projects were identified in Mauritius and Seychelles.

Various measures aimed at enhancing the Bank's resource capacity were put in place. Foremost among these is the General Capital Increase which, as the Chairman has reported, got off to a good start through the support of Mauritius, ADB and the People's Republic of China. In addition, the Bank's resource capacity was significantly boosted by the securing of new lines of credit from various international financial institutions.

In 2008, the Bank's international profile received a major boost when Fitch Ratings, a first tier international rating agency assigned, for the first time, a respectable BB- (double B minus) rating. Coming at a time of significant uncertainties in international financial markets, the Fitch rating affirmed the

Dr. Michael Gondwe, President
PTA Bank

President's Statement

Bank's international credibility and creditworthiness, attributes which will greatly assist in future resource mobilisation efforts.

During the year, the Bank undertook various measures to enhance capacity in the area of risk management. Additional resources were deployed to augment the capacity of the Compliance and Risk Management Unit and further investments are planned in 2009. Through its Bank-wide Integrated Risk Management Committee, the Bank intensified efforts to manage risks particularly those which had increased as a result of the financial crisis.

Looking ahead into 2009, the Bank expects that the prevailing economic crisis will lead to the contracting of credit from traditional sources thereby creating opportunities for increased financing. While these opportunities should enable the Bank to build on its growth momentum, adequate attention will be given to risk assessment and increased selectivity is envisaged in terms of the business development efforts. This selectivity is imperative in light of the risks posed by declining global demand and economic activity, declining commodity prices, tight liquidity and unpredictable costs of credit.

LENDING OPERATIONS

The Bank continued to enjoy the benefits of the aggressive business development strategy adopted in the previous three years. For the third year running, the Bank achieved strong performance, posting the highest value and number of projects approvals since inception. Similarly, and despite the difficult operating economic environment, the Bank recorded the highest level of commitments and disbursements across both project and trade finance windows.

PROJECT FINANCE

A total of 28 projects worth USD 176 million were approved during the year compared to 29 projects worth USD 169 million in the previous year, a 4% increase. Against a budget of USD 115 million, the approvals were 51% above target.

The level of disbursements increased from USD 54 million in 2007 to USD 66.91 million in 2008, the highest level ever attained. The 2008 disbursements represent a 24% growth and are attributable to the favorable business environment and improved loan processes. The latter ensured that the commitment processes in respect of approved projects were expedited thereby shortening considerably the lead times between loan approval and disbursement.

During the year, several projects in the key sectors of telecommunication, agri-business, manufacturing, housing, tourism and financial services were financed. In an effort to improve portfolio quality, the policy of blending the financing of start-ups and expansion projects was maintained. Most of the financed projects fell within the medium size category; however, the Bank also participated in large syndicated facilities. In recognition of the importance of the Small and Medium Enterprise sector, the Bank extended Lines of Credit amounting to over USD 15 million to a number of commercial banks for on-lending to this sector.

TRADE FINANCE

The Bank recorded substantial business growth in its trade finance activities spurred mainly by large-ticket import finance transactions derived from the record high commodity prices that prevailed for a significant part of the year. Letters of credit volumes increased to USD 633 million in 2008 from USD 223 million in 2007, an increase of 184%. Direct disbursements for the same period increased to USD 588 million from

President's Statement

the USD 156 million recorded in 2007, an increase of 277%.

The significant increase in trade finance volumes was driven mainly by the Bank's ability to successfully execute import LCs for procurement of crude oil feedstock for Zambia and refined oil products for distribution in Kenya, Seychelles, Uganda and Zimbabwe.

PORTFOLIO MANAGEMENT

Arising from the global economic crisis, the Bank intensified its portfolio management efforts and laid out proactive strategies to cope with the rapidly growing portfolio. Special attention was accorded to the performance of commodity based projects and trade finance facilities that were exposed to foreign buyers and markets. In anticipation of increased demand for loan work outs, the Bank beefed up its portfolio management capacity by recruiting additional personnel and outsourcing certain functions.

'In 2008, the Bank's international profile received a boost when Fitch Ratings, a first tier international rating agency assigned, for the first time a respectable BB- rating'

During the year, the Bank intensified its monitoring of projects under implementation in order to identify and control project completion risks. Relationships with co-financiers and local financial institutions were strengthened in order to promote efficient and effective monitoring and debt recovery processes. The Bank continued to strengthen environmental and social risk management awareness as well as to promote improved corporate governance practices among its clients.

RESOURCE MOBILISATION

In line with the increased volumes of business transacted, the Bank's resource mobilisation activities were stepped up so as to secure the significant levels of funding required.

In March, 2008, the Bank signed a USD 20 million line of credit agreement with FMO, the Dutch Development Finance Company. Soon thereafter, in May, 2008, the Bank signed a USD 98.6 million financing package with the African Development Bank. The package comprised a USD 50 million medium-term line of credit agreement, USD 47.6 million of equity subscription and USD 1.0 million grant for technical assistance. The Bank's resource capacity was further augmented in September, 2008 when a USD 50 million line of credit agreement was signed with China Development Bank. These medium term facilities will go a long way in augmenting the Bank's resource capacity in order to fund more projects in its Member States.

The Bank diversified its relationships with Export Credit Agencies by forging links with SACE, the official Export Credit Agency of Italy. Besides SACE, the Bank's network of Export Credit Agencies currently include the Export - Import Bank of USA, Japan Bank for International Cooperation, Export - Import Bank of India, Export Development Corporation of Canada, Hermes of Germany and ONDD of Belgium.

During the year, the Bank made significant efforts to safeguard and diversify its network of correspondent

President's Statement

relationships and secure increased credit limits. A short-term *murabaha* banking facility was secured from the International Islamic Trade Finance Corporation, an affiliate of the Islamic Development Bank while several other correspondent banks increased the limits of their credit lines. By year-end, the Bank had in excess of USD 256 million of resources available for further lending.

FINANCIAL MANAGEMENT

In line with its 2008 operational performance, the Bank delivered a robust financial performance.

Despite falling interest rates, interest income rose to USD 30.63 million, a 17% increase from the USD 26.23 million recorded in 2007. The record levels of trade finance and project finance disbursements contributed to the growth in interest income. Borrowing expenses increased by a commensurate 17% from USD 14.15 million in 2007 to USD 16.60 million in 2008. Accordingly, net interest income rose to USD 14.02 million in 2008 compared to USD 12.08 million in 2007.

The year witnessed an unprecedented 110% growth in fees and commission income from the USD 9.97 million level recorded in 2007 to USD 20.90 million. The increased volume of import finance facilities coupled with higher project loan approvals contributed to the growth of letters of credit, appraisal and other upfront fees.

In spite of the significant increase in business volumes, the Bank continued to enforce stringent cost control measures as an integral part of its financial management activities. Operating expenses increased by 14% from USD 7.45 million in 2007 to USD 8.51 million mainly due to staff recruitment and compensation adjustments.

The economic challenges prevailing in 2008 are expected to pose considerable difficulties to businesses across the globe including the Bank's loan portfolio. In anticipation of these difficulties and in order to reflect realistic loan values, the Bank increased its provisions to USD 15.71 million in 2008 from USD 8.17 million in 2007. At the end of the year, cumulative loan loss provisions stood at USD 44.08 million, a level which provides adequate cover against potential losses arising from non-performing loans.

The Bank's balance sheet grew by 80% from USD 352.92 million to USD 636.65 million in 2008. The bulk of this growth was recorded on the trade finance activities where the net loan balances grew from USD 103.56 million in 2007 to USD 331.10 million in 2008. In addition, project finance loans grew by 16% on account of the high disbursement levels recorded during the year.

Overall, the Bank posted a net profit of USD 12.16 million, representing an 83% increase over the USD 6.64 million recorded in 2007.

HR AND ADMINISTRATION

The increased business levels transacted in 2008 necessitated additional investments in the Bank's human resource capacity. In addition to recruitment of new staff, the Bank continued to bolster its capacity by investing in staff development programs to enhance core competencies, technical skills and knowledge at all levels. Drawing on the support provided under the African Development Bank's Technical Assistance Grant, the Bank provided various staff training and management development programs to its staff. Training was also extended to the Board of Directors on matters of corporate governance and on the impact of the global economic crisis.

President's Statement

RISK AND COMPLIANCE

The Bank continued to strengthen the risk management function housed under the Compliance and Risk Management Unit. A Compliance Officer and Risk Analyst were recruited bringing the staff complement in this function to three dedicated professionals.

To assist in the management of credit risk, the Bank is planning to operationalise a Credit Risk Assessment System in 2009. Upon completion of this project, similar projects aimed at automating the management of market and operational risks will be implemented.

CONCLUSION

The robust levels of business growth that were achieved would not have been possible without the hard work, innovation and enthusiasm of Staff. I take this opportunity to applaud these efforts which raised the performance bar for the Bank.

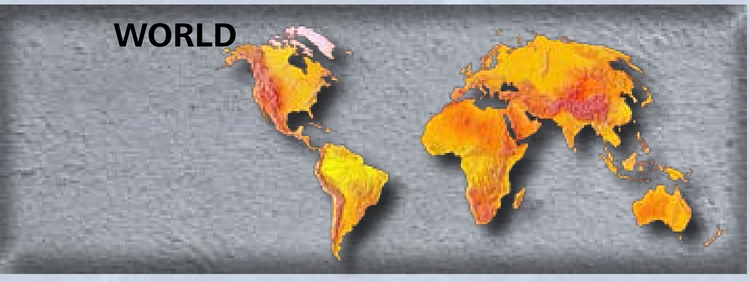
Further, I wish to thank all the Directors for the vision and the strategic leadership provided during an extremely challenging period. I also thank the Governors for the wise counsel and unwavering support provided to the Bank throughout the year.

Finally, my appreciation goes to our valued clients and Business Partners for their continued loyalty and commitment. I have confidence that, with the support of all stakeholders, the Bank will remain on course in its endeavour to meet the targets set out in its 4th Corporate Plan and also become the preferred development finance Institution in the region.

Michael Gondwe
PRESIDENT

Economic Environment

Economic Environment



Over the last five years the global economy has experienced strong growth with real GDP growth in 2007 reaching 5%. In addition to the growth from the advanced economies, emerging economies, particularly China and India, spurred global demand for raw materials and commodities. This resulted in price increases across the board for most commodities. Developing countries, particularly those producing mineral products and petroleum products registered robust growth which was partly commodity-driven on top of the significant macroeconomic stability gains that have also been made.

This situation has since changed following the collapse of the U.S sub-prime mortgage in August 2007. The interlinked nature of the global financial markets resulted in the collapse in the U.S spilling over to the rest of the advanced economies. As a result, the US economy is estimated to have grown by only 1.1% in 2008 compared to 2.7% in 2007. The Euro Zone grew by only 1% from 2.6% while Japan registered a growth rate of negative 0.3% in 2008 from a positive growth of 2.4% in the previous year.

As a result, the average growth rate of the advanced economies in 2008 stood at 1% compared to 2.7% in the previous year. This is despite efforts by both the US and European authorities in taking extraordinary measures to stabilize the markets through massive liquidity injections, extension of deposit insurance, bailouts of weak institutions and the use of public funds to purchase troubled assets from banks.

In totality the emerging and developing economies are estimated to have grown at a slower pace of 6.3% in 2008 compared to 8.3% in the previous year. A breakdown of this growth indicates that China and India grew by 9.0% and 7.3% in 2008 compared to 13% and 9.3% in 2007 while the African continent grew by 5.3% in 2008 compared to 6.2% in the previous year.

Economic fundamentals across the globe showed significant inflationary pressures driven by the surge in commodity prices during 2008. This was particularly noticeable in the emerging and developing economies due to the high weight of food in the consumer price index. In these economies, inflation is estimated to have risen and averaged 9.2% in 2008 compared to 6.4% in 2007. In the advanced economies, oil prices were mainly responsible for rising inflation which went up to 3.5% in 2008 from 2.1% in 2007.

World trade volumes also declined in tandem with the declining global output and grew by only 4.1% in 2008 compared to a growth of 7.2% in 2007. Advanced economies registered the slowest growth in imports as they only grew by 1.5% in 2008 compared to 4.5% in the previous year, while emerging and

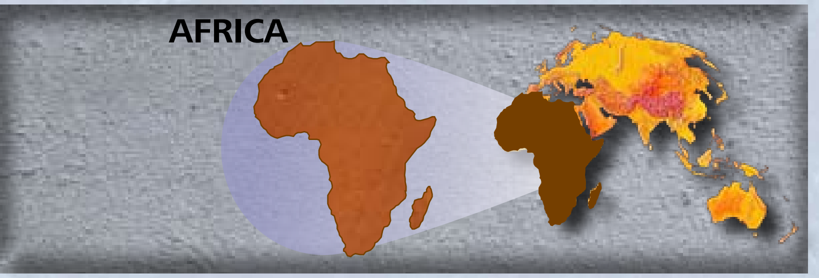
Economic Indicators for the World Overview (% Change)

	Real GDP Growth		Consumer Prices		Exports		Imports	
	2007	2008	2007	2008	2007	2008	2007	2008
World	5.2	3.4						
Advanced World	2.7	1.0	2.1	3.5	5.9	3.1	4.5	1.5
Emerging and Developing	8.3	6.3	6.4	9.2	9.6	5.6	14.5	10

Source: IMF

Economic Environment

developing economies grew by 10.4% from 14.5%. Exports also registered a similar trend with advanced economies registering a growth in exports of 3.1% in 2008 from 5.9% in the previous year, while emerging and developing economies had exports growing by 5.6% compared to 9.6% in 2007.



Despite the global crisis, growth in Sub Sahara Africa (SSA) continued to be relatively strong growing by approximately 5.9% in 2008 compared to 6.7% in 2007. Growth in oil importing countries is estimated to have been 8%, slightly lower than in the previous year. This was a result of lower than expected output in the Niger Delta, Chad and Equatorial Guinea. Non oil exporters grew by a 5% in 2008, lower than the previous year with Uganda and Ethiopia registering the highest growth.

Inflation across SSA is estimated to have averaged 11.7% in 2008 compared to 7.1% in 2007. All the sub-regions recorded an increase in prices reflecting higher inflationary pressures that built up during 2008 from higher food and fuel prices. Oil exporting countries average inflation is estimated to have risen to 9.9% from 5.7%, with Nigeria and Angola showing significant increases. The rest of SSA saw significant rises, in particular Seychelles, Kenya and Ethiopia.

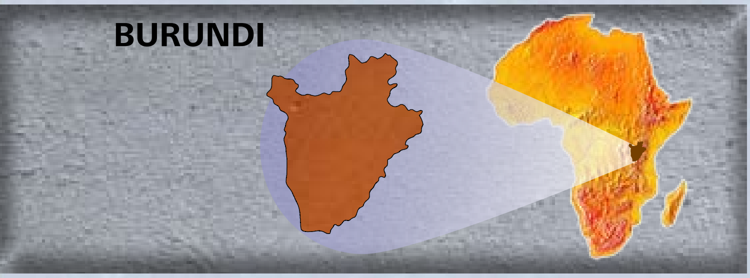
In 2008, the amount of investment going to the oil exporting countries declined to 20.4% of GDP from 21.9% in 2007. This was reflected in almost all the oil exporting countries. The rest of SSA on the other hand registered a slight increase in investments particularly in Botswana, Kenya, Malawi and Namibia.

Economic Indicators for Sub Sahara Africa and Sub Regions

	Real GDP Growth		Consumer Prices		Exports % of GDP)		Imports (% of GDP)	
	2007	2008	2007	2008	2007	2008	2007	2008
Sub Sahara Africa	6.7	5.9	7.1	11.7	38.2	41.5	36.4	37.5
EAC-5	7.1	6.1	8.2	15.5	21.4	21.0	34.0	35.6
COMESA	11.2	9.2	11.3	15.6	45.2	48.7	37.8	40.5
SADC	7.4	6.2	8.2	11.6	39.2	44.3	40.9	39.4

Source: IMF

Economic Environment



Real GDP growth for 2008 is estimated to have reached 4.5% from 3.6% in 2007. The agricultural sector continues to remain the cornerstone of the Burundian economy. Burundi's main cash crops - tea and coffee - are the main drivers of growth and make up a significant proportion of the country's exports. Coffee output rose in 2008/09 to reach 31,000 tonnes, compared with only 8,000 tonnes in 2007/08. The increase in output was due to the favourable response from farmers after the Office du café du Burundi (OCIBU) increased the price it pays farmers by 44%. This was in an effort to reduce smuggling to the region where producer prices are much higher.

Tea output is also estimated to have risen in 2008 to reach 8,250 tonnes, up from 7,100 tonnes in 2007. Increased production was further supported by higher international price of Burundian tea during the first nine months of 2008. The firming in prices was reflective of the better quality of Burundian tea due to the refurbishment of two of the country's main tea factories.

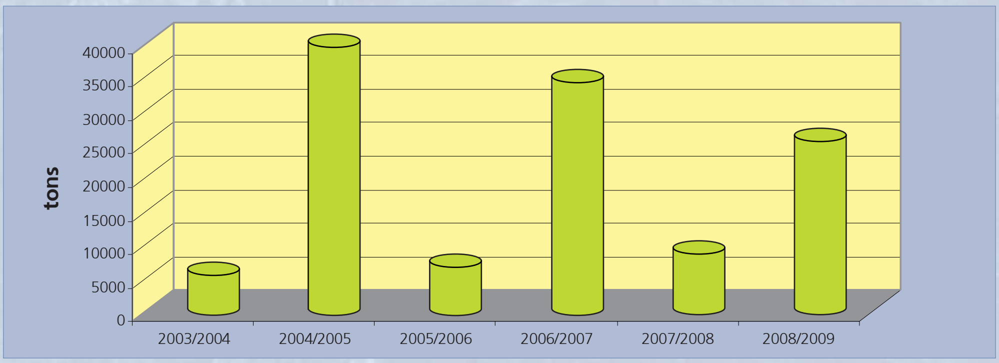
Monetary Policy

Monetary policy reform is making headway, despite the challenging policy environment. The central bank (Banque de la Republique du Burundi - BRB) continued its prudent monetary management, with the principal objective being that of containing inflation. Inflationary pressures were significantly higher in 2008 and by the end of August, annual inflation stood at 28%, driven principally by high global food and oil prices. As inflationary pressures moderated during the last quarter, the annual average is expected to be 19%.

Fiscal Policy

Total revenue for the first three quarters of 2008 was Bufr247.3bn, 44% of the planned annual total while donor disbursals during the same period totalled Bufr57.9bn, just 19% of the Bufr302.7bn hoped for in the 2008 budget. Although revenue was below budget, it was higher than collections during the same time of 2007. This was because of tax reforms. During the first half of 2008 domestic tax revenue was Bufr137bn (US$116m), which was 35% higher than a similar period the previous year. Aid disbursals were much lower, however, and resulted in total government revenue being 9% lower in the first half of 2008 than in the same period of 2007.

Coffee Production



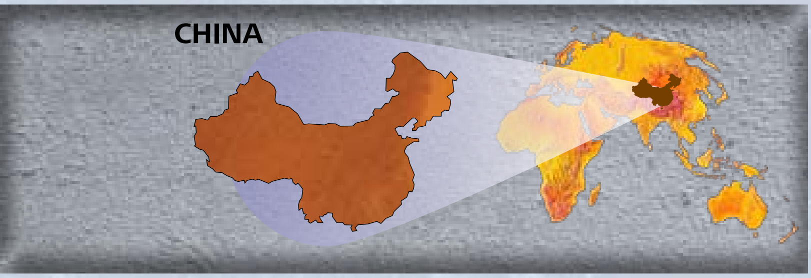
Economic Environment

Expenditure stood at Bufr191bn during the first half of 2008, Bufr13bn lower than over the corresponding period of 2007. This was as a result of a sharp drop in capital expenditure, which fell from Bufr73bn during the first six months of 2007 to just Bufr29bn over the same period of 2008.

Current expenditures on the other hand were significantly higher than in 2007. The net result was that fiscal deficit narrowed during the first half of 2008 to Bufr35bn, Bufr5bn lower than the deficit in 2007. In August 2008, the government approved a supplementary budget for 2008, increasing planned expenditure for the year by 14% to around Bufr593bn (US$510m).

External Sector and Foreign Exchange

Total exports for 2008 were expected to rise to USD 68.9 million from USD 52.2 million in the previous year. Increased tea exports were mainly behind this increase as they were projected to have grown by 45% to reach USD 13.5 million. Total imports also rose significantly in 2008 to reach USD 325.1 million from USD 271.2 million. The surge in imports was attributed to high global food and oil prices causing a rise in import costs. The current account deficit narrowed to 14.5% of GDP in 2008 from 16% of GDP in the previous year. The Burundi franc depreciated against the US dollar to average Bufr 1,185 vis-a-vis the US dollar in 2008 from Bufr 1,081.9 in 2007.



In 2008, China's monetary policy stance was adjusted with improved preemptiveness, targeting, and flexibility according to the changing situation. Money and credit supply maintained a stable and relatively fast growth momentum, featuring adequate liquidity in the banking system and a streamlined credit structure, which greatly supported the stable and relatively rapid development of the economy. In 2008 the Gross Domestic Product (GDP) registered 30.1 trillion yuan, up 9 percent year-on-year, and the Consumer Price Index (CPI) grew 5.9 percent year-on-year. The value added of the primary industry was 3,400.0 billion yuan, up by 5.5%, that of the secondary industry was 14,618.3 billion yuan, up by 9.3 percent and the tertiary industry was 12,048.7 billion yuan, up by 9.5%. The value added of the primary industry accounted for 11.3% of the GDP, up by 0.2% over that in the pervious year, that of the secondary industry accounted for 48.6%, up by 0.1% point, and that of the tertiary industry accounted for 40.1%, down by 0.3% point.

Monetary Policy

At the beginning of the year, in order to prevent the rapid economic growth from becoming overheated and to prevent the structural price hike from turning into entrenched inflation, the People's Bank of China (PBC) adopted tight monetary policy. China's economy had grown 13 percent in 2007, and most economies in the world were facing inflationary

Economic Environment

pressures. Commodity prices soared in the international market, China's CPI grew 8% in the first quarter of 2008, and the Producer Product Index (PPI) reached its peak of 10.1% in August. Taking into account uncertain factors such as the U.S. sub-prime crisis, the PBC strengthened the identification and forecasting of the domestic and external causes contributing to inflation and flexibly used a mix of quantitative and price instruments.

After raising the benchmark deposit and lending interest rates on six occasions in 2007, the PBC kept the interest rate policy unchanged in the first half of the year. To deal with the widening "dual surplus" and massive capital inflows, the PBC sterilized excess liquidity mainly by increasing the required reserve ratios, which were raised by a cumulative 3% points on five occasions in the first half of the year, freezing 70% of the increased liquidity as a result of foreign exchange purchases. At the same time, efforts were made to guide financial institutions to make reasonable credit planning.

At the beginning of 2008, the planned new loans for the entire year were set at 3.87 trillion yuan according to the actual economic development. After the snow and sleet disaster, and in order to provide sufficient funds for disaster relief efforts, the PBC guided financial institutions to speed up the credit supply for the first quarter on a differentiated basis according to the types of financial institutions and how severely the regions had been affected. After the Wenchuan earthquake in May, the PBC immediately lifted the credit ceilings for financial institutions incorporated in the disaster-stricken areas and guided national banks to strengthen allocation of intra-bank credit resources across regions so as to beef up credit support for the disaster-stricken areas. At end-2008 the outstanding balance of broad money M2 amounted to 47.5 trillion yuan, an increase of 17.8% year-on-year, up 1.1% from the growth in 2007.

Fiscal Policy

In 2008 total fiscal revenues (excluding debt income) reached 6131.69 billion yuan, up 19.5% year on year and representing a deceleration of 12.9% from the previous year; fiscal expenditures totaled 6242.7 billion yuan, up 25.4% year on year and representing an acceleration of 2.8%. As a result, expenditures exceeded revenues by 111.01 billion yuan.

The fiscal deficit is a result of the drastic decline in fiscal revenues in the latter half of the year and the increase in fiscal expenditures. Tax revenue growth was rapid at the beginning of the year but decelerated thereafter. In the first half of the year, national fiscal revenues grew by 33.3%, due to the rapid economic growth, decent corporate earnings, collection of the overdue corporate income tax in 2007, and additional tax revenue from the tail effects of the tax policy adjustment.

In the latter half of the year, national fiscal revenues declined gradually, as a result of the economic slowdown and the deceleration of corporate profit growth at the conjuncture of the international financial crisis, the substantial cut in the corporate income tax rate, and a series of tax relief policies aimed at improving macroeconomic management through fiscal means and to promote stable and relatively rapid economic development. In the latter half of the year, national fiscal revenues grew 5.2%, and fiscal revenues in central finance fell 0.9%. The Wenchuan earthquake in May 2008 and the 4 trillion yuan economic stimulus package drove up central government fiscal expenditures.

Real Sector

Urban and rural household income continued to rise and, driven by strong consumption demand, sales in the domestic market continued to grow at a relatively rapid pace. The per capita disposable income of urban residents registered 15,781 yuan, up 8.4% in real terms, 3.8% lower than the growth in the previous year; the per capita cash income of farmers grew by 8.0% in inflation-adjusted terms to 4,761 yuan, a deceleration of 1.5%.

Economic Environment

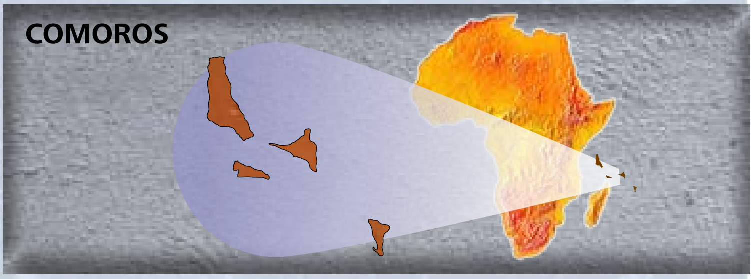
BOP and Exchange Rates

The total value of imports and exports in 2008 reached USD 2,561.6 billion, up 17.8% over the previous year. Of this total, the value of exports was USD 1,428.5 billion, up 17.2%, and the value of imports was USD 1,133.1 billion, up 18.5%. China had a trade surplus (exports minus imports) of USD 295.5 billion, an increase of USD 32.8 billion over the previous year.

In 2008 the BOP generally improved. The current account remained the primary source of the BOP surplus, but the share of the current account surplus in GDP dropped somewhat. Foreign capital inflows grew steadily, foreign debt growth slowed down, and the capital and financial account surplus fell. As of end-2008, the foreign exchange balance reached USD 1.95 trillion, an increase of USD 417.8 billion or 27.3%, a deceleration of 16 percentage points from the previous year.

As of end-September 2008, outstanding foreign debt posted USD 441.95 billion, up 18.3% over the previous year. Of this total, the registered foreign debt balance was USD 288.15 billion, up 19.8% from end-2007; the short-term foreign debt balance stood at USD 280.04 billion, an increase of 27.2% from end-2007, accounting for 63.4% of the total, an acceleration of 4.5% from end of 2007.

Since 2008 the fundamental role of market demand and supply was further reflected and in general the RMB exchange rate appreciated. At end-2008 the central parity of the RMB against the U.S. dollar was 6.8346 yuan per U.S. dollar, an appreciation of 4700 bps or 6.88 percent from the end of 2007; the central parity of the RMB against the euro was 9.6590 yuan per euro, an appreciation of 10.43% from the end of 2007; and the central parity of the RMB against the Japanese yen was 7.5650 yuan per 100 yen, a depreciation of 15.32% from the end of 2007. In terms of the trend, in the first half of 2008 the RMB exchange rate appreciated relatively rapidly, whereas in the second half of 2008, the RMB exchange rate against the U.S. dollar remained stable, basically in a range between 6.81 yuan per U.S. dollar and 6.85 yuan per U.S. dollar. From the initiation of the exchange rate regime reform to end-2008, the RMB cumulatively appreciated by 21.10% against the U.S. dollar and 3.68% against the euro, whereas it cumulatively depreciated by 3.42% against the Japanese yen.



After a difficult process of national reconciliation following the most recent political crisis on the island of Anjouan, the Union of Comoros is slowly getting back on track. However both economic and social conditions worsened in the post-conflict period and this has been reflected in the poor growth record which has been below the regional average. Per capita income has also shown a steady decline in recent years. Economic growth for 2008 is expected to stagnate to 0.5% similar to that of 2007.

The economy relies mainly on the agricultural sector and has a narrow export base with three export commodities, namely vanilla, cloves and ylang-ylang. Vanilla and cloves account for three-quarters of the Union's exports. Estimates indicate that vanilla production will stagnate, growing to only 50 tonnes which is similar to the output recorded for 2007. The decline has been due to the disruption of the harvest in June and July caused by severe oil shortages as well as the political instability on the island of Anjouan the main source of the vanilla crop. Clove output is expected to decline to 3,000 tons in 2008 from 3,500 tons in 2007 while ylang-ylang production will remain stable at the 2007 output.

Monetary Policy

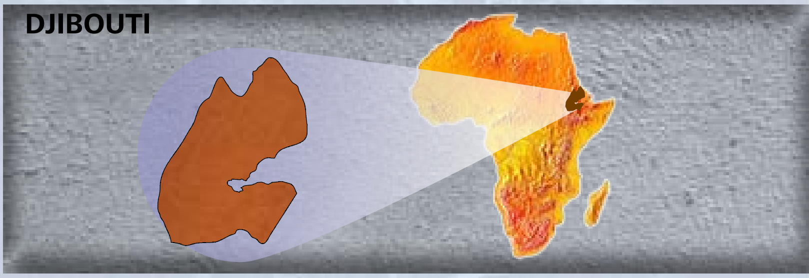
The Union's management of monetary policy is very much linked with its participation in the franc zone. As such, this has enabled the Union to contain inflation and maintain a stable exchange rate and an adequate level of foreign reserves despite major fiscal imbalances. Average inflation is projected to rise to 5.9% in 2008 from 4.5% in 2007, driven mainly by high oil and fuel prices. Monetary statistics indicate that broad money is projected to increase by 7.1%, with credit to the private sector remaining stagnant.

Fiscal Policy

The 2008 budget of the Union was approved by parliament in February 2008 but was later amended and approved by the National Assembly in November to include Anjouan and to consolidate the framework of the revenue sharing mechanism. The budget forecasts a fiscal deficit of 2.7% of GDP. Domestic revenues are estimated to have risen by 5% compared to 2007 to reach CF 22,301 billion or 12.4% of GDP reflecting mainly efficiency gains in tax and customs administration. Total expenditure is estimated at CF 38,978 billion or 21.7% of GDP.

External Sector and Foreign Exchange

Total exports for the Union are estimated to have risen to USD10 million in 2008 from USD 9.5 million in 2007. Imports rose more significantly to USD 161.2 million in 2008 from USD 140.1 million mainly reflecting higher energy and food prices. The current account deficit is expected to widen in 2008 to 8.7% of GDP from 6.7% of GDP in 2007.



In recent years, Djibouti's growth has largely been driven by foreign direct investments, with growth accelerating to 4.8% in 2006 and 5.3% in 2007. Growth is expected to accelerate further to 5.9% in 2008. The economy got a further boost in September 2008 when the IMF announced a new Poverty Reduction and Growth Facility (PRGF) with Djibouti. Under this agreement, the IMF will release USD 20 million for the implementation of political and economic reforms which are also in line with Djibouti's National Initiative for Social Development. These funds will be released between 2008 and 2011 with USD 6 million being made immediately available to cushion the impact of high food and oil prices.

The Port of Djibouti remains the country's growth driver. The port is a very strategic entry point for goods into the Horn of Africa. Since 2007, port traffic has increased significantly after three years of stagnation following the loss of most of its transshipment traffic after Pacific International Lines, a Singapore-based company, transferred its business to Aden, Yemen in 2003. Increased port activity spilled into the first quarter of 2008 reflecting a higher movement of Ethiopian goods using this port.

The strategic location of the Djibouti port has also resulted in increased trade with China which has indentified a strategic entry point for its products into the Horn of Africa. For the first nine months of 2008 trade between the two countries grew by 52%.

Monetary Policy

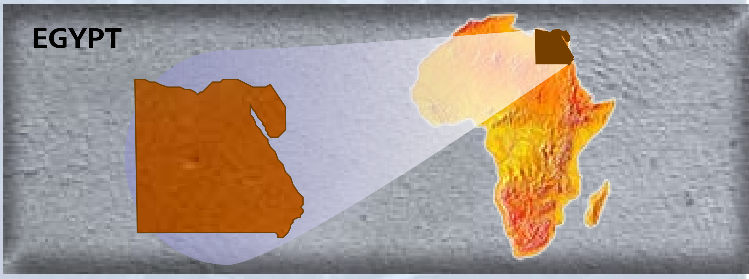
Broad money is projected to have risen to 12% in 2008 compared to 9.6% in the previous year reflecting an increase in net domestic assets and private sector credit. Inflation rate increased in 2008 to 8.5% compared to 5% in 2007. Inflationary pressures emanated from higher international oil prices and food shortages with stronger economic growth and public spending also spurring inflation. However there was a slight easing in inflationary pressures due to the removal of consumer taxes on basic foodstuffs in the second half of 2008.

Fiscal Policy

Estimates of budgetary operations indicate that the fiscal deficit narrowed to 1.9% of GDP in 2008 from 2.6%. Total revenue and grants declined to 32.9% of GDP due to a decline in tax revenue. Expenditure and net lending also declined to 34.9% of GDP reflecting a drop in both current and capital expenditures during 2008.

External Sector and Foreign Exchange

Total exports are expected to increase to USD 74.6 million in 2008 from USD 65.4 million in 2007. Most of the exports comprise mainly re-exports through the port of Doraleh into the neighbouring countries, particularly Ethiopia. Imports which are significantly higher than exports are estimated to have risen to USD 575.3 million in 2008 compared to USD 451.9 million from increased imports of capital goods. This resulted in the current account deficit widening to USD 282.2 million representing 27% of GDP from USD 194.8 million or 21.7% of GDP in 2007. No movement was recorded on the Djibouti franc which is pegged to the US dollar at Dfr177.72 while gross official reserves in import months of goods and services decreased to 1.7 months from 1.9 months in 2007.



The Egyptian economy grew to 7.2% in fiscal year 2007/08 compared to 7.1% in 2006/07. The growth mainly emanated from the tourism sector which grew significantly by 24.3% in 2007/08 compared to 13.2% in the previous fiscal year. The The tourism sector accounts for between 6% and 7% of GDP, and remains a major engine of growth. According to the Ministry of Tourism, tourist arrivals are estimated to have hit a record 13 million in 2008, 19% up on 2007. However, Egypt is not immune from the global crisis as statistics for the first half of 2008/09 indicate that the tourism sector slowed during this period with the sector growing by 14.2% in the first quarter of 2008/09 compared to 16.2% in the first quarter of 2007/08.

The vigorous pace of economic performance was also driven by strong domestic demand (consumer and investment) and the growth of oil and non-oil exports. Other growth sectors included the extractions industry comprising of petroleum and natural gas which grew by 4% in fiscal year 2007/08 compared to a growth rate of 3.9% in the previous fiscal year. The financial sector, manufacturing and communications industry grew by 7.6%, 8% and 14.2% in 2007/08 compared to 7.1%, 7.3% and 14.1% in 2006/07 respectively.

Other sectors of the economy that showed positive growth but grew at a slower pace were the construction sector and wholesale and retailing which grew by 14.8% and 7.1% in 2007/08 compared to 15.8% and 8.3% in 2006/07 respectively.

Economic Environment

Monetary Policy

The money supply growth indicator M2 increased by 14.1% in the year to end-September and by 10.5% in December, its slowest pace for 20 months. The decline in M2 in the second half of 2008 reflects a reduction in capital inflows, a direct result of the global crisis. In line with this, year-on-year inflation rate fell in October, to 20.2%, from 21.5% in September and 23.7% in August, stabilising in November, at 20.3%. The annual average inflation was significantly higher at 18.3% in 2008 compared to 9.5% in 2007.

In 2008, the CBE used interest rates to contain inflation expectations. In August 2008, the overnight deposit and lending interest rates were raised by 50 basis points to 13% and 11% respectively. The CBE also raised the discount rate by 100 basis points to 11%. Cumulatively the increase in interest rates was 2.25 percentage points.

Foreign direct investments (FDI) in Egypt rose to USD 13.2 billion or 8.1% of GDP in 2007/08. The distribution of total FDI was directed mainly to the oil industry with US$ 4.1 billion in 2007/08 from US$ 3.0 billion. The distribution of FDI to the other sectors of the economy was as follows: financial sector absorbed 12.3%; manufacturing 8.6%; services 5.2%, and construction 2.4%.

Fiscal Policy

Government expenditure in 2007/08 rose significantly to 34.1% of GDP compared to 33.4% of GDP in the previous fiscal year. The increase was attributed to the increase in subsidy spending due to rising food and energy prices. It is estimated that the subsidy spending reached USD 15 billion during this fiscal year. This trend continued into fiscal year 2008/09 with the first five months of the subsidy spending rising by 154% to USD 6 billion. Government revenue on the other hand declined to 27.8% of GDP from 28.1% of GDP. The decline was due to a fall in tax revenue and grants. The impact of this led to the fiscal deficit narrowing to 6.8% of GDP for 2007/08. To cushion the impact of the global crisis and boost the domestic economy, Egypt approved a stimulus package in November 2008 worth USD 2.7 billion to be directed towards mainly recurrent expenditure within the economy.

External Sector and Foreign Exchange

The overall balance of payments continued to be robust as the surplus narrowed to 3.3% in 2007/08 from 4.1% in 2006/07. The surplus stemmed from the dual effect of net inflows on the capital and financial account, and the surplus on the current account. This was also reflected in the current account surplus which narrowed to 0.3% of GDP from 0.5% of GDP in the previous fiscal year. Total exports rose to USD 29.3 billion in 2007/08 from USD 22 billion in the previous fiscal year. The rise in exports was due to a significant rise in petroleum exports which rose to USD 14.5 billion from USD 10.1 billion. The rise in petroleum exports was due to the high prices oil fetched.

Imports rose more significantly to USD 52.8 billion in 2007/08 from USD 38.8 billion in the previous year. This was from a 26.4% increase in non-oil imports, to US$ 43.2 billion which comprise mainly intermediate goods which represented 33.6% of total increase in imports.

The services sector ran a surplus of US$ 10.9 billion a due to the pickup in services receipts by 32.2%. This was a result of the rise in tourism revenues and Suez Canal revenues which scaled up by 32.9% and 22.8%, respectively.

The weighted average rate of the interbank foreign exchange market exchanged the Egyptian Pound at 533.31 to the US dollar at end of June 2008 showing an appreciation of about 6% compared with 569.67 at end of June 2007. The appreciation of the Pound was mainly due to the increase in confidence of the Egyptian economy.

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ERITREA

The Eritrean economy is estimated to have expanded by 2% in 2008 from a growth rate of 1% in 2007. The sluggish growth rate was attributed to the continued divided attention of the government between the border dispute with its neighbours Ethiopia and Djibouti. Although official statistics are unavailable, the impact of poor weather conditions, particularly drought, also continue to undermine growth in Eritrea.

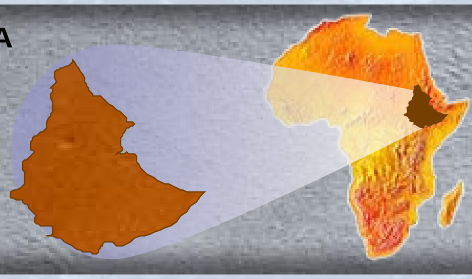
Eritrea's largest source of foreign exchange continues to remain the remittances from Eritreans in the diaspora. However the remittances have steadily declined from 41% of GDP in 2005 to 23% of GDP in 2007. With the global crisis starting to take full effect, it is estimated that these fell further in 2008. Inflation in 2008 is estimated to have risen marginally to 18% compared to 17% in the previous year

There has been keen interest in Eritrea's oil and mining sector. In October 2008, two agreements were signed for oil exploration off the coast of northern Eritrea. Substantial finds will transform the economic structure of Eritrea. Interest in the mining sector has even been more pronounced with over ten firms seeking mining licenses. Mineral deposits in Eritrea include gold, copper, zinc, iron ore and base metals.

External Sector and Foreign Exchange

The current account deficit continued to widen in 2008 to USD 254.8 million from USD 207.5 million in 2007. The widening was from a significant increase in imports which are estimated to have risen to USD 624.2 million from USD 580 million. Exports, comprising mainly of gold, are also estimated to have risen marginally to USD 13.9 million from USD 12.2 million. Prospects for increased exports in 2009 are expected to come from the mining sector and will result in the trade deficit declining subsequently. The Nafka exchanged at Nfa15.38 in 2007 and remained the same for 2008.

ETHIOPIA



Ethiopia has been successful in implementing macroeconomic reforms with the goal of reducing poverty that has resulted in the country sustaining an average growth rate of 11.5% since fiscal year 2003/04. With the backdrop of the global crisis, Ethiopia has not been immune to the exogenous shocks and the economic growth rate of 6.5% in 2008/09 compared to a growth rate of 8.5% previously is reflective of these effects. The robust growth was from the good harvest in the agricultural sector due to favourable weather for the fifth time in a row. The spillover effects of a good harvest translated into boosting the agro industry and services sector. The tourism sector recorded significant growth. Visitor arrivals are estimated to have risen by 15% to about 400,000 in 2008 while earnings are estimated to have risen by nearly the same margin to USD 214 million.

Ethiopia continues to face the challenge of electricity shortages and these got worse during the final quarter of 2007/08, due to poor seasonal rains and surging demand. The shortages caused a disruption in activity in some sectors, and is estimated to have reduced annual growth by approximately 0.5%.

Ethiopia is not under a formal IMF programme but has a similar initiative called the Plan for Accelerated and Sustained

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Development to End Poverty (PASDEP), which runs from 2006/07 to 2010/11. This initiative is a strategy of agriculture-led industrialisation that calls for investment of approximately USD 39.3 billion in enhancing infrastructure. In line with this, the World Bank in November 2008, officially launched Ethiopia's new Country Assistance Strategy (CAS) covering the period July 2008 to June 2011 to support PASDEP whose four main pillars focus on supporting key growth sectors; boosting the provision of basic services; building food security; and enhancing governance.

Monetary Policy

Inflationary pressures were significantly higher during 2008 as steep food prices pushed the year-on-year inflation in November 2008 to 49%. Food which makes the biggest part of the CPI basket was the main driver of inflation. Food inflation began to ease in the last quarter of 2008 following the increase in food production from the main harvest. However the impact of the fall in food prices on inflation was somewhat lessened due to the abolition of the fuel subsidies in October 2008 which resulted in increased fuel prices. Inflation is estimated to have averaged 45% in 2008 compared to 17.2% in 2007.

Fiscal Policy

Provisional figures indicate that the budget deficit widened to 4.4% of GDP in fiscal year 2007/08 compared to 3.3% of GDP in the previous fiscal year. However, excluding grants, the deficit was closer to 8.4% of GDP. The deficit was financed by domestic borrowing (2.4% of GDP), foreign borrowing (1.5% of GDP) and privatisation proceeds (0.4% of GDP), following the sale of a number of smaller scale state firms. The budget for 2008/09 projects a steep nominal rise in spending to Birr54bn (US$5.7bn) and higher revenue of Birr45bn, producing a deficit of Birr9bn (3% of GDP).

External Sector and Foreign Exchange

Total exports in 2008 benefited significantly from higher sales and world prices particularly for coffee, and from increased earnings from other commodities such as oilseeds, pulses, flowers and gold. Total export earnings rose to USD 1.4 billion in 2008 compared to USD 1.3 billion in the previous year. This was supported by an estimated 24% increase in coffee earnings to an estimated USD 525 million in 2007/08, the highest for several years reflecting stronger global prices and increased volumes. Imports also rose but at a much higher pace to USD 6.3 billion in 2008 compared to USD 5.2 billion in the previous year. The driver of imports was mainly high oil prices experienced throughout 2008. As a result, the current-account deficit widened to 6.2% of GDP in 2008 from 4.7% in 2007.

Strong import demand and import prices during 2008 steadily eroded the foreign exchange position with reserve cover falling to just 1 month of imports of goods and services by end-November 2008. The birr weakened in 2008 driven by pressure on foreign-exchange reserves to exchange at an average of Birr 9.57 vis-a-vis the dollar compared to Birr 8.95 in 2007.

KENYA

After the strong growth of 7% experienced in 2007, Kenya's real GDP growth for 2008 was adversely affected by the post election violence that occurred after the presidential elections in December of 2007. Coupled with the global downturn the much anticipated recovery of the economy in the latter part of 2008 did not materialize. The economy is estimated to have grown by only 2.2%, with the most affected sectors being tourism and agriculture which are estimated to have registered negative growth.

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Almost all the sectors in the Kenyan economy have been adversely impacted by both internal and external negative shocks, with the worst affected being agriculture, tourism and manufacturing. For the first eleven months of 2008, agriculture showed mixed performance with coffee, tea and sugarcane registering negative growth of 25.95%, 9.65% and 5.05% compared to positive growth of 4.1%, 23.4% and 5.65% in the first eleven months of 2007 respectively. The increase in the price of inputs such as fertilizer and chemicals impacted negatively on coffee while tea output declined due to unfavourable weather in the tea growing areas. The horticultural industry however, registered a positive growth of 2.1% which remained significantly lower than the 16.8% growth during the same period previously.

The tourism sector was not spared as international tourist arrivals between January and November 2008 period declined by 33.8%, from 952,396 visitors in the same period of 2007 to 630,941 visitors.

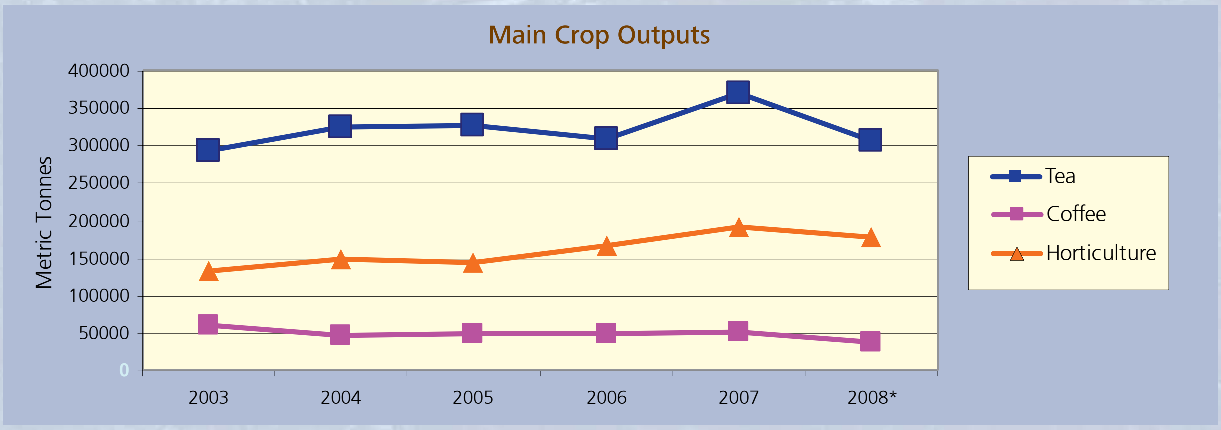
Monetary Policy

Money supply (M3) growth was higher at 19.3% in the year to June 2008 reflecting strong credit growth and an increase in foreign exchange. M3 growth slowed to 13% in the year to December 2008 compared with 20.9% a year ago. Reserve money broadly exceeded targets in the first quarter of 2008 before slowing down in the second quarter of 2008. Interest rate movements during the first half of 2008 edged upwards but started to decline at the start of the second half of 2008. The Central Bank Rate was reduced from 9% to 8.5% in December 2008.

Inflationary pressures during the first half of 2008 were driven by high food and fuel prices caused by the disruption in supply due to the post election impasse in the first quarter of 2008. By June 2008, inflation had reached 29.3%, exacerbated by unfavourable weather conditions and slow restoration of supply capacity.

Fiscal Policy

The overall budget deficit including grants widened in the fiscal year 2007/08 to stand at Ksh 87.5 billion or 4.3% of GDP on a commitment basis compared with Ksh 18.3 billion or 1.1% of GDP in the fiscal year 2006/07. This followed an increase in government expenditure and net lending from Ksh 406.8 billion or 23.7% of GDP in the fiscal year 2006/07 to Ksh 543.5 billion or 26.7% of GDP in 2007/08. Similarly, Government revenues including grants also rose but not enough to offset the increase in expenditure. The revenues stood at Ksh 455.9 billion or 22.4% of GDP in 2007/08 from Ksh 388.5 billion or 22.6% of GDP in the previous fiscal year.



*Source: Central Bank of Kenya *Figures for Jan - Nov only*

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External Sector and Foreign Exchange

The overall balance of payments surplus of USD 378 million in the year to November 2007 turned into a deficit of USD 43 million in the year to November 2008 reflecting the widening of the current account deficit despite improvement in the capital and financial account. The current account deficit widened from USD 1,085 million in the year to November 2007 to USD 2,113 million in the year to November 2008 due to the larger increase in imports which surpassed the increase in exports and services.

Exports during this period rose by USD 761 million to reach USD 4.9 billion. Behind the jump was an increase in tea, horticulture, manufactured goods, raw materials, coffee, and other miscellaneous exports, particularly chemical products, electrical machinery, tobacco products and sugar. Imports rose significantly by USD 1.8 billion to reach USD 10.8 billion in the year to November 2008. The increase was as a result of increase in imports of machinery and transport equipment, oil, manufactured goods, chemicals and other miscellaneous imports particularly palm oil, raw materials, wheat and miscellaneous manufactured articles.

During the first quarter of 2008, the Kenyan shilling depreciated by 2.6% reflecting post election violence sentiments, before strengthening during the second quarter by 1.8% against the US dollar and traded at Ksh 63.80 to the dollar in June 2008. The latter half of 2008 saw the shilling depreciate following pressure from the global financial crisis as foreign investors withdrew funds from the economy. On an annual average the shilling is estimated to have depreciated to Ksh 69.30 vis-a-vis the US dollar in 2008 compared to Ksh 67.30 in 2007.

Real GDP growth estimates in 2008 for Malawi were revised upwards to 8.7% compared to 8.6% in 2007. The growth impetus was from strong growth recorded in the manufacturing, information and communication, financial and insurance services, mining and quarrying, transport and storage, and accommodation and food services sectors. The agricultural sector also grew strongly resulting in increased tobacco output in 2008.

The Malawian economy is built around the agricultural sector which continues to be the driving factor for growth within the economy. In 2008, the sector is estimated to have grown by 10.1%, in real terms, compared to 12.3% in 2007. The slower growth in 2008 was due to the 10.6% deceleration in the crop and animal production sub-sector mainly from the dry spell and localised floods that were experienced during the 2007/08 season. The forestry and aquaculture sub-sector is expected to have recovered only slightly with a growth rate of 0.3% in 2008 after a contraction of 14.0% in 2007. The forestry and logging sub-sector, on the other hand is expected to register a similar growth rate of 6.0% as in 2007.

The main cash crops in the agricultural sector are tobacco and tea which also make up a significant part of Malawi's export commodities. Estimates from the Tobacco Control Commission indicate that the production of tobacco increased to 169.7 million kilograms in 2008 from 110.6 million kilograms in 2007. The increase was as a result of a positive response from growers to better prices fetched in 2007 in addition to favourable weather conditions. A total of 194.6 million kilograms were sold as of end-September 2008 compared

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to 110.7 million kilograms sold in the preceding season. Tea production for the first three quarters of 2008 stood at 34.3 million kilograms.

Other sectors of the economy also showed significant growth. The mining and quarrying sector is estimated to have grown by 5.8% in 2008 from 4.7% in 2007 due to an increase in quarrying activity. The manufacturing sector grew by 12.1% in 2008 compared to 3.6% in 2007 supported by favourable macroeconomic environment that enabled the manufacturing sector to increase output. The construction sector, on the other hand, is estimated to have registered slower growth of 8.1% in 2008 from 9.2% recorded in 2007.

Monetary Policy

Money supply is estimated to have grown by 33.1% in 2008 to MK139.6 billion reflecting an increase in net domestic credit to MK158 billion in 2008 from MK72.1 billion in 2007. Net foreign assets on the other hand declined to MK18.7 billion. Inflation in 2008 is expected to average 8.7% in 2008 compared to 7.9% in 2007. The economy was not immune from the effects of the high international oil prices and food although the adverse effect of the high food prices were somewhat lessened due to the good harvest of the maize crop in 2008.

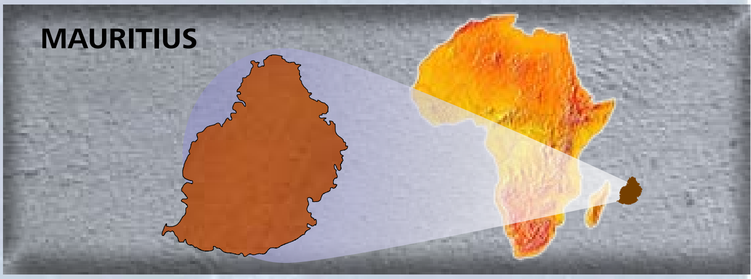
Fiscal Policy

Fiscal policy during the greater part of 2008 was expansionary. The fiscal deficit is estimated to have widened to 3.5% of GDP in 2008 from 2.3% of GDP in 2007. The widening deficit was as a result of increasing government expenditure which was partly directed towards the fertilizer subsidy programme on top of an increase in recurrent spending. For the first three quarters of 2008, government expenditure rose to MK 138.4 billion from MK 121 billion. Revenues also rose in 2008 with the first three quarters of the year registering an increase to MK113.7 billion from MK110.3 billion in the first three quarters of 2007. The increase was mainly as a result of a boost in tax revenues.

External Sector and Foreign Exchange

Total Malawian exports for 2008 rose to USD 688.5 million from USD 634.3 million in the previous year while imports are estimated to have increased to USD 992.1 million from USD 920.3 million. A significant proportion of export earnings came from tobacco exports which are estimated to have reached USD 472.4 million due to higher auction prices. Globally, the supply of tobacco was lower than anticipated following a decline in output from China. The current account balance narrowed to 13.3% of GDP in 2008 from 14% of GDP in 2007.

The kwacha was relatively stable throughout most of 2008 and exchanged at an average of MK140 against the US dollar compared to the previous year. At the close of December 2008 gross external reserves stood at USD 287.7 million resulting in import cover equivalent of 2.2 months.



In line with global downward revision of economic growth forecast, Mauritius's real GDP growth for 2008 has also been revised downwards from an initial forecast of 5.6% to 5.2%. The downward revision was mainly attributed to lower growth in the textiles and tourism sectors. However the slower growth was partly offset by much higher growth in the financial sector. Compared to the previous year, growth was also lower as the economy grew by 5.4% in 2007. Exclusive of the sugar sector, the growth rate was 5.2% compared to 6.1% in 2007.

In 2008, 69.1% of GDP was generated by the tertiary sector

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comprising mainly the service industry while 26.8% was generated by the secondary sector. The remainder, or 4.1%, was attributable to the primary sector which consists mainly of agricultural activities. Sectoral contribution to GDP growth was as follows: primary sector: 0.2%; secondary sector: 1.2% and the tertiary sector: 3.8%.

In growth terms, the tertiary sector grew by 6.0% in 2008, lower than the 6.7% growth posted in 2007. The lower growth in 2008 was mainly attributed to the significantly slower growth in the tourism industry which grew by 3.1% compared to 14% in the previous year reflecting mainly the impact of the downturn in the global economy. However the main driver of growth in 2008 was financial intermediation which grew by 10.1% compared to 7.5% in the previous year, as a result of growth of 5.0%, 12.9% and 7.0% in insurance, banks and other financial intermediation activities respectively.

The secondary sector grew by 4.1% in 2008 after a growth of 5.0% in 2007. The slow down was a result of reduced activity in the sector's main component - the manufacturing industry - which grew by only 1.8% compared to 2.2% in the previous year. Within this, the textile industry grew marginally at 0.2 % from a growth of 13.6% in 2007 while sugar milling rebounded by 5.5% after a contraction of 13.6% in the previous year.

The primary sector which comprises mainly agriculture and related industries rebounded significantly by 5.2% in 2008 after a decline of 7.5% in 2007. The favorable weather conditions led to increased production particularly in sugarcane which grew by 5.5% in 2008.

Monetary Policy

Throughout 2008, inflation increased reaching its peak in July 2008 mainly due to increases in price of petroleum products. Inflationary pressure eased later in the year in the last two months of 2008 in response to a decline in prices of some food products and petroleum products. For the calendar year 2008, the inflation rate works out to 9.7% compared to 8.8% for calendar year 2007.

In response to the global economic downturn in December 2008, the Monetary Policy Committee lowered its main policy interest rate, the repo rate by 100 basis points to 6.75% in an effort to stimulate the domestic economy.

Fiscal Policy

In fiscal year 2007/08, the fiscal deficit narrowed to 4.2% of GDP. This was in response to a 22% increase in tax revenue, driven by strong GDP growth during the year. The fiscal budget for 2008/09 based on the premise of a 6.2% growth rate indicates that the fiscal deficit will narrow further to 3.8% of GDP with an expected increase in tax revenue and expenditure of 9% and 13% respectively. However, with the global economic downturn, the growth forecasts for Mauritius have been revised downwards and the performance of the remainder of 2008 is expected to be lower than previously estimated.

Year	Tourist arrivals (Numbers)	Tourism receipts (Rs Million)
2005	761,063	25,704
2006	788,276	31,942
2007	906,971	40,687
2008	930,456	41,213

Source: Central Statistics Office, Mauritius

External Sector and Exchange Rates

Total exports of goods and services increased by 4.2% to Rs 144,329 million in 2008 from Rs 138,530 million in 2007 and in real terms, this represents a growth of 4.4%. After a decline of 10.6% in the exports of goods during 2007, exports rose by 3.8% in 2008. The increase was as a result of higher export volumes of sugar, fish products and other manufactured goods except textiles and apparel. Exports of services recorded lower growth of 5% compared to 23.1% recorded in 2007. The

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significant decline was from a low growth in tourism earnings in 2008 which are estimated to have grown by 1.3% to Rs 41,213 million compared to Rs 40,687 million for 2007

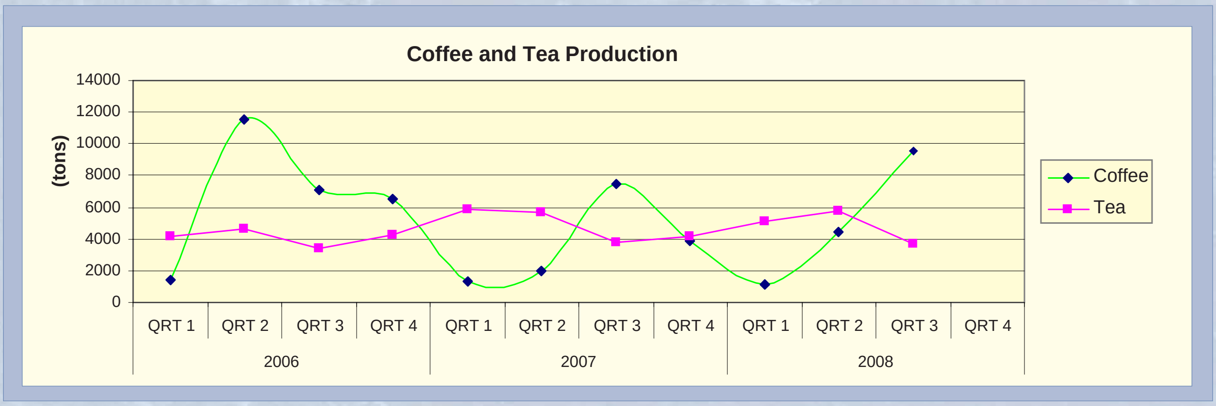
Total imports of goods and services grew by 3.1% in 2008 compared to 2.1% in 2007. Imports of goods grew by 3.2% as opposed to a decline of 1.3% in 2007 due to higher imports of food and petroleum products, while imports of services, which include insurance and freight paid in respect of imported goods, grew by 3.1% compared to 10.9% in 2007.

Sound macroeconomic and structural policies over the last decade have resulted in sustained economic growth in Rwanda backed by substantial donor assistance. Real GDP growth in 2008 is estimated to have reached 8.5% primarily from the buoyant private sector activity particularly in the services, manufacturing, mining, construction and the agricultural sector.

Favorable terms of trade, and inflows of aid and foreign direct investment (FDI) have aided and stimulated the Rwandan economy significantly over the last decade. The agricultural sector is estimated to have grown by 14.7% in 2008 compared to a depressed growth of 0.7% in 2007. The significant growth was from an increase in the production of cereal products such as maize and wheat.

Favourable weather conditions coupled with improved fertilizer and seed inputs were behind the improvement in the sector. The performance of cash crops was mixed. Tea output declined significantly by 5.6% for the first nine months of 2008 down from an expansion of 22.2% in the same period of 2007. Coffee on the other hand grew significantly by 41.3% in the first nine months of 2008 on the back of a depressed growth period previously.

The industrial sector grew by 14.6% in 2008 from 10.2% in the previous year mainly from the continued boom in the construction industry. Growth in both the telecommunication and the financial sector was behind the 4.2% growth in the services sector although it was at a slower pace compared to the 12.8% growth in 2007. Despite the robust growth infrastructural challenges especially in the energy sector constrained the performance of the manufacturing sector as well as other sectors of the economy.



Source: National Bank of Rwanda

Economic Environment

Monetary Policy

Monetary policy in 2008 has been conducted in line with the macroeconomic framework of the Poverty Reduction Growth Facility with the IMF. Broad money rose to Rwfr466.6 billion in September 2008 while credit to the private sector rose to Rwfr328.1 billion. Interest rates rose during the most part of 2008 driven by monetary policy measures taken by the authorities to combat inflation.

Inflationary pressures were significantly higher in 2008. To start with, the crisis in Kenya in the early part of 2008 caused a disruption in the supply of oil products and various other goods to Rwanda pushing prices up. Mid year, the increase in the international food prices and fuel added further to the inflationary pressures and by December, headline annual inflation had risen to 22.4%. Annual average inflation is expected to stand at 15% in 2008 compared to 9.1% in the previous year.

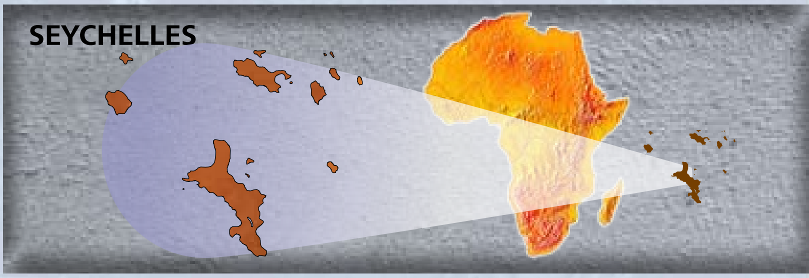
Fiscal Policy

The fiscal budget performance during the first three quarters of 2008 was positive with tax revenue during this period reaching Rwfr447.98 billion, significantly higher than government estimates. Total expenditure for the first three quarters was at Rwfr483.05 and is expected to increase further in the last quarter. The total fiscal deficit is expected to reach 6.5% of GDP.

External Sector and Foreign Exchange

Rwanda's exports continue to remain fairly small compared to the region's average and mainly constitute the two main cash crops, tea and coffee and, recently, mineral products. For the first nine months of 2008 exports rose by 40% in value terms to USD 193.4 million compared to USD 137.7 million in the same period of 2007. Of this, coffee and tea amounted to 32.9% of total exports while 36.5% was accounted for by mineral exports. The average price of both coffee and tea resulted in better earnings for the two in 2008 compared to 2007 with tea and coffee earnings at USD 32 million and USD 31.7 million the first nine months of 2008 compared to USD 24.1 million and USD 26.5 million in the same period of 2007 respectively. Cassiterite and coltan were the major mineral exports and earned USD 34.1 million and USD 27.1 million compared to USD 21.5 million and USD 11.3 million respectively. Imports are estimated to have also risen significantly by 58% to USD 815 million from USD 514.6 million.

On an annual basis, total exports are expected to reach USD 212.7 million while total imports are expected to reach USD 975 million. The Rwandan franc, bolstered by rising exports and donor support depreciated to Rwfr547.34 against the dollar in 2008 compared to Rwfr548.28 in 2007.



Seychelles' economy is estimated to have grown by 3.1% in 2008 compared to 7.3% in 2007. The reduction in real GDP growth in 2008 was from a decline in Seychelles' leading economic activity, tourism. It is estimated that the number of visitors declined during the first nine months of 2008, with tourist arrivals estimated at 120,000. This compares to 2007 tourist arrivals of 161,000.

The IMF approved a standby facility for Seychelles in November 2008 worth USD 26 million to be disbursed over two years in response to Seychelles' request for assistance. The chronic shortage of foreign exchange resulted in the Island defaulting on its foreign debt repayments in August and October of 2008. The shortage of foreign currency was as a result of the artificially high rupee and strict currency controls which distorted macroeconomic fundamentals.

Economic Environment

Foreign direct investment which is mainly targeted at the tourism sector is estimated to have risen to USD 166 million during the first half of 2008. Year-on-year FDI grew by 52%. The second half of 2008 however was expected to see a reduction in investment inflows reflecting the impact of the global economic crisis. The tuna industry was impacted by the marine piracy spilling over from Somalia. This had the impact of reducing the output of tuna.

Monetary Policy

Monetary policy focused on meeting specific monetary and inflation targets. However, the effect of monetary policy is limited as most consumer goods are imported, leaving the exchange rate as the main tool for controlling inflation. Inflation soared in 2008 reaching 34.2% year-on-year in September, due to the rising prices for food and energy. Inflation rose even further to reach 60.6% and 63.6% year-on-year in November and December 2008 respectively. Besdies price increases in oil and food, the devaluation of the rupee spurred inflation even further during the last two months of 2008.

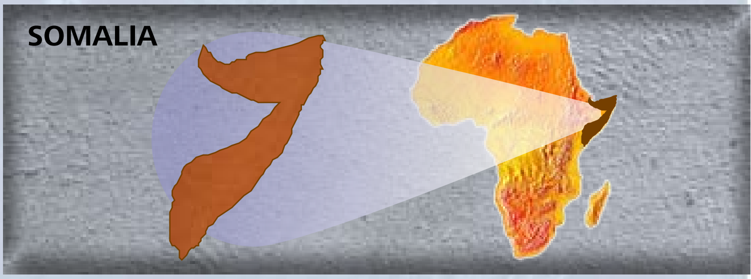
Fiscal Policy

Fiscal policy in 2008 was tightened with the surplus estimated at 5.6% of GDP. This compares to a deficit of 2.3% in 2007. The surplus was achieved due to controlled spending by the government through a reduction in wage bill growth assisted by growing tax revenues in 2008.

External Sector and Foreign Exchange

The current account deficit is estimated to have widened in 2008, from 23% of GDP in 2007 to almost 29%, due to lower growth in tourism receipts, increased imports due to high prices of petroleum and food, and higher costs of transportation services. This caused the official reserves to fall to about USD 14 million in October 2008. Total exports are estimated to have risen to USD 424.1 million in 2008 from export earnings of USD 391.7 million. Seychelles' main export, tuna, is estimated to have registered a drop in earnings. Tuna exports declined in 2007 by about 1.6% reflecting a 21.5% drop in output to 31,569 tonnes. By the first quarter of 2008, exports had declined further by 19.5%. The overall increase in export earnings was as a result of increased re-exports mainly as a result of increase in the price of oil which is the main re-export commodity. Total imports rose to USD 890.6 million in 2008 compared to imports of USD 804 million.

After the rupee was floated on November 1, it lost 75% of its value against the three currencies in the local basket (the euro, sterling and the US dollar) on the first day of trading and continued to fall to reach SRs16.57 in December 2008.



The political instability resulting from the civil war which broke out in 1991 has continued to impact adversely on economic growth throughout Somalia. A stable government is pivotal to the commencement of any positive gains in economic activity and growth in Somalia. The country depends heavily on the annual remittances of approximately USD 825 million from Somalis in the diaspora. However the global economic crisis is expected to put pressure on remittances which are expected to have declined slightly in 2008.

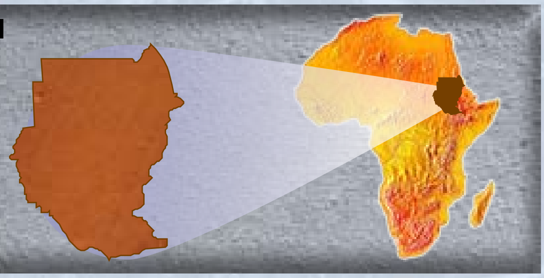
There is little or no economic data or statistics on the country. An analysis done by the UN's Food Security Analysis Unit (FSAU) indicated that the Somali shilling continued to depreciate against the US dollar throughout the various parts of the country and it is estimated to have depreciated by up to 100% in some parts of the country.

Economic Environment

However, much of Somaliland, a break away state which is yet to be internationally recognized and situated in the northern parts of Somalia has enjoyed relative calm and peace and this has been reflected in positive gains in the economic activity and growth relative to the other parts of Somalia. The main source of revenue remains the port of Berbera which accounts for about 80% of government revenue.

The piracy problems experienced in 2008 saw the Somaliland President offering to put the deep-water port of Berbera at the disposal of the US, British, Indian and other navies involved in the campaign against piracy in Somali waters. This helped improve the image of the breakaway state which is still seeking international recognition. It is estimated that proceeds from piracy amounted to USD 30 million from ransom payments in 2007 and these proceeds are expected to have increased further in 2008 corresponding to the increase in the incidences of piracy in 2008.

SUDAN



Over the last few years, Sudan's economy has been driven mainly by the oil sector. The significance of this has been more pronounced with increased oil prices over the last two years causing growth to reach double figures of 11.3% and 10.2% in 2007 and 2008 respectively. However, real GDP growth for 2008 is expected to decline significantly to about 5.5% reflecting a decline in the production of oil from ageing oil fields.

Although the agricultural sector still accounts for a third of the Sudanese economy, the oil industry is the main engine for growth accounting for a large percentage of exports. The industry has also been the destination for most of Sudan's significant foreign direct investment. However, during the first half of 2008, oil production is estimated to have declined and caused the slower growth of 5.5% in 2008. By the second quarter of 2008, oil production had declined by 11% to average 441,000 barrels/day. This reduction was mainly due to a steady fall in the output of the maturing fields in concession blocks 1, 2, and 4.

Production in Block 1, 2 and 4 has declined to 206,000 barrels/day from a high of 265,000 barrels/day. It is estimated that total output drop in 2008 will be 4% to approximately 465,000 barrels/day. Although new production is expected to come on-stream and will offset this decline, the best-quality oil yet to be discovered still remains in the ageing fields. The government of Sudan is keen to boost the non oil sector and diversify the economy. The main of focus is on agriculture which is highlighted in the five-year plan launched in 2007.

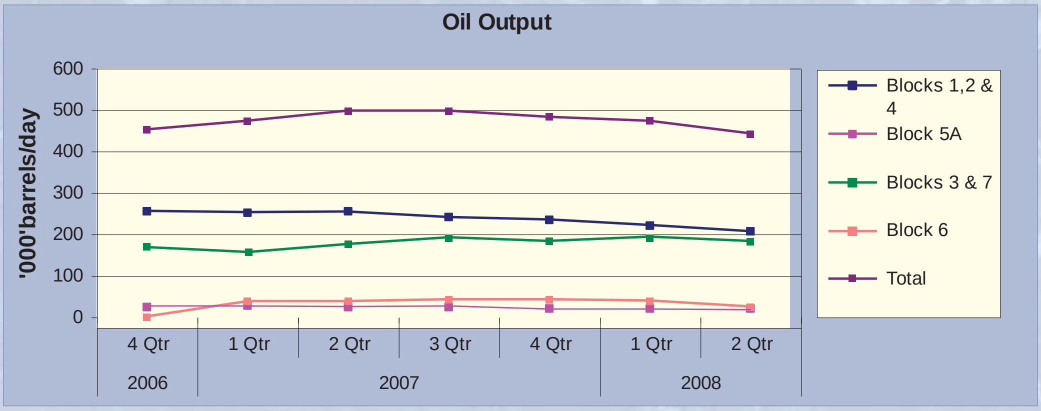
Monetary Policy

Inflation rose sharply during the first three quarters of 2008 to average 18.3% with inflationary pressures emanating from higher food and oil prices. These pressures are estimated to have eased somewhat in the last quarter in line with falling prices. On an annual basis, inflation is estimated to have risen to 17.5% in 2008 compared to 8.0% in 2007.

Fiscal Policy

Government revenue rose in 2008 by approximately 30% supported by strong oil revenues which account for about two thirds of government earnings. Although production of oil has been slowly declining, the sharp increase in price helped offset the decrease. Government expenditure during 2008 is also estimated to have risen by 27% as a result of an increase in salaries in the public sector and an increase in new infrastructure projects. The fiscal deficit in 2008 is therefore estimated to have narrowed to 1.9% of GDP from 3.0% of GDP in 2007.

Economic Environment



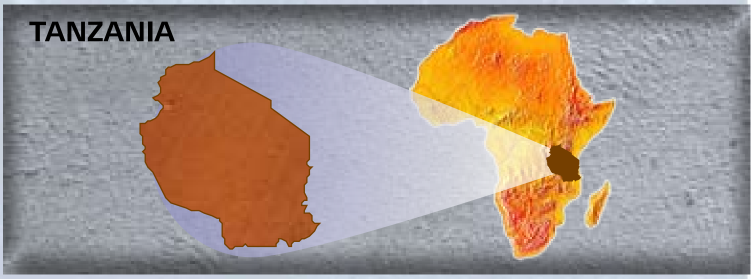
Source: Economic Intelligent Report

External Sector and Exchange Rates

The 2008 half year figures show that total exports stood at USD 7.1 billion, compared to USD 3.8 billion in the first half of 2007. Of these, petroleum exports accounted for 96% at USD 6.8 billion while non petroleum exports stood at USD 320 million. The main constituents of the petroleum exports was crude at USD 6.6 billion while the main constituents for non petroleum exports was sesame seeds at USD 103 million and gold at USD 52 million. Imports during the first half of 2008 stood at USD 4.4 billion compared to USD 4.2 billion in the first half of 2007. Machinery and equipment accounted for 32% of total half year imports at USD 1.4 billion.

Yearly estimates show that total exports will rise significantly boosted by the high oil prices to USD 12.1 billion compared to USD 8.9 billion in 2007. Imports are estimated to rise only marginally to USD 7.8 billion from USD 7.7 billion in the previous year. The current account balance is therefore expected to narrow to 2% of GDP compared to 3.4% in 2007.

The Sudanese pound depreciated against the US dollar in 2008 to stand at SP2.09. The central bank operated a managed float which allowed the pound to depreciate against the strengthening dollar in the later part of 2008.



Tanzania has achieved macroeconomic stability and sustained strong economic performance with economic growth averaging 7% over the last seven years. This has been the result of the success of the economic reforms that have been prudently implemented. In 2008, real economic growth continued on a strong trend to average 7.1%. This growth was supported by good performance in the agriculture, manufacturing, construction, and communication sectors. The strong performance of the agricultural sector was supported by the good performance of traditional exports which rose by 29% during 2008 which was further supported by a 44% and 33% increase in cotton and cashewnuts export volumes.

The tourism sector has expanded rapidly over recent years and after gold, it is the second largest foreign exchange earner. Earnings are estimated to have risen to USD 1,220.5 million in 2008, from USD 1,055.5 million recorded in 2007. This was reflective of the successful on-going promotional campaigns

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to attract more tourists to Tanzania particularly from the United States and England. The increase in the number of international flights to Tanzanian destinations and new and refurbished accommodation facilities in both the Tanzania Mainland and Zanzibar have also spurred the attractiveness of Tanzania as a tourist destination.

Monetary Policy

Monetary policy was fairly tight during the first three quarters of 2007/08, with money supply growing below program targets. Despite the tight monetary policy stance, credit to the private sector remained robust, growing at an average of 40.5% during the first ten months of 2007/08. Sustained foreign exchange inflows and rapid expansion of private sector credit put considerable liquidity pressure. In response to this the authorities introduced minimum reserve requirements on central government deposits in commercial banks in an effort to mop-up the excess liquidity.

Despite the favorable macroeconomic fundamentals, Tanzania was affected by inflationary pressures throughout 2008 mainly from a surge in oil and food prices. The annual inflation rate rose to double digits after several years of single digit inflation to 11.6% in September 2008, and further to 13.5% in December 2008. However, non-food inflation, which is influenced by monetary policy, averaged 6.8% in 2008, a slight decline from an average of 7.0% in 2007.

Fiscal Policy

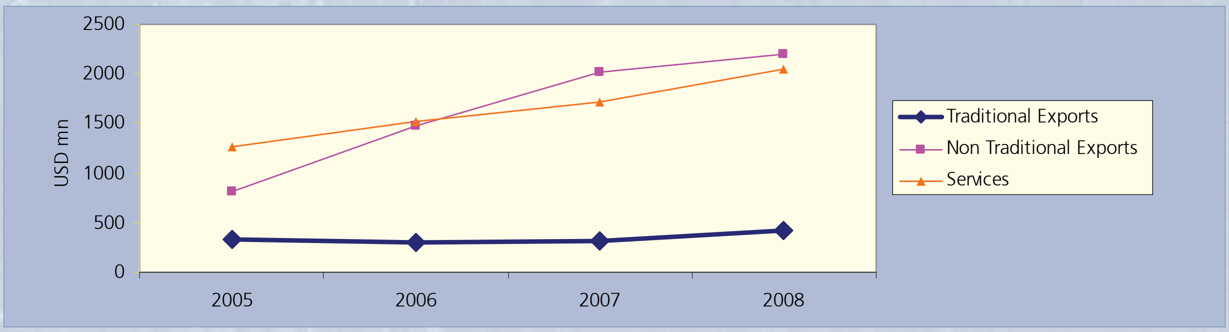
Government revenue reached 13.3% of GDP during the first ten months of 2007/08, while expenditure was 19.9% of GDP, leading to a deficit of 6.7%. During the first six months of 2008/09, fiscal performance remained strong, as total government budgetary resources exceeded the target. Total budgetary resources (including grants) amounted to TZS 3,029.1 billion compared to the target of TZS 2,768.0 billion, while total government expenditure amounted to TZS 3,124.3 billion against the target of TZS 3,419.3 billion. The overall fiscal deficit stood at TZS 438.3 billion.

External Sector and Foreign Exchange

The current account deficit is projected to have widened to USD 2,818.2 million from a deficit of USD 2,100.6 million recorded in 2007. This was as a result of an increase in imports that outweighed the effect of the increase in exports. Total imports of goods rose by 31.7% to USD 6,327.9 million following an increase in the importation of capital goods from USD 1,765 million in the previous year to USD 2,608 million, reflecting the growth of activities in the construction, communication and manufacturing sectors.

Exports rose by 28.9% to USD 2,608.5 million reflecting an increase in both traditional and non-traditional exports. Traditional exports rose 29.5% to USD 414 million owing to a substantial increase in export volumes of cotton following a bumper harvest of the crop. Cashewnuts also recorded an

Performance of Selected Export Items



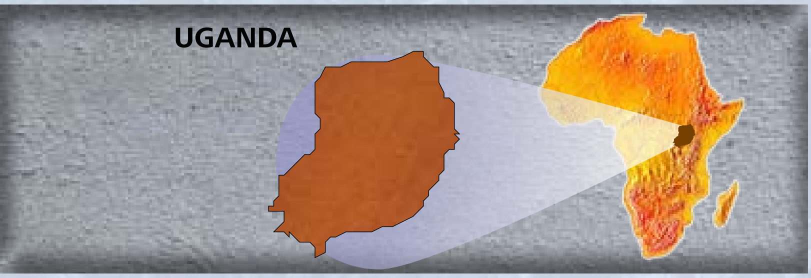
Source: Bank of Tanzania

Economic Environment

increase in the export volumes to 55,011 tonnes from 41,271 tonnes recorded in 2007. Non-traditional exports rose by 28.8% to USD 2,194.5 million resulting from an increase of manufactured goods export to USD 595.1 million from USD 309.8 million recorded during 2007. Horticultural exports, mainly consisting of cut flowers also increased by 68.4 percent to USD 32.2 million while gold exports rose by 14% to USD 898.8 million.

Services exports comprising of travel and insurance and other business receipts rose by 14.1% in 2008. The increase was as a result of a significant increase in travel which accounts for about 60.3% of total receipts.

Despite the sharp depreciation of the shilling in October to exchange at TZS 1,300, the currency is estimated to have appreciated against the US dollar in 2008 to average TZS 1,189.2.compared to TZS 1,245 in 2007.



The Ugandan economy remained resilient in 2008 despite the external shocks on the economy from the Kenyan political crisis - which adversely impacted Ugandan trade - and high international oil and food prices. Real GDP growth is estimated to have risen at a much slower pace of 6.9% in 2008 compared to 8.6% in 2007. The 2008 growth was, however, partly the result of a change in the methodology of measuring GDP. The GDP series was re-based to 2002 prices from 1997/98 prices and more economic measurements were included. The changes also resulted in the reduction in the contribution of the agricultural sector from 30% to 21%. The share of the services sector on the other hand rose to 49% from 38%.

There was a significantly strong increase in private investment over 2007/08 and it is estimated to have risen by 15% in real terms consistent with private investment growth over the last five years. As a percentage of GDP, private investment rose from 13.7% in 2001/02 to 21% in 2007/08. Public investment grew by 23% in 2007/08, much higher than in the last five years.

The economic landscape of Uganda is expected to change significantly after confirmation that the oil reserves in the northern parts of the country are of major commercial significance. Estimated at 400 million barrels, Uganda's oil reserves are considered the largest onshore oil discovery in Sub-Sahara Africa for 20 years.

Monetary Policy

Bank of Uganda's monetary policy is focused on containing inflation at low and stable levels. Throughout most of 2008, the Bank of Uganda exercised monetary restraint in an effort to maintain low and stable inflation, a necessary policy for economic growth. Food prices have a large weighting in Uganda's consumer price index, and this will continue to make inflation highly sensitive to food price movements. Inflationary pressures ran high during 2008 and these were mainly from exogenous shocks caused by rising food and oil prices. High

Sectoral Performance (%)

	2006/07	2007/08
Agriculture	0.1	0.7
Industry	9.9	6.4
Services	8.8	13.0

Source: Bank of Uganda

Economic Environment

inflation in Uganda's major trading partners also added to the inflationary pressures. Inflation therefore averaged 11.4% in 2008% compared to 6.1% in 2007.

Interest rates in the first quarter of 2008 averaged 19.65% and tended upwards averaging 22.19% in the third quarter before declining slightly at year end. Broad money (M3) grew by 31.8% year-on-year in September 2008 compared to a growth of 17.4% during a similar period of 2007.

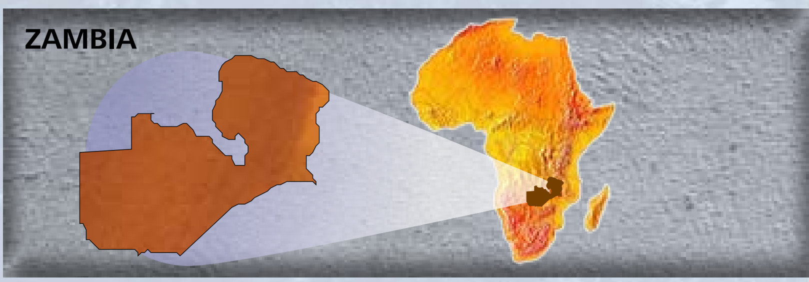
Fiscal Policy

The government fiscal deficit widened from 1.9% of GDP in 2007 to 2.3% of GDP in 2008. On a fiscal year basis, the deficit widened and stood at Ush473.3 billion in 2007/08. Government revenue rose to stand at Ush3,909.5 billion of which USh3,246.8 billion was accounted for by tax revenue. Government spending rose to stand at Ush4,382.8 billion. The impact of the global economic downturn was felt in the fiscal arena as the Uganda Revenue Authority (URA) recorded lower revenue collection in first half of the 2008/09 financial year which was almost 6% below target, a shortfall amounting to USD 63 million.

External Sector and Foreign Exchange

Total export growth is estimated to have risen strongly in fiscal year 2007/08. Total export earnings for both goods and services are estimated to have risen by 15% or USD 295 million to USD 2,293 million. Exports of goods are projected to have increased by 15% to USD 1,520 million, while exports of services are estimated to have grown to USD 541 million in the same period. The rise in exports of goods was largely attributed to a 32% increase in coffee exports which amounted to USD 301.6 million in 2007/08. An 11% increase in export volumes and a 19% increase in international coffee prices accounted for this change. Non coffee exports are estimated to have risen following increased regional trading with neighbouring countries to USD 1,116 million in 2007/08 from USD 1,010.8 million in the previous year. Remittances from Ugandans working abroad are estimated at USD 1,392 million in 2007/08 up from USD 646 million in 2006/07. During 2007/08 imports are estimated to have risen by 30.7% on account of increased petroleum imports which rose by 28.8% following higher international prices of fuel and increased domestic demand.

The Uganda shilling appreciated against the US dollar during 2008 and exchanged at USh1,719 compared to Ush 1,723.5 against the dollar in 2007. The strengthening of the Uganda shilling was partly supported by the weakening dollar and increasing foreign exchange inflows. By year end, gross foreign reserves amounted to USD 2,300.4 million, lower by USD 259.2 million compared to the December 2007 position. The December 2008 foreign exchange reserves level was estimated to cover five months of imports.



The effects of the global crisis have impacted on Zambia distinctly compared to the rest of COMESA member states. With copper prices considerably down, a sharp decline in growth for 2009 will indicate whether the economy is still in need of further and deeper diversification. Real GDP growth for 2008 was initially estimated at 6% but this has since been revised downwards to 5.8% reflecting mainly the decline in copper prices during the second half of 2008.

The 2008 growth compares with the buoyant 6.3% growth recorded in 2007. The lower growth was mainly attributed to the poor performance of the agricultural sector and a slowdown in the construction industry. The agricultural sector suffered negative growth due to the heavy rains that caused

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Copper price movements from June 2007 to Dec 2008

flooding and destroyed crops while the construction sector's poor performance followed a reduction in infrastructure development, particularly from the mining sector. However, the transport, storage and communication, mining, manufacturing and the trade sectors were the main drivers of growth in 2008 and assisted in cushioning the economy.

After experiencing a significant boom in prices, copper prices started to decline significantly after August 2008. For the first ten months of 2008, copper output had reached 478,269 tonnes, and with the mines producing below 50,000 tonnes of copper per month, the 2008 target of 600,000 tonnes is likely to have been missed.

Monetary Policy

Over the last two years the government's aim of achieving single digit inflation rates has been achieved, with inflation reaching 8.2% and 8.9% in 2006 and 2007 respectively. However, in 2008 inflationary pressures emanating mainly from exogenous factors such as high international oil and food prices saw inflation rising to 16.6% compared to a government target of 7%.

The slowing down of the external sector performance and a lower than expected build up in international reserves affected the monetary sector with a decline in broad money growth to 22.1% in December 2008 from 25.9% in December 2007. However, growth in credit to the private sector in 2008 remained unchanged at 44%. Interest rate movements in 2008 moved upwards reflecting the high inflationary pressures which prevailed throughout 2008. Compounding this upward pressure particularly for government securities was the reduced demand for government securities as a result of withdrawals especially by foreign investors. The average commercial bank lending rate increased to 26.9%, from 24.4 % in 2007.

Fiscal Policy

The overall budget performance was satisfactory during 2008. The main objective of fiscal policy for 2008 was geared at consolidating fiscal discipline by maintaining lower levels of borrowing and improving budget execution. Total expenditure amounted to K13,402.6 billion against the target of K13,761.4 billion, while total domestic revenue collections and foreign grant receipts, excluding revenues from the new mining tax regime, were K12,008.2 billion, marginally below the target of K12,106.4 billion. The slight decline in total domestic revenues was as a result of a decline in non tax revenues which were 18.4% below target while domestic tax revenues collections were 2.4% above the target and represented 18.5% of GDP. The budget deficit therefore stood at K1,394.3 billion and was financed through domestic borrowing of K811.6 billion and foreign financing of K582.7 billion.

External Sector and Exchange rates

The global crisis hit Zambia's balance of payments in particular. Export growth is estimated to have slowed significantly during the last quarter of 2008 with total exports growing at a slower pace of 7.2% to USD 4,818.3 million compared to a growth

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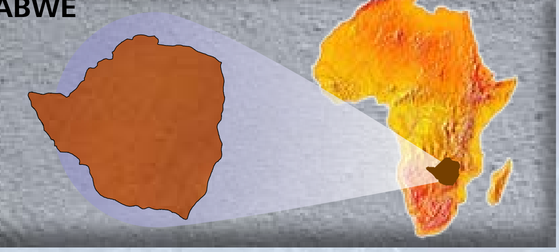
of 13% in 2007. Of total exports, copper receipts amounted to USD 3,885.1 million in 2008, which represented a growth of 5.9% compared to 2007.

Non-traditional exports grew by 12.9% in 2008 to reach USD 933.2 million. There was an increase in the share of non-traditional exports in total export which grew to 19.4% from 18.4% in 2007. Imports increased significantly by 29.7% to USD 5,202.1 million. This led to a current account deficit including capital grants widening significantly to USD 1,379 million or 9.1% of GDP from a deficit of USD 494.2 million or 2.4% of GDP recorded in 2007.

The exchange rate was not spared the effects of the global financial crisis. The kwacha depreciated sharply particularly in the last quarter of 2008. In December 2008, the Kwacha depreciated by 27.3% against the US dollar to an average rate of K4,882 compared to K3,835 in December 2007.

ZIMBABWE



The year 2008 posed significant challenges for Zimbabwe, as real GDP growth contracted by 12.6% from a contraction of 5.5% in 2007. The country suffered hyper inflation against a backdrop of acute shortages of essential goods and services, low harvests and severe food shortages and the deteriorating delivery of public services such as water, electricity, sanitation and health imposed hardships on the population.

The adverse weather conditions which brought the onslaught of heavy rains ruined crops thereby causing the poor performance of agricultural sector in the 2007/2008 season. Most agricultural commodities experienced a decline in output, with notable decreases in maize, tobacco, cotton, wheat, horticulture and soya bean production. Tobacco output for the 2007/2008 season was estimated at 45,000 tonnes, against an expected output of 73,000 tonnes.

The mining sector continued to experience a decline in output and capacity utilization. This included gold, Zimbabwe's main mineral export, despite the firming of the prices in the international markets. The reason behind the decline in mining output was foreign exchange shortages needed to import critical spare parts and fuel. This was further worsened by frequent power outages, skills flight and the impact of the current global financial crisis which depressed demand.

The tourism industry continued on its downward trend throughout 2008. Tourism receipts amounted to only USD 29.1 million, representing a 55% decline from the previous year. This was also reflected in tourist arrivals which indicate that during the first half of 2008 the tourism sector recorded 531,357 visitors.

Monetary Policy

Excessive money supply growth due to unbudgeted expenditures characterised most of 2008. In an effort to stem inflation, the Reserve Bank implemented major monetary policy reforms in May 2008 allowing the Zimbabwe dollar to float in the hope of eliminating speculation on the black market and contain inflation. However, the fundamentals continued to deteriorate throughout 2008. Year-on-year inflation surpassed 100,000% at the start of January 2008, and official figures indicated that inflation had surged considerably by July 2008.

Fiscal Policy

The high inflationary environment during 2008 resulted in government revenues rising significantly to an estimated Z$14,960 quintillion. This was also reflected in government

Economic Environment

spending which rose to Z$51.7 quintillion. Higher expenditures were incurred with respect to reviews on salaries and wages. Estimates indicate that the fiscal deficit narrowed to 6.1% of GDP in 2008 compared to 8.8% of GDP in 2007.

External Sector and Foreign Exchange

The balance of payments deficit widened to USD 410 million in 2008, from USD 33 million in 2007. This was a reflection of the performance of the export sector whose earnings declined to USD 1.376 billion compared to USD 1.606 billion in 2007 representing a 14.32% decline in exports of goods and services. Imports on the other hand increased by 7.6%, from USD 1.9 billion in 2007 to USD 2 billion in 2008. Growth in imports also reflected increased food imports during the year.

Mineral exports were the major contributor to total exports, with USD 676 million, or 51% of total exports in 2008, compared to USD 801.8 million in 2007. The decrease of 15.7% was largely a result of the global financial crisis which led to depressed demand for minerals. Tobacco exports also decreased by 24.3% to USD 203.7 million, compared to exports of USD 247.3 million in 2007.

During 2008 the extremely high inflation environment eroded the value of the local currency. This greatly undermined the Zimbabwean dollar which fast lost its role as a medium of exchange and store of value despite several revaluation efforts by the Reserve Bank. This resulted in both licensed and unlicensed traders resorting to using hard currencies to cushion against the impact of inflation.

CORE VALUES

- Integrity
- Adaptability
- Teamwork
- Innovation
- Customer Focus

Operations






Operations

BUSINESS DEVELOPMENT

The year saw increased marketing efforts directed at increasing the Bank's foothold in the growth sectors of agribusiness, real estate, infrastructure and manufacturing. Co-financing arrangements with local commercial banks helped the Bank tremendously in securing a number of deals. Emphasis on repeat business from existing clients also helped the Bank to further the demand for its financial products during the year. Diversification of the loan portfolio remained one of the important business development guidelines of the Bank in 2008.

LOANS APPROVED

During the year, a total of USD 176 million was approved for project finance while in trade finance, letters of credit amounting to USD 633 million and disbursements worth USD 588 million inclusive of rollovers were recorded. The aggregate approvals for project and trade finance transactions, standing at USD 1,397 million, represents a 55% increase over the USD 548 million recorded in 2007.

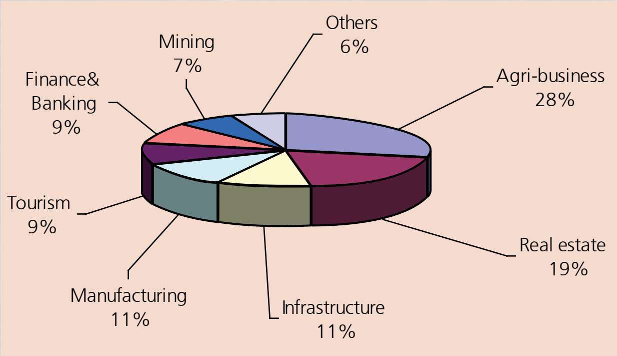
As at the end of 2008, cumulative values of approved investments were over USD 4.5 billion in project finance and trade finance, representing an increase of 45% over the cumulative figures as at end of 2007.

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

PROJECT FINANCE

The sectoral distribution of approved interventions were as follows: agribusiness – USD 49.2 million (28%); real estate – USD 33.5 million (19%); infrastructure – USD 23.5 million (11%); manufacturing – USD 18.9 million (11%); tourism – USD 16.2 million (9%); finance and banking – USD 16.1 million (9%); mining – USD 11.5 million (7%); and others - USD 6.7 million (6%).

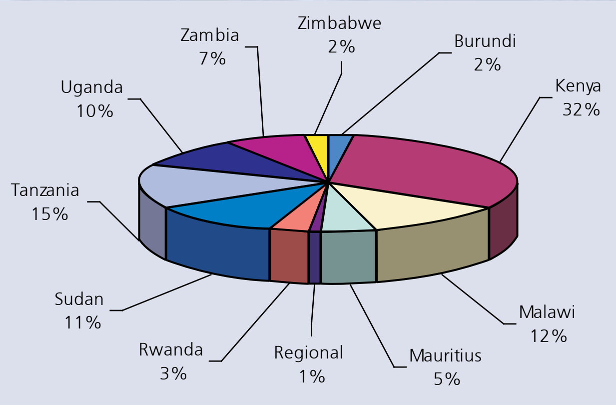
Chart 1 shows the sectoral distribution of approved project finance.



Approvals by Sector

The geographical distribution of approved project finance interventions were as follows: Kenya – USD 55.3 million (32%), Tanzania – USD 26 million (15%), Malawi – USD 21.3 million (12%), Sudan USD 20 million (11%),Uganda – USD 17.5 million (10%), Zambia – USD 12.5 million (7%), Mauritius – USD 8 million (5%), Rwanda – USD 5.9 million (3%), Burundi – USD 4 million (2%), Zimbabwe – USD 3.2 million (2%), and others – USD 1.9 million (1%).

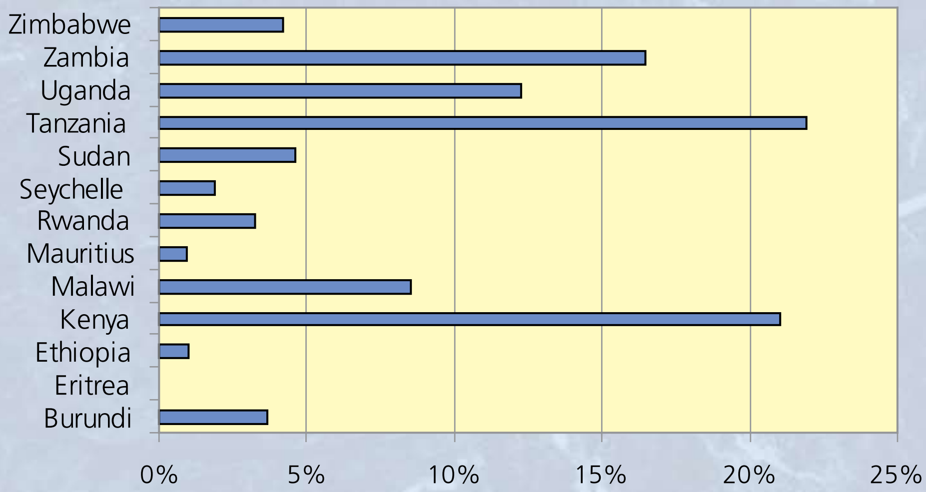
Chart 2 shows the geographical distribution of the approved project finance loans.



Approvals by Country

Operations

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



Geographical Distribution of Cumulative approvals

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

PROJECT COMMITMENTS

The key milestones in the project finance cycle are commitment and disbursement. In 2008, the value of projects committed amounted to USD 121.2 million, an increase of 159% over the 2007 commitments amounting to USD 46.8 million. Commitments for 2008 were 11% above budget of USD 109.25 million.

PROJECT DISBURSEMENTS

An amount of USD 66.91 million was disbursed in the year, which is more than the disbursements in 2007 of USD 54.01 million. The 2008 disbursements represented an increase of 21% over the 2007 disbursements.

Operations

PROFILES OF PROJECTS APPROVED

The Bank approved the following projects in 2008:

Malawi Housing Corporation - Malawi

The Bank approved a term loan amounting to MK 2 billion (USD 14.286 million) to Malawi Housing Corporation (MHC) to finance the construction of 400 houses for sale to the Government of Malawi. The Government will allocate these houses to civil servants.

African Regional Intellectual Property Organization (ARIPO) - Headquartered in Zimbabwe

ARIPO is an institution that deals with intellectual property matters for seventeen countries in the Sub-Saharan region. The Bank approved a term loan of USD 1.1 million to enable the organization construct a 12-room guest-house to accommodate participants/students attending its courses.

Searock Resort Limited - Tanzania

Searock Resort Limited (Searock) of Tanzania approached the Bank for a loan of USD 3 million to part finance the establishment of a 130-room up-market hotel in Zanzibar, Tanzania. The Bank approved the facility to support the tourism industry in Zanzibar.

Universal Mining and Chemical Industries Limited - Zambia

A sharia compliant term loan of USD 11.5 million was approved to Universal Mining and Chemicals Industries Limited to finance the purchase of a plant to produce sponge iron from iron ore. In 2007, the Bank approved a USD 8.5 million Sharia compliant facility to the company to finance purchase of equipment for manufacturing steel from scrap metal. The new loan will finance investments required during the second phase of establishing the project as an integrated Iron and Steel production plant.

Mukuyu Homes Limited - Zambia

The Bank approved a USD 1 million loan to Mukuyu Homes Limited (Mukuyu) of Zambia for the construction of seven executive residential houses to be rented to Finance Bank Zambia Limited.

K-Rep Bank Ltd - Kenya

A 3 year facility of Kshs 750 million (approximately US$ 11 million) was granted to K-Rep Bank, a licensed commercial bank in Kenya, as a line of credit for on-lending to Small and Medium Enterprises (SME) sector. The facility was intended to help the Bank penetrate the SME sector.

Bioken East Africa Ltd - Kenya

Bioken East Africa Limited was granted a facility of Kshs 38 million (approximately US$ 540,000) for the establishment of a medium sized distillery at Athi River, Machakos district, near Nairobi. The facility is to part finance the procurement of equipment from India.

Housing Finance Bank (U) Ltd - Uganda

The Bank approved a facility of US$ 4.5 million to Housing Finance Bank for the construction of its head office building at Kololo, a prime suburb of Kampala. Housing Finance Bank is a 40 year old bank and the pioneer in mortgage finance in Uganda. The building will comprise 2 towers of 4200 m^2 space in total and will also provide space for commercial letting.

Kenya Power and Lighting Co. Ltd - Kenya

The Bank approved a facility of Euro 3.5 million to Kenya Power and Lighting Company (KPLC) Ltd, a listed company in Kenya for financing the construction of the Mumias-Musaga power line. KPLC is the national distributor of electricity in Kenya, whereas Mumias Sugar Company is the largest sugar producer in Kenya. Mumias is currently implementing a bagasse co-generation power plant which will supply 26 MW of electric power to the national grid.

Kaluworks Ltd - Kenya

A facility of USD 13,150,000 was granted to Kaluworks Ltd. to finance the expansion of their aluminium processing facility at Mariakani near Mombasa, Kenya. The expansion involves installation of a new colour coating line and increasing the cold rolling mill facility. Kaluworks is part of the COMCRAFT group with operations in 40 countries worldwide.

Operations

Chase Bank Ltd - Kenya

The Bank approved a facility of USD 4.6 million to Chase Bank Ltd, a licensed commercial bank in Kenya partly for on-lending and part-financing of the purchase of software for a core banking platform. Chase Bank is expanding its operations and diversifying from corporate lending to SME lending.

AKL Investment Ltd - Malawi

The Bank approved a term loan of USD 740,000 to part finance this investment. AKL Investment Limited is planning to construct a shopping mall / office block with 25 rooms on a floor space of 4,324 m2 in Lilongwe, Malawi.

Africaleaf (Malawi) Ltd - Malawi

A USD 2.38 million five year loan was approved to finance the acquisition of an existing factory in Lilongwe. The factory comprises tobacco processing equipment, quality control equipment, land and buildings with administration offices, warehouse facilities and engineering workshops covering an area of 29,206 square metres.

British American Hospital Enterprises Ltd - Mauritius

The Bank secured its first Project Finance transaction in Mauritius by approving a loan of USD8.0 million to British American Hospital Enterprises Ltd. The project entails construction of a multi disciplinary 200-bed tertiary care hospital offering a wide range of medical services under one roof. The hospital will cater for the health requirements of the population of Mauritius and COMESA region.

PTA Reinsurance - COMESA

The Bank subscribed for 617 shares in PTA Reinsurance for a total consideration of USD841,588. This investment brought its total equity holding to USD1.68 million equivalent to 13.1% of PTA-Re's issued and paid-up capital.

Hydromax Limited - Uganda

The Bank approved a term loan of USD 10 million for Hydromax Limited to part finance (in partnership with the African Development Bank) the establishment of a 9 megawatts mini hydroelectric power plant in Hoima district, Uganda. The project will additionally involve the erection of a 33Kv line for grid connection, as well as the extension of transmission and distribution networks to cater for areas lacking electricity supply from the national utility company, Uganda Electricity Transmission Company Limited.

SADM Pharmaceuticals Limited - Malawi

The Bank approved a term loan of USD 2.125 million for SADM Pharmaceuticals Limited to finance, in part, the importation of equipment to complete the rehabilitation and expansion of a pharmaceutical manufacturing factory in Lilongwe. The loan will be for the procurement and installation of new equipment and machinery on a turnkey basis and the purchase of motor vehicles.

Fargo Limited - Malawi

A sharia compliant lease finance facility of USD 1.8 million was granted to Fargo Limited for the acquisition of various pieces of earth moving and road construction equipment. This facility will be a second one to Fargo after the Bank extended another lease financing facility of USD 635,000 in 2004.

Khadhar Investments Limited - Uganda

Khadhar Investments Limited is building an upmarket shopping mall in Kampala, Uganda. The Bank extended a term loan of USD3 million to finance the procurement of electrical fittings, air-conditioning equipment, a standby generator, tiles and other aluminium fittings to complete the project.

Rainbow Tourism Group Limited - Zimbabwe

The Bank approved a term loan of USD 3.2 million to Rainbow Tourism Group Limited to finance, in part, the cost of upgrading the A'Zambezi River Lodge (A'Zambezi) from a 3-star to a 4-star hotel. A'Zambezi is an 83-roomed leisure resort hotel in Victoria Falls, along the banks of the Zambezi River.

Kwale International Sugar Company Limited - Kenya

Kwale International Sugar Company Limited plans to establish a new sugar mill factory at the coastal region of Kenya. The project is to be implemented in two phases

Operations

comprising the development of a nucleus estate of 6,000 ha and a sugar mill factory with a capacity of 3000 TCD as phase one. The second phase will involve establishment of a cogeneration plant and an ethanol distillery. The Bank approved a long term loan of USD 20.0 million to finance the procurement of plant and machinery. The project will be co-financed with various international financial institutions.

HODI (Hotel Management) Company Limited - Tanzania

The Bank approved a term loan of USD 10 million for HODI (Hotel Management) Company Limited to part finance the rehabilitation and expansion of its hotel, formerly known as Mount Meru Hotel, located in Arusha, Tanzania. The rehabilitation and expansion project envisages upgrading the hotel to a 5-star level and increasing the rooms from 168 to 198.

Khaki Complex Limited - Tanzania

Khaki Complex Limited is to construct a residential apartment complex on land measuring 12,156 square meters located in Upanga area of Dar-es-Salaam. The complex includes 258 high-quality furnished executive apartments in three different types and sizes set in 12-storey high building blocks. It shall also have a club house for a wide range of recreation activities including a swimming pool. The Bank approved a term loan of USD 10 million to part finance the construction costs.

Precision Air Services Limited - Tanzania

The Bank approved a term loan of USD 3 million for Precision Air Services Limited to part finance the construction of an aircraft hangar complex on a plot of land located at the Julius Nyerere International Airport, Dar-es-Salaam, leased from the Tanzania Airports Authority.

White Nile Sugar company Limited - Sudan

A finance lease facility of USD 20 million was granted to White Nile Sugar Company Limited to finance, in part, the procurement of machinery and equipment for the establishment of a new sugar factory and plantation in the Sudan. The sugar factory will have a design capacity of 24,000 TCD, expandable to 30,000 TCD, and 465,000 MT of sugar per annum. The project will also involve production of energy and sugar by-products.

Milk Chain Enterprise Limited S.A. - Burundi

The Bank approved a term loan of USD 1 million for Milk Chain Enterprise Limited for procurement of machinery, equipment and containers for setting up a modern milk processing plant in Bujumbura. The plant will have an estimated full processing capacity of 10 thousand litres of raw milk per day and will produce pasteurized milk, yoghurt, and butter in addition to other flavored milk products.

Brasseries et Limonaderies du Burundi Brarudi S.A.R.L (Brarudi) - Burundi

The Bank extended a USD 3 million loan repayment guarantee facility to Brarudi to assist in securing a local currency loan from Banque de Credit de Burundi (BCB). The loan from BCB will be utilized to finance replacement of the existing bottling line with a new modern bottling line. Brarudi is an existing client of the Bank. In 2002, the Bank approved a term loan of USD 10 million to Brarudi to finance part of the foreign costs of procurement of equipment for the installation of a new bottling line, water treatment plant and the expansion of its beer and soft drinks production line.

Women Initiative for Self Empowerment (WISE) - Burundi

The Bank established a USD 400,000 fund to support Women Initiative for Self Empowerment (WISE). The fund aims to empower women entrepreneurs in Burundi through access to credit and capacity building.

Multisector Investment Group - Rwanda

The Bank approved a term loan of USD 5.865 million for Multisector Investment Group to part finance the establishment of a tea processing plant. The factory, with a capacity of 3 million kilograms of tea per year, will serve as a processing center for a total planted area of 1,200 hectares.

Operations

TRADE FINANCE

The Bank recorded substantial business growth in its trade finance activities spurred mainly by large-ticket import finance transactions derived from the record high commodity prices that prevailed for a significant part of the year. Letters of credit volumes increased to USD 633 million in 2008 from USD 223 million in 2007, an increase of 184%. Direct disbursements for the same period increased to USD 588 million from the USD 156 million recorded in 2007, an increase of 277%.

The significant increase in trade finance volumes was driven mainly by the Bank's ability to successfully execute import LCs for procurement of crude oil feedstock for Zambia and refined oil products for distribution in Kenya, Seychelles, Uganda and Zimbabwe.

SOCIAL AND DEVELOPMENTAL IMPACT

During the year, the Bank continued to align its strategic initiatives and operational programmes in order to maximize on the developmental impact of its activities. In this regard, a framework for capturing basic development impact indicators such as employment generation, foreign currency generation, fiscal impact and co-financing generation was instituted. This framework is to be improved over time through knowledge and experience sharing with other international development financial institutions.

The projects approved in 2008 are estimated to contribute to the creation and maintenance of 20,528 direct jobs with a further 66,250 indirect jobs being created mainly during the projects' construction period. It is estimated that 60% of the jobs created will go towards supporting low income households with annual incomes of less than USD 3,000.

The 2008 approvals are also expected to contribute to the generation of USD 267 million annually in foreign exchange revenues. By co-financing a number of these projects with other Lenders, the Bank will assist in attracting additional financing of USD 1.0 billion.

The approved projects and trade finance transactions will also impact directly and indirectly on the generation of tax revenues for the Bank's Member States. The potential fiscal impact of the approved projects and trade finance facilities is estimated at USD 1.51 billion.

In recognition of the importance of the Small and Micro Enterprise sector, the Bank extended Lines of Credit amounting to over USD 15 million to a number of commercial banks for on-lending to this critical sector. In addition, the Bank's pipeline of approvals includes other projects with significant social impact implications. These include the proposed British American Hospital Enterprises hospital in Mauritius, the Women Initiative for Self Empowerment in Burundi and the Kenya School of Professional Studies project in Kenya .

PORTFOLIO MANAGEMENT

Arising from the global economic crisis, the Bank intensified its portfolio management efforts and laid out proactive strategies to cope with the rapidly growing portfolio. Special attention was accorded to the performance of commodity based projects and trade finance facilities that were exposed to foreign buyers and markets. In anticipation of increased demand for loan work outs, the Bank beefed up its portfolio management capacity by recruiting additional personnel and outsourcing certain functions.

During the year, the Bank intensified its monitoring of projects under implementation in order to identify and control project completion risks. Relationships with co-financiers and local financial institutions were strengthened in order to promote efficient and effective monitoring and debt recovery processes. The Bank continued to strengthen environmental and social risk management awareness as well as to promote improved corporate governance practices among its clients.

Operations

RISK AND COMPLIANCE MANAGEMENT

The Bank continued to strengthen the risk management function housed under the Compliance and Risk Management Unit. A Compliance Officer and Risk Analyst were recruited bringing the staff complement in this function to three dedicated professionals.

To assist in the management of credit risk, the Bank is planning to operationalise a Credit Risk Assessment System in 2009. Upon completion of this project, similar projects aimed at automating the management of market and operational risks will be implemented.

In line with the Bank's 4th Corporate Plan (2008 – 2012), the main objectives to be attained in risk management will be implementation of a robust risk management framework, monitoring and evaluation of key risks and continued enhancement of the risk management capacity. The ultimate goal is to institutionalize a best practice based risk management function in the Bank.

The Bank also continued to monitor and evaluate on continuous basis the risk exposures of the Bank to ensure that they are well within the risk appetite.

CORPORATE AFFAIRS

The Board of Governors held its 24th Annual Meeting in Kampala, Uganda, on 30th September 2008. Hon. Ezra Suruma, Minister of Finance, Planning and Economic Development of Uganda, was appointed as the Chairman of the Board of Governors to succeed Hon. Rama Krishna Sithanen, Deputy Prime Minister and Minister of Finance and Economic Development of Mauritius.

During its Annual Meeting, the Board of Governors adopted the 2007 Annual Report and the 2007 Audited Financial Statements and also re-appointed the Bank's External Auditors with effect from July 1, 2008. The Board also reviewed various strategic issues including progress of implementing the First General Capital Increase.

In 2008, the Board of Directors held four regular meetings. During the meetings, the Board reviewed progress in the implementation of the budgeted programmes and activities and provided strategic and policy direction as appropriate. The Board also reviewed reports of its Audit Committee and provided guidance on implementation of various recommendations.

HUMAN RESOURCES AND ADMINISTRATION

The Bank's human resource philosophy is to support its short and long term goals and objectives through the development and application of policies and practices that assure the recruitment and retention of skilled and motivated workforce. In pursuit of this objective, additional staff were recruited during the year to meet the Bank's staffing requirements.

The increased business levels transacted in 2008 necessitated additional investments in the Bank's human resource capacity. In addition to recruitment of new staff, the Bank continued to bolster its capacity by investing in staff development programs to enhance core competencies, technical skills and knowledge at all levels. Drawing on the support provided under the African Development Bank's Technical Assistance Grant, the Bank provided various staff training and management development programs to its staff. Training was also extended to the Board of Directors on matters of corporate governance and on the impact of the global economic crisis.

The Bank's staff compliment at the end of December 31, 2008 was 69, compared to 67 in 2007 and 63 in 2006. Out of the 69 regular staff, 46 were professional and the rest were support staff. Approximately 30 % of the regular staff were female and efforts to redress the gender imbalance are continuing.

Operations

INFORMATION SERVICES

In 2008, various activities, that will culminate in the implementation of a comprehensive Credit Risk Assessment System in 2009, were undertaken. On the whole, the IT function continued to render a key supporting role in the Bank's on-going development of an Integrated Risk Management Framework.

As has been the case in the past, improvements in the SAP system's reporting functionality were carried out. In this regard as well, preparations for undertaking a gap-analysis of the SAP system in 2009 were undertaken.

Obsolescence in both hardware and software continued to be addressed and investments in new communication technologies were made to facilitate contact and information sharing amongst staff.

PUBLIC RELATIONS

The Bank continued to build on a communications and public relations platform to boost its image, both externally and internally. During the year, the Bank received some good publicity relating to lines of credit and signing of loan agreements with high profile clients.

Design and printing of literature on the Bank continued during the year with the aim of disseminating information to the public in addition to entrenching its brand equity in the region through a sustained publicity campaign and a communications strategy that cuts across the region.

FINANCIAL MANAGEMENT

2008 was the first year of the Five Year Corporate Plan 2008 - 2012 and the Bank posted a strong financial performance despite the global economic slowdown.

Income Growth

During the year, the Bank earned USD 30.63 million as interest income, a 17% increase over the USD 26.24 million earned in 2007. This increase was achieved against the background of low interest rates precipitated by the global economic crisis. Fees and commission income registered a record 110% growth to reach USD 20.90 million up from the USD 9.97 million earned in 2007. Increased trade finance activities, especially oil import transactions contributed to the significant growth in fees and commission income.

Funding Costs

In addition to drawing on its short term facilities, the Bank took on new borrowings from the African Development Bank, China Development Bank, KBC Bank, Exim Bank of India, Ceskoslovenska Obchodni Banka AS of the Czech Republic and the Dutch Development Finance Company. The borrowings secured were used to fund the growth of the Bank's project finance and trade finance portfolios and contributed significantly to the USD 16.60 million of borrowing costs for the year, a 17% increase from USD 14.15 million in 2007. The increase in borrowing costs was, however, commensurate with the increase in interest income.

Operating Expenditure and Provisions

In line with increases in business volumes and inflationary adjustments, operating expenditure increased by 14% from USD 7.45 million in 2007 to from USD 8.51 million. Loan loss provisions, however increased to USD 15.71 million from the USD 8.17 million recorded in 2007. The 2008 provisions reflect the impact of economic challenges experienced in 2008 on the Bank's portfolio. By year-end, the cumulative loan loss provisions stood at USD 44.08 million, a level which provides adequate cover against

Operations

potential credit losses arising from non-performing loans. Notwithstanding the increase in provisions, the Bank improved its profitability significantly, with net profits growing by 83% to reach USD 12.16 million compared to the USD 6.64 million earned in 2007.

Assets and Liabilities

The Bank's assets grew by 80 percent to reach USD 636.65 million compared to USD 352.92 million in 2007. Trade finance loans increased three-fold from USD 103.56 million to USD 331.10 million while project finance loans increased by 16% from USD 186.00 million to USD 216.49 million. Cash and Bank balances increased by 83% to USD 59.95 million from USD 32.71 million in 2007.

To support this balance sheet growth, the Bank increased its borrowings significantly. Short term borrowings rose 235% to USD 252.76 million from USD 75.54 million while long-term borrowings increased by 30% from USD 124.90 million to USD 161.95 million.

Notes 21 and 22 to the audited financial statements provide details of the Bank's borrowings while Note 26(d) contains details of the USD 251 million worth of facilities available for lending as at 31st December 2008.

Despite the increase in borrowings, the Bank remained well within its borrowing limits defined as paid in capital plus reserves plus two thirds of the callable capital.

Shareholders equity increased by 17% to USD 154.33 million from USD 131.82 million due to the improved profitability and capital subscription receipts from Mauritius and the African Development Bank.

Resource Mobilisation

In line with the increased volumes of business transacted, the Bank's resource mobilisation activities were stepped up so as to secure the significant levels of funding required.

In March, 2008, the Bank signed a USD 20 million line of credit agreement with FMO, the Dutch Development Finance Company. Soon thereafter, in May, 2008, the Bank signed a USD 98.6 million financing package with the African Development Bank. The package comprised a USD 50 million medium-term line of credit agreement, USD 47.6 million of equity subscription and USD 1.0 million grant for technical assistance. The Bank's resource capacity was further augmented in September, 2008 when a USD 50 million line of credit agreement was signed with China Development Bank. These medium term facilities will go a long way in augmenting the Bank's resource capacity in order to fund more projects in its Member States.

The Bank diversified its relationships with Export Credit Agencies by forging links with SACE, the official Export Credit Agency of Italy. Besides SACE, the Bank's network of Export Credit Agencies currently include the Export - Import Bank of USA, Japan Bank for International Cooperation, Export - Import Bank of India, Export Development Corporation of Canada, Hermes of Germany and ONDD of Belgium.

During the year, the Bank made significant efforts to safeguard and diversify its network of correspondent relationships and secure increased credit limits. A short-term murabaha banking facility was secured from the International Islamic Trade Finance Corporation, an affiliate of the Islamic Development Bank while several other correspondent banks increased the limits of their credit lines. By year-end, the Bank had in excess of USD 256 million of resources available for further lending.

Audited Financial Statements for the year ended December 31, 2008

PTA BANK

BANQUE DE LA ZEP

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Corporate Information

BOARD OF GOVERNORS

Hon. Mrs. Syda Bumba	Minister of Finance, Planning and Economic Development Republic of Uganda Chairperson of the Board of Governors
Hon. Rama Krishna Sithanen	Deputy Prime Minister and Minister of Finance and Economic Development Republic of Mauritius
H.E. Clotilde Nizigama	Minister of Finance Republic of Burundi
H.E. Hassane Hamadi	Minister of Finance, Budget, Trade and Investments Federal Islamic Republic of Comoros
H.E. Ali Farah Assoweh	Minister of Economy, Finance and Planning Republic of Djibouti
H.E. Dr. Rachid Mohamed Rachid	Minister of Foreign Trade and Industry Republic of Egypt
Hon. Sufian Ahmed	Minister of Finance and Economic Development Republic of Ethiopia
Hon. Berhane Abrehe	Minister of Finance State of Eritrea
Hon. Amos Kimunya	Minister for Trade Republic of Kenya
Hon. Dr. Goodall Gondwe	Minister of Finance Republic of Malawi
Hon. Tendai Biti	Minister of Finance and Economic Development Republic of Zimbabwe
Hon. James Musoni	Minister of Finance and Economic Planning Republic of Rwanda
Hon. Jacquelin Dugasse	Minister of National Development Seychelles
Hon. Dr. Awad Ahmed Aljaz	Minister of Finance and National Economy Republic of Sudan
Hon. Mustafa Mkulo	Minister of Finance United Republic of Tanzania
Hon. Dr. Situmbeko Musokotwane	Minister of Finance and National Planning Republic of Zambia
Mr. Mandla Gantsho	Vice President - Operations South, East and North African Region African Development Bank (AfDB)
H.E. Dr. Zhou Xiaochuan	Governor, People's Bank of China People's Republic of China

Corporate Information

DIRECTORS

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

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Kirungii, Ring Road
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Eastern and Southern African Trade and Development Bank
Julius Nyerere / Sam Nujoma Street
13th Floor, Social Security Centre
Telephone : 263 (4) 252235

Report of the Directors

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report and the audited financial statements of the Eastern and Southern African Trade and Development Bank (PTA) for the year ended 31st December, 2008.

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).

RESULTS

	USD
Profit for the year transferred to revenue reserve	12,458,993

BOARD OF GOVERNORS

The current members of the Board of governors are shown on page 49.

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

DIRECTORS

The current members of the board of directors are shown on page 50.

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

AUDITORS

Deloitte & Touche 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

31 March 2009

Statement of Director's Responsibilities

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 at any time the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

Director	Director
31 March 2009	31 March 2009

Independent auditor's report to the members of Eastern and Southern African Trade and Development Bank

We have audited the accompanying financial statements of Eastern and Southern African Trade and Development Bank, set out on pages 54 to 97 which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the Financial Statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we considered the internal controls relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the Bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the Bank as at 31 December 2008 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Bank's Charter.

Deloitte & Touche

Certified Public Accountants (Kenya)

31 March 2009, Nairobi

Income Statement
For the year ended 31 December 2008

	Note	2008 USD	2007 USD
INCOME			
Interest Income	3	30,625,033	26,235,378
Interest Expense	4	15,001,373	12,922,372
Other Borrowing Costs	5	1,301,128	1,229,990
		16,302,501	14,152,362
Net Interest Income		14,322,532	12,083,016
Fees and Commissions Income	6	20,902,790	9,972,144
Other Income	7	910,225	783,174
		21,813,015	10,755,318
TOTAL INCOME		**36,135,547**	**22,838,334**
EXPENDITURE			
Operating Expenses	8	(8,505,658)	(7,446,039)
Fair Value Gain On Equity Investments	17	1,247,411	-
Impairment On Project And Trade Finance Loans	16	(15,712,084)	(8,167,495)
Impairment On Other Assets	10	(128,928)	(574,324)
Net Foreign Exchange Losses		(577,295)	(5,700)
Total Expenditure		**(23,676,554)**	**(16,193,558)**
PROFIT FOR THE YEAR		**12,458,993**	**6,644,776**

Balance Sheet
As at 31 December 2008

	Note	2008 USD	2007 USD
ASSETS			
Cash and balances held with other banks	11	59,951,714	32,709,820
Investment in Government securities	12	-	3,621,840
Other receivables	13	2,157,262	1,944,389
Trade finance loans	14	331,099,730	103,561,599
Project loans	15	216,486,954	186,003,913
Equity investments	17	9,374,406	6,701,103
Property and equipment	18	16,559,933	17,012,417
Intangible assets	19	21,140	31,006
Deferred expenditure	20	1,299,749	1,337,435
TOTAL ASSETS		**636,950,888**	**352,923,522**
EQUITY AND LIABILITIES			
LIABILITIES			
Short term borrowings	21	252,755,924	75,543,941
Long term borrowings	22	161,953,458	124,904,783
Collection account deposits	23	59,359,962	16,421,119
Other payables	24	8,254,736	4,235,768
TOTAL LIABILITIES		**482,324,080**	**221,105,611**
CAPITAL AND RESERVES			
Paid up capital	25	127,898,037	117,548,133
Revenue reserve		26,728,771	14,269,778
SHAREHOLDERS' EQUITY		154,626,808	131,817,911
TOTAL EQUITY AND LIABILITIES		**636,950,888**	**352,923,522**

The financial statements on pages 54 to 97 were approved by the board of directors on 31 March, 2009 and were signed on its behalf by:

President

Director

Statement of Changes in Equity
For the year ended 31 December 2008

	Share capital USD	Revenue reserve USD	Total equity USD
At 1 January 2007	117,488,133	7,625,002	125,113,135
Capital paid (Note 25)	60,000	-	60,000
Profit for the year	-	6,644,776	6,644,776
At 31 December 2007	117,548,133	14,269,778	131,817,911
At 1 January 2008	117,548,133	14,269,778	131,817,911
Capital paid (Note 25)	10,349,904	-	10,349,904
Profit for the year	-	12,458,993	12,458,993
At 31 December 2008	**127,898,037**	**26,728,771**	**154,626,808**

Cash Flow Statement
For the year ended 31 December 2008

	Note	2008 USD	2007 USD
OPERATING ACTIVITIES			
Net cash generated from/(used in) operations	26(a)	14,709,438	(2,408,145)
INVESTING ACTIVITIES			
Purchase of property and equipment		(16,500)	(244,291)
Purchase of intangible assets		(3,762)	(12,173)
Proceeds on disposal of property and equipment		6,866	42,495
Purchase of equity investments		(1,425,892)	(1,833,555)
Net cash used in investing activities		**(1,439,288)**	**(2,047,524)**
FINANCING ACTIVITIES			
Receipt of capital subscriptions		10,349,904	60,000
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**23,620,054**	**(4,395,669)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**36,331,660**	**40,727,329**
CASH AND CASH EQUIVALENTS AT END OF YEAR	26(c)	**59,951,714**	**36,331,660**
FACILITIES AVAILABLE FOR LENDING	26(d)	**251,327,135**	**159,858,615**

Notes to the Financial Statements For the year ended 31 December 2008

1 ESTABLISHMENT

Eastern and Southern African Trade and Development Bank ("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.

2 PRINCIPAL ACCOUNTING POLICIES

Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards.

Adoption of new and revised International Financial Reporting Standards

(i) Standards and interpretations effective in the current period

Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are:

- IFRIC 12, Service Concession Arrangements (effective 1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (effective 1 January 2008);
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective 1 January 2008);
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008).

Adoption of these interpretations has not led to any changes in the Bank's accounting policies.

(ii) New and revised standards and interpretations in issue but not yet adopted

At the date of authorisation of these financial statements, the following revised standards and interpretations were in issue but not yet effective.

- IFRIC 15, Agreements for the construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009).
- IFRIC 17, Distributions of Non-cash Assets to Owners (effective for accounting periods on or after 1 January 2009).
- IFRIC 18, Transfers of Assets from Customers (effective for accounting periods on or after 1 July 2009).
- IFRS 1, First-Time Adoption of International Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption (effective for accounting periods beginning on or after 1 January 2009).
- IFRS 3, Business Combinations – Comprehensive revision on applying the acquisition method (effective for accounting periods beginning on or after 1 July 2009).
- IFRS 8, "Operating Segments", replaces IAS 14, "Segment reporting", and requires a management approach under which segment information is presented on the same basis as that for internal reporting purposes (effective for accounting periods beginning on or after 1 January 2009).

- IAS 1(Revised), Presentation of Financial Statements : Comprehensive revision including requiring a statement of comprehensive income, Amendments relating to disclosure of puttable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009).

(ii) New and revised standards and interpretations in issue but not yet adopted (continued)

- IAS 23 (Revised), Borrowing Costs: Comprehensive revision to prohibit immediate expensing of borrowing costs relating to qualifying assets for which the commencement date of capitalisation is on or after 1 January 2009 (effective for accounting periods beginning on or after 1 January 2009).
- IAS 27, Consolidated and Separate Financial Statements: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009).

Notes to the Financial Statements (continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

- IAS 28, Investments in Associates: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009).
- IAS 31, Interests in Joint Ventures: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009).
- IAS 32, Financial Instruments: Presentation: Amendments relating to puttable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009).
- IAS 36, Impairment of Assets: Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for accounting periods beginning on or after 1 January 2009).
- IAS 38, Intangible Assets: Amendments resulting from May 2008 Annual Improvements to IFRSs (effective for accounting periods beginning on or after 1 January 2009).
- IAS 39, Financial Instruments: Recognition and Measurement: Amendments for eligible hedged items (effective for accounting periods beginning on or after 1 July 2009).
- "Improvements to IFRSs" was issued in May 2008 and its requirements are effective over a range of dates, with the earliest effective date being for annual periods beginning on or after 1 January 2009. This comprises a number of amendments to IFRSs, which resulted from the IASB's annual improvements project.

(iii) Impact of the new and revised standards and interpretations in issue but not yet adopted

The following standard, in particular, will be of considerable relevance to the financial statements of the Bank, when effective:

IAS 1 (Revised), 'Presentation of financial statements'

IAS 1 (Revised), 'Presentation of financial statements' was issued in September 2007 and will be effective for annual periods beginning on or after 1 January 2009. The revised standard introduces the concept of a statement of comprehensive income, which enables users of the financial statements to analyse changes in an entity's equity resulting from transactions with owners separately from non-owner changes.

The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but provides the option of presenting items of income and expense and components of other comprehensive income either as a single statement of comprehensive income or in two separate statements, the income statement and statement of comprehensive income. Where the entity restates or reclassifies comparative information, it will be required to present a restated balance sheet as at the beginning comparative in addition to the current requirement to present balance sheets at the end of the current and comparative periods.

The previous version of IAS 1 used the titles 'balance sheet' and 'cash flow statement' to describe two of the statements within a complete set of financial statements. The revised IAS 1 uses 'statement of financial position' and 'statement of cash flows' for those statements.

Impact of other standards and interpretations

The directors anticipate that the adoption of the other standards and interpretations and amendments resulting from the International Accounting Standards Board (IASB)'s annual improvements project published in May 2008, when effective, will have no material impact on the financial statements of the Bank.

The IASBs annual improvements process deals with non-urgent, minor amendments to standards.

Notes to the Financial Statements (continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

Basis of preparation

The financial statements are prepared on the historical cost basis of accounting modified to include fair valuation of certain financial assets.

Income recognition

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

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

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

Grants are accounted for when received or where firm commitment for the grant has been received. However, designated projects (restricted) grants are taken into income on the basis of related expenditure incurred, and any unexpended grants are carried forward as a liability at the year-end.

Unutilised funds are carried forward as unexpended grants.

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred. Discounts and premiums or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity are calculated on an effective interest basis.

Foreign currencies

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

Property and equipment

Property and equipment are stated in the balance sheet at cost less accumulated depreciation and any accumulated impairment loss.
Depreciation is calculated at rates which are estimated to write-off the cost of property and equipment in equal annual instalments over their expected useful lives. The expected useful life of each class of asset is as follows:

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

Freehold land is not depreciated.

Intangible assets

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

Impairment

At each balance sheet date, the Bank reviews the carrying amounts of its financial, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

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.

Provisions for credit risk

Provisions are made against loans when, in the opinion of the directors, recovery is doubtful. The aggregate provisions

Notes to the Financial Statements (continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

which are made during the year, less amounts released and recoveries of bad debts previously written off are dealt with in the income statement. Bad debts are written off in part or in whole when the extent of the loss has been confirmed.

Taxation

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

Share capital

In accordance with Article 7 of the Charter, issued and called-up shares are being 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 the balance sheet date are deducted there from.

Financial instruments

A financial asset or liability is recognised when the Bank becomes party to the contractual provisions of the instrument.

Financial assets

The bank classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans, advances and receivables; held-to-maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition.

Financial assets at fair value through profit or loss

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

Loans, advances and receivables

Loans advances and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. Loans and advances are recognised when cash is advanced to borrowers.

Financial liabilities

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

Borrowings

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

Payables

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

Employee entitlements

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

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

Retirement benefit costs

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

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

Notes to the Financial Statements (continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

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.

Comparatives

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

Held to maturity

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

Available-for-sale financial assets

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans, advances and receivables, or (c) financial assets held to maturity.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans, advances and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Bank's right to receive payment is established.

Fair values of quoted investments in active markets are based on quoted bid prices. Equity securities for which fair values cannot be measured reliably are measured at cost less impairment.

Cash and cash equivalents

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

Critical judgments in applying the Bank's accounting policies

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

Impairment losses on loans and advances

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

Notes to the Financial Statements (continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

Estimates and uncertainties

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

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.

Impairment of financial assets

The Bank assesses at each balance sheet 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.

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

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

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

When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are included in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

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

Notes to the Financial Statements (continued)

		2008 USD	2007 USD
3.	**INTEREST INCOME**		
	On loans and facilities:		
	Project loans	17,507,360	15,305,613
	Trade finance loans	11,968,319	9,665,967
		29,475,679	24,971,580
	On placements:		
	Investments	1,149,354	1,263,798
		30,625,033	**26,235,378**
4	**INTEREST EXPENSE**		
	Interest payable on funds borrowed from:		
	Banks and financial institutions	10,735,987	9,762,161
	Other institutions	4,265,385	3,160,211
		15,001,373	**12,922,372**
5	**OTHER BORROWING COSTS**		
	Facility and management fees	613,890	357,486
	Drawdown fees	200,000	56,166
	Amortisation of deferred expenditure	372,931	298,189
	Other costs	65,117	93,484
	Bank commissions and charges	49,190	62,582
	Arrangement fees	-	362,083
		1,301,128	**1,229,990**
6	**FEES AND COMMISSIONS INCOME**		
	Upfront fees in trade finance	8,876,608	3,021,047
	Letter of credit fees in trade finance	8,209,412	2,999,891
	Appraisal fees on project finance	1,487,494	1,490,981
	Other fees in trade finance	1,158,680	879,319
	Letter of credit fees in project finance	804,452	1,123,999
	Commitment fees on project finance	272,188	388,972
	Other project fees	93,956	67,935
		20,902,790	**9,972,144**

Notes to the Financial Statements (continued)

		2008 USD	2007 USD
7	**OTHER INCOME**		
	Asset recoveries	328,773	405,312
	Dividends receivable	239,680	58,144
	Grant income *	279,178	254,531
	Interest on staff loans	18,054	15,131
	Other income	37,699	8,856
	Profit on disposal of property and equipment	6,841	41,200
		910,225	**783,174**

*The grant is provided by the African Development Bank (AFDB) to fund various consultancies and training. The proceeds are credited to the AFDB liability account and included in other payables (note 24). Transfers are made to income upon utilisation of the grant funds.

		2008 USD	2007 USD
8	**OPERATING EXPENSES**		
	Staff costs (note 9)	5,867,496	4,839,069
	Official missions	656,290	476,256
	Consultants and advisers	545,761	601,200
	Other operating expenses	522,169	503,543
	Depreciation	468,958	465,651
	Board of Directors meetings	186,890	252,700
	Board of Governors meetings	142,381	169,877
	Business promotion	72,085	85,853
	Audit fees	30,000	30,000
	Amortisation of intangible assets	13,628	21,890
		8,505,658	**7,446,039**
9	**STAFF COSTS**		
	Salaries and wages	3,484,519	2,987,737
	Other costs	1,082,293	954,195
	Staff provident fund contributions	669,643	581,598
	Provision for service and leave pay	631,041	315,539
		5,867,496	**4,839,069**

Notes to the Financial Statements (continued)

		2008 USD	2007 USD
10	**IMPAIRMENT ON OTHER ASSETS**		
	Appraisal fees	94,333	574,324
	Project loans written off	34,595	-
		128,928	**574,324**
11	**CASH AND BALANCES HELD WITH OTHER BANKS**		
	Current accounts – Note 11 (i)	3,035,246	3,161,301
	Call and term deposits with banks – Note 11 (ii)	56,916,468	29,548,519
		59,951,714	**32,709,820**
	(i) Current accounts:		
	Amounts maintained in United States Dollars (USD)	2,078,562	2,750,545
	Amounts maintained in other currencies:		
	Kenyan Shillings	557,884	117,309
	Euro	283,287	110,717
	Tanzania Shillings	64,430	21,056
	British Pounds	46,374	20,121
	Ugandan Shillings	2,640	127,897
	Burundi Francs	842	9,909
	Japanese Yen	531	428
	South African Rand	478	40
	Malawi Kwacha	218	3,279
		956,684	410,756
		3,035,246	**3,161,301**

The average effective interest rate on current accounts was 1.50% (2007 - 3.37%) per annum.

Notes to the Financial Statements (continued)

	2008 USD	2007 USD
(ii) Call and term deposits with banks:		
United States Dollars (USD)	53,254,612	22,946,218
Amounts maintained in other currencies:		
Kenya Shillings	3,433,383	6,602,301
Tanzania Shillings	145,761	-
Uganda Shillings	82,712	-
	3,661,856	6,602,301
	56,916,468	29,548,519

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

	2008	2007
United States Dollars	2.32%	4.80%
Kenya Shillings	7.86%	6.39%
Tanzania Shillings	3.43%	5.50%
Uganda Shillings	6.81%	4.30%

12 INVESTMENTS IN GOVERNMENT SECURITIES

	2008 USD	2007 USD
Treasury bills: Held to maturity		
Maturing within 90 days of the balance sheet date		
Face value	-	3,679,163
Less: Unearned discount	-	(57,323)
	-	3,621,840

The treasury bills, issued by the United Republic of Tanzania, represented investments made in Tanzania Shillings bearing interest at a rate of 10.54% per annum. These investments were managed by CRDB Bank Limited and matured during the year.

Notes to the Financial Statements (continued)

		2008 USD	2007 USD
13	**OTHER RECEIVABLES**		
	Appraisal fees	1,306,468	1,183,744
	Staff loans and advances	514,761	442,994
	Sundry receivables	183,541	112,983
	AfDB grant receivable*	86,660	152,692
	Prepayments	65,832	51,976
		2,157,262	1,944,389

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 4.46% (2007 - 4.51%) per annum.

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

Notes to the Financial Statements (continued)

	2008 USD	2007 USD
14 TRADE FINANCE LOANS		
Principal loans	340,708,828	106,674,588
Interest receivable	7,411,032	4,600,201
Gross loans	348,119,860	111,274,789
Impairment on trade finance loans (note 16)	(17,020,130)	(7,713,190)
Net loans	**331,099,730**	**103,561,599**

The weighted average effective interest rate was 6.40% (2007 - 8.30%) per annum.

Analysis of gross loans by maturity:

	2008 USD	2007 USD
Maturing:		
Within one year	267,032,225	68,418,931
One to three years	81,087,635	42,855,858
	348,119,860	**111,274,789**

The gross non performing trade finance loans was USD 22,589,459 (2007 - USD 9,533,748). The impairment provisions related to these loans amounted to USD 12,005,438 (2007 - USD 5,613,858) hence the carrying value of the loans amount to USD 10,584,021 (2007 - USD 3,919,890).

Notes to the Financial Statements (continued)

		2008 USD	2007 USD
15	**PROJECT LOANS**		
	Approved loans less cancellations	651,854,001	471,333,342
	Less: Unsigned	(161,030,985)	(89,371,644)
	Loans signed	490,823,016	381,961,698
	Less: Undisbursed - Letters of credit opened	(21,858,606)	(17,851,409)
	- Letters of credit not yet opened	(87,049,898)	(47,525,629)
	Loans disbursed	381,914,512	316,584,660
	Interest capitalised	26,292,834	25,012,341
	Loans repaid	(171,455,256)	(139,106,163)
	Principal loan balances	236,752,090	202,490,838
	Interest receivable	6,792,520	8,333,574
	Gross loans	243,544,610	210,824,412
	Impairment on project loans (note 16)	(27,057,656)	(24,820,498)
	Net loans	**216,486,954**	**186,003,913**

The average effective interest rate was 9.51% (2007 - 10.99%) per annum.

Analysis of gross loans by maturity:

	2008 USD	2007 USD
Maturing:		
Within one year	47,787,558	26,650,554
One year to three years	77,894,296	57,403,560
Three to five years	39,688,229	33,466,327
Over five years	78,174,527	93,303,971
	243,544,610	**210,824,412**

The aggregate non performing project loans was USD 47,571,308 (2007 - USD 45,180,763). The impairment provisions related to these loans amounted to USD 27,057,655 (2007 - USD 20,854,535) hence the carrying value of the loans amounted to USD 20,513,653 (2007 - USD 24,326,228) at the end of the year.

Notes to the Financial Statements (continued)

16 IMPAIRMENT ON PROJECT AND TRADE FINANCE LOANS

The movement in provisions is as follows:

	Project loans USD	Trade finance loans USD	Total provisions USD
At 1 January 2007	19,374,674	5,247,571	24,622,245
Amounts written-off	(195,630)	(60,423)	(256,053)
Charge for the year	5,641,453	2,526,042	8,167,495
At 31 December 2007	24,820,497	7,713,190	32,533,687
At 1 January 2008	24,820,497	7,713,190	32,533,687
Amounts written-off	(4,070,845)	(69,543)	(4,140,388)
Amounts written-back	(12,500)	(15,097)	(27,597)
Charge for the year	6,320,504	9,391,580	15,712,084
At 31 December 2008	27,057,656	17,020,130	44,077,786

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

17 EQUITY INVESTMENTS

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

	Share-holding %	Original cost USD	Fair value gain/ (losses) to 31 Dec 2007 USD	Fair value as at 31-Dec 2007 USD	Additions at cost in year to 31 Dec 2008 USD	Fair value gain/ (losses) to 31 Dec 2008 USD	Fair value as at 31-Dec 2008 USD
PTA Reinsurance	6.57	841,588	525,914	1,367,502	841,588	169,275	2,378,365
Aureos East Africa Fund	5.00	1,805,048	-	1,805,048	(226,429)	795,057	2,373,676
African Export Import Bank	0.48	400,000	292,659	692,659	782,080	231,479	1,706,218
Tononoka	5.00	600,000	(300,000)	300,000	28,653	-	328,653
Tanruss	4.06	1,755,000	(702,647)	1,052,353	-	-	1,052,353
AFGEM	0.33	48,400	-	48,400	-	(48,400)	-
Africa Trade Insurance Company	7.69	100,000	(100,000)	-	-	100,000	100,000
Gulf African Bank	5.33	1,435,141	-	1,435,141	-	-	1,435,141
		6,985,177	(284,074)	6,701,103	1,425,892	1,247,411	9,374,406

Notes to the Financial Statements (continued)

17 EQUITY INVESTMENTS (CONTINUED)

The Bank has subscribed to the equity of various projects in its Member States. In addition, the bank has invested in African Export Import Bank, PTA Reinsurance, Aureos East Africa Fund and Africa Trade Insurance Company. The Bank's participation is expressed in US Dollars.

In 2008, USD 841,588 of new investment was made in PTA Reinsurance, USD 782,080 in African Export Import Bank and USD 28,653 in Tononoka. A net redemption of USD 226,429 (2007 - Additions USD 398,414) was made in Aureos East Africa Fund.

		2008 USD	2007 USD
(ii)	**Installments paid:**		
	Total subscribed capital	10,032,450	8,621,717
	Less: Installments not due – note 17(iii)	(1,621,381)	(1,636,540)
	Installments paid as at end of year – note 17(iv)	**8,411,069**	**6,985,177**
(iii)	**Unpaid subscriptions expressed in US Dollars at year-end rates comprised:**		
	African Export Import Bank	1,200,000	600,000
	PTA Reinsurance	-	841,588
	Aureos East Africa Fund	421,381	194,952
		1,621,381	**1,636,540**
(iv)	**Movement in the installments paid:**		
	At beginning of year	6,985,177	5,151,622
	Additions at cost – note 17 (i)	1,425,892	1,833,555
	At end of year	**8,411,069**	**6,985,177**

Notes to the Financial Statements (continued)

18 PROPERTY AND EQUIPMENT

	Freehold land and building USD	Motor vehicles USD	Furniture and fittings USD	Office equipment USD	Total USD
COST					
At 1 January 2007	18,520,559	354,730	581,600	792,098	20,248,987
Additions	-	122,292	16,771	105,228	244,291
Disposals	-	(124,521)	-	(7,629)	(132,150)
At 31 December 2007	18,520,559	352,501	598,371	889,697	20,361,128
At 1 January 2008	18,520,559	352,501	598,371	889,697	20,361,128
Additions	-	-	2,755	13,744	16,500
Disposals	-	(72,634)	(2,976)	(23,681)	(99,292)
At 31 December 2008	**18,520,559**	**279,867**	**598,150**	**879,760**	**20,278,336**
DEPRECIATION					
At 1 January 2007	1,481,002	290,074	513,557	729,282	3,013,915
Charge for the year	370,411	38,180	17,910	39,150	465,651
Disposals	-	(124,521)	-	(6,334)	(130,855)
At 31 December 2007	1,851,413	203,733	531,467	762,098	3,348,711
At 1 January 2008	1,851,413	203,733	531,467	762,098	3,348,711
Charge for the year	370,411	40,956	18,540	39,051	468,958
Disposals	-	(72,634)	(2,951)	(23,681)	(99,266)
At 31 December 2008	**2,221,824**	**172,055**	**547,056**	**777,468**	**3,718,403**
NET BOOK VALUE					
At 31 December 2008	**16,298,735**	**107,812**	**51,094**	**102,292**	**16,559,933**
At 31 December 2007	16,669,146	148,768	66,904	127,599	17,012,417

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

Included in furniture, fittings and office equipment are assets with a cost of USD 1,175,578 (2007 - 1,248,725) which were fully depreciated. The normal annual depreciation charge on these assets would have been USD 193,997 (2007 - USD 208,336).

Notes to the Financial Statements (continued)

		2008 USD	2007 USD
19	**INTANGIBLE ASSETS**		
	COST		
	At beginning of year	1,066,616	1,054,442
	Additions	3,762	12,173
	At end of year	1,070,378	1,066,615
	AMORTISATION		
	At beginning of year	1,035,610	1,013,719
	Charge for the year	13,628	21,890
	At end of year	1,049,238	1,035,609
	NET BOOK VALUE		
	At end of year	**21,140**	**31,006**

Intangible assets relate to cost of acquired computer software.

Included in intangible assets is software with a cost of USD 999,530 (2007 - 999,530) which was fully depreciated. The normal annual depreciation charge on these assets would have been USD 199,906 (2007 - USD 199,906).

		2008 USD	2007 USD
20	**DEFERRED EXPENDITURE**		
	COST		
	At beginning of year	2,192,915	1,432,049
	Additions	335,245	760,866
	At end of year	2,528,160	2,192,915
	AMORTISATION		
	At beginning of year	855,480	557,291
	Charge for the year	372,931	298,189
	At end of year	1,228,411	855,480
	NET BOOK VALUE		
	At end of year	**1,299,749**	**1,337,435**

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.

Notes to the Financial Statements (continued)

21 SHORT TERM BORROWINGS

a) CERTIFICATES OF DEPOSIT

Lender	Date of renewal/ advance	Maturity Date	Currency	2008 USD	2007 USD
Southern African Media Development Fund	11/06/2008	11/06/2009	USD	700,000	700,000
PTA Reinsurance	27/12/2008	29/06/2009	USD	437,259	-
PTA Reinsurance	11/12/2007	11/06/2008	USD	-	71,727
PTA Reinsurance	08/07/2008	08/07/2009	USD	848,438	-
PTA Reinsurance	14/08/2008	17/08/2009	USD	1,374,119	735,864
PTA Reinsurance	17/08/2008	17/08/2009	USD	115,111	110,346
PTA Reinsurance	14/11/2007	14/08/2008	USD	-	589,869
PTA Reinsurance	01/12/2007	01/06/2008	USD	-	422,169
PTA Reinsurance	30/07/2007	30/01/2008	USD	-	571,319
PTA Reinsurance	1/07/2008	02/07/2009	USD	700,000	-
Comesa yellow Cards Insurance Pool	01/08/2008	03/08/2009	USD	274,129	262,454
Comesa yellow Cards Insurance Pool	16/08/2008	17/08/2009	USD	104,066	99,758
Comesa yellow Cards Insurance Pool	21/08/2008	27/08/2009	USD	330,507	316,870
Comesa yellow Cards Insurance Pool	04/07/2008	06/07/2009	USD	99,415	94,822
Comesa yellow Cards Insurance Pool	21/07/2008	21/07/2009	USD	117,736	112,840
Comesa yellow Cards Insurance Pool	21/10/2008	21/07/2009	USD	52,044	50,000
Sub total for Certificates of Deposit				**5,152,824**	**4,138,038**

(b) OTHER SHORT TERM BORROWINGS

Lender	Date of renewal/ advance	Maturity Date	Currency	2008 USD	2007 USD
AFREXIM Bank	03/12/2008	02/06/2009	USD	5,000,000	25,833,333
FMO*	01/07/2008	27/03/2010	USD	20,000,000	15,000,000
Fortis Bank	31/10/2007	28/04/2008	USD	-	3,426,449
Commerzbank	08/10/2008	12/01/2009	USD	25,809,841	965,956
Standard Bank of South Africa	29/12/2008	28/01/2009	USD	39,876,083	482,000
Barclays Bank	30/10/2008	01/03/2009	USD	80,921,571	16,000,000
Bank of Tanzania	24/11/2008	24/02/2009	USD	5,000,000	5,000,000
BHF Bank	29/12/2008	27/02/2009	USD	12,831,703	737,382
CRDB Bank	01/08/2008	02/02/2009	USD	2,500,000	2,500,000
Dresdner Bank AG	29/12/2008	30/03/2009	USD	13,377,119	-
Mauritius Commercial Bank	29/12/2008	02/03/2009	USD	24,267,075	-
DZ Bank	29/12/2008	29/01/2009	USD	5,710,528	-
Standard Chartered Bank	24/12/2008	10/06/2009	USD	11,084,834	684,123
Sub total for other short term borrowings				**246,378,754**	**70,629,243**

(c) INTEREST PAYABLE

INTEREST PAYABLE	1,224,346	776,660
Certificate of Deposits (Note 21a)	5,152,824	4,138,038
TOTAL SHORT TERM BORROWINGS	**252,755,924**	**75,543,941**

The effective interest rate during the year was 4.52% (2007 - 6.44%) per annum.
* Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V.

Notes to the Financial Statements (continued)

22 LONG TERM BORROWINGS

					Amount as at Wednesday, December 31, 2008			Amount as at Monday, December 31, 2007		
Lender	Date of Renewal/ disburse-ment	Maturity Date	Currency	Amount in Currency	Amount in USD	Amount due within one year USD	Amount due after one year USD	Balance outstanding USD	Amount due within one year USD	Amount due after one Year USD
African Development Bank	17/12/2003	31/05/2018	USD	49,272,511	49,272,511	4,921,558	44,350,953	31,497,224	1,497,224	30,000,000
China Development Bank	18/11/2008	29/06/2013	USD	18,000,000	18,000,000	4,165,713	13,834,287	-	-	-
Tanzania local currency bonds	01/09/2003	15/08/2010	TSH	6,000,000,000	4,602,749	2,301,496	2,301,253	7,846,556	2,615,519	5,231,037
KBC Bank	Various	30/09/2013	USD	9,116,040	9,116,040	3,529,072	5,586,968	8,159,864	2,822,975	5,336,889
Kenya local currency bonds I	04/07/2005	05/07/2012	KES	640,000,000	8,242,112	2,060,528	6,181,584	12,539,185	2,507,837	10,031,348
Kenya local currency bonds II	12/10/2007	31/10/2014	KES	1,000,000,000	12,878,300	-	12,878,300	15,673,981	-	15,673,981
Exim Bank of India Loan	29/11/1999	Various	USD	21,774,095	21,774,095	4,827,852	16,946,243	21,506,637	5,547,683	15,958,954
M & T Bank	03/12/2003	30/09/2010	USD	5,321,243	5,321,243	2,103,664	3,217,579	7,754,854	2,356,602	5,398,252
Export Development Corporation of Canada	01/09/2005	31/12/2010	USD	3,165,068	3,165,068	1,725,241	1,439,827	4,890,525	1,732,456	3,158,069
Ceskoslovenska Obchodni Banka AS	03/07/2005	30/05/2017	USD	6,578,954	6,578,954	1,732,605	4,846,349	1,732,934	1,732,934	-
Development Bank of South Africa	02/03/2007	30/06/2017	USD	20,035,386	20,035,386	660,386	19,375,000	10,027,416	27,416	10,000,000
Overseas Private Investment	17/09/2003	15/03/2015	USD	1,400,000	1,400,000	-	1,400,000	1,400,000	-	1,400,000
Bank of Uganda	31/12/2004	30/06/2011	UGX	596,489,169	307,462	122,987	184,475	568,070	216,573	351,497
Sub total for long term borrowings					160,693,920	28,151,102	132,542,818	123,597,246	21,057,219	102,540,027
Interest payable					1,259,538	1,259,538	-	1,307,537	1,307,537	-
Total long term borrowings					**161,953,458**	**29,410,640**	**132,542,818**	**124,904,783**	**22,364,756**	**102,540,027**

The effective interest rate during the year was 6.48% (2007 - 6.00%)

Notes to the Financial Statements (continued)

23 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.

24 OTHER PAYABLES

	2008 USD	2007 USD
Insurance claim proceeds	3,790,861	-
Provision for staff benefits	2,441,863	2,202,385
Provident fund	1,289,869	1,590,558
Other creditors	522,727	178,574
Accrued expenses	170,394	136,129
Prepaid rent	39,022	128,122
	8,254,736	4,235,768

The insurance claim proceeds relate to amounts received by the bank in respect of a client under receivership and for which accountability will be required to co-lenders.

25 SHARE CAPITAL

	2008 USD	2007 USD
Authorised capital:		
88,234 (2007: 88,234) ordinary shares of USD 22,667 each	2,000,000,000	2,000,000,000
Less: Unsubscribed	(819,593,308)	(921,142,108)
Subscribed capital:		
52,076 (2007: 48,876) ordinary shares of USD 22,667 each	1,180,406,692	1,078,857,892
Less: Callable capital	(944,325,354)	(857,283,647)
Payable capital	236,081,338	221,574,245
Less: Amounts not yet due	(107,937,301)	(103,902,511)
Capital due	128,144,037	117,671,734
Less: subscriptions in arrears	(246,000)	(123,601)
Paid up capital	**127,898,037**	**117,548,133**
Movement in paid up share capital		
At beginning of year	117,548,133	117,488,133
Seychelles	-	60,000
African Development Bank	6,800,200	-
Mauritius	3,549,704	-
At end of year	**127,898,037**	**117,548,133**

Notes to the Financial Statements (continued)

The share capital is made up of:

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

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

		2008 USD	2007 USD
26 NOTES TO THE CASH FLOW STATEMENT			
(a) Reconciliation of profit for the year to cash generated from/(used in) operations:			
Profit for the year		12,458,993	6,644,776
Adjustments:			
Depreciation		468,958	465,651
Amortisation of intangible assets		13,628	21,890
Profit on disposal of property and equipment		(6,841)	(41,200)
Fair value gain on revaluation of equity investments		(1,247,411)	-
Profit before working capital changes		**11,687,327**	**7,091,117**
Increase in other receivables		(212,872)	(69,750)
(Increase)/decrease in trade finance loans		(227,538,131)	8,897,483
(Increase) in project loans		(30,483,041)	(12,865,802)
Decrease/(increase) in deferred expenditure		37,686	(462,677)
Increase in collection accounts deposits		42,938,843	2,590,935
Increase in other payables		4,018,968	434,359
Increase/(decrease) in borrowings	26(b)	214,260,658	(8,023,810)
Net cash generated from/ (used in) operations		**14,709,438**	**(2,408,145)**

Notes to the Financial Statements (continued)

26 NOTES TO THE CASH FLOW STATEMENT

		2008 USD	2007 USD
(b)	**Analysis of changes in borrowings:**		
	Short term borrowings:		
	At beginning of year	75,543,942	108,466,655
	Loans received	573,550,094	131,356,350
	Repayments	(396,338,112)	(164,279,064)
	At end of year	**252,755,924**	**75,543,941**
	Long term borrowings:		
	At beginning of year	124,904,783	100,005,879
	Loans received	72,094,765	49,725,090
	Repayments	(35,046,090)	(24,826,186)
	At end of year	**161,953,458**	**124,904,783**
(c)	**Analysis of cash and cash equivalents**		
	Cash and balances with other banks	59,951,714	32,709,820
	Investment in Government securities (90-day treasury bills)	-	3,621,840
		59,951,714	**36,331,660**

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

Notes to the Financial Statements (continued)

26 NOTES TO THE CASH FLOW STATEMENT (Continued)

(d) Facilities available for lending

As at 31 December 2008 the following facilities were available to the Bank for lending:

	Facilities available USD	Facilities utilised USD	Facilities unutilised USD
LONG TERM FACILITIES			
LENDER			
African Development Bank	50,000,000	20,000,000	30,000,000
China Development Bank	50,000,000	18,000,000	32,000,000
KBC Bank	21,159,750	15,146,387	6,013,363
Exim Bank India	25,000,000	9,162,017	15,837,983
Japan Bank for International Corporation (JBIC)	12,656,092	-	12,656,092
BHF Bank	15,000,000	-	15,000,000
Exim Bank USA MGA	No limit	-	-
	173,815,842	**62,308,404**	**111,507,438**
SHORT-TERM FACILITIES			
LENDER			
Commerz bank	51,213,000	25,809,841	25,403,159
DZ Bank	10,000,000	5,710,528	4,289,472
Standard Bank of South Africa	42,000,000	39,876,083	2,123,917
African Export & Import Bank	30,000,000	5,000,000	25,000,000
ING Bank	10,579,875	-	10,579,875
International Islamic Trade Finance Corporation	13,000,000	-	13,000,000
Standard Chartered Bank Limited	15,000,000	11,084,834	3,915,166
KBC Bank	7,500,000	-	7,500,000
BNP Paribas	21,159,750	6,515,305	14,644,445
Fortis Bank	21,159,750	-	21,159,750
HSBC	5,000,000	2,668,331	2,331,669
Bank Muscat	5,000,000	-	5,000,000
Natixis	5,000,000	127,756	4,872,244
	236,612,375	**96,792,678**	**139,819,697**
TOTAL FACILITIES			
At 31 December 2008	**410,428,217**	**159,101,082**	**251,327,135**
At 31 December 2007	**243,712,237**	**83,853,622**	**159,858,615**

Notes to the Financial Statements (continued)

27 CONTINGENCIES AND COMMITMENTS

(a) Pending litigation

As at 31 December 2008, there were legal proceedings involving the bank amounting to USD 8,133,352 (2007 - USD 58,463) that are yet to be determined. No provision has been made as, in the opinion of the Directors and the Bank's lawyers, it is unlikely that any significant loss will crystallise.

	2008 USD	2007 USD
(b) Capital commitments		
Approved but not contracted	2,142,553	585,398
(c) Loans committed but not disbursed		
Project loans	87,049,896	47,525,629
Trade finance loans	158,062,939	15,780,178
	245,112,835	63,305,807

(d) Contingencies

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

	2008 USD	2007 USD
Letters of credit - Project loans	21,858,606	17,851,409
- Trade loans	79,495,380	127,232,124
Guarantees	17,279,605	11,705,554
	118,633,591	156,789,087

(e) Operating lease arrangements

The Bank as a lessor

Rental income earned during the year was USD 157,100 (2007 - USD 121,532). At the balance sheet date, the Bank had contracted with tenants for the following future lease receivables:

Notes to the Financial Statements (continued)

27 CONTINGENCIES AND COMMITMENTS (Continued)

(e) Operating lease arrangements (Continued)

	2008 USD	2007 USD
Within one year	206,400	156,000
In the second and third year inclusive	371,220	205,500
	577,620	361,500

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

The Bank as a lessee

At the balance sheet date, the Bank had outstanding commitments under operating leases which fall due as follows:

	2008 USD	2007 USD
Within one year	109,810	133,648
In the second to fifth year inclusive	134,573	305,735
	244,383	439,383

Operating lease payments represent rentals payable by the Bank for use of its office premises. Leases are negotiated for an average term of 6 years.

28 PROVISION FOR LIABILITIES AND CHARGES

	2008 USD	2007 USD
At beginning of year	2,202,385	2,087,572
Increase in provision for leave pay	151,298	18,621
Increase in provision for service pay	457,994	247,245
Payment of leave pay	(68,368)	(27,839)
Payment of service pay	(301,446)	(123,214)
At end of year	2,441,863	2,202,385

Employees' entitlements to annual leave and service pay are recognised when they accrue to employees. An amount of USD 631,041 (2007 - USD 315,539) has been charged to the income statement in the current year as provision for service pay and leave pay.

Notes to the Financial Statements (continued)

29 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Except for staff loans and advances disclosed in Note 13, there were no other related party transactions undertaken during the year.

Interest income received on staff loans and advances during the year amounted to USD 18,054 (2007 - USD 15,131). The staff loans and advances are fully recoverable and therefore no provisions have been made against these advances.

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

	2008 USD	2007 USD
Salaries and other short-term benefits	848,610	631,654
Post employment benefits	177,972	142,480
	1,026,582	774,134

30 FAIR VALUE

The Directors consider that there is no material difference between the fair value and carrying value of the Bank's financial assets and liabilities where fair value details have not been presented.

31 CURRENCY

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

	2008	2007
British Pound	0.69300	0.49816
UAPTA	0.64924	0.63281
Euro	0.70889	0.67916
South Africa Rand	9.38000	6.81250
Kenya Shilling	77.65000	63.80000
Japanese Yen	90.23500	112.04000
Malawi Kwacha	143.05000	138.83000
Burundi Franc	1,139.10000	1,142.20000
Tanzania Shilling	1,303.50000	1,147.00000
Uganda Shilling	1,940.10000	1,697.00000

Notes to the Financial Statements (continued)

32 FINANCIAL RISK MANAGEMENT

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

a) INTRODUCTION

This section of the Audited Accounts provides a summary of the specific risks which the Bank faces.

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

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

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

The most important types of risk are:

- Credit risk
- Liquidity risk
- Market risk
  - Interest rate risk
  - Foreign exchange risk
- Operational risk
- Compliance risk
- Reputation risk

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

b) CREDIT RISK

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

Risk Management Policies and Processes

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

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

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

Notes to the Financial Statements (continued)

32 FINANCIAL RISK MANAGEMENT (Continued)

b) CREDIT RISK (Continued)

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

Client-Specific Risk

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

The Bank seeks to mitigate credit risk in its lending operations and calls for risk mitigating measures such as security in the form of real estate collateral, personal and corporate guarantees. Such collateral is re-valued every three years or earlier should there be any evidence of diminution in value. To ensure prudent management of concentration risk, the Bank limits exposure to a single borrower to USD 20 million.

Country Risk

The Bank considers country-specific political, social and economic events which may have adverse impact on the credit quality of its borrowers. To mitigate such risks the Bank uses prudent country exposure 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 25% of its total loan portfolio. As at 31 December 2008 all country exposures, except for Zambia, were within this limit. The Bank held cash deposits amounting to USD 55.0 million against the Zamban exposure.

Appendix I and II of the Financial Statements contain the country exposure analysis as at 31 December 2008.

Notes to the Financial Statements (continued)

32 FINANCIAL RISK MANAGEMENT (Continued)

b) CREDIT RISK (Continued)

Maximum Exposure to Credit Risk before Collateral Held:

	2008 USD	%	2007 USD	%
Asset Class				
Credit Exposures				
On-Balance Sheet Items				
Cash and Balances from other Banks	59,951,714	10	32,709,820	10
Investment in Government Securities	-	0	3,621,840	1
Loans and advances	547,586,684	90	289,565,513	89
Sub Total	**607,538,398**	**100**	**325,897,173**	**100**
Off-Balance Sheet Items				
Letters of Credit	101,353,986	28	145,083,533	66
Loan Commitments not disbursed	245,112,835	67	63,305,807	29
Guarantees and Performance Bonds	17,279,605	5	11,705,554	5
Sub Total	**363,746,426**	**100**	**220,094,894**	**100**
Total	**971,284,824**		**545,992,067**	

The above figures represent the worst case of credit exposure for the two years without taking into account any collateral held or other credit enhancements.

Loan and advances and off-Balance Sheet items took up 94% in 2008, (2007 - 93%) of the total maximum credit exposure.

Other than cash and bank balances amounting to USD 59,951,714, all other credit risk exposures are secured by collateral in the form of cash liens, mortgages on land and buildings, securities charged over plant and machinery and third party guarantees.

As at 31st December, 2008, the fair value of collateral held for impaired loans and advances was USD 65,932,030 and provided sufficient cover over the net exposure of USD 26,082,980 after deducting the impairment allowances.

Notes to the Financial Statements (continued)

32 FINANCIAL RISK MANAGEMENT (Continued)

b) CREDIT RISK (Continued)

Classification of Loans and advances

2008

Category	Gross amount USD	Impairment allowance USD	Net amount USD	%
Neither past due nor impaired	382,130,584	-	382,130,584	70
Past due but not impaired	139,373,121	-	139,373,121	25
Impaired	70,160,765	44,077,786	26,082,979	5
Total	**591,664,470**	**44,077,786**	**547,586,684**	**100**

2007

Category	Gross amount USD	Impairment allowance USD	Net amount USD	%
Neither past due nor impaired	169,906,915	-	169,906,915	59
Past due but not impaired	97,489,660	-	97,489,660	34
Impaired	54,702,625	32,533,687	22,168,938	7
Total	**322,099,200**	**32,533,687**	**289,565,513**	**100**

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

Notes to the Financial Statements (continued)

32 FINANCIAL RISK MANAGEMENT (Continued)

b) CREDIT RISK (Continued)

Ageing of arrears for past due loans and advances not impaired

	2008 USD	2007 USD
Below 30 Days	26,895,282	8,747,468
31 to 90 Days	41,319,722	15,959,377
Total	**68,215,004**	**24,706,845**

Ageing of arrears for impaired loans and advances

	2008 USD	2007 USD
Below 30 Days	1,106,228	809,224
31-90 Days	1,024,739	96,052
91-180 Days	1,848,566	917,460
181-360 Days	3,623,111	1,842,147
Over 360 Days	26,881,292	24,202,273
Total	**34,483,936**	**27,867,156**

Loans and advances that are neither past due nor impaired

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

Past due but not impaired

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

Impaired loans and advances

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

Notes to the Financial Statements (continued)

32 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

	2008 USD	2007 USD
Mortgages on properties	206,067,263	174,881,263
Fixed charge on plant and equipment	283,956,505	255,700,505
Cash security deposits	57,640,950	2,108,000
Other	250,957,195	148,341,195
Total security cover	798,621,913	581,030,963
Past due but not impaired		
Mortgages on properties	61,096,494	61,096,494
Fixed charge on plant and equipment	92,905,141	92,905,141
Cash security deposits	1,708,000	1,708,000
Other	71,000,000	28,000,000
	226,709,635	183,709,635
Impaired loans		
Mortgages on properties	56,951,782	55,451,782
Fixed charge on plant and equipment	5,727,000	5,727,000
Cash security deposits	-	-
Other	56,424,018	21,424,018
	119,102,800	82,602,800

Notes to the Financial Statements (continued)

32 FINANCIAL RISK MANAGEMENT (Continued)

b) CREDIT RISK (Continued)

Concentration of risk

Loans and advances to customers

Sector	2008 Amount USD	%	2007 Amount USD	%
Manufacturing	95,915,696	16	72,935,378	23
Agribusiness	88,232,320	15	81,289,791	25
Petroleum	239,446,775	41	35,215,455	11
Infrastructure	43,889,487	7	36,968,534	11
Finance and Banking	61,657,583	10	29,596,431	9
Aviation	13,184,740	2	16,687,201	5
Other	13,870,992	3	28,304,290	8
Mining	19,784,704	3	8,478,610	3
Transport	2,985,974	1	4,317,776	2
Tourism	12,696,199	2	8,305,734	3
Total	**591,664,470**	**100**	**322,099,200**	**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 2008 all loan and advances sectoral concentrations, except for Petroleum were within the stipulated limit. Against the Petroleum exposure, the Bank held cash deposits amounting to USD 55,532,957.

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

Off-Balance Sheet Items

Sector	2008 Amount USD	%	2007 Amount USD	%
Petroleum	199,352,143	55	134,254,251	61
Finance & Banking	19,272,549	5	31,353,446	14
Manufacturing	10,925,772	4	17,260,006	8
Agribusiness	52,473,585	14	12,928,695	6
Tourism	19,858,555	5	12,751,300	6
Infrastructure	36,996,081	10	6,173,461	3
Mining	24,867,741	7	5,373,735	2
Total	363,746,426	100	220,094,894	100

Notes to the Financial Statements (continued)

32 FINANCIAL RISK MANAGEMENT (Continued)

b) CREDIT RISK (Continued)

	2008 USD	2007 USD
Restructured loans		
The following loans were renegotiated during the year		
Project finance	16,624,182	31,614,382
Trade finance	-	-
	16,624,182	31,614,382

c) LIQUIDITY RISK

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

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

The prudential minimum level of liquidity is updated quarterly.

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

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

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

Notes to the Financial Statements (continued)

32 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 2008						
FINANCIAL ASSETS						
Cash and balances with other banks	59,011,954	939,760	-	-	-	59,951,714
Other receivables	1,753,338	121,229	115,220	167,475	-	2,157,262
Trade finance loans	51,485,941	200,034,948	15,511,336	64,067,505	-	331,099,730
Project loans	935,329	21,908,600	24,943,629	90,524,870	78,174,526	216,486,954
Equity participation	-	-	-	9,374,406	-	9,374,406
Total financial assets	**113,186,562**	**223,004,537**	**40,570,185**	**164,134,256**	**78,174,526**	**619,070,066**
FINANCIAL LIABILITIES						
Short term borrowings	74,718,955	154,021,403	4,015,566	20,000,000	-	252,755,924
Long term borrowings	9,563,576	12,884,250	14,712,315	85,093,835	39,699,483	161,953,459
Collection Account Deposits	10,570,086	48,789,876	-	-	-	59,359,962
Other payables	-	3,171,939	1,482,567	3,600,221	-	8,254,727
Total financial liabilities	**94,852,617**	**218,867,468**	**20,210,448**	**108,694,056**	**39,699,483**	**482,324,072**
Net liquidity gap	18,333,945	4,137,069	20,359,737	55,440,200	38,475,043	136,745,994
Cumulative gap	18,333,945	22,471,014	42,830,751	98,270,951	136,745,994	136,745,994
As at 31 December 2007						
Total financial assets	40,314,777	56,729,317	36,247,984	130,591,284	70,659,302	334,542,664
Total financial liabilities	28,279,269	49,304,987	24,945,424	83,953,249	34,622,682	221,105,611
Net liquidity gap	12,035,508	7,424,330	11,302,560	46,638,035	36,036,620	113,437,053
Cumulative gap	**12,035,508**	**19,459,838**	**30,762,398**	**77,400,433**	**113,437,053**	**113,437,053**

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

Notes to the Financial Statements (continued)

32 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 optimize return on risk. Market risk is the risk that movement in market factors, including interest rates and foreign currency exchange rates, will reduce income or value of portfolio.

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

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

Notes to the Financial Statements (continued)

32 FINANCIAL RISK MANAGEMENT (Continued)

d) MARKET RISK (Continued)

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

I. Interest rate risk

The bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. This risk is summarised in the Table below:

	Up to 1 month USD	1 to 6 months USD	6 to 12 months USD	1 to 5 Years USD	Over 5 years USD	Non-interest bearing USD	Total USD
At 31 December 2008							
FINANCIAL ASSETS							
Cash & balances with other bank	59,011,954	939,760	-	-	-	-	59,951,714
Other receivables	-	-	-	-	-	2,157,261	2,157,261
Trade finance loans	17,485,940	308,228,103	-	-	-	5,385,687	331,099,730
Project loans	189,375,543	1,704,870	1,702,057	4,466,109	-	19,238,375	216,486,954
Equity participation	-	-	-	-	-	9,374,406	9,374,406
Total financial assets	**265,873,437**	**310,872,733**	**1,702,057**	**4,466,109**	**-**	**36,155,729**	**619,070,065**
FINANCIAL LIABILITIES							
Short term borrowings	159,501,997	93,253,927	-	-	-	-	252,755,924
Long term borrowings	16,775,424	99,257,472	42,074,862	3,845,700	-	-	161,953,458
Collection Account Deposits	-	-	-	-	-	59,359,962	59,359,962
Other payables	-	-	-	-	-	8,254,736	8,254,736
Total financial liabilities	**176,277,421**	**192,511,399**	**42,074,862**	**3,845,700**	**-**	**67,614,698**	**482,324,080**
Net interest rate exposure	89,596,016	118,361,334	(40,372,805)	620,409	-	(31,458,969)	136,745,985
Cumulative interest rate exposure	89,596,016	207,957,350	167,584,545	168,204,954	168,204,954	136,745,985	136,745,985
At 31 December 2007							
Net interest rate exposure	131,602,123	(39,291,080)	548,784	4,737,677	403,885	15,435,664	113,437,053
Cumulative interest rate exposure	131,602,123	92,311,043	92,859,827	97,597,504	98,001,389	113,437,053	113,437,053

Notes to the Financial Statements (continued)

32 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 analysed below has been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. The analysis was prepared using the following assumptions:

- Interest-bearing assets and liabilities outstanding as at 31st December 2008 were outstanding at those levels for the whole year.
- Interest-bearing assets and liabilities denominated in currencies other than USD experienced similar movements in interest rates.
- All other variables are held constant.

If interest rates had been 100 basis points higher or lower with the above assumptions applying, the Bank's:

- Net Profit for the year ended 31st December 2008 would increase or decrease by USD 1,937,452 (2007 – USD 631,295).
- The potential change is 16% of the year's net profit.

II. Currency risk

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

Foreign currency positions are monitored on a frequent basis.

Foreign currency risk is addressed through the following measures:

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

Notes to the Financial Statements (continued)

32 FINANCIAL RISK MANAGEMENT (CONTINUED)

d) MARKET RISK (Continued)

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

The Bank's currency position is as follows:

	USD	GBP	JPY	EURO	KES	TZS	UGX	OTHER	TOTAL
FINANCIAL ASSETS									
Cash and balances with other banks	55,333,174	46,374	531	283,287	3,991,266	210,191	85,353	1,539	59,951,715
Other receivables	2,157,261	-	-	-	-	-	-	-	2,157,261
Trade finance loans	327,290,580	-	-	-	3,809,151	-	-	-	331,099,731
Project finance loans	193,377,386	2,497,400	-	171,998	14,831,368	5,274,941	333,861	-	216,486,954
Equity investments	9,374,406	-	-	-	-	-	-	-	9,374,406
Total financial assets	**587,532,807**	**2,543,774**	**531**	**455,285**	**22,631,785**	**5,485,132**	**419,214**	**1,539**	**619,070,067**
FINANCIAL LIABILITIES									
Short term borrowings	250,051,481	-	-	-	2,704,443	-	-	-	252,755,924
Long term borrowings	135,815,380	-	-	-	21,227,867	4,602,749	307,462	-	161,953,458
Collection Account Deposits	59,359,962								59,359,962
Other payables	8,233,725	-	-	-	21,010	-	-	-	8,254,736
Total financial liabilities	453,460,549	-	-	-	23,953,320	4,602,749	307,462	-	482,324,080
NET BALANCE SHEET POSITION	**134,072,258**	**2,543,774**	**531**	**455,285**	**(1,321,535)**	**882,383**	**111,752**	**1,539**	**136,745,987**
As at 31 December 2007	131,033,669	3,494,302	428	186,616	(5,906,309)	2,901,788	94,189	13,228	131,817,911

Notes to the Financial Statements (continued)

32 FINANCIAL RISK MANAGEMENT (Continued)

d) MARKET RISK (Continued)

Currency risk - Sensitivity Analysis

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

		GBP	EURO	KES	TSH	JPY	Total USD
2008	**Net Profit**	**255,580**	**51,595**	**(95,796)**	**88,617**	**40,249**	**340,246**
2007	Net Profit	349,430	18,661	(588,153)	284,923	-	64,863

Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheet, 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 for shareholders and benefits for Member States and other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy is monitored bi-annually by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee. The Bank's capital is divided into two tiers:

- Tier 1 capital: Paid-up share capital, retained earnings and reserves created by appropriations of retained earnings; and
- Tier 2 capital: qualifying subordinated loan capital, long-term bonds, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

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

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

During the two years, 2008 and 2007, the Bank complied with its capital adequacy requirements.

Appendix II
Eastern and Southern African Trade and Development Bank (PTA Bank)
Project Loans
As at 31 December 2008

									Exchange	As at 31 December 2008			As at 31 December 2007		
Country USD	No of Loans	Amounts Approved	Amounts Signed USD	Amounts Disbursed USD	Capita-lized USD	Interest Amounts Repaid USD	Amounts Written off USD	Interest Receivable USD	Rates Adjust-ment USD	Balance Outstanding USD	Due within One year USD	Due after One year USD	Balance Outstanding USD	Within One year USD	Due after One year USD
Burundi	9	23,454,019	15,854,019	10,625,019	-	(7,573,961)	-	25,960	-	3,077,019	2,170,704	906,315	5,195,457	2,170,704	3,024,753
Eritrea	1	403,652	403,652	403,652	-	-	(403,652)	-	-	-	-	-	-	-	-
Ethiopia	3	4,464,439	4,464,439	4,464,439	522,176	(98,384)	(627,397)	1,025,324	-	5,286,158	769,410	4,516,748	4,796,275	769,410	4,026,865
Kenya	38	148,866,539	94,985,539	91,064,765	1,532,900	(34,609,863)	(4,243,757)	3,247,646	(274,848)	56,716,843	12,133,234	44,583,609	55,741,940	8,234,869	47,507,071
Malawi	11	50,223,953	47,108,953	26,671,953	-	(17,012,811)	(1,071,561)	(1,865,041)	280,989	7,003,527	2,532,333	4,471,194	3,680,288	624,000	3,056,288
Mauritius	1	8,000,000	-	-	-	-	-	-	-	-	-	-			
Rwanda	6	12,826,135	2,391,135	2,391,135	-	(1,173,054)	-	18,126	1	1,236,206	406,021	830,185	1,639,024	119,400	1,519,624
Seychelles	2	16,000,000	16,000,000	-	-	-	-	9,778	-	9,778	-	9,778	-	-	-
Sudan	8	37,281,910	17,281,910	17,281,910	5,265,454	(4,516,127)	(2,604,069)	306,245	-	15,733,413	457,421	15,275,992	13,143,387	-	13,143,387
Tanzania	27	119,787,079	93,787,079	69,342,979	-	(28,642,463)	(3,616,803)	953,564	(1,387,500)	36,649,776	6,218,676	30,431,100	25,340,080	3,716,500	21,623,580
Uganda	26	98,539,537	85,539,537	63,995,043	4,102,237	(19,098,969)	(4,077,677)	867,688	(95,223)	45,693,098	9,159,666	36,533,432	35,619,028	3,403,860	32,215,168
Zambia	27	96,952,661	85,452,661	75,490,011	14,870,067	(24,527,142)	(3,457,497)	2,141,635	(191,103)	64,325,971	11,240,760	53,085,211	57,083,250	5,626,500	51,456,750
Zimbabwe	14	35,054,077	27,554,092	20,183,607	-	(11,258,798)	(850,587)	61,597	(322,998)	7,812,821	2,699,334	5,113,487	8,585,681	2,000,000	6,585,681
Gross loans	173	651,854,001	490,823,016	381,914,513	26,292,834	(148,511,572)	(20,953,000)	6,792,522	(1,990,682)	243,544,610	47,787,559	195,757,052	210,824,410	26,665,243	184,159,167
Less: Impairment on project loans (note 16)										(27,057,656)	-	(27,057,656)	(24,820,497)	-	(24,820,497)
NET LOANS										216,486,954	47,787,559	168,699,395	186,003,913	26,665,243	159,338,670

Appendix II

Eastern and Southern African Trade and Development Bank (PTA Bank)

Project Loans

As at 31 December 2008

									Exchange	As at 31 December 2008				As at 31 December 2007	
Country USD	No of Loans	Amounts Approved	Amounts Signed USD	Amounts Disbursed USD	Capita-lized USD	Interest Amounts Repaid USD	Amounts Written off USD	Interest Receivable USD	Rates Adjust-ment USD	Balance Outstanding USD	Due within One year USD	Due after One year USD	Balance Outstanding USD	Within One year USD	Due after One year USD
Burundi	9	23,454,019	15,854,019	10,625,019	-	(7,573,961)	-	25,960	-	3,077,019	2,170,704	906,315	5,195,457	2,170,704	3,024,753
Eritrea	1	403,652	403,652	403,652	-	-	(403,652)	-	-	-	-	-	-	-	-
Ethiopia	3	4,464,439	4,464,439	4,464,439	522,176	(98,384)	(627,397)	1,025,324	-	5,286,158	769,410	4,516,748	4,796,275	769,410	4,026,865
Kenya	38	148,866,539	94,985,539	91,064,765	1,532,900	(34,609,863)	(4,243,757)	3,247,646	(274,848)	56,716,843	12,133,234	44,583,609	55,741,940	8,234,869	47,507,071
Malawi	11	50,223,953	47,108,953	26,671,953	-	(17,012,811)	(1,071,561)	(1,865,041)	280,989	7,003,527	2,532,333	4,471,194	3,680,288	624,000	3,056,288
Mauritius	1	8,000,000	-	-	-	-	-	-	-	-	-	-			
Rwanda	6	12,826,135	2,391,135	2,391,135	-	(1,173,054)	-	18,126	1	1,236,206	406,021	830,185	1,639,024	119,400	1,519,624
Seychelles	2	16,000,000	16,000,000	-	-	-	-	9,778	-	9,778	-	9,778	-	-	-
Sudan	8	37,281,910	17,281,910	17,281,910	5,265,454	(4,516,127)	(2,604,069)	306,245	-	15,733,413	457,421	15,275,992	13,143,387	-	13,143,387
Tanzania	27	119,787,079	93,787,079	69,342,979	-	(28,642,463)	(3,616,803)	953,564	(1,387,500)	36,649,776	6,218,676	30,431,100	25,340,080	3,716,500	21,623,580
Uganda	26	98,539,537	85,539,537	63,995,043	4,102,237	(19,098,969)	(4,077,677)	867,688	(95,223)	45,693,098	9,159,666	36,533,432	35,619,028	3,403,860	32,215,168
Zambia	27	96,952,661	85,452,661	75,490,011	14,870,067	(24,527,142)	(3,457,497)	2,141,635	(191,103)	64,325,971	11,240,760	53,085,211	57,083,250	5,626,500	51,456,750
Zimbabwe	14	35,054,077	27,554,092	20,183,607	-	(11,258,798)	(850,587)	61,597	(322,998)	7,812,821	2,699,334	5,113,487	8,585,681	2,000,000	6,585,681
Gross loans	**173**	**651,854,001**	**490,823,016**	**381,914,513**	**26,292,834**	**(148,511,572)**	**(20,953,000)**	**6,792,522**	**(1,990,682)**	**243,544,610**	**47,787,559**	**195,757,052**	**210,824,410**	**26,665,243**	**184,159,167**
Less: Impairment on project loans (note 16)										(27,057,656)	-	(27,057,656)	(24,820,497)	-	(24,820,497)
NET LOANS										216,486,954	47,787,559	168,699,395	186,003,913	26,665,243	159,338,670

Appendix III

Eastern and Southern African Trade and Development Bank (PTA Bank)

Statement of Subscriptions to the Capital Stock as at 31 December 2008

	Shares Subscribed	Percentage of total	Value USD	Callable capital USD	Payable capital USD	Instalments due as at 31.12.08 USD	Instalments paid as at 31.12.08 USD	Instalments falling due after 31.12.08 USD	Instalment arrears as at 31.12.08 USD
Burundi	1,230	2.36	27,880,410	22,304,328	5,576,082	2,788,000	2,788,000	2,788,082	-
China	3,400	6.53	77,067,800	61,654,240	15,413,560	7,706,667	7,706,667	7,706,893	-
Comoros	54	0.10	1,224,018	979,215	244,803	122,400	122,400	122,403	-
Djibouti	54	0.10	1,224,018	979,214	244,804	122,400	122,400	122,404	-
Egypt	5,340	10.25	121,041,780	96,833,424	24,208,356	12,104,000	12,104,000	12,104,356	-
Eritrea	240	0.46	5,440,080	4,352,064	1,088,016	544,000	544,000	544,016	-
Ethiopia	5,340	10.25	121,041,780	96,833,424	24,208,356	12,104,000	12,104,000	12,104,356	-
Kenya	5,340	10.25	121,041,780	96,833,424	24,208,356	12,104,000	12,104,000	12,104,356	-
Malawi	1,320	2.53	29,920,440	23,936,352	5,984,088	2,992,000	2,992,000	2,992,088	-
Mauritius	1,566	3.01	35,496,522	28,397,218	7,099,304	7,099,304	7,099,304	-	-
Rwanda	1,248	2.40	28,288,416	22,630,733	5,657,683	2,828,800	2,828,800	2,828,883	-
Seychelles	270	0.52	6,120,090	4,896,072	1,224,018	367,200	121,200	856,818	246,000
Somalia	318	0.61	7,208,106	5,766,485	1,441,621	720,800	720,800	720,821	-
Sudan	4,920	9.45	111,521,640	89,217,312	22,304,328	11,152,000	11,152,000	11,152,328	-
Tanzania	5,214	10.01	118,185,738	94,548,590	23,637,148	11,818,400	11,818,400	11,818,748	-
Uganda	3,600	6.91	81,601,200	65,280,960	16,320,240	8,160,000	8,160,000	8,160,240	-
Zambia	4,082	7.84	92,526,694	74,021,355	18,505,339	9,252,533	9,252,533	9,252,806	-
Zimbabwe	5,540	10.64	125,575,180	100,460,144	25,115,036	12,557,333	12,557,333	12,557,703	-
African Development Bank	3,000	5.76	68,001,000	54,400,800	13,600,200	13,600,200	13,600,200	-	-
	52,076	100	1,180,406,692	944,325,354	236,081,338	128,144,037	127,898,037	107,937,301	246,000

Senior Management

DR. MICHAEL GONDWE
President

MR. ALEX GITARI
Finance Director

MR. YITAFERU KASSAYE
Director, Portfolio Management

MR. KIFLE HAMZA
Director, Administration and Corporate Services

MR. JAMES KABUGA
Acting Director, Credit Facilities and Business Development

MR. PREMCHAND MUNGAR
Principal Legal Counsel

MR. KINGSLEY MUWOWO
Principal, Credit Risk Management Unit

Annex II

Administrative Budget

	2009 USD	2008 USD
Personnel Costs	7,124,000	6,401,000
Board of Governors	199,000	165,000
Board of Directors	207,000	197,000
Consultants and Advisors	990,000	841,000
Official Missions	673,000	504,000
Business Promotion	80,000	150,000
Other Operating Expenses	689,000	599,000
Total Administrative Expenditure	**9,968,000**	**8,857,000**