PTA BANK

EASTERN AND SOUTHERN AFRICAN
TRADE AND DEVELOPMENT BANK

PTA BANK
BANQUE DE LA ZEP

INTEGRATING & ADVANCING THE REGION'S ECONOMIES

PTA BANK • BANQUE DE LA ZEP
30th
ANNIVERSARY

2013

ANNUAL REPORT & FINANCIAL STATEMENTS

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The Chairman

Board of Governors

Eastern and Southern African

Trade and Development Bank

Dear Mr. Chairman,

In accordance with Article 35(2) of the Bank's Charter, I have the honour, on behalf of the Board of Directors, to submit here-with the Annual Report of the Bank for the period 1 January to 31 December 2013.

The report covers the year's activities and audited financial statements as well as the administrative budget for the period 1 January to 31 2014.

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

Oliver S. Saasa (Prof.)

Chairman of the Board of Directors

THE CHAIRMAN'S **STATEMENT**

Despite the global economy being weighed down by lower growth in the emerging economies of Brazil, Russia, India and China, in addition to recording low growth in the Eurozone and elsewhere, Africa continued to register strong performance in 2013 with real GDP growth rate of 5.1% being registered for Sub Saharan Africa. Seven of the 10 fastest-growing economies worldwide were African, namely, Ethiopia, Mozambique, Tanzania, Congo, Ghana, Zambia and Nigeria with an average GDP growth rate of 6.5%. The key drivers of the Continent's positive development included favourable oil and commodity prices as well as growth in such sectors as construction, infrastructure and services.

Against the exciting background of a strong African economic performance, I am delighted to report that, in line with the targets and aspirations set out in our Fifth Corporate Plan (2013 - 2017), the Bank delivered, yet again, another exceptional year of strong financial and operational performance. Our total assets grew by 38% to US$ 2,536.28 million; tier 1/core capital grew by 39% to US$ 476.97 million; net profits increased by 30% to US$ 66.63 million; and non-performing loans ratio decreased to 4.43% in 2013 from 5.22% in 2012. The 2013 results are a testimony to the judicious implementation of a fruitful and focused business strategy as outlined in the Bank's Fifth Corporate Plan.

During the year, the Bank continued to enjoy high confidence levels and support from its shareholders. A clear manifestation of this support is the exceptional performance by shareholders under the Bank's first General Capital Increase, which came to a close in 2013 yielding US$ 111.6 million of the US$ 120 million target, a record 93% implementation level. The decision by shareholders, in September, 2013, to approve a US$ 100 million Capital Increase to be implemented over a three year period (2013 and 2016) is further affirmation of strong shareholder support. The Capital Increase got off to a strong start after the African Development Bank and the National Pension Fund of Mauritius respectively subscribed for US$ 20 million and US$ 10 million of Class B shares.

On behalf of the Board, I extend our deep appreciation to the African Development Bank for providing leadership and increasing its stake in the Bank to 13%, and to the National Pension Fund of Mauritius for taking the lead as the first pension fund to become an institutional investor in the Bank. We note with satisfaction that the African Development Bank and the National Penison Fund of Mauritius have taken the first steps to put in motion the mobilisation of other institutional investors within and outside the Bank's Member States.

During the year, the Board continued to roll out a number of corporate governance reforms and initiatives. We constituted two committees, a Credit and Investment Committee and a Remuneration and Nomination Committee to augment the workings of the existing Audit and Risk Committee. The Board of Governors approved an expansion in the size and composition of the Board of Directors to facilitate the introduction of two independent directors whose positions are due to be filled

during 2014. Additionally, the Board of Directors approved the appointment of Deloitte, Nairobi, as the Bank's internal auditors to replace KMPG who had served the maximum tenure allowable under the Bank's policies. The internal audit function was further strengthened through the recruitment of an Internal Audit Coordinator.

The year 2013 was truly an exciting and rewarding one for the Bank, which was propelled to new heights in terms of performance, re-positioning and governance. The reforms, expanded capital, diversification and improved quality of assets earned the Bank a historic rating upgrade from Fitch Ratings Agency. Based on these and other achievements enumerated in this report, we are confident of the Bank's future prospects and, as a Board, we remain committed to play our part in transforming the Bank into a truly world class development finance institution.

On behalf of the Board of Directors, I wish to place on record our appreciation of the excellent contributions made by the former Board (which was reconstituted in September, 2013) in repositioning the Bank, and guiding it to new performance heights. I salute my predecessor, Mr. Sulleman Kamolleh for his enduring and considerate leadership as Chairman of the Board for most of 2013. I also wish to thank our clients, our lenders and our shareholders for their continued support and confidence. Finally, let me congratulate and thank the President and CEO of the Bank, Mr. Admassu Tadesse on passionately raising the bar and leading the Management Team and Staff of the Bank to achieve yet another year of outstanding results. The energy, diligence and professionalism of the talented PTA Bank Team is inspiring, and unfolding a brighter future for the Bank.

OLIVER SAASA
Chairman, PTA Bank Board of Directors

PRESIDENT'S **REPORT**

STRATEGIC OVERVIEW

Being the first year of the new five year Corporate Plan, 2013 was a pioneering and exciting year on several fronts.

During the year, we focused our attention on growth and diversification and succeeded in closing a record value of infrastructure, project and trade finance transactions. We increased the Bank's levels of intervention in the priority sectors of our Member States' economies including the energy sector where our approvals included renewable energy projects in Kenya and Mauritius. Our direct disbursements were at an all-time high with US$ 1,895.81 million of trade finance direct cash disbursements and US$ 210.90 million of project finance disbursements contributing significantly to the 38% balance sheet growth recorded for the year.

We continued serving well our traditional markets while penetrating new and hitherto underserved markets, raising headroom for our portfolio in high exposure countries where we were approaching our limits. We also gained traction in various strategic business initiatives including funds management, the business area responsible for the implementation of the COMESA Infrastructure Fund.

We achieved these record levels of growth and diversification without compromising portfolio quality or cost control, developments which contributed positively to the realization of a 30% year on year growth in profitability to US$ 66.63 million of net profits and a reduction in the non-performing loans ratio to 4.43% compared to 5.22% in 2012. The Bank's strong performance, increased capitalization, strengthened risk management and enhanced corporate governance culminated in an upgrade by Fitch Ratings from BB- to BB during the year, bringing closer the realization of the strategic objective of attaining investment grade ratings within the current plan period.

We deepened our existing partnerships with strategic shareholders such as the African Development Bank, and initiated new ones with bilateral and other multilateral financial institutions. Accordingly, we secured various new long term lines of credit and technical assistance grants. Importantly, we succeeded in securing accreditation from OECD's Development Assistance Committee, thereby facilitating access to development assistance funding at concessionary terms, a development which will contribute to lowering funding costs and improving competitiveness. We also deepened our international debt capital markets interventions by issuing a new, five year US$ 300 million Eurobond, which incorporated a liability management exercise. The transaction marked yet another milestone in the Bank's resource mobilization strategy of accessing international capital markets to raise significant volumes of medium and long term funding, and reaffirmed the Bank's eminent position as an African issuer of internationally traded bonds.

We scored highly on our capital growth strategy by securing a record US$ 66.10 million of fresh capital injections by our shareholders of which US$ 30 million was new subscriptions by existing and new institutional investors with respect to the newly created Class B shares. Our shareholders also approved a new US$ 100 million recapitalization plan to be implemented progressively by 2016. The new US$ 100 million capital increase got off to a strong start with the African Development Bank and the National Pension Fund of

The Bank's consistency in sustaining improved financial performance culminated in an upgrade by Fitch Ratings from BB- to BB

Mauritus subscribing to US $ 20 million and USD 10 million, respectively, in class B shares in December 2013.

In pursuit of our growth objectives, we made significant investments in our human resource capacity by recruiting new staff and providing training to existing staff. During the year, we recruited senior officers to fill the key positions of Treasurer and Head of Credit Risk. Additionally, we launched a Young Professionals Programme to create a talent pool, and introduced an incentive scheme and the Balanced Score Card tool to reinforce the Bank's performance culture.

In a nutshell, we recorded multiple successes in 2013 and succeeded in anchoring the new 2013-2017 corporate plan on a solid foundation. Looking ahead, economic prospects for Africa remain strong with the IMF projecting average growth rates of around 6% in 2014 which should translate into increased opportunities in projects, infrastructure and trade financing in our key sectors of intervention. The Bank remains uniquely positioned and strongly committed to actively participate in the region's emerging opportunities in pursuit of economic development and regional integration of its Member States.

OPERATIONS

PROJECT AND INFRASTRUCTURE FINANCE

The year saw increased marketing efforts directed at increasing the Bank's financing of priority growth sectors such as agribusiness, energy, manufacturing and heavy industries.

In the year, business promotion workshops were mounted in Uganda, the Democratic Republic of Congo, Ethiopia and Mauritius, to sensitize the business communities on the Bank's product offering. Emphasis on repeat business from existing clients with good track records also helped the Bank to further the demand for its financial products during the year. In line with the syndication strategy in the 5th Corporate Plan, the Bank participated in a total of nine syndicated transactions during the year under review out of which the Bank enjoyed either sole or co-MLA status in three deals. It is notable that participation in the syndications and co-financing arrangements brought in sizeable deals during the year. Diversification of the loan portfolio remained one of the important business development guidelines of the Bank in 2013.

The Bank approved 16 projects, spread out in nine (9) member countries amounting to US$ 289.38 million, surpassing the budget by 20%.

TRADE FINANCE

The year saw strong demand for the Bank's trade finance facilities which arose as a result of continued constraints in credit markets, and the subsequent increased demand for funding from the Bank's member countries. The rising confidence in the Bank across its markets also contributed to increased trade activities seen during the year. In this regard, compared to 2012, the Bank recorded a total of US$ 6.59 billion trade

finance requests only from member countries and marking a 44.5% increase over the previous year.

As informed by the 2013 -2017 Corporate Plan, trade finance's main focus was on diversifying its markets to include new and underserviced markets. During the year, the Bank mounted several business development missions in an effort to penetrate these markets. Business seminars aimed at introducing the Bank and its facilities were held in Addis Ababa, Ethiopia; Kampala, Uganda and Kinshasa, D.R.C.

Accordingly, new and underserviced markets such Egypt, Ethiopia and Sudan came on board contributing almost US$ 1 billion to the pipeline of transactions. Approvals to these new markets accounted for 29% (US$983 million) of total approvals.

The Bank further intensified its efforts at diversifying the sectors of intervention with agribusiness seeing an impressive increase in trade finance approvals. The Bank, subsequently, saw an increase in requests for cash crops, cotton farming and exports under the sector.

As part of the Corporate Plan's strategic initiatives, the Bank is also looking at product innovation to expand client offerings. This led to the structuring and arrangement of a Euro 500 million Strategic Murabaha Import Facility of white petroleum products for the Sudanese Government's Stock Program. This was the first of its kind in the Bank. The Bank is also looking at expanding its currency swap programme to include other countries in the region.

RISK MANAGEMENT

The Bank continues to base its risk management practices on a well-established governance process, with different lines of defense relying both on individual responsibility and collective oversight, and supported by a comprehensive reporting and escalation process. The Bank uses the industry standard three lines of defense model to reinforce segregation of duties, independence and effectiveness. The staff, management and Board are the first line of defense. The risk department acts as the second line of defense complemented by the audit function as the third line of defense.

The risk management function focused on supporting business operations to maximize returns to shareholders within the Bank's risk appetite and risk tolerance levels. The quality of the loan book remained sound. Non-performing loans as a percentage of total loans and advances improved to 4.43% in 2013 (2012: 5.22%).

The Credit Risk Assessment System (CRAS) was rolled out in the 3rd Quarter of 2013. The system shall assist with rating of obligors; provide indicative pricing, credit process flow management and data storage. In a bid to further improve the quality of the loan book, Management introduced a New

Deal Forum (NDF) - at executive management level to vet and screen new credit deals at entry stage. .

The department further strengthened its capacity building through the recruitment of Head, Credit Risk Management and an Internal Audit Coordinator. In addition, the Bank commenced two projects to enhance the Anti-Money Laundering (AML) and Environmental & Social Risk Policy Frameworks. These will be funded by a Technical Assistance Grant provided by French Development Agency (AFD) for capacity and operational enhancement.

RESOURCE MOBILIZATION

During the year, we drew on lines from existing partners, while negotiating and concluding long term lines of credits from the African Development Bank and KFW in the amounts US$ 50 million and US$ 60 million respectively. The Bank also initiated negotiation of other long term lines of credit from new multilateral and bilateral financial institutions that we expect to see committed during 2014. We continued engaging other potential partners including BNDES of Brazil and KFW IPEX of Germany.

In November 2013, the Bank successfully issued and listed, on the Luxembourg Stock Exchange, a second $ 300 million, 5 year Eurobond. Unlike the 2010 debut Eurobond whose proceeds went entirely to fund balance sheet growth, the 2013 issue combined both a balance sheet funding objective as well as a liability management exercise (LME). The LME involved an exchange process in which several investors of the 2010 bond opted to have their bonds redeemed early using proceeds of the new 2013 bond. As a result, US$ 200 million of the 2010 bonds were exchanged with the 2013 bonds thereby lengthening the maturity by almost two years to December, 2018, the maturity date of the new issue. The liability management transaction was the first by a non-sovereign borrower in Africa aside from South Africa.

With a yield of 6.375%, the transaction was priced at the tight end of price guidance and at an exceptional zero basis points new issue premium based on the trading levels of the outstanding 2010 bonds pre-announcement. The new bond was also over 100 basis points inside the reoffer yield for the existing bond at the time of issuance in 2010, reflecting the Bank's improved credit rating.

In September 2013 the Bank's Board of Governors approved a US$ 100 million Capital Increase using either Class A or Class B shares as the instrument of investment. The proposed Capital Increase will complement other capital mobilization approaches including recovery of GCI arrears, institutional membership and the use of Tier II capital instruments. Subsequent to the approval, the Bank has raised a total of US$ 30 million fresh capital of Class B shares from African Development Bank (US$20m) and Mauritius National Pension Fund (US$10m). The Bank will continue to mobilize capital from existing shareholders and other potential institutional shareholders.

The Bank's long-term international ratings were upgraded by Fitch to BB from BB-. The previous year, GCR upgraded the Bank to BB+.

INTERNATIONAL RATINGS

In October 2013, Fitch Ratings upgraded PTA Bank's Long-term Issuer Default Rating (IDR) to 'BB" from 'BB-'. The National Long-term rating was upgraded to ÁAA' (Ken)', from ÁA+ (ken)', and the Short-term IDR affirmed at 'B'. The outlook was rated stable. The upgrade of the rating and the Stable Outlook reflects improved risk management governance structures that have been instituted since 2012.

The Bank's long term international ratings were retained at BB, BB+ and Ba1 by Fitch, GCR and Moody's respectively.

FINANCIAL MANAGEMENT

In 2013, the Bank recorded strong operational and financial performance. Return on equity remained high at 16.23%, higher than the budget of 12.07%, and higher than the base case target of 10.80 in the Corporate Plan for the year 2013.

The Bank recorded a 3.04% return on assets, higher than the 2.62% budget for 2013. These high performance levels were similar to the return on equity of 16.46% and 3.19% return on assets recorded in 2012.

The Bank's net profit for the year rose by 30% to US$ 66.63 million from US$ 51.23 million in 2012, exceeding the US$ 49.11 million budget by 36%. Total interest income grew by 12% from US$ 99.34 million in 2012 to US$ 111.58 million, surpassing the budget by 7%. While lending interest rates during the year recorded a modest decline, the growth in interest income is largely attributable to the portfolio growth recorded during the year.

Net Fees and commission income grew by 31% to US$ 43.68 million from US$ 33.44 million in 2012. The 2013 income is net of the US$ 14.11 million (2012: US$ 10.65 million) of risk down-selling and insurance costs incurred as part of the Bank's strategy to mitigate credit concentration risk. Increased commodity prices coupled with the establishment of new facilities during the year contributed to the significant growth in fees and commissions income. Operating Income, which comprises net interest income and net fee income, was recorded at US$ 101.18 million, a 13% growth from the US$ 89.15 million recorded in 2012.

In 2013, the Bank's operating costs remained contained and relatively low, with the Bank's cost to income ratio falling to 19.31%, which is amongst the lowest levels in the industry. Administration cost to total income and staff to total income, were well within budget at 10.14% and 7.21% compared to the budget 13.50% and 9.36% respectively. Volume wise, operating costs were US$ 15.81 million, compared to US$ 12.33 million, representing a growth level in line with asset and profit growth. The growth enabled the Bank to invest in new operational capacity and strengthen key core functions in the Bank, such as risk management, treasury and finance, which has been particularly welcomed by the Bank's funding partners and ratings agencies.

During the period under review, the Bank's non-performing loan ratio decreased from 5.22% to 4.43%, a 15% improvement. The Bank also recorded a decrease of 14.55% on the impairment charge of US$ 22.30 million compared to US$ 26.10 million in 2012. In volume terms, the level of non-performing loans (NPL) rose by 29% to US$ 92.53 million, from the US$ 71.62 million reported in 2012, far lower than the 53% growth in the portfolio. As at 31st December 2013, cumulative impairment provisions amounted to US$ 60.89 million providing 65.80% coverage of the gross NPL exposure.

HUMAN RESOURCES & ADMINISTRATION

In 2013, in line with high growth and institutional strengthening, the Bank expanded its operational capacity, and strengthened its credit risk, treasury and finance functions, fortifying the human capital base of the institution. Accordingly, several vacancies were filled during the period, notably in risk management, finance and treasury, funds management and corporate governance, through competitive selection. In total, thirty-one staff were recruited to meet the Bank's human resources requirements in 2013.

During the period, a balanced scorecard system and performance incentive system was introduced as part of the Corporate Plan, and reward and recognition initiative approved by the Board of Directors and Board of Governors. Workshops were conducted for all employees and departmental scorecards drafted. The performance based compensation framework was finalized and a reward and recognition programme implemented in accordance with the 2012 performance management results.

In 2013, the Bank launched the Young Professionals Programme as part of its efforts to develop talent and promote diversity. The recruitment of the first batch of young professionals was conducted and three candidates were selected into the programme.

To further enhance the skill levels of staff members, various training activities were undertaken during the year. The training programs covered a variety of areas including sovereign funds, asset and liability management, and environmental and social risk analysis. The department also organized several training programs for the Board members.

CONCLUSION

In this report, I have enumerated some of our accomplishments this year, and look forward to the Bank attaining even greater heights.

I wish to take this opportunity to thank our clients and business partners for their support during the year. I pay special tribute to the Board of Governors and the Board of Directors for their wise counsel, guidance, commitment and support, elements which were instrumental to the realization of our 2013 results. My deepest gratitude goes to my Management Team and Staff of the Bank whose commitment and enthusiasm enabled us to achieve this success.

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

Admassu Tadesse
President & CEO

STATEMENT ON **CORPORATE GOVERNANCE**

Governance Statement

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

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

Corporate Governance Standards

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

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

Governance Structure

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

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

Board of Governors

All powers of the Bank are vested in the Board of Governors. Each Member of the Bank appoints one Governor and one alternate, with the alternate only voting in the absence of the principal.

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

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

The Board of Governors, which has delegated executive powers to the Board, 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 authorized capital, amendment of the Charter and approval of the Bank's audited accounts, are retained by the Board of Governors.

Board of Directors

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

The Charter of the Bank provides that the Bank shall have a Board of Directors, appointed by the Board of Governors. A new Board has been constituted by the Board of Governors at its 29th Meeting held on the 13th September, 2013 in Addis Ababa, Ethiopia. Article 27 (6) of the Bank's Charter provides that the Board of Directors shall be responsible for the conduct of the general operations of the Bank.

In pursuance of Article 27 of the Charter, Member States are grouped into five constituencies. An additional two constituencies are reserved for Institutional Members and Non-African Member Countries. Each constituency is represented by a Director and an Alternate Director. Alternate Directors may be allowed to attend the meetings of the Board and participate in deliberations; however they are not vested with voting right.

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. 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.

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 2013, all Board Meetings satisfied this quorum criterion. The Board is independent of management influence and is effective.

Audit Committee

To assist the Board in the performance of its duties, an Audit Committee of the Board has been established. This Committee operates under a clearly defined mandate which spells out its responsibilities, scope, authority and procedure for reporting to the Board. The Committee serves in an advisory capacity to the Board and ensures that the Bank's assets are safeguarded, adequate internal controls are in place and that material risks are effectively managed.

The Audit Committee has unlimited access to Bank information, the advice and services of Management and may seek independent professional advice on any matter within its purview. External and Internal Auditors are invited to the Committee's meetings whenever necessary. In 2013, the Bank's internal audit function continued to be outsourced to Deloitte. An in-house auditor to oversee the function has since been recruited.

Other Board Committees

The Board at its 113th Meeting held 28th June, 2013 constituted a Credit and Investment Committee (INVESCO) and a Remuneration and Nomination Committee (REMCO), in addition to the already established Audit & Risk Committee (ARCO). Each of the new sub-committees is composed of 4 Directors in addition to the President of the Bank.

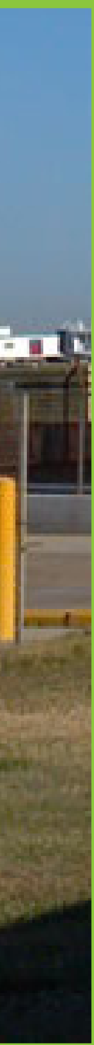
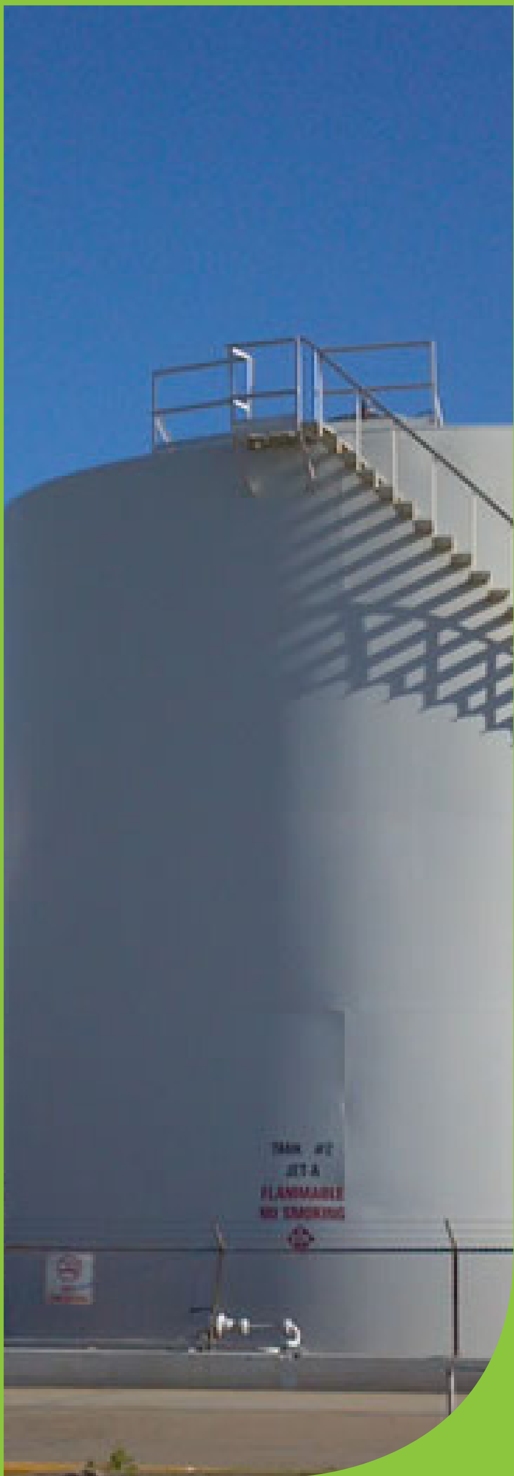
The President

The President is appointed by the Board of Governors, presides over the affairs of the Bank and is responsible for the organization and day to day operations. He/she serves as the Bank's Legal Representative and Chief Executive. The President also serves as an Executive Director on the the Board of Directors, working jointly with the Non-Executive Chairman of the Board of Directors. He/she delivers an Annual Statement and Report to the Board of Governors at its Annual General Meeting, and presents the submissions of the Board of Directors to the Board of Governors. The President is assisted in his or her role by a Management Team.

The table below shows attendance by Board Members in 2013.

	Board Meetings	Audit Committee Meetings	INVESCO Meetings	REMCO Meetings
Mr. Sulleman Kamolleh	4/4		1/1	1/1
Mr. Tarek Fayed	4/4			
Mr. Lawrence Kiiza	2/4			
Mr. Willard Manungo	3/4	3/3		1/1
Mr. Gao Dingxin	4/4	4/4	1/1	
Mr. Sanders Mutandwa	2/2		1/1	
Prof. Oliver Saasa	1/1			
Ms. Kampeta Sayinzoga	1/1	1/1		
Mr. Gerome Kamwanga	1/1		1/1	
Ms. Mariam Hamadou	1/1			1/1
Mr. Rupert Simeon	4/4	4/4		2/2
Mr. Admassu Tadesse	4/4	4/4	1/1	2/2

ECONOMIC **ENVIRONMENT**


GLOBAL ECONOMIC OVERVIEW

The world economy underperformed across almost all regions in 2013. According to the IMF's World Economic Outlook Update published in October 2013, the first half real GDP growth rate stood at an estimated 2.5%. The slow pace in the first half was attributed to rather disappointing growth in both the emerging and developing economies whilst most developed economies continued struggling in an uphill battle against the lingering effects of the financial crisis.

However, the scene improved positively in the second half of 2013 where growth strengthened following a pickup in global activity and world trade. Advanced economies expanded in line with projections whilst emerging market economies grew as a result of a rebound in exports. On the whole, the global growth rate is estimated to have averaged 3.0% in 2013 compared to 3.1% in 2012.

REGIONAL OVERVIEW

Growth in the United States was rather sluggish and is estimated at 1.6 % in 2013, which was significantly lower than the 2.8 % growth of 2012. This was on the backdrop of sizable fiscal consolidation during the first half of 2013 and a series of political gridlocks over budgetary issues. However a rebound in the housing market and higher household net worth saw the underlying recovery gaining ground albeit at a moderated level.

Monetary policy which was very accommodative boosted equity prices to a larger extent than stimulating the real economy. Long-term interest rates rose mid-2013 reflecting fears from the financial market reaction to the possible tapering of the US Federal Reserve's quantitative easing programme. However, the fears were allayed following the Federal Reserve Open Market Committee's decision to leave the level of monthly asset purchases unchanged in view of renewed concerns over structural unemployment.

In the Eurozone, the benefits of earlier policy actions have reduced some significant risks and stabilized financial markets. The zone emerged from recession in the second quarter of 2013 and returned to growth after six quarters of recession. The improvement was as a result of an increase in net exports and to a lesser extent, private and public consumption. However, investment remained weak and unemployment continued to remain high. Furthermore, fiscal austerity programs although reduced in intensity continued to negatively impact the zone, whilst intra-regional and extra- regional demand continued to remain weak.

There was considerable diversity across the Eurozone with Germany and France showing positive growth, while the crisis countries – such as Cyprus, Greece and Portugal - remain generally in a very weak position.. Annually, the Eurozone is estimated to have contracted by 0.4% in 2013 compared to a contraction of 0.6% in 2012.

In Asia, the region is estimated to have grown by 5.2% in 2013 compared to 5.1% in 2012. This pattern was reflected across advanced, developing and emerging Asia. The lower than expected growth was largely because of weaker demand coupled with reduced capital inflows, repriced domestic assets and exchange rates depreciation. In emerging Asia, the more rapid slowdown in the pace of growth in China affected industrial activity through supply-chain links, while India faced consistent supply-side constraints. In advanced Asia, Japan performed better than expected boosted by the expansionary policy which included a fiscal stimulus and large-scale purchases of assets by the central bank. Fixed investment was also a key driver of growth, as a number of public construction projects have been financed by the supplemental budget.

The Middle East and North Africa region is estimated to have grown by 3.6 % in 2013. Growth in the oil exporters decelerated substantially in the first half of 2013, driven by falling oil production. In totality, it is estimated that the region's hydrocarbon output fell by 1% in 2013, with the decline driven broadly by Libya and Iran. While the member countries of the Gulf Cooperation Council (GCC) have been on a stable recovery path, continuing political instability, social unrest, security incidents and geopolitical tensions have hampered a number of other economies in the region.

Latin American and the Caribbean economies are estimated to have grown by 2.6 % in 2013 slightly below the 2012 rate of 3%. This was on the back of dampened activity caused by less supportive external conditions, domestic supply side constraints, infrastructure bottlenecks, lower commodity prices and policy tightening in some cases.

Sub-Sahara Africa (SSA)

Growth remained robust in 2013 reflecting strong domestic demand in most of the region. The region's output is estimated to have grown from 4.8% in 2012 to 5.1% in 2013 as noted in the IMF's World Economic Outlook update published in January 2014. Growth was particularly strong in low-income, fragile states, mineral and other commodity exporting countries. Low income countries grew strongly by 6.5% in 2013 compared to 4.9 in 2012, with the exceptions of Mali and Guinea-Bissau, which were affected by internal civil conflicts. In oil exporting countries growth was lower than the previous year at 5.8%. Angola benefited from a recovery in oil production but not sufficient enough to propel high growth whilst Nigeria's growth which continued to be underpinned by high oil prices was dampened by continued oil value chain mismanagement.

Despite the downward trend in commodity prices there was minimal impact on average headline growth for the region. Almost half of the economies GDPs grew above 5%. By end-August 2013, gold prices had declined by 18% and copper prices by 26% from their recent peaks. Although gold and industrial metal prices recovered some ground after the postponement of tapering by the U.S. Federal Reserve, iron ore and coal prices have been on a declining trend since late 2010. Coffee prices were hit hard by oversupply and plunged 39% from the peak in the second quarter of 2011

It is also worth mentioning that growth has been strong in many non-resource-intensive countries, and has generally been based on improved macroeconomic policies and institutions, leading to better business environments. Countries in this category such as Burkina Faso, Ethiopia, Mozambique, Rwanda, and Malawi have seen tremendous real GDP growth averaging 6.0 – 6.5% in 2013. This has further demonstrated that sustainable growth can be achieved from policy realignment that pay attention to the continued improvement of the domestic economic environment, support productivity in agriculture, and prioritize the health and skills of the population.

Of the three Regional Economic Communities (RECs) of the tripartite, COMESA and EAC showed robust growth in 2013 growing by 5.7% and 6.3% compared to 5.5% and 5.2% respectively in the previous year. The main drivers of growth (bearing in mind country overlaps) that recorded growth of 6% and above were DR Congo, Ethiopia, Rwanda, Tanzania and Zambia. SADC grew at a slower pace from 3.7% in 2012 to only 3.4% in 2013.

Combined fiscal deficit has deteriorated in much of Africa in 2013, as Governments across the continent are under continuous pressure to increase spending on public services, public sector wages and provision of subsidies on food as well as fuel. The deterioration is largely due to lagging revenues in oil-importing countries, while oil-exporting and mineral-rich countries have sizeable fiscal surpluses. The overall fiscal deficit is estimated to have widened to 3.1% of GDP in 2013 compared to 2.8% in the previous year.

The recent widening of the current account deficit in many countries in Sub-Saharan Africa reflects increased investment in export-oriented activities and infrastructure. Exports of goods and services stood at 36.1% of GDP whilst imports of goods and services stood at 39.1% of GDP. The overall current account deficit widened to 4.0% of GDP from 3.0 of GDP in 2012. To a significant extent the increased deficits have been financed by foreign direct investment (FDI) and capital transfers. Over the past four years, more than 50% of the current account deficit in sub-Saharan Africa has been funded by FDI (including intercompany loans) – implying that in the long run these will moderate as projects come into production. Nevertheless, there are some economies in which the deficits have been accompanied by lower saving or higher external borrowing, giving rise to some concern over high repayment costs.

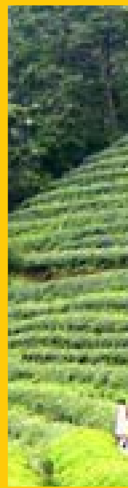
Given the region's improving investment climate the past 3-years has seen foreign portfolio flows to sub-Saharan growing considerably. The region's main beneficiaries have been left relatively unscathed by the global financial market turbulence reflecting relatively illiquid financial markets but also strong macroeconomic fundamentals and prospects. However, with increasing integration with global financial markets, the region's markets are likely to become increasingly vulnerable to global financial shocks. According to the IMF's Regional Economic Outlook for Sub-Saharan Africa (October 2013), a sample of COMESA, SADC and EAC countries have begun to make some strides in ensuring appropriate policy measures on managing capital flow management measures. Tanzania and Kenya have instituted restrictions on non-resident purchase of government securities whereas Zimbabwe has restricted the maximum total primary issuance of bonds held by nonresidents to a maximum cap of 35%.

Outlook for 2014

Following the signs of a recovery in the latter half of 2013, the global economic growth is expected to pick up in 2014 to average an estimated 3.7% propelled largely by a recovery in the advanced economies. Among the advanced economies, the US is expected to grow by 2.8% spurred by the growth momentum of the second half of 2013. The Eurozone is expected to turn the corner with growth projected at 1% supported by a rebound in exports whilst Japan's growth will moderate with growth remaining unchanged at 1.7%

Emerging markets and developing economies are forecast to register growth of 5.1% in 2014. Building on its strong rebound in second half of 2013, the Chinese economy will continue to grow largely from accelerated investment. Many of the other emerging markets and developing economies will benefit from stronger external demand in advanced economies as well as China.

For Sub-Sahara Africa, outlook continues to remain positive with growth projected at 6.1% in 2014. The underlying factors including strong domestic demand associated with investment in infrastructure and export capacity in many countries remain. On a sub-regional basis, COMESA and EAC are forecast to grow above Sub Sahara average expanding strongly at 6.6% and 6.1% respectively while SADC will expand below the average at 4.3%.

TRADE **FINANCE**

Performance Review

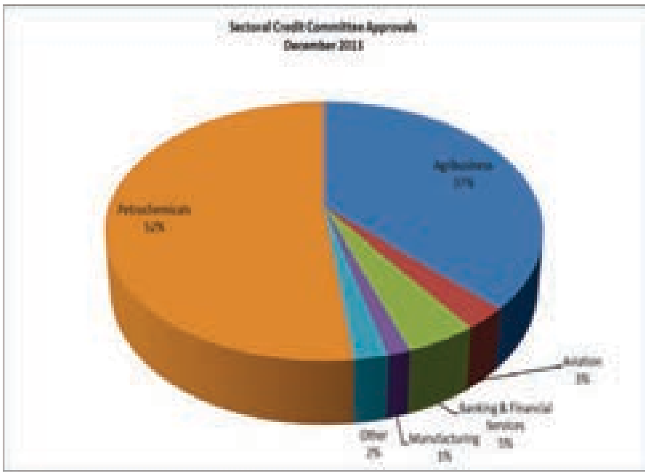
The economic environment observed during 2013 positively impacted the Bank's trade operations and activities. The review period saw strong demand for the Bank's trade facilities which arose as a result of the tight international credit situation in the international market and the subsequent increased demand for funding from the Bank's member countries. The rising confidence in the Bank across its markets also contributed to increased trade activities seen during the period. The the Bank recorded a total of US$ 6.59 Billion Trade Finance requests arising from member countries, representing a 44.5% increase over the previous year.

Loan Approvals

The operating environment coupled with sustained Bank activities aimed at business development; as well as more efficiency in deal processing and improved technology in the Bank, all contributed to raising total approvals recorded for Trade Finance which increased from US$ 3.4 Billion in 2012 to a level of US$ 3.6 billion in 2013, an increase of t 6% year on year. The number of Trade Finance approvals also rose from 62 in 2012 to 66 in 2013. These approvals were spread across 8 member countries. Three of the approvals were from two new markets, namely Egypt and Ethiopia.

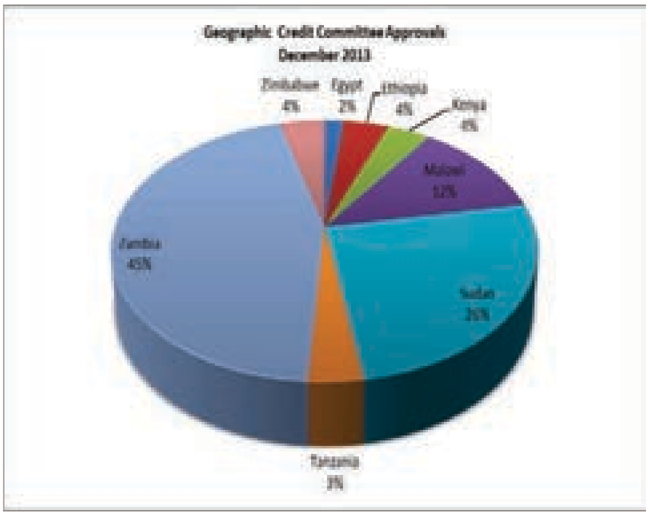
Approvals by Sector

Keeping in line with previous periods, the Bank's Trade Finance approvals by Sector in 2013 continued to be dominated by the Petrochemical sector which accounted for 52% of total approvals. Agribusiness accounted for the second largest share of Trade Finance Approvals at 37% of total Trade Finance approvals. The Banking and Financial Services, Aviation and Manufacturing sectors were third, fourth and fifth in terms of share of trade finance approvals at 5%, 3% and 1%, respectively.



Approvals by Country

Under country approvals, Zambia remained the largest recipient of the Bank's Trade Finance approvals in terms of volume due to the size of the intervention in the Petrochemical sector required by the Member State. The country received a total of US$ 1.6 billion in approvals during the review period, which accounted for 45% of the approvals. Sudan had the second largest approval with over US$ 918 million accounting for 26% of the approvals. The remaining balance was spread across six countries namely Malawi (12%), Ethiopia (4%), Zimbabwe (4%), Kenya (4%), Tanzania (3%) and Egypt (2%).



Disbursements

Keeping in line with historic trends, issuance of Letters of Credit remained the Portfolio's mainstay of business with $1.994 billion issued as compared to US$ 1.895 billion for direct disbursements and US$ 34 million for Guarantees.

STRATEGY EXECUTION

As informed by the 2013 -2017 Corporate Plan, Trade Finance's main focus was on diversifying its markets to include new and underserviced markets. During the review period, the Bank thus mounted several business development undertakings in an effort to source business from these markets. In this regard, Business seminars aimed at introducing the Bank and its facilities were held in Addis Ababa, Ethiopia; Kampala, Uganda and Kinshasa, D.R.C. In addition, several smaller business development missions were also mounted during the review period. These activities saw the Bank increase its pipeline of transactions to US$ 6.59 Billion compared to a level of US$ 4.5 billion recorded the previous year.

Accordingly, new and underserviced markets such as Egypt, Ethiopia and Sudan came on board contributing almost US$ 1 billion to the pipeline of transactions. Approvals to these new markets amounted to US$ 983.1 million, which accounted for 29% of total approvals under Trade Finance.

The Bank further intensified its efforts at diversifying the sectors of intervention with Agribusiness seeing an impressive increase in Trade Finance approvals. The Bank, subsequently, saw an increase in requests for tobacco funding and also continued to fund Cotton farming and exports under the sector.

Under the Corporate Plan, the Bank is also looking at product innovation and investment as one of the core plan activities. In this regard, a Euro 500 million Strategic Murabaha Import Facility to facilitate importation of white petroleum products under the Sudanese Government's Strategic Stock Program was arranged during the review period. This is the first of its kind in the Bank.

The Bank is also looking at expanding its currency swap programme to include other countries in the region.

KEY TRADE FINANCE FACILITIES

Reserve Bank of Malawi, Malawi

During the review period, the Bank put in place a strategic import finance facility in favour of the Reserve Bank of Malawi. The Facility, which falls under the Bank's Currency Swap programme, is aimed at facilitating the importation of strategic commodities including fertilizers, petroleum products and medicine.

Eastern and Southern Africa Value Chain Facility - COMESA

In 2013, PTA Bank, working with Alliance One International Inc. put in place a facility aimed at supporting small holder tobacco farmers by providing them with funding for farming inputs. The facility is aimed at supporting tobacco farmers in Kenya, Malawi, Tanzania, Zambia and Zimbabwe.

Ministry of Mines, Energy and Water Development, Zambia

The Bank, in 2013 continued working with the Zambian government through the Ministry of Mines, Energy and Water Development to facilitate the importation of strategic crude and refined products for resale within the country.

Ministry of Finance and National Economy, Sudan

The Bank put in place a strategic facility for the importation of petrochemicals and Agribusiness products in favour of the Sudanese Government through the Ministry of Finance and National Economy.

Dalbit Petroleum, Kenya

The Bank, during the review period, also put in place a Facility in favour of Dalbit Petroleum for the supply into Zambia

of refined oil products. This Facility contributes to Zambia's requirement of refined petroleum products.

Ethiopian Airlines

The Bank participated in a syndicated facility arranged on behalf of Ethiopian Airlines for pre delivery payments (PDP) of Aircrafts. The Facility is meant to increase the current fleet of aircrafts that the airline has and help with the expansion programmes of the company.

Habesha Cement Share Company, Ethiopia

PTA Bank provided a Bridge Finance Facility to finance procurement of machinery and equipment for construction of a cement plant in Ethiopia. The Facility was in favour of Habesha Cement Company.

US Department of Agriculture

The Bank qualified as an issuing bank under the US Department of Agriculture (USDA) GSM 102 programme, a liquidity support mechanism which makes available funding for African entities in the Banks member countries for purposes of importation of Agricultural commodities from the US.

Egyptian Banks

The Bank provided unfunded Lines of Credit to benefit some Egyptian Banks. This marked the first time the Bank was providing trade facilities to an Egyptian bank.

Ministry of Economy and Finance, Djibouti

The Republic of Djibouti, through the Ministry of Economy and Finance was a recipient of a Facility from the Bank during the review period. The Facility was aimed at facilitating the Procurement of equipment including voltage transformers, trucks and trailers and heavy fuel and other industrial inputs to expand the capacity of an existing cement plant in Djibouti.

OPERATIONS

PROJECT AND INFRASTRUCTURE FINANCE

Business Development

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

During the year, business promotion workshops were mounted in Uganda, Democratic Republic of Congo, Ethiopia and Mauritius to sensitize the business communities on the Bank's product offering. Emphasis on repeat business from existing clients with good track records also helped increase the demand for its financial products during the year. In line with the syndication strategy in the 5th Corporate Plan, the Bank participated in a total of nine syndicated transactions during the year under review out of which the Bank enjoyed either sole or co-MLA status in three deals. It is notable that participation in the syndications and co-financing arrangements brought in sizeable deals during the year. Diversification of the loan portfolio remained one of the important business development guidelines of the Bank in 2013.

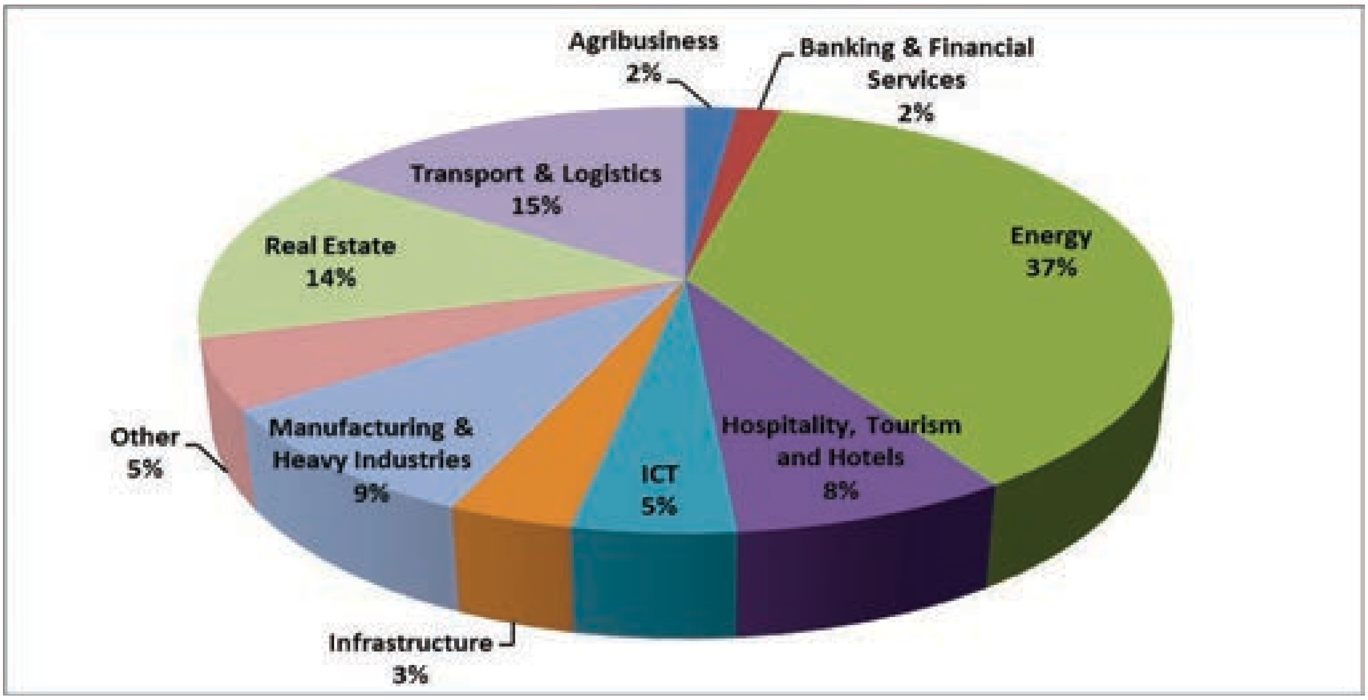
Loans Approved

The Bank approved a total of US$ 289.38 million for 16 projects spread out in nine (9) member countries. This approval figure translates into 120% of the budget for the year, which was US$ 242 million. In comparison to the performance in 2012 that stood at US$297.3 million, there was a slight decrease of about 3%. Further, details of the Bank's interventions in project and infrastructure finance are given in the sections below.

Approvals by Sector

The sectoral distribution of the approved projects is as follows: Agri-business – US$6 million (2%); Banking & Financial Services – US$5 million (2%); Energy – US$107.1 million (37%); Hospitality, Tourism and Hotels – US$22.5 million (8%); ICT – US$13.3 million (5%); Infrastructure US$10 million (3%); Manufacturing & Heavy Industries – US$25.7 million (9%); Real Estate – US$40 million (14%); Transport and Logistics US$45 million (15%) and Others accounting for US$14.8 million (5%).

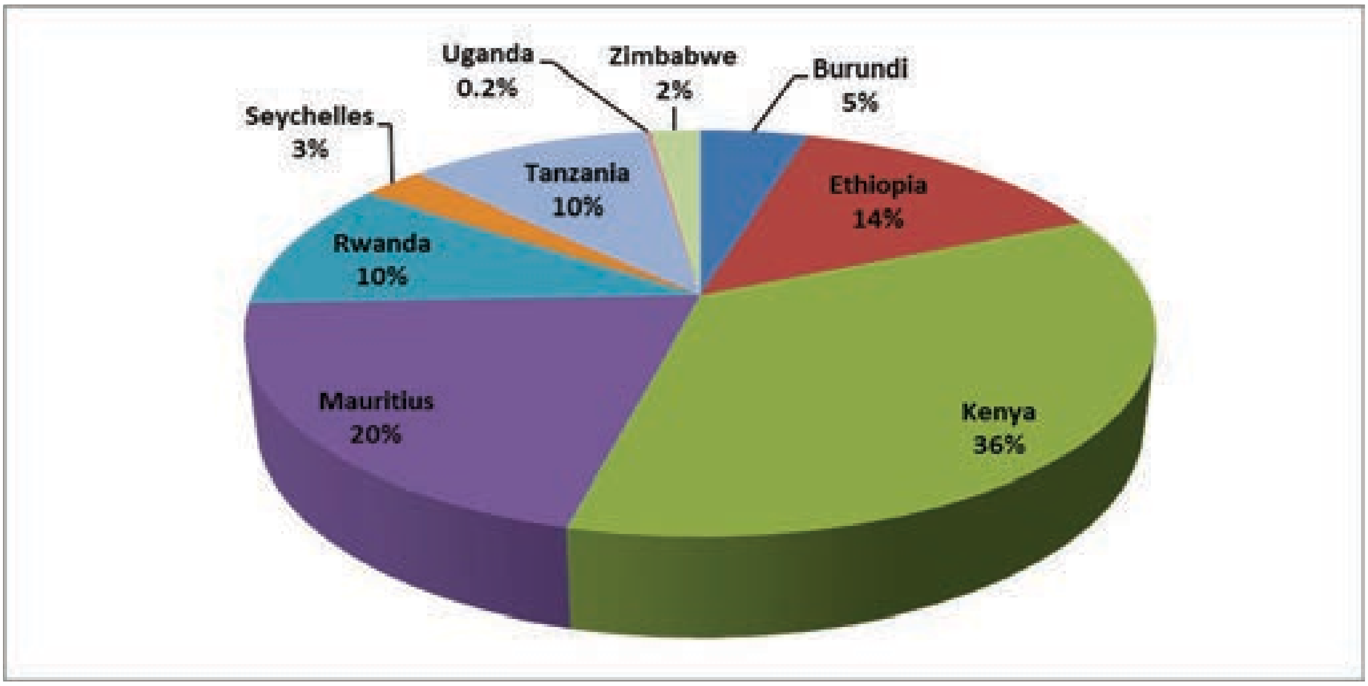
Chart 1 - Approvals by Sector



Approvals by Country

The geographical distribution of approved project finance interventions for the year was spread in nine Member Countries. The distribution is as follows: Burundi – US$ 13.3 million (5%); Ethiopia - US$ 40 million (14%); Kenya – US$ 102.8 million (36%); Mauritius – US$ 59.1 million (20%); Rwanda – US$ 30 million (10%); Seychelles – US$ 7.5 million (3%); Tanzania – US$ 30 million (10%); Uganda – US$ 0.7 million (0.2%); and Zimbabwe – US$ 6 million (2%).

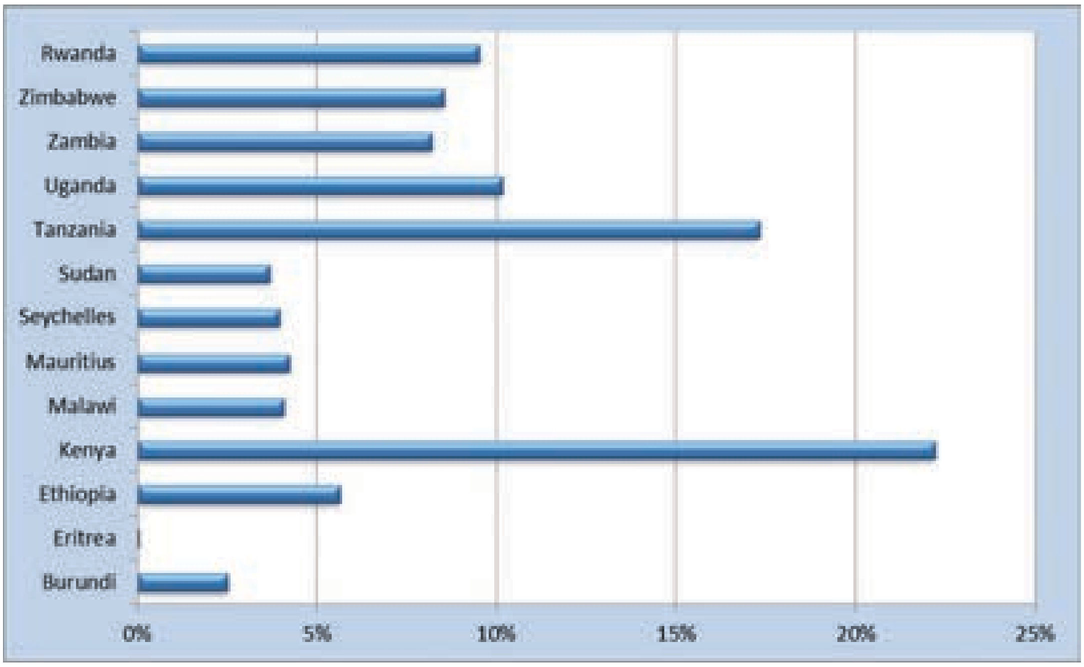
Chart 2 - Approvals by Country



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

Chart 3 – Cumulative Project Approvals by Country

The overall distribution of the Bank's intervention reflects the opportunities available from time to time in each Member State.



The Bank, however, strives to diversify its intervention across its Member States and across various sectors so as to spread its investments and mitigate concentration risk.

Project Commitments

A significant milestone in project finance is commitments and conclusion to fulfilment of conditions precedent to disbursement to facilitate draw down of approved loans. In the last few years, management has been reviewing the internal processes aimed at shortening the period between loan approval and disbursements.

In 2013, a total of 18 projects reached commitment stage. The value of projects committed amounted to US$ 296.02 million being 129% of the annual target of US$ 230.03 million.

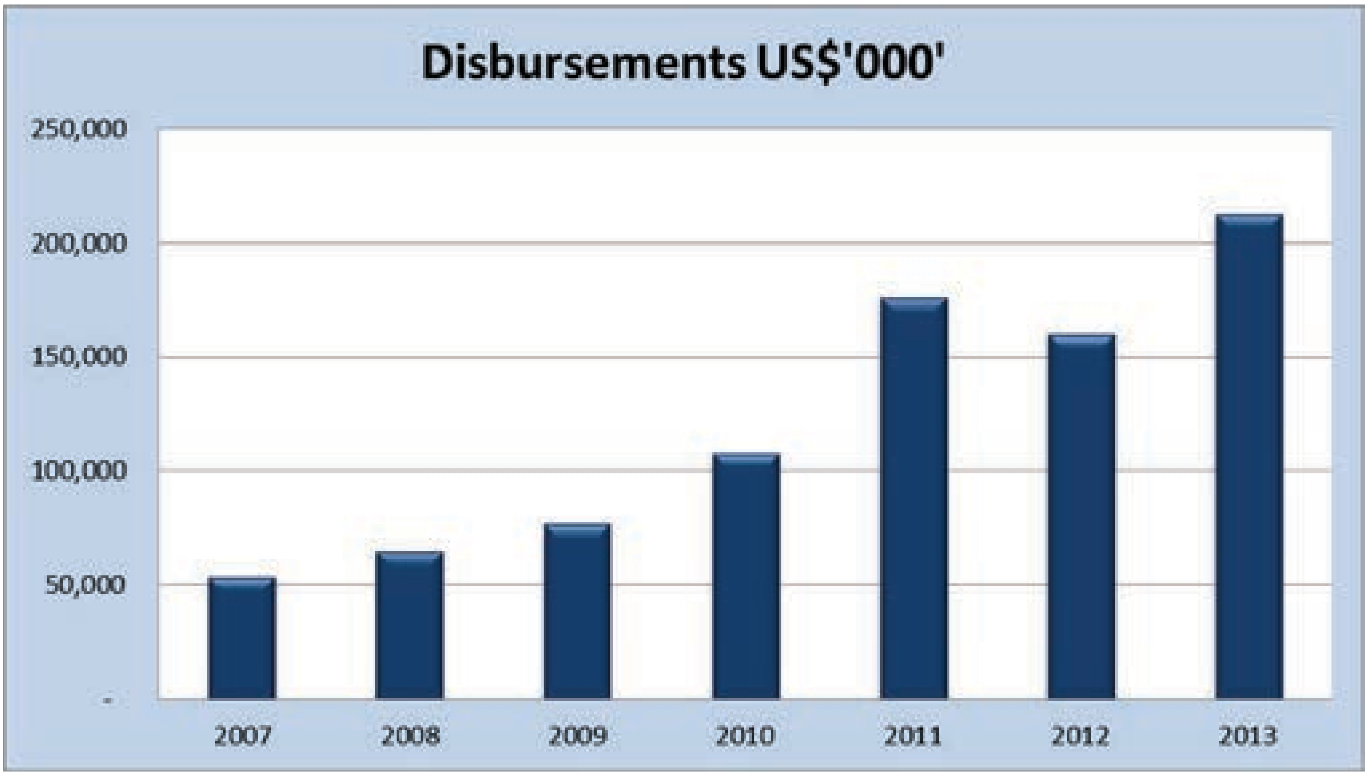
Project Disbursments

In the year under review, PIF loans disbursed amounted to US$ 210.9 million (spread in twelve Member Countries), which compares favorably with the annual budget of US$ 207 million and US$ 160.5 million achieved in 2012.

A significant number of disbursements are effected through Letters of Credit (LCs) established in favour of machinery/equipment suppliers. The LCs have varying maturities and are only recognized as contingent liabilities in the balance sheet. The loans are booked upon settlement of matured LCs. In addition to the loans booked therefore, Letters of Credit (LC) opened and outstanding at year end in respect to PIF loans amounted to US$ 21.63 million bringing the total disbursements and LCs to US$ 234.55 million. While these LCs represent irrevocable repayment commitments on behalf of the clients, they have varying maturities.

The Table below shows the annual growth of disbursements in the last seven years.

NB: The amounts shown do not include outstanding Letters of Credit.



MAJOR PROJECT FINANCE TRANSACTIONS

$120m
MLA
Kwale International
Sugar Co. Ltd

$35m
Eden Island Dev. Co. Ltd
Seychelles
Malawi

$60m
Lead Arranger
RwandaAir Express S.A.R.L

$40m
Ethiopian Airlines
Ethiopia

$600m
Lead Arranger
Government of Kenya

$15m
Syndicated Facility
Government of Tanzania

$8.4m
Peterhouse School Limited
Zimbabwe

$20m
Ndola Energy Co. Limited
Zambia

$11m
Kenya Ports Authority
Kenya

$29m
Tanzania Airports Authority
Tanzania

$20m
Tanzania Ports Authority
Tanzania

$18m
Hotelier Limited
(Radison Blu Hotel Lusaka)
Zambia

$11m
Civil Aviation Authority
Uganda

$21.1m
Sudanese Sugar
Co. Ltd. Sudan

PROFILES OF PROJECTS APPROVED

The Bank approved the following projects in 2013:

Burundi Backbone Systems – Burundi

Burundi Backbone Systems ("BBS") was created as a Special Purpose Vehicle to implement Burundi's National Fibre Backbone project. The project is being implemented under a Public Private Partnership ("PPP") between the Government of Burundi ("GoB") represented by the Secretariat Executif des Technologies de l'information et des Communications ("SETIC") and BBS. The Bank approved a facility amounting to US$ 13.27 million of which US$ 11.5 million was a term loan to finance the purchase and installation of fibre optic cable, various telecommunications and office equipment, furniture and fittings, software and specialized consulting services. As part of the package, a guarantee facility of US$ 1.77 million was extended to BBS in favor of SETIC for its obligations under the Private Public Partnership (PPP) arrangement to ensure that BBS meets all its obligations including completing the entire roll out, network quality, non-discriminatory pricing and universal access.

Felicite Island Development Ltd – Seychelles

A term loan of US$ 7.5 million was approved by the Bank for Felicite Island Development Ltd (FIDL) to part finance the construction and furnishing of a luxury upmarket holiday resort comprising resort villas which will operate under FIDL's wholly owned subsidiary, Zil Pasyon Resort Ltd on Felicite Island. The project is co-financed with the Cairo based Afrexim bank and Novobanq, the biggest commercial bank in Seychelles.

Kenya Airways (KQ) – Kenya

The Bank approved a facility amounting to US$ 45 million for the purchase of Boeing and Embraer aircrafts in the airlines expansion programme. This is a syndicated facility amounting to US$ 2 billion for the purchase of various aircraft for Kenya Airways ("KQ") as part of its fleet expansion program code- named "Project Mawingu".

Ethiopian Airlines Enterprise – Ethiopia

A term loan of up to US$ 40 million was approved for Ethiopian Airlines Enterprise to part finance the construction of 1186 housing units to be sold to its employees as part of its employee retention strategy. The project consists of two phases involving construction of 2502 houses at a total cost of about Birr 2.01 billion (about US$ 111 million) out of which Phase-I (1186 housing units) is estimated to cost about Birr 1.04 billion (about US$ 57 million).

Lake Turkana Wind Power – Kenya

A term loan of EUR 20 million (equivalent to US$ 26 m) was approved for Lake Turkana Wind Power (LTWP) to finance the development, construction and operation of a 300MW wind farm. LTWP is a special purpose vehicle that was formed to develop, finance, build and operate the 300 MW wind farm near Loiyangalani town in Marsabit County approximately 10Km east of Lake Turkana in north-eastern Kenya.

This is a syndicated transaction bringing together several international and regional financial institutions.

Cimetrie du Rwanda (CIMERWA) – Rwanda

The Board approved the Bank's participation in a syndicated facility to raise US$ 103.7 million for CIMERWA Ltd to finance the establishment of a new 600,000 MTPA cement manufacturing plant located at Mashyuza, Rusizi, Rwanda.

The Bank was also appointed as Co-Arranger alongside Bank of Kigali of which the Bank will participate to the tune of US$ 25 million.

LUUKA Plastics Limited – Uganda

LUUKA Plastics Limited (LPL) is an existing client of the PTA Bank whose first facility of US$ 0.5 million approved in 2003 was successfully repaid. The second facility of US$ 0.6 million, which was approved in 2007, is fully drawn and is performing satisfactorily. The Bank approved a third facility of US$ 0.7 million to part finance the installation and commissioning of a third Polypropylene (PP) woven bags manufacturing line. The third PP woven bags line will have capacity to produce 450kgs of fabric per hour. Line one and two have a combined capacity of 450kgs of fabric per hour.

This is a highly performing SME which has received the Bank's support over the years to grow and strengthen its business.

Tanzania Electric Supply Company Limited (TANESCO) – Tanzania

The lead arrangers of the TANESCO TZS 408 Billion (US$ 250 Million Equivalent) Government Guaranteed Syndicated Term Loan Facility invited the Bank to participate in the onshore facility. The Bank approved the participation in the onshore facility at a maximum of US$ 20 million, equivalent in Tanzania Shillings which will be used to finance lease and rental expenses due to Independent Power Plants.

Sapmer - Mauritian Perimeter – Mauritius

A term loan of US$ 8 million to finance the acquisition of two new -40°C deep freeze tuna purse seiners fishing vessels for the purpose of expanding Sapmer's super frozen tuna activity. This will enable Sapmer to establish itself as a leader in the premium/value-enhanced segment and to increase its market share in this niche market.

Consortium Suzlon Pad Green Company Limited (CSPG) – Mauritius

A term loan of US$ 36.1 million was approved to finance the development, construction and operation of a 29.4MW wind farm by CSPG, a special purpose company formed to undertake the 29.4 MW wind farm at Plaine Sophie which is located near Mare Aux Vacoas in Mauritius.

PTA Reinsurance Company (PTA-Re) – Kenya

The Bank has been a shareholder of PTA Re since 1996 when the first equity investment was approved. Since then, the Bank has participated in one equity call to support PTA Re's capital growth. In 2013, the Bank approved an additional equity investment in PTA-Re amounting to US$ 6.8 million, and at the same time, capitalized its portion of 2012 dividends amounting to US$ 162,470. The current shareholding of the Bank in PTA Re stands at 12.54% of the capital stock.

Ministry of Finance, The United Republic of Tanzania

The Bank approved a further term loan of US$ 10 million to the United Republic of Tanzania being part of a syndicated global medium term facility for the Government of Tanzania amounting to US$ 350 million. The financing is to be used for strategic road infrastructure projects being one of the key priority areas targeted for strategic spending by the country in line with the government's continued efforts to address infrastructural challenges.

Dairibord Holdings Limited (DHL) – Zambia

DHL is an existing client of the Bank whose first term loan of US$ 4.02 million approved in July 2011 has been fully utilised. The Bank approved a second medium term loan of USD 6 million for the purpose of retooling of its Group operations.

Kinangop Wind Park Limited

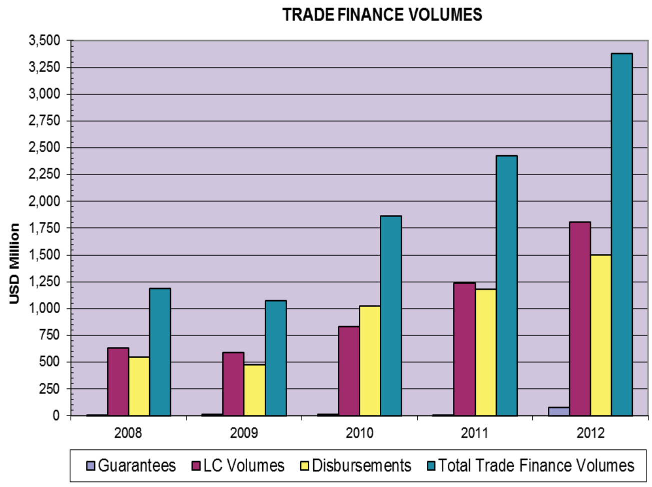
The Bank approved a term loan of US$ 25 million to participate through down selling in an underwritten long term facility of up to US$ 90 million to Kinangop Wind Park ("KWP"). The long-term facility will be for the purposes of designing, construction, erection, commissioning and operation of the 60MW wind farm in Kinangop, Kenya. KWP will sell power to Kenya Power and Lighting Company under a 20-year Power Purchase Agreement.

Cape Macondé Hotel Limited – Mauritius

The Bank participated in the syndicated debt financing of the hotel through a US$ 15 million long-term loan facility. The long term loan will be utilized to part finance construction costs specifically civil works, super structure, finishes, furniture, fittings and equipment.

Development Bank of Rwanda (BRD) – Rwanda

The Bank approved a Line of Credit of US$ 5 million to BRD for on-lending purposes to the SME sector. BRD is the investment arm of the Government of Rwanda. It is regulated by the National Bank of Rwanda (BNR).



PORTFOLIO MANAGEMENT

Portfolio overview

The Bank's gross loan portfolio grew by 53% from US$ 1.37 billion at the end of 2012, to US$ 2.08 billion at the end of 2013. The remarkable growth was driven by the Bank's strategic financial intervention in Member States specifically in structured trade and commodity finance space identified as critical in driving intra-regional trade and economic growth in the sub-Saharan Africa.

In line with the Corporate Plan, the Bank intensified effort to grow its business in the previously underserviced regional markets and sectors. During the year, significant growth in funding transactions in the agribusiness sector was recorded, while at the same time momentum was maintained in the petrochemical sector financing to various member states, sectors that remain strategically critical to intra-regional trade. Significant and visible inroads were also made in the clean and renewable energy, infrastructure and manufacturing sectors.

Mindful of the inherent and emergent risks associated with a growing loan portfolio, the Bank continues to enhance its monitoring and portfolio risk management systems to ensure early detection of distress signals and remedying attendant risks. Frequent portfolio and individual asset stress testing is undertaken and applicable risk mitigation measures to improve portfolio quality are implemented. As a result, the Bank has witnessed a significant decline in the non-performing assets ratio from 5.22% at the end of 2012 to 4.43% at the end of 2013.

In driving economic development, creation of employment remains a major challenge to member states. Consequently, the Bank has a catalytic role of creating employment through channeling funds to viable project infrastructure and trade finance transactions. Specifically, in the banking and financial sector, the Bank indirectly channels funding to local financial institutions that target the youth and women entrepreneurial programs. In the year under review, the Bank approved project and trade finance transactions expected to generate directly 14,800 jobs. Cumulatively, the direct employment opportunities created and supported by the Bank's intervention in the region is estimated at 75,500 over the last five years. For all new employment opportunities created, there has been notable consistency for women labour force representation with female employees comprising approximately 30%.

The Bank recognizes the importance of sustainable financing, the need to address emerging risks associated with climate change and the necessity to enhance environmental and social management systems. In this regard, the Bank has continued to support investments in clean and renewable energy sectors critical for green growth and sustainable development. In 2013, the Bank invested in clean energy projects which are expected to provide 390 megawatts of renewable energy per annum within the region. As a responsible financier, the Bank strives to ensure that project promoters appreciate the impact of their projects on the environment and in the communities they operate. The Bank's credit risk management system assesses and proposes mitigants where necessary to the environmental and social risks posed by any project prior to funding, and continuous monitors and enforces compliance with national laws and international best practice.

COMPLIANCE AND RISK MANAGEMENT

To contribute to its long-term financial sustainability, the Bank positively embraced risk management by abiding to all risk and compliance related matters. This was achieved through adoption of risk management practices, which include compliance with internal policies and procedures. The Bank has a strong risk culture and follows world-class enterprise-wide risk management, which aligns strategy, policies, people, processes, and technology and business intelligence in order to evaluate, manage and optimize the opportunities, threats and uncertainties.

The Bank's Enterprise-wide Risk Management Framework (ERMF) places emphasis on accountability, responsibility, independence, reporting, communications and transparency and comprises 12 key risk categories that are managed, measured and reported on by all functions across the bank. The Bank compartmentalizes the 12 risk categories into two broad types of risks. The first type of risk include 'credit risk' and 'market risk', which are actively taken to actively generate profits, and the second is 'operational' risk that arises passively in the course of carrying out business. These risks were well managed throughout the year.

The Board of Directors has ultimate responsibility for risk management, which includes evaluating key risk areas and ensuring the process for risk management and systems of internal control are implemented. It has delegated its risk-related responsibilities primarily to three committees, the Bank-wide Integrated Risk Management Committee (BIRMC), the Audit Committee and the Investment and Credit Standing Committee (INVESCO), with each committee focusing on different aspects of risk management.

The Bank continued to base its risk management framework on a well-established governance process, with different lines of defense and relied both on individual responsibility and collective oversight, supported by a comprehensive reporting and escalation process. The Bank uses the industry standard three lines of defense model to reinforce segregation of duties and independence within the model.

Overview of the Bank's risk management framework

Internal Control Framework	
1st line of defense	All staff BIRMC Board
2nd line of defense	Compliance & Risk Department
3rd line of defense	Internal Audit External Audit

Review for the Year

Despite the challenging macroeconomic environment, the Bank's risk management function focused on supporting business operations to maximize returns to shareholders within its risk appetite and risk tolerance. The quality of the loan book remained sound. Non-performing loans as a percentage of total loans and advances improved to 4.5% in 2013 (2012: 5.4%). Early-cycle delinquencies improved as benefits of effective collections and sound credit policy became evident. Timely write-offs and other loan restructuring initiatives also contributed to the significant improvement in impaired advances. The credit-loss ratio improved to 1.33% (2012: 2.15%) partially due to the asset mix and growth of the book. The specific coverage ratio marginally declined to 65.8% in 2013 from 67.4% recorded in 2012, against a set threshold of 70%.

Business operations were further assisted through the successful implementation of the Credit Risk Assessment System (CRAS), in the 3rd Quarter of 2013. The system shall assist with rating of obligors; provide an indicative pricing, credit process flow management and data storage. During the review period, the Bank in its effort to improve the quality of the loan book also introduced New Deal Forum (NDF)- a new committee to vet and screen new credit deals at entry level.

The department further strengthened its capacity building through the recruitment of Head, Credit Risk Management and an Internal Audit Coordinator.

In 2012, the Bank obtained a Technical Assistance Grant from the French Development Agency (AFD) for capacity enhancement and operational enhancement. During the period under review, various projects, including Anti-Money Laundering (AML) Policy Framework, were earmarked for review and revision under the grant scheme. Relevant staff will also be trained following this operational enhancement which is aimed at strengthening the Bank's overall Risk Management Framework. The Bank embarked on the process complying with the procurement requirements of the Grant in 2013 and the revised framework to be implemented in full by end of 2014.

Focus areas for 2014

To build on the Bank's solid risk culture, looking forward the strategic emphasis will be on the following:

Enhancing risk assessment analytics across the Risk Universe and expand range of compliance environment. This will involve procurement of appropriate risk assessment tools to achieve efficiency and effectiveness. The CRAS credit tool will be refined and enhanced in 2014. Other risk assessment tools to be rolled out include: Treasury Management System (market/liquidity risk); ORS (Operational Risk) and scored questionnaire for other risks such as reputational, legal and organizational.

Implementing robust and real time risk and compliance framework and integrating it with Bank's core IT platform; SAP to achieve timely and instant risk information, implementing loan rating system at both single obligor and portfolio levels; automation of compliance breaches.

Realign Bank's risk appetite/tolerance levels to align with business strategy and initiatives of FYCORP V: Review of prudential lending limits in line with CRAS rating framework, Bank's risk capital and best practice.

Implementing resilient and tested Business Continuity Plans across the bank.

Strengthening risk management capacity: re-structure risk department with a focus for specialization and building centers of excellence in key areas of credit, market/liquidity, operational and compliance risk.

HUMAN RESOURCES & ADMINISTRATION

In 2013, increased business transactions necessitated additional investment in the Bank's human resource capacity. Accordingly, several vacancies were filled during the period, notably in the Strategic Business Initiatives, Treasury, Corporate Affairs and Compliance and Risk functions, through competitive selection. In total, thirty-one members of staff were recruited to meet the Bank's human resources requirements in 2013.

During the period, a consultant was engaged to advise on the implementation of a balanced scorecard system and the introduction of a performance incentive system. Workshops were conducted for all employees and departmental scorecards drafted. The performance based compensation framework was finalized and incentive bonuses distributed to eligible staff based on the 2012 performance management results.

In 2013, the Bank launched the Young Professionals Programme as part of its efforts to promote talent and create diversity. The recruitment of the first batch of young professionals was conducted and three candidates were selected into the programme.

To further enhance the skill levels of staff members, various training programs were undertaken during the year. The training programs covered a variety of areas including sovereign funds, asset and liability management and environmental and social risk analysis. The department also organized several training programs for Board members.

In 2013, the department embarked on plans to expand and refurbish the Bank's existing office premises. The process to identify contractors to refurbish and renovate the PTA Bank Head Office in Bujumbura was initiated with works scheduled to commence in 2014. Modern office space was secured for the Nairobi Regional Office at 197 Lenana Place. The Bank's recently acquired premises at PTA Bank Court would continue to be used for archives storage and additional training facility, pending further development.

The renovation and refurbishment of the Harare Regional Office commenced, with completion planned for 2014. The Bank's activities in Mauritius were significantly strengthened by the acquisition of office premises and subsequent deployment of staff.

During the year, improved administrative practices and cost cutting measures were applied consistently. Planned procurement of goods and services and other logistical and administrative support services including transport, protocol and insurance services were provided. In carrying out these activities, emphasis was placed on efficiency and value for money.

At the end of the year, the Bank had a staff complement of 102 employees, 63 of whom were professionals. The ratio of female employees improved to 43% of the workforce.

INFORMATION TECHNOLOGY (IT)

The Bank continues to put emphasis on realizing increased benefit from its SAP Enterprise Resource Planning system; in this regard, implementation of an SAP Portal in the system was embarked upon, which will provide an Intranet, Employee Self-Service for various HR-related enhanced functionality as well as Leave and Travel management workflows, with go-live scheduled for March 2014.

The Credit Risk Assessment System (CRAS), which is intended to provide the Bank with increased automation and improved standardization around credit cycle processes, went live in September 2013.

IT infrastructure enhancements were carried out in the areas of Telephony and Wide-Area Network optimization. This involved deployment of new equipment that provides the Bank with Unified Communication capabilities as well as improved network performance between its office locations. Furthermore, in the course of the year, the Bank's Nairobi office was relocated to new premises which required a seamless transfer of IT hardware and services. In the process, the Bank also undertook a revamp of its IT-related audio-visual and meeting facilities. Over the same period, requisite IT infrastructure was also provided to cater for the newly inaugurated Mauritius office.

With enhanced operational efficiency as one of the Bank's strategic objectives in the current five-year Corporate Plan, initiatives were undertaken in 2013 that will culminate in further automation of various areas of the Bank's operations in 2014, key of which will be the implementation of an Integrated Treasury Management system. Various business processes that would benefit from improved SAP reporting formats and tools were also identified, with development work currently underway in some cases, while others will be addressed through implementation of the SAP Business Intelligence module in 2014.

FINANCIAL MANAGEMENT

Income

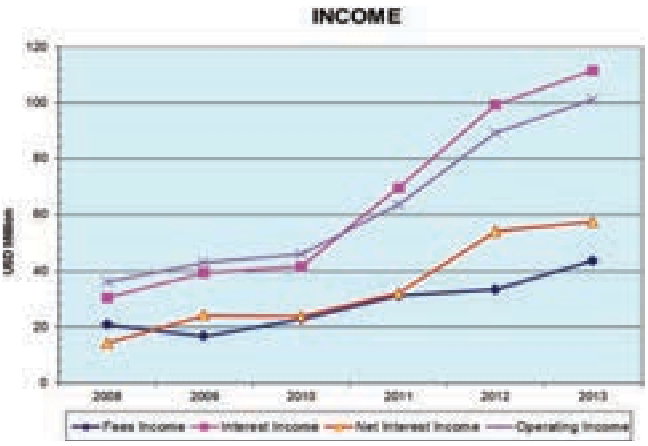
In 2013, the Bank grew its interest income by 12% to US$ 111.58 million from US$ 99.34 million in 2012. The increase is attributed to growth in both Project Finance and Trade Finance loan portfolio.

Net fees and commission income rose 31% to US$ 43.68 million as a result of new and renewed Project and Trade Finance facilities. Trade Finance contributed the most to this increase. Trade Finance fees comprise upfront, letter of credit, guarantee, management , drawdown , document handling and other fees; while Project Finance fees comprise appraisal, facility, commitment, letter of credit, drawdown, management and other fees. Other income increased mainly due to US$ 1.69 million interest on capital arrears received during the year.

Interest expense on both long term and short term borrowings rose from US$ 45.18 million in 2012 to US$ 54.16 million, due to the 35% increase in borrowings. The growth in borrowings is in line with the 38% growth in the Bank's assets. Other costs related to borrowings grew to US$ 6.95 million from US$ 4.20 million because of new facilities secured by the Bank during the year.

Consequently, net interest income grew to US$ 50.47 million from US$ 49.95 million in 2012. Operating income rose by 13% to US$ 101.18 million from US$ 89.15 million in 2012.

The chart below depicts the Bank's fee, gross interest, net interest and operating income over the last six years.



Operating expenditure

Operating expenditure increased from US$ 12.33 million in 2012 to US$ 15.81 million in 2012. The increase is due to the recruitment of new staff to key functions in risk, treasury, corporate affairs, fund management and equity investments in line with the 5th Corporate Plan strategic initiatives.

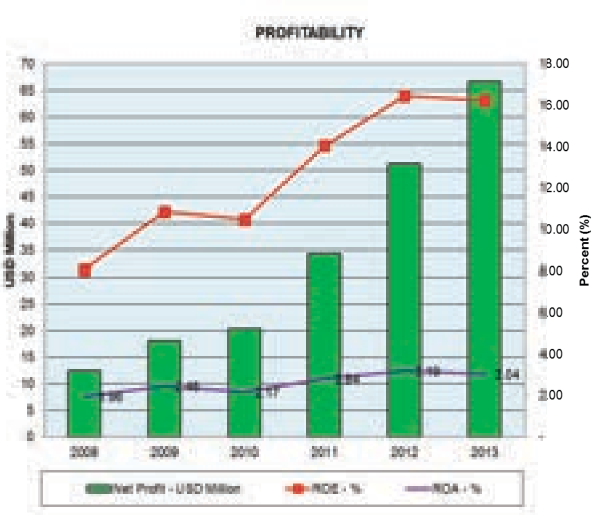
Impairment

Impairment on loans decreased by 14.6% from US$ 26.10 million in 2012 to US$ 22.30 million in 2013. Impairment provision is made after a detailed review of the Bank's entire loan portfolio.

Profitability

The Bank made a net profit for the year of US$ 66.63 million from US$ 51.23 million in 2012. This compares very favourably to the annual budget of US$ 49.09 million. The 30% growth in profitability is attributable mainly to the increased fee income and a reduction in the impairment charge.

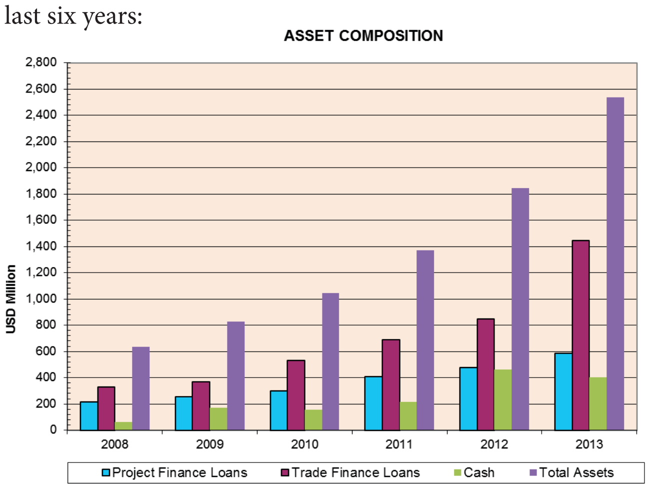
The Graph below illustrates the Bank's profitability and profitability ratios in the last six years:



Assets

The Bank grew its assets by 38% to US$ 2.54 billion, a level planned for 2015 in the Bank's Corporate Plan. Of the US$ 693 million asset growth, US$ 596 million is attributable to Trade Finance loans, which rose by a net of 70% due to new disbursements. Project Finance loans grew at 23% by US$ 108 million as a result of disbursements during the year.

The Chart below depicts the growth in the Bank's project finance and trade finance loans, cash and total assets over the last six years:



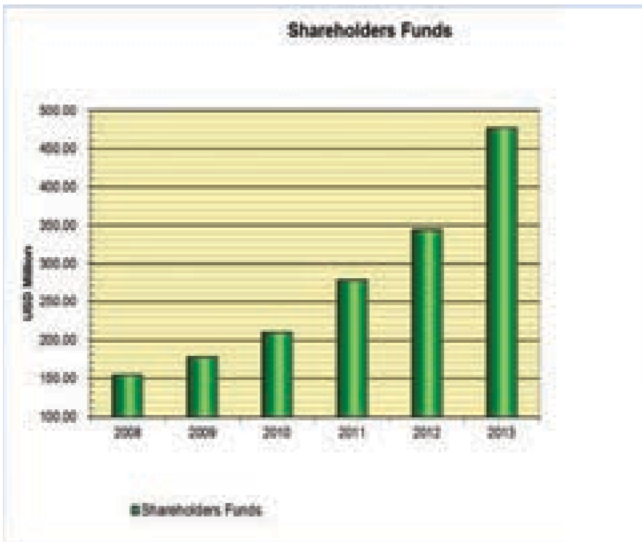
Liabilities

The Bank's total liabilities grew by US$ 560 million. Short-term borrowings grew by US$ 292 million while long-term borrowings increased by US$ 175 million, both to fund the Project and Trade Finance loans. Included in the long-term loans is a net amount of US$100 from a new US$ 300 million Eurobond issued in December 2013, maturing January 2018. Some of the proceeds were applied in a liability management exercise to retire two thirds of an existing Eurobond that matures in January 2016. Collection account deposits increased by US$ 58 million.

Capital

The Bank's total equity grew by 39% to US$ 477 million, more than matching the 38% growth in the assets. This compares favourably with the US$ 441.58 million projected for 2013 in the Bank's Corporate Plan. Of the US$ 132.73 million increase in equity, US$ 66.10 million was in the form of new capital subscriptions including share premium and US$ 66.63 million is from retained earnings for the year. No dividend distribution is proposed from these earnings.

The Graph below presents the growth in the Bank's shareholder's funds (total equity) during the six years to 2013:



Financial Strength Indicators

The table below depicts the Bank's major ratios for the year to December 2013.

		ACTUAL		
		DEC. 2013	DEC. 2012	BUDGET 2013
	PROFITABILITY RATIOS			
1	Return on Capital Employed	16.23%	16.46%	12.07%
	(Net profit / Total Shareholders' Funds)			
2	Return on assets	3.04%	3.19%	2.62%
3	Net profit margin (Net profit / Gross Income)	42.29%	38.30%	33.23%
	EFFICIENCY RATIOS			
4	Operating costs to Operating Income	15.63%	13.84%	23.42%
5	Administration Costs/Total Income	10.14%	9.23%	13.50%
6	Staff Costs/Total Income	7.21%	6.42%	9.36%
	LEVERAGE RATIOS			
7	Total debt to equity ratio	377%	386%	331%
	(Total Borrowings / Total Shareholders' Funds)			
8	Total capital and reserves to Total Assets	19%	19%	22%
9	Capital Adequacy Ratio	35%	35%	35%
	OTHER PERFORMANCE INDICATORS			
10	Liquidity Ratio	15.93%	25%	13%
	(Liquid Assets / Total Assets)			
11	Gross NPL Ratio	4.43%	5.22%	4.39%
12	NPL coverage ratio	66%	75%	86%

TOP 20 BEST PERFORMING ON DEBUT PARTICIPATION
AWARD

VISION:

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

MISSION STATEMENT

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

CORE VALUES

Client Orientation
Integrity
Adaptability
Teamwork
Innovation

THE EASTERN AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT BANK

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H.E ATO AHMED SHIDE	**State Minister, Ministry of Finance and Economic Development, Federal Democratic Republic of Ethiopia** *Chairman of the Board of Governors*
HON. ALEXANDER B. CHIKWANDA	**Minister of Finance and National Planning Republic of Zambia** *Vice Chairman of the Board of Governors*
HON. CHARLES GAETAN XAVIER-LUC DUVAL	**Vice Prime Minister and Minister of Finance and Economic Development,** *Republic of Mauritius*
HON. MONSIEUR PIERRE LAPORTE	**Hon. Monsieur Pierre LAporte Minister of Finance** *Republic of Seychelles*
HON. MARIA KIWANUKA	**Minister of Finance, Planning and Economic Development** *Republic of Uganda*
S.E. MONSIEUR TABU ABDALLAH MANIRAKIZA	**Minister of Finance,** *Republic of Burundi*
H.E. MOHAMED SOILIHI	**Minister of Finance, Budget, Trade and Investments** *Federal Islamic Republic of Comoros*
HON. PATRICE KITEBI KIBOL	**Minister of Finance,** *Democratic Republic of Congo*
H.E. ILYAS MOUSSA DAWALEH	**Minister of Economy, Finance and Planning** *Republic of Djibouti*
H.E. ENGINEER HAPEM SALEH	**Minister of Foreign Trade and Industry** *Republic of Egypt*
HON. BERHANE ABREHE	**Minister of Finance,** *State of Eritrea*
HON. PHYLLIS CHEPKOSGEI KANDIE	**Cabinet Secretary, Ministry of East African Affairs, Commerce and Tourism** *Republic of Kenya*
HON. GOODALL GONDWE *	**Minister of Finance,** *Republic of Malawi*
HON. CLAVER GATETE	**Minister of Finance and Economic Planning** *Republic of Rwanda*
HON. HUSSEIN ABDI HALANE*	**Minister of Finance, Planning and International Co-operation,** *Federal Government of Somali Republic*
HON. BADER ELDIN MAHMOUD ABBAS*	**Minister of Finance and National Economy** *Republic of Sudan*
HON. MRS SAADA MKUYA SALUM (MP)*	**Minister of Finance & Planning,** *United Republic of Tanzania*
HON. PATRICK CHINAMASA	**Minister of Finance,** *Republic of Zimbabwe*
MR. CHARLES BOAMAH*	**Finance 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*

* **Previous Board of Governors**

HON. MAXWELL MKWE ZALAMBA, *Republic of Malawi*

H.E. MOHAMOUD HASSAN SULEIMAN, *Federal Government of Somali Republic*

HON. ALI MAHMOUD HASSAB ALRASOUL, *Republic of Sudan*

HON. DR. WILLIAM MGIMWA , *United Republic of Tanzania*

MR.GILBERT MBESHRUBUSA, *African Development Bank (AfDB)*

PROF. OLIVER SAASA	*Director for Kenya, Zambia and Somalia* *Chairman*
MR. ADMASSU TADESSE	*President and Co-Chairman*
MS. KAMPETA SAYINZOGA	*Director for Zimbabwe, Mauritius, Rwanda and Eritrea* *Vice-Chairman*
MS. MARIAM HAMADOU	*Director for Egypt, Tanzania and Djibouti*
MR. GEROME MASANKISI KAMWANGA	*Director for Uganda, Sudan, DR Congo and Comoros*
MR. RUPERT SIMEON*	*Director for Seychelles, Ethiopia, Burundi and Malawi*
MR. LIU MINGHZI	*Director for Non African state members*
MR. SAMUEL MIVEDOR	*Director for African Financial Institutions (AFI)*
MR. WILLARD MANUNGO	*Alternate Director for Zimbabwe, Mauritius, Rwanda and Eritrea*
MR. SULLEMAN KAMOLLEH	*Alternate Director for Kenya, Zambia and Somalia*
MR. LAWRENCE KIIZA	*Alternate Director for Uganda, Sudan and Comoros*

*** Pending appointment of substansive directors from Malawi**

*** Previous Board of Directors**

MR. SANDERS MUTANDWA, *African Development Bank (AfDB)*

INSTITUTIONAL SHAREHOLDERS

MR. VLADISLAV GOROZHANKIN	**PARITETBANK,** *Chairman of the Board*
MR. VEENAY RAMBARASSAH	**National Pension Fund - Mauritius,** *Senior Analyst*
MR. ANDRE CHUNG SHUI	**Mauritian Eagle Insuarance Company Limited,** *Managing Director*

AUDITORS

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LAWYERS

Various

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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 2013.

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 complimentary to each other.

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

2. RESULTS

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

3. BOARD OF GOVERNORS

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

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

4. DIRECTORS

The current members of the Board of Directors are shown on page 41.

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

5. AUDITORS

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

By Order of the Board

Chairman

Nairobi

25th March 2014

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

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

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

Director	Director
25th March 2014	25th March 2014

REPORT OF THE INDEPENDENT AUDITORS

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Eastern and Southern African Trade and Development Bank (PTA Bank), which comprise the statement of financial position as at 31 December 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 45 to 123.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Bank's Charter.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Joseph K Cheboror – P/No. P.1145

Certified Public Accountants of Kenya
Nairobi , Kenya

28th March 2014

	Note	2013 USD	2012 USD
INCOME			
Interest income	4	111,583,586	99,339,222
Interest expense	5	(54,161,866)	(45,183,510)
Other costs related to borrowing	6	(6,953,413)	(4,201,484)
Interest and similar expense		(61,115,279)	(49,384,994)
Net interest income		50,468,307	49,954,228
Fees and commission income	7	43,679,479	33,440,291
Net trading income		94,147,786	83,394,519
Other income	8	7,036,324	5,754,678
OPERATING INCOME		101,184,110	89,149,197
EXPENDITURE			
Operating expenses	9	(15,810,528)	(12,333,826)
Impairment on other financial assets	11	(132,887)	(58,155)
Impairment on project and trade finance loans	17	(22,300,974)	(26,102,743)
Fair value gains on equity investments at fair value through profit or loss	18	2,344,752	682,980
Net foreign exchange gains/(losses)		1,345,903	(108,884)
TOTAL EXPENDITURE		(34,553,734)	(37,920,628)
PROFIT FOR THE YEAR		66,630,376	51,228,569
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS		66,630,376	51,228,569
EARNINGS PER SHARE:			
Basic and diluted	12	1,110	892

	Note	2013 USD	2012 USD
ASSETS			
Cash and balances held with other banks	13	404,006,930	462,607,857
Derivative financial instruments	14	37,691,976	13,541,042
Trade finance loans	15	1,443,338,055	847,524,196
Project loans	16	584,309,124	476,419,727
Equity investments – at fair value through profit or loss	18	19,753,620	10,855,430
Investment in Government securities – held to maturity	19	-	-
Other receivables	20	7,306,035	5,169,379
Deferred expenditure	21	19,154,092	7,503,221
Property and equipment	22	20,417,400	19,736,664
Intangible assets	23	304,596	313,747
TOTAL ASSETS		2,536,281,828	1,843,671,263
LIABILITIES AND EQUITY			
LIABILITIES			
Collection account deposits	24	202,540,691	144,851,598
Derivative financial instruments	14	37,818,399	12,308,254
Short term borrowings	25	972,855,019	681,326,318
Long term borrowings	26	823,598,652	648,239,614
Other payables	27	17,636,607	8,492,492
Provision for service and leave pay	28	4,853,389	4,201,424
TOTAL LIABILITIES		2,059,302,757	1,499,419,700
EQUITY			
Share capital	29	252,440,548	193,678,294
Share premium	29	7,334,878	-
Retained earnings		217,203,645	150,573,269
TOTAL EQUITY		476,979,071	344,251,563
TOTAL LIABILITES AND EQUITY		2,536,281,828	1,843,671,263

The financial statements were approved by the board of directors on 25th March 2014 and were signed on its behalf by:

President

Director

	Share capital USD	Share premium USD	Retained earnings USD	Total equity USD
At 1 January 2012	179,021,687	-	99,344,700	278,366,387
Capital subscriptions (Note 29)	14,656,607	-	-	14,656,607
Total comprehensive income for the year	-	-	51,228,569	51,228,569
At 31 December 2012	193,678,294	-	150,573,269	344,251,563
At 1 January 2013	193,678,294	-	150,573,269	344,251,563
Capital subscriptions (Note 29)	58,762,254	-	-	58,762,254
Share Premium	-	7,334,878	-	7,334,878
Total comprehensive income for the year	-	-	66,630,376	66,630,376
At 31 December 2013	252,440,548	7,334,878	217,203,645	476,979,071

	Note	2013 USD	2012 USD
OPERATING ACTIVITIES			
Net cash (used in)/generated from operations	30(a)	(118,143,196)	234,784,251
INVESTING ACTIVITIES			
Purchase of property and equipment	22	(1,252,303)	(4,026,036)
Purchase of intangible assets	23	(71,824)	(244,334)
Disposal of property and equipment		(23,201)	-
Acquisition of equity investments	18	(6,553,437)	-
Net cash used in investing activities		(7,900,765)	(4,270,370)
FINANCING ACTIVITIES			
Proceeds from capital subscriptions	29	58,762,254	14,656,607
Proceeds from share premium	29	7,334,878	-
Net cash generated from financing activities		66,097,132	14,656,607
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(59,946,829)	245,170,488
Foreign exchange gain/(loss) on cash and cash equivalents		1,345,903	(108,884)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		462,607,857	217,546,253
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	30(c)	404,006,930	462,607,857
FACILITIES AVAILABLE FOR LENDING	30(d)	876,116,011	598,360,476

1. CORPORATE INFORMATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

Statement of compliance

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

Presentation of financial statements

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

(b) Revenue recognition

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Borrowing costs

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

(d) Foreign currencies

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to profit or loss. All differences arising on non–trading activities are taken to other operating income in 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 is stated at cost less accumulated depreciation and accumulated impairment loss. Repairs and maintenance costs are capitalised if the recognition criteria are complied with. All other repairs and maintenance costs are expensed as incurred.

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

Computer equipment	3-5 years
Motor vehicles	5-7 years
Office equipment	3-5 years
Furniture and fittings	5-10 years
Buildings	50 years

Freehold land is not depreciated.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Intangible assets

The Bank's intangible assets relate to the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated at rates which are estimated to write-off the cost of the intangible assets in equal annual instalments over 3-5 years.

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

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

(g) Impairment of non-financial assets

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Deferred expenditure

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

(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, for Class A shares, 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. For Class B shares, payment of the amount subscribed by subscribers shall be paid in full within 90 days from the date of subscription.

(k) Financial instruments

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

Financial assets

Initial recognition and measurement

The Bank classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans, advances and receivables; held-to-maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition depending on the purpose and characteristics of the asset and management's intention in acquiring them. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets at fair value through profit or loss

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

Loans, advances and receivables

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

Held-to-maturity investments

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

Hedge accounting

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

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

Fair value hedges

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

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

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in Other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in Net trading income in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

Hedge accounting (Continued)

Cash flow hedges (Continued)

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

Available-for-sale financial assets

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

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

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:

(a) Financial assets at fair value through profit or loss
(b) Loans and receivables
(c) Held-to-maturity investments
(d) Available-for-sale financial investments

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in other operating expenses for receivables.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss as finance costs. The Bank did not have any held-to-maturity investments during the years ended 31 December 2013 and 2012.

Available-for-sale financial (AFS) investments

AFS financial investments include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealized gains or losses recognised in OCI and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial investments is reported as interest income using the EIR method. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payment is established. During the two periods the Bank has no AFS investments.

Derecognition

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

Financial liabilities

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

Initial measurement of financial liabilities

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

Subsequent measurement

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

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

Derecognition

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

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

Offsetting

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

Fair value

Fair values of quoted investments in active markets are based on quoted bid prices. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models. Refer to note 2 u (i) for explanation of fair value.

Impairment of financial assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial instruments (Continued)

Financial assets carried at amortised cost (Continued)
Impairment of financial assets (Continued)

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

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

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

(l) Employee entitlements

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

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

(m) Retirement benefit costs

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

(n) Contingent liabilities

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Cash and cash equivalents

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

(p) Leases

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

Bank as a lessee

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

Bank as a lessor

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

(q) Provisions for other liabilities

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

(r) Government grants

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

(s) Comparatives

When necessary, comparative figures are reclassified to conform to changes in presentation in the current year.

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

Collection accounts deposits include amounts collected on behalf of customers from proceeds of Bank funded commodities. The funds are held until maturity of underlying loans. Collection accounts are recorded at amortized cost. They are derecognized when the underlying assets are discharged.

(u) Critical judgements in applying the Bank's accounting policies

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Critical judgements in applying the Bank's accounting policies (Continued)

i) *Fair value of financial instruments*

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Measurement as a whole: market prices in active markets for identical assets or liabilities
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Bank's management determines the policies and procedures for both recurring fair value measurement, and unquoted AFS financial assets.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. The fair value of financial instruments is described in more detail in Note 31.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Critical judgements in applying the Bank's accounting policies (Continued)

ii) *Impairment losses on loans and advances*

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

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

iii) *Property and equipment*

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

3. NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

New and amended standards, interpretations and improvements

The accounting policies adopted are consistent with those of the previous financial year, except for the following:

The Bank only considered those that are relevant to its operations.

IFRS 13 Fair Value Measurement

It is effective as and from 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Bank re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Bank except for the disclosures on the inputs used to arrive at the fair values as done in note 31. IFRS 13 requires an entity to disclose additional information that helps users of its financial statements assess both of the following:

- for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements.
- for fair value measurements using significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income for the period.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

This became effective from 1st July 2012. The amendments to IAS 1 introduce a group of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and had no impact on the Bank's financial position or performance.

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

New and amended standards, interpretations and improvements (continued)

IAS 1 Clarification of the requirement for comparative information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at 1 January 2012 in the case of the Bank), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Bank has not included comparative information in respect of the opening statement of financial position as at 1 January 2012. The amendments affect presentation only and have no impact on the Banks financial position or performance.

IAS 19 Employee Benefits (Revised 2011)

The 'corridor approach' currently allowed as an alternative basis in IAS 19 for the recognition of actuarial gains and losses on defined benefit plans has been removed. Actuarial gains and losses in respect of defined benefit plans are now recognised in Other Comprehensive Income when they occur. For defined benefit plans, the amounts recorded in profit or loss are limited to current and past service costs, gains and losses on settlements and interest income/ expense. The distinction between short-term and other long term benefits will be based on the expected timing of settlement rather than the employee's entitlement to the benefits. In many instances this is expected to have a significant impact on the manner in which leave pay and similar liabilities are currently classified.

IFRS 1 First time adoption of International Financial Reporting Standards (revised)

This standard became effective from 1st January 2013.The amendments dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This is the same relief as was given to existing preparers of IFRS financial statements. Treatment of borrowing costs capitalised under previous GAAP were amended.

IFRS 7 Financial Instrument Disclosures (revised)

Amendments related to the offsetting of assets and liabilities

The IASB has published an amendment to IFRS 7, 'Financial instruments: Disclosures', reflecting the joint requirements with the FASB to enhance current offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.

3 NEW ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

New and amended standards, interpretations and improvements (continued)

The following standards have been issued or revised and will become effective for the December 2014 year end:

1) IFRS 10 consolidated financial statements-
-The amendment provides an exception to the consolidation requirement for entities that meet the definition of an investment entity.
-The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments.

2) IAS 32 financial instrument presentation
The amendment clarifies the meaning of the entity currently having a legally enforceable right to set off financial assets and financial liabilities as well as the application of IAS 32 offsetting criteria to settlement systems (such as clearing houses).

3) Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of assets
These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or Cash Generating Units (CGU) for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied.

The following standard has been issued and will become effective in future periods:

1) IFRS 9 Financial Instruments Classification and Measurement

IFRS 9 is being developed in phases. The first phase addressed the classification and measurement of financial instruments (phase 1). Phase 1 of IFRS 9 will have impact on:

- The classification and measurement of financial assets
- Reporting for entities that have designated liabilities using the fair value option (FVo)

Similarly, the other phases, including impairment and hedge accounting, are also expected to have significant accounting implications. Management is in the process of analyzing and assessing the future impact on the Bank.

The effective date is for periods commencing on or after 1 January 2018.

4. INTEREST INCOME

	2013 USD	2012 USD
On loans and facilities:		
Project finance loans	37,921,552	34,988,023
Trade finance loans	72,255,395	62,386,892
	110,176,947	97,374,915
On placements:		
Deposits/Held-to-maturity investments	1,406,639	1,964,307
	111,583,586	99,339,222

5. INTEREST EXPENSE

	2013 USD	2012 USD
Interest payable on funds borrowed from:		
Banks and financial institutions	23,647,286	18,284,802
Regional and International Bond Markets	19,431,611	19,974,646
Other institutions	11,082,969	6,924,062
	54,161,866	45,183,510

6. OTHER COSTS RELATED TO BORROWING

	2013 USD	2012 USD
Amortisation of deferred expenditure	3,469,279	2,292,575
Hedging derivatives costs	1,376,974	215,473
Facility and management fees	1,191,667	1,047,576
Other costs	857,050	549,979
Bank commissions and charges	58,443	51,574
Drawdown fees	-	44,307
	6,953,413	4,201,484

7. FEE AND COMMISSION INCOME

	2013 USD	2012 USD
Upfront fees in trade finance	28,408,863	17,996,073
Letter of credit fees in trade finance	20,470,991	17,559,266
Facility fees in project finance	1,738,267	1,099,329
Drawdown fees in trade finance	1,419,325	1,141,161
Other project finance fees	1,319,295	586,885
Commitment fees in project finance	1,233,967	879,481
Management fees in trade finance	1,103,993	167,311
Letter of credit fees in project finance	821,405	1,227,730
Document handling fees in trade finance	501,808	494,545
Appraisal fees in project finance	365,610	2,059,777
Drawdown fees in project finance	202,501	-
Management fees in project finance	148,325	-
Other fees in trade finance	51,061	10,646
Guarantee fees in trade finance	7,516	871,233
Insurance cover costs	(4,649,217)	(1,750,000)
*Risk down-selling costs	(9,464,231)	(8,903,146)
	43,679,479	33,440,291

*These costs represent the income foregone as a result of the Bank selling down part of its large credit exposures to certain counterparties. The risk down-selling strategy aims to reduce concentration risk especially in the petrochemicals sector and allows the retention of large clients whose financing requirements may exceed the Bank's lending limits. As at 31 December 2013, the Bank had secured from various counterparties risk management capacity amounting to USD 325 million (31 December 2012: USD 325 million).

8. OTHER INCOME

	2013 USD	2012 USD
Impaired assets recovered **	4,736,096	4,763,441
Interest on capital arrears***	1,687,805	207,951
Rental income	223,760	222,960
Other income	192,545	545,103
Grant income *	179,179	-
Interest on staff loans	16,939	15,223
	7,036,324	5,754,678

*The grant is provided by the African Development Bank (AfDB) to fund various consultancies and training. The proceeds are credited to the AfDB deferred income account and included in other payables (Note 27). Transfers are made to income when the costs which the grant relates to have been incurred.
**Impaired assets recovered relate to previously written off loans that were recovered during the period.
***Interest on capital arrears relates to interest charged to capital subscriptions from member states that are in arrears, received during the year.

9. OPERATING EXPENSES

	2013 USD	2012 USD
Staff costs (Note 10)	11,357,069	8,593,298
Official missions	1,018,415	660,601
Consultants and advisors	875,579	1,077,680
Other operating expenses	827,103	688,423
Depreciation of property and equipment	594,768	534,493
Board of Directors meetings	503,061	350,632
Board of Governors meeting	210,885	227,317
Business promotion	302,677	128,227
Amortisation of intangible assets	80,975	34,655
Audit fees	39,996	38,500
	15,810,528	12,333,826

10. STAFF COSTS

	2013 USD	2012 USD
Salaries and wages	6,773,056	5,573,481
Other costs	1,627,131	1,226,155
Staff Provident fund contributions –defined contribution plan	1,264,427	1,072,476
Staff reward and recognition scheme	889,598	-
Service and leave pay expenses	802,857	721,186
	11,357,069	8,593,298

11. IMPAIRMENT ON OTHER FINANCIAL ASSETS

	2013 USD	2012 USD
Other receivables (Note 20)	132,887	58,155

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

12. EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit for the year of USD 66,630,376 (2012: USD 51,228,569) 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 60,045-Class 'A' 57,674 and Class 'B' 5,000 (2012: 57,416) (Note 29). Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares.

13. CASH AND BALANCES HELD WITH OTHER BANKS

	2013 USD	2012 USD
Current accounts – Note 13 (i)	25,683,981	5,317,075
Call and term deposits with banks – Note 13 (ii)	378,322,949	457,290,782
	404,006,930	462,607,857
(i) Current accounts:		
Amounts maintained in United States Dollars (USD)	3,865,635	3,678,811
Amounts maintained in other currencies:		
Euro	21,297,953	1,374,466
Ethiopian Birr	346,765	-
Kenya Shillings	108,127	62,321
British Pounds	26,022	19,414
Burundi Francs	20,176	2,718
South African Rand	13,437	16,100
Uganda Shillings	3,592	161,035
Japanese Yen	1,366	556
Malawi Kwacha	817	1,462
Tanzania Shillings	91	192
	21,818,346	1,638,264
	25,683,981	5,317,075

The average effective interest rate on current accounts was 0.49% (December 2012: 0.47%) per annum.

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

(ii) Call and term deposits with banks:	2013 USD	2012 USD
United States Dollars (USD)	254,445,495	452,470,721
Amounts maintained in other currencies:		
Sudanese pounds	122,758,153	-
Uganda shillings	581,374	-
Kenya Shillings	399,306	696,865
Malawi Kwacha	138,621	4,123,196
	123,877,454	4,820,061
	378,322,949	457,290,782

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

	2013	2012
Uganda Shillings	11.00%	16.77%
Kenya Shillings	8.60%	12.86%
Malawi Kwacha	7.83%	5.58%
Euro	2.25%	-
United States Dollars	1.36%	2.35%

14. DERIVATIVE FINANCIAL INSTRUMENTS

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

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 the difference being paid by one party to the other. The Bank applies fair value hedge accounting to interest rate swaps contracted to hedge the interest rate risk exposure associated with the fixed rate on its Eurobond.

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. To avoid creating currency mismatches, the Bank swaps its EURO assets/loans for USD in cases where disbursement made was in EURO.

The Bank also hedges its exposure to adverse movements on currency exchange rates on its EURO disbursements by entering into currency forward exchange contracts. Currency forward exchange contracts are cash flow hedges.

14. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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

		2013 USD	2012 USD
Assets :			
a)	Currency Hedges		
(i)	Cross Currency Swap:		
	Balance as at 1 January	12,019,934	12,647,889
	Exchange loss	805,495	1,251,007
	Receipts under swap agreement	(3,746,334)	(1,878,962)
	Balance as at 31 December	9,079,095	12,019,934
(ii)	Foreign exchange forward contracts		
	Balance as at 1 January	-	-
	Additions	112,717,764	-
	Retirements	(85,899,724)	-
	Balance as at 31 December	26,818,040	-
	Total Currency Hedges	35,897,135	12,019,934
b)	Interest Rate Swap:		
(i)	Fair value movements		
	Balance as at 1 January	448,749	598,334
	Amortisation of interest rate swap	(149,585)	(149,585)
	Balance as at 31 December	299,164	448,749
(ii)	Cash flows		
	Balance as at 1 January	1,072,359	1,019,416
	Amounts due from counterparties	2,247,296	1,788,402
	Amount received from counterparties	(1,823,978)	(1,735,459)
	Balance as at 31 December	1,495,677	1,072,359
	Total Interest Rate Swaps	1,794,841	1,521,108
	Total derivative assets (a and b)	37,691,976	13,541,042

14. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

	2013 USD	2012 USD
Liabilities:		
a) Cross Currency Swap:		
Balance as at 1 January	12,308,254	12,661,807
Exchange gain	1,206,326	1,545,763
Fair value movement - loss on valuation	387,178	65,889
Payments under swap agreement	(3,818,255)	(1,965,205)
Balance as at 31 December	10,083,503	12,308,254
b) Foreign exchange forward contracts		
Balance as at 1 January	-	-
Additions	27,734,896	-
Retirements	-	-
Balance as at 31 December	27,734,896	-
Total derivative liabilities (a and b)	37,818,399	12,308,254

In December 2010, the Bank entered into interest rate swaps to hedge USD 150 million of funds received from the first tranche of the Fixed Rate Eurobond issued in November 2010. At the inception of the second tranche of the USD 300 million Eurobond in December 2013, the Bank entered into further interest swaps to hedge USD180 million. The swaps exchanged the fixed rate for floating rate in order to match the floating rates offered on loans.

In addition, in December 2010, the Bank entered into a cross currency swap by exchanging a Euro receivable (loan) of EUR 10,113,078 for a US dollar receivable of USD 13,407,919. Further, in 2013, the Bank entered into foreign exchange forward contracts to hedge against mismatches in EUR assets and liabilities by selling EUR and buying USD forward. The Bank's exposure under derivative instruments is monitored as part of the overall management of its market risk.

15. TRADE FINANCE LOANS

	2013 USD	2012 USD
Principal loans	1,396,831,345	822,862,027
Interest receivable	84,777,135	47,304,098
Gross loans	1,481,608,480	870,166,125
Impairment on trade finance loans (Note 17)	(38,270,425)	(22,641,929)
Net loans	1,443,338,055	847,524,196

The weighted average effective interest rate was 6.12% (December 2012: 6.40%) per annum.

	2013 USD	2012 USD
Maturing:		
Within one year	1,375,593,686	807,037,203
One to three years	83,839,939	49,824,009
Over three years	22,174,855	13,304,913
	1,481,608,480	870,166,125

The gross non performing trade finance loans were USD 57,607,903 (December 2012: USD 29,322,950). The impairment allowance related to these loans amounted to USD 38,270,425 (December 2012: USD 22,641,929) hence the carrying value of the loans amount to USD 19,337,478 (December 2012: USD 6,681,021).

16. PROJECT LOANS

	2013 USD	2012 USD
Approved loans less cancellations	1,656,330,999	1,408,489,234
Less: Unsigned loans*	(287,598,701)	(269,328,701)
Loans signed	1,368,732,298	1,139,160,533
Less: Undisbursed - Letters of credit opened	(21,698,552)	(22,077,264)
- Letters of credit not yet opened	(233,018,499)	(206,549,762)
Loans disbursed	1,114,015,247	910,533,507
Interest capitalized**	38,857,363	35,740,773
Loans repaid	(556,668,116)	(453,799,655)
Principal loan balances	596,204,494	492,474,625
Interest receivable	10,721,956	9,581,034
Gross loans	606,926,450	502,055,659
Impairment on project loans (Note 17)	(22,617,326)	(25,635,932)
Net loans	584,309,124	476,419,727

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

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

The average effective interest rate was 7.44% (December 2012: 7.51%) per annum.

	2013 USD	2012 USD
Maturing:		
Within one year	180,250,190	141,221,431
One year to three years	171,802,645	166,232,064
Three to five years	127,572,104	110,271,847
Over five years	127,301,511	84,330,317
	606,926,450	502,055,659

The aggregate non performing project loans were USD 34,924,449 (December 2012: USD 42,294,656). The impairment allowance related to these loans amounted to USD 22,617,326 (December 2012: USD 25,635,932) hence the carrying value of the loans amounted to USD 12,307,123 (December 2012: USD 16,658,724) at the end of the period.

17. IMPAIRMENT ALLOWANCE ON PROJECT AND TRADE FINANCE LOANS

The movement in allowance is as follows:

	Project finance loans USD	Trade finance loans USD	Total allowance USD
At 1 January 2012	20,150,143	16,030,014	36,180,157
Amounts written-off	(4,313,950)	(9,691,089)	(14,005,039)
Charge for the year	9,799,739	16,303,004	26,102,743
At 31 December 2012	25,635,932	22,641,929	48,277,861
At 1 January 2013	25,635,932	22,641,929	48,277,861
Amounts written -off	(9,653,738)	(37,346)	(9,691,084)
Charge for the year	6,635,132	15,665,842	22,300,974
At 31 December 2013	22,617,326	38,270,425	60,887,751

18. EQUITY INVESTMENTS

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

	Share holding	Cumulative Cost to 1 Jan	Net additions/ disposals at cost in year to 31 Dec	Total Cost as at 31 Dec	Additions/ disposals at cost in year to 31 Dec	Total cost to 31 Dec	Investment Fair value as at 31 Dec	Investment Fair value as at 31 Dec	Fair Value Adjustment for period to 31 Dec	Fair Value Adjustment for period to 31 Dec
	%	2012	2012	2012	2013	2013	2013	2012	2013	2012
		USD	USD	USD	USD	USD	USD	USD	USD	USD
PTA Re-insurance	8.28	2,527,498	-	2,527,498	6,808,970	9,336,468	12,200,551	4,627,652	763,929	488,705
Aureos East Africa Fund	5.00	1,328,891	-	1,328,891	(840,895)	487,996	1,741,296	1,669,415	912,775	(115,087)
African Export Import Bank	0.48	1,182,080	-	1,182,080	-	1,182,080	2,872,893	2,420,819	452,074	225,775
Tononoka	5.00	628,653	-	628,653	-	628,653	413,550	405,012	8,539	75,553
Tanruss	4.06	1,755,000	-	1,755,000	-	1,755,000	879,174	819,013	60,161	(41,675)
Africa Trade Insurance Company	0.10	100,000	-	100,000	-	100,000	96,899	96,317	582	1,110
Gulf African Bank	5.33	1,435,141	-	1,435,141	543,593	1,978,734	1,507,488	817,202	146,692	50,599
Pan African Housing Fund	2.38	-	-	-	41,769	41,769	41,769	-	-	-
		8,957,263	-	8,957,263	6,553,437	15,510,700	19,753,620	10,855,430	2,344,752	682,980

The Bank's main equity investments are in PTA Re-insurance, African Export-Import Bank, Tanruss and Gulf African Bank. In addition, the Bank has subscribed to the equity of various projects in its Member States. The Bank's participation is expressed in US Dollars.

18. EQUITY INVESTMENTS (Continued)

	2013 USD	2012 USD
(i) Instalments paid:		
Total subscribed capital	17,686,866	10,175,479
Less: Instalments not due – Note 18 (iii)	(2,176,166)	(1,218,216)
Instalments paid as at end of year – Note 18 (iv)	15,510,700	8,957,263
(iii) Unpaid subscriptions expressed in US Dollars at year-end rates comprised:		
African Export-Import Bank*	1,200,000	1,200,000
Aureos East Africa Fund*	17,935	18,216
Pan African Housing Fund*	958,231	-
	2,176,166	1,218,216
(iv) Movement in the instalments paid:		
At beginning of year	8,957,263	8,957,263
Net additions at cost – Note 18 (i)	6,553,437	-
At end of year	15,510,700	8,957,263

*Unpaid subscriptions are payable on call.

19. INVESTMENTS IN GOVERNMENT SECURITIES

	2013 USD	2012 USD
Treasury bills: Held to maturity		
Maturing within 180 days after period end (at face value)	-	2,834,075
Additions during year	-	-
Matured bills	-	(2,834,075)
Income earned during the year	-	-
Less: Unearned discount	-	-
	-	-

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

20. OTHER RECEIVABLES

	2013 USD	2012 USD
Prepayments and other receivables	5,525,671	3,260,639
Appraisal fees*	1,318,263	1,624,502
Staff loans and advances	462,101	284,238
	7,306,035	5,169,379
*Appraisal fees receivable**		
As at 1 January	1,624,502	1,102,915
Accrued income	1,083,004	2,059,777
Receipts	(1,256,356)	(1,480,035)
Amounts written off (Note 11)	(132,887)	(58,155)
At 31 December	1,318,263	1,624,502
Amounts due within one year	7,131,216	1,958,511
Amounts due after one year	174,819	3,210,868
	7,306,035	5,169,379

Appraisal fees are recognized as income receivable on approval of a facility to the borrower by the Bank.
Prepayments and other receivables comprise mainly of insurance costs on the Bank's exposures and facility fees paid in relation to short term facilities extended to the Bank by lenders.
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 4.32% (December 2012: 4.18%) per annum. These staff loans and advances have various repayment terms ranging from 3 to 36 months.

21. DEFERRED EXPENDITURE

	2013 USD	2012 USD
COST		
At beginning of year	12,646,280	10,914,134
Additions	15,120,150	2,030,104
Disposals	-	(297,958)
At end of year	27,766,430	12,646,280
AMORTISATION		
At beginning of year	5,143,059	3,148,443
Disposals	-	(297,958)
Charge for the year	3,469,279	2,292,574
At end of year	8,612,338	5,143,059
NET BOOK VALUE		
At end of year	19,154,092	7,503,221

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

22. PROPERTY AND EQUIPMENT

	Freehold land	Buildings	Motor vehicles	Furniture and fittings	Office equipment	Total
At 31 December 2013:	USD	USD	USD	USD	USD	USD
COST						
At 1 January 2013	140,400	23,076,068	302,691	638,314	1,052,671	25,210,144
Additions	-	378,528	92,382	580,763	200,630	1,252,303
Disposals	-	-	-	(62,322)	-	(62,322)
At 31 December 2013	140,400	23,454,596	395,073	1,156,755	1,253,301	26,400,125
DEPRECIATION						
At 1 January 2013	-	3,774,773	220,330	580,149	898,228	5,473,480
Charge for the period	-	464,792	27,035	33,670	69,271	594,768
Disposals	-	(28,555)	-	(56,968)	-	(85,523)
At 31 December 2013	-	4,211,010	247,365	556,851	967,499	5,982,725
NET CARRYING AMOUNT						
At 31 December 2013	140,400	19,243,586	147,708	599,904	285,802	20,417,400
At 31 December 2012:						
COST						
At 1 January 2012	140,400	19,125,081	302,693	628,923	1,084,825	21,281,922
Additions	-	3,950,987	-	18,293	56,756	4,026,036
Disposals	-	-	-	(8,901)	(88,913)	(97,814)
At 31 December 2012	140,400	23,076,068	302,693	638,315	1,052,668	25,210,144
DEPRECIATION						
At 1 January 2012	-	3,336,782	195,589	577,425	921,579	5,031,375
Charge for the year	-	437,989	24,738	11,354	60,412	534,493
Disposals	-	-	-	(8,853)	(83,535)	(92,388)
At 31 December 2012	-	3,774,771	220,327	579,926	898,456	5,473,480
NET CARRYING AMOUNT						
At 31 December 2012	140,400	19,301,297	82,366	58,389	154,212	19,736,664

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

23. INTANGIBLE ASSETS

	2013 USD	2012 USD
COST		
At beginning of year	1,444,175	1,199,841
Additions	71,824	244,334
At end of year	1,515,999	1,444,175
AMORTISATION		
At beginning of year	1,130,428	1,095,774
Charge for the year	80,975	34,654
At end of year	1,211,403	1,130,428
NET CARRYING AMOUNT		
At end of year	304,596	313,747

Intangible assets relate to cost of acquired computer software.

24. COLLECTION ACCOUNT DEPOSITS

These represent deposits collected by the Bank on behalf of the customers to be applied on loan repayments as they fall due.

25. SHORT TERM BORROWINGS

	2013 USD	2012 USD
(α) CERTIFICATES OF DEPOSITS		
Lender		
Africa Trade Insurance	1,200,000	1,250,000
PTA Reinsurance Company	-	10,697,031
	1,200,000	11,947,031

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

25. SHORT TERM BORROWINGS (Continued)

(b) OTHER SHORT TERM BORROWINGS

	Date of renewal/ advance	Maturity Date	Currency	2013 USD	2012 USD
Syndicated Loan	Dec-13	Sep-14	USD	150,000,000	150,000,000
Mauritius Commercial Bank	Dec-13	Mar-14	USD	94,756,505	29,540,720
Firstrand Bank Ltd	Dec-13	Dec-15	USD	89,898,400	19,392,856
Commerzbank	Dec-13	Mar-14	USD	74,981,717	36,578,540
Commercial Bank of Africa	Dec-13	Mar-14	USD	62,690,655	40,087,663
Deutsche Bank	Oct-13	Jun-14	USD	62,118,016	-
Africa Finance Corporation	Dec-13	Mar-14	USD	50,000,000	25,000,000
ING Bank	Dec-13	Mar-14	USD	44,835,034	-
HSBC Bank	Dec-13	Mar-14	USD	44,424,757	20,687,556
Standard Corporate and Merchant Bank	Dec-13	Mar-14	USD	40,259,109	97,747,246
African Export Import Bank	Nov-13	Jan-14	EUR	39,262,586	30,323,118
Byblos Bank S.A.L	Dec-13	Jun-14	EUR	38,421,929	-
Standard Chartered Bank	Oct-13	Feb-14	USD	37,357,089	36,450,323
Mashreq Bank	Oct-13	Apr-14	USD	30,790,160	12,885,427
Fimbank	Sep-13	Mar-14	EUR	22,102,656	13,187,566
Ghana Internatiional Bank	Dec-13	Jun-14	USD	20,000,000	20,000,000
United Bank for Africa	May-13	May-14	USD	20,000,000	32,203,598
FBN Bank	Dec-13	Jun-14	EUR	14,112,404	-
BHF Bank	Oct-13	Feb-14	USD	10,845,586	-
Banque Cantonale Vaudoise	Aug-13	Jan-14	EUR	10,519,304	-
NIC Bank	Nov-13	Mar-14	USD	9,718,664	32,093,948
OPEC Fund for International Development	Oct-12	Apr-13	USD	-	20,000,000
KBC Bank	Dec-12	Mar-13	USD	-	20,417,840
International Islamic Trade Finance Corporation	Jun-12	Jan-13	USD	-	464,020
Banque de Commerce et de Placement	Oct-12	Mar-13	USD	-	26,374,845
Sub total for other short term borrowings				967,094,571	663,435,266
INTEREST PAYABLE				4,560,448	5,944,021
Certificate of Deposits (Note 25a)				1,200,000	11,947,031
TOTAL SHORT TERM BORROWINGS				972,855,019	681,326,318

The effective interest rate during the year was 3.31% (December 2012: 3.44%) per annum.

26. LONG TERM BORROWINGS

Lender	Date of Renewal/ disbursement	Maturity Date	Currency	Amount in Currency	Amounts as at 31 December 2013			Amounts as at 31 December 2012		
					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	Dec-04	Jan-20	USD	46,145,657	46,145,657	8,000,000	38,145,657	54,165,850	8,000,000	46,165,850
Africa Agriculture and Trade Investment Fund	Sep-12	Sep-19	USD	30,000,000	30,000,000	-	30,000,000	30,000,000	-	30,000,000
China Development Bank	Dec-08	Mar-20	USD	54,721,414	54,721,414	3,271,429	51,449,985	17,992,904	3,271,761	14,721,143
KBC Bank	Various	Jul-19	USD	20,533,684	20,533,684	3,889,971	16,643,713	22,601,150	3,302,643	19,298,507
Kenya local currency bonds II	Oct-07	Oct-14	KES	200,000,000	2,314,082	2,314,082	0	4,645,761	2,322,880	2,322,881
Exim Bank of India Loan	Various	Various	USD	9,909,774	9,909,774	5,181,942	4,727,832	16,042,175	6,922,309	9,119,866
US$ 1.0 Billion Euro Medium Term Note Programme: First Tranche	Nov-10	Jan-16	USD	101,594,525	101,594,525	2,848,525	98,746,000	-	-	-
US$ 1.0 Billion Euro Medium Term Note Programme: Second Tranche	Dec-13	Jan-19	USD	300,000,000	300,000,000	-	300,000,000	300,000,000	-	300,000,000
FMO	Mar-10	Jan-18	USD	34,000,000	34,000,000	8,000,000	26,000,000	42,000,344	8,000,344	34,000,000
Ceskoslovenska Obchodni Banka AS	Jul-07	May-17	USD	2,873,869	2,873,869	821,265	2,052,604	3,695,207	822,647	2,872,560
BHF Bank	Various	Sep-15	USD	1,613,608	1,613,608	1,024,696	588,912	3,075,476	1,461,868	1,613,608
Development Bank of Southern Africa	Mar-07	Jun-23	USD	86,897,912	86,897,912	19,674,995	67,222,917	86,248,951	7,188,070	79,060,881
OPEC Fund for International Development	Jun-13	Jun-16	USD	50,000,000	50,000,000	-	50,000,000	-	-	-
Overseas Private Investment Corporation	Sep-03	Mar-15	USD	1,050,000	1,050,000	700,000	350,000	1,402,149	352,149	1,050,000
Private Export Funding Corporation	Aug-11	Oct-21	USD	46,852,423	46,852,423	5,949,514	40,902,909	52,799,719	5,947,296	46,852,423
KfW	Dec-13	Dec-18	USD	30,000,000	30,000,000	-	30,000,000	-	-	-
Uganda local currency fixed rate bond	Oct-09	Oct-16	UGX	327,080,240	129,513	33,882	95,631	153,611	31,853	121,758
Uganda local currency floating rate bond	Oct-09	Oct-16	UGX	4,283,033,361	1,695,930	574,718	1,121,212	2,134,856	540,305	1,594,551
Sub total for long term borrowings					820,332,391	62,285,019	758,047,372	636,958,153	48,164,125	588,794,028
Interest payable					3,266,261	3,266,261	-	11,281,461	11,281,461	-
Total long term borrowings					823,598,652	65,551,280	758,047,372	648,239,614	59,445,586	588,794,028

The effective interest rate during the year was 4.69% (December 2012 – 5.09%). The borrowings are either at variable or fixed rates.

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

27. OTHER PAYABLES

	2013 USD	2012 USD
Accrued Fees-Trade Finance	6,410,694	-
Other creditors*	5,314,726	3,427,767
Provident fund**	3,634,329	3,318,483
Accrued expenses	1,414,022	583,118
Accrued Fees-Project Finance	809,101	-
Prepaid rent	51,622	51,622
Unspent African Development Bank Grant***	2,113	2,113
Cross Currency Swap receipt	-	1,109,389
	17,636,607	8,492,492

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

28. PROVISION FOR SERVICE AND LEAVE PAY

	2013 USD	2012 USD
(I) PROVISION FOR SERVICE PAY		
At beginning of period	3,330,699	3,651,746
Increase in provision	571,044	568,075
Payment of service pay	(56,432)	(889,122)
At end of period	3,845,311	3,330,699
(II) PROVISION FOR LEAVE PAY		
At beginning of period	870,725	896,545
Increase in provision	162,297	121,545
Payment of leave pay	(24,944)	(147,365)
At end of period	1,008,078	870,725
TOTAL PROVISION FOR SERVICE AND LEAVE PAY	4,853,389	4,201,424

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

29. SHARE CAPITAL

	As at 31 December 2013			As at 31 December 2012
	Class 'A'	Class 'B'	Total	Class 'A'
	USD	USD	USD	USD
Authorised capital:				
88,234 Class 'A' (2012: 88,234) ordinary shares of USD 22,667 each	2,000,000,000	-	2,000,000,000	2,000,000,000
220,584 Class 'B' (2012: Nil) ordinary shares of USD 4,533.420375 each	-	1,000,000,000	1,000,000,000	-
Less: Unsubscribed				
Class 'A'	(692,703,442)	-	(692,703,442)	(698,551,528)
Class 'B'	-	(977,332,898)	(977,332,898)	-
Subscribed capital:				
57, 674 Class 'A' (2012:57,416) ordinary shares of USD 22,667 each	1,307,296,558	-	1,307,296,558	1,301,448,472
5,000 Class 'B' (2012: Nil) ordinary shares of USD 4,533.420375 each	-	22,667,102	22,667,102	
Less: Callable capital	(1,045,837,246)	-	(1,045,837,246)	(1,041,158,778)
Payable capital	261,459,312	22,667,102	284,126,414	260,289,694
Less: Amounts not yet due	(14,525,015)	-	(14,525,015)	(39,361,025)
Capital due	246,934,297	22,667,102	269,601,399	220,928,669
Less: subscriptions in arrears	(17,160,851)	-	(17,160,851)	(27,250,375)
Paid up capital	229,773,446	22,667,102	252,440,548	193,678,294

Share Premium:

	Number of Shares	Share Price USD	Share Value USD	Share Premium USD	Price Paid USD
As at 1 January 2013	-	-	-	-	-
Additions during the year	5,000	4,533.420375	22,667,102	7,334,878	30,001,980
As at 31 December 2013	5,000	4,533.420375	22,667,102	7,334,878	30,001,980
As at 31 December 2012:	-	-	-	-	-

29. SHARE CAPITAL (Continued)

	As at 31 December 2013			As at 31 December 2012
	Class 'A' USD	Class 'B' USD	Total USD	Class 'A' USD
Movement in paid up share capital:				
At the beginning of the year:	193,678,294	-	193,678,294	179,021,687
Receipts during the year:				
African Development Bank	-	15,109,890	15,109,890	-
National Pension Fund-Mauritius	-	7,557,212	7,557,212	-
Burundi	451,457	-	451,457	456,424
Congo DRC	2,402,836	-	2,402,836	-
Djibouti	1,190,536	-	1,190,536	101,485
Egypt	2,420,836	-	2,420,836	2,420,836
Ethiopia	2,420,836	-	2,420,836	2,420,836
Kenya	2,420,836	-	2,420,836	2,420,836
Malawi	598,409	-	598,409	1,595,327
Rwanda	565,770	-	565,770	565,768
Seychelles	122,401	-	122,401	122,402
Sudan	9,850,338	-	9,850,338	1,302,870
Tanzania	4,508,325	-	4,508,325	633,111
Uganda	2,930,000	-	2,930,000	-
Zambia	3,701,068	-	3,701,068	100,471
Zimbabwe	2,511,504	-	2,511,504	2,516,241
	36,095,152	22,667,102	58,762,254	14,656,607
At the end of the year	229,773,446	22,667,102	252,440,548	193,678,294

Payable capital is one fifth of the subscribed capital to Class 'A' shares. The remaining four fifths of the subscribed capital constitutes callable capital. The Bank's Board of Governors may, on the recommendation of the Board of Directors, make a call only when the amount thereof is required to repay existing borrowings or to meet guaranteed commitments. Note 42 contains the status of subscriptions to the capital stock by member countries.

30. NOTES TO THE STATEMENT OF CASH FLOWS

		2013 USD	2012 USD
(a) Reconciliation of profit for the period to cash generated from operations:			
Profit for the year		66,630,376	51,228,569
Adjustments:			
Depreciation		594,768	534,493
Loss in foreign exchange		(1,345,903)	108,884
Loss on de-recognition of property and equipment		-	5,426
Fair value (gain) on revaluation of equity investments		(2,344,752)	(682,980)
Amortisation of intangible assets		80,975	34,654
Profit before working capital changes		63,615,464	51,229,046
(Increase) in other receivables		(2,136,656)	(401,480)
(Increase)/Decrease in hedging derivative asset		(24,150,934)	724,597
Increase/(Decrease) in hedging derivative liability		25,510,145	(353,553)
(Increase) in trade finance loans		(595,813,859)	(155,722,017)
(Increase) in project loans		(107,889,397)	(68,683,934)
(Increase)/Decreasein deferred expenditure		(11,650,871)	262,470
Increase in collection accounts deposits		57,689,093	52,167,182
Increase in other payables		9,144,115	5,079,479
Increase/(Decrease) in provision for service and leave pay		651,965	(346,867)
Increase in borrowings (Note 30(b))		466,887,739	350,829,328
		(118,143,196)	234,784,251
(b) Analysis of changes in borrowings:			
Short term borrowings:			
At beginning of year		681,326,318	335,554,876
Loans received		1,754,645,870	1,514,714,183
Repayments		(1,463,117,169)	(1,168,942,741)
At end of year		972,855,019	681,326,318
Long term borrowings:			
At beginning of year		648,239,614	643,181,728
Loans received		465,016,171	89,922,499
Repayments		(289,657,133)	(84,864,613)
At end of year		823,598,652	648,239,614
Total borrowings:			
At beginning of year		1,329,565,932	978,736,604
Loans received		2,219,662,041	1,604,636,682
Repayments		(1,752,774,302)	(1,253,807,354)
At end of year		1,796,453,671	1,329,565,932
Increase in total borrowings	(30 a)	466,887,739	350,829,328
(c) Analysis of cash and cash equivalents			
Cash and balances with other banks - Note 13		404,006,930	462,607,857

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

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

(d) Facilities available for lending

As at 31 December 2013 the following facilities were available to the Bank for lending:

SHORT-TERM FACILITIES	Facilities available USD	Facilities utilised USD	Facilities unutilised USD
LENDER			
Mauritius Commercial Bank	160,000,000	159,379,820	620,180
Syndicated Loan	150,000,000	150,000,000	-
Commerzbank	137,940,000	115,423,750	22,516,250
Rand Merchant Bank	130,000,000	90,152,767	39,847,233
AFREXIM Bank	125,000,000	110,594,926	14,405,074
Standard Bank South Africa	90,000,000	58,596,589	31,403,411
Commercial Bank of Africa	86,000,000	85,509,222	490,778
FBN Bank London	80,000,000	27,312,120	52,687,880
BNP Paribas Group	75,000,000	134,608	74,865,392
HSBC Bank	72,000,000	44,424,757	27,575,243
Mashreq Bank	65,000,000	30,950,000	34,050,000
Deutsche Bank	60,000,000	60,000,000	-
ING Bank	55,176,000	44,835,034	10,340,966
Sumitomo Mitsui Banking Corporation	55,000,000	-	55,000,000
Standard Chartered Bank	50,000,000	37,542,388	12,457,612
Kenya Commercial Bank	50,000,000	-	50,000,000
UBA,New York	50,000,000	-	50,000,000
Societe Generale	50,000,000	35,686,412	14,313,588
BCV-Banque Cantonale Vaudoise	41,382,000	10,519,305	30,862,695
NIC Bank	40,000,000	2,299,882	37,700,118
Fim Bank	39,845,188	39,792,903	52,285
KBC Bank	34,485,000	26,451,451	8,033,549
Byblos Bank	33,413,339	32,694,882	718,457
Natixis	30,000,000	-	30,000,000
CFC Stanbic Bank	30,000,000	-	30,000,000
Africa Finance Corporation	25,000,000	25,000,000	-
BHF Bank	20,691,000	20,691,000	-
Banque de Commerce et de Placement	20,691,000	-	20,691,000
International Islamic Trade Finance Corp.	20,000,000	-	20,000,000
Opec Fund for International Development	20,000,000	20,000,000	-
Ghana International Bank	20,000,000	20,000,000	-
DZ Bank	15,000,000	-	15,000,000
State Bank of Mauritius	15,000,000	10,465,071	4,534,929
Barclays/Absa Bank	15,000,000	-	15,000,000
	1,961,623,527	1,258,456,887	703,166,640

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

(d) Facilities available for lending (continued)

As at 31 December 2013, the following facilities were available to the Bank for lending

LONG TERM FACILITIES	Facilities available USD	Facilities utilised USD	Facilities unutilised USD
LENDER			
Eurobond	398,746,000	398,746,000	-
African Development Bank	150,000,000	100,000,000	50,000,000
Exim Bank India	100,000,000	75,000,000	25,000,000
Development Bank of Southern Africa	95,000,000	95,000,000	-
China Development Bank	62,900,000	62,900,000	-
Private Export Funding Corporation	60,000,000	60,000,000	-
KfW	60,000,000	30,000,000	30,000,000
OFID	50,000,000	50,000,000	-
FMO	50,000,000	50,000,000	-
KBC Bank	51,403,510	36,854,139	14,549,371
Africa Agriculture Trade and Investment Fund	30,000,000	30,000,000	-
Industrial Development Corporation	30,000,000	-	30,000,000
BHF Bank	18,000,000	7,300,000	10,700,000
Kenya Local Currency Bond II	13,975,818	13,975,818	-
Japan Bank for International Coorporation	12,700,000	-	12,700,000
Ceskoslovenska Obchodni Banka AS	6,575,954	6,575,954	-
Uganda Shillings Local Currency Bond	3,674,312	3,674,312	-
Overseas Private Investment Corporation	1,400,000	1,400,000	-
Exim Bank USA	No limit	-	No limit
	1,194,375,594	1,021,426,223	172,949,371
TOTAL FACILITIES			
At 31 December 2013	3,155,999,121	2,279,883,110	876,116,011

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

(d) Facilities available for lending (Continued)

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

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

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

(d) Facilities available for lending (Continued)

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

LONG TERM FACILITIES LENDER	Facilities Available (USD)	Facilities Utilised (USD)	Facilities Unutilised(USD)
Eurobond	300,000,000	300,000,000	-
Exim Bank India	100,000,000	75,000,000	25,000,000
African Development Bank	100,000,000	100,000,000	-
Development Bank of Southern Africa	95,000,000	95,000,000	-
Private Export Funding Corporation(PEFCO)	60,000,000	60,000,000	-
FMO	50,000,000	50,000,000	-
KBC Bank	51,403,510	36,854,139	14,549,371
Africa Agriculture Trade and Investment Fund (AATIF)	30,000,000	30,000,000	-
China Development Bank	22,900,000	22,900,000	-
Standard Chartered Bank Limited	20,000,000	20,000,000	-
BHF Bank	18,000,000	7,300,000	10,700,000
Kenya Local Currency Bond II	13,975,818	13,975,818	-
M & T Bank	13,607,331	13,607,331	-
Japan Bank for International Coorporation (JBIC)	12,700,000	-	
12,700,000	25,000,000	-	25,000,000
Ceskoslovenska Obchodni Banka AS	6,575,954	6,575,954	-
Uganda Shillings Local Currency Bond	3,674,312	3,674,312	-
Overseas Private Investment Corporation	1,400,000	1,400,000	-
Exim Bank USA	No limit	-	No limit
	899,236,925	836,287,554	62,949,371
TOTAL FACILITIES At 31 December 2013	2,432,101,987	1,833,741,511	598,360,476

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments recorded at fair value

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

Derivative financial instruments

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

Equity Investments – at fair value through profit and loss

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

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

At 31 December 2013:	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
ASSETS				
Derivative financial instruments	-	37,691,976	-	37,691,976
Equity investments – at fair value through profit and loss	-	-	19,753,620	19,753,620
	-	37,691,976	19,753,620	57,445,596
LIABILITIES				
Derivative financial instruments	-	37,818,399	-	37,818,399
	-	37,818,399	-	37,818,399

31. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

The Bank has not designated any loan or receivable or borrowings and payables as at fair value through profit or loss.

Transfers between Level 1 and Level 3:

During the years ended 31 December 2013 and 31 December 2012, there were no transfers made between levels of the fair value hierarchy.

Valuation of financial Instruments recorded at fair value:
The Bank uses widely recognised valuation models for determining fair values of interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including both credit and debit valuation adjustments for counterparty and own credit risk, foreign exchange spot and forward rates and interest rate curves. For these financial instruments, significant inputs into models are market observable and are included within Level 2.

The Bank invests in private equity companies which are not quoted in an active market. Transactions in such investments do not occur on a regular basis. The Bank uses the equity method valuation technique for these positions, using the net assets of the company and the Bank's shareholding in the company.

Valuations of financial instruments are the responsibility of Management.
The valuation of equity investments and derivative financial instruments is performed on a semi-annual basis by the Financial Management Unit. The valuations are also subject to quality assurance procedures performed by the Bank's internal and external auditors. In addition, the accuracy of the computation is tested. The latest valuation is also compared with the valuations in the preceding periods. If fair value changes (positive or negative) are more than certain thresholds set, the changes are further considered by senior management. Appropriateness of valuation methods and inputs is considered and management may request that alternative valuation methods are applied to support the valuation arising from the method chosen.

Over the years that the Bank has held these equity investments, no such situation has arisen and therefore no changes to the valuation method have occurred.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Net changes in fair value of financial assets and financial liabilities through profit or loss:

	As at 31 December 2013			As at 31 December 2012		
	Realised USD	Unrealised USD	Total gains/ (losses) USD	Realised USD	Unrealised USD	Total gains/ (losses) USD
ASSETS						
Derivative financial instruments	-	(149,584)	(149,584)	-	(149,584)	(149,584)
Equity investments – at fair value through profit and loss	-	2,344,752	2,344,752	-	682,980	682,980
	-	2,195,168	2,195,168	-	533,396	533,396
LIABILITIES						
Derivative financial instruments	-	(387,178)	(387,178)	-	(65,889)	(65,889)
	-	(387,178)	(387,178)	-	(65,889)	(65,889)

Quantitative information of significant unobservable inputs – Level 3:

Description	Valuation Technique	Unobservable input	Range (weighted average)	2013 USD	2012 USD
Equity investments – at fair value through profit and loss	Equity Method-% of net assets	Average equity of investee companies	n/a	19,753,620	10,855,430

Sensitivity analysis to significant changes in unobservable inputs within Level 3 hierarchy – Level 3:

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis are as shown below

As at 31 December 2013:

Description	Input	Sensitivity used	Effect on fair value USD
Equity investments – at fair value through profit and loss	Average equity of investee companies	5%	617,973

As at 31 December 2012:

Description	Input	Sensitivity used	Effect on fair value USD
Equity investments – at fair value through profit and loss	Average equity of investee companies	5%	542,772

Significant increases (decreases) in the equity of investee companies in isolation would result in a significantly (lower) higher fair value measurement

31. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Level 3 reconciliation

The following table shows a reconciliation of all movements in the fair value of financial instruments categorised within Level 3 between the beginning and the end of the reporting period:

	2013 USD	2012 USD
Balance as at 31 January	10,855,430	10,172,450
Total FV gains and losses in profit or loss	2,344,752	682,980
Additions	7,394,333	-
Retirements	(840,895)	-
Balance as at 31 December	19,753,620	10,855,430

Financial assets such as trade finance loans, project loans and financial liabilities like collection account deposits, short term and long term borrowings are stated at amortised costs and these values approximate their fair values

32. SEGMENT REPORTING

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

The main types of loan products are:

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

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

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

32. SEGMENT REPORTING (Continued)

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

STATEMENT OF COMPREHENSIVE INCOME

Year Ended 31 December 2013:	Trade finance USD	Project finance USD	Other USD	Total USD
Gross interest income	72,255,395	37,921,552	1,406,639	111,583,586
Interest expense and other borrowing costs	(38,713,787)	(20,496,686)	(1,904,806)	(61,115,279)
Net interest income	33,541,608	17,424,866	(498,167)	50,468,307
Fee and commission income	37,850,109	5,829,370	-	43,679,479
Other income	-	-	612,423	612,423
Other assets written off	-	(132,887)	-	(132,887)
Interest on capital arrears	-	-	1,687,805	1,687,805
Other assets recovered	567,647	4,168,449	-	4,736,096
Operating expenses	(12,180,695)	(2,954,090)	-	(15,134,785)
Depreciation and amortisation	(605,666)	(70,077)	-	(675,743)
Impairment on loans	(15,665,842)	(6,635,132)	-	(22,300,974)
Foreign exchange loss	1,345,903	-	-	1,345,903
Fair value gain on equity investments	-	-	2,344,752	2,344,752
Profit for the year	44,853,064	17,630,499	4,146,813	66,630,376
Year Ended 31 December 2012:				
Gross interest income	62,386,892	34,988,023	1,964,307	99,339,222
Interest expense and other borrowing costs	(29,347,349)	(17,583,330)	(2,238,842)	(49,169,521)
Net interest income	33,039,543	17,404,693	(274,535)	50,169,701
Fee and commission income	27,587,090	5,853,201	-	33,440,291
Other income	-	-	567,812	567,812
Other assets written off	-	(58,155)	-	(58,155)
Interest on capital arrears	-	-	207,951	207,951
Other assets recovered	155,366	4,608,076	-	4,763,442
Operating expenses	(9,274,243)	(2,490,457)	-	(11,764,700)
Depreciation and amortisation	(512,213)	(56,913)	-	(569,126)
Impairment on loans	(16,303,004)	(9,799,739)	-	(26,102,743)
Foreign exchange gain	-	-	(108,884)	(108,884)
Fair value gain on equity investments	-	-	682,980	682,980
Profit for the year	34,692,539	15,460,706	1,075,324	51,228,569

32. SEGMENT REPORTING (Continued)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013:	Trade finance USD	Project finance USD	Other USD	Total USD
Assets:				
Cash and balances held with other banks	-	-	404,006,930	404,006,930
Derivative financial instruments	-	-	37,691,976	37,691,976
Trade finance loans	1,443,338,055	-	-	1,443,338,055
Project loans	-	584,309,124	-	584,309,124
Equity investments at fair value through profit or loss	-	-	19,753,620	19,753,620
Other receivables	-	-	7,306,035	7,306,035
Deferred expenditure	-	-	19,154,092	19,154,092
Property and equipment	-	-	20,417,400	20,417,400
Intangible assets	-	-	304,596	304,596
Total assets	1,443,338,055	584,309,124	508,634,649	2,536,281,828
Liabilities:				
Collection account deposits	202,540,691	-	-	202,540,691
Derivative financial instruments	-	-	37,818,399	37,818,399
Short term borrowings	972,855,019	-	-	972,855,019
Long term borrowings	-	823,598,652	-	823,598,652
Other payables	-	-	17,636,607	17,636,607
Provision for service and leave pay	-	-	4,853,389	4,853,389
	-			
Total liabilities	1,175,395,710	823,598,652	60,308,395	2,059,302,757
Equity	-	-	476,979,071	476,979,071
	1,175,395,710	823,598,652	537,287,466	2,536,281,828

32. SEGMENT REPORTING (Continued)

STATEMENT OF FINANCIAL POSITION

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

33. CONTINGENT LIABILITIES AND COMMITMENTS

	2013 USD	2012 USD
(a) Capital commitments		
Approved but not contracted	2,613,800	3,218,000
Approved and contracted	334,636	-
(b) Loans committed but not disbursed		
Project finance loans	254,717,050	206,549,761
Trade finance loans	1,257,903,203	316,049,615
	1,512,620,253	522,599,376

(c) Contingencies

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

	2013 USD	2012 USD
Letters of credit - Project finance loans	21,698,552	22,077,264
- Trade finance loans	491,583,857	406,291,726
Guarantees	84,079,960	74,579,806
	597,362,369	502,948,796

(d) Operating lease arrangements

The Bank as a lessor

This relates to the Bank's building in Bujumbura of which part has been leased out. Rental income earned during the year was USD 223,760 (2012 - USD 222,960). At reporting date, the Bank had contracted with tenants for the following future lease receivables:

	2013 USD	2012 USD
Within one year	222,960	222,960
In the second and third year inclusive	93,150	-
	316,110	222,960

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

33. CONTINGENCIES AND COMMITMENTS (Continued)

(d) Operating lease arrangements

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

	2013 USD	2012 USD
Within one year	243,871	46,476
In the second to fifth year inclusive	1,079,152	-
Over five years	161,343	-
	1,484,366	46,476

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

(e) Pending Litigation

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

As at 31 December 2013, there were legal proceedings involving the Bank amounting to USD 4,200,000 (December 2012 - USD 7,630,000) that are yet to be determined. No provision has been made as, in the opinion of the Directors, and the Bank's lawyers, it is unlikely that any significant loss will crystallise.

34. RELATED PARTY TRANSACTIONS

(a) Membership and Governance

As a supranational development financial institution with a membership comprising eighteen COMESA / African States (the "Member States"), one non-African State and one institutional member, subscription to the capital of the Bank is made by all its Members. All the powers of the Bank are vested in the Board of Governors, which consists of the Governors appointed by each Member of the Bank, who exercise the voting power of the appointing Member. The Board of Directors, which is composed of ten (10) Directors elected by the Members is responsible for the conduct of the general operations of the Bank, and for this purpose, exercises all the powers delegated to it by the Board of Governors. The Bank makes loans to some of its Member States. The Bank also borrows funds from some of its Members. Such loans granted to Member States are approved by the Board of Directors.

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

(b) Loans with Member States	2013 USD	2012 USD
Outstanding loans at 1 January	361,380,300	321,543,549
Loans disbursed during the year	1,282,707,362	1,032,540,631
Loans repaid during the year	(840,788,270)	(992,703,880)
Outstanding loan balances at 31 December	803,299,392	361,380,300

34. RELATED PARTY TRANSACTIONS (Continued)

(b) Loans with Member States (continued)

Loans to related parties are subject to commercial negotiations on the terms and conditions of varying interest rates and terms. Outstanding balances at year-end are secured by cash security deposits, sovereign undertakings/ guarantees and
insurance. The loans with Member States are performing and the Bank has not made any provision for doubtful debts relating to amounts owed by related parties (2012: Nil). The loans are granted for an average period of one year.

(c) Borrowings from Members	2013 USD	2012 USD
Outstanding borrowings at 1 January	54,165,851	62,657,133
Borrowings received during the period	946,889	1,386,883
Borrowings repaid during the period	(8,967,083)	(9,878,165)
Outstanding balances at 31 December	54,165,851	62,657,133

Borrowings from related parties are subject to commercial negotiations on the terms and conditions. The outstanding balances as at year-end are unsecured and there has been no guarantee provided by the Bank for any borrowings from members. The borrowings are for an average period of ten years.

(d) Income and expenses	2013 USD	2012 USD
• Interest income from loans to Members earned during the period	25,627,866	23,601,991
• Interest expense from borrowings with Members incurred during the period	(837,763)	(628,165)
• Fees and commission	40,319,704	23,110,935

(e) Other related parties

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

	2013 USD	2012 USD
Salaries and other short-term benefits	1,765,257	1,557,212
Post employment benefits: Defined contribution: Provident Fund	435,438	376,348
Board of Directors and Board of Governors allowances	131,200	142,940
	2,331,895	2,076,500

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:

	2013 USD	2012 USD
British Pound	0.6067	0.6197
Euro	0.7250	0.7583
Sudanese Pound	5.6605	4.4131
South Africa Rand	10.4222	8.4995
Ethiopian Birr	18.8740	18.2495
Kenya Shilling	86.4000	86.1000
Japanese Yen	105.0300	86.1100
Malawi Kwacha	406.0000	333.7000
Burundi Franc	1527.0000	1530.0000
Tanzania Shilling	1591.4900	1580.8000
Uganda Shilling	2525.4700	2686.3200

36. EVENTS AFTER THE REPORT DATE

There are no material events after the reporting date that would require disclosure in or adjustment to, these financial statements.

37. FINANCIAL RISK MANAGEMENT

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

(a) INTRODUCTION

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

Risk management structure

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

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

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

37. FINANCIAL RISK MANAGEMENT (Continued)

Risk measurement and reporting systems

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

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

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

(b) CREDIT RISK

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

Risk Management Policies and Processes

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

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

Client-Specific Risk

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

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

Country risk

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

The Bank limits its exposure to any single Member country to 30% of its total loan portfolio. As at 31 December 2013, all country exposures were within this limit.

Notes 40 and 41 of the Financial Statements contain the country exposure analysis as at 31 December 2013 and 31 December 2012.

37. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Credit-related commitment risks

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

Maximum Exposure to Credit Risk before Collateral Held:

	2013 USD	%	2012 USD	%
Credit Exposures				
On - statement of financial position Items				
Cash and Balances held with other banks	404,006,930	17	462,607,857	26
Loans and advances	2,027,647,179	83	1,323,943,923	74
• Project loans	584,309,124		476,419,727	-
• Trade finance loans	1,443,338,055		847,524,196	-
Sub Total	2,431,654,109	100	1,786,551,780	100
Off - statement of financial position Items				
Letters of Credit	513,282,409	24	428,368,990	42
Loan Commitments not disbursed	1,512,620,253	72	522,599,376	51
Guarantees and Performance Bonds	84,079,960	4	74,579,806	7
Sub Total	2,109,987,622	100	1,025,548,172	100
Total Credit Exposure	4,541,636,731		2,812,099,952	

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 91% in 2013 (2012 - 84%) of the total maximum credit exposure.

Other than cash and bank balances amounting to USD 404,006,930 (2012 -USD 462,607,857) 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, 2013, the fair value of collateral held for impaired loans and advances was USD 103,062,921 (2012 - USD 88,774,529) and provided sufficient cover over the gross exposure of USD 92,532,352 (2012-USD 71,616,606) and over the net exposure of USD 31,664,602 (USD-23,339,749) after deducting the impairment allowances.

37. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Classification of Loans and advances

For year ended 31 December 2013:

Category	Gross amount USD	Impairment allowance USD	Net amount USD	%
Neither past due nor impaired	1,896,796,963	-	1,896,796,963	93
Past due but not impaired:	99,205,614	-	99,205,614	5
Impaired	92,532,353	(60,887,750)	31,664,603	2
Total	2,088,534,930	(60,887,750)	2,027,647,180	100

For year ended 31 December 2012:

Category	Gross amount USD	Impairment allowance USD	Net amount USD	%
Neither past due nor impaired	1,216,771,008	-	1,216,771,008	92
Past due but not impaired:	83,833,170	-	83,833,170	6
Impaired	71,617,606	(48,277,861)	23,339,745	2
Total	1,372,221,784	(48,277,861)	1,323,943,923	100

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

37. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Ageing of arrears for past due loans and advances not impaired

	2013 USD	2012 USD
Below 30 Days	95,383,429	72,716,415
31 to 90 Days	3,822,185	11,116,755
Total arrears	99,205,614	83,833,170
Below 30 Days	1,443,001	1,435,794
31-90 Days	3,588,513	1,689,156
91-180 Days	6,215,171	2,664,565
181-360 Days	29,490,203	9,164,878
Over 360 Days	39,857,591	14,060,091
Total arrears	80,594,479	29,014,484
Amounts not in arrears	11,937,873	42,603,122
Total	92,532,352	71,617,606

Loans and advances that are neither past due nor impaired

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

Past due but not impaired

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

Impaired loans and advances

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

37. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

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

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

For both periods ended 31 December 2013 and 31 December 2012, the Bank's collateral exceeded the outstanding gross portfolio.

Collateral held for loan portfolio

		2013 USD	2012 USD
(i)	Total portfolio:		
	Mortgages on properties	586,374,377	426,588,522
	Fixed charge on plant and equipment	522,832,664	451,496,545
	Cash security deposits	144,848,515	144,848,515
	Floating All Asset Debentures	146,525,910	147,710,429
	Sovereign Undertakings / Guarantees	456,202,525	424,814,214
	Insurance	462,500,000	275,000,000
	Total security cover	2,319,283,991	1,870,458,225
	Gross portfolio	(2,088,534,930)	(1,372,221,784)
	Net cover/(exposure)	230,749,061	498,236,441
(ii)	Past due but not impaired:		
	Mortgages on properties	77,598,907	78,538,867
	Fixed charge on plant and equipment	163,012,886	156,507,010
	Cash security deposits	459,643	459,643
	Other Floating All Asset Debentures	39,663,608	39,663,608
		280,735,044	275,169,128
	Portfolio	(99,205,614)	(83,833,170)
	Net cover/(exposure)	181,529,430	191,335,958

37. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

	2013 USD	2012 USD
(iii) Impaired loans:		
Mortgages on properties	65,440,952	54,652,560
Fixed charge on plant and equipment	37,621,969	34,121,969
	103,062,921	88,774,529
Portfolio	(92,532,353)	(71,617,606)
Net cover/(exposure)	10,530,568	17,156,923

Concentration of risk

Loans and advances to customers	2013 USD	%	2012 USD	%
Sector:				
Mining and Quarrying	21,654,996	1	5,805,442	-
Agribusiness	433,517,152	21	261,235,967	19
Banking and Financial Services	238,447,444	11	195,034,515	14
Education	6,548,525	-	-	-
Hospitality	66,606,987	3	62,268,965	5
Manufacturing and Heavy Industries	56,322,622	3	82,619,358	6
Other	27,627,027	1	13,283,785	1
Health Services	26,452,394	1	11,057,539	1
Agriculture and Forestry	-	-	38,848	-
Energy	76,241,568	4	71,857,571	5
Petrochemicals	783,947,354	38	389,805,253	29
Real Estate	65,490,148	3	74,687,013	5
Telecommunications	35,361,750	2	32,148,729	2
Infrastructure	118,091,812	6	82,226,554	6
Transport and Logistics	132,225,151	6	90,152,245	7
Total	2,088,534,930	100	1,372,221,784	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 2013, all loan and advances sectoral concentrations, except for Petrochemical were within the stipulated limit. Against the Petrochemicals sector exposure, the Bank held cash collateral amounting to USD 162.70 million (2012 – USD 144.85 million) and had insured exposure amounting to USD 400.00 million (2012 – USD 184 million).

37. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Off- statement of financial position Items:

	2013 USD	%	2012 USD	%
Sector				
Mining and Quarrying	103,842,768	5	3,601,468	-
Agribusiness	638,031,884	30	269,384,441	26
Banking and Financial Services	119,210,543	6	122,386,661	12
Education	2,100,000	-	8,400,000	1
Hospitality	7,456,072	-	14,316,513	1
Manufacturing and Heavy Industries	35,462,051	2	20,409,556	2
Other	27,891,865	1	8,592,219	2
Health Services	25,922,216	1	10,485,044	1
Energy	44,176,433	2	786,496	-
Petrochemicals	1,007,007,103	48	476,861,109	46
Real Estate	28,780,492	2	53,155,248	5
Telecommunications	13,664,164	1	2,269,551	-
Infrastructure	5,613,825	-	34,395,006	3
Transport and Logistics	50,823,206	2	504,860	-
Total	2,109,982,622	100	1,025,548,172	100

37. FINANCIAL RISK MANAGEMENT (Continued)

(b) CREDIT RISK (Continued)

Restructured Loans

	2013 USD	2012 USD
Project finance loans	37,528,338	55,760,122

(c) LIQUIDITY RISK

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

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

The prudential minimum level of liquidity is updated quarterly.

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

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

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

37. 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 2013:						
FINANCIAL ASSETS						
Cash and balances with other banks	403,425,557	581,373	-	-	-	404,006,930
Other receivables	6,916,296	118,435	96,485	174,819	-	7,306,035
Derivative financial instruments	-	-	26,818,040	10,873,936		37,691,976
Trade finance loans	495,364,969	643,820,204	236,408,512	54,439,457	13,304,913	1,443,338,055
Project loans	28,552,056	37,385,155	114,312,979	276,757,423	127,301,511	584,309,124
Equity investments	-	-	-	19,753,620	-	19,753,620
Total financial assets	934,258,878	681,905,167	377,636,016	361,999,255	140,606,424	2,496,405,740
FINANCIAL LIABILITIES						
Short term borrowings	257,646,326	514,008,693	150,000,000	51,200,000	-	972,855,019
Long term borrowings	17,341,719	19,687,611	25,255,686	372,990,511	388,323,125	823,598,652
Derivative financial instruments	-	-	27,734,896	10,083,503	-	37,818,399
Collection Account Deposits	23,386,835	94,829,235	38,296,927	46,027,694	-	202,540,691
Other payables	7,345,623	2,799,306	1,435,366	4,588,553	-	16,168,848
Total financial liabilities	305,720,503	631,324,845	242,722,875	4784,890,261	388,323,125	2,052,981,609
Net liquidity gap	628,538,375	50,580,322	134,913,141	(122,891,006)	(247,716,701)	443,424,131
Cumulative gap	628,538,375	679,118,697	814,031,838	691,140,832	443,424,131	443,424,131

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

37. FINANCIAL RISK MANAGEMENT (Continued)

(c) LIQUIDITY RISK (Continued)

Maturities of financial assets and financial liabilities are as follows:

	Up to 1month 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 2012:						
FINANCIAL ASSETS						
Cash and balances with other banks	462,607,857	-	-	-	-	462,607,857
Investments in Government securities	1,802,767	82,210	73,534	62,346	-	2,020,857
Other receivables	-	-	-	13,541,042	-	13,541,042
Derivative financial instruments	142,763,593	484,475,164	157,156,517	49,824,008	13,304,913	847,524,195
Trade finance loans	33,057,944	35,837,732	46,689,823	276,503,909	84,330,319	476,419,727
Project loans	-	-	-	10,855,430	-	10,855,430
Equity investments	-	-	-	10,172,450	-	10,172,450
Total financial assets	640,232,161	520,395,106	203,919,874	350,786,735	97,635,232	1,812,969,108
FINANCIAL LIABILITIES						
Short term borrowings	188,317,403	292,529,741	50,479,174	150,000,000	-	681,326,318
Long term borrowings	18,023,122	14,420,398	27,001,912	488,526,133	100,268,049	648,239,614
Derivative financial instruments	-	-	-	12,308,254	-	12,308,254
Collection Account Deposits	144,851,598	-	-	-	-	144,851,598
Other payables	3,442,035	322,429	373,266	2,608,520	-	6,746,250
Total financial liabilities	354,634,158	307,272,568	77,854,352	653,442,907	100,268,049	1,493,472,034
Net liquidity gap	285,598,003	213,122,538	126,065,522	(302,656,172)	(2,632,817)	319,497,074
Cumulative gap	285,598,003	498,720,541	624,786,063	322,159,891	319,497,074	319,497,074

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

37. FINANCIAL RISK MANAGEMENT (Continued)

(c) LIQUIDITY RISK (Continued)

I. Liquidity and funding management

The Bank's liquidity and funding policies require:

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

II. Contingency Plans

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

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

(d) MARKET RISK

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

Overall responsibility for management of market risk rests with BIRMC. The Treasury unit 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.

I. Interest rate risk

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

37. FINANCIAL RISK MANAGEMENT (Continued)

d) MARKET RISK (Continued)

I. Interest rate risk

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

At 31 December 2013:	Up to 1 month USD	1 to 6 months USD	6 to 12 months USD	1 to 5 Years USD	Fixed interest Rate USD	Non-interest bearing USD	Total USD
FINANCIAL ASSETS							
Cash and balances with other banks	403,425,557	581,373	-	-	-	-	404,006,930
Other receivables	-	-	-	-	-	7,306,035	7,306,035
Derivative financial instruments	-	-	26,818,040	10,873,936	-	-	37,691,976
Trade finance loans	348,510,578	716,243,204	172,288,869	-	144,569,675	61,725,729	1,443,338,055
Project loans	243,426,188	152,008,958	-	-	185,228,728	3,645,250	584,309,124
Equity investments	-	-	-	-	-	19,753,620	19,753,620
Total financial assets	995,362,323	868,833,535	199,106,909	10,873,936.07	329,798,403	92,430,634	2,496,405,740
FINANCIAL LIABILITIES							
Short term borrowings	307,646,326	664,008,693	-	-	1,200,000	-	972,855,019
Long term borrowings	196,617,503	528,235,149	-	-	98,746,000	-	823,598,652
Derivative financial instruments	-	10,083,503	27,734,896	-	-	-	37,818,399
Collection Account	-	-	-	-	-	202,540,691	202,540,691
Provision for Service and Leave pay	-	-	-	-	-	4,853,389	4,853,389
Other payables	-	-	-	-	-	17,636,607	17,636,607
Total financial liabilities	504,263,829	1,202,327,345	27,734,896	-	99,946,000	225,030,687	2,059,302,757
Net interest rate exposure	491,098,494	(333,493,810)	171,372,013	10,873,936	229,852,403	(132,600,053)	437,102,983
Cumulative interest rate exposure	491,098,494	157,604,684	328,976,697	339,850,633	569,703,036	437,102,983	437,102,983

37. FINANCIAL RISK MANAGEMENT (Continued)

d) MARKET RISK (Continued)

I. Interest rate risk (Continued)

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

	Up to 1 month USD	1 to 6 months USD	6 to 12 months USD	1 to 5 Years USD	Fixed interest Rate USD	Non-interest bearing USD	Total USD
At 31 December 2012:							
FINANCIAL ASSETS							
Cash balances with other banks	462,607,857	-	-	-	-	-	462,607,857
Other receivables	-	-	-	-	-	5,169,379	5,169,379
Derivative financial instruments	-	13,541,042	-	-	-	-	13,541,042
Trade finance loans	184,226,065	505,724,283	20,000,000	-	115,873,850	21,699,998	847,524,196
Project loans	200,816,472	218,933,827	-	-	49,331,362	7,338,066	476,419,727
Equity investments	-	-	-	-	-	10,855,430	10,855,430
Equity investments	-	-	-	-	-	10,172,450	10,172,450
Total financial assets	847,650,394	738,199,152	20,000,000	-	165,205,212	45,062,873	1,816,117,631
FINANCIAL LIABILITIES							
Short term borrowings	213,317,403	453,226,772	14,782,143	-	-	-	681,326,318
Long term borrowings	360,549,695	137,689,919	-	-	150,000,000	-	648,239,614
Collection Account Deposits	-	-	-	-	-	144,851,598	144,851,598
Provision for service and leave pay	-	-	-	-		4,201,424	4,201,424
Other payables	-	-	-	-	-	8,492,492	8,492,492
Other payables	-	-	-	-	2,392,818	1,020,195	3,413,013
Total financial liabilities	573,867,098	603,224,945	14,782,143	-	150,000,000	157,545,514	1,499,419,700
Net interest rate exposure	273,783,296	134,974,207	5,217,857	-	15,205,212	(112,482,641)	316,697,931
Cumulative interest rate exposure	273,783,296	408,757,503	413,975,360	413,975,360	429,180,572	316,697,931	316,697,931

37. FINANCIAL RISK MANAGEMENT (Continued)

d) MARKET RISK (Continued)

I. 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 2013 were outstanding at those levels for the whole year,
- Interest-bearing assets and liabilities denominated in currencies other than USD experienced similar movements in interest rates, and
- All other variables are held constant.

If interest rates had been 100 basis points higher or lower with the above assumptions applying, the Bank's net profit for the year ended 31 December 2013 would increase or decrease by USD 1,400,851 (2012 - USD 590,818) as follows:

Effect on the Bank's Net Profit:

The profit for the year ended 31 December 2013 would increase to USD 68,031,227 (2012: USD 51,819,387) or decrease to USD 65,229,525 (2012: USD 50,708,751).

The potential change is 2.1% (2012 – 1.2%) of the year's profit.

II. Currency risk

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

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

37. FINANCIAL RISK MANAGEMENT (Continued)

d) MARKET RISK (Continued)

III. Currency risk (Continued)

The Bank's financial assets and financial liabilities are reported in USD.
The Bank's currency position as at 31 December 2013 was as follows:

	USD	GBP	EURO	KES	SDG	UGX	MK	OTHER	TOTAL
FINANCIAL ASSETS:									
Cash and balances with other banks	258,311,130	26,022	21,297,953	507,433	122,758,154	584,966	139,438	381,834	404,006,930
Other receivables	7,306,035	-	-	-	-	-	-	-	7,306,035
Derivative financial instruments	37,691,976	-	-	-	-	-	-	-	37,691,976
Trade finance loans	1,189,558,857	-	253,779,198	-	-	-	-	-	1,443,338,055
Project loans	562,779,934	-	10,003,967	8,767,810	-	2,757,413	-	-	584,309,124
Equity investments	19,753,620	-	-	-	-	-	-	-	19,753,620
Total financial assets	2,075,401,552	26,022	285,081,118	9,275,243	122,758,154	3,342,379	139,438	381,834	2,496,405,740
FINANCIAL LIABILITIES:									
Short term borrowings	832,255,701	-	140,599,318	-	-	-	-	-	972,855,019
Long term borrowings	819,459,130	-	-	2,314,074	-	1,825,448	-	-	823,598,652
Derivative financial instruments	-	-	37,818,399	-	-	-	-		37,818,399
Collection account	79,643,916	-	-	-	122,758,154	-	138,621	-	202,540,691
Provision for Service and Leave pay	4,853,389	-	-	-	-	-	-	-	4,853,389
Other payables	17,543,0228	-	-	75,306	-	-	-	18,279	17,636,607
Total financial liabilities	1,753,755,158	-	178,417,717	2,389,380	122,758,154	1,825,448	136.621	18,279	2,059,302,757
NET POSITION	321,646,393	26,022	106,663,401	6,885,863		1,516,931	817	363,555	437,102,983

37. FINANCIAL RISK MANAGEMENT (Continued)

d) MARKET RISK (Continued)

III. Currency Risk (Continued)

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

	USD	GBP	EURO	KES	TZS	UGX	MK	OTHER	TOTAL
FINANCIAL ASSETS:									
Cash and balances with other banks	131,479,684	17,811	7,670,857	759,185	194	161,035	4,124,658	19,373	462,607,857
Other receivables	4,767,899	-	-	-	-	-	-	-	5,169,379
Derivative financial instruments	14,265,639	-	-	-	-	-	-	-	
Investment in Government securities	-	-	-	-	-	-	-	-	13,541,042
Trade finance loans	691,802,179	-	79,293,387	-	-	-	-	-	847,524,196
Project finance loans	385,755,343	-	11,595,241	5,037,568	-	2,978,052	-	-	476,419,727
Equity investments	10,172,450	-	-	-	-	-	-	-	10,855,430
Total financial assets	1,710,755,058	19,414	92,263,094	5,796,753	194	3,139,087	4,124,658	19,373	1,816,117,631
FINANCIAL LIABILITIES:									
Short term borrowings	602,209,049	-	79,117,269	-	-	-	-	-	681,326,318
Long term borrowings	641,305,230	-	-	4,645,761	-	2,288,623	-	-	648,239,614
Collection account	140,728,402	-	-	-	-	-	4,123,196	-	144,851,598
Derivative financial instruments	-	-	12,308,254	-	-	-	-		12,308,254
Other payables	8,453,678	-	-	35,271	-	-	-	3,543	8,492,492
Provision for Service and Leave pay	4,201,424	-	-	-	-	-	-	-	4,201,424
Total financial liabilities	1,396,897,783	-	91,425,523	4,681,032	-	2,288,623	4,123,196	3,543	1,499,419,700
NET POSITION	313,857,275	19,414	837,571	1,115,721	194	850,464	1,462	15,830	316,697,931

37. FINANCIAL RISK MANAGEMENT (Continued)

III. Currency Risk (Continued)

Currency risk - Sensitivity Analysis

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

	GBP	EURO	KES	TSH	MWK	UGX
2013	4,360	13,767,594	4,212,572	-	(22)	(7,175)
2012	3,324	107,107	(6,144)	254	(412)	457

38. CAPITAL MANAGEMENT

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

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

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

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

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

38. CAPITAL MANAGEMENT (Continued)

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

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

	2013 USD	2012 USD
RISK WEIGHTED ASSETS		
On-Statement of financial position assets	1,238,983,956	854,604,192
Off- Statement of financial position assets	134,416,156	122,963,700
Total risk weighted assets	1,373,400,112	977,567,892
CAPITAL		
Paid up capital	259,775,426	193,678,294
Retained earnings	217,203,645	150,573,269
Total capital	476,979,071	344,251,563
CAPITAL ADEQUACY RATIO	34.7%	35.2%

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

39. FINANCIAL INSTRUMENTS CATEGORIES

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

	Loans and receivables USD	Held to maturity USD	At fair value through profit or loss USD	Hedging instruments USD	Loans and borrowings USD	Total carrying amount USD
As at 31 December 2013:						
Financial assets						
Cash and balances held with banks	404,006,930	-	-	-	-	404,006,930
Trade finance loans	1,443,338,055		-	-	-	1,443,338,055
Project finance loans	584,309,124	-	-	-	-	584,309,124
Equity investments	-	-	19,753,620	-	-	19,753,620
Derivative financial instruments	-	-	-	37,691,976		37,691,976
Total financial assets	2,431,654,109	-	19,753,620	37,691,976	-	2,489,099,705
Financial liabilities						
Collection account deposits	-	-	-	-	202,540,691	202,540,691
Derivative financial instruments	-	-	-	37,818,399	-	37,818,399
Short term borrowings	-	-	-	-	972,855,019	972,855,019
Long term borrowings	-	-	-	-	823,598,652	823,598,652
Total financial liabilities	-	-	-	37,818,399	1,998,994,362	2,036,812,761
As at 31 December 2012:						
Financial assets						
Cash and balances held with banks	462,607,857	-	-	-	-	462,607,857
Trade finance loans	847,524,196	-	-	-	-	847,524,196
Project finance loans	476,419,727	-	-	-	-	476,419,727
Equity investments	-	-	10,855,430	-	-	10,855,430
Investment in government securities	-	-	-	13,541,042	-	13,541,042
Derivative financial instruments	-	-	-	14,265,639	-	14,265,639
Total financial assets	1,786,551,780	-	10,855,430	13,541,042	-	1,810,948,252
Financial liabilities						
Collection account deposits	-	-	-	-	144,851,598	144,851,598
Derivative financial instruments	-	-	-	12,308,254	-	12,308,254
Short term borrowings	-	-	-	-	681,326,318	681,326,318
Long term borrowings	-	-	-	-	648,239,614	648,239,614
Total financial liabilities	-	-	-	12,308,254	1,474,417,530	1,486,725,784

40. TRADE FINANCE LOAN PORTFOLIO

Country	As at 31 December 2013			As at 31 December 2012		
	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
Ethiopia	20,845,019	3,052,251	17,792,768	-	-	-
Kenya	37,180,892	37,032,115	148,777	20,559,300	20,028,555	530,745
Malawi	230,661,773	230,422,551	239,222	110,564,716	90,564,716	20,000,000
Mauritius	115,487	115,487	-	5,660,685	3,879	5,656,806
Rwanda	747,227	747,227	-	23,143,380	23,143,380	-
Seychelles	39,996,801	33,089,187	6,907,614	40,144,163	19,634,605	20,509,558
Sudan	258,594,660	258,594,660	-	80,082,962	789,575	79,293,387
Tanzania	78,085,633	78,085,633	-	65,843,346	58,076,127	7,767,219
Uganda	4,224,381	1,653,057	2,571,324	1,129,988	569,339	560,649
Zambia	574,125,922	574,125,922	-	325,418,788	325,021,186	397,602
Zimbabwe	237,030,685	158,675,595	78,355,090	197,618,797	89,407,395	108,211,402
Gross Loans	1,481,608,480	1,375,593,685	106,014,795	870,166,125	627,238,757	242,927,368
Less: Impairment on trade finance loans (Note 17)	(38,270,425)	-	(38,270,425)	(22,641,929)	-	(22,641,929)
NET LOANS	1,443,338,055	1,375,593,685	67,744,370	847,524,196	627,238,757	220,285,439

41. PROJECT LOAN PORTFOLIO

Country	Amounts Approved	Amounts Signed	Amounts Disbursed	Interest Capitalized	Amounts Repaid	Amounts Written off	Exchange Rates Adjustment	Interest Receivable	As at 31 December 2013 Balance Outstanding	As at 31 December 2013 Due within One year	As at 31 December 2013 Due after One year	As at 31 December 2012 Balance Outstanding	As at 31 December 2012 Within One year	As at 31 December 2012 Due after One year
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Burundi	40,115,973	35,815,973	20,756,503	139,767	(11,189,580)	(327,251)	36,283	-	9,415,721	1,309,793	8,105,928	4,350,610	1,918,973	2,431,637
Eritrea	403,652	403,652	403,652		-	(403,652)	-	-	-	-	-	-	-	-
Ethiopia	89,472,668	65,972,668	40,127,174	522,176	(21,695,482)	(2,421,192)	164,125	1	16,696,802	4,760,584	11,936,218	16,735,632	4,559,499	12,176,133
Kenya	370,952,539	298,952,539	259,113,991	1,532,900	(108,529,874)	(17,980,704)	1,684,273	9,012	135,829,598	81,228,868	54,600,730	77,285,513	13,680,887	63,604,626
Malawi	61,713,723	61,713,723	60,793,336	2,920	(30,295,881)	(1,086,107)	233,544	1	29,647,812	5,812,216	23,835,596	34,266,056	4,703,177	29,562,879
Mauritius	67,100,000	16,000,000	16,000,000	-	(8,000,000)	-	-	-	8,000,000	820,747	7,179,253	6,842,967	1,545,656	5,297,311
Rwanda	156,670,851	146,972,135	117,442,135	-	(38,980,536)	-	2,586,660	(3)	81,048,256	8,458,177	72,590,079	76,299,724	19,483,416	56,816,308
Seychelles	72,500,000	49,000,000	45,874,299	41,666	(22,879,332)	-	257,964	388,189	23,682,785	10,471,884	13,210,901	22,431,054	12,582,007	9,849,047
Sudan	78,381,910	78,381,910	35,936,019	5,473,714	(9,111,716)	(13,647,197)	859,397	1	19,510,217	1,201,480	18,308,737	11,108,474	1,244,109	9,864,365
Tanzania	275,322,792	206,322,792	145,358,962	682,910	(61,990,139)	(6,333,418)	927,066	1	78,645,382	23,834,305	54,811,077	67,182,626	17,682,306	49,500,320
Uganda	169,004,291	157,004,291	153,080,652	3,641,519	(64,058,197)	(9,941,470)	2,672,206	3,237	85,397,948	18,303,581	67,094,367	82,606,348	19,391,169	63,215,179
Zambia	138,952,661	127,452,661	130,449,561	25,355,313	(73,589,944)	(16,549,939)	518,453	1	66,183,446	9,471,686	56,711,760	67,611,637	8,977,552	58,634,085
Zimbabwe	135,739,939	124,739,954	88,678,963	1,464,478	(31,473,414)	(6,583,802)	781,985	273	52,868,483	14,576,869	38,291,614	35,335,018	9,816,748	25,518,270
Gross loans	1,656,330,999	1,368,732,298	1,114,015,247	38,857,363	(481,794,095)	(75,274,732)	10,721,956	400,713	606,926,450	180,250,190	426,676,260	502,055,659	115,585,499	386,470,160
Less: Impairment on project loans (Note 17)									(22,617,326)	-	(22,617,326)	(25,635,932)	-	(25,635,932)
NET LOANS									584,309,124	180,250,190	404,058,934	476,419,727	115,585,499	360,834,228

42. STATEMENT OF SUBSCRIPTIONS TO THE CAPITAL STOCK

As at 31 December 2013

CLASS 'A' shares	Shares Subscribed	Percentage of total	Value USD	Callable capital USD	Payable capital USD	Instalments Due as at 31.12.2013 USD	Instalments paid as at 31.12.2013 USD
Burundi	1,230	2.13	27,880,410	22,304,328	5,576,082	5,576,082	5,368,746
China	3,400	5.90	77,067,800	61,654,240	15,413,560	15,413,560	15,413,560
Comoros	54	0.09	1,224,018	979,214	244,804	244,804	122,400
Djibouti	312	0.54	7,072,104	5,657,683	1,414,421	1,414,421	1,414,421
Congo DRC	5,340	9.26	121,041,780	96,833,424	24,208,356	9,683,342	3,902,834
Egypt	5,340	9.26	121,041,780	96,833,424	24,208,356	24,208,356	24,208,356
Eritrea	240	0.42	5,440,080	4,352,064	1,088,016	1,088,016	544,000
Ethiopia	5,340	9.26	121,041,780	96,833,424	24,208,356	24,208,356	24,208,356
Kenya	5,340	9.26	121,041,780	96,833,424	24,208,356	24,208,356	24,208,356
Malawi	1,320	2.29	29,920,440	23,936,352	5,984,088	5,984,088	5,984,088
Mauritius	1,566	2.72	35,496,522	28,397,218	7,099,304	7,099,304	7,099,304
Rwanda	1,248	2.16	28,288,416	22,630,733	5,657,683	5,657,683	5,657,683
Seychelles	270	0.47	6,120,090	4,896,072	1,224,018	1,224,018	1,224,018
Somalia	318	0.55	7,208,106	5,766,485	1,441,621	1,441,621	720,800
Sudan	4,920	8.53	111,521,640	89,217,312	22,304,328	22,304,328	22,304,328
Tanzania	5,214	9.04	118,185,738	94,548,590	23,637,148	23,637,148	19,081,501
Uganda	3,600	6.24	81,601,200	65,280,960	16,320,240	16,320,240	11,090,120
Zambia	4,082	7.08	92,526,694	74,021,355	18,505,339	18,505,338	18,505,338
Zimbabwe	5,540	9.61	125,575,180	100,460,144	25,115,036	25,115,036	25,115,036
African Development Bank	3,000	5.20	68,001,000	54,400,800	13,600,200	13,600,200	13,600,200
	57,674	100	1,307,296,558	1,045,837,246	261,459,312	246,934,297	229,773,445

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

As at 31 December 2012:

CLASS 'A' Shares:	Shares Subscribed	Percentage of total	Value USD	Callable capital USD	Payable capital USD	Instalments Due as at 31.12.2012 USD	Instalments paid as at 31.12.2012 USD
Burundi	1,230	2.14	27,880,410	22,304,329	5,576,081	5,018,472	4,917,289
China	3,400	5.92	77,067,800	61,654,240	15,413,560	15,413,560	15,413,560
Comoros	54	0.09	1,224,018	979,214	244,804	220,320	122,400
Djibouti	54	0.09	1,224,018	979,214	244,804	223,885	223,885
Congo DRC	5,340	9.30	121,041,780	96,833,424	24,208,356	4,841,671	1,500,000
Egypt	5,340	9.30	121,041,780	96,833,424	24,208,356	21,787,344	21,787,344
Eritrea	240	0.42	5,440,080	4,352,064	1,088,016	979,204	544,000
Ethiopia	5,340	9.30	121,041,780	96,833,424	24,208,356	21,787,343	21,787,343
Kenya	5,340	9.30	121,041,780	96,833,424	24,208,356	21,787,344	21,787,343
Malawi	1,320	2.30	29,920,440	23,936,352	5,984,088	5,385,636	5,385,636
Mauritius	1,566	2.73	35,496,522	28,397,218	7,099,304	7,099,304	7,099,304
Rwanda	1,248	2.17	28,288,416	22,630,733	5,657,683	5,091,872	5,091,872
Seychelles	270	0.47	6,120,090	4,896,072	1,224,018	1,101,960	1,101,960
Somalia	318	0.55	7,208,106	5,766,485	1,441,621	1,297,448	720,800
Sudan	4,920	8.57	111,521,640	89,217,312	22,304,328	20,073,732	12,454,870
Tanzania	5,214	9.08	118,185,738	94,548,590	23,637,148	21,273,260	14,573,004
Uganda	3,600	6.27	81,601,200	65,280,960	16,320,240	14,688,096	8,160,000
Zambia	4,082	7.11	92,526,694	74,021,355	18,505,339	16,654,669	14,804,135
Zimbabwe	5,540	9.65	125,575,180	100,460,144	25,115,036	22,603,349	22,603,349
African Development Bank	3,000	5.23	68,001,000	54,400,800	13,600,200	13,600,200	13,600,200
	57,416	100	1,301,448,472	1,041,158,778	260,289,694	220,928,669	193,678,294

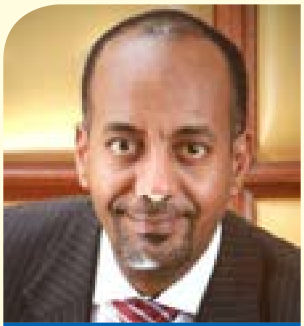
42. STATEMENT OF SUBSCRIPTIONS TO THE CAPITAL STOCK (Continued)

As at 31 December 2013:

CLASS ' B' shares At USD 4,533.420375 Per Share	Number of Shares	Percentage of total	Value USD	Share Premium USD	Amount Paid USD
Total Shares Issued:	220,584	100	1,000,000,000	-	-
Shares Subscribed:					
African Development Bank	3,333	1.51	15,109,890	4,890,110	20,000,000
National Pension Fund-Mauritius	1,667	0.76	7,557,212	2,444,768	10,001,980
	5,000	2.27	22,667,102	7,334,878	30,001,980

As at 31 December 2012: NIL

Class 'B' shares were first issued in 2013 following an approval by the Board of Governors in December, 2012 to increase the Bank's authorized capital from USD 2.0 billion to USD 3.0 billion. This increase was achieved through the creation of 220,584 new Class B shares of a par value of US$ 4,533.420375 each. Class 'B' shares do not have a callable portion and are paid at once.



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President & CEO

KINGSLEY MUWOWO
Director of Finance

PREMCHAND MUNGAR
Director, Legal Services & Corporate Secretary

JOY NTARE
Chief Risk Officer

KIFLE HAMZA
Director, HR & Administration

JAMES KABUGA
Director, Harare Regional Office

GEORGE MUDANGE
Director / Chief Trade Finance Officer

PATIENCE MATSHE
Director, Funds Management Mauritius Office

CATHERINE KIMARYO
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Director, Portfolio Management

ABRAHAM BYANYIMA
Treasurer

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GOODMAN CHAKANYUKA
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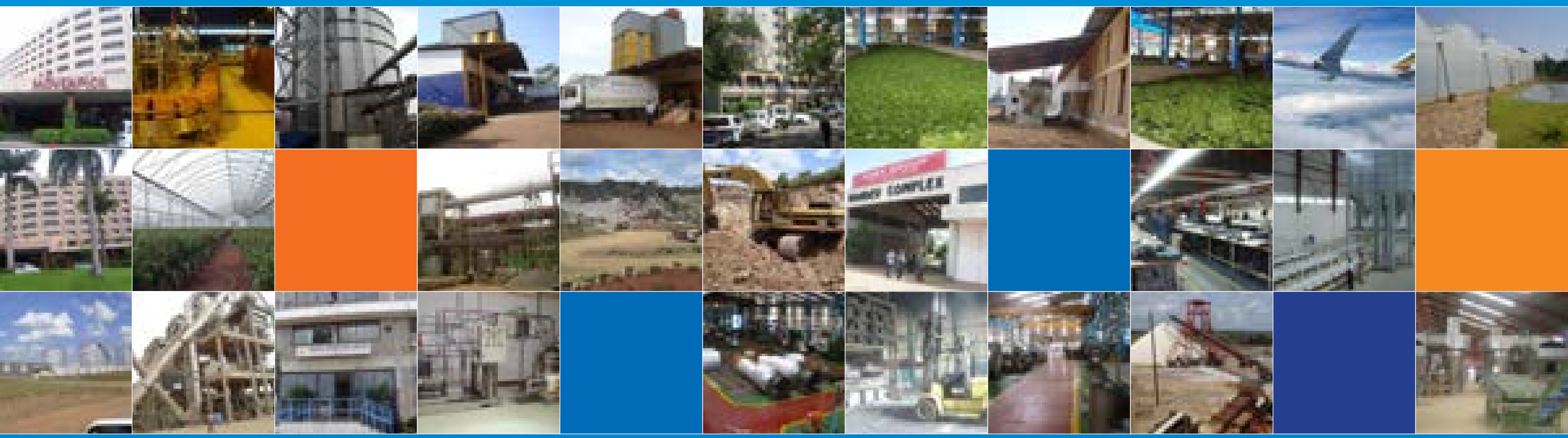
FRANK KAMTHUNZI
Head, Project & Infrastructure Finance

LLOYD MUPOSHI
Head, Trade Finance

MARY U. KAMARI
Head, Corporate Affairs & Investor Relations

DENNIS KULUBYA
Head, IT



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