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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 2010.

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 2011.

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

Willard Manungo
Chairman

Mr. Willard Manungo, Président du Conseil d'Administration

In 2010, the global economy continued to show positive signs of recovery from the recent global economic crisis, and economic growth was projected to reach 5 per cent, well above the negative growth of 0.6 per cent recorded in 2009. Growth is expected to continue during the coming year, though at a marginally lower rate of 4.2 percent.

Despite remaining well below the record levels witnessed in 2008, oil prices recorded a significant recovery in 2010. Between January and September of 2010, prices averaged US$ 75 per barrel, an increase of 31.6 per cent from the same period in 2009. Prices of base metals such as copper remained significantly high making 2010 an excellent year for copper exporting countries. Between January and September 2010, the average price of copper on the international market reached a record high of US$ 7,202 per metric tonne.

At the regional level, countries in Sub-Saharan Africa weathered the global crisis better than expected, and fared much better than in previous, milder global economic slowdowns. In part, this resilience reflects the nature of the global downturn, which was concentrated in consumer durables and investment goods which are relatively small sectors in most African economies. The limited extent of financial integration of the region also mitigated the effects of the shock.

In 2010, growth in Sub-Saharan Africa was projected to be robust at 5 per cent, compared with 2.6 per cent in 2009. This growth was driven by strong demand for primary commodities from emerging economies such as India, Brazil and China, and by the overall recovery in international trade. The region is expected to continue its strong performance in 2011, with growth estimated at 5.5 per cent.

While the economic climate improved in 2010, it was evidently clear that despite signs of recovery, the global economic crisis was not over and that the economic environment remained extremely challenging. Against this backdrop, it is pleasing to note that the Bank posted impressive results as attested to by the 12.70% growth in net profits and a 27.81% balance sheet growth which, for the first time in its history, led to the Bank crossing the US$ 1.0 billion asset size mark.

CHAIRMAN'S REPORT

The 2010 results offer ample proof of the Bank's success in implementing its strategic roadmap as encapsulated in its Fourth Five-Year Corporate Plan (2008-2012).

In line with business growth, we intensified resource mobilization efforts culminating in the establishment of a US$ 1.0 billion Euro Medium Term Note (EMTN) programme under which US$ 300 million was raised in November, 2010 through Eurobonds listed on the Luxemburg Stock Exchange. The establishment of the EMTN programme and the issuance of US$ 300 million worth of Eurobonds are important milestones which attest to the Bank's international recognition and repute.

Timely discharge of the capital subscription obligations is the strongest and most unequivocal form of support that shareholders can demonstrate towards the Bank. I am therefore very pleased to note also that, in 2010, shareholders continued their unparalleled support to the Bank by paying up their capital subscription obligations. The capital subscriptions strengthened the Bank thereby enabling it to continue being the financier of choice in the sub region. On behalf of the Board of Directors, I sincerely convey my appreciation to those shareholders who have remained steadfast in discharging their capital subscription obligations and call on those who have yet to meet their due obligations to do so in order to further strengthen the Bank's resource and leverage capacities.

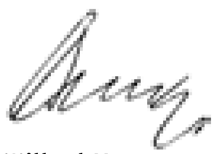
The Bank's Membership expansion drive received a major boost in February, 2011 when the Democratic Republic of Congo (DRC) formally applied for membership by signing a Deed of Accession in respect of 5,340 shares valued at US$ 121,041,780. Of this value, 20% (US$ 24,208,356) will be payable over six annual installments and the balance of US$ 96,833,424 will remain as callable capital. In addition to extending the Bank's area of coverage, DRC's membership promises a significant boost to the Bank's capital and resource capacity. On behalf of the Board of Directors, I would like to express my deepest appreciation for the support and confidence that the Government of the Democratic Republic of Congo have placed in the Bank and look forward to DRC's formal admission and fulfilment of various membership obligations.

In line with its rotation principle, a new Board of Directors comprising representatives from Zimbabwe, Seychelles, Kenya, Egypt, Uganda, the African Development Bank and People's Republic of China was constituted in December, 2010. I take this opportunity to welcome the new Board members on board and look forward to their support as we forge ahead to build on the firm foundation that has been laid by the outgoing board.

My heartfelt appreciation goes to the outgoing board members, ably led by Mr Melaku Kifle, for steering the Bank to great heights during the period they have been at the helm. The outgoing Board deserves credit for successfully growing the Bank to its current size and stature and for putting in place strong corporate governance structures that have ensured that our institution remains highly regarded not only regionally, but also on the global arena.

I also take this opportunity to congratulate Management and Staff of the Bank for their dedication, team work and resilience which led to historic achievements in 2010 and I urge them to work even harder in the days ahead in order to surpass the record set in 2010.

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



Willard Manungo
Chairman of the Board of Directors

Dr. Michael Gondwe
President

Strategic Overview

2010 marked the third year of implementing the Bank's Fourth Five-Year Plan for the period 2008-2012. Although the year was largely dominated by the negative effects of the 2009 economic crisis, the Eastern and Southern African sub-region exhibited strong signs of economic recovery. Accordingly, the Bank realigned its operational focus by intensifying its resource mobilisation, business development and commitment activities and by implementing strategies aimed at reaffirming its position as a financier of choice in the region in line with the corporate plan expectations.

The year witnessed a record level of loan approvals and disbursements for both projects and infrastructure facilities as well as trade finance facilities. Market diversification and expansion remained a key strategic theme aimed at broadening the Bank's levels of intervention across Member States and economic sectors. While the improved operational outcomes achieved in 2010 were largely due to the favourable macro economic environment and operational efficiencies, higher commodities prices especially for oil also contributed to the increased business volumes.

On the resource mobilisation front, we made history by partnering with Standard Bank and HSBC in concluding Sub-Saharan Africa's first Eurobond in 2010, a development that we believe will set the stage for the emergence of African sovereign and corporate issuers. The Eurobond, which was oversubscribed, raised US$300 million in November 2010 and was the first of its kind from an East African issuer. The issue was part of a US$1 billion Euro Medium Term Note programme under which bonds will be issued in tranches over the coming years.

In addition to setting a precedent for other potential issuers in our region, the Eurobond marked an important milestone in the Bank's resource mobilisation program and reaffirmed the Bank's developmental mandate of attracting capital flows in support of private sector development in its Member States. In February, 2011, "emeafinance", an acclaimed international financial publication focusing on Europe, Middle East and Africa (EMEA) voted the Eurobond issue as "2010's Best Supra-national bond" from the EMEA region. As part of the preparatory processes for the Eurobond issue, the Bank received a rating of Ba1 from Moody's, one of the top three international rating agencies. Coupled with ratings from Fitch and Global Credit Ratings, Moody's rating ranks the Bank among the best in Africa and positions it favourably in terms of future engagements with international financial markets for access to long term capital.

Following the 2007 decision to increase share capital over a five year period between 2009 to 2013, most Members continued to discharge their capital subscription obligations in time. In 2010, a total of US$11.54 million in capital subscription instalments was paid compared to US$5.72 million paid in 2009. On account of this satisfactory outcome, I join the Chairman of the Board of Directors in conveying our appreciation to Members who fulfilled their capital subscription obligations and appeal to other Members to honour their obligations in time.

2011 will be the penultimate year of our 5 year Corporate Plan and promises to be an exciting year on many fronts. We will aim to capitalise on the economic recovery prospects across our Member States and to exploit opportunities arising from an expanded area of coverage that includes the Democratic Republic of Congo. In order to realise the Bank's strategic objectives, we shall continue to invest in our most important resource, our staff, through appropriate training and development programmes. We will also aim for continuous improvements in our processes by embracing best practices and investing in information technology.

Lending Operations

In 2010, international trade and global industrial production began recovering noticeably, with an increasing number of countries registering positive growth in their Gross Domestic Product. The Bank continued availing various forms of trade finance and financing projects in the key sectors of agri-business, manufacturing, energy, infrastructure, transport, housing, real estate, and tourism. On the back of the economic revival, the Bank registered significant increases in levels of intervention through its two principal lending windows, namely, Project and Infrastructure and Trade Finance.

In a bid to spread investment risk and enable equitable utilisation of resources, we intensified our diversification efforts. The success of this strategy was, however, largely dependent on the credit absorption capacities and investors' readiness to borrow which in turn depended on the economic environment obtaining in the respective Member States.

Project and Infrastructure Finance

The Bank financed several projects in the key sectors of aviation, agri-business, energy, telecommunication, medical services, manufacturing, housing, tourism and transport. Twenty two (22) projects worth US$ 243 million were approved during the year compared to eleven (11) projects worth US$ 88.45 million in 2009. Compared to the budget of US$ 146 million, the 2010 approvals were well above target and represented a 175% increase over the level achieved in 2009. The increased approvals level demonstrates the continued recovery of Member States' economies from the 2009 global recession.

Commitments stood at US$ 85.70 million for the year, well below the annual target of US$ 152 million and represented a decrease of 11% from the 2009 performance level. The low level of commitments was largely attributed to the difficult operating environment as investors re-adjusted and re-aligned their business plans to take into account changes brought about by the global financial crisis. The low levels of approvals in 2009 also impacted adversely on the 2010 commitments.

Of significance, however, is the level of disbursements recorded during the year which increased to US$ 108.2 million from US$ 77.5 million in 2009, the highest level ever attained. The 2010 disbursements represent a 40% increase over the 2009 levels, an increase attributable to improvements in the various loan processes. Several measures were instituted to ensure that the lead times between loan approval and disbursement are shortened thus enhancing efficiency without compromising portfolio quality. In an effort to improve portfolio quality, the Bank continued with its policy of blending the financing of start-ups and expansion projects. The Bank financed small and medium scale projects as well as large syndicated projects. Through syndications with a number of financial institutions, borrowers are able to implement large projects that would otherwise face difficulties securing finance from a single lender.

Our aviation sector and loan syndication credentials received a major boost in 2010 when Jane's Transport, a respected aviation sector publication voted the Pre-Delivery Payment Facility availed to Ethiopian Airlines to finance the acquisition of five Boeing 777-200LR long range aircraft "Africa's Aircraft Debt Deal of the Year". The Bank had co-financed this facility with a number of international banks.

Repeat business with well performing clients is another strategy that was successfully implemented in 2010. The pursuit of this strategy not only assists the Bank's supported projects to expand and diversify their businesses but also ensures the retention of good clients.

Trade Finance

The year 2010 marked yet another milestone in the Bank's Trade Finance activities with unprecedented growth in business volumes. While import facilities, particularly for petro-chemical products continued to be the main drivers for trade finance business and related income, short term lines of credit to commercial banks and other intermediate credit institutions were also implemented successfully.

The Bank also continued to support traditional exports such as cotton and tobacco, fertilisers as well as the re-exports of petroleum products into the COMESA region. During the year, the Bank performed well in terms of client retention and also established new strategic relationships with importers and exporters.

Despite slow recovery of the global economy from one of the worst economic recessions in recent times, total trade finance volumes rose to US$ 1.85 billion compared to US$ 1.06 billion in 2009 and against a budget of US$ 1.4 billion for the year. Of the trade finance volumes, letters of credit amounted to US$ 829 million compared to US$ 587 million opened in 2009 while direct disbursements reached a record US$ 1.02 billion compared to US$ 474 million in 2009.

Of the 2010 disbursements, US$ 171 million was in the form of short term lines of credit disbursed to commercial banks and other intermediate credit institutions in various Member States. These lines of credit provided an effective avenue for the deployment of the Eurobond proceeds and support for the important small and medium size enterprise sector.

In 2011, the Bank will continue to strengthen its areas of core competencies including trade financing for soft commodities and petro-chemicals and seek to develop under-serviced markets in the region by paying particular attention to intra regional trade.

Portfolio Management

Despite the slowdown in economic activities in some sectors within the region, the Bank's loan portfolio continued to grow at a significant rate. The Bank is cognisant of the fact that managing a growing loan portfolio requires continuous ingenuity, most especially in the current economic climate within the sub region. The challenges in portfolio management and debt recovery are not merely a recessionary symptom, but an evolution of a multitude of factors. To this end, therefore, heavy emphasis was laid on prudent risk assessment of individual loan accounts, control of the loan quality at entry and trailing key credit risk indicators within the loan portfolio.

The Bank continued to strengthen its portfolio monitoring and supervision processes during the year while at the same time, devised and instituted innovative turnaround strategies with regard to some accounts which led to a remarkable reduction in problem loans by the close of the year.

The Bank also continued to consolidate its activities in environmental and social compliance of financed projects in line with international standards. To this end, the implementation of the Bank-wide environmental and social management process continued in earnest and specific training in this area to operational staff was continuously provided.

Resource Mobilization

Following years of sustained progress, the Bank scaled new heights in its resource mobilisation initiatives when it successfully issued a US$ 300 million Eurobond listed on the Luxemburg Stock Exchange in November 2010. This was the first such issue in Eastern and Southern Africa and the first Sub-Saharan Eurobond since the global economic crisis. The issue was the first tranche of a US$ 1 billion Euro Medium Term Note (EMTN) programme under which notes will be issued by the Bank in subsequent years.

The successful completion of this landmark transaction was boosted by the strong partnership of the Bank and various transaction advisors. These include HSBC and Standard Bank as the Joint Lead Managers, Clifford Chance LLP, Anjarwalla & Khanna Advocates and White & Case LLP as Legal Advisors and Ernst & Young as Auditors, all of whom ensured that the Eurobond transaction was executed to the highest standards of professionalism. We convey our appreciation to these advisors for offering valuable guidance on the implementation process for the Eurobond.

Prior to the issuance, Moodys rated the Bank for the first time in 2010, assigning it a Ba1 rating, while Fitch and Global Credit Rating re-affirmed their previous ratings of the Bank, at BB- and BB respectively.

Though the Eurobond dominated the Bank's resource mobilization activities, the Bank explored other funding sources both short and medium term. These

PRESIDENT'S STATEMENT

efforts culminated with one of our key partners, Development Bank of South Africa (DBSA) extending a US$ 75 million facility in December 2010. The new DBSA facility augments an existing US$ 20 million line of credit and is expected to be committed and utilised in 2011.

As at 31 December, 2010, the Bank's resource position was strong with the balance of unutilised resources standing at US$ 250 million in addition to the US$ 700 million headroom available under the EMTN programme.

Financial Management

The Bank posted strong financial performance in 2010 as evidenced by the net profit of US$ 20.32 million, a growth of 12.70% from the 2009 level.

The Bank's profitability was largely driven by fee based activities which resulted in fees and commission income for the year growing by 32% to reach US$ 22.87 million compared to US$ 17.35 million in 2009. Increased trade finance volumes accounted for the bulk of the fee and commission income.

While interest income increased modestly by 7% to reach US$ 41.99 million, borrowing costs increased from US$ 15.20 million in 2009 to US$ 19.95 million in 2010, driven mainly by increased borrowings, especially the Eurobond issue. Consequently, net interest income for the year declined to US$ 22.04 million from the US$ 24.19 million recorded in 2009. The US$ 2.15 million reduction in net interest income was, however, more than offset by the US$ 5.52 million increase in fee and commissions income.

Excluding provisions for impairment of loans, the Bank's operating expenditure increased to US$ 10.58 million from US$ 8.24 million in 2009, a 28.4% increase. The increase is largely in line with the overall increase in business activity levels. Staff recruitment, training, business travel and legal fees on account of loan recoveries and other litigation account for the bulk of the increased expenditure. Provisions for impairment of project and trade loans amounted to US$ 12.94 million, significantly lower than the US$ 17.77 million recorded in 2009. The reduced level of provisions reflects the continued improvement in the Bank's loan portfolio following significant investments made in the Bank's risk management and portfolio management processes.

In 2010, the Bank crossed the all important "US$ 1.0 billion" milestone by registering a 28% growth in total assets well ahead of plan. Trade finance loans and project loans grew respectively by 48% and 19% thereby contributing to the overall growth.

HR and Administration

The strong performance recorded in 2010 is largely credited to the professionalism, commitment and team work of its staff drawn from various Member States.

To further enhance the competencies and skills level of staff members, various short and long term training programs, funded under a technical assistance grant provided by the African Development Bank, were undertaken during the year. The training programs covered a variety of areas including environmental and social risk, trade finance, treasury operations, risk management and information technology.

Compliance and Risk Management

The Bank continued to reinforce the effectiveness of its compliance and risk management processes. In this regard, the 2007 Risk Policy Manual was revised and replaced by a new Enterprise Risk Management policy framework which was approved by the Board in September 2010. The revised risk policy framework was harmonized with other Bank-wide operational policies in a bid to achieve consistency, uniformity and facilitate effective compliance.

The compliance and risk function continued to be an essential part of the Bank's control structure with responsibility of identifying, managing and reporting risks to the Bank-wide Integrated Risk Management Committee and Board Audit Committee on a monthly and quarterly basis respectively.

Despite the economic downturn resulting from the 2009 credit crunch spilling over into 2010, the Bank remained structurally sound. The Bank weathered the challenges of the credit crisis by exercising prudence and caution in relation to taking on various risks. This approach was supported by the Bank's corporate governance framework, best practice standards, top level risk oversight, continuous risk measurement and the adoption of various risk mitigation strategies including insurance and risk down-selling. The Bank's risk culture which is strongly embedded across the entire organisation is a key pillar for the revamped risk management framework.

During the year, the Bank maintained its capital adequacy ratio well above the 30% prudential limit. The Bank's liquidity position also remained strong throughout the year. The strong capital and liquidity positions provided ample support to the Bank's risk absorption capacity as exemplified by the significant growth.

Information Services

In order to ensure continued alignment of information technology investment with the Bank's objectives, we instituted a committee-based framework to enhance information technology governance at the Bank with the involvement of all stakeholders. Furthermore, various IT infrastructure enhancements were carried out, ensuring that the Bank exploited the capabilities offered by advances in technology.

Conclusion

Despite the many challenges faced by Member States, 2010 was a remarkably successful year for the Bank. We performed admirably in relation to achieving the strategic objectives and targets set out in the Bank's Corporate Plan and attained important milestones which provide a strong foundation for future growth.

These achievements would not have been possible without the support and commitment of various stakeholders. Firstly, our valued clients and business partners to whom I convey our appreciation for their continued loyalty, support and confidence. I assure them of our commitment to exceeding their expectations in 2011 and beyond.

Secondly, I commend the Staff and Management of the Bank for their commitment, dedication and personal sacrifices, attributes which were instrumental to the attainment of 2010's strong performance. I urge them to face the future with confidence and to rededicate themselves in order to realise the Bank's vision of becoming "the Preferred Financial Institution in the Region".

Finally, I wish to extend my gratitude to the Board of Directors for the guidance, support and dedicated service to the Bank and to the Board of Governors for the wise counsel, confidence and support provided during the year.

Michael Gondwe
PRESIDENT

GOVERNANCE STATEMENT

The Board of Governors and Board of Directors recognises the importance of good corporate governance and remain committed to promoting best practice in this area. Our overriding aim is to create and protect value for our shareholders and other stakeholders through ethical, transparent and equitable business processes.

The key aspects of our approach to Corporate Governance are as follows:

CORPORATE GOVERNANCE STANDARDS

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

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

GOVERNANCE STRUCTURE

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

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

Board of Governors

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

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

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

Board of Directors

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

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

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

Quorum for any board meeting is a majority of the total number of directors representing not less than two-thirds of the voting rights of the Bank. In 2010, all Board Meetings satisfied this quorum criteria.

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

Audit Committee

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

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

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

Other Board Committees

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

The President

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

The table below shows attendance by Board Members in 2010.

	Board Meetings	Audit Committee Meetings
Mr. Melaku Kifle	3/4	Non-member
Mr. Moses K. Nawa	4/4	Non-Member
Mr. William Mlaki	4/4	4/4
Mr. Elhafiz A. E. Taha/Mr Elgaili Elbashir	3/4	Non-Member
Mr. Latanraj Ghoorah	4/4	4/4
Mr. Bu Yu (alternate to Mr Gao Dingxin)	4/4	Non-Member
Mr. B. Purohit (alternate to Mr K. Bedoumra)	4/4	4/4
Mr Willard Manungo (appointed November, 2010)	1/1	Non-Member
Mr Rupert Simeon (appointed November, 2010)	1/1	Non-Member
Mr Ahmed Nos'hy (appointed November, 2010)	1/1	Non-Member
Mr S. Kamolleh (appointed November, 2010)	1/1	Non-Member
Dr. Michael Gondwe (Ex Officio)	4/4	Non-member

Apologies were duly received from directors who did not attend any scheduled meetings.

Dr Michael Gondwe, President of PTA Bank receiving the EMEA Finance Achievement Award in London from Tim Burke (l) and Chris Hooper (r). The award was for the best Supranational bond in 2010

WORLD

The tail end of the recession started mid 2009 and by 2010, the global economic recovery was more solid, in particular during the first half of the year, pushing GDP growth estimates to 5% in 2010 which was much higher than what was earlier projected. This was underpinned by improved financial stability within the advanced economies. World industrial production reached growth rates of about 15% and global trade recovered during this period. However, financial market stability suffered major set backs from turmoil in sovereign debt markets in the second quarter of 2010 which posed some threat to global economic recovery. Growth then moderated during the third quarter of 2010.

World economies grew at varying rates, with the emerging and developing countries growing by an estimated 7.3% in 2010 compared to 2.7% in 2009. This growth was supported mainly by China and India which grew by 10.3% and 10.4% respectively in 2010. The advanced economies are estimated to have grown by 3% in 2010 from a negative rate of 3.4% in 2009. The USA grew by 2.8% in 2010 after a negative growth of 2.6% in 2009. The Euro area is estimated to have grown by 1.7% from a negative growth of 4.1% in 2009. Leading this group was Germany which grew by 3.5% in 2010 after a negative growth of 4.7% in 2009.

AFRICA

Following the sharp decline in real GDP growth for Sub Sahara Africa (SSA) to 2.8% in 2009, the region showed great resilience in 2010 with growth projections set at 4.9%. This resilience is largely due to the sound economic policy implementation prior to the crisis and an increase in domestic demand. Most countries, pre-crisis, were experiencing steady growth, low inflation, sustainable fiscal balances, rising foreign exchange reserves, and declining government debt and when the shocks hit, countries were able to use fiscal and monetary policies to counter the adverse effects of the sudden shifts in world trade, prices, and financial flows. Most countries in the region have now returned to pre-crisis growth rates.

The main channel through which the global recession affected SSA was through trade. After peaking in July 2008, export proceeds fell by more than 50 percent through February 2009 as both prices and volumes declined. Imports also fell in tandem with exports. By mid 2009 exports began to pick up as global prices for international commodities started to rise with commodity export countries recording high level of exports. Imports also followed the same pattern. Growing trade ties with Asia played a role in the region's recovery, primarily through commodity markets.

Within SSA, the various groupings of countries were affected differently by the crisis. The grouping that was hardest hit by the crisis was the middle-income countries, which after contracting by about 1.75% in 2009, is set to expand by 3.1% in 2010. The decline in output was most pronounced in Botswana at negative 3.7% in 2009 which however rebounded in 2010 to a growth rate of 8.6%.

The region's low-income countries fared better during the global recession which registered a growth rate of 4.8% in 2009 expanding further to 5.4% in 2010. Ethiopia, Mozambique and Zambia were the strongest performers within this group with real GDP growth rates at 8%, 7% and 7.6% respectively. Madagascar on the other hand continued to record negative growth within this group at negative 2%. The fragile states also did not fare too badly, with real GDP growth at 4% in 2010 compared to 3.1% in 2009. The big performers were Democratic Republic of Congo and Zimbabwe which grew by 7.2% and 9% respectively.

Oil exporting countries growth declined to 5.2% in

Economic Indicators for the Sub Sahara Africa and Sub Regions

	Real GDP Growth		Consumer Prices		Exports (% of GDP)		Imports (% of GDP)	
	2009	2010	2009	2010	2009	2010	2009	2010
Sub Sahara Africa	2.5	4.9	10.4	7.5	33.2	33.6	35.1	33.5
EAC-5	4.8	5.4	11.4	6.5	22.7	22.9	36.4	36.6
COMESA	5.2	5.2	19.6	6.7	26.1	28.5	40.7	42.7
SADC	-0.4	3.9	9.2	7.4	32.8	32.6	35.6	33.8

Source: IMF

ECONOMIC ENVIRONMENT

2009 but later expanded to 6.3% in 2010. Within this group the big performers were the Democratic Republic of Congo which grew by 9.1%. Angola and Nigeria grew by 5.7% and 8.4% in 2010 compared to 0.7% and 7% in 2009 respectively.

Inflation increased only marginally across SSA to average 10.6% in 2010 compared to 10% in 2010 reflecting higher inflationary pressures from increased global commodities like oil. For the region as a whole, the fiscal deficit narrowed to 5.9% of GDP from 7.2% of GDP in 2009. Total investment during 2010 increased marginally at 23.8% of GDP compared to 22.8% in the previous year.

Doing Business in COMESA

The World Bank carried a "Doing Business" Report in 2011, which looks into the regulations that enhance business activity and those that constrain it. The total survey was carried out in 183 countries: 46 in Sub-Saharan Africa, 32 in Latin America and the Caribbean, 25 in Eastern Europe and Central Asia, 24 in East Asia and Pacific, 18 in the Middle East and North Africa and 8 in South Asia, as well as 30 OECD high-income economies.

For COMESA countries, Mauritius continues to remain the leader in the ease of doing business while Rwanda showed the most improvement among the member states for 2011. Countries that showed positive improvement were Zambia, Egypt and Ethiopia while the rest of COMESA states showed a decline. On separate categories, Mauritius scored the highest in protecting investors, while Rwanda scored the highest in opening a business. Zambia and Kenya scored the highest in getting credit in the sub region while Egypt scored the highest in trading across borders. Tanzania scored the highest in enforcing contracts.

Below are brief highlights of the Bank's member countries.

BURUNDI

Burundi's economy weathered the effects of the global crisis quite well and economic growth was expected to rise to 3.9% in 2010, from 3.5% in 2009. The agricultural sector continues to remain the cornerstone of the economy. The main cash crops - tea and coffee - are the key drivers of growth and make up a significant proportion of the country's exports. Estimates for the coffee crop from the Autorité de Régulation de la Filière Cafe du Burundi (ARFIC) indicate that the 2010/11 crop will be 31,000 tonnes, significantly higher than in 2009/10, when production fell to 6,381 tonnes. Coffee harvests are cyclical, with good years generally alternating with poor ones. Prices for the national coffee crop started to rise in the latter part of the year in line with global trends, reaching US$4.1/kg in December 2010.

Burundi became the fifth and final country in the East African Community (EAC) to ratify the regional bloc's common market protocol in April 2010. The protocol provides for the free movement of labour, goods, capital and services within the EAC, and is expected to help stabilise prices, improve financial flows and generate productivity gains through economies of scale. Despite the positive effects of increased regional integration, the impact of the common market on customs revenue is expected to be negative as Burundi is more dependent on international trade taxes than its EAC counterparts. The revenue loss from joining the EAC common external tariff, which Burundi joined in July 2009, has been largely offset by an EU-funded adjustment facility administered by the Common Market for Eastern and Southern Africa (COMESA).

Monetary Policy

Monetary policy during 2010 was mainly geared to stabilizing prices while allowing sufficient scope for economic growth. The Ministry of Finance and the central bank agreed that close coordination of fiscal and monetary policies is essential to achieving the inflation target. Food prices rose steeply around mid 2010 as a result of unusual weather patterns in the first quarter of 2010. However inflationary pressures were significantly lower in 2010 and as such inflation was expected to average 10% from 11% in 2009.

Fiscal Policy

The Office Burundais des Recettes (OBR), the country's new semi-autonomous revenue agency, was expected to have started business in the first quarter in 2010 but it has yet to gain its footing, with recruitment still taking place towards the end of 2010. The government appointed Mr. Kieran Holmes from Ireland as the Commissioner-General. Mr Holmes previously worked with the Rwanda Revenue Authority (RRA), where he played an important role in its evolution, helping to ensure that it became one of the most effective institutions in the country. The value-added tax, introduced in mid-2009, was expected to help boost government revenue during 2010. Government revenue is estimated to have increased and the fiscal deficit is expected to have widened from 6.1% of GDP in 2009 to 6.4% of GDP in 2010.

External Sector and Foreign Exchange

Total exports for 2010 rose significantly to US$81.7 million from US$68.2 million in the previous year. The increase in exports was due to the good performance of tea exports despite lower prices in the international market. The Office du Thé au Burundi indicates that earnings from the tea sector rose to US$16.9 million for January-November 2010, better than the US$14.2 million earned for a similar period the year before, owing to higher volumes and improved quality. Total imports also rose significantly in 2010 to reach US$336.6 million from US$275.4 million. The rise in imports was attributed to higher global food and oil prices. The current account deficit widened only marginally to 10.7% of GDP in 2010 from 10.1% of GDP in 2009.

The Burundi franc has been relatively stable all year, albeit with a slight depreciation during the election period. The franc is expected to have averaged Bufr1,231 against the US dollar in 2010.

CHINA

In 2010, the Chinese economy took the direction intended by the country's macroeconomic management policies. Its performance was generally sound. Consumption grew fairly rapidly and steadily, the structure of fixed asset investment structure continued to improve, and external trade recovered quickly. The output of the agricultural sector increased steadily while the output of industrial sector also grew rapidly. Income gain of the household sector continued, but upward pressure of prices was noted. In 2010, the Gross Domestic Product (GDP) registered 39.9 trillion yuan, up 10.3 percent year-on-year. The Consumer Price Index (CPI) rose year-on-year by 3.3 percent. The value added of the primary industry was 4,049.7 billion yuan, up by 4.3 percent, that of the secondary industry was 18,648.1 billion yuan, up by 12.2 percent and the tertiary industry was 17,100.5 billion yuan, up by 9.5 percent. The value added of the primary industry accounted for 10.2 percent of the GDP, that of the secondary industry accounted for 46.8 percent, and that of the tertiary industry accounted for 43 percent.

Monetary Policy

In 2010, the PBC continued the moderately loose monetary policy in line with the expectations of the State Council. As the momentum of stable and rapid economic development gradually got entrenched, the PBC worked to make policies better targeted and more flexible, achieved a balance between supporting sound and relatively rapid growth, restructuring the economy and managing inflationary expectations, and promoted a gradual normalization of monetary conditions. It strengthened liquidity management by using multiple monetary policy instruments, guided financial institutions to manage well the aggregates, pace and structure of credit provision by adjusting interest rates, promoted the RMB exchange rate regime, advanced the financial reform, and improved foreign exchange administration, so as to safeguard financial stability and safety.

At end-2010, outstanding M2 was 72.6 trillion yuan, up 19.7 percent year-on-year, a deceleration of 8 percentage points over the end of 2009. Outstanding M1 stood at 26.7 trillion yuan, an increase of 21.2 percent year-on-year, and a deceleration of 11.2 percentage points. Outstanding RMB loans grew 19.9 percent year-on-year, a deceleration of 11.8 percentage points, and 7.95 trillion yuan more compared to the beginning of 2010, a deceleration of 1.65 trillion yuan year-on-year. Lending interest rates of financial institutions continued to inch up. At end-December, the weighted average lending rate reached 6.19 percent, up 0.94 percentage points over the beginning of the year.

Fiscal Policy

In 2010, fiscal revenue (excluding debt income) surged by 21.3 percent year-on-year to 8,308 billion yuan, representing an acceleration of 9.6 percentage points, whereas fiscal expenditure registered 8,957.5 billion yuan, up 17.4 percent year-on-year, and a deceleration of 4.5 percentage points from 2009. As a result, revenue was 649.5 billion yuan short of expenditure, representing a reduction of 128.7 billion yuan compared with the deficit of 2009.

As for the structure of fiscal revenue, tax revenue posted 7,320.2 billion yuan, a year-on-year increase of 23.0 percent, and an acceleration of 13.2 percentage points. In particular, domestic VAT, business tax, and consumption tax revenue were up 14.1 percent, 23.8 percent and 27.5 percent year-on-year respectively. Within the expenditure basket, the three largest items were education (1,245 billion yuan, or 13.9 percent of the total spending), general public services (935.3 billion yuan, or 10.4 percent of the total spending), and social security and employment (908.1 billion yuan, or 10.1 percent of the total spending). Among all items in the basket, expenditures on subsidized housing, environmental protection, and interest payment for public debt registered relatively rapid growth at 30.7 percent, 25.4 percent and 23.7 percent year-on-year respectively.

Real Sector

Supported by the income gains of the urban and rural residents, domestic consumption remained stable. In 2010, the per capita disposable income of urban households posted 19,109 yuan, representing a year-on-year growth of 11.3 percent, and a real growth of 7.8 percent. The per capita cash income of rural households registered 5,919 yuan, up 14.9 percent, or 10.9 percent in real terms. In 2010, retail sales of consumer goods totaled 15.5 trillion yuan, representing a year-on-year increase of 18.4 percent, and an acceleration of 2.9 percentage points from the last year. Price adjusted real consumption growth was 14.8 percent, a deceleration of 2.1 percentage points from 2009. The deceleration was mainly due to the movement of the retail price index, which was up 3.1 percent in 2010, but dropped 1.2 percent in 2009. Broken down by urban and rural areas, consumption in urban areas outpaced that in rural areas, and the growth gap remained basically stable. In 2010, retail sales in the urban areas registered 13.4 trillion yuan, up 18.8 percent, or 15.6 percent in real terms; whereas retail sales in the rural areas posted 2.1 trillion yuan, up 16.1 percent, or 12.1 percent in real terms.

BOP and Exchange Rates

The total value of imports and exports in 2010 reached US$2,972.8 billion, up by 34.7 percent over the previous year. Of this total, the value of goods exports was US$1577.9 billion, up by 31.3 percent, and the value of import was US$1,394.8 billion, up by 38.7 percent. The balance of trade was US$183.1 billion, a decrease of US$12.6 billion over the previous year.

Since the extension of the RMB exchange rate reform on June 19, 2010, the RMB exchange rate has moved in both directions and has appreciated slightly with much stronger flexibility, and the expectation of RMB exchange rate movement remained generally stable. At end-2010, the central parity of the RMB to the US dollar was 6.6227 yuan. The central parity of the RMB against the euro registered 8.8065 yuan per euro, an appreciation of 11.25 percent from end-2009, and the central parity of the RMB against the Japanese yen stood at 8.1260 yuan per 100 Japanese yen, a depreciation of 9.20 percent from end-2009. From the reform of the RMB exchange rate in July 2005 to end-2010, the RMB has appreciated 24.97 percent against the US dollar, 13.71 percent against the euro, and has depreciated 10.09 percent against the Japanese yen. The BIS estimated that the nominal effective RMB exchange rate appreciated 1.8 percent and the real effective exchange rate appreciated 4.7 percent in 2010, and that the nominal effective RMB exchange rate appreciated 14.7 percent while the real effective exchange rate appreciated 23.2 percent from the exchange rate reform in 2005 to end-2010.

In the first three quarters of 2010, China's balance of payments (BOP) continued to run a surplus in both the current account and the capital and financial account, and the international reserve assets continued to rise. In the first three quarters, the current account grew by 30 percent year-on-year to US$203.9 billion, the capital and financial account surplus was up 2 percent to US$130.1 billion, and the international reserve assets grew by US$286 billion, or 7 percent year-on-year.

In the third quarter, China's current account surplus posted US$102.3 billion. In a breakdown, based on BOP statistics, trade in goods registered a surplus of US$81.4 billion, trade in services a deficit of US$3.9 billion, returns a surplus of US$14 billion, and current transfers a surplus of US$10.8 billion. The capital and financial account surplus was down 65 percent year-on-year to US$15.2 billion, including US$24.6 billion net inflows of direct investment, US$14.1 billion net inflows of portfolio investments, and US$24.5 billion net outflows of other investments.

As of end-September 2010, the stock of China's external debt stood at US$546.45 billion (excluding external debt of Hong Kong, Macao, and Taiwan), up 31.7 percent from the end of 2009 with the same exclusions. Among the total, short-term external debt (remaining maturities) posted US$369.44 billion, accounting for 67.6 percent of the external debt stock. With respect to the structure of the short-term external debt as of end-September (remaining maturities), trade credit and trade financing (such as credit support provided by banks for exporters and importers) accounted for 59.5 percent and 18.7 percent respectively, totalling 78.2 percent. This can be attributed to the rapid development of external trade in recent years.

COMOROS

The Union of Comoros' economy has gained momentum over the last two years despite a challenging external environment. Estimates indicate the union registered a further strengthening of economic conditions in 2010, with real growth rising to 2.1% compared to 1.4% in 2009. The growth was underpinned by a rebound in donor-funded public investment, a pick-up in remittances-based private sector construction, and stronger activity in tourism, as well as an expansion of financial intermediation. Efforts to broaden the economic base received a boost in November 2010 when the Comoros government together with the EU renewed the Fisheries Partnership Agreement which allows EU fishing vessels access to fish in the Comoros waters. The Agreement will provide Comoros with US$2.34 million over a period of three years.

Following broadly satisfactory performance under IMF and World Bank-supported reforms, Comoros reached the Highly Indebted Poor Countries (HIPC) Initiative Decision Point in July 2010. Following this, the African Development Bank (AfDB) approved a US$34.6 million debt-relief package for Comoros equivalent to almost one-third of multilateral assistance to the country in 2009.

Monetary Policy

The Union's management of monetary policy is tied closely with its participation in the franc zone. As such, this has enabled the Union to contain inflation and maintain a stable exchange rate and an adequate level of foreign reserves despite major fiscal imbalances. After a surge in mid-year, inflation declined to around 3% at year-end, anchored by Comoros' membership of the Franc zone. The annual inflation average in 2010 is estimated to have increased to 4% compared to 2.3% in 2009, as a weaker euro boosted imported inflation from high international oil prices (although this was partly offset by fuel subsidies) and domestic demand which was buoyed by the clearance of wage arrears in the civil service.

Fiscal Policy

Progress in fiscal consolidation has been slow and it is estimated that the domestic primary fiscal deficit stagnated at 2.6% of GDP in 2009. However, there was improved fiscal performance in the first half of 2010, although a few slippages were noted later in the year. Delays in collecting taxes and implementing new fiscal measures under the IMF-supported program pushed the deficit above the program target for end-September 2010. The deficit was expected to narrow to 1.6% of GDP for 2010 slightly above original IMF estimates of 1.5% of GDP but lower than 2009. Domestic revenues which are limited to a small revenue base due to the high level of informalisation are estimated to have risen to 14.4% of GDP in 2010 compared to 13.9% of GDP in the previous year. Expenditure also rose to 24% of GDP in 2010 from 23% of GDP.

External Sector and Foreign Exchange

Total exports were expected to fall marginally to US$11.4 million in 2010 compared to US$12 million in 2009. Exports largely consist of ylang-ylang, vanilla and cloves and are fairly small. Imports on the other hand rose to US$168.9 million in 2010 from US$152.7 million in 2009. The current account deficit is expected to widen to 10.2% of Gross Domestic Product from 9% in 2009, driven by higher aid-funded imports.

DJIBOUTI

Real GDP growth in 2010 remained strong despite the global economic crisis, with IMF estimates showing only a small decline in real GDP growth from 5% in 2009 to 4.5%. The marginal decline is due to a fall in foreign direct investment, weak trans-shipment remained while foreign trade and transport services suffered from a temporary slowdown in the first quarter of 2010. The fall in trans-shipment is contrary to expectation following the inauguration of the Doraleh terminal in 2009 which was hoped would lead to an increase in traffic at the port. The second quarter also registered a consecutive decline in traffic and in totality, the first half of 2010 registered an 84.2% year-on-year drop in trans-shipment compared to a decline of 36.8% in 2009. The volume of general cargo fell by 5.4% as a result of a 34.4% decline in cargo for Djibouti following a drop in imports. However this was offset by a 1.9% increase in cargo destined for Ethiopia. Container trans-shipment traffic fell from 60,412 containers in the second quarter of 2009 to just 2,172 containers in the second quarter of 2010.

Monetary Policy

Year-on-year inflation fell to 3.9% in November 2010, down from 5.2% in June, the highest rate since March 2009. This was mainly because of falling prices of fresh food imported from Ethiopia and the abolition of taxes on food by the government. Inflation in Djibouti is largely determined by commodity prices and during 2010, it is estimated to have risen to 3.5% from 1.7% in 2009 as a result of the rebound in international commodity prices and food imported from Ethiopia due to a temporary change in transportation arrangements from railways to road.

ECONOMIC ENVIRONMENT

Fiscal Policy

In 2010, the fiscal deficit improved markedly to an estimated 0.8% of GDP. The improvement was a response by government to pressure from the IMF to meet its commitments under the ECF. This was also coupled with a reduction in defence spending as tensions with Eritrea eased.

External Sector and Foreign Exchange

The current account moved into surplus during the first half of 2010 for the first time in four years and stood at Dfr6bn (US$36 million). The surplus was as a result of a significant decline in imports and growing positive balance on services through revenue from the French and US military bases and increased support for the international naval response to piracy in the Gulf of Aden. The decline in imports followed the completion of construction work at the Doraleh project in 2009 which had led to an increase in importation of capital goods during its construction.

On an annual basis, imports were expected to decline to US$ 414 million in 2010 compared to US$ 450.7 million in 2009. On the other hand, exports rose to US$ 85.2 million compared US$ 77.4 million in the previous year. The current account deficit was expected to narrow significantly to US$ 3.3 million in 2010 from US$ 71.1 million. The Djibouti franc continues to be pegged to the US dollar and stood at Dfr177.72.

EGYPT

Egypt's economic performance was better than expected and the economy showed great resilience to the crisis. Financial contagion was contained by limited direct exposure to structured products and low levels of financial integration with world financial markets. Sustained and wide-ranging reforms since 2004 had reduced fiscal, monetary, and external vulnerabilities, and improved the investment climate. These bolstered the economy's durability and provided breathing space for appropriate policy responses. The first half of FY2009/10 provided further evidence of a pick-up in growth and external demand. Official estimates put real GDP growth in 2009/10 at 5.1%, up slightly on the previous fiscal year.

Egypt's main foreign earners are estimated to have recovered strongly after the dip that followed the global financial crisis of 2009. The recovery in revenue was most notable for tourism and remittances, respectively the first and second source of hard currency. For the calendar year 2010 tourism revenue is expected to have reached between US$12.6 billion - US$13 billion, a 16% increase on 2009. In fiscal year terms, tourism revenue in 2009/10 was US$11.6 billion, compared with US$10.5 billion the previous year and higher even than the pre-crisis level of US$10.8 billion in 2007/08. Data also indicates that investment in tourism has remained steady through the crisis, remaining at E£14 billion (US$2.5 billion) a year over the last two fiscal years. Remittances, mostly from workers in the Gulf, reached US$9.5 billion in 2009/10, compared with US$7.6 billion in 2008/09 and US$8.4 billion in 2007/08. However, revenue from the Suez Canal, has not yet returned to the pre-crisis levels of US$5.2 billion in 2007/08. Earnings are estimated to have fallen to US$4.7 billion in 2008/09 and then further US$4.5 billion in 2009/10. This decline was as a result of lower levels of global trade.

Monetary Policy

The central bank adopted price stability as the overriding objective of the monetary policy, seeking to bring inflation to a level that helps deepen confidence and sustain adequate levels of investment and economic growth. The central bank began loosening monetary policy at the beginning of 2009 on the back of a gradual deceleration in inflation, which bottomed out at 9% in August 2009, from a peak of 23.7% in August 2008. Interest rates remained unchanged throughout 2010 with the central bank last rate cut in September 2009, when the overnight deposit and lending rates were reduced by 25 basis points each, to 8.25% and 9.75% respectively. Having peaked at an average of 18.3% in 2008, the year-on-year rate of inflation fell steadily thereafter and averaged an estimated 11.1% in 2010.

Fiscal Policy

Fiscal policy was expansionary during 2009/10. Stronger than expected economic growth and tax revenues resulted in a deficit in 2009/10 of 7.9% of GDP, slightly smaller than projected in the budget but bigger than the 2008/09 outturn of 6.6% of GDP. Data from the Ministry of Finance for 2009/10 show that tax revenue increased by 6% to E£148 billion (US$26 billion). This comprised income tax revenue of E£92.4 billion and sales tax revenue of E£55.7 billion. The increase came from continued growth in most sectors of the economy, with manufacturing, exports, tourism and services taking a lead.

External Sector and Foreign Exchange

The balance of payments performed fairly well during fiscal year 2009/10 moving to an overall surplus of

US$3.36 billion, from an overall deficit of US$3.38 billion during 2008/09. This was from a small decline in the current account deficit to US$4.3 billion during 2009/10 from US$4.4 billion in the previous fiscal year, and an increase in the capital and financial account net where inflows surged to US$8.3 billion from US$2.3 billion a year earlier. The current account deficit slight contraction was driven by an almost unchanged trade deficit of US$ 25.1 billion and an increase in net unrequited transfers from US$8.2 billion to US$10.5 billion. Meanwhile, the services balance dropped by 17.3%.

The trade deficit narrowed slightly by US$53.3 million or 0.2 percent, to stand at US$25.1 billion during 2009/10 from US$25.2 billion a year earlier. Merchandise exports are estimated to have fallen by 5.1% to US$23.9 billion. This was attributed to a drop in oil exports by 6.8% (43.0% of total exports) and in non-oil exports by 3.9% (57.0 % of the total). Imports also followed suit and fell by 2.7% to US$49.0 billion, due to a contraction in oil imports by 26.6% (10.5% of total imports) and a rise in non-oil imports by 1.2% (89.5% of the total).

The Egyptian pound slipped to a five-year low against the dollar in late October 2010. The US dollar reached E£5.78 on October 28th, a level not seen since July 2005, after a steady rise starting at around E£5.69 in mid-October. The pound was expected to average E£5.78 in 2010. Egypt's foreign-currency reserves reached US$35.6 billion in October 2010, marking a return to the previous peak in October 2008 at the start of the global financial crisis. At the end of the 2009/10 financial year net international reserves increased by US$3.9 billion during 2009/10, to reach US$35.2 billion at end of June 2010, covering 8.6 months of merchandise imports.

ERITREA

Real GDP growth in 2010 was estimated at 4% compared to 3.6% in 2009. Behind this higher growth was the commencement of the commercial production of gold and silver at Eritrea's first operational mine at Bisha. The first gold pour at the mine was in late December 2010, which was part of the plant-commissioning process and rendered two doré bars (semi-pure alloys of gold and silver) totalling 26 kg (920 troy oz). The mining sector experienced significant activity in 2010. As of early October 2010, one mining company and 16 exploration companies were operating in Eritrea on licences that covered an area of about 15,627 sq km, or 12.5% of the country's land area. The mines ministry had received an additional six applications, three from companies already having operating licences and three from other companies. If granted, this will increase the proportion of national land area covered by mineral tenements to 31%. Since the first batch of licences awarded in the mid-1990s, over 3m troy oz of gold, 41m troy oz of silver, 2.2bn lb of copper and 4.1bn lb of zinc have been identified (this includes both inferred and proven resources) although none of this has yet been mined.

Food insecurity continues to remain a big problem in Eritrea and efforts to combat this chronic food insecurity received assistance from two sources in 2010. In August 2010, an agreement with China was signed for an interest-free loan of US$6 million to be channelled towards improving food security. In mid-September 2010 a grant agreement worth US$12.6 million for Eritrean fisheries development was signed with the International Fund for Agricultural Development (IFAD). The IFAD-supported project aims to strengthen the artisanal fisheries sector, increase its contribution to the national economy and improve food security. This will be the fourth IFAD project in Eritrea and brings IFAD's total investment in the country to US$55.8 million.

Monetary Policy

Monetary policy has continued to accommodate the budget deficit and as such has resulted in a rapid expansion of broad money and has fuelled inflation which has remained firmly in double digits for much of the last decade and is estimated to have been 20% in 2010, unchanged from the 2009 rate.

Fiscal Policy

The government does not publish national budgets, which limits assessments of fiscal policy. However, IMF estimates indicate that Eritrea has suffered from fiscal deficits since independence. It is estimated at 4% of GDP in 2010.

External Sector and Foreign Exchange

The current account deficit continued to widen in 2009 to US$260.9 million from US$203.8 million in 2008. The current account deficit widened to 6.7% of GDP in 2010 compared to 4.7% the previous year. The narrowing was reflective of a decline in imports which are estimated to have risen to US$695.2 million from US$596.6 million. The rise in imports was as a result of a higher import bill following lower oil prices on the international markets. Exports increased marginally to US$28.8 million in 2010 from US$26.2 million. The Nafka which is pegged to the US dollar since 2005 exchanged at Nfa15.38 to the dollar in

A pre-delivery payment facility of US$10 million and a long term loan of US$20 million was approved by the Bank to part finance the purchase of five Boeing 777-200LR aircraft by Ethiopian Airlines.

2009 and the rate did not change for 2010. The Nafka is therefore overvalued, underpinned by double-digit inflation and large current account deficits. In late 2009, estimates indicated that the parallel market rate was almost 50% higher than the official exchange rate, although strict government controls have meant that the misaligned exchange rate has resulted in foreign exchange shortages rather than a growing black market.

ETHIOPIA

Continued good progress have been made on macro-economic stability and growth momentum remained strong during 2009/10, with growth estimated at 8% slightly lower compared to 9.9% in 2008/09. The slower growth was as a result of the weak global recovery which constrained exports, remittances and investment. The agricultural sector performed well and the season's main harvest was better than expected. An increase in the area planted and greater fertiliser use ensured higher yields

The government unveiled a new five-year economic plan, the Growth and Transformation Plan (GTP), at the end of 2010, which prioritises agriculture, infrastructure and industry (mining, manufacturing and textiles). The GTP includes ambitious real growth objectives of at least 11%, with an aim of placing Ethiopia in the ranks of middle-income countries by 2025.

Monetary Policy

Reserve money was tightened considerably with growth reduced to single digits, on lower credit to government. This resulted in a significant reduction in excess liquidity in the banking system, reflecting some strengthening of liquidity management. Average inflation is estimated to have fallen to 8.1% in 2010, the lowest rate in four years. The reason behind the fall in inflation was the deflation of food prices during the year.

There was a significant change to monetary policy at the end of 2010, with the central bank stating that it would stop financing public spending and that it will adopt a low reserve money growth target. The change is aimed at tackling the problems of excess liquidity and demonetisation. The monetary policy shift brings Ethiopia into line with most developing economies. Furthermore in mid-December, the central bank announced an increase in the minimum savings rate for banks from 4% to 5% to encourage higher public saving. This was in response to the government's economic challenge of raising national savings as real interest rates have been negative for several years.

Fiscal Policy

The fiscal stance was tightened with much lower domestic financing than targeted during 2009/10. Ethiopia's budget deficit widened from 2.3% of GDP in fiscal year 2008/09 to 2.5% of GDP in 2009/10. The government had budgeted for a wider deficit but revenue performance so far in 2009/10 is estimated to have outperformed expectations and domestic borrowing was lower than budgeted in 2009/10 fiscal year. This strong performance was made possible by the ongoing tax reforms and strong economic growth. Ethiopia has kept a tight grip on spending in 2009/10, but lifted some of the stringent constraints - such as cutting net domestic borrowing to zero - that were imposed in 2008/09 in response to high inflation.

External Sector and Foreign Exchange

On a calendar year basis, Ethiopia's current-account deficit grew to 10.4% of GDP in 2010 compared to 7.7% of GDP in 2009. Total export earnings rose to US$1.7 billion in 2010 compared to US$1.5 billion in the previous year while imports also rose marginally to US$7.8 billion in 2010 compared to US$6.8 billion in the previous year.

Ethiopia's gold exports are estimated to have risen to US$281 million in the 2009/10 fiscal year, up from just US$40 million in 2006/07. Gold exports soared in 2009/10, due to high international prices and expanding domestic supply. Midroc Gold, the only commercial-scale gold company, exported 5,000 kilos of gold, earning profits of US$160 million, and the central bank, supplied by the artisanal miners, sold 3,912 kg of gold on the international market, a substantial increase on the 426 kilos exported by the central bank in 2008/09.

On September 1, the central bank devalued the Ethiopian birr by 16.7%, bringing the exchange rate to Birr16.35:US$1, from Birr13.62:US$1 the previous day. The step-depreciation is in keeping with the NBE's policy of letting the birr fall against the US dollar in steep drops rather than slowly over a longer period of time. On average the birr is estimated to have exchanged at Birr14.40 in 2010 compared to Birr11.78 in 2009. Assisted by strong donor inflows and macroeconomic adjustment, international reserves rose to 2.1 months of imports by end-2009/10, significantly more than originally targeted.

ECONOMIC ENVIRONMENT

KENYA

After a subdued year in 2009, the Kenyan economy bounced back from the slowdown that accompanied the global financial crisis. Fiscal stimulus boosted the recovery, especially in construction, and benign weather conditions have supported a rebound in agriculture. The ratification of the new constitution following a successful referendum spurred confidence in the economy as it provides an opportunity to address long-standing social and institutional problems and implement additional reforms, including on fiscal decentralization, the public expenditure framework, and land ownership.

Increased economic activity in the first six months of 2010 resulted in a revision of the actual growth rate of 4.8% in the first quarter followed by a 5.4% growth in the second quarter. The underlying reasons for the growth were the good performance of the agricultural sector and good electricity generation due to ample rains received in late 2009. The agricultural sector is estimated to have grown by 6.5% and 5.8% for the first and second quarters of 2010 respectively compared with 1.4 % and 4.4% declines in the first two successive quarters of 2009. The construction sector registered the most impressive growth at 18% during the second quarter of 2010.

Tea production continued to perform well through most of 2010 compared to the other sampled cash crops following good rains experienced in the country towards the end of 2009 and early 2010 which favoured the tea growing areas in the Rift Valley region. Production in the first nine months amounted to 289,473.1 metric tonnes compared with 209,454.9 metric tonnes produced in the first nine months of 2009, equivalent to a 38.2% increase.

Horticultural export volumes increased by 6.7% to 254,766.3 metric tonnes in the first nine months of 2010 compared to a similar period in 2009. Similarly, the value of horticultural exports increased by Ksh 3.0 billion from Ksh 43.3 billion in 2009 to Ksh 46.3 billion in the first nine months of 2010 following increasing exports during the year. Overall, the total volume of horticultural produce grew by 26.9%, during the first nine months of 2010.

The manufacturing sector showed mixed performance of various commodities during the first nine months of 2010. Cement production is estimated to have risen by 10.5% and the industry has maintained a fairly stable growth path over the years. Processed sugar on the other hand declined by 8% during this period.

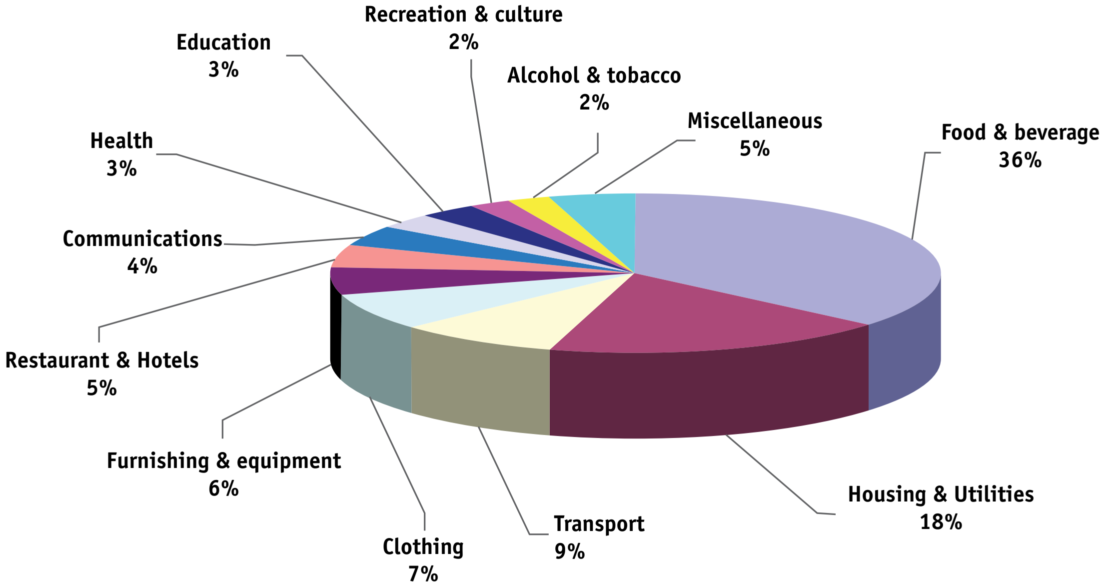
In the year to August 2010, tourist arrivals grew by 14.6% to stand at 701,182 visitors compared to the same period of the previous year. Vigorous campaigns in the target countries and increased confidence in Kenya was the underlying cause for this increase. Revised cumulative tourism earnings for January – August 2010 amounted to US$443.2 million from US$345.4 million earned over a similar period in 2009.

Monetary Policy

The Central Bank of Kenya continued with its policy of monetary loosening in 2010. In July 2010 the central bank rate was reduced 75 basis points to 6% (the sixth cut in 12 months) in a bid to promote economic activity and reduce borrowing costs. Latest data show that broad money supply, M3, grew by 24.1% in the year to October 2010 compared with 13.9% in the year to November 2009. The growth of the money supply was from an increase in credit to the private and government sectors. Bank lending to the domestic economy grew by 27.1% in the year to October 2010 compared with 13% in a similar period in 2009. Credit to Government increased to 45.5% in the year to October 2010 compared with a growth of 19.6% in a corresponding period in 2009 while credit to the private sector increased from 11.8% in the year to October 2009 to 21.5% in the year to October 2010. The private sector was the largest beneficiary of bank credit, accounting for 74.4% of total outstanding credit by October 2010.

A new CPI was introduced in February 2010 which increases the number of categories and goods and employs new weightings based on the latest household spending data giving a more accurate measure of inflation. The new CPI basket cuts the weighting for food from 50% to 36%, which will tend to reduce price volatility in future.

Kenya's New CPI weightings



With this revamped CPI, inflationary pressures over the first ten months have been fairly low and subdued and in October 2010 the annual average inflation had reached a year low of 3.8%. However poor weather in the fourth quarter of 2010 and an increase in fuel prices put upward pressure on inflation and it rose to 3.8% year-on-year in November 2010. The annual average inflation for 2010 was expected to be 3.9%.

Fiscal Policy

The fiscal deficit widened in fiscal year 2009/10 to Ksh 157.9 billion on commitment basis compared with a deficit of Ksh 110.6 billion in a similar period of 2008/09. The deficit-to-GDP ratio increased from 4.6% to 6.2% on commitment basis, while the budget deficit on cash basis increased from 4.6% to 6.6% of GDP during the period. The budget deficit during the period was within the programmed target of 6.7% of GDP on commitment basis.

Government revenue and grants increased from Ksh 511.4 billion in the fiscal year 2008/09 to Ksh 560.8 billion in the fiscal year 2009/10, although it was below target by Ksh 59.6 billion. The increase in revenue was as a result of an 11.6% increase in tax revenue to Ksh 487.7 billion in the fiscal year 2009/10. Government expenditure and net lending also rose by 15.6% from Ksh 621.9 billion in the fiscal year 2008/09 to Ksh 718.6 billion in the fiscal year 2009/10. This increase comprised increases of Ksh 57.6 billion and Ksh 39.1 billion in the recurrent and the development expenditures, respectively.

External Sector and Foreign Exchange

The overall balance of payments surplus stood at US$365 million in the year to September 2009 compared to US$360 million in the year to September 2009. This was as a result of a narrowing current account deficit and an increase in the services account surplus. The current account deficit improved from US$1,899 million in year to September 2009 to US$1,811 million in year to September 2010 caused by a 26.8% or US$1,021 million improvement in the services account surplus from improved earnings from tourism and transportation services.

Exports are estimated to have increased by about 9.8% from US$4,503 million in September 2009 to US$4,945 million in September 2010. Exports improved as a result of higher commodity prices. Tea exports rose by 34.3% while horticulture exports rose from US$674 million to US$713 million. Exports of manufactured goods increased by 16.6% from US$513 million in the year to September 2009 to US$598 million in the year to September 2010. Imports increased to US$11,580 million over the same period from the increased value of oil and manufactured goods imports. Oil imports which accounted for 23% of total imports increased from US$2,040 million to US$2,628 million in the period.

ECONOMIC ENVIRONMENT

The Kenya shilling weakened against the US Dollar mid year to KSh81.4:US$1 in July 2010 following fears over the euro-zone debt crisis. However, later in the year it gained slightly to average KSh80.5:US$1 by November 2010. The annual average for 2010 was Ksh 79.22 to the US Dollar. Gross official foreign exchange reserves rose US$3,810 million or 4.1 months of import cover in October 2009 compared with US$4,054 million or 4.1 months of import cover in October 2010 .

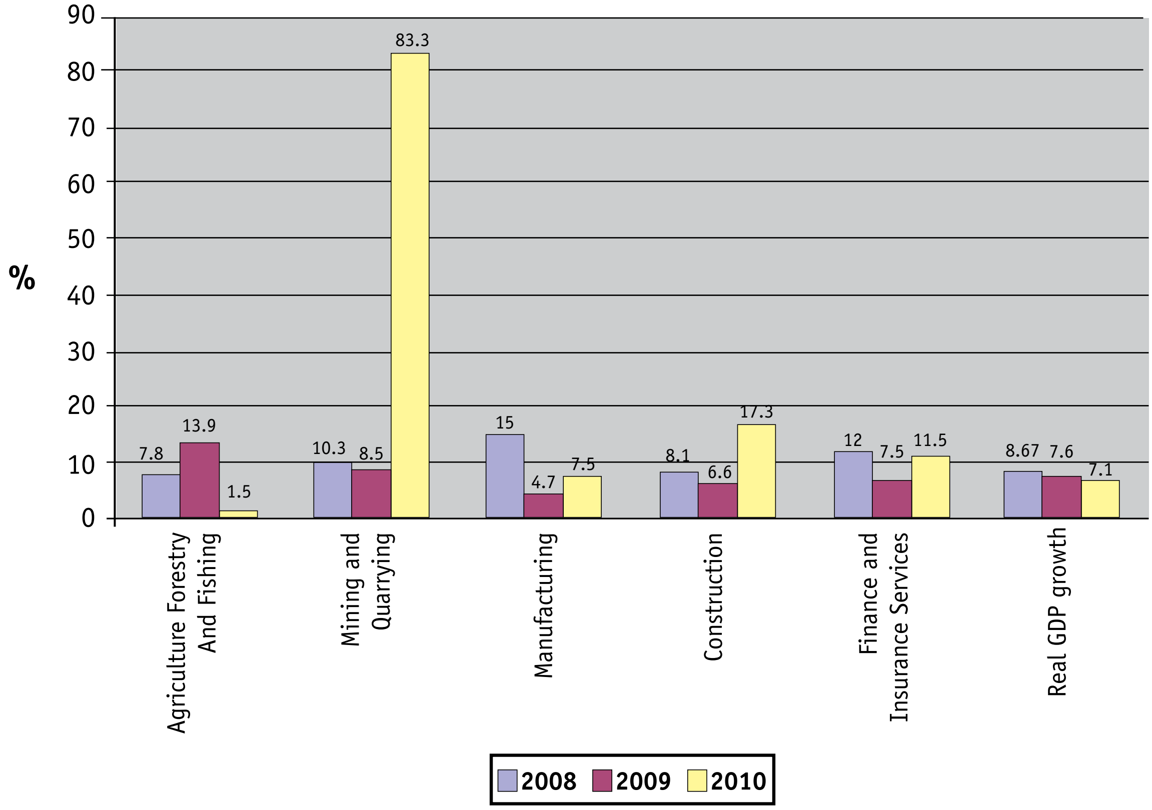
MALAWI

Real GDP growth estimates in 2010 for Malawi were slightly lower at 7.1% compared to 7.7% in 2009. The reduction in growth was as a result of reduction in the agricultural sector growth (the mainstay of the economy and contributing approximately 30.1% to GDP in 2010) due to poor rainfall in the southern parts of the country. Nevertheless, high economic growth rates in the mining, manufacturing and financial activities will compensate for the effects of the slowdown in agriculture.

The agricultural sector recorded growth of only 1.5% in 2010 compared to 13.9% in 2009 owing to poor rainfall in various parts of the country. All major cash crops recorded significant declines during 2010. The largest drop was recorded in cotton production which is estimated to have declined by 59.9% in 2010. However, the fall in production was also partly due to lower prices offered in the preceding season.

Tobacco production is estimated to have declined by 2.8% to 211.0 million kilograms in 2009/2010 season from 217 million kilograms in 2008/09 season. A total of 198.5 million kilograms of tobacco were sold by the end of the third quarter of 2010, lower than the volume sold in the same period in 2009. Of the total volume sold, burley and flue cured tobacco accounted for 86.8% and 12.0% respectively. Sales of Northern Division Dark Fired (NDDF), Southern Division Dark Fired (SDDF) and Sun/Air tobacco varieties constituted 1.2% of the total volume of sales.

Sector Growth Rates 2008-2010



Other sectors of the economy performed well during 2010 and helped offset the impact of lower agricultural sector growth on GDP. The mining and quarrying sector is estimated to have grown impressively by 83.3% in 2010 from 8.5% in 2009. The growth was attributed to the almost threefold increase in uranium production at the Kayelekera mine as it approaches full capacity.

Monetary Policy

The inflation targeting by the Reserve Bank of Malawi (RBM) has been fairly successful in keeping a firm check on inflation which has remained in the single digit levels since 2007. The downward pressure on inflation has also been aided by the increased food production as a result of the introduction of fertiliser subsidies in 2006. During 2010, inflation is estimated to have fallen to its lowest levels in almost four years to 6.4% in November 2010. On average, annual inflation is expected to have averaged 7.5%, lower than the 8.5% recorded in 2009. Interest rates (base rate) which have been static in previous years were cut in July 2010 in response to receding inflationary pressures from 15% to 13%. Money supply growth was slower in 2010 and is estimated at 14.3% compared to 16.9% in 2009.

Fiscal Policy

Domestic revenues during the fiscal year 2009/10 performed exceedingly well and were projected at K171 billion, almost K8 billion more than the K163 billion approved in June. This good performance was mainly attributable to two factors: an improvement in tax administration by the Malawi Revenue Authority and an increase in tax compliance by tax payers. Despite an expenditure overrun of 4.4% in 2009/10, which had generated concern that the government's deficit target would be exceeded, the deficit fell to an estimated MK5.1bn (US$33.8 million), or 0.7% of GDP—less than one-half of the targeted amount of MK 12.5 billion. The expenditure overrun was caused by domestic interest payments expected to come in above budget and additional spending on fixtures and fittings at the new parliament building.

External Sector and Foreign Exchange

Malawi's current account deficit is estimated to have increased in 2010, despite a sharp rise in uranium exports, as tobacco production declined and oil and fertiliser prices increased. It widened to 9.4% of GDP in 2010 compared to 7.1% of GDP in 2009. Total exports are estimated to have risen to US$1,020.3 million in 2010 from US$912.4 million in the previous year while imports rose more significantly to US$1.7 billion in 2010 compared to US$1.5 billion in 2009.

The kwacha was relatively stable exchanging at MK150.8:US$1 since February 2010. This was reflective of the reinstatement of the implicit currency peg rather than market fundamentals, as confirmed by the re-emergence of foreign exchange shortages since September 2010. On an annual basis, the kwacha depreciated in 2010 to MK150.49 against the US dollar compared to MK141.14 in 2009.

Foreign exchange reserves remained sub-optimally low, at roughly 1.4 months of import cover in June 2010. By year-end total gross foreign exchange reserves increased only marginally to US$252.5 million in November 2010, equivalent to 2 months of imports.

MAURITIUS

Mauritian economy moderated in the first half of 2010 after having grown at a brisk pace in the second half of 2009. Real GDP growth was revised downwards from 4.6% to 4.4% for 2010. The downward revision was partly reflective of the negative growth of 1.5% in agriculture as a result of negative growth in the sugar cane sub-sector which is estimated to have declined by 6.4% compared to the sharp drop of 15% in 2009. However 2010 GDP growth was higher than the 3.1% achieved in 2009. The growth was expected from Hotels and restaurants which grew by 6% in 2010 from a negative growth of 5.9% in 2009. Transport, storage and communications and financial intermediation were also expected to record higher growth in 2010 of 5.3% and 4.3% respectively compared to 2009. The construction and manufacturing industries also registered moderate growth in 2010.

The uneven performance of the tourism sector in the middle of 2010 led to uncertainty of the performance of the sector as the pace of recovery was very uneven. However the uncertainty is now receding, with a strong performance in the first two months of the peak October–March season. Tourist arrivals grew by 8.9% and 9.5% year-on-year in October and November respectively, and year-on-year growth in January-November was 6.8%. Tourist arrivals rose to 934,829 in 2010 compared to 871,356 in 2009. The central bank forecasts tourist revenue of MRs39.4bn for the year as a whole, an increase of 9.3% on 2009.

Business confidence appeared to be affected in many key sectors of the economy but the additional monetary stimulus in September 2010 was expected to help boost investment and the newly established Economic

Restructuring and Competitiveness Programme (ERCP) should continue to support growth.

Monetary Policy

During the first half of 2010, the central bank maintained the repurchase (repo) rate - the bank's main policy interest rate - at 5.75% but cut it in September 2010 to 4.75%, the first interest rate change since March 2009. The reason for loosening monetary policy was to try to stimulate economic growth. The repo rate remained unchanged for the rest of the year reflecting sentiments of uncertainty on global prospects. Inflation remained low by historical standards and moved within a narrow range of 1.7% and 2.7% in the first half of 2010. Prices rose slightly between September and November 2010 although inflationary pressures were kept at bay. Headline inflation stood slightly higher at 2.9% in 2010 compared to 2.5% in 2009.

Fiscal Policy

Fiscal policy during 2010 continued to remain expansionary reflecting increased spending to counter the effects of the global financial crisis. As such the fiscal deficit in the government's finances widened to 4.5% of GDP in 2010 compared to a deficit of 4.0% of GDP in 2009. Total revenue was MRs53.4bn, slightly above budget, reflecting a higher growth in economic activity. Total expenditures rose to MRs76.3bn.

External Sector and Exchange Rates

According to statistics for 2010, Mauritius's trade deficit increased by 17.2% to MRs66,528 million compared to the year 2009. This was due to a sharp rise in imports of manufactured goods and fuel. Imports are estimated to have risen by 14.3%. Higher world oil prices contributed mainly to a 39.7% increase in the value of fuel imports while imports of manufactured goods increased by 17% to MRs19.7bn during this period. Exports are estimated to have increased by 11.6% to MRs 68,866 million. The rise in exports was on account of an increase in sugar and manufactured goods exports which rose by 13.4% and 14.3% respectively in 2010.

The current account deficit is estimated to have widened to reach 8.8% of GDP compared to 7.8% in 2009. The Mauritius rupee appreciated against the dollar to exchange at MRs 30.77 in 2010 compared to MRs 31.96 previously.

RWANDA

A real GDP growth of 6.5% in 2010 compared to 4.1% in 2009 indicates that the Rwandan economy has clearly bounced back strongly from the global economic downturn. Statistics from the National Institute of Statistics provided a breakdown of GDP for fiscal year 2009/10 (July-June), which showed strong growth for services, which rose by 7.7% over the period. The underlying forces for growth in the services sector were transport, storage and telecommunications, with the last of those sectors playing the most important role. Significant growth was also noted in real estate and business services. The agricultural sector grew by 6% during 2009/10, whereas industrial production, including mining, rose by only 0.6%, mainly due to a 16% fall in the value of mining production.

In October 2010, Rwanda announced a new seven-year roadmap for the transformation of Rwanda into a middle-income country by 2017. The salient features of this plan are: a 30% increase in the level of access to electricity and a surge in national energy production from 80 mw to 1,000 mw; the extension of financial services to 80% of the population; the construction of 220 more coffee-washing stations in order to enable 80% of the total crop to be fully washed; and a 12% rise per year in industrial production.

Monetary Policy

The annual inflation rate is estimated to have declined significantly to 3.2% in 2010 compared to 10.4% in the previous year. This is the lowest average inflation rate since 2002. The fall in inflation was largely the result of a domestic liquidity crisis and low food prices in the East Africa region. Monetary policy was loosened during 2010 as the central bank reduced interest rates throughout the year in order to encourage private sector credit growth. However, while the central bank's rate has fallen by three percentage points since 2009, commercial lending rates have remained high, and even rose between March and November 2010, from 15.7% to 17.3%.

The inability of commercial banks to pass on central Bank interest rate cuts is one of the key reasons for the slower growth in private sector credit. It is estimated to have grown from Rwfr359.9bn (US$606.9m) at the end of 2009 to Rwfr397.4bn at the end of 2010, a nominal increase of 10%. Research from the IMF revealed that there is a weaker connection between the central bank and private sector interest rates compared to its counterparts in the East Africa Community which have deeper and more integrated financial markets.

Fiscal Policy

By the end of the third quarter of 2010, the fiscal balance moved into a surplus position boosted by the unexpectedly high levels of donor funding. The overall fiscal balance was positive at the end of the third quarter of 2010 with a cumulative surplus of Rwfr35.8bn (US$61.3 million), compared to a cumulative deficit of Rwfr22.6bn at the same point in 2009. Donor funding through grants are estimated to have increased by 26% to Rwfr299bn. Domestic revenues also added to the surplus and are estimated to have risen by 11% to Rwfr314.3bn at the end of the third quarter of 2010. The Government expenditure is estimated to have risen by 9.9% to Rwfr562.8bn at the end of the third quarter of 2010. On an annual basis the overall fiscal balance deficit is expected to narrow significantly to 0.4% of GDP in 2010 compared to 2.3% in 2009.

External Sector and Foreign Exchange

Rwanda's exports grew significantly by 29% in the first three quarters of 2010 due to a rise in commodity prices following the end of the global recession as well as an increase in output. Rwanda's main cash crops showed tremendous growth during the first three quarters of 2010. The coffee sector earnings rose by almost 50% as a result of better prices and a 23% rise in volume while tea export volumes rose by 18%, with the average price being 21% higher than during the same period in 2009. With this growth, tea has overtaken coffee as the country's main export earner and cemented this position in 2010 with earnings of US$44 million in the first three quarters, compared with US$38 million for coffee. The mining sector recorded a 16.5% fall in output during the first three quarters of 2010 but benefited from higher global prices with tin exports rising because of this. Coltan exports on the other hand declined marginally.

Imports during the first three quarters of 2010 rose slightly owing to an increase in the consumer goods by 12.3% surpassing capital goods which actually declined by 16.3%. The decline in capital goods was from an unusually high level of machinery imports in 2009 due to telecommunication projects. As a result, the trade deficit is expected to narrow slightly.

On an annual basis, the current account deficit is expected to have widened to 11.5% of GDP in 2010 compared to 7.6% in the previous years. Total exports rose to US$237.5 million in 2010 from US$193 million while imports are estimated to have risen to US$1.1 billion from US$961 million in 2009. The Rwandese franc depreciated to Rwfr663.66 against the dollar in 2010 compared to Rwfr606.35 in 2009.

SEYCHELLES

The strong stabilization efforts by Seychelles have helped the economy overcome the 2008 balance of payments and debt crisis as well as the recent global recession. This was achieved through a remarkable turnaround of economic policies, including foreign exchange market liberalization and floating of the rupee, exceptional fiscal adjustment, enhanced management of public finances and the central bank, and successful external debt restructuring which is now close to completion.

Real GDP growth is expected to be above pre-crisis levels with IMF estimates putting growth at above 6%. The growth is driven by the recovery of the tourism sector, the largest sector in the economy. On a year-to-date basis, tourist arrivals grew by 10.8% in September 2010 and annual visitor arrivals were expected to be at an all-time high in 2010 and should continue to grow given the weaker currency and improving global economic environment. An exceptionally large increase in FDI during 2010 to the construction and telecommunications sector also contributed to real GDP growth.

Other factors supporting growth was the decline in inflation and interest rates, extra spending by the government (following a strong fiscal performance) and the reduction in income tax from 18.75% to 15% on October 1st, which was expected to support consumer spending in the last quarter of 2010. Not all sectors performed well during 2010: for instance, canned tuna production, the main export earner, was just 2% higher in the first half at 14,712 tonnes, reflecting concerns about the sustainability of fish stocks.

Monetary Policy

The Central Bank of Seychelles (CBS) monetary focus is meeting specific monetary and inflation target. The CBS has now been granted additional autonomy from the Treasury, as part of an IMF sponsored reform process, to help with this task. Until recent reforms, the CBS relied on exchange rate management to tackle inflation as most consumer goods are imported, but since exchange controls have been lifted the CBS, with technical help from the IMF is instead turning to indirect instruments, including Treasury-bill auctions, to help manage liquidity and reserve money supply. Monetary policy was fairly accommodative during most of 2010. Broad money is estimated to have increased by 26% year-on-year in September 2010. The growth was due to the large accumulation of foreign assets. Private credit, however, increased by only 8%. Consumer prices fell by 0.2% year-on-year in October 2010, the eleventh consecutive month of deflation. However the trend reversed as prices rose slightly, year-on-year, in the final two months of 2010, owing to base effects and upward global pressure on food prices. Average annual inflation was therefore expected to be negative in 2010, declining by 2.3% compared to 31.8% in 2009.

Fiscal Policy

Strong fiscal discipline, including strict spending controls imposed as part of an IMF adjustment programme, has produced a primary budget surplus (excluding interest payments) of an estimated 9.4% of GDP in 2010 slightly lower than 14.8% of GDP in 2009. This was also reflected in the overall fiscal surplus which stood at 2.7% of GDP from 5% of GDP in 2009. Total revenues performed well and were expected to have increased significantly in 2010 exceeding the original budget projections by more than 4 percentage points of GDP, reflecting mainly stronger-than-expected tax collections on turnover and imports. Projected estimates indicate that revenues stood at 35.5% of GDP in 2010. Total expenditure for 2010 is estimated to have increased to 34.3% of GDP compared to 33.8% of GDP in 2009.

In October, the authorities passed a supplementary budget covering additional current (0.7 percent of GDP, mainly goods and services) and capital expenditures (1 percent of GDP) for infrastructure projects, education, and health in the last quarter. Seychelles reduced the personal income tax rate from 18.75% to 15% effective October 1, three months ahead of schedule.

External Sector and Foreign Exchange

The current account deficit is estimated to have widened in 2010 to 42.8% from 38.1% in 2009. Total exports are estimated to have increased to US$477.3 million in 2010 from export earnings of US$432.5 million. This was on the back of the global economic recovery and an increase of oil re-exports from higher oil prices. In line with higher economic growth, total imports increased significantly to US$860.9 million in 2010 compared to imports of US$759.1 million.

The exchange rate stabilized at around SRs12.5:US$1 in June-September, before strengthening a little, to SRs12.3:US$1, in October and November. The annual average exchange rate depreciated to SRs12.1 to the US dollar in 2010 compared to SRs13.6 in 2009. The good economic growth helped in building foreign exchange reserves, which reached a new peak of US$210 million as at the end of October 2010 representing 1.9 months of imports.

SOMALIA

The political instability resulting from the civil war which broke out in 1991 has continued to impact adversely on economic growth throughout Somalia. As a result of this, there is little formal economic activity taking place making it very difficult to collect economic data or statistics on the country. As a main source of income, Somalia depends heavily on the annual remittances of approximately US$825 million from Somalis in the diaspora. The global economic crisis put pressure on remittances which declined slightly in 2009. However, these are estimated to have picked up again in 2010 following the global recovery trend, although there are no formal statistics to verify this. The IMF wrote off some of Somalia's arrears from an initial amount of SDR243m to SDR230m (US$345m) at the end of June 2010. Somalia has been in continuous arrears with the IMF since 1987 and was the only member with overdue charges to its SDR department, according to an IMF report.

The new Somali currency printed in Sudan under a deal with the transitional federal government arrived in Somalia in May 2010. The circulation of the currency faced a lot of opposition in much of the country. The al-Shabab indicated that the use of the new notes would not be allowed in areas under its control. The notes were also rejected in Puntland, the semi-autonomous north-eastern state's region.

In the breakaway state of Somaliland which is yet to be internationally recognized, economic activity is of a more formal nature with the port of Berbera being the main source of revenue. It accounts for about 80% of government revenue. High revenues had been collected from customs and duties in December 2010, representing a year-on-year increase of 24.3%. Total revenue from fifteen entry and exit points was SoSh30.4bn (US$5.2 million) in December 2010, compared with SoSh24.5bn for December 2009. The port at Berbera, by far the largest contributor to the Treasury's coffers, raised 75% of this total in December 2010, compared with 72% in the previous period. In absolute terms, Berbera raised SoSh17.7bn in December 2009, compared to SoSh22.8bn in December 2010.

SUDAN

During the period of 1998 to 2009, Sudan witnessed the highest and longest burst of growth in its history. Real GDP growth averaged 8% per annum during this time. However, the global crisis saw this growth coming down and real GDP is estimated to have averaged 5.2% in 2010 compared to 4.2% in 2009. The modest growth in 2010 was from the services and utilities sectors.

Oil continues to remain the dominant commodity in Sudan's economy. Oil output from the Nile and Dar fields averaged 428,000 barrels/day (b/d) during the first three quarters of 2010 which is almost the same as the output for 2009. Sudan's two main crude blends – Nile and Dar – fetched average prices of US$77.60/barrel and US$68.70/b, compared with an average price of US$77.31/b for the benchmark Brent Blend. This therefore resulted in higher revenues. After the deductions for oil companies' shares of output, in the first eight months of 2010 the national government's share of oil export revenue was US$1.2 billion and its share of local oil sales revenue was US$620 million. The southern government's shares were US$978 million and US$266 million respectively. According to the same report, on average, 85% of oil production is from oil wells in Southern Sudan, 14% from oil wells in northern Sudan, and 1% from oil wells in Abyei.

Monetary Policy

The central bank manages monetary policy largely by issuing Islamic financial certificates, setting reserve requirements and manipulating the exchange rate. After a period of supporting liquidity by making deposits at commercial banks, the central bank is now adopting a more austere monetary policy, with higher reserve requirements, which rose from 8% to 11% in 2010, to tackle inflation. Inflation in 2010 is estimated to have risen to 15.4% year-on-year in December, taking the annual average to 13% compared to an annual average of 11.2% in 2009. The high rate of inflation is partly a reflection of the supply bottlenecks from inadequate infrastructure and uncompetitive product markets.

Fiscal Policy

Government revenue is estimated to have risen by 26% to SP26.3bn (US$11.4 billion) in 2010, because of higher oil prices and improved tax receipts. Total government spending is also estimated to have rebounded strongly after the 2009 crash in oil prices, rising by 30% to SP31.1bn in 2010. The fiscal deficit widened in 2010 to 3.3% of GDP compared to 2.6% of GDP in 2009.

External Sector and Exchange Rates

Yearly estimates show that total exports rose significantly to US$10.3 billion in 2010 compared to US$7.8 billion reflecting the higher oil prices. Oil sales continued to generate the bulk of export revenue and oil exports stood at US$9.5 billion in 2010 compared to US$7.1 billion in 2009. Imports are estimated to have risen to US$9.2 billion from 2010 from US$8.9 billion. The current account balance narrowed to 4.7% of GDP compared to 6.0% in 2009.

In the face of the widening gap between the official and black-market rates, the central bank took minor defensive measures to reduce the gap by imposing restrictions on the purchase of foreign currency to stem the weakening of the currency. As year end approached, the central bank devalued the pound by ordering banks and foreign exchange bureaux to buy foreign currency at a premium of 16.3% above its indicative rate devaluing the pound from around SP2.5:US$1, to around SP2.9:US$1, closer to the parallel market rate. In December, the central bank again increased the foreign exchange-rate premium to 18.3% above the bank's upper limit, moving the exchange rate from SP2.55:US$1, to a commercial exchange rate of, in effect, SP3.02:US$1.

TANZANIA

With the global recovery, the Tanzanian economy performed better than expected during 2010 and is estimated to have grown by 6.9% during the year compared to 6% in 2009. The growth was on the back of a rebound in the agricultural sector as weather conditions improved in the second half of the year, continued expansion in the mining sector, and the impact of the government's economic rescue plan and public investment program.

The Second National Strategy for Growth and Reduction of Poverty II (NSGRP II or MKUKUTA II in its Kiswahili acronym) was approved in October 2010 as a continuation of the government and national commitments to accelerating economic growth and fighting poverty. It is a successor to the first National Strategy for Growth and Reduction of Poverty implemented from 2005/06 to 2009/10, MKUKUTA I. Good progress was made during implementation of MKUKUTA I, with overall macroeconomic stability remaining on track. MKUKUTA II is a framework to rally national efforts during 2010/11 – 2014/15 in accelerating poverty-reducing growth by pursuing pro-poor interventions and addressing implementation bottlenecks. The new strategy will ensure that there is adequate prioritization and coordination of policies; emphasis on harnessing Public Private Partnership potentials; and aligning various reform processes with the strategy. Among the priorities identified, agriculture has been accorded higher priority.

Monetary Policy

Monetary policy remained accommodative throughout the year. Broad Money supply (M3) grew by 25.8% for the year ending November 2010, significantly higher than the 15.3% for the same period of 2009 while Broad Money growth (M2) increased by 17.5% compared to the same period of 2009. The increase in money supply was attributed to growth in credit to the private sector and net government borrowing from the banking system. For the year ended November 2010, growth of credit to the private sector rose to 19.2% from 12.2% in the same period of the previous year.

After a prolonged period of high prices, the rate of inflation fell during most of 2010 to reach a five-year low of 4.2% in October 2010 on the back of a sharp fall in food price inflation due to the good harvest and levelling off of oil prices in the second half of the year. Annual inflation is estimated at 7.2% in 2010, lower than the 12.1% rate posted in 2009.

Fiscal Policy

Fiscal policy was eased to support domestic demand during fiscal year 2009/10 with the deficit widening to 6.9% of GDP. Expenditure grew to 27.5% of GDP during this fiscal year from an increase in recurrent spending and investments. Revenues on the other hand declined to slightly less than 16% of GDP due to a fall in project grants. Cumulatively, revenues for the first five months for fiscal year 2010/11 amounted to TZS 2,093.8 billion which was lower that the budgetary target of TZS 2,236.2 billion, but higher than the same period of the previous fiscal year. Total expenditure cumulatively amounted to TZS 3,509.3 billion, lower than the budgetary estimate of TZS 4,077.2 billion, mainly due to shortfall in the disbursements of donor funds.

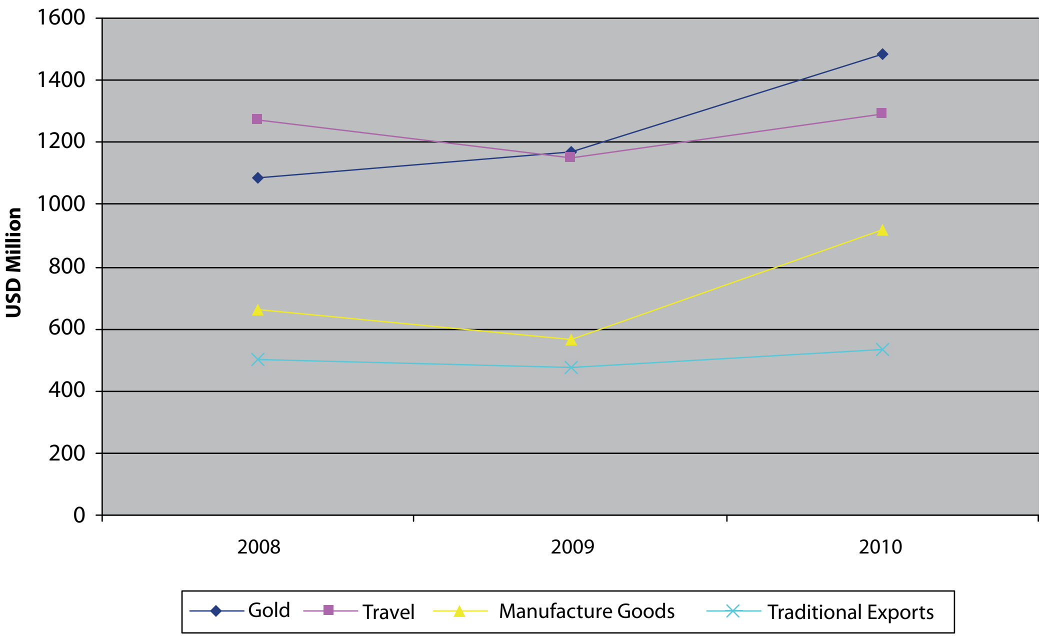
External sector and Exchange rate

The overall Balance of Payments remained positive but significantly lower for the year ended November 2010 and recorded a surplus of US$142.8 million from a surplus of US$551.5 million in the year ended November 2010. The reduction in the surplus was largely attributed to the widening of the current account deficit by 17.4% to a deficit of US$2,320.8 million, following an increase in imported goods coupled with a decline in the official current transfers. Imports of goods and services are estimated to have risen to US$8,589.7 million in the year to November 2010 compared to US$7,480.1 million in the same period last year. The increase was largely due a rise in oil imports, consumer goods and capital goods. Oil imports rose to US$1,938.9 million from US$1,290 million during this time period while consumer goods rose by 14.5% from a rise in food imports.

Exports for the year ending November 2010 rose by 15.4% to US$3,625.8 million largely due to an increase in gold exports, travel and manufactured goods. Total traditional exports amounted to US$532.1 million, an increase of 12.3% compared to the level recorded in 2009. This was largely due to an increase in export volumes and unit prices of cotton and cashew nuts.

Non-traditional exports amounted to US$3,093.7 million of total exports compared to US$2,466.1 million recorded in 2009, reflecting an increase in the export values for gold and manufactured goods. The export value of gold rose by 27.2% to US$1,487.3 million from a rise in export volumes to 35.7 tonnes compared to 33.3 tonnes in the previous year and higher prices of gold on the international markets. The value of manufactured goods rose to US$917.2 million, a 62.2% increase from previous year. The increase was partly attributed to the recovery of the global economy with significant increase recorded in paper products, fertilizers and textiles and apparels.

Exports by Commodity 2008-2010



Services exports comprising of travel and insurance and other business receipts rose to US$2,042.2 million compared to US$1,827.6 million in November 2009. Travel receipts amounted to US$1,291.5 million, 12.3% higher than November 2009. The increase was as a result of a rise in travel which was as a result of the recovery of the global economy from the financial crisis. The shilling depreciated by 12.6% against the US dollar to exchange at TZS 1,491.96 year-on-year to November 2010 and is expected to have exchanged at an annual average of TZS 1,409.3 in 2010 compared to TZS 1,320.3 in 2009. The gross official reserves rose to US$3,764.9 million in November 2010 representing 5.3 months of projected imports of goods and services compared to US$3,540.7 million in November 2009. The increase was from capital flows in the form of grants and foreign borrowing.

UGANDA

The economy of Uganda continues to benefit from prudent macroeconomic policies, making it fairly resilient to exogenous shocks such as those presented by the global financial crisis that led to the reversal of capital flows. Uganda continued to show strong growth in 2010, with GDP growth at 6.1% compared to 5.3% in 2009, with a heavy reliance on the industrial and services sectors. This makes Uganda one of the fastest growing economies in East Africa. On a fiscal year basis the fastest growing sector during 2009/10 was industry, which grew by 8.9%, followed by services which grew by 5.8% and the agricultural sector at 2.1%. Industrial growth was boosted by construction, which dominated the sector and grew by 10.9% on the back of a building boom while the manufacturing sector, grew by 5.9%. The best performance in the services sector came from posts and telecommunications, where increased network coverage and lower prices raised output by 30.3% in 2009/10.

The government launched a new National Development Plan (NDP) in April, 2010 setting the country's economic planning parameters until 2015. It replaces the Poverty Eradication and Action Plan (PEAP), which ran from 1997 to 2008. The NDP is an ambitious programme for creating productive resources with the aim of transforming Uganda into a middle-income country by 2017. In particular, it focuses on the energy sector, where plans include the building of an oil refinery, an oil distribution network and hydroelectric power projects that would increase energy production by 3,500 mw.

Investment in petroleum exploration has so far exceeded US$ 900 million and is expected to increase when the development and production phases commence. To date, five out of the ten exploration areas in the Albertine Graben are licensed to various companies. The principles for the Oil and Gas legal and regulatory framework were approved by Cabinet and the Bill will be submitted to Parliament in the next financial year. In the 2009/10, 33 out of 35 wells have yielded hydrocarbons, a positive sign of existence of oil.

PTA Bank headquarters in Bujumbura, Burundi

Monetary Policy

Monetary policy continued to focus on the need to support recovery of economic activity without compromising the inflation objective. In response to this, the monetary policy has been fairly loose throughout 2010. Monetary aggregates have been rising on an annual basis since January 2010. On year-to-year basis, currency in circulation rose by 26% in October 2010, demand deposits grew by 35% and time and savings grew by 26%. In terms of M1, M2 and M3, on year-to-year basis, they grew by 31.2%, 34.1% and 38.5%, respectively, in October 2010.

On inflation, the central bank notes that most of the inflation in Uganda is imported and largely caused by exogenous factors such as high regional food demand and weather patterns. In 2010, inflationary pressures remained low. After falling for 13 consecutive months, inflation started to rise in November and accelerated to 3.1% year-on-year in December 2010. The reason for the low inflationary pressures was a result of the annual decline in food-crop inflation and a fall in the annual rate of core inflation (excluding food-crop, energy and utilities) from lower telecommunications costs. The annual average inflation is expected at 4.9% for 2010 compared to 12.7% in 2009.

Fiscal Policy

Slower economic growth and a reduction in the value of trade led to a smaller-than-projected rise in revenue from import tariffs, sales taxes and personal and corporation tax. However it grew higher in fiscal year 2009/10 at 17.6% annual growth compared to the 15.6% growth in the previous year. However, the deficit was kept in check, as the government spent less than budgeted, owing to capacity constraints and delays on infrastructure projects. Despite the government's intention to deliver fiscal stimulus to encourage economic growth, execution of the budget for fiscal year 2009/10 was poor, and both revenue and expenditure fell short of the amount targeted. The expenditure outturn for the Financial Year 2009/10 budget was projected at Shs 6,576 billion.

External Sector and Foreign Exchange

Uganda's export growth is mainly supported by regional trade and accounts for more than one-half of total exports, and re-exports to Southern Sudan and the DRC are also becoming increasingly important. Total exports were expected to be lower in 2010 due to lower export prices and the readjustment and downward revision to the informal cross border trade exports that contributed to a general downward revision of aggregate exports. The downward revision to informal cross-border trade statistics was done jointly with the Uganda Bureau of Statistics and corrected informal exports to Sudan that had been overstated in previous reports. Latest data indicate that total exports for the first three quarters of 2010 stood at US$1,664.55 million compared to US$1,969.33 million in three quarters of 2009. Total imports rose to US$3,113.59 million in the first three quarters in 2010 compared to US$2,858.06 million in the first three quarters of the previous year. The overall balance of payment deteriorated to a deficit position in the first three quarters of 2010 to US$222.49 million compared to a surplus of US$543.96 million previously.

On a fiscal annual basis, the trade deficit remained wide in 2009/10, similar to the performance of the previous fiscal year and maintaining the large structural current account deficit of US$1.09 billion. The value of both exports and imports remained around the same level as the previous fiscal year. The slight dip in exports resulted from a combination of low prices for commodities and weak external demand. Informal cross-border trade (mainly re-exports of manufactured goods, mainly to Sudan, Rwanda and the Democratic Republic of Congo), representing more than half of the total exports, fell slightly as slower economic growth led to lower demand. Non-coffee exports rose by around 10%, owing to buoyant sales of tea, tobacco and fish. Coffee exports, now accounting for only around 10% of exports, fell in value by about 20% because of weaker world prices. The value of imports, driven up by high food and oil prices up to 2008, stagnated in 2009/10 owing to the slackening of domestic demand growth and low oil prices. A fall in the income account imbalance and a large surplus in current transfers, consisting of aid and private remittances, narrowed the current account deficit slightly.

The shilling depreciated by 15% during 2010 and is estimated to have exchanged at an average of Ush.2,169.1 in 2010 compared to Ush.2,030.3 in 2009, with most of the losses coming during the first half of the year 2010. The depreciation was partly engineered by the central bank to improve the competitiveness of exports. In a bid to build up reserves which had declined in the first half of 2010 by about 10% to US$2.49 billion in June 2010 (equivalent to 4.9 months of import cover), the central bank intervened in the foreign exchange market by making large daily purchases of up to US$500,000 from the foreign exchange market at the end of August 2010.

ECONOMIC ENVIRONMENT

ZAMBIA

Zambia's economic prospects improved during 2010 partly due to the sound macroeconomic policies and progress in structural reforms. Real GDP growth was strong and is estimated to have grown by 7.6% in 2010 compared to 6.4% in 2009. Growth was driven by a 2.8 million tonnes bumper harvest, a surge in foreign direct investment (FDI), a rise in copper prices and production, and growth in the construction industry. The recovery of the tourism sector also added impetus to the good performance for 2010.

The mining sector was expected to grow by 16.8% in 2010 albeit at a lower rate compared to growth of 20.3% in 2009. This was as a result of lower increase in metal mining which mainly comprises copper and cobalt which was expected to grow by 17.6% in 2010 compared to 19.7% in 2009. The mining sector benefitted from higher-than-expected copper prices, which were more than 41% higher than in 2009. Data for the first nine months of 2010 indicated that copper production rose by 20.9% to 625,844 metric tonnes compared to the corresponding period in 2009. Cobalt output also rose by 59.7% to 6,362.2 mt compared to 3,982.9 mt produced in the corresponding period of 2009.

The agricultural sector also showed strong recovery in 2010, growing by 12.4% compared to 12.9% in 2008. This growth was supported by an unprecedented bumper maize harvest of nearly 2.8 million metric tonnes in 2010.

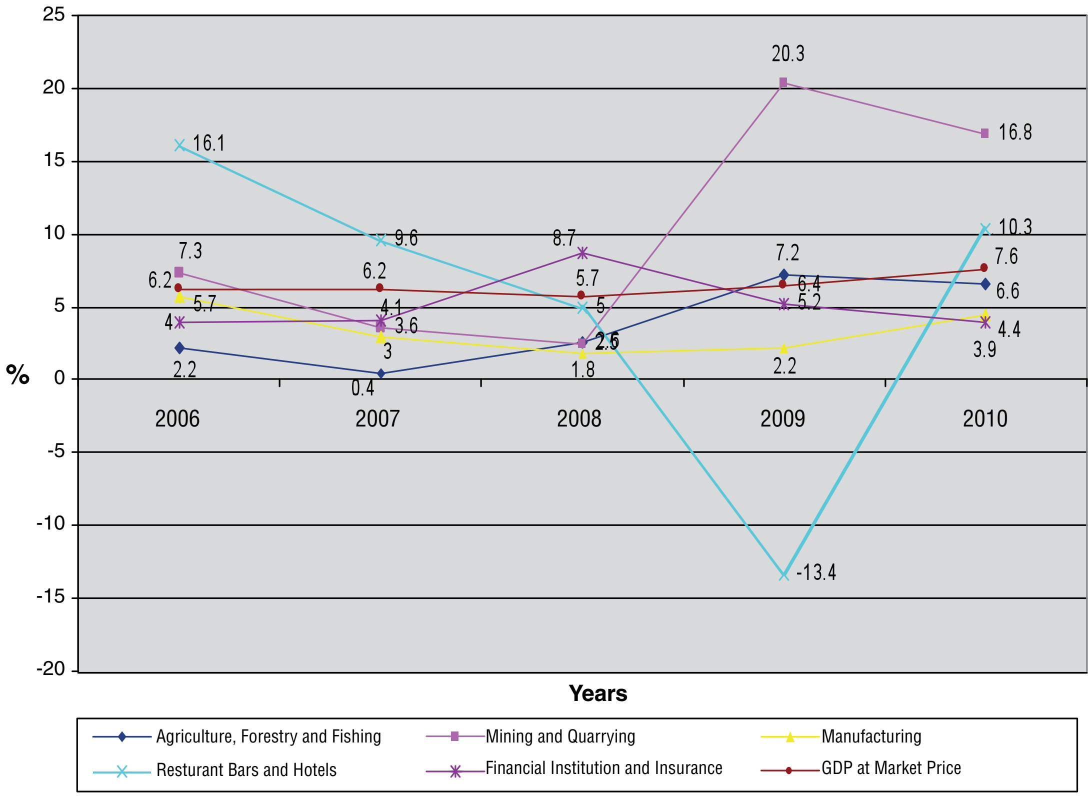
The recovery of the global economy coupled with the world cup in South Africa had a significant impact on tourism sector in Zambia. It is estimated to have grown by 10.3% in 2010 compared to a negative growth of 13.4% in 2009 and this was reflected by increased arrivals at the four international airports.

The manufacturing sector grew by 4.4% in 2010 from growth in the fabricated metals and non-metallic minerals production reflecting the increase in mining production and food, beverages and tobacco. However, significant declines in growth were noted in the textile and leather industry which declined by 31.9% in 2010 compared to a decline of 20% in 2009.

Monetary Policy

Monetary policy during 2010 was focused on the achievement of the end-year inflation target of 8.0%. During the first six months of 2010, annual overall

Sector Growth Rates 2006-2010



inflation declined by 2.1 percentage points to 7.8% in June 2010 from the 9.9% recorded in December 2009 and was below the 8.2% projection for the period. By November 2010 inflation had declined to 7.1%. Falling inflation was attributed to increased food supply from a bumper harvest in 2009/10 thereby lowering the price of cereals.

On an annual basis, M3 growth increased to 32.0% in September 2010 from 27.7% in June 2010 due to the rise in Net Domestic Assets by 96.9% (in June 2010, rose by 58.2%) primarily on account of increased lending to government. However, the Net Foreign Assets fell by 9.8% compared with a fall of 1.2% recorded in June 2010. On an annual basis, domestic credit growth at 13.5% in September 2010 was 10.1 percentage points lower than the 23.6% recorded in June 2010. This largely reflected a slowdown in credit to the private sector, including public enterprises to 0.7% compared with the 25.9% growth recorded in June 2010. However, lending to the government increased by 41.7% from 108.9% in June 2010.

Fiscal Policy

Fiscal performance in 2010 was broadly in line with expectations. As of end-September 2010, domestic revenues had performed well, and were expected to over perform by 9% by the end of the year. This performance is attributed to higher collections under income and value added taxes arising from the collection of tax arrears and an increase in tax collections from mining companies. Total expenditure was 7% higher than budgeted, as Government faced additional expenditure pressures, which included transfers to the Food Reserve Agency in order to finance maize purchases, the fuel subsidy early in 2010, which has since been removed, and numerous by-elections. The overall fiscal deficit (including grants) was projected to widen at 3.3% of GDP, higher than the program target of 2.5% of GDP.

External Sector and Exchange rates

There was a significant improvement in the balance of payments position in the first half of 2010 mainly on the back of high copper and cobalt exports and the recovery of metal prices on the international market. The current account moved into a surplus of US$203.7 million at the end of the first half of 2010 compared with a deficit of US$284.8 million during the same period in 2009. During this first half, the overall balance of payments deficit widened to US$175.7 million from US$121.3 million recorded during the corresponding period in 2009. This was as a result of a rise in assets held abroad by the private sector.

Total exports are estimated to have risen impressively to US$7.0 billion in 2010 compared to US$4.3 billion in 2009. This significant boost was from a rise in commodity prices in particular copper which makes up a significant portion of exports. Imports also rose to US$5 billion in 2010 from US$3.4 billion. The current account deficit of 1.4% of GDP in 2009 is estimated to have moved into surplus position of 1.4% of GDP in 2010.

In 2010, the kwacha appreciated by an estimated 4.9% as copper prices rose by more than 40% to exchange at ZK4,797 *vis-a-vis* the US dollar in 2010 compared to ZK5,046 *vis-a-vis* the US dollar in 2009. The international reserves position stood at US$1.6 billion at end-June 2010, rising further to about US$1.9 billion as of October 21, 2010.

ZIMBABWE

The implementation of strong economic policies anchored on the continued use of multiple currencies, fiscal prudence through cash budgeting, and the liberalised business environment, all served to sustain economic stability and growth in 2010. Economic growth was expected to have improved to 8.1% in 2010 from 5.7% in 2009. Growth emanated from strong performances in mining and quarrying output which rose to 47%, and agriculture which rose to 33.9%.

The mining sector has been the fastest growing sector since 2009, with growth up from 33.3 % in 2009 to an estimated 47% in 2010. The underlying cause for this increased growth has been firm international commodity prices, which more than offset the low production due to erratic power supply. Gold is now the second major contributor in the mining sector after platinum. Cumulative output to September 2010 stood at 6,284 kilos, translating into a monthly average of 689 kilos. Output to end of 2010 was expected to reach 8,000 kilos. Platinum which accounts for 36% of total mineral production saw output to October 2010 increasing to stand at 5,077 kilos and is expected to reach 8,500 kilos by the end of the year, from 6,848 kilos in 2009.

Strong growth in the agricultural sector was mainly driven by maize which grew by 34% coupled with tobacco, sugar and cotton which grew by 110%, 35%, and 23% respectively. The manufacturing sector grew modestly at 2.7% due to erratic power supply and absence of medium to long-term capital. This had the adverse impact on domestic industrial cost of production, compromising competitiveness of the manufacturing industry and limiting growth.

ECONOMIC ENVIRONMENT

Tourism growth projections were revised downwards to an estimated 0.5% in 2010, reflecting capitalization constraints facing the sector, limited benefits from the 2010 World Cup and slow recovery in the global economy. Tourist arrivals were expected to have increased to 2.2 million in 2010, from 2 million in 2009 while, tourism receipts were estimated to have grown by 47% to US$770 million, from US$523 million in 2009.

Monetary Policy

The dollarization of the economy has rendered monetary policy somewhat ineffective in Zimbabwe and foreign exchange shortages have shaped monetary policy in recent years, affecting other economic activity. The government is studying the possibility of joining the Southern African Common Monetary Area. Year-on-year inflation in 2010 remained in single digit, with a maximum of 6.1% recorded in May 2010. The annual average inflation was expected at just 3% in 2010.

Fiscal Policy

Government exhibited steadfastness and vigilance to fiscal prudence, containing expenditure. Expenditure stood at US$1.46 billion and was estimated to reach US$2 billion or 29% of GDP by end of December 2010. As of October 2010, total revenue collections amounted to US$1.793 billion on the back of an increase in VAT whose collections for the period January to October 2010 amounted to US$663.6 million or 37% of total revenue, against a target of US$586.6 million.

External Sector and Foreign Exchange

Balance of payments forecasts for 2010 showed total exports growing by 25% in 2010, from US$2 billion in 2009 to US$2.5 billion. A 43% or US$1.159 billion surge in mineral exports helped to boost total exports. The recovery in export performance was largely spurred by improved world commodity prices, pushing up cumulative export shipments up to mid November 2010 to US$1.813 billion compared to US$1.061 billion over the same period in 2009.

Major mineral exports underpinning recovery in export performance were platinum, US$596.2 million; gold, US$304.8 million; diamonds, US$126 million; nickel, US$52.2 million. On agriculture exports, tobacco continued to lead in 2010, accounting for US$333.9 million of total agricultural exports. Other key agricultural exports were sugar and horticulture, contributing 11% and 5%, respectively.

Total imports rose from US$3.2 billion in 2009 to US$3.6 billion in 2010. This resulted in the current account deficit widening from US$0.927 billion in 2009 to US$1.041 billion. The overall balance of payments deficit was projected to improve from a deficit of US$1.9 billion to US$462 million.

PROJECT AND INFRASTRUCTURE FINANCE

BUSINESS DEVELOPMENT

The year saw increased marketing efforts directed at increasing the Bank's footprint in the growth sectors of agribusiness, real estate, infrastructure and manufacturing. In the year, business development workshops were held for the business communities in Malawi and Seychelles.

Syndications and co-financing arrangements brought in sizable deals during the year. 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 2010.

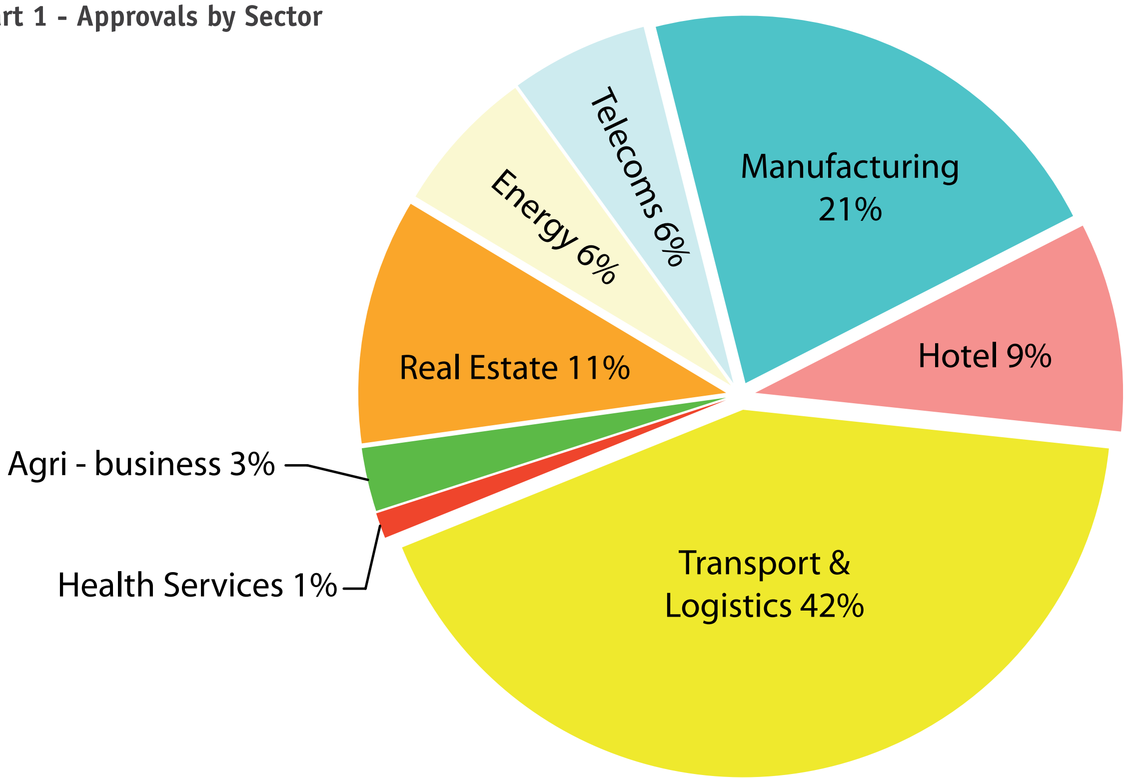
LOANS APPROVED

In the year, a total of US$243 million was approved for project and infrastructure finance, representing a 175% increase over the US$88.5 million recorded in 2009.

Approvals by Sector

The sectoral distribution of the approved projects is as follows: transport & logistics – US$102.5 million (42%); real estate – US$26.8 million (11%); hospitality, tourism & hotels – US$22 million (9%); telecommunications – US$15 million (6%); energy – US$15 million (6%); agribusiness – US$6.5 million (3%); health services – US$3 million (1%). Chart 1 shows the sectoral distribution of approved project finance.

Chart 1 - Approvals by Sector



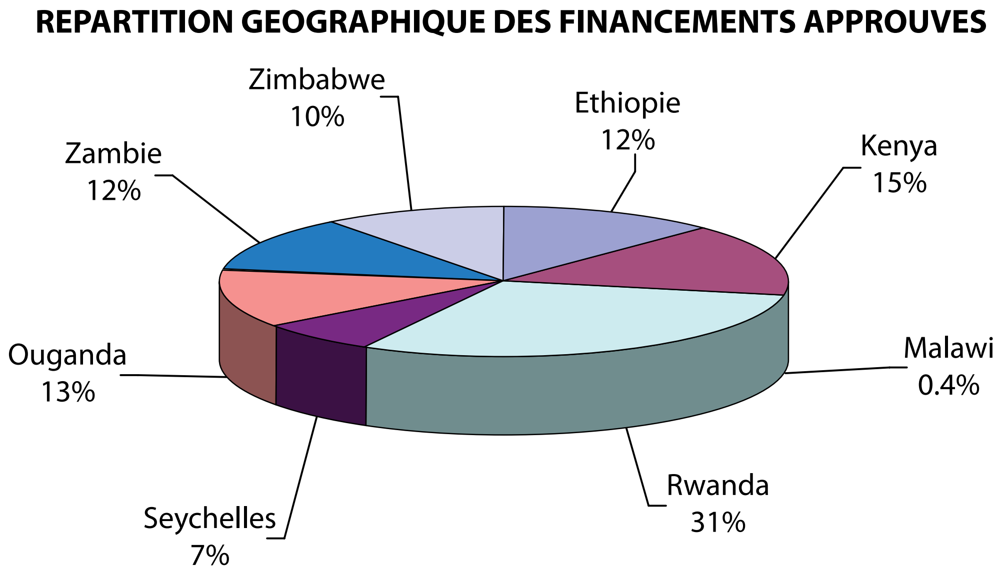
Approvals by Country

The geographical distribution of approved project finance interventions were as follows: Rwanda – US$72.5 million (30%), Kenya – US$37.5 million (15%), Uganda – US$31.8 million (13%), Ethiopia – US$30 million (12%), Zambia – US$29 million (12%), Zimbabwe – US$25.2 million (10%), Seychelles – US$16 million (7%), Malawi – US$1 million (0.4%).

OPERATIONS

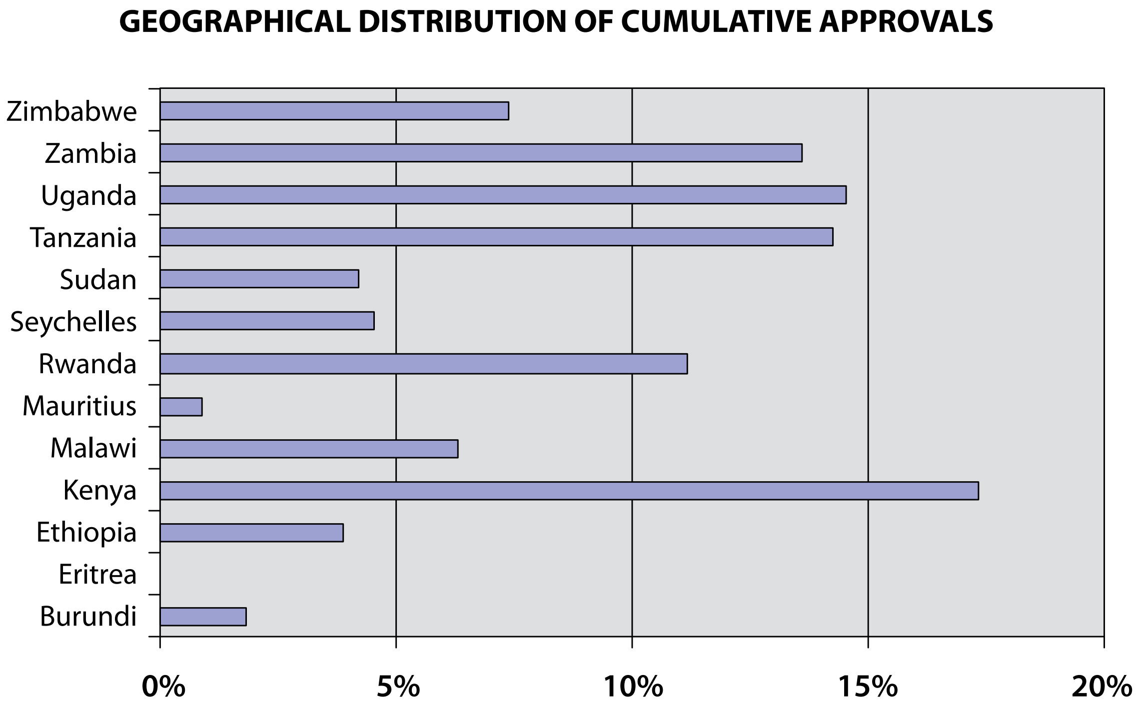
Chart 2 shows the geographical distribution of the approved project finance loans.

Chart 2 – Approvals by Country



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

Chart 3 – Cumulative Project approvals



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

PROJECT COMMITMENTS

A significant milestone in project finance is commitments and disbursements. In 2010, the value of projects committed amounted to US$85.7 million, which decreased by about 10.5% in comparison to commitments in 2009 that stood at US$95.8 million. Although the sub-region and the individual Member Countries weathered the 2009 global financial crisis generally well, investors had to re-align their business plans to take into account the carry-over effects in 2010. The results of this phenomenon was largely responsible for reduction in commitments during the year compared to the year before.

PROJECT DISBURSEMENTS

A total amount of US$108.2 million was disbursed in the year, compared to disbursements of US$77.5 million in 2009. Comparatively, this represented an increase of about 40% during the year.

PROFILES OF PROJECTS APPROVED

The Bank approved the following projects in 2010:

Ethiopian Airlines Enterprise - Ethiopia

A short term pre-delivery payment facility of US$10 million and a long term loan of US$20 million was approved by the Bank to part finance the purchase of five Boeing 777-200LR aircraft by Ethiopian Airlines in order to assist the airline in its fleet expansion program. The Bank was invited by Citibank, the lead arranger, to participate in the financing of pre-delivery payment facility of US$75 million and commercial loan facility of US$85 million.

Lilongwe Dairy - Malawi

Lilongwe Dairy (2001) Limited approached the Bank for a second medium term loan of US$1 million for the purpose of purchasing a Tetra Pak A3 Compact Flex Filling Machine. The project is intended to upgrade the existing operating plant.

Essar Telecom Kenya Limited - Kenya

The Bank approved a loan of US$15 million for Essar Telecom Kenya Limited to finance purchase of equipment from various vendors to enable Essar competitively position itself to penetrate the Kenyan telecoms market. The amount was part of a syndicated facility of US$107 million jointly led by African Export – Import Bank (Afrexim) and Standard Bank Plc.

Kenya United Steel Company (2006) Ltd - Kenya

Approval was granted for a term loan of US$2.5 million for Kenya United Steel Company to part-finance purchase of machinery and equipment for expansion of the steel factory located in Mombasa, Kenya. The project involves installation of a second mill for the purpose of increasing installed capacity from the current 24,000 metric tonnes p.a. ("MTPA") to 78,000 MTPA.

Zepible & Co. (Proprietary) Ltd – Seychelles

The Bank approved a term loan of US$6 million to part finance the construction of a 5 star hotel in Seychelles. When fully implemented, the hotel will comprise 30 luxury resort rooms, 5 Junior Villas, 5 Suite Villas and supporting infrastructure to make the resort self sufficient with regard to electricity, water and sewage disposal.

Savannah Cement Company EPZ Ltd - Kenya

Savannah Cement Company EPZ Ltd approached the Bank for a term loan of US$20 million to part-finance purchase of machinery and equipment for a new cement manufacturing facility. The project involves construction of a cement plant with an annual capacity of 1.5 million metric tonnes of cement. The project will be rolled out in two phases: Phase 1 – 1.5 million MTPA grinding mill; and Phase 2 – 1 million MTPA clinker plant. The project is promoted as a joint venture between Chinese and Kenyan shareholders.

RwandAir Express SARL - Rwanda

In January 2010, RwandAir approached the Bank for a short-term loan of US$11.5 million being Pre Delivery Payments (PDP's) towards the purchase of two brand new Boeing Model 737-84Y aircraft. This facility was approved in March 2010 as a bridging loan to finance agreed PDPs. To complete the transaction, the Bank approved a term-loan facility of US$60 million being a tail-end finance of the two Boeing aircraft. The facility will finance the tail-end purchase price and redemption of PTA Bank PDP. The aircraft are expected to be delivered in August and October 2011. The Bank will down-sell part of the exposure to other lenders.

OPERATIONS

Kigali Bus Services sa. - Rwanda

The Bank approved a term loan of US$1 million for Kigali Bus Services sa. to part finance the acquisition of 20 new buses from China in order to assist the company strengthen its market position in Kigali's bus transport segment. The company is an existing client of the bank.

Eden Island Development Company Ltd - Seychelles

The Bank approved a loan of US$10 million for Eden Island Development Company Ltd to assist in financing their real estate project on Eden Island in Seychelles. Eden Island is a man-made 56 hectare island created on land reclaimed from the Indian Ocean on the eastern shores of the main island, Mahe in Seychelles. The project comprises 533 residential units, a marina with 250 commercial moorings, a retail centre with a supermarket, restaurants, jewellery shops, boutiques, bookshops, pharmacies etc., and supporting infrastructure to make the island self sufficient with regard to electricity, water (through own desalination plants) and sewage disposal.

Roofings Rolling Mills Ltd – Uganda

The Bank approved a term-loan of US$15 million for Roofings Rolling Mills Limited (RRM) for the establishment of a project in Kampala, Uganda to produce and market steel based raw materials and products primarily for construction, demarcation and security fencing. Upon completion, RRM will be the only producer of galvanized wire products, as well as the only company with the capability to produce its own galvanized color-coated and cold rolled coils in Uganda.

Tanganda Tea Company Limited - Zimbabwe

A US$1.74 million loan was approved for Tanganda Tea Company to finance purchase of mechanical plucking machines, tractors, motor vehicles and equipment for re-capitalizing its operations and upgrading of its Beverage division. This is a second loan, the first (US$1.69 million) having been granted in 2007 for partially re-capitalizing its Agricultural division to boost exports.

Laburnam Courts Ltd - Uganda

A term loan of US$16.8 million was extended to Laburnam Courts Ltd of Kampala, Uganda for re-financing existing debts from local banks, to pay off supplier creditors, and to finance continuing construction and installation works to enable the promoters complete implementation of their real estate project. The project comprises construction of 16 blocks of which 12 are apartment blocks of three to five storeys each with a total of 160 serviced apartments.

Ndola Energy Company Limited - Zambia

The Bank approved a term-loan of US$15 million to part-finance the erection and operation of Heavy Fuel Oil (HFO) power plant with an installed capacity of 50 MW in Ndola, Zambia. The plant will have a net capacity of 48.3 MW taking into account self energy consumption of the power plant and other electrical losses. The project will be implemented in two phases of 25MW each to total 50MW by mid 2012. The project will be situated at Indeni Refinery in Ndola, Zambia.

Thomas Meikles Centre (Pvt) Limited - Zimbabwe

A term-loan of US$5 million was extended for the refurbishment of Meikles Hotel in Harare, Zimbabwe to bring it to international standards. The loan will be for the procurement of equipment, soft furnishing, furniture and fittings from various countries.

Medical Investments Limited - Zimbabwe

The Bank approved a term-loan of US$3 million for Medical Investments Limited to part-finance the rehabilitation of the company's hospitals. The main purpose of the project is to undertake capital replacement and refurbishment programme for its hospital's aging equipment.

Kapiri Glass Manufacturing Limited - Zambia

The Bank approved a loan of US$10 million for Kapiri Glass Manufacturing Limited to part-finance purchase of various machinery and equipment to revive glass bottles manufacturing operations at Kapiri in Zambia. The machinery and equipment will be sourced from India, China, Sweden and South Africa. This is a turnkey project whereby Hindusthan National Glass & Industries Limited (HNGIL), the largest glass packaging solution provider in India with a 65% market share, are the Project Managers and will be responsible for sourcing all the required machinery and will also be responsible for the installation and commissioning of the plant.

Hotellier Limited - Zambia

The Bank approved an additional loan of US$6 million to Hotelier Limited. This increased PTA Bank's total exposure to US$18 million. The additional funding

Eden Island in Seychelles, a project that has been financed by the bank from the Bank will enable the project to be completed on time and be operational thereby realizing its economic value. The project entails establishing a 142-room 5-star hotel, in Lusaka, Zambia. The site is on the Great East Road, one of Lusaka's main roads and directly opposite the Arcades Shopping Mall.

CFI Holdings Limited - Zimbabwe

CFI Holdings Limited approached the Bank for a medium term-loan of US$3.8 million for the purpose of retooling its group operations. The loan was required for procuring a spiral freezer, brine injection plant, refurbishment of poultry houses, and wheat and maize milling plants. The project is located in Harare, Zimbabwe.

Schweppes Zimbabwe Limited - Zimbabwe

The Bank approved a medium term-loan of US$6.7 million for Schweppes Zimbabwe Limited to finance upgrading of one of its 3 bottling lines in the Harare plant to meet its current and projected levels of demand.

African Sun Zimbabwe Limited - Zimbabwe

The Bank approved a medium term-loan of US$5 million for African Sun Zimbabwe Limited to finance the cost of refurbishment of part of its chain of hotels in Zimbabwe to bring them to international standards. These hotels have suffered from lack of re-capitalization with the refurbishment of the facilities remaining long overdue due to years of economic challenges. The loan will be used for the procurement of imported equipment, soft furnishing, furniture and fittings.

TRADE FINANCE

The year 2010 marked yet another milestone in the Bank's Trade Finance activities with unprecedented growth in business volumes to US$1.89 billion against a budget of US$1.4 billion for the even year. Import facilities, particularly for petro-chemical products continue to be the main drivers of the business and concomitant income.

The Bank also continued to support traditional exports such as cotton and tobacco as well as the re-exports of petroleum products into the COMESA region and performed well in terms of client retention and also establishing new strategic relationships with importers and exporters.

Despite slow recovery of the global economy from one of the worst economic recessions in modern times, trade finance volumes rose to US$1.89 billion compared to US$1.06 billion in 2009. Letters of Credit opened during the year amounted to US$860 million compared to US$587 million opened in 2009 while direct disbursements reached a record US$1.02 billion compared to US$474 million in 2009.

Trade finance lending was stepped up in the last quarter of 2010 as the Bank disbursed US$171 million in lines of credit from the Eurobond proceeds to a number of commercial banks in the region.

In 2011, the Bank will continue to strengthen its areas of core competencies, including financing for soft commodities and petro-chemicals and seek to develop under-serviced markets by paying particular attention to intra regional trade.

COMPLIANCE AND RISK MANAGEMENT

The Bank continued to reinforce the effectiveness of its compliance and risk management processes. In this regard, the 2007 Risk Policy Manual was revised and replaced by new Enterprise Risk Management (ERM) policy framework. The ERM policy was approved by the Board in September 2010 and became effective October 2010. The revised risk policy framework was harmonized with other Bank-wide operational policies in a bid to achieve consistency, uniformity and facilitate effective compliance.

Despite the economic downturn emanating from the 2009 credit crunch spilling over into 2010, the Bank remained structurally sound, which is testimony to the Bank's strong risk framework. The Bank weathered the challenges of the credit crisis by exercising prudence and caution in relation to taking on various risks. This approach was supported by the Bank's sound corporate governance framework, best-practice standards, top level risk oversight, continuous risk measurement and the adoption of various risk mitigation strategies including insurance and risk down-selling. The Bank's risk culture, which is strongly embedded in the entire organization, remains a key pillar for the revamped risk management framework.

During the year under review, the Bank maintained its economic capital adequacy ratio well above the minimum prescribed prudential limit of 30%. The Bank's liquidity position also remained strong throughout the year. The strong capital and liquidity positions provided ample support to the Bank's risk absorption capacity as exemplified by the significant balance sheet growth.

In order to improve on the management of the key risks, the Bank made good progress in the acquisition of a Credit Risk Assessment System (CRAS). A scope and design study was completed and the process of selecting a vendor commenced. Implementation of the CRAS is expected to be concluded by the second half of 2011. Also in 2011, the Bank intends to acquire a robust operational risk management system and revamp and test its Business Continuity Plan.

During the year, the Compliance function reviewed and tested the adequacy and effectiveness of the Bank's internal control systems and processes and implemented a number of initiatives. These include the automation of the anti-money laundering customer vetting processes.

PORTFOLIO MANAGEMENT

Despite the slowdown in economic activities in some sectors within the region, the Bank's loan portfolio continued to grow at a significant pace. Managing a growing loan portfolio requires continuous ingenuity, most especially in the current economic slowdown within the sub region. The challenges in portfolio management and debt recovery are not merely a recessionary symptom, but an evolution of a multitude of factors. To this end, therefore, proper emphasis was put on prudent risk assessment of individual loan accounts, control of the loan quality at entry and trailing key credit risk indicators within the loans portfolio.

In the year, the Bank continued to strengthen its portfolio monitoring and supervision processes. Regular visits were made to the individual projects to enable the Bank remain aware of the exact status of the Bank-financed projects and make appropriate remedial decisions if need be. At the same time, the Bank devised and instituted innovative turnaround strategies with regard to problematic accounts with the result that there were remarkably fewer problem loans by the close of the year.

The Bank continued to promote effective management of the loans and improvement of the credit risk management processes. Significant efforts were put in assessing and documenting individual risks inherent in each project and the lessons learnt in the implementation and execution of projects within the Bank. The Bank recognises the importance of partnerships with other regional financial institutions in portfolio management and continues to enhance its co-operation with other financiers through participation in loan syndications and agency arrangements.

The Bank also continued to consolidate its activities in environmental and social compliance of financed projects in line with international standards. To that end, the implementation of the Bank-wide environmental and social management process continued in earnest and specific training in this area to operational staff was continuously provided.

HUMAN RESOURCES AND ADMINISTRATION

The Bank's performance during the year is largely credited to the professionalism and competence of its staff drawn from member countries.

During the year, recruitment was undertaken to strengthen the Bank's resource capacity in line with increased business growth. A review of compensation levels was also undertaken and adjustments made to maintain the Bank's competitive edge.

To further enhance the skill levels of staff members, various short and long term training programs, funded under the technical assistance grant provided by the African Development Bank, were undertaken during the year. The training programs covered a variety of areas including environmental and social risk, trade finance, treasury operations, risk management and Information Technology.

2010 also witnessed the signing of a capacity development programme between the Bank and FMO, the Dutch Development Finance Company. Under the programme, FMO financed the secondment of an Investment Officer to the Bank for a period of 12 months. The secondment aims to provide knowledge transfer and marks a milestone in the evolution of the FMO relationship.

As at 31 December 2010, the Bank had a staff complement of 72 employees, comprising 45 professionals and 27 non-professionals.

OPERATIONS

INFORMATION SERVICES

In 2010, the Bank instituted a committee-based framework to enhance IT governance with the involvement of all stakeholders. This will hold the Bank in good stead in assessing the value realized from investments in ICT.

A Gap Analysis and Quality Assurance exercise of the Bank's SAP system was undertaken. This lays the foundation for enhancements and other interventions that will result in improved utilization of the system going forward.

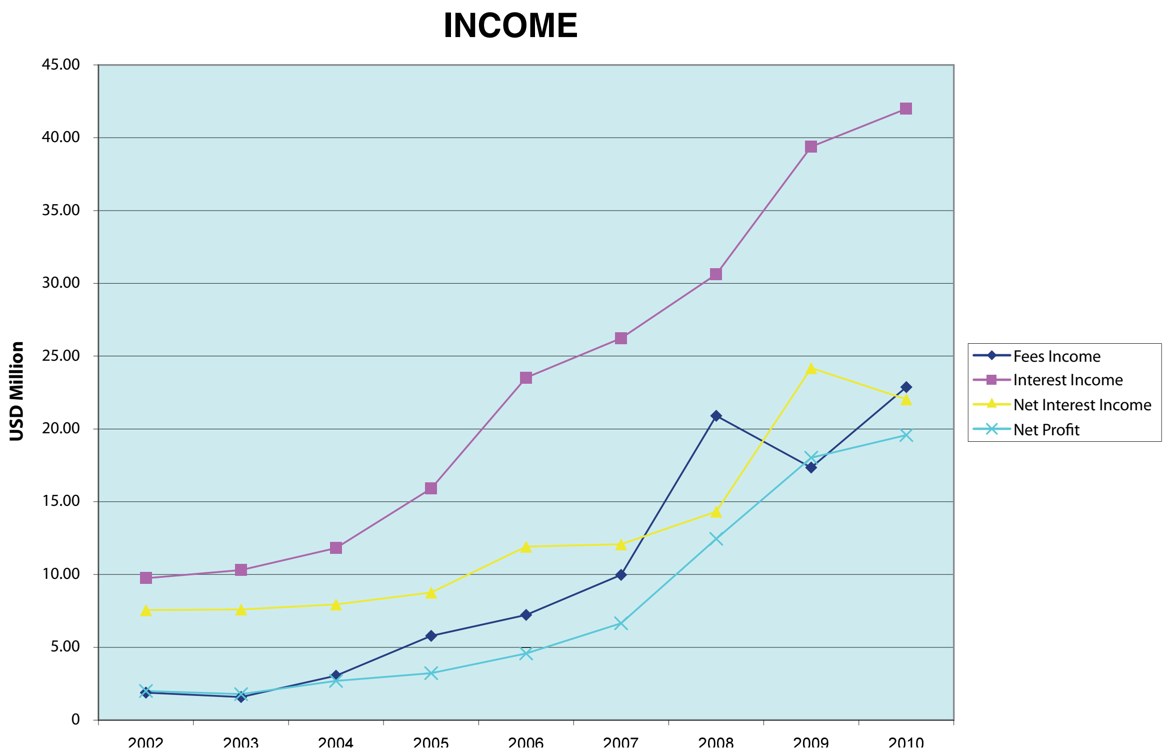
The first quarter of the year saw a complete revamp and redesign of the Bank's website, with the new site offering better aesthetics and a wider content range. Also undertaken was the implementation of a virtualized environment of the Bank's back-end computer software and hardware landscape, which has enabled the Bank to exploit technological advances in this area.

2010 was another year of success characterised by significant business growth, improved profitability and generation of substantial resources.

The Bank's profitability was largely driven by fee based activities which resulted in fees and commission income for the year growing by 32% to reach US$22.87 million compared to US$17.35 million in 2009. Increased trade finance volumes accounted for the bulk of the fee and commission income.

While interest income increased modestly by 7% to reach US$41.99 million, borrowing costs increased from US$15.20 million in 2009 to US$19.95 million in 2010, driven mainly by increased borrowings especially the Eurobond issue. Consequently, net interest income for the year declined to US$22.04 million from the US$24.19 million recorded in 2009. The US$2.15 million reduction in net interest income was, however, more than offset by the US$5.52 million increase in fee and commissions income.

The chart below shows the growth trend of various income lines over the period 2002 to 2010.



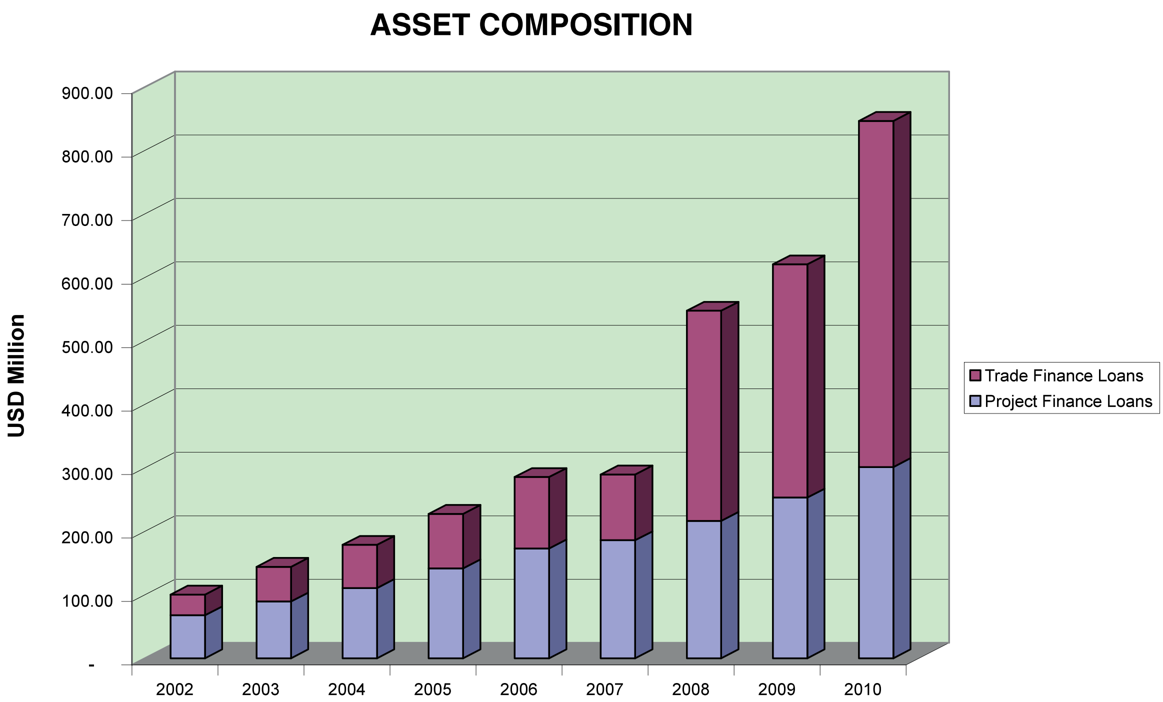
Excluding provisions for impairment of loans, the Bank's operating expenditure increased to US$10.58 million from US$8.24 million in 2009, a 28.4% increase. The increase is largely in line with the overall increase in business activity levels. Staff recruitment, training, business travel and legal fees on account of loan recoveries and other litigation account for the bulk of the increased expenditure.

Provisions for impairment of project and trade loans amounted to US$12.94 million, significantly lower than the US$17.77 million recorded in 2009. The reduced level of provisions reflects the continued improvement in the Bank's loan portfolio following significant investments made in the Bank's risk management and portfolio management processes.

In 2010, the Bank crossed the all important "US$ 1.0 billion" milestone by registering a 28% growth in total assets well ahead of plan. As at 31 December 2010, total assets amounted to US$1.06 billion compared to US$ 0.83 billion in 2009. Trade finance loans and project loans grew respectively by 48% and 19% thereby contributing to the overall financial position.

FINANCIAL MANAGEMENT

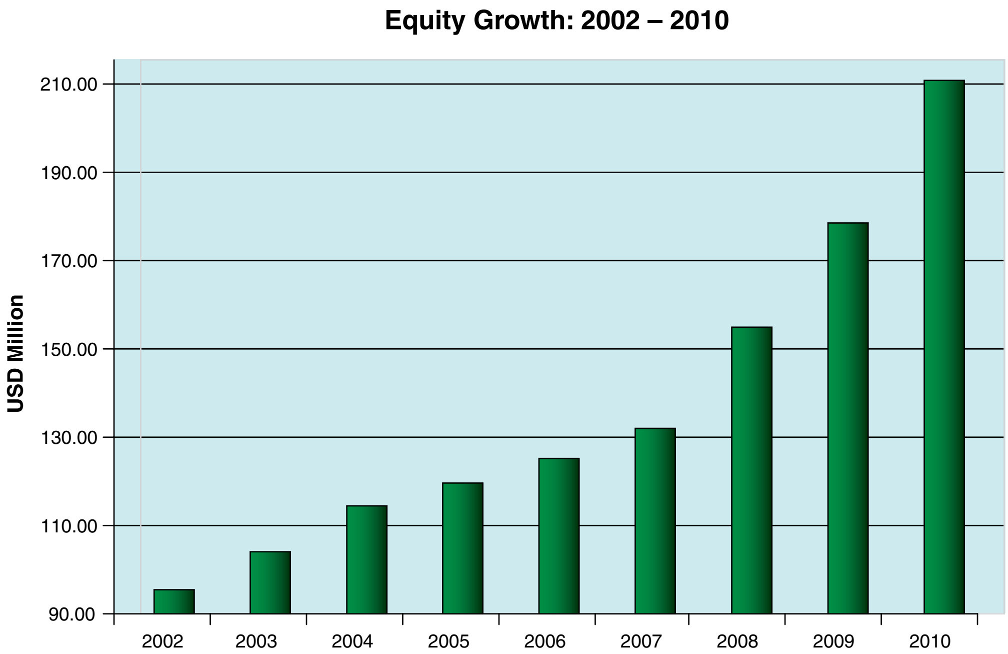
The chart below shows the growth trend of the projects and trade finance portfolio over the period 2002 – 2010.



Borrowings and equity resources remained the core elements of the Bank's funding structure. Total borrowings increased by 64% to US$740.13 million from US$451.10 million in 2009. Long-term borrowings increased to US$523.94 million from US$185.67 million in 2009 on account of the US$300 million Eurobond issue. Short-term borrowings declined marginally to US$216.19 million from the US$265.43 million recorded in 2009.

The Bank's equity position improved from US$178.38 million in 2009 to US$210.24 million in 2010 due to capital subscription receipts from Members and the net profits generated during the year.

The chart below depicts Equity Growth: 2002 – 2010.



Resource Mobilisation

The Bank's resource mobilisation efforts in 2010 converged around preparing for and finally issuing its debut US$300 million Eurobond. The November 2010 issue which was listed on the Luxemburg Stock Exchange was the first tranche of a US$1.0 billion Euro Medium Term Note (EMTN) programme under which the Bank will issue notes in subsequent years.

The bond was structured and placed by HSBC and Standard Bank, who were the joint lead managers. The registration S format bond was priced at an effective annual yield of 7.125% with a coupon of 6.875% per annum and matures on 09th January 2016.

Though the Eurobond dominated the Bank's resource mobilization activities, the Bank explored other funding sources both short and medium term. These efforts culminated with two of our key partners, Development Bank of Southern Africa (DBSA) and Export-Import Bank of India extending medium term facilities amounting to US$75 million and US$25 million respectively. The new DBSA facility augments an existing US$20 million line of credit and is expected to be committed and utilised in 2011 while the US$25 million facility increases the cumulative level of funding secured from Export-Import Bank of India to US$100 million.

As at 31 December, 2010, the Bank's resource position was strong with the balance of un-utilised resources standing at US$629 million in addition to the US$ 700 million headroom available under the EMTN programme.

A’ Zambezi River Lodge in Zimbabwe whose rehabilitation was financed by the PTA Bank

PTA BANK

EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

31 DECEMBER 2010

Laburnam Courts in Kampala, Uganda. The project was financed by the PTA Bank

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BOARD OF GOVERNORS

Hon. Danny Faure	Vice-President and Minister of Finance Republic of Seychelles Chairman of the Board of Governors
Hon. Sufian Ahmed	Minister of Finance and Economic Development Republic of Ethiopia
Hon. Maria Kiwanuka	Minister of Finance, Planning and Economic Development Republic of Uganda
Hon. Pravind Kumar Jugnauth	Vice Prime Minister and Minister of Finance and Economic Development Republic of Mauritius
H.E. Clotilde Nizigama	Minister of Finance Republic of Burundi
H.E. Mohamed Soilihi	Minister of Finance, Budget, Trade and Investments Federal Islamic Republic of Comoros
H.E. Ali Farah Assoweh	Minister of Economy, Finance and Planning Republic of Djibouti
H.E. Dr. Rachid Mohamed Rachid	Minister of Foreign Trade and Industry Republic of Egypt
Hon. Berhane Abrehe	Minister of Finance State of Eritrea
Hon. Chirau Ali Mwakwere	Minister for Trade Republic of Kenya
Hon. Ken E. Kandodo	Minister of Finance Republic of Malawi
Hon. Tendai Biti	Minister of Finance Republic of Zimbabwe
Hon. John Rwangombwa	Minister of Finance and Economic Planning Republic of Rwanda
Hon. Ali Mahmoud Hassab Alrasoul	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. Bobby Pittman	Vice President - Infrastructure, Private Sector and Regional Integration, African Development Bank (AfDB)
H.E. Dr. Zhou Xiaochuan	Governor, People's Bank of China, People's Republic of China

BOARD OF DIRECTORS

Mr. Willard L. Manungo	Director for Zimbabwe, Mauritius, Rwanda and Eritrea Chairman
Mr. Rupert Simeon	Director for Seychelles, Ethiopia, Burundi and Malawi Vice-Chairman
Mr. Ahmed Mahmoud Kamel Nos'hy	Director for Egypt, Tanzania and Djibouti
Mr. Lawrence Kiiza	Director for Uganda, Sudan and Comoros
Mr. Sulleman Kamolleh	Director for Kenya, Zambia and Somalia
Mr. Gao Dingxin	Director for China
Mr. Trevor de Kock	Director for African Development Bank (AfDB)
Mr. Bu Yu	Alternate Director for China
Ms. Domina Buzingo	Alternate Director for African Development Bank (AfDB)
Mr. Latanraj Ghoorah	Alternate Director for Zimbabwe, Mauritius, Rwanda and Eritrea
Mr. Melaku Kifle	Alternate Director for Seychelles, Ethiopia, Burundi and Malawi
Mr. William A Mlaki	Alternate Director for Egypt, Tanzania and Djibouti
Mr. Moses K Nawa	Alternate Director for Kenya, Zambia and Somalia
Mr. Elgaili Elbashir	Alternate Director for Uganda, Sudan and Comoros
Dr. Michael Gondwe	President

AUDITORS

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

HEADQUARTERS

Eastern and Southern African Trade and Development Bank
Chaussee, Prince Louis, Rwagasore
P. O. Box 1750, Bujumbura, Burundi
Telephone: 257 (22) 4966 / 257 (22) 4625
Fax: 257 (22) 4983

OTHER OFFICES

Eastern and Southern African Trade and
Development Bank
22nd and 23rd Floors, NSSF Building, Bishops Road
P. O. Box 48596 - 00100 Nairobi, Kenya
Telephone: 254 (20) 2712250
Fax: 254 (20) 2711510
Swift: ESATKENA
E-mail: Official@ptabank.org
Web-Site: http:\\www.ptabank.org

Eastern and Southern African Trade and
Development Bank
Julius Nyerere/Sam Nujoma Street
13th Floor, Social Security Centre
Harare, Zimbabwe
Telephone: 263(4)252235

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2010

The directors have pleasure in presenting their report and the audited financial statements of the Eastern and Southern African Trade and Development Bank (PTA Bank) for the year ended 31 December 2010.

1. PRINCIPAL ACTIVITIES

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

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

2. RESULTS

The results for the year are set out on page 57.

3. BOARD OF GOVERNORS

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

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

4. DIRECTORS

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

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

5. AUDITORS

The Bank's auditors, Ernst & Young, have expressed their willingness to continue in office in accordance with Article 26 (2) (e) of the Charter of the Bank.

By Order of the Board

Chairman

Nairobi
21, March 2011

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

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

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

Director	Director
21, March 2011	21, March 2011

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK (PTA BANK)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Eastern and Southern African Trade and Development Bank (PTA Bank) as set out on pages 57 to 123, which comprise the statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2010 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Bank's Charter.

Ernst & Young

Nairobi

24, March 2011

	Note	2010 USD	2009 USD
INCOME			
Interest income	4	41,990,331	39,390,977
Interest expense	5	(17,883,475)	(13,013,044)
Other borrowing costs	6	(2,064,728)	(2,186,874)
		(19,948,203)	**(15,199,918)**
Net interest income		22,042,128	24,191,059
Fees and commissions income	7	22,870,108	17,352,559
Other income	8	1,139,908	1,540,803
		24,010,016	**18,893,362**
Operating Income		46,052,144	43,084,421
EXPENDITURE			
Operating expenses	9	(10,578,177)	(8,238,517)
Impairment on other financial assets	11	(881,428)	-
Impairment on project and trade finance loans	18	(12,938,007)	(17,768,989)
Fair value (losses)/gain on equity investments at fair value through profit or loss	19	(18,289)	295,759
Net foreign exchange (losses)/gains		(1,315,649)	657,286
TOTAL EXPENDITURE		**(25,731,550)**	**(25,054,461)**
PROFIT FOR THE YEAR		20,320,594	18,029,960
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		20,320,594	18,029,960
EARNINGS PER SHARE			
Basic and diluted	12	390.21	346.22

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Note	2010 USD	2009 USD
ASSETS			
Cash and balances held with other banks	13	156,560,506	171,329,961
Investment in Government securities – held to maturity	14	2,625,607	4,417,290
Other receivables	15	3,420,326	2,044,257
Hedging derivatives	33	14,155,838	-
Trade finance loans	16	545,345,368	367,484,613
Project finance loans	17	301,234,892	253,130,003
Equity investments – at fair value through profit or loss	19	9,453,237	9,695,360
Deferred expenditure	20	7,310,325	1,910,878
Property and equipment	21	15,774,496	16,130,498
Intangible assets	22	58,221	11,835
TOTAL ASSETS		**1,055,938,816**	**826,154,695**
LIABILITIES AND EQUITY			
LIABILITIES			
Short term borrowings	23	216,191,928	265,428,006
Long term borrowings	24	523,936,010	185,673,482
Hedging derivatives	33	13,407,919	-
Collection account deposits	25	72,238,445	190,424,260
Provision for service and leave pay	26	3,941,953	2,762,672
Other payables	27	15,981,749	3,485,104
TOTAL LIABILITIES		**845,698,004**	**647,773,524**
EQUITY			
Paid up capital	28	145,161,487	133,622,440
Retained earnings		65,079,325	44,758,731
TOTAL EQUITY		**210,240,812**	**178,381,171**
TOTAL LIABILITIES AND EQUITY		**1,055,938,816**	**826,154,695**

The financial statements were approved by the board of directors on 21, March 2011 and were signed on its behalf by:

....
President

....
Director

	Share capital USD	Retained earnings USD	Total equity USD
At 1 January 2009	127,898,037	26,728,771	154,626,808
Capital paid (Note 28)	5,724,403	-	5,724,403
Profit for the year	-	18,029,960	18,029,960
Other comprehensive income for the year	-	-	-
At 31 December 2009	**133,622,440**	**44,758,731**	**178,381,171**
At 1 January 2010	133,622,440	44,758,731	178,381,171
Capital paid (Note 28)	11,539,047	-	11,539,047
Profit for the year		20,320,594	20,320,594
Other comprehensive income for the year	-	-	-
At 31 December 2010	**145,161,487**	**65,079,325**	**210,240,812**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 USD	2009 USD
OPERATING ACTIVITIES			
Net cash (used in)/ generated from operations	29 (a)	(30,848,157)	110,028,670
INVESTING ACTIVITIES			
Purchase of property and equipment		(115,159)	(33,039)
Purchase of intangible assets		(54,650)	-
Proceeds on disposal of property and equipment		(1,526)	59
Purchase of equity investments		-	(25,195)
Disposal of equity investments		223,834	-
Net cash generated from/(used in) investing activities		52,499	(58,175)
FINANCING ACTIVITIES			
Receipt of capital subscriptions	28	11,539,047	5,724,403
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(19,256,611)	115,694,898
Foreign exchange gain		2,695,473	100,639
CASH AND CASH EQUIVALENTS			
AT THE BEGINNING OF THE YEAR		175,747,251	59,951,714
CASH AND CASH EQUIVALENTS			
AT THE END OF THE YEAR	29 (c)	159,186,113	175,747,251
FACILITIES AVAILABLE FOR LENDING	29 (d)	628,914,788	249,647,336

1. ESTABLISHMENT

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

Statement of compliance

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

The Bank presents its statement of financial position broadly in the order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in note 36.

(b) Revenue recognition

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

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

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

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

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

Technical assistance grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Unutilized funds are carried forward as unexpended grants.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Borrowing costs

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

(d) Foreign currencies

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to profit or loss with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognized in other comprehensive income until the disposal of the net investment, at which time they are recognized in profit or loss.

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

(e) Property and equipment

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

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

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

Freehold land is not depreciated.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Intangible assets

Intangible assets are stated at cost less accumulated amortisation.

Amortisation is calculated at rates which are estimated to write-off the cost of the intangible asset in equal annual instalments over their expected useful life, generally not exceeding 5 years.

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

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

(g) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Banks of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

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

(h) Deferred expenditure

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Tax

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

(j) Share capital

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

(k) Financial instruments

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

Financial assets

The Bank classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans, advances and receivables; held-to-maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets at fair value through profit or loss

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

Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market.

Held to maturity

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (continued)

Available-for-sale financial assets

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

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

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

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

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

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

Financial liabilities

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (continued)

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

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

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

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

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

(l) Borrowings

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

(m) Payables

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

(n) Hedge accounting

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Hedge accounting (continued)

Fair value hedges

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

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

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized directly in other comprehensive income in the 'Cash flow hedge' reserve. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in 'other income'.

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

(o) Offsetting

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

(p) Fair Value

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Impairment of financial assets

The Bank assesses at each year end whether there is objective evidence that a financial asset or a group of financial assets, other than investments at fair value through profit or loss, is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized 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 profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

When a loan is known to be uncollectible, when all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off against the related provision for loan impairment. 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 profit or loss.

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

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 recognized in profit or loss – is removed from equity and recognized in profit or loss. Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Employee entitlements

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

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

(s) Retirement benefit costs

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

(t) Contingent liabilities

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

(u) Comparatives

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

(v) Cash and cash equivalents

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

(w) Leases

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) 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. The most significant use of judgment is in the area of impairment losses on loans and advances as described below:

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

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.

(y) Provisions for other liabilities

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, where it is probable that an outflow will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

The Bank has adopted the following standards, amendments and interpretations to published standards which are mandatory for accounting periods beginning on or after 1 January 2010.

- IFRS 8 (amendment), 'Disclosure of information about segment assets'. This amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. The adoption of this amendment had no material impact on the disclosures provided by the Bank.

- IAS 7 (amendment), 'Classification of expenditures on unrecognized assets'. The amendment requires that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities. The adoption of this amendment had no material impact on the financial position or the performance of the Bank.

- IAS 1 (amendment), 'Current / non-current classification of convertible instruments'. The amendment clarifies that the terms of a liability that could result, at any time, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. The adoption of this amendment did not have any impact on the Bank.

- IAS 36 (amendment), 'Unit of accounting for goodwill impairment test'. This amendment clarifies that the largest unit permitted for allocating goodwill acquired in terms of a business combination is the operating segment, as defined in IFRS 8, before aggregation for accounting purposes. The adoption of this amendment did not have any impact on the Bank.

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

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2010, but they are not relevant to the Bank's operations:

- IFRS 1 (Amendment). The amendments addresses the retrospective application of IFRS to particular situations and are aimed at ensuring that entities applying IFRSs will not face undue cost or effort in the transition process. The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets. It further exempts entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4 when the application of their national accounting requirements produced the result.

- IFRS 2 (amendment), 'Group Cash-settled Share-based Payment Arrangements'. The objective of the amendment is to clarify how an individual subsidiary in a group should account for some share based payment arrangements in its own financial statements. An entity that receives goods or services in a share based payment arrangement must measure those goods or services as an equity-settled share-based payment transaction when the entity's own equity instruments are granted or the entity has no obligation to settle the transaction. Otherwise the entity receiving the goods or services measures the transaction as a cash-settled share-based payment transaction. This accounting applies irrespective of any intragroup payment arrangements.

- IFRS 2 (amendment), 'Scope of IFRS 2 and revised IFRS 3'. The amendment clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of IFRS 2, even though they are out of scope of IFRS 3(R).

- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended). IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

- IFRS 5 (amendment), 'Plan to sell the controlling interest in a subsidiary'. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of discontinued operation is met.

- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

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

- IAS 17 (Amendment), 'Classification of leases of land and buildings'. The amendment removes the specific guidance on classifying land as a lease so that only the general guidance remains.

- IAS 18 (Amendment), 'Determining whether an entity is acting as a principal or as an agent'. This amendment provides guidance in determining whether an entity is acting as a principal or as an agent.

- IAS 27 (revised). The standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss.

- IAS 38 (amendment), 'Additional consequential amendments arising from revised IFRS 3'. This amendment, which is a consequence of amendment to IFRS 3, clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible asset as a single asset provided the individual assets have similar useful lives.

- IAS 38 (amendment), 'Measuring the fair value of an intangible asset acquired in a business combination'. This amendment clarifies the valuation techniques presented for determining the fair value of intangible assets acquired during a business combination that are not traded in an active market are examples and are not restrictive on the methods that can be used.

- IAS 39 (amendment), 'Eligible Hedged Items'. The amendment clarifies the designation of a one-sided risk in a hedged item and the designation of inflation as a hedged risk or portion in particular situations.

- IAS 39 (amendment), 'Assessment of loan prepayment penalties as embedded derivatives'. This amendment clarifies that a repayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest on the remaining term of the host contract.

- IAS 39 (amendment), 'Scope exemption for business combination contract'. The amendment clarifies that the scope exemption of contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts and not derivative contracts where further actions by either party are still to be taken.

- IAS 39 (amendment), 'Cash flow hedge accounting'. The amendment clarifies that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- IFRIC 9 (amendment), 'Scope of IFRIC 9 and revised IFRS 3'. The amendment to this interpretation clarifies that it does not apply to possible reassessment, at the date of acquisition, of embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of a joint venture.

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

- IFRIC 16 (amendment), 'Amendment to the restriction on the entity that can hold hedging instruments'. The amendment to this interpretation states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied.

- IFRIC 17, 'Distribution of non-cash assets to owners'. The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- IFRIC 18, 'Transfers of assets from customers'. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

- IFRIC 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the bank as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the Bank should clearly document its hedging strategy because of the possibility of different designations at different levels of the Bank.

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt those standards when they become effective.

- IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective 1 July 2010). The March 2009 amendments to IFRS 7 gave relief from providing comparative information in the disclosures required by the amendments in the first year of application. The 'first year of application' was not specifically defined as the transitional provisions were drafted to accommodate the needs of existing IFRS reporters. As the amendments did not apply to first-time adopters, the IASB clarified its conclusions and intended transition for the amendments to IFRS 7 while also providing first-time adopters relief by issuing a Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters. As the Bank has already adopted IFRS, this amendment will have no impact on the Bank.

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

- Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates (effective 1 July 2011). Entities whose functional currency is, or has been, subject to severe hyperinflation may be unable to comply with restatement of financial information as required by IAS 29. Therefore, the IASB has provided guidance on how to resume presenting IFRS financial statements when the functional currency ceases to be subject to severe hyperinflation. When an entity's date of transition to IFRS is on, or after, the functional currency normalization date, the entity may elect to measure all assets and liabilities, held before the functional currency normalization date, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. The amendment also provides first-time adopters with relief from retrospective restatement of derecognition and day one gain or loss transactions, the IASB has issued amendments to remove the fixed dates included in IFRS 1 for such transactions and to replace those dates with the date of transition to IFRS. This amendment will have no impact on the Bank as it does not hold any investments in Zimbabwean entities and has previously adopted IFRS.

- Amendments to IFRS 7 – Transfers of Financial Assets (effective 1 July 2011). For those financial assets that are derecognized in their entirety, but where the entity has a continuing involvement in them (e.g., through options, guarantees, etc.), additional quantitative and qualitative disclosures will be required. For financial assets that are not derecognized in their entirety, the entity will be required to disclose additional information as well. In order to increase the prominence of these disclosures, all this information will need to be presented in a single note in a Bank's financial statements. The impact of this Amendment is yet to be assessed.

- **IFRS 9 Financial Instruments (effective 1 January 2013). Financial Assets:** The revised standard was issued in November 2009. It is the first phase of the project to replace IAS 39 in its entity by the middle of 2011. This phase applies to financial assets and simplifies the classification of financial assets whilst retaining the measurement principles, being at fair value or amortized cost. Financial assets are classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The IAS 39 exemption which allows equity instruments to be measured at cost will be limited further and reclassifications between categories will only be allowed in exceptional circumstances. IFRS 9 could impact the classification and measurement of the Bank's financial assets – the impact has not yet been determined.

- **Financial Liabilities:** The Amendment retains the existing IAS 39 classification and measurement requirements for financial liabilities not designated at fair value through profit or loss using the Fair Value Option. The Amendment also retains the criteria within IAS 39 for using the fair value option for financial liabilities. As a result, the changes resulting from the Amendments only affect the measurement of fair value option liabilities. All other requirements in IAS 39 in respect of liabilities are carried forward into IFRS 9. For fair value option liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income (OCI). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

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

The Amendment prohibits any recycling through profit or loss of amounts recognized in OCI upon derecognition of the liability. Instead, these amounts may be transferred to retained earnings upon derecognition. This is similar to the treatment of fair value changes on equity investments designated as fair value through OCI. Liabilities arising from certain derivatives on unquoted equity instruments will no longer be able to be measured at cost and will be required to be measured at fair value. The impact of this Amendment is yet to be assessed.

- Amendments to IAS 12 Recovery of Underlying Assets (effective 1 January 2012). The IASB issued an amendment to IAS 12 concerning the determination of deferred tax on investment property measured at fair value. The amendments incorporate SIC-21 into IAS 12 for non-depreciable assets measured using the revaluation model in IAS 16. The aim of the amendments is to provide a practical solution for jurisdictions where entities currently find it difficult and subjective to determine the expected manner of recovery for investment property that is measured using the fair value model in IAS 40. IAS 12 has been updated to include:

    - A rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale; and

    - A requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.

  This amendment will have no impact on the Bank as it does not have any investment properties or non-depreciable assets.

- IAS 24 Related Party Disclosures (effective 1 January 2011). The amendment addresses concerns that previous disclosure requirements and the definition of a related party were too complex and difficult to apply in practice, especially in environments where government control is pervasive. The revised standard requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. Transactions that are individually or collectively significant must still be disclosed. The impact of this Amendment is yet to be assessed.

- IAS 32 Classification of Rights Issues – Amendment to IAS 32 (effective 1 February 2010). The amendment requires that rights options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment does not extend to other instruments that grant the holder the right to purchase the entity's own equity instruments such as the conversion feature in convertible bonds. The amendment will have no impact on the Bank as such rights issues were not issued.

- IFRIC 14 Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14 (effective 1 January 2011). The amendment was made to remove an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover those requirements. The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made. As there are no defined benefit plans, this amendment will have no impact on the Bank.

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

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010) Entities may renegotiate the terms of a financial liability and issue equity instruments to the creditor to fully, or partially, extinguish a financial liability. This is commonly referred to as a 'debt for equity' swap and has become more common as a result of the financial crisis. IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid". As a result, the financial liability is derecognized and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment. Any difference between the carrying amount of the financial liability that is extinguished and the fair value of the equity instruments issued is recognized immediately in profit or loss. The same principle applies when there is partial extinguishment of the financial liability. As the Bank did not have any debt for equity swaps, this interpretation should have no impact on the Bank.

Improvements to IFRS (May 2010) (effective mostly 1 January 2011)

- IFRS 1: Accounting policy changes in the year of adoption – The amendment clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published interim financial statements, it needs to explain those changes and update the reconciliations between previous GAAP and IFRS.

- IFRS 1: Revaluation basis as deemed cost – The amendment allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first IFRS financial statements are issued.

- IFRS 1: Use of deemed cost for operations subject to rate regulation – The amendment also expands the scope of 'deemed cost' for property, plant and equipment or intangible assets to include items used subject to rate regulated activities. The exemption will be applied on an item-by-item basis. All such assets will also need to be tested for impairment at the date of transition.

- IFRS 3: Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS – The amendment clarifies that the amendments to IFRS 7, IAS 32 and IAS 39, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

- IFRS 3: Measurement of non-controlling interests (NCI) – The amendment limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either: At fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. Other components of NCI are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS, e.g., IFRS 2. This amendment is applicable to the business, but is applied prospectively.

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

- IFRS 3: Un-replaced and voluntarily replaced share-based payment awards – The amendment also requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognized as post-combination expenses. This amendment is applicable to the business, but is applied prospectively.

- IFRS 7: Clarification of disclosures – The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. This amendment will reduce the extent of IFRS 7 disclosures to be provided by the entity.

- IAS 1: Clarification of statement of changes in equity – The amendment clarifies that an entity should present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

- IAS 27: Transition requirements for amendments made as a result of IAS 27 Consolidated and Separate Financial Statements – The amendment clarifies that the consequential amendments from IAS 27 made to IAS 21, IAS 28 and IAS 31 apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier.

- IAS 34: Significant events and transactions – The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add certain new disclosure requirements.

- IFRIC 13: Fair value of award credit – The amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

Other than the amendments to IFRS 7, none of these amendments should have an impact on the Bank.

	2010 USD	2009 USD
4. INTEREST INCOME		
On loans and facilities:		
Project finance loans	18,614,796	19,909,944
Trade finance loans	22,609,042	18,816,367
	41,223,838	**38,726,311**
On placements:		
Held-to-maturity Investments	766,493	664,666
	41,990,331	**39,390,977**
5. INTEREST EXPENSE		
Interest payable on funds borrowed from:		
Banks and financial institutions	10,017,013	9,949,364
Other institutions (financial instruments)	7,866,462	3,063,680
	17,883,475	**13,013,044**
6. OTHER BORROWING COSTS		
Facility and management fees	753,264	1,353,616
Amortisation of deferred expenditure	658,213	468,539
Drawdown fees	461,322	258,000
Other costs	114,841	70,207
Bank commissions and charges	77,088	36,512
	2,064,728	**2,186,874**
7. FEES AND COMMISSIONS INCOME		
Upfront fees in trade finance	8,528,722	6,891,089
Letter of credit fees in trade finance	12,026,282	5,225,626
Letter of credit fees in project finance	540,629	2,504,457
Appraisal fees on project finance	2,406,211	1,059,839
Other fees in trade finance	1,839,679	698,631
Commitment fees on project finance	863,285	680,330
Other project finance fees	169,590	292,587
Risk down-selling costs	(3,504,290)	-
	22,870,108	**17,352,559**

8. OTHER INCOME

	2010 USD	2009 USD
Impaired assets recovered	76,595	1,289,440
Grant income*	134,522	96,547
Other income	21,167	19,825
Dividends receivable	144,327	116,360
Gain on hedging derivative	747,919	-
Interest on staff loans	15,378	18,631
	1,139,908	**1,540,803**

*The grant is provided by the African Development Bank (AfDB) to fund various consultancies and training. The proceeds are credited to the AfDB liability account and included in other payables (note 27). Transfers are made to income when the costs which the grant relates to have been incurred.

9. OPERATING EXPENSES

	2010 USD	2009 USD
Staff costs (note 10)	7,509,402	5,682,366
Official missions	749,084	577,133
Consultants and advisers	713,766	568,134
Depreciation of property and equipment	471,161	462,474
Board of Directors meetings	309,770	218,311
Board of Governors meetings	156,288	142,553
Business promotion	82,177	54,060
Audit fees	32,500	30,000
Amortisation of intangible assets	8,264	9,305
Other operating expenses	545,765	494,181
	10,578,177	**8,238,517**

10. STAFF COSTS

	2010 USD	2009 USD
Salaries and wages	4,494,298	3,664,950
Staff provident fund contributions – defined contribution plan	921,603	696,265
Service and leave pay expenses	1,247,348	475,630
Other costs	846,153	845,521
	7,509,402	**5,682,366**

11. IMPAIRMENT ON OTHER FINANCIAL ASSETS

	2010 USD	2009 USD
Other debtors	881,428	-

12. EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the year of USD 20,320,594 (2009: USD 18,029,960) by the weighted average number of ordinary shares in issue during the year. The weighted average number of shares in issue during the year was 52,076 (2009: 52,076).

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

13. CASH AND BALANCES HELD WITH OTHER BANKS

	2010 USD	2009 USD
Current accounts – Note 13 (i)	3,656,446	3,322,014
Call and term deposits with banks – Note 13 (ii)	152,904,060	168,007,947
	156,560,506	**171,329,961**

(i) Current accounts:

	2010 USD	2009 USD
Amounts maintained in United States Dollars (USD)	1,995,040	1,065,520
Amounts maintained in other currencies:		
Kenyan Shillings	958,123	1,848,972
Euro	549,425	303,667
British Pounds	29,319	53,105
Ugandan Shillings	25,015	22,961
Tanzania Shillings	(667)	16,310
Burundi Francs	83,866	9,240
Malawi Kwacha	14,012	1,020
South African Rand	1,726	701
Japanese Yen	587	518
	1,661,406	**2,256,494**
	3,656,446	**3,322,014**

The average effective interest rate on current accounts was 1.00% (2009: 1.50%) per annum.

(ii) Call and term deposits with banks:

	2010 USD	2009 USD
United States Dollars (USD)	117,965,612	118,105,621
Amounts maintained in other currencies:		
Malawi Kwacha	27,831,823	44,671,825
Kenya Shillings	7,106,625	5,143,496
Uganda Shillings	-	87,005
	34,938,448	49,902,326
	152,904,060	**168,007,947**

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

	2010	2009
United States Dollars	0.25%	0.24%
Kenya Shillings	4.47%	7.49%
Tanzania Shillings	-	4.56%
Uganda Shillings	2.31%	7.02%
Malawi Kwacha	7.28%	9.00%

14. INVESTMENTS IN GOVERNMENT SECURITIES

	2010 USD	2009 USD
Treasury bills: Held to maturity		
Maturing within 69 days after year end		
Face value	2,667,282	1,398,524
Less: Unearned discount	(41,675)	(16,535)
	2,625,607	**1,381,989**

The treasury bills, issued by the Bank of Uganda, represented investments made in Uganda Shillings bearing interest at a rate of 7.73% per annum (2009- 8.50%). These investments are managed by Standard Chartered Bank Uganda Limited and will mature on March 10th, 2011.

	2010 USD	2009 USD
Treasury bonds: Held to maturity		
Maturing within 147 days after year end:		
Face value	-	2,997,787
Add: Accrued coupon interest	-	37,514
	-	**3,035,301**
Total investment in Government Securities	**2,625,607**	**4,417,290**

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

15. OTHER RECEIVABLES

	2010 USD	2009 USD
Appraisal fees	1,659,607	1,240,454
Staff loans and advances	380,433	456,674
Prepayments	988,280	183,340
Sundry receivables	392,006	111,485
AfDB grant receivable*	-	52,304
	3,420,326	**2,044,257**

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 4.17% (2009 - 4.30%) per annum. These staff loans and advances have various repayment terms ranging from 3 to 36 months.

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

16. TRADE FINANCE LOANS

	2010 USD	2009 USD
Principal loans	549,430,411	381,575,808
Interest receivable	12,144,942	7,550,312
Gross loans	561,575,353	389,126,120
Impairment on trade finance loans (note 18)	(16,229,985)	(21,641,507)
Net loans	545,345,368	367,484,613

The weighted average effective interest rate was 5.34% (2009 – 5.96%) per annum.

	2010 USD	2009 USD
Maturing:		
Within one year	476,410,624	325,774,743
One to three years	85,164,729	63,351,377
	561,575,353	**389,126,120**

The gross non performing trade finance loans were USD 20,765,150 (2009 - USD 34,408,000). The impairment provisions related to these loans amounted to USD 16,229,985 (2009 - USD 21,641,507) hence the carrying value of the loans amounted to USD 4,535,165 (2009 - USD 12,766,493).

17. PROJECT FINANCE LOANS

	2010 USD	2009 USD
Approved loans less cancellations	865,650,568	722,951,292
Less: Unsigned loans *	(188,299,986)	(144,663,670)
Loans signed	677,350,582	578,287,622
Less: Undisbursed - Letters of credit opened	(23,564,155)	(35,009,318)
- Letters of credit not yet opened	(75,338,885)	(81,856,564)
Loans disbursed	578,447,542	461,421,740
Interest capitalized	29,167,360	29,167,360
Loans repaid	(293,298,875)	(226,391,590)
Principal loan balances	314,316,027	264,197,510
Interest receivable	9,823,834	10,857,167
Gross loans	324,139,861	275,054,677
Impairment on project loans (note 18)	(22,904,969)	(21,924,674)
Net loans	**301,234,892**	**253,130,003**

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

17. PROJECT FINANCE LOANS (Continued)

	2010 USD	2009 USD
Maturing:		
Within one year	77,375,087	72,616,979
One year to three years	90,288,619	87,435,956
Three to five years	63,055,920	42,639,416
Over five years	93,420,235	72,362,326
	324,139,861	**275,054,677**

The aggregate non performing project loans was USD 36,361,137 (2009 - USD 43,083,513). The impairment provisions related to these loans amounted to USD 22,904,969 (2009 - USD 21,924,674) hence the carrying value of the loans amounted to USD 13,456,168 (2009 - USD 21,158,839) at the end of the year.

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

18. IMPAIRMENT ON PROJECT AND TRADE FINANCE LOANS

The movement in provisions for impairment is as follows:

	Project finance loans USD (Note 17)	Trade finance loans USD (Note 16)	Total provisions USD
At 1 January 2009	27,057,656	17,020,130	44,077,786
Amounts written-off	(16,549,648)	(1,390,615)	(17,940,263)
Amounts written-back	(340,331)	-	(340,331)
Charge for the year	11,756,997	6,011,992	17,768,989
At 31 December 2009	**21,924,674**	**21,641,507**	**43,566,181**
At 1 January 2010	21,924,674	21,641,507	43,566,181
Amounts written-off	(8,242,420)	(9,126,814)	(17,369,234)
Charge for the year	9,222,715	3,715,292	12,938,007
At 31 December 2010	**22,904,969**	**16,229,985**	**39,134,954**

19. EQUITY INVESTMENTS

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

	Share-holding %	Original cost USD	Fair value as at 31-Dec 2008 USD	Additions at cost in year to 31 Dec 2009 USD	Fair value gain/ (losses) to 31 Dec 2009 USD	Fair value as at 31-Dec 2009 USD	Disposals in year to 31 Dec 2010 USD	Fair value gain/ (losses) to 31 Dec 2010 USD	Fair value as at 31-Dec 2010 USD
PTA Reinsurance	6.57	1,683,176	2,378,365	-	718,425	3,096,790	-	587	3,097,377
Aureos East Africa Fund	5.00	1,578,619	2,373,676	25,195	(92,068)	2,306,803	(223,834)	1,336	2,084,305
African Export Import Bank	0.48	1,182,080	1,706,218	-	277,612	1,983,830	-	37,771	2,021,601
Tononoka	5.00	628,653	328,653	-	(64,524)	264,129	-	67,330	331,459
Tanruss	4.06	1,755,000	1,052,353	-	-	1,052,353	-	-	1,052,353
AFGEM	0.33	48,400	-	-	-	-	-	-	-
Africa Trade Insurance Company	7.69	100,000	100,000	-	(3,890)	96,110	-	10,995	107,105
Gulf African Bank	5.33	1,435,141	1,435,141	-	(539,796)	895,345	-	(136,308)	759,037
		8,411,069	**9,374,406**	**25,195**	**295,759**	**9,695,360**	**(223,834)**	**(18,289)**	**9,453,237**

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

19. EQUITY INVESTMENTS (Continued)

	2010 USD	2009 USD
(ii) Instalments paid:		
Total subscribed capital	9,833,811	10,057,645
Less: Instalments not due – note 19 (iii)	(1,621,381)	(1,621,381)
Instalments paid as at end of year – note 19 (iv)	8,212,430	8,436,264
(iii) Unpaid subscriptions expressed in US Dollars at year-end rates comprised:		
African Export-Import Bank	1,200,000	1,200,000
Aureos East Africa Fund	421,381	421,381
	1,621,381	**1,621,381**
(iv) Movement in the instalments paid:		
At beginning of year	8,436,264	8,411,069
(Disposals)/additions at cost – note 19 (i)	(223,834)	25,195
At end of year	**8,212,430**	**8,436,264**

20. DEFERRED EXPENDITURE

	2010 USD	2009 USD
COST		
At beginning of year	3,607,828	2,528,160
Additions	5,890,977	1,079,668
At end of year	**9,498,805**	**3,607,828**
AMORTISATION		
At beginning of year	1,696,950	1,228,411
Charge for the year	491,530	468,539
At end of year	**2,188,480**	**1,696,950**
NET BOOK VALUE		
At end of year	**7,310,325**	**1,910,878**

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

21. PROPERTY AND EQUIPMENT

	Freehold land and building USD	Motor vehicles USD	Furniture and fittings USD	Office equipment USD	Total USD
At 31 December 2010:					
COST					
At 1 January 2010	18,520,559	275,363	602,022	906,722	20,304,666
Additions	-	50,000	1,883	63,276	115,159
At 31 December 2010	**18,520,559**	**325,363**	**603,905**	**969,998**	**20,419,825**
DEPRECIATION					
At 1 January 2010	2,592,235	208,507	558,566	814,860	4,174,168
Charge for the year	370,411	40,455	8,612	51,683	471,161
At 31 December 2010	2,962,646	248,962	567,178	866,543	4,645,329
NET BOOK VALUE					
At 31 December 2010	**15,557,913**	**76,401**	**36,727**	**103,455**	**15,774,496**
At 31 December 2009:					
COST					
At 1 January 2009	18,520,559	279,867	598,150	879,760	20,278,336
Additions	-	-	3,872	29,167	33,039
Disposals	-	(4,504)	-	(2,205)	(6,709)
At 31 December 2009	**18,520,559**	**275,363**	**602,022**	**906,722**	**20,304,666**
DEPRECIATION					
At 1 January 2009	2,221,824	172,055	547,056	777,468	3,718,403
Charge for the year	370,411	40,956	11,510	39,597	462,474
Disposals	-	(4,504)	-	(2,205)	(6,709)
At 31 December 2009	2,592,235	208,507	558,566	814,860	4,174,168
NET BOOK VALUE					
At 31 December 2009	**15,928,324**	**66,856**	**43,456**	**91,862**	**16,130,498**

21. PROPERTY AND EQUIPMENT (Continued)

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

22. INTANGIBLE ASSETS

	2010 USD	2009 USD
COST		
At beginning of year	1,070,378	1,070,378
Additions	54,650	-
At end of year	**1,125,028**	**1,070,378**
AMORTISATION		
At beginning of year	1,058,543	1,049,238
Charge for the year	8,264	9,305
At end of year	**1,066,807**	**1,058,543**
NET BOOK VALUE		
At end of year	**58,221**	**11,835**

Intangible assets relate to cost of acquired computer software.

23. SHORT TERM BORROWINGS

(a) CERTIFICATES OF DEPOSIT

	Currency	2010 USD	2009 USD
COMESA Yellow Card Reinsurance pool	USD	1,386,124	1,508,643
PTA Reinsurance Company	USD	10,697,031	14,909,442
Southern Africa Media Development Fund	USD	360,873	700,000
		12,444,028	**17,118,085**

(b) OTHER SHORT TERM BORROWINGS

Lender	Date of renewal/ advance	Maturity Date	Currency	2010 USD	2009 USD
AFREXIM Bank	December-2010	May-2012	USD	19,286,000	29,500,000
FMO*	January-2009	April-2011	USD	20,000,000	20,000,000
Fortis Bank	October-2009	April-2010	USD	-	15,533,067
Finance Bank Zambia	October-2009	April-2010	USD	-	5,107,932
Commerzbank	November-2010	February-2011	USD	29,065,042	60,071,014
HSBC Bank	December-2010	February-2011	USD	9,767,646	33,805,907
Standard Bank of South Africa	September-2010	April-2011	USD	10,735,320	36,517,872
African Banking Corporation	January-2010	May-2012	USD	12,500,000	-
CRDB Bank	February-2010	August-2011	USD	2,500,000	2,500,000
KBC Bank	November-2009	March-2010	USD	-	9,283,198
Kenya Commercial Bank	December-2010	March-2011	USD	10,529,692	-
Mauritius Commercial Bank	November-2010	January-2011	USD	38,441,686	14,912,110
OFID	October-2010	April-2011	USD	20,000,000	-
Standard Chartered Bank	October-2010	March-2013	USD	28,570,304	18,568,400
Sub -total for other short term borrowings				**201,395,690**	**245,799,500**
(c) INTEREST PAYABLE				2,352,210	2,510,421
Certificate of Deposits (Note 23(a))				**12,444,028**	**17,118,085**
TOTAL SHORT TERM BORROWINGS				**216,191,928**	**265,428,006**

The effective interest rate during the year was 3.55% (2008: 4.52%) per annum.
* Nederlandse Financierings - Maatschappij voor Ontwikkelingslanden N.V.

24 LONG TERM BORROWINGS

					Amounts as at 31 December 2010			Amounts as at 31 December 2009		
Lender	**Date of Renewal/ disbursement**	**Maturity Date**	**Currency**	**Amount in Currency**	**Balance outstanding USD**	**Amount due within one year USD**	**Amount due after one year USD**	**Balance outstanding USD**	**Amount due within one year USD**	**Amount due after one Year USD**
African Development Bank	December-2004	January-2020	USD	70,317,981	70,317,981	8,000,000	62,317,981	66,268,449	5,268,449	61,000,000
China Development Bank	December-2008	March-2020	USD	22,900,584	22,897,995	1,286,219	21,611,776	22,900,584	-	22,900,584
Tanzania local currency bonds	September-2003	August-2010	TSH	-	-	-	-	2,249,140	2,249,140	-
KBC Bank	Various	September-2013	USD	2,635,240	2,635,240	1,126,859	1,508,381	5,875,670	3,529,072	2,346,598
Kenya local currency bonds I	July-2005	July-2012	KES	319,557,334	4,040,086	1,981,424	2,058,662	6,256,551	2,105,263	4,151,288
Kenya local currency bonds II	October-2007	October-2014	KES	802,227,443	9,841,230	2,476,780	7,364,450	13,267,415	2,631,579	10,635,836
Exim Bank of India Loan	Various	Various	USD	28,859,889	28,859,889	7,297,777	21,562,112	27,872,090	6,976,018	20,896,072
M & T Bank	September-2007	February-2013	USD	1,116,522	1,116,522	553,648	562,874	3,219,540	2,103,664	1,115,876
US$ 1.0 Billion Euro Medium Term Note Programme: First Tranche *	November-2010	January-2016	USD	300,000,000	300,000,000	-	300,000,000	-	-	-
FMO	March-2010	January-2018	USD	50,000,000	50,000,000	-	50,000,000	-	-	-
Export Development Corporation of Canada	September-2005	January 2011	USD	71,913	71,913	71,913	-	1,435,688	1,381,158	54,530
Ceskoslovenska Obchodni Banka AS	July-2007	May-2017	USD	5,305,507	5,305,507	821,265	4,484,242	6,126,829	904,245	5,222,584
BHF Bank	August-2009	June-2014	USD	3,052,095	3,052,095	871,563	2,180,532	3,923,209	871,563	3,051,646
Development Bank of South Africa	March-2007	June-2017	USD	16,286,366	16,286,366	2,500,000	13,786,366	18,786,440	1,250,000	17,536,440

24 LONG TERM BORROWINGS (Continued)

					Amounts as at 31 December 2010			Amounts as at 31 December 2009		
Lender	**Date of Renewal/ disbursement**	**Maturity Date**	**Currency**	**Amount in Currency**	**Balance outstanding USD**	**Amount due within one year USD**	**Amount due after one year USD**	**Balance outstanding USD**	**Amount due within one year USD**	**Amount due after one Year USD**
Overseas Private Investment	September-2003	March-2015	USD	1,401,080	1,401,080	-	1,401,080	1,401,200	-	1,401,200
Bank of Uganda	August-2004	June-2011	UGX	118,151,934	51,218	51,218	-	170,995	120,497	50,498
Uganda local currency fixed rate bond	October-2009	October-2016	UGX	541,000,000	254,628	33,284	221,344	282,507	-	282,507
Uganda local currency floating rate bond	October-2009	October-2016	UGX	7,912,500,000	3,378,656	564,577	2,814,079	4,131,855	-	4,131,854
Sub total for long term borrowings					519,510,406	27,636,527	491,873,879	184,168,162	29,390,648	154,777,513
Interest payable					4,425,604	4,425,604	-	1,505,320	1,505,320	-
Total long term borrowings					**523,936,010**	**32,062,131**	**491,873,879**	**185,673,482**	**30,895,968**	**154,777,513**

* This amount includes the hedged amount of US$ 150 million as detailed in note 33

The effective interest rate during the year was 3.92% (2009 – 4.87%)

25. COLLECTION ACCOUNT DEPOSITS

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

26. PROVISION FOR SERVICE AND LEAVE PAY

	2010 USD	2009 USD
At beginning of year	2,762,672	2,441,863
Increase in provision for leave pay	992,244	88,975
Increase in provision for service pay	216,324	322,739
Payment of leave pay	(14,512)	(43,209)
Payment of service pay	(14,775)	(47,696)
At end of year	**3,941,953**	**2,762,672**

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

27. OTHER PAYABLES

	2010 USD	2009 USD
Deposit held against credit risk sold to counter parties	12,500,000	-
Provident fund	1,965,574	1,674,124
Other creditors	838,321	1,101,300
Unspent ADB Grant *	215,787	403,137
Accrued expenses	410,445	254,921
Prepaid rent	51,622	51,622
	15,981,749	**3,485,104**

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

28. SHARE CAPITAL

	2010	2009
Authorized capital:		
88,234 ordinary shares of USD 22,667 each	2,000,000,000	2,000,000,000
Less: Unsubscribed	(819,593,308)	(819,593,308)
Subscribed capital:		
52,076 ordinary shares of USD 22,667 each	1,180,406,692	1,180,406,692
Less: Callable capital	(944,325,354)	(944,325,354)
Payable capital	236,081,338	236,081,338
Less: Amounts not yet due	(76,887,755)	(102,458,898)
Capital due	159,193,583	133,622,440
Less: subscriptions in arrears	(14,032,096)	-
Paid up capital	**145,161,487**	**133,622,440**

28. SHARE CAPITAL (Continued)

	2010 USD	2009 USD
Movement in paid up share capital		
At beginning of year	133,622,440	127,898,037
China	3,853,390	3,853,391
Zimbabwe	499,925	199,925
Ethiopia	499,982	499,975
Burundi	557,550	557,558
Seychelles	122,402	613,554
Kenya	4,841,671	-
Malawi	598,359	-
Rwanda	565,768	-
Total receipts	**11,539,047**	**5,724,403**
At end of year	**145,161,487**	**133,622,440**

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 three-year period commencing 01 January 2011 or earlier, where possible.

The remaining four fifths of the subscribed capital constitutes callable capital.
Note 40 contains the status of subscriptions to the capital stock by members.

As at 31st December 2010, the Bank had US$ 944.33 million in callable capital. This is 80% of the Bank's subscribed capital of US$1.18 billion. The callable capital represents the maximum obligation of the Members in the event of a call being made in response to financial distress.

29. NOTES TO THE STATEMENT OF CASH FLOWS

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

		2010 USD	2009 USD
Profit for the year		20,320,594	18,029,960
Adjustments:			
Depreciation of property and equipment		471,161	462,474
Amortisation of intangible assets		8,264	9,305
Loss/(profit) on disposal of property and equipment		1,526	(59)
Unrealized gain on derivatives		(747,919)	-
Gain on Foreign exchange		(2,695,473)	(100,639)
Fair value loss/(gain) on revaluation of equity investments		18,289	(295,759)
Profit before working capital changes		17,376,442	18,105,282
(Increase)/decrease in other receivables		(1,376,069)	113,005
(Increase) in trade finance loans		(177,860,755)	(36,384,883)
(Increase) in project finance loans		(48,104,889)	(36,643,049)
(Increase) in deferred expenditure		(5,399,445)	(611,129)
(Decrease)/increase in collection accounts deposits		(118,185,816)	131,064,298
Increase/ (decrease) in other payables and provision for service and leave pay		13,675,925	(2,006,960)
Increase in borrowings	29(b)	289,026,450	36,392,106
Net cash (used in)/ generated from operations		**(30,848,157)**	**110,028,670**

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

(b) Analysis of changes in borrowings:

		2010 USD	2009 USD
Short term borrowings:			
At beginning of year		265,428,006	252,755,924
Loans received		755,363,294	471,017,973
Repayments		(804,599,372)	(458,345,891)
At end of year		**216,191,928**	**265,428,006**
Long term borrowings:			
At beginning of year		185,673,482	161,953,458
Loans received		375,805,779	51,901,388
Repayments		(37,543,251)	28,181,364)
At end of year		**523,936,010**	**185,673,482**
Total borrowings:			
At beginning of year		451,101,488	414,709,382
Loans received		1,131,169,073	522,919,361
Repayments		(842,142,623)	(486,527,255)
At end of year		**740,127,938**	**451,101,488**
Increase in total borrowings:			
Total at beginning of year		451,101,488	414,709,382
Total at end of year		740,127,938	451,101,488
Increase in total loans	29(a)	**289,026,450**	**36,392,106**

(c) Analysis of cash and cash equivalents

	2010 USD	2009 USD
Cash and balances held with other banks -Note 13	156,560,506	171,329,961
Investment in Government securities (Treasury bills/bonds) - Note 14.	2,625,607	4,417,290
	159,186,113	**175,747,251**

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

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

(d) Facilities available for lending

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

LONG TERM FACILITIES	Facilities available USD	Facilities utilized USD	Facilities unutilized USD
LENDER			
Eurobond	300,000,000	192,358,339	107,641,661
Exim Bank India	100,000,000	75,000,000	25,000,000
African Development Bank	100,000,000	100,000,000	-
Development Bank of South Africa	95,000,000	20,000,000	75,000,000
FMO	70,000,000	70,000,000	-
China Development Bank	50,000,000	22,900,000	27,100,000
KBC Bank	21,159,750	7,588,499	13,571,251
Standard Chartered Bank Limited	20,000,000	20,000,000	-
Japan Bank for International Corporation	16,226,742	-	16,226,742
Kenya Local Currency Bond II	15,673,981	10,200,000	5,473,981
BHF Bank	15,000,000	3,923,209	11,076,791
M & T Bank	14,375,505	11,097,731	3,277,774
Ceskoslovenska Obchodni Banka AS	7,234,161	6,578,954	655,207
Uganda Shillings Local Currency Bond	4,414,360	1,095,834	3,318,526
Export Development Corporation of Canada	3,452,878	3,452,878	-
Overseas Private Investment Corporation	1,400,000	1,400,000	-
Bank of Uganda	503,038	503,038	-
Exim Bank USA	No limit	-	No limit
	834,440,415	**546,098,482**	**288,341,933**
SHORT-TERM FACILITIES			
LENDER			
Commerzbank	132,915,000	70,316,045	62,598,955
Standard Bank of South Africa	90,000,000	30,683,134	59,316,866
Mauritius Commercial Bank	85,000,000	55,647,924	29,352,076
BNB Paribas	62,356,142	12,366,924	49,989,218
Kenya Commercial Bank	40,000,000	16,720,784	23,279,216
International Islamic Trade Finance Corporation	30,000,000	-	30,000,000
African Export & Import Bank	30,000,000	19,286,000	10,714,000
HSBC	25,000,000	12,994,000	12,006,000
Standard Chartered Bank	25,000,000	19,670,076	5,329,924
Africa Finance Corporation	25,000,000	25,000,000	-
Opec Fund For International Development	20,000,000	20,000,000	-
DZ Bank	15,000,000	-	15,000,000
NIC Bank	15,000,000	10,232,150	4,767,850
BHF Bank	12,187,500	-	12,187,500
ING Bank	8,531,250	-	8,531,250
KBC Bank	7,500,000	-	7,500,000
Deutsche Bank	5,000,000	-	5,000,000
Natixis	5,000,000	-	5,000,000
	633,489,892	**292,917,037**	**340,572,855**
TOTAL FACILITIES At 31 December 2010	**1,467,930,307**	**839,015,519**	**628,914,788**

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

(d) Facilities available for lending (Continued)

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

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

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
As at 31 December 2010:				
Investments in Government Securities	2,625,607	-	-	2,625,607
Equity Investments	-	9,453,237	-	9,453,237
Trade finance loans	-	545,345,368	-	545,345,368
Project loans	-	301,234,892	-	301,234,892
	2,625,607	**856,033,497**	**-**	**858,659,104**
LIABILITIES				
Short term borrowings	-	216,191,928	-	216,191,928
Long term borrowings	-	523,936,010	-	523,936,010
	-	**740,127,938**	**-**	**740,127,938**
As at 31 December 2009:				
ASSETS				
Investments in Government Securities	4,417,290	-	-	4,417,290
Equity Investments	-	9,695,360	-	9,695,360
Trade finance loans	-	367,484,613	-	367,484,613
Project loans	-	253,130,003	-	253,130,003
	4,417,290	**630,309,976**	**-**	**634,727,266**
LIABILITIES				
Short term borrowings	-	265,428,006	-	265,428,006
Long term borrowings	-	185,673,482	-	185,673,482
	-	**451,101,488**	**-**	**451,101,488**

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

31. SEGMENT REPORTING

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

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

31. SEGMENT REPORTING (Continued)

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

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

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

STATEMENT OF COMPREHENSIVE INCOME

Year Ended 31 December 2010:	Trade finance USD	Project finance USD	Other USD	Total USD
Net interest income	9,695,995	12,391,150	(45,017)	22,042,128
Net fees and commission income	18,890,393	3,979,715	-	22,870,108
Other income	-	76,595	1,063,313	1,139,908
Other assets written off	-	(881,428)	-	(881,428)
Operating expenses	(7,365,909)	(2,713,709)	(498,559)	(10,578,177)
Impairment on loans	(3,715,292)	(9,222,715)	-	(12,938,007)
Foreign Exchange loss	-	-	(1,315,649)	(1,315,649)
Fair value loss on equity investments	-	-	(18,289)	(18,289)
Profit for the year	**17,505,187**	**3,629,608**	**(814,201)**	**20,320,594**
Year Ended 31 December 2009:				
Net interest income	10,996,240	12,530,152	664,666	24,191,059
Net fees and commission income	12,972,956	4,379,604	-	17,352,559
Other income	-	1,289,440	251,363	1,540,803
Operating expenses	(4,252,877)	(3,498,230)	(487,410)	(8,238,517)
Impairment on loans	(6,011,992)	(11,756,997)	-	(17,768,989)
Foreign exchange gain	-	-	657,286	657,286
Fair value gain on equity investments	-	-	295,759	295,759
Profit for the year	**13,704,327**	**2,943,969**	**1,381,664**	**18,029,960**

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010:	Trade finance USD	Project finance USD	Other USD	Total USD
Total Assets	**545,345,368**	**301,234,892**	**209,358,556**	**1,055,938,816**
Total Liabilities	300,930,373	523,936,010	20,831,621	845,698,004
Shareholders' funds	-	-	210,240,812	210,240,812
	300,930,373	**523,936,010**	**231,072,433**	**1,055,938,816**
As at 31 December 2009:				
Total Assets	**367,484,613**	**253,130,003**	**205,540,079**	**826,154,695**
Total Liabilities	455,852,266	185,673,482	6,247,776	647,773,524
Shareholders' funds	-	-	178,381,171	178,381,171
	455,852,266	**185,673,482**	**184,628,947**	**826,154,695**

32. CONTINGENCIES AND COMMITMENTS

(a) Pending litigation

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

As at 31 December 2010, there were legal proceedings involving the Bank amounting to USD 6,680,000 (2009 - USD 8,443,651) 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.

	2010 USD	2009 USD
(b) Capital commitments		
Approved but not contracted	2,401,739	2,784,640
(c) Loans committed but not disbursed		
Project finance loans	75,338,885	81,856,564
Trade finance loans	82,902,111	54,375,485
	158,240,996	**136,232,049**

(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.

	2010 USD	2009 USD
Letters of credit - Project finance loans	23,564,155	35,009,318
- Trade finance loans	131,008,902	167,937,256
Guarantees	11,727,161	13,829,551
	166,300,218	**216,776,125**

(e) Operating lease arrangements

The Bank as a lessor

Rental income earned during the year was USD 217,475 (2009 - USD 206,400). At year end, the Bank had contracted with tenants for the following future lease receivables:

32. CONTINGENCIES AND COMMITMENTS (Continued)

(e) Operating lease arrangements (Continued).

	2010 USD	2009 USD
Within one year	218,910	210,360
In the second and third year inclusive	124,200	160,860
	343,110	371,220

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

The Bank as a lessee

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

	2010 USD	2009 USD
Within one year	28,110	112,661
In the second to fifth year inclusive	-	27,572
	28,110	140,233

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

33. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

33. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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

	2010 USD	2009 USD
Assets		
Cross Currency Swap	13,407,919	-
Unrealised derivative gain on interest rate swap	747,919	-
	14,155,838	**-**
Liabilities		
Cross Currency Swap	**13,407,919**	**-**

The Bank entered into interest rate swaps to hedge US$ 150,000,000 received from the Eurobond issued in November 2010 with a fixed interest rate. The swap exchanged the fixed rate for floating rate in order to match the floating rates on loans.

In respect of the foreign exchange hedge, the Bank exchanged a Euro receivable (loan) of € 10,113,078 for a US dollar $ 13,407,919. There was no gain or loss arising on the hedging as at 31 December, 2010.

34. RELATED PARTY TRANSACTIONS

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

(a) Membership and Governance

As a supranational development financial institution with a membership comprising seventeen COMESA / African States (the "Member States"), one non-African State and one institutional member, subscription to the capital of the Bank is made by all its Members. All the powers of the Bank are vested in the Board of Governors, which consists of the Governors appointed by each Member of the Bank, who exercise the voting power of the appointing Member. Members' subscriptions and voting powers are disclosed on Note 40. The Board of Directors, which is composed of seven (7) Directors elected by the Members is responsible for the conduct of the general operations of the Bank, and for this purpose, exercises all the powers delegated to it by the Board of Governors. The Bank makes loans to some of its Member States. The Bank also borrows funds from some of its Members. Such loans granted to Member States are approved by the Board of Directors.

(b) Loans to Member States

	2010 USD	2009 USD
Outstanding loan balances at 31 December	**260,276,754**	**121,143,702**

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

(c) Borrowings from Members

	2010 USD	2009 USD
Outstanding borrowings at 1 January	89,169,032	67,272,511
Borrowings received during the year	11,146,486	26,748,918
Borrowings repaid during the year	(7,099,542)	(4,852,397)
	93,215,976	**89,169,032**

34. RELATED PARTY TRANSACTIONS (continued)

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

		2010 USD	2009 USD
(d)	Interest income earned during the year	17,076,939	10,740,025
	Interest expense incurred on borrowings during the year	(1,420,373)	(2,036,626)
	Fees and commission earned during the year	17,588,814	11,271,280

(e) Other Related Parties

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

	2010 USD	2009 USD
Salaries and other short-term benefits	1,256,043	1,061,056
Post employment benefits – defined contribution. Provident fund	306,272	160,148
	1,562,315	**1,221,204**

35. CURRENCY

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

	2010 USD	2009 USD
British Pound	0.6481	0.6222
UAPTA	0.6493	0.6379
Euro	0.7524	0.6976
South Africa Rand	6.6310	7.3950
Kenya Shilling	80.7500	75.8000
Japanese Yen	81.5000	92.4400
Malawi Kwacha	151.2500	146.5000
Burundi Franc	1220.7500	1,225.0000
Tanzania Shilling	1505.0000	1,333.5000
Uganda Shilling	2322.0000	1,915.0000

36. FINANCIAL RISK MANAGEMENT

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

(a) INTRODUCTION

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

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

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

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

The most important types of risk are:

- Credit risk
- Liquidity risk
- Market risk
- Interest rate risk
- Foreign exchange risk

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

(b) CREDIT RISK

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

Risk Management Policies and Processes

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

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

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) CREDIT RISK (CONTINUED)

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

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

Client-Specific Risk

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

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

Country Risk

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

The Bank limits its exposure to any single Member country to 30% of its total loan portfolio. As at 31 December 2010, all country exposures were within this limit.

Notes 38 and 39 of the Financial Statements contain the country exposure analysis as at 31 December 2010 and 31 December 2009.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) CREDIT RISK (CONTINUED)

Maximum Exposure to Credit Risk before Collateral Held:

Asset Class	2010 USD	%	2009 USD	%
Credit Exposures				
On - statement of financial position Items				
Cash and Balances from other Banks	156,560,506	16	171,329,961	21
Investment in Government Securities	2,625,607	0	4,417,290	1
Loans and advances	846,580,260	84	620,614,616	78
Sub Total	**1,005,766,373**	**100**	**796,361,867**	**100**
Off - statement of financial position Items				
Letters of Credit	154,573,057	47	202,946,574	57
Loan Commitments not disbursed	158,240,996	49	136,232,049	39
Guarantees and Performance Bonds	11,727,161	4	13,829,551	4
Sub Total	**324,541,214**	**100**	**353,008,174**	**100**
Total	**1,330,307,587**		**1,149,370,041**	

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

Loan and advances and off-statement of financial position items took up 88% in 2010, (2009 -85%) of the total maximum credit exposure.

Other than cash and bank balances amounting to USD 156,560,506 (2009: USD 171,329,961) all other credit risk exposures are secured by collateral in the form of cash liens, mortgages on land and buildings, securities charged over plant and machinery and third party guarantees.

As at 31 December, 2010, the fair value of collateral held for impaired loans and advances was USD 64,797,238 and provided sufficient cover over the net exposure of USD 17,991,333 after deducting the impairment allowances.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) CREDIT RISK (CONTINUED)

Classification of Loans and advances

For year ended 31 December 2010:

Category	Gross amount USD	Impairment allowance USD	Net amount USD	%
Neither past due nor impaired	699,393,569	-	699,393,569	83
Past due but not impaired				
- Sovereign backed lending	45,035,102	-	45,035,102	
- Private sector lending	84,160,254	-	84,160,254	
	129,195,356	-	129,195,356	15
Impaired	57,126,289	(39,134,954)	17,991,335	2
	885,715,214	**(39,134,954)**	**846,580,260**	**100**

For year ended 31 December 2009:

Category	Gross amount USD	Impairment allowance USD	Net amount USD	%
Neither past due nor impaired	462,909,272	-	462,909,272	75
Past due but not impaired		-		
- Sovereign backed lending	44,223,756	-	44,223,756	
- Private sector lending	79,556,256	-	79,556, 256	
	123,780,012	-	123,780,012	20
Impaired	77,491,513	(43,566,181)	33,925,332	5
Total	**664,180,797**	**(43,566,181)**	**620,614,616**	**100**

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

Ageing of arrears for past due loans and advances not impaired

	2010 USD	2009 USD
Below 30 Days	18,387,063	6,785,261
31 to 90 Days	64,791,185	21,254,736
Total	**83,178,248**	**28,039,997**

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) CREDIT RISK (CONTINUED)

Ageing of arrears for impaired loans and advances

	2010 USD	2009 USD
Below 30 Days	677,235	11,558,526
31-90 Days	502,323	864,522
91-180 Days	1,025,614	3,529,451
181-360 Days	2,891,708	5,571,756
Over 360 Days	34,044,007	34,627,474
Total	**39,140,887**	**56,151,729**

Loans and advances that are neither past due nor impaired

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

Past due but not impaired

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

Impaired loans and advances

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

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) CREDIT RISK (CONTINUED)

Collateral Held

In addition to its rigorous credit risk assessments, the Bank seeks to protect its interests in the event of unpredictable and extreme factors that negatively affect the borrower's capacity to service the Bank's loan by calling for credit enhancement arrangements. In this regard, the Bank calls for security such as mortgage interest on property, registered securities over financed or third party assets and third party guarantees. The security cover required is, at least, one and half times the loan amount that is disbursed. Such security is subject to regular reviews and, if necessary, revaluation every three years.

The Bank does not hold security over deposits placed with other Banks or financial institutions and government securities. However, the Bank places deposits with well vetted and financially sound counter-parties. In addition, the Bank places limits on counter-party exposures which are set, monitored and reviewed by the Bank-Wide Integrated Risk Management Committee.

Collateral held for loan portfolio	**2010 USD**	**2009 USD**
Mortgages on properties	289,325,618	287,006,377
Fixed charge on plant and equipment	373,812,015	316,538,309
Cash security deposits	73,927,167	165,563,599
Floating All Asset Debentures	272,179,305	260,737,315
Total security cover	**1,009,244,105**	**1,029,845,600**
Past due but not impaired		
Mortgages on properties	247,218,380	223,925,157
Fixed charge on plant and equipment	358,722,015	294,943,389
Cash security deposits	73,927,167	165,563,599
Other Floating All Asset Debentures	264,579,305	184,643,297
	944,446,867	**869,075,442**
Impaired loans		
Mortgages on properties	42,107,238	63,081,220
Fixed charge on plant and equipment	15,090,000	21,594,920
Floating All Asset Debentures	7,600,000	76,094,018
	64,797,238	**160,770,158**

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) CREDIT RISK (CONTINUED)

Concentration of risk

Loans and advances to customers

Sector	2010 USD	%	2009 USD	%
Manufacturing	78,638,437	9	84,601,224	13
Agribusiness	87,445,364	10	79,416,454	12
Petroleum	312,179,172	35	292,904,572	44
Infrastructure	97,145,778	11	59,568,281	9
Finance and Banking	186,589,796	21	63,518,224	10
Aviation	29,546,198	3	22,255,160	3
Other	12,543,790	1	10,178,083	2
Mining	24,078,433	3	23,105,444	3
Transport	4,498,613	1	1,732,793	0
Tourism	53,049,633	6	26,900,562	4
Total	**885,715,214**	**100**	**664,180,797**	**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 2010, all loan and advances sectoral concentrations, except for Petroleum were within the stipulated limit. Against the Petroleum exposure, the Bank had by 31 December, 2010 down-sold exposures amounting to USD 83.95 million and held cash collateral amounting to USD 72.10 million.

Off- statement of financial position Items

Sector	2010 USD	%	2009 USD	%
Petroleum	199,516,713	38	185,920,464	53
Finance & Banking	2,609,720	1	2,609,720	1
Manufacturing	73,539,095	14	15,121,902	4
Agribusiness	32,318,043	6	52,544,865	15
Tourism	48,493,943	9	22,607,232	6
Infrastructure	53,306,497	10	35,786,500	10
Mining	9,209,784	2	11,970,983	3
Transport	7,000,000	2	3,000,000	1
Aviation	80,000,000	15	-	-
Other	16,847,405	3	23,446,508	7
Total	**522,841,200**	**100**	**353,008,174**	**100**

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) CREDIT RISK (CONTINUED)

Restructured loans

The following loans were renegotiated during the year

	2010 USD	2009 USD
Project finance loans	22,817,128	14,687,111
Trade finance loans	-	37,001,573
	22,817,128	**51,688,684**

(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.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) LIQUIDITY RISK (Continued)

Maturities of financial assets and financial liabilities are as follows:

	Up to 1month USD	1 to 6 months USD	6 to 12 months USD	1 to 5 years USD	Over 5 years USD	Total USD
At 31 December 2010:						
FINANCIAL ASSETS						
Cash and balances with other banks	150,610,130	6,001,025	-	-	-	156,611,155
Investments in Government securities	-	2,692,279	-	-	-	2,692,279
Other receivables	2,816,039	116,584	395,155	92,549	-	3,420,327
Hedging derivatives	-	14,155,838	-	-	-	14,155,838
Trade finance loans	103,011,530	301,187,651	85,679,970	68,934,744	-	558,813,895
Project loans	422,759	48,597,115	66,900,337	298,966,523	74,970,059	489,856,793
Equity investments	-	-	-	9,453,237	-	9,453,237
Total financial assets	**256,860,458**	**372,750,492**	**152,975,462**	**377,447,053**	**74,970,059**	**1,235,003,524**
FINANCIAL LIABILITIES						
Short term borrowings	100,816,182	103,190,368	1,030,179	28,759,794	-	233,796,523
Long term borrowings	-	18,216,035	30,966,788	535,931,446	64,721,639	649,835,908
Hedging derivative	-	13,407,919	-	-		13,407,919
Collection Account Deposits	38,320,209	33,918,236	-	-	-	72,238,445
Other payables	4,753,376	270,085	315,112	2,085,129	-	7,423,702
Total financial liabilities	**143,889,767**	**169,002,643**	**32,312,079**	**566,776,369**	**64,721,639**	**976,702,497**
Net liquidity gap	112,970,691	203,747,848	120,663,383	(189,329,316)	10,248,420	258,301,027
Cumulative gap	112,970,691	316,718,540	437,381,923	248,052,607	258,301,027	258,301,027

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

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) LIQUIDITY RISK (Continued)

Maturities of financial assets and financial liabilities are as follows:

At 31 December 2009	Up to 1month USD	1 to 6 months USD	6 to 12 months USD	1 to 5 years USD	Over 5 years USD	Total USD
FINANCIAL ASSETS						
Cash and balances held with other banks	159,851,536	11,478,426	-	-	-	171,329,961
Investments in Government securities	-	4,417,290	-	-	-	4,417,290
Other receivables	1,716,611	120,287	101,338	106,021	-	2,044,257
Trade finance loans	81,337,785	216,132,560	28,304,397	41,709,871	-	367,484,613
Project loans	701,982	35,458,240	36,456,755	105,075,372	75,437,654	253,130,003
Equity investments	-	-	-	9,695,360	-	9,695,360
Total financial assets	**243,607,914**	**267,606,803**	**64,862,490**	**156,586,624**	**75,437,654**	**808,101,484**
FINANCIAL LIABILITIES						
Short term borrowings	118,424,287	126,791,781	20,211,938	-	-	265,428,006
Long term borrowings	4,570,331	19,251,339	14,385,819	76,294,283	71,171,710	185,673,482
Collection Account Deposits	61,067,926	99,367,839	29,988,495	-	-	190,424,260
Other payables	456,691	658,058	696,231	4,436,796	-	6,247,776
Total financial liabilities	**184,519,235**	**246,069,017**	**65,282,483**	**80,731,079**	**71,171,710**	**647,773,524**
Net liquidity gap	59,088,679	21,537,786	(419,993)	75,855,545	4,265,944	160,327,960
Cumulative gap	59,088,679	80,626,465	80,206,472	156,062,017	160,327,960	160,327,960

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

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) LIQUIDITY RISK (Continued)

I. Liquidity and funding management

The Bank's liquidity and funding policies require;

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

II. Contingency Plans

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

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

d) MARKET RISK

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

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

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

Interest rate risk is the risk that the value 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.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) MARKET RISK (Continued)

I. Interest rate risk

At 31 December 2010:	Up to 1 months USD	1 to 6 months USD	6 to 12 years USD	1 to 5 5 years USD	Fixed Interest rate USD	Non-interest bearing USD	Total USD
FINANCIAL ASSETS							
Cash balances with other bank	150,560,106	6,000,400	-	-	-	-	156,560,506
Investment in Government Securities	-	2,625,607	-	-	-	-	2,625,607
Other receivables	-	-	-	-	-	3,240,326	3,240,326
Hedging derivative	-	14,155,838	-	-	-	-	14,155,838
Trade finance loans	101,319,666	304,490,537	-	-	135,000,000	4,535,165	545,345,368
Project loans	286,556,247	293,987	-	920,000	-	13,464,658	301,234,892
Equity investments	-	-	-	-	-	9,453,237	9,453,237
Total financial assets	**538,436,019**	**327,566,369**	**-**	**920,000**	**135,000,000**	**30,693,386**	**1,032,615,774**
FINANCIAL LIABILITIES							
Short term borrowings	87,584,032	100,987,189	27,620,707	-	-	-	216,191,928
Long term borrowings	74,358,066	296,119,546	-	-	150,000,000	3,458,398	523,936,010
Hedging derivative	-	13,407,919	-	-	-	-	13,407,919
Collection Account Deposits	-	-	-	-	-	72,238,445	72,238,445
Provision for service and leave pay	-	-	-	-	-	3,941,953	3,941,953
Other payables	12,500,000	-	-	-	-	3,481,749	15,981,749
Total financial liabilities	**174,442,098**	**410,514,654**	**27,620,707**	**-**	**150,000,000**	**83,120,545**	**845,698,004**
Net interest rate exposure	363,993,921	(82,948,285)	(27,620,707)	920,000	(15,000,000)	(52,427,159)	186,917,770
Cumulative interest rate exposure	363,993,921	281,045,636	253,424,929	254,344,929	239,344,929	186,917,770	186,917,770

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) MARKET RISK (Continued)

I. Interest rate risk (Continued)

	Up to months USD	1 to 6 months USD	6 to 12 years USD	1 to 5 5 years USD	Non-interest bearing USD	Total USD
At 31 December 2009:						
FINANCIAL ASSETS						
Cash and balances with other banks	159,851,536	11,478,425	-	-	-	171,329,961
Investment in Government Securities	-	4,417,290	-	-	-	4,417,290
Other receivables	-	-	-	-	2,044,257	2,044,257
Trade finance loans	84,682,616	270,034,752	-	-	12,767,245	367,484,613
Project loans	230,603,695	1,259,247	846,358	3,375,557	17,045,146	253,130,003
Equity investments	-	-	-	-	9,695,360	9,695,360
Total financial assets	**475,137,847**	**287,189,714**	**846,358**	**3,375,557**	**41,552,008**	**808,101,484**
FINANCIAL LIABILITIES						
Short term borrowings	118,424,287	139,841,781	7,161,938	-	-	265,428,006
Long term borrowings	51,769,369	129,765,784	-	-	4,138,329	185,673,482
Collection Account Deposits	-	-	-	-	190,424,260	190,424,260
Provision for service and leave pay	-	-	-	-	2,762,672	2,762,672
Other payables	-	-	-	-	3,485,104	3,485,104
Total financial liabilities	**170,193,656**	**269,607,565**	**7,161,938**	**-**	**200,810,365**	**647,773,524**
Net interest rate exposure	304,944,191	17,582,149	(6,315,580)	3,375,557	(159,258,357)	160,327,960
Cumulative interest rate exposure	304,944,191	322,526,340	316,210,760	319,586,317	160,327,960	160,327,960

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) MARKET RISK (Continued)

Interest rate risk - Sensitivity analysis

The Bank monitors the impact that an immediate hypothetical increase or decrease in interest rates of 100 basis points applied at the beginning of the year would have on net interest income.

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at year end. The analysis was prepared using the following assumptions:

- Interest-bearing assets and liabilities outstanding as at 31 December 2010 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 31 December 2010 would increase or decrease by USD 5,553,828 (2009- USD 3,375,265).
- The potential change is 28% (2009- 19%) of the year's profit.

II. Currency risk

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

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

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) MARKET RISK (Continued)

II. Currency Risk (Continued)

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

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

	USD	GBP	EURO	KES	TZS	UGX	MK	OTHER	TOTAL
FINANCIAL ASSETS									
Cash and balances with other banks	119,960,652	29,319	549,425	8,064,748	25,014	83,866	27,845,834	1,648	156,560,506
Hedging derivative	14,155,838	-	-	-	-	-	-	-	14,155,838
Other receivables	3,420,326	-	-	-	-		-	-	3,420,326
Investments in Government securities	-	-	-	-	-	2,625,607	-	-	2,625,607
Trade finance loans	544,318,135	-		163,988	-	863,245	-	-	545,345,368
Project finance loans	281,340,829	-	13,441,798	5,717,898	678,577	55,790	-	-	301,234,892
Equity investments	9,453,237	-	-	-	-	-	-	-	9,453,237
Total financial assets	**972,649,017**	**29,319**	**13,991,223**	**13,946,634**	**703,591**	**3,628,508**	**27,845,834**	**1,648**	**1,032,795,774**
FINANCIAL LIABILITIES									
Short term borrowings	211,696,017	-	1,138,951	-	-	-	-	3,356,960	216,191,928
Long term borrowings	506,352,552	-	-	13,892,072	-	3,691,386	-	-	523,936,010
Collection account deposits	44,406,622	-	-	-	-	-	27,831,823	-	72,238,445
Hedging derivative	-	-	13,407,919	-	-	-	-	-	13,407,919
Other payables	7,389,142	-	-	34,326	-	-	-	234	7,423,702
Total financial liabilities	**769,844,333**	**-**	**14,546,870**	**13,926,398**	**-**	**3,691,386**	**27,831,823**	**3,357,194**	**833,198,004**
NET POSITION	**202,804,684**	**29,319**	**(555,647)**	**20,236**	**703,591**	**(62,878)**	**14,011**	**(3,355,546)**	**199,597,770**

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) MARKET RISK (Continued)

II. Currency Risk (Continued)

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

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

	USD	GBP	EURO	KES	TZS	UGX	MK	OTHER	TOTAL
FINANCIAL ASSETS									
Cash and balances with other banks	119,171,141	53,105	303,668	6,992,468	16,310	109,966	44,672,845	10,458	171,329,961
Investments in Government Securities	-	-	-	-	-	4,417,290	-	-	4,417,290
Other receivables	2,044,257	-	-	-	-	-	-	-	2,044,257
Trade finance loans	366,747,487	-	-	737,126	-	-	-	-	367,484,613
Project finance loans	224,918,193	-	12,326,837	11,440,124	4,241,907	202,942	-	-	253,130,003
Equity investments	9,695,360	-	-	-	-	-	-	-	9,695,360
Total financial assets	**722,576,438**	**53,105**	**12,630,505**	**19,169,718**	**4,258,217**	**4,730,198**	**44,672,845**	**10,458**	**808,101,484**
FINANCIAL LIABILITIES									
Short term borrowing	265,110,810	-	-	-	-	-	-	317,196	265,428,006
Long term borrowings	159,291,900	-	-	19,531,186	2,249,140	4,601,256	-	-	185,673,482
Collection Account Deposits	145,752,435	-	-	-	-	-	44,671,825	-	190,424,260
Other payables	6,190,740	-	-	54,835	-	-	-	2,201	6,247,776
Total financial liabilities	**576,345,885**	**-**	**-**	**19,586,021**	**2,249,140**	**4,601,256**	**44,671,825**	**319,397**	**647,773,524**
NET POSITION	**146,230,553**	**53,105**	**12,630,505**	**(416,303)**	**2,009,077**	**128,942**	**1,020**	**(308,939)**	**160,327,960**

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) CURRENCY RISK (Continued)

Currency risk - Sensitivity Analysis

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

		GBP	EURO	KES	TSH	JPY	Total USD
2010	Net Profit	(36)	88,562	(4,762)	30,845	(59)	114,550
2009	Net Profit	(279,961)	(72,263)	493,577	(243,905)	14	(102,538)

37. CAPITAL MANAGEMENT

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

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

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

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

Capital adequacy is monitored 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 and retained earnings and
- Tier 2 capital: qualifying subordinated loan capital, long-term bonds, collective impairment allowances and unrealized gains arising on the fair valuation of equity instruments held as available for sale.

37. CAPITAL MANAGEMENT (CONTINUED)

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

	2010 USD	2009 USD
RISK WEIGHTED ASSETS		
On-Balance sheet Assets	568,704,588	429,756,884
Off-Balance sheet Assets	48,581,043	85,242,012
TOTAL RISK WEIGHTED ASSETS	**617,285,631**	**514,998,896**
CAPITAL		
Tier 1 Capital		
Paid up capital	145,161,487	133,622,440
Revenue reserve	64,331,406	44,758,731
Intangible Assets	(58,221)	(11,836)
Total Tier 1 Capital	**209,434,672**	**178,369,335**
Tier 2 Capital	-	-
TOTAL TIER 1 + TIER 2 CAPITAL	**209,434,672**	**178,369,335**
CAPITAL ADEQUACY RATIO	34%	35%

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, 2010 and 2009, the Bank complied with its capital adequacy requirements.

38 TRADE FINANCE LOAN PORTFOLIO

		As at 31 December 2010			As at 31 December 2009		
Country	Number of loans	Balance outstanding USD	Amounts due within six months USD	Amounts due after six months USD	Balance outstanding USD	Amounts Due within six months USD	Amounts Due after six months USD
Kenya	7	51,023,559	41,962,264	9,061,295	47,869,275	30,839,236	17,030,039
Malawi	4	53,833,289	35,856,654	17,976,635	29,442,359	22,775,028	6,667,331
Sudan	-	-	-	-	3,202,749	-	3,202,749
Mauritius	1	1,395,728	1,395,728	-	-	-	-
Rwanda	1	20,034,074	34,074	20,000,000	-	-	-
Seychelles	1	30,199,230	16,773,084	13,426,146	-	-	-
Tanzania	1	11,577,474	-	11,577,474	14,020,814	-	14,020,814
Uganda	3	3,801,108	1,436,284	2,364,824	6,023,373	319,648	5,703,725
Zambia	4	225,265,505	205,973,462	19,292,043	232,369,424	226,369,233	6,000,191
Zimbabwe	16	164,445,386	91,752,809	72,692,577	56,198,126	17,167,200	39,030,926
Gross Loans	**38**	**561,575,353**	**395,184,359**	**166,390,994**	**389,126,120**	**297,470,345**	**91,655,775**
Less: Impairment on trade finance loans (note 18)		(16,229,985)	-	(16,229,985)	(21,641,507)	-	(21,641,507)
NET LOANS		**545,345,368**	**395,184,359**	**150,161,009**	**367,484,613**	**297,470,345**	**70,014,268**

39. PROJECT LOAN PORTFOLIO

Country	No of Loans	Amounts Signed USD	Amounts Disbursed USD	Interest Capitalized USD	Amounts Repaid USD	Amounts Written off USD	Exchange Interest Receivable USD	As at 31 December 2010 Rates Adjustment USD	Due Balance Outstanding USD	within One year USD	Due after One year USD	As at 31 December 2009 Within Balance Outstanding USD	One year USD	Due after One year USD
Burundi	7	16,254,019	11,954,974	-	(10,297,768)	(327,251)	103,430	-	1,433,385	248,400	1,184,985	938,511	586,817	351,694
Eritrea	1	403,652	403,652	-	-	(403,652)	-	-	-	-	-	-	-	-
Ethiopia	5	14,464,439	24,464,439	522,176	(20,098,384)	(2,421,192)	913,965	-	3,381,004	-	3,381,004	5,907,490	524,956	5,382,534
Kenya	36	130,825,539	114,343,231	1,532,900	(52,819,030)	(12,589,122)	2,216,493	(149,475)	52,534,997	8,399,968	44,135,029	43,971,148	14,535,220	29,435,928
Malawi	12	55,808,953	40,922,862	-	(20,021,728)	(1,071,561)	140,192	(717,238)	19,252,527	3,290,417	15,962,110	15,320,726	3,737,582	11,583,144
Mauritius	1	8,000,000	7,999,999	-	-	-	-	-	7,999,999	-	7,999,999	6,749,010	-	6,749,010
Rwanda	9	33,342,135	27,477,135	-	(3,567,670)	-	454,208	-	24,363,673	14,644,884	9,718,789	14,624,117	3,280,594	11,343,523
Seychelles	4	24,000,000	19,722,354	-	(313,679)	-	3,867	(108,798)	19,303,744	1,796,040	17,507,704	12,326,837	3,450,000	8,876,837
Sudan	7	17,281,910	17,281,910	5,265,454	(5,732,584)	(3,491,242)	67,005	190,174	13,580,717	914,842	12,665,875	15,558,086	914,842	14,643,244
Tanzania	25	126,275,759	107,820,009	-	(40,940,287)	(3,616,803)	1,530,945	(24,854)	64,769,010	18,327,078	46,441,932	47,750,321	16,401,149	31,349,172
Uganda	29	96,799,301	90,875,585	4,102,237	(32,197,994)	(4,077,677)	1,418,713	(140,365)	59,980,499	13,213,350	46,767,149	58,686,568	13,676,190	45,010,378
Zambia	28	97,452,661	86,924,057	17,744,593	(42,528,319)	(16,549,939)	2,781,141	-	48,371,533	14,361,251	34,010,282	45,515,400	12,298,432	33,216,968
Zimbabwe	20	46,442,215	28,257,334	-	(15,717,828)	(2,927,569)	193,876	(637,040)	9,168,773	2,178,855	6,989,918	7,706,463	3,211,197	4,495,266
Gross loans	**184**	**667,350,583**	**578,447,541**	**29,167,360**	**(244,235,271)**	**(47,476,008)**	**9,823,835**	**(1,587,596)**	**324,139,861**	**77,375,085**	**246,764,776**	**275,054,677**	**72,616,979**	**202,437,698**
Less: Impairment on project loans (note 18)									(22,904,969)	-	(22,904,969)	(21,924,674)	-	(21,924,674)
NET LOANS									**301,234,892**	**77,375,085**	**223,859,807**	**253,130,003**	**72,616,979**	**180,513,024**

40 STATEMENT OF SUBSCRIPTIONS TO THE CAPITAL STOCK

As at 31 December 2010:

	Shares Subscribed	Percentage of total	Value USD	Callable capital USD	Payable capital USD	Instalments Due as at 31.12.10 USD	Instalments paid as at 31.12.10 USD
Burundi	1,230	2.36	27,880,410	22,304,329	5,576,081	3,903,166	3,903,107
China	3,400	6.53	77,067,800	61,654,240	15,413,560	10,789,492	15,413,447
Comoros	54	0.10	1,224,018	979,214	244,804	171,360	122,400
Djibouti	54	0.10	1,224,018	979,214	244,804	171,360	122,400
Egypt	5,340	10.26	121,041,780	96,833,424	24,208,356	16,945,671	12,104,000
Eritrea	240	0.46	5,440,080	4,352,064	1,088,016	761,602	544,000
Ethiopia	5,340	10.25	121,041,780	96,833,424	24,208,356	16,945,670	13,103,957
Kenya	5,340	10.25	121,041,780	96,833,424	24,208,356	16,945,671	16,945,672
Malawi	1,320	2.54	29,920,440	23,936,352	5,984,088	4,188,809	3,590,359
Mauritius	1,566	3.01	35,496,522	28,397,218	7,099,304	4,969,513	7,099,304
Rwanda	1,248	2.40	28,288,416	22,630,733	5,657,683	3,960,336	3,394,568
Seychelles	270	0.52	6,120,090	4,896,072	1,224,018	857,156	857,157
Somalia	318	0.61	7,208,106	5,766,485	1,441,621	1,009,124	720,800
Sudan	4,920	9.45	111,521,640	89,217,312	22,304,328	15,612,866	11,152,000
Tanzania	5,214	10.01	118,185,738	94,548,590	23,637,148	16,545,830	11,818,400
Uganda	3,600	6.91	81,601,200	65,280,960	16,320,240	11,424,048	8,160,000
Zambia	4,082	7.84	92,526,694	74,021,355	18,505,339	12,953,601	9,252,533
Zimbabwe	5,540	10.64	125,575,180	100,460,144	25,115,036	17,580,341	13,257,183
African Development Bank	3,000	5.76	68,001,000	54,400,800	13,600,200	9,520,140	13,600,200
	52,076	**100**	**1,180,406,692**	**944,325,354**	**236,081,338**	**165,255,756**	**145,161,487**

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

As at 31 December 2009:

	Shares Subscribed	Percentage of total	Value USD	Callable capital USD	Payable capital USD	Instalments due as at 31.12.09 USD	Instalments paid as at 31.12.09 USD
Burundi	1,230	2.36	27,880,410	22,304,329	5,576,081	3,345,649	3,345,558
China	3,400	6.53	77,067,800	61,654,240	15,413,560	9,248,136	11,560,057
Comoros	54	0.10	1,224,018	979,214	244,804	146,882	122,400
Djibouti	54	0.10	1,224,018	979,214	244,804	146,882	122,400
Egypt	5,340	10.26	121,041,780	96,833,424	24,208,356	14,525,014	12,104,000
Eritrea	240	0.46	5,440,080	4,352,064	1,088,016	652,810	544,000
Ethiopia	5,340	10.25	121,041,780	96,833,424	24,208,356	14,525,014	12,603,975
Kenya	5,340	10.25	121,041,780	96,833,424	24,208,356	14,525,014	12,104,000
Malawi	1,320	2.54	29,920,440	23,936,352	5,984,088	3,590,453	2,992,000
Mauritius	1,566	3.01	35,496,522	28,397,218	7,099,304	4,259,583	7,099,304
Rwanda	1,248	2.40	28,288,416	22,630,733	5,657,683	3,394,610	2,828,800
Seychelles	270	0.52	6,120,090	4,896,072	1,224,018	734,411	734,755
Somalia	318	0.61	7,208,106	5,766,485	1,441,621	864,973	720,800
Sudan	4,920	9.45	111,521,640	89,217,312	22,304,328	13,382,597	11,152,000
Tanzania	5,214	10.01	118,185,738	94,548,590	23,637,148	14,182,289	11,818,400
Uganda	3,600	6.91	81,601,200	65,280,960	16,320,240	9,792,144	8,160,000
Zambia	4,082	7.84	92,526,694	74,021,355	18,505,339	11,103,203	9,252,533
Zimbabwe	5,540	10.64	125,575,180	100,460,144	25,115,036	15,069,022	12,757,258
African Development Bank	3,000	5.76	68,001,000	54,400,800	13,600,200	8,160,120	13,600,200
	52,076	**100**	**1,180,406,692**	**944,325,354**	**236,081,338**	**141,648,806**	**133,622,440**

ANNEXE 1

SENIOR MANAGEMENT

Dr. Michael Gondwe
President

Mr. Alex Gitari
Director, Finance

Mr. Kifle Hamza
Director, Human Resources and Administration

Mr. Premchand Mungar
Director, Legal and Corporate Affairs

Mr. James Kabuga
Director, Project and Infrastructure Finance

Mr. George Mudange
Director, Trade Finance

Mr. Kingsley Muwowo
Head, Compliance and Risk Management Unit

Mr. Wycliff Bbossa
Head, Portfolio Management

Mr. Denis Kulubya
Head, Information Communications Technology

Mr. Mutahi Mureithi
Head, Communications and Public Relations

ADMINISTRATIVE BUDGET

	2011 USD	2010 USD
Personnel Costs	9,084,400	7,238,200
Board of Governors	226,100	200,700
Board of Directors	405,700	307,200
Consultants and Advisers	1,028,100	869,500
Official Missions	768,900	698,600
Business Promotion	101,300	90,200
Other Operating Expenses	619,300	660,400
Total Operating Expenditure	**12,233,800**	**10,064,800**

PTA BANK

VISION

To be the preferred Development Financial Institution in our region.

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.

CORE VALUES

- **Client Orientation**
- **Integrity**
- **Innovation**
- **Teamwork**
- **Adaptability**

A welcome fit for tourists going to one of the Bank's funded projects.