



EAST AFRICAN DEVELOPMENT BANK



ANNUAL REPORT
AND ACCOUNTS 2014

www.eadb.org

Corporate profile of the EADB

Establishment

The East African Development Bank (EADB) was established in 1967.

Membership

The shareholders of the EADB are Kenya, Uganda, Tanzania and Rwanda. Other shareholders include the African Development Bank (AfDB), the Netherlands Development Finance Company (FMO), German Investment and Development Company (DEG), SBIC-Africa Holdings, Commercial Bank of Africa, Nairobi, Nordea Bank of Sweden, Standard Chartered Bank, London, Barclays Bank Plc., London and Consortium of former Yugoslav Institutions.

A large graphic featuring several arrows pointing right. The most prominent is a thick blue arrow with a white outline. Below it is a thinner white arrow with a blue outline. To the left, a pencil is shown horizontally, with its body decorated with the national flags of Kenya, Uganda, and Tanzania. The pencil's tip is a dark, sharp point.

Vision

To be the partner of choice
in promoting sustainable
socio-economic development

Mission

To promote sustainable socio-economic development
in East Africa by providing Development Finance,
Support and Advisory Services

Core values:-

- Service
- Integrity
- Leadership
- Innovation
- Teamwork



EAST AFRICAN DEVELOPMENT BANK

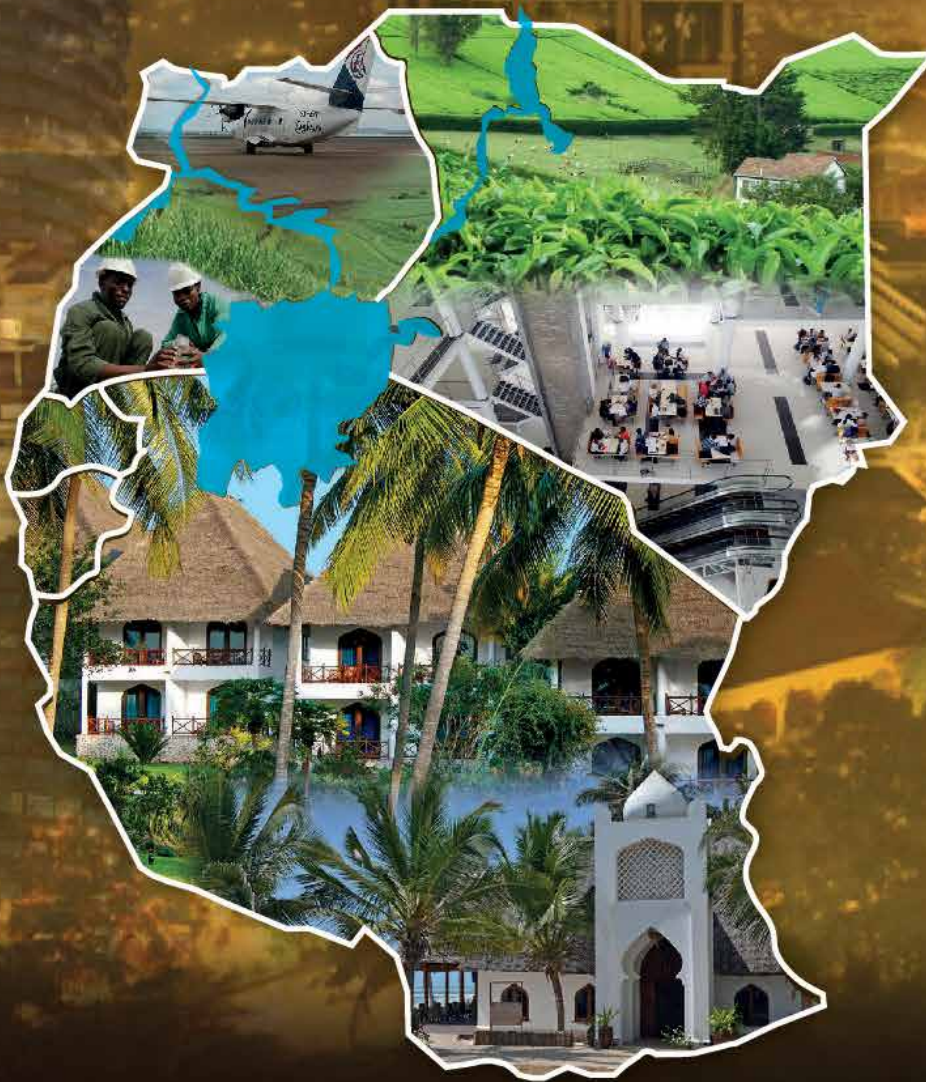
The East African Development Bank

1967 - 2014

BANKING • INVESTMENTS • SOCIAL RESPONSIBILITY

Congratulations, the East African Community on your 15th Anniversary. We are proud to be part of you

Unlocking the integrated economical potential of the East African Region
through investments, partnerships and collaborations for sustained social-economic development.



- Equity investments
- Trade finance
- Asset leasing
- Medium term loans
- Long term loans
- Short term working capital



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ABBREVIATIONS AND ACRONYMS

AADFI	Association of African Development Finance Institutions
AFC	Africa Finance Corporation
AfDB	African Development Bank
CDM	Clean Development Mechanism
CELD	Centre for Economic and Leadership Development
CPI	Consumer Price Index
DEG	German Investment and Development Company
DFI	Development Finance Institutions
DTU	Danmarks Tekniske Universitet (Danish Technical University)
EAC	East African Community
EACDF	East African Community Development Fund
EADB	East African Development Bank
EIB	European Investment Bank
FMO	The Netherlands Development Finance Company
GCR	Global Credit Rating Company
GDP	Growth Domestic Product
GIZ	Gesellschaft für Internationale Zusammenarbeit
IAEA	International Atomic Energy Agency
IFC	International Finance Corporation
IUCEA	Inter-University Council for East Africa
JICA	Japan International Cooperation Agency
MENA	Middle East and North Africa
NEFCO	Nordic Environment Finance Corporation
NPLs	Non Performing Loans
OFID	OPEC Fund for International Development
OPEC	Organization of the Petroleum Exporting Countries
PFM	Public Financial Management
PKF	Pannell Kerr Forster
POAs	Programs of Activities
PPP	Public-Private Partnership
PWC	PricewaterhouseCoopers
RCC	Regional Collaboration Centre
SADC	South African Development Community
SBIC-Africa	Standard Bank Investment Corporation -Africa
SBLs	Standardised Baselines
SIDA	Swedish International Development Cooperation
UAE	United Arab Emirates
UK	United Kingdom
UNFCCC	United Nations Framework Convention on Climate Change
UNEP	United Nations Environment Programme
US	United States of America
VUCCnet	Virtual University of Cancer Control Network in Africa

LETTER OF TRANSMITTAL

The Cabinet Secretary, the National Treasury,

The Republic of Kenya;

The Honourable Minister for Finance and Economic Planning,

The Republic of Rwanda;

The Honourable Minister for Finance,

The United Republic of Tanzania;

The Honourable Minister for Finance, Planning and Economic Development,

The Republic of Uganda;

In accordance with Articles 26 and 35 of the Bank's Charter, the Board of Directors herewith submits to the Honourable Members of the Governing Council and to the Members of the Bank, the Annual Report of the East African Development Bank for the period from 1 January to 31 December, 2014.

This Report describes the activities of the East African Development Bank during the year and shows the Bank's financial position as at 31 December 2014. The Report also presents a review of the economic performance of the Member States of EADB.

Honourable Members of the Governing Council, please accept the assurances of my highest consideration and esteem.

Kampeta Pitchette Sayinzoga,



CHAIRPERSON

EADB BOARD OF DIRECTORS

BOARD OF DIRECTORS AND DIRECTOR GENERAL



Kampeta Pitchette Sayinzoga

Permanent Secretary, Secretary to The Treasury, Ministry of Finance and Economic Planning, Republic of Rwanda

Chairperson



Keith Muhakanizi

Permanent Secretary and Secretary To The Treasury, Ministry of Finance, Planning and Economic Development, Republic of Uganda

Member



Dr. Servacius Likwelile

Permanent Secretary and Pay Master General, Ministry of Finance, United Republic of Tanzania

Member



Dr. Kamau Thugge

Principal Secretary, The National Treasury, Republic of Kenya

Member



Francis N. Karuiru

Private Sector Representative,
Republic of Kenya

Member



Khadija Simba

Private Sector Representative,
United Republic of Tanzania

Member



Timo Teinila

African Development Bank
representative

Member



Mbundu Faustin

Private Sector Representative,
Republic of Rwanda

Member



Vivienne Yeda

East African Development Bank

Director General

CHAIRPERSON'S STATEMENT



Despite a tepid global economy, weak external demand, growing geopolitical tension and tight financial markets; the Bank continues to grow. The total income in 2014 was USD 9.8 million as compared to USD 8.5 in 2013. There have been positive operational changes in business. Our total assets grew by 16% to USD 294 million. We have enhanced our shareholding profile significantly; the total shareholder equity increased by 21% over the year mainly on account of additional capital payments, profitability and revaluation surplus. The Bank's efficiency has improved consistently with the cost to income ratio declining to 48% from 51% in 2013.

The year 2014 was truly a rewarding one for the Bank in terms of performance and growth. There was significant progress in the development of governance and risk-management policies and capabilities. The consolidation of gains achieved since 2010 have placed the Bank on a sustainable growth path. As a result of these achievements, Moody's Investor Services maintained the Bank's long term issuer rating at Ba1 with stable outlook.

As we draw towards the end of Strategic Plan 2010-15, we will start to reflect on the future strategic vision of the Bank. The region faces a number of challenges: More than 45% of East Africans live in poverty with majority surviving on less than USD 1.25 per day; there is a growing youth population and attendant high unemployment with more than 15.4 million people estimated to be unemployed; a high infrastructure financing gap remains the biggest hurdle for private sector led growth; only 28% of firms in East Africa have access to credit from formal financial institutions; the proliferation of slums and unplanned cities, if not checked in time, pose a real threat to sustainable development.

An indication of our resolve and leadership was manifested in the several accolades awarded during the year. The Director General of the Bank, Ms. Vivienne Yeda, was conferred with a number of awards including: African Banker of the Year, by the African Banker magazine (May 2014); Business Leader Award by Africa-America Institute (Sep 2014); Africa Female Economic Champion Award by Centre for Economic and Leadership Development (Nov 2014). As a jewel on the crown, Ms. Yeda was also inducted into the Global Women Leaders Hall of Fame, 2014. The Bank was voted the best performing African Development Finance Institution in 2014.

On behalf of the Board of Directors, I wish to extend my appreciation for the excellent contributions made by the Management and staff of the Bank in repositioning and placing the Bank on a sustainable growth path. I thank the Governing Council for inspiring and steering the Bank to new heights. Equally, the Advisory Panel's role in supporting the Bank is commendable. We are grateful to our partners and clients for working with us in our journey to serve the East African People.

Kampeta Pitchette Sayinzoga,

A stylized, handwritten signature in black ink, appearing to read 'Kampeta Pitchette Sayinzoga'.

CHAIRPERSON

EADB BOARD OF DIRECTORS

THE DIRECTOR GENERAL'S STATEMENT



The economic landscape in 2014 remained divergent across the East African with some economies growing rapidly and others performing below their full potential.

Although inflation is subdued across all countries, the financial markets have not been very supportive of private investments. Yields on government bonds have remained high mainly on account of governments' borrowing for infrastructure financing.

Against this backdrop, the Bank achieved several milestones during the course of the year under review. We continued to post positive results. The net worth of the Bank grew by 21% between 2013 and 2014 to USD 219 million. The portfolio is robust and well diversified across all sectors.

Existing partnerships continue to flourish whilst new ones have been initiated. We drew on lines of credit from OFID, KFW and AfDB committed an additional line of credit.

These achievements would not have been possible without the support of the staff, the oversight of the Board of Directors and the guidance of the Governing Council.

I thank and congratulate all stakeholders for another successful year.

Vivienne Yeda,

A handwritten signature in black ink, appearing to read 'Vivienne Yeda', written in a cursive style.

**DIRECTOR GENERAL
EAST AFRICAN DEVELOPMENT BANK**

GOVERNING COUNCIL



Hon. Henry K. Rotich

Cabinet Secretary, The National Treasury, Republic of Kenya

Chairperson



Amb. Claver Gatete

Minister for Finance and Economic Planning, Republic of Rwanda



Hon. Maria Kiwanuka

Minister for Finance, Planning and Economic Development, Republic of Uganda



Hon. Saada Mkuya Salum

Minister for Finance, United Republic of Tanzania

ADVISORY PANEL



Mr. Mahesh K. Kotecha

President, Structured Credit Corporation and Vice Chairman Capital Markets Assurance Corporation, New York



Mr. Toyoo Gyohden

President, The Institute for International Monetary Affairs, Japan and Senior Adviser, Bank of Tokyo - Mitsubishi, Limited



Mr. Lars Ekengren

Former Deputy Director General, SIDA



Mr. Jannik Lindbaek

Former Executive Vice President and CEO of the International Finance Corporation (IFC)

MEMBER COUNTRIES

KENYA • RWANDA • TANZANIA • UGANDA • TANZANIA

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants,
10th Floor, Communications House,
1 Colville Street,
P.O. Box 882, Kampala, Uganda

LAWYERS

Uganda

Sebalu and Lule Advocates
4 Nile Avenue
EADB Building
P O Box 2255, Kampala

Kenya

Kaplan and Stratton
Advocates
P.O Box 40111 Fourth Ngong
Avenue
Nairobi, Kenya

Tanzania

Adept Chambers
1st Floor, Peugeot House,
36 Ali Hassan Mwinyi Road,
P O Box 79651
Dar es Salaam

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

Uganda (Headquarters)

4 Nile Avenue
EADB Building
P O Box 7128
Kampala, Uganda

Kenya

2nd Floor Rahimtulla
Tower
Upper Hill Road
P O Box 47685-00100
Nairobi, Kenya

Rwanda

Ground Floor,
Glory House
Kacyiru
P.O.Box
6225, Kigali,
Rwanda

Tanzania

349 Lugalo/ Urambo
street Upanga
P.O Box 9401,
Dar es Salaam,
Tanzania

1.0 ECONOMIC ENVIRONMENT

1.1 GLOBAL ECONOMIC OVERVIEW

Global growth remained unchanged at 3.4% for three years from 2012 with shifts in growth contribution between advanced and emerging market economies in 2014. Growth was divergent among major economies but was below expectation from other parts of the world.

Global growth is expected to increase marginally to 3.5% in 2015 (Table 1). The outlook for advanced economies is improving, while growth in emerging and developing economies is projected to be lower, reflecting weaker prospects for some large emerging markets and oil-exporting countries.

Increased geo-political tensions across the Middle East and North Africa (MENA) region, and between Russia and the Ukraine, in addition to low oil prices (that threaten to upset fiscal balances in oil exporting countries), increased instability in the Euro Area arising from the Greek election and a deflationary outturn in December 2014; all pose adverse risks to 2015 growth. However, low oil prices may offer some relief through increasing demand and thus create fiscal space in some oil importing countries.

Increased volatility and risk aversion triggered a safe haven effect: capital flows from emerging market economies to advanced economies. Further, financial market conditions are expected to tighten over 2015 as monetary policy normalisation ensues. Despite the European Central Bank's policy initiatives announced in June 2014, the deterioration in the region's output growth and inflation could lead to more monetary accommodation.

The year 2014 experienced slower inflation. Headline inflation has decline in advance economies, reflecting a decline in oil prices, softer prices for other commodities and weak demand in countries already experiencing below-target inflation in Euro area and Japan. Monetary policy stance is expected to be divergent across main advanced economies. This will be reflected in widening long term interest differentials and asset purchase in the Euro area and Japan.

Inflation is expected to stay low for a long time due to low oil prices and further quantitative easing measures in the euro area. Subdued global demand, particularly from China (as planned), will also contain prices.

High-income countries are demonstrating increasingly different recovery paths. Nonetheless, growth in advanced economies picked up from 1.4% in 2013 to 1.8% in 2014 and is expected to increase further to 2.4% in 2015, largely driven by a significant rebound in the US economy.

The United States Economy contracted in the first quarter of 2014 partly due to severe weather conditions, but economic activities rebounded towards the end of the year to post a final growth figure of 2.4%. Exceptional monetary policy measures have eventually increased confidence in the US economy. Consumption - the main engine of growth benefited from lower oil prices, steady job creation and income growth. A more robust economic performance is expected in 2015.

Table 1: Economic Growth- World, Selected Regions and Countries

				Est.	Projections	
	2011	2012	2013	2014	2015	2016
World Output	3.9	3.4	3.4	3.4	3.5	3.8
Advanced Economies	1.7	1.2	1.4	1.8	2.4	2.4
United States	1.9	2.3	2.2	2.4	3.1	3.1
Japan	-0.6	1.5	1.6	-0.1	1.0	1.2
Euro Area	1.5	-0.7	-0.5	0.9	1.5	1.6
United Kingdom	1.0	0.3	1.7	2.6	2.7	2.4
Emerging Markets & Developing Economies	6.2	5.1	5.0	4.6	4.3	4.7
Middle East, North Africa, Afghanistan and Pakistan	3.9	4.9	2.4	2.6	2.9	3.9
Sub-Saharan Africa	5.5	4.4	5.2	5.0	4.5	5.1
EAC Partner States	6.5	5.0	5.2	5.8	6.2	6.3

Source: IMF World Economic Outlook, April 2015; EADB

Although the **Euro zone** recession ended in 2014, growth remains fragile. Growth was 0.9%, but private investment remained weak, with the exceptions of Ireland, Spain and Germany. The upturn as compared to the previous year, is driven by investment spending sustained by improving external demand and enhanced competitiveness from a weaker euro. Lower oil prices, lower interest rates and euro depreciation are projected to boost economic activity, but potential growth remains moderate in 2015-16 as a result of crisis legacies, aging population and slowdown in total factor productivity that predates the crisis.

Emerging market and developing economies experienced a slowdown in 2014, which is expected to continue into 2015. Growth slowed from 5.0% to 4.6% in 2014 and is expected to slow further to 4.3% in 2015 as they face more difficult financial and external conditions. Many emerging market economies are beginning to face increased financing costs owing to greater risk aversion and lower export demand due to prolonged weaknesses in global economic activity, particularly from the euro zone and increasingly from China. Whilst Chinese growth remains robust and largely in line with government targets, Chinese GDP growth was 7.4% in 2014, compared to the authorities' 7.5% target. Growth is expected to slow down further to 6.8% in 2015. India's improving economic outlook is underpinned by the newly elected pro-reform majority government. Growth is expected to exceed 7% in medium term, driven mostly by an increase in export and investment.

Although growth in Sub-Saharan Africa has been relatively resilient to the financial crisis, it slowed from 5.2% in 2013 to 5.0% in 2014 in line with the global economy. Weak global external demand and manufacturing activity in South Africa have constrained growth in the region. Growth is expected further slowdown to 4.5% in 2015, in the face of headwinds from declining commodity prices.

Risks to global economic growth remain. Elevated geopolitical tensions, especially in the Middle East and North Africa region and between Russia and the Ukraine have so far not spread beyond the affected countries. In addition oil production has not been affected by the present conflict. This however could change in the near future with implications for the world economy. Spillover effects would increase financial market nervousness and increase oil prices.

In order to offset the downward risks to growth, the Euro Area may need to deliver a prompt and sustainable resolution to the new Greek crisis. In addition, both Japan and the Euro Area will need to continuously incorporate exceptionally accommodative monetary policy trajectories, whilst the West may need to be cautious of the economic constraints stemming from the sanctions that it places on Russia. In some cases, emerging market economies may need to protect themselves from capital outflows and exchange rate depreciations. Emerging market economies are likely to be divided between net commodity importers and exporters. Net importers may benefit from increased fiscal space as their import bill decreases through the first half of 2015 while net exporters may suffer from increasing deficits and falling fiscal budgets. Economies that experience increased fiscal space, increased investment in infrastructure, particularly in Sub-Saharan Africa, may be a viable option that will provide long-term growth rewards.

1.2 ECONOMIC GROWTH FOR EAC PARTNER STATES

Economic growth remains buoyant in East Africa despite subdued global growth. For the past four years until 2014, the EAC Partner States have been growing at an average rate of 5.6% as compared to the Sub-Saharan growth rate of 5.0%. In 2014, growth is expected to average 5.8% for the EAC Partner States.

The growth momentum in the EAC has been higher than rest of Sub-Saharan Africa, largely on account of increasing public expenditure. The fiscal space created, partly on account of debt reduction, led to an increase in public expenditure mostly in infrastructure financing. This growth has also been supported by conducive macro-economic policies.

The EAC is expected to sustain an average real growth rate of 6.4% between 2016 and 2020 (Table 2). The EAC presently has an estimated GDP of USD 147 billion which is expected to reach USD 243 in nominal values by 2020. These estimates may however change following a change of GDP base by Burundi.

A brief commentary on each EAC Partner State is provided below:-

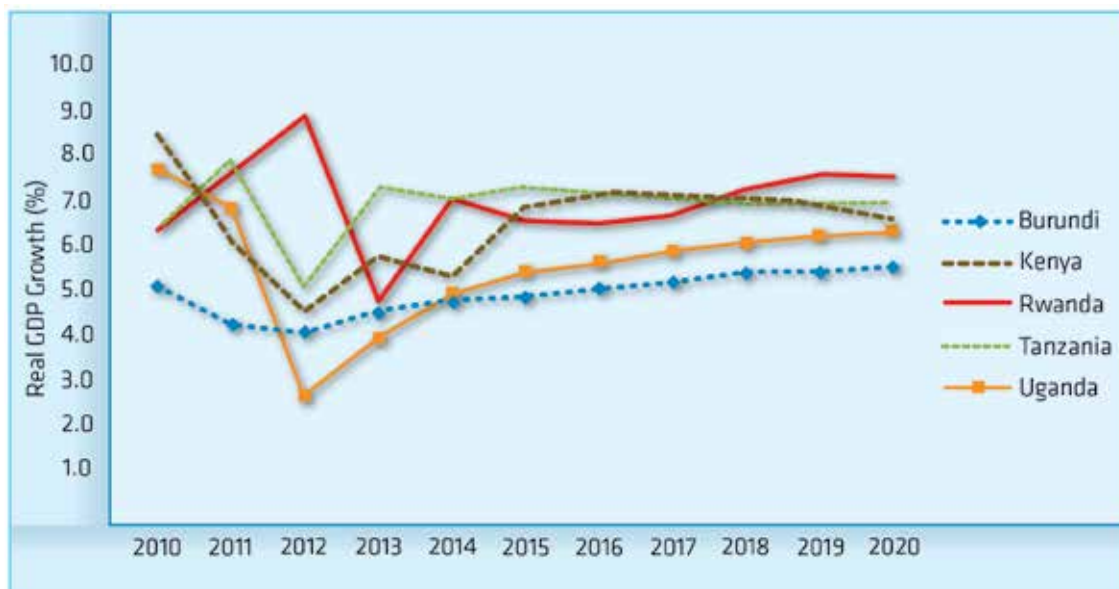
Burundi: Burundi's status as a landlocked country, with limited transport infrastructure and access to markets, increases the cost of doing business. Households spend 50% of their income on food products, half of which are imported.

Real GDP is estimated to have grown at an average rate of 4.6% over the past five years up until 2014. Economic growth is estimated to accelerate to 4.7% and 4.8% in 2014 and 2015 respectively. Improvement in real GDP is expected to emanate from gains in the agricultural sector, particularly from coffee production, and from large infrastructure projects. Increased EAC integration is expected to spur investment into the services, telecommunications and financial sectors development.

Government delays with public financial management (PFM) reforms could curtail donor support whilst protracted slow growth in the euro zone could stem export demand and investment inflows, thereby triggering a slowdown in economic growth. Furthermore, there is limited fiscal space for countercyclical policies should these risks materialize.

Vulnerabilities exist from low international coffee prices and potential inflationary pressures in the run-up to the 2015 elections.

Figure 1: Real GDP Growth in the EAC Partner States



Source: Bureau of Statistics for EAC Partner States; EADB

Kenya: The resilience Kenya has built over the years on account of sound macroeconomic management has helped to sustain growth and assure macro stability. As a result, the economy rebounded from 0.2% growth in 2008 to 8.4% in 2010, 6.1% in 2011 and 4.5% in 2012. In 2013, the economy grew by 5.7% and is now estimated to expand by 5.3% in 2014. This level of growth is underpinned by the continued good performance in agriculture, forestry and fishing, manufacturing, real estate, wholesale and retail trade, financial, insurance, information and communication activities. The tourism sector however, continued to contract as demonstrated by a decline in accommodation and restaurant service activities. The contraction is linked to insecurity concerns coupled with negative travel advisories by some key tourist source countries.

Going forward real GDP is estimated to expand by 6.9% in 2015 and reach 7.0 % over the medium term. The robust broad based growth will be underpinned by the activities generated in the construction of Standard Gauge Railway, increased production in agriculture following implementation of strategic interventions to revamp the sector, continued investment in infrastructure projects, expansion of activities in other sectors of the economy such as building and construction, manufacturing, retail and wholesale and financial intermediation, among others.

The growth will also benefit from increased investments and domestic demand, following investor confidence and the on-going initiatives to deepen regional integration. Further, the lower international oil prices will result in lower production costs and consumer prices, and elevate demand that will benefit growth.

Rwanda: Strong macro-economic policies and a business friendly environment contributed to a growth rate in excess of 8% for the 10 years leading to 2012 and thus encouraged the Rwanda government to target an average growth rate of 11% from 2012 to 2017. However, in 2013, economic growth in Rwanda slowed to 4.7%, following a sharp contraction of the services sector. Growth recovered to 7.0% in 2014, driven mainly by the construction sector as well as donor and government-financed infrastructure projects. The services sector also grew strongly in 2014 (9.0%) and is expected to keep expanding in 2015, stemming from an expansion in communication services and transport activities.

Despite the planned large-scale infrastructure projects, the infrastructure gap remains a significant barrier to growth. Weak infrastructure, in particular high electricity prices, will adversely affect the manufacturing sector which already battles against strong regional competition from Kenya. Assuming that progress is made to overcome infrastructure impediments in the near-term, the greatest risks to growth are likely to be the dwindling foreign aid and unfavourable weather conditions.

Tanzania: In 2013, Tanzania posted the highest GDP growth amongst the EAC Partner States at 7.3%. Real GDP is expected to have expanded by 7.0% in 2014, driven by sound growth in transport and storage, information and communication, financial and insurance services and construction services.

Tanzania's growth outlook remains positive over the medium-term, where growth is expected to average 7% and will be driven by natural gas investment, service sector expansion and private sector consumption. Continued expansion in financial services and communication technology is expected to support significant growth in the service sector, with more long-term benefits. In addition, the mining sector is expected to regain traction as uranium mining commences. Accommodative monetary policy and improved power supply should also support medium-term growth.

On the other hand, agriculture, a dominant sector of the Tanzanian economy, is expected to post subdued growth below 5% as the sector has not developed irrigation techniques sufficiently, and so remains heavily dependent on rainfall.

The main risk to economic growth over the medium-term is likely to be irregular power supply, triggered by inadequate infrastructure and low rainfall.

Uganda: In 2014 growth remained constant at an estimated 4.8% from 2013. Growth is still below potential mainly due to under execution of externally financed public investment and depressed exports as demand in trading partners stalled. Real GDP will accelerate to 5.8% in 2015. Buoyant GDP growth will be supported by improved business and consumer confidence and an accommodative monetary policy stance which will continue to improve credit conditions.

A stronger global economy is also expected to profit Ugandan GDP growth, through increasing export demand supported by depreciation of the shilling against the USD. However, weak growth in Euro Area, one of Uganda's largest export destinations may partly reduce export demand.

Investment in infrastructure particularly in energy and transport will continue to be key growth drivers in medium term. Growth will be supported by activities in construction, manufacturing, telecommunication and financial services whilst agriculture, as a proportion of GDP, will continue to decline. This may stall poverty reduction efforts given that 70% of the labour force is employed in agriculture sector.

Table 2: Selected Macroeconomic Indicators for EAC Partner States

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
GDP - Current Prices (USD Billions)											
Burundi	2.0	2.4	2.5	2.7	3.1	3.4	3.7	4.0	4.4	4.7	5.1
Kenya	40.0	42.0	50.3	55.2	60.8	65.9	73.7	82.2	91.4	101.1	111.2
Rwanda	5.7	6.4	7.2	7.5	8.0	8.8	9.5	10.4	11.4	12.5	13.6
Tanzania	30.9	33.3	39.0	43.7	47.9	50.0	54.1	58.8	63.9	69.2	74.7
Uganda	19.7	21.7	24.4	25.6	27.6	26.8	28.1	29.8	32.1	34.7	38.1
Total GDP	98.3	105.8	123.5	134.8	147.4	154.8	169.1	185.3	203.1	222.1	242.8
Change in GDP at Constant Prices											
Burundi	5.1	4.2	4.0	4.5	4.7	4.8	5.0	5.2	5.4	5.4	5.5
Kenya	8.4	6.1	4.5	5.7	5.3	6.9	7.2	7.1	7.0	7.0	6.6
Rwanda	6.4	7.9	5.1	7.3	7.2	7.2	7.1	7.0	6.9	6.9	6.9
Tanzania	6.4	7.9	5.1	7.3	7.2	7.2	7.1	7.0	6.9	6.9	6.9
Uganda	7.7	6.8	2.6	3.9	4.9	5.8	5.6	5.8	6.0	6.2	6.3
Gross domestic product per capita, current prices											
Burundi	243	277	286	303	336	360	381	405	431	457	484
Kenya	1,039	1,062	1,237	1,322	1,416	1,495	1,628	1,770	1,917	2,067	2,218
Rwanda	570	628	688	696	722	769	816	869	926	987	1,052
Tanzania	721	760	868	945	1,006	1,018	1,071	1,130	1,190	1,251	1,312
Uganda	589	628	685	694	726	684	696	717	749	786	838
Average	790	839	941	990	1,051	1,081	1,148	1,223	1,303	1,387	1,476
Inflation (Annual Average)											
Burundi	6.5	9.6	18.2	7.9	4.4	5.0	5.3	5.2	5.1	5.1	5.1
Kenya	4.3	14.0	9.4	5.7	6.9	5.1	5.0	5.1	5.0	5.0	5.0
Rwanda	2.0	5.7	6.3	4.2	1.8	2.9	4.4	5.0	5.0	5.0	5.0
Tanzania	7.2	12.7	16.0	7.9	6.1	4.2	4.5	4.5	4.5	4.5	4.5
Uganda	4.0	18.7	14.0	4.8	4.3	4.9	4.8	4.9	5.0	5.0	5.0
Population (Millions)											
Burundi	8.4	8.6	8.8	9.0	9.2	9.4	9.6	9.9	10.1	10.4	10.6
Kenya	38.5	39.5	40.7	41.8	42.9	44.1	45.2	46.4	47.7	48.9	50.2
Rwanda	10.0	10.2	10.5	10.8	11.1	11.4	11.7	12.0	12.3	12.6	12.9
Tanzania	42.8	43.9	44.9	46.3	47.7	49.1	50.6	52.1	53.6	55.3	56.9
Uganda	33.4	34.5	35.6	36.8	38.0	39.2	40.4	41.6	42.9	44.2	45.5
Total	132.5	136.4	140.5	145.6	149.7	153.9	158.2	162.7	167.2	171.9	176.7

Source: Bureau of Statistics for EAC Partner States; EADB

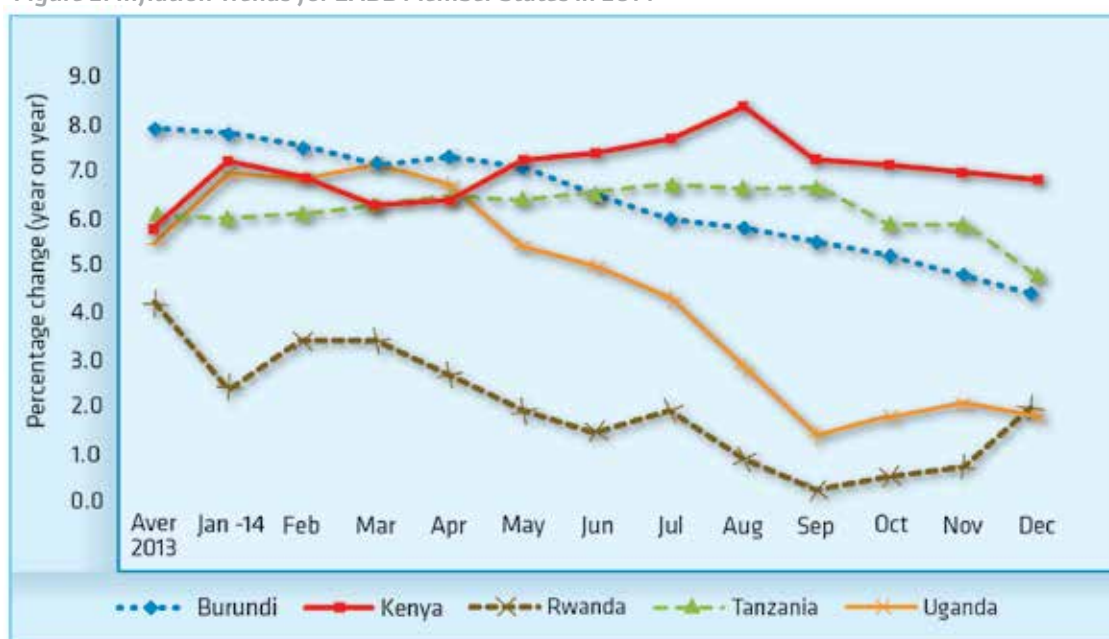
Whilst the sizeable investments in infrastructure may provide considerable economic rewards, they also contain serious risks to growth. Investment financing, if largely borrowed from financial markets, may push up treasury yields and become increasingly expensive to the government. Furthermore, increasing yields risks exerting an upwards pressure on wider interest rates and crowding out private sector investment. Delays in investment, either due to supply bottlenecks or low absorption capacity, may increase investment costs or erode government credibility. There is also a risk of the Dutch disease if large dollar inflows to the oil sector cause the currency to appreciate and render the manufacturing and agricultural sectors less competitive. However, in the near-term, significant risks to the Ugandan GDP growth emanate from adverse weather conditions, which would harm the substantial agricultural sector, and a global economic slowdown, which would exacerbate Uganda's trade deficit. Regional stability is equally key to the perceived growth projections over the medium term.

1.3 PRICES AND MONETARY POLICY

Inflation

EAC Partner States enjoyed low inflation throughout 2014, reflective of low global inflationary pressures. Consumer price inflation averaged 5.1% in 2014, compared to 6.2% in 2013. Low inflation has been uniform across the region as all Member States have maintained single digit inflation throughout the year (figure 2), which has allowed relatively accommodative monetary policy regimes.

Figure 2: Inflation Trends for EADB Member States in 2014



Source: EAC Partner States' Bureau of Statistics; EADB

Burundi: The consumer price inflation subsided markedly on account of decline in international prices of fuel and food. The average inflation rate for 2014 was 4.4%, a drop from 7.9% experienced in 2013. Inflation in 2015 is projected to average 5.0% helped by falling international oil prices.

Kenya: Overall 12-month inflation rose from 7.4% in June 2014 to 8.4% in August 2014 mainly reflecting increases in the prices of energy and most foodstuffs. However, it declined gradually thereafter to 6% in December 2014 mainly reflecting the dissipation of the base effect attributed to the implementation of the VAT Act in September 2013 and decreases in prices of energy and some food items. The 12-month non-food and non-fuel inflation remained stable indicating that there was no significant demand driven inflationary pressure or threat to the economy. The threat of imported inflation was dampened by the significant decline in international oil prices during the period.

Inflation in **Rwanda**, as measured by all Urban CPI, is the lowest in the region and has not entered double-digit territory in four years; Rwandan inflation averaged 1.8% in 2014. Inflation is expected to remain low in the near-term, at less than 5% for the period 2015-2016 before increasing to 5% from 2017. The impact of expansionary monetary policy will be dampened by low global food and oil prices.

Tanzania: Inflation fell to average 6.1% in 2014, and was extremely stable throughout the year (within 6-6.7% band). Some upward pressure was exerted from an increase in electricity tariffs in January 2014, an introduction of beverages taxes in 2014/15 and from the depreciation of the Shilling, but these were offset by a combination of low food and oil prices, supported by a cautious monetary stance. Inflation is expected to remain low and stable given the current global outlook.

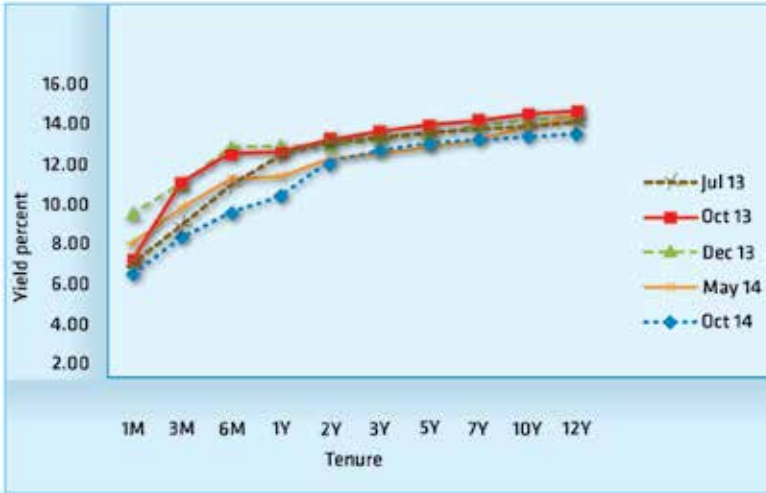
Uganda: Inflation has been steadily falling since reaching a peak of 30.5% experienced after the 2011 elections and the introduction of inflation targeting lite. Ugandan headline inflation averaged 4.3% in 2014, the inflation rate has been steadily falling throughout the year, as favourable weather conditions and low commodity prices boosted agricultural production and reduced energy prices respectively. Inflation is expected to pick-up in 2015 with increased economic activity, but in accordance with the inflation target. However, there is a risk that the 2016 election may trigger another inflation spike if associated with excessive fiscal expenditure.

1.4 DEVELOPMENTS IN MONEY AND CAPITAL MARKETS

Yield on Government Securities

Government security yields remain very high across all Partner States of the EAC as compared to the pre-financial crisis period. However, by October 2014, the yield curve had shifted slightly downwards compared to a year earlier, on account of easing inflation and accommodative monetary policy (Figure 3). The yield curve is becoming a little steeper, perhaps reflecting increased investor uncertainty over the period.

Figure 3: Comparison of Average Yield curves in East Africa

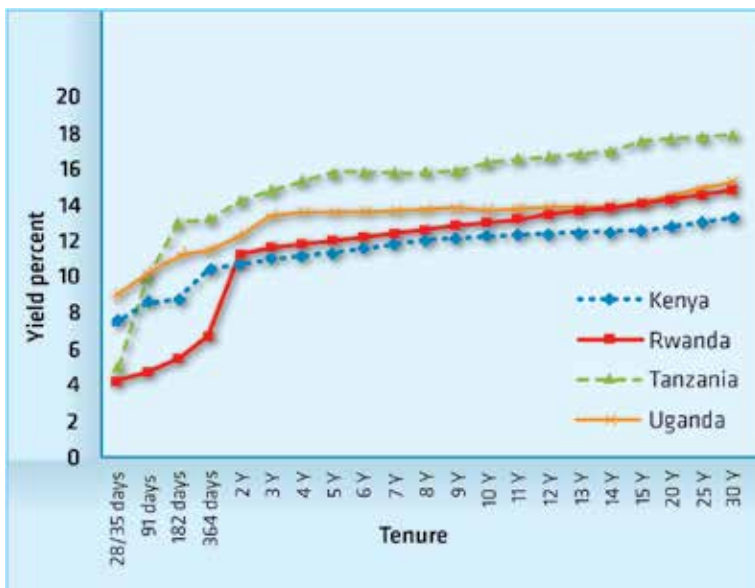


Source of Data: EADB Member States' Central Banks; EADB

All EADB Member States have significantly expanded their budgets over the past year to address infrastructure gaps, and the associated domestic borrowing to finance infrastructure investments has inevitably exerted upwards pressure on government security yields.

Figure 4 shows high yields for medium and long term government securities. By October 2014 the yield on 2-year government securities in Tanzania, Uganda, Rwanda and Kenya stood at 14.1%, 12.2%, 11.3% and 10.7% respectively. As could be expected, longer tenure securities have higher yields, however long-term yields in Tanzania are perhaps exceptionally elevated: 10-year bonds in Tanzania offer a yield of 16.3%, which is substantially higher than the 13.2% offered for Kenyan 30-year bonds.

Figure 4: Yield Curve for EADB Member States in October 2014



Source of Data: EADB Member States' Central Banks; EADB

Capital markets

Kenya: Activities in the stock market in Kenya remained vibrant in the year to December 2014. The NSE 20 share index improved to 5,113 points in December 2014 from 4,927 points in December 2013, representing an increase of 3.8%. Market capitalization that measures shareholders' wealth improved from KES 1,901 billion in December 2013 to KES 2,300 billion in December 2014 representing an increase of 21.0 %.

Tanzania: During the financial year 2013/14, the Tanzania All Share Index (DSEI) improved to 2,172.71 points from 1,582.51 in financial year 2012/13, representing an increase of 37%. Market capitalisation improved from TZS 14,057.92 billion to TZS 18,902.16 billion, an increase of 34%. The Tanzania share Index Points also improved by 94% from 1,840.11 to 3,561.62 points. The improvement is mainly due to improvements in operation efficiency, public awareness campaigns and general country economy trend.

Uganda: During the Financial year ending June 2014, the All Share Index improved from 1,481.38 to 1,696.84, an increase of 15%. Market capitalisation (in UGX trillion) increase from 19.33 to 23.16, an increase of 20%. The domestic market capitalisation increased from UGX 2.63 trillion to UGX 3.16 trillion (20% increase). The share volume increased to UGX 2,436.45 million from UGX 1,318.25 million previous year.

Market capitalisation remains relatively low for Rwanda, Tanzania and Uganda as compared to the size of the economy. The trading of government securities is also very low in these markets.

1.5 FISCAL SUSTAINABILITY

The financial year 2014/15 demonstrates an unprecedented expansion in government budgets across all the EADB Partner States. When compared to the previous year, the budget expansion ranges from 4.5% in Rwanda to 35% in Uganda. Reassuringly, with the exception of Uganda, country specific analysis shows that budget increases are matched to proportionate increases in domestic revenue. However, revenue collection is still low across the region which poses an obstacle to growth by impairing fiscal deficits. Kenya and Tanzania demonstrate sustainable revenue to GDP ratios. Table 2 outlines the budgets of EADB Member States.

All EADB Member States are yet to attain the critical macroeconomic convergence criteria of a fiscal deficit below 5% of GDP and tax to GDP ratio of tax to GDP ratio of 25%. Furthermore, the Member States tend to display a discouraging high proportion of recurrent expenditure as opposed to investment expenditure. There is low risk of external debt distress but the countries need to continuously watch the debt levels to ensure that they remain sustainable in medium to long term. This will ensure that planned public investments in infrastructure and social welfare are not compromised in the long-term. Rwanda and Uganda, and to a lesser extent Tanzania, remain heavily dependent on donor budget support, which might exacerbate their fiscal deficit if reduced or not availed.

Individual country analysis below further reinforces that, while fiscal sustainability appears sound in the short to medium term, if current expansionary policies are not supported by increased domestic revenue, there is a risk of long-term fiscal instability. Any threat to fiscal stability will also compromise attainment of the fiscal convergence criteria, which is critical for sustainable development and successful monetary union within the EAC.

Kenya: The budget increased from USD 15 billion in financial year 2013/14 to USD 20 billion in 2014/15. Revenues increased from 19.3% of GDP in FY 2013/14 to 20.4% of GDP in 2014/15 and further to over 21.8% of GDP over the medium term. This revenue effort is supported by the broadening tax base and improving revenue administration. Some of the measures implemented recently include; enactment of income tax regime for the extractive industry; re-introduction of capital gains tax, introduction of VAT withholding of 6% out of the 16% and rolling out iTax. The Medium Term Strategy, therefore, focuses on further deepening tax reforms in order to broaden the tax base, reduce compliance cost, facilitate private sector growth and enhance revenue yield as part of measures to strengthen revenue effort.

Other indicators also point towards fiscal sustainability: The public debt is expected to decline to 43.9% of GDP in FY 2014/15 from 44.1% of GDP in FY 2013/14. The deficit is projected to decline further to 41.3 % of GDP in FY 2017/18 driven by strong macroeconomic performance and a prudent borrowing policy. The debt sustainability indicators show that Kenya faces a low risk of external debt distress. This is attributed to the high level of concessionality of current external debt and the positive outlook in other macroeconomic indicators.

In **Rwanda**, while the total government budget increased by 5% in 2014/15, domestic revenue increased by 14.2%. Domestic revenue to GDP currently stands at 17.6% and is continuously increasing. Whilst these are positive developments, Rwanda's government budget remains dependent upon donor budget support. Total domestic revenue, as a percentage of the total budget amounts to 56.6%; while external resources, as a percentage of the total budget, are the highest in the region at 35.7%. Rwanda currently boasts the lowest debt to GDP ratio amongst the EAC at 30.4%, supported by large aid inflows in the recent past. The Rwandan government may claim fiscal responsibility, but also should be wary of the effects of waning aid inflows and donor budget support.

Tanzania is set to follow an increasingly sustainable fiscal path: domestic revenue is projected to increase by more than 25% in 2014/15 financial year as compared to previous year, whilst the government budget is expected to only increase by 16%. Domestic revenue to GDP currently stands at 20%, but is continuously improving overtime. However, external aid and grants, as a percentage of the total budget, is in excess of 20%, whilst this falls below that of Rwanda and Uganda, it nonetheless indicates some degree of aid dependency.

Uganda's increase in the government budget for 2014/15 is the highest in the region at 35%, and compares to a forecast increase in domestic revenue of 21%. Whilst there is some space for fiscal expansion: Uganda's total domestic revenue to GDP is 14%, the lowest in the region, and total public debt is only 36%. There is room for Uganda to borrow externally to sustain the rapid fiscal expansion. Total domestic revenue as percentage of total budget is 60%, and 31% of revenue is financed by external resources in the form of aid and grants, illustrating some aid dependency. Furthermore, the fiscal deficit before and after grants is significant at 9.3% and 7.7% of GDP respectively.

Table 3: Budget comparison for EADB Partner States in 2014/15

	Kenya	Rwanda	Tanzania	Uganda
Revenues (in billions of USD) Domestic + grants	14.11	2.28	8.61	4.05
Ordinary domestic revenues	13.45	1.47	7.71	3.64
Aid- appropriation (grants and loans)	1.07	1.08	2.60	1.42
Budget (domestic revenues +aid excl domestic borrowing)	14.53	2.55	10.30	5.06
Total budget (domestic revenues +grant+ external borrowing)	20.0	2.62	12.11	5.99
Annual % increase of total budget	16.67	4.51	16.12	34.88
Annual % increase of domestic revenue	15.50	20.76	25.13	21.21
Domestic Revenue as percent of total budget (excl. borrowing)	74.68	56.24	63.65	60.78
Expenditure(in billions of USD)				
Total Expenditures (in billions of USD)	18.01	2.38	12.11	5.99
Development Expenditure	6.54	1.18	3.93	3.14
Recurrent Expenditure	11.47	1.20	8.18	2.85
infrastructure Expenditure	2.27	0.42	2.36	1.88
Budget Indicators				
Domestic Revenue to GDP	20.4	17.20	19.97	14.40
Fiscal Deficit(before grants) to GDP	- 7.90	- 9.30	-8.30	-9.30
Fiscal Deficit(after grants) to GDP	-6.30	- 3.78	-4.90	-7.69
External resources (aid+grants)/Total Budget	13.12	38.08	21.46	30.99
Expenditure to GDP	33.10	27.80	31.38	23.70
Development expenditure as % of total expenditure	36.31	49.48	32.46	52.45
Development and Net lending as percent of GDP	9.50	13.76	10.19	8.73
Recurrent expenditure as % of total expenditure	63.69	50.52	67.54	47.55
Recurrent Expenditure as percent of GDP	18.70	14.05	21.19	11.27
Infrastructure as percent of Total budget	12.60	16.63	19.47	31.33
Infrastructure as percent of Total GDP	4.30	4.95	6.11	7.42

Note: All figures are in USD billion unless indicated

Source: Ministry of Finance for EAC Member States; EADB

As aforementioned, large recurrent expenditure is a problem in the region, in particular for Kenya and Tanzania. Driven by some very large infrastructure investment, Uganda has the highest proportion of development expenditure to total expenditure in the region. Rwanda has largely balanced its development and recurrent expenditures. Kenya and Tanzania may well need to address the quality and efficiency of their expenditure programmes in order to achieve greater sustainability; greater development expenditure upon well-targeted social programs and infrastructure investment may provide greater long-term rewards.

The composition of expenditure determines long-run structural economic change and debt servicing capacity. A high proportion of development expenditure, for example into infrastructure investment, should improve productivity and competitiveness and raise potential long-term growth. In turn, increased potential growth should increase government revenue, assuming reliable tax collection procedures, and thereby ease debt repayment capacity.

During the financial year 2014/15, Kenya and Tanzania are both expected to spend over 60% of their budget on recurrent expenditures, whereas Rwanda and Uganda are expected to place more importance upon development expenditure. Nonetheless, Uganda and Tanzania are expected to mobilise more resources for investments in infrastructure, which will amount to 31% and 29% respectively of their total budgets or 7% and 6% of total GDP respectively. By comparison, infrastructure investment is expected to constitute 17% of the total budget in Rwanda and only 13% Kenya, equal to 5% and 4% of GDP respectively.

Whilst fiscal sustainability does not appear to be an immediate threat to the EAC, and there are considerable investments planned to benefit long-term prospects, more could be done to achieve faster economic transformation and caution might be exercised over the growth and composition of some government budgets. Nonetheless, budget deficits must decline throughout the EAC in order to meet the fiscal convergence criteria for monetary union and better economic integration.

1.6 EXTERNAL SECTOR AND TRADE IN EAST AFRICA

Balance of Payments

In 2014, the EADB Member States, with exception of Kenya, recorded an overall balance of payment deficit, which is likely to deteriorate further on account of widening current account deficit driven by decline in current transfers to Government and increased imports. During the year ending December 2014, all Member States have experienced a widening current account deficit as falling exports and rising imports exacerbated trade deficit. The decline in price of oil was not sufficient enough to offset the decline in value of traditional exports. Rebasings of national accounts slightly improved the current account to GDP ratio. The reserve cover remains sufficient to address shocks in external sector as Member States maintain foreign exchange reserves around the stipulated 4.5 months of import cover with exception of Uganda.

Kenya: The overall Balance of Payments surplus improved to USD 1,378 million in the year to December 2014 from a surplus of USD 685 million in the year to December 2013. The improvement is wholly driven by USD 1,512 million build up in the capital and financial account surplus, which more than offset USD 818 million widening of the deficit in the current account. The financial account surplus is attributed to Kenya's successful debut in the international capital market which brought a total of USD 2.75 billion through issuance of a sovereign bond.

The current account balance worsened to a deficit of 10.2% of GDP in the year to December 2014 from a deficit of 8.7% of GDP in the year to December 2013. The deterioration reflects 10% worsening of the Merchandise account deficit which more than offset the 4.7% improvement in the services account surplus. The deficit in the merchandise account widened by USD 1,121.3 million to USD 12,351 million in the year to December 2014 reflecting a larger growth (7.9%) in payments for merchandise imports in relation to a 3.9% growth in the value of merchandise exports.

The banking system's total foreign exchange holdings increased to USD 9,738 million in December 2014 from USD 8,483 million at the end of December 2013. Official reserves held by the Central Bank constituted the bulk of gross reserves and increased to USD 7,895 million (5.1 months of import cover) at the end of December 2014 from USD 6,560 million (4.5 months of import cover) at the end of December 2013. The build-up in foreign exchange reserves during the period was largely attributed to proceeds received from the sale of the Eurobond in June 2014 and the tap sale in December 2014.

Rwanda: The overall balance of payment recorded a deficit of USD 90 million in 2014, driven mostly by a worsening in the trade balance and a decline in budget transfers. By end of 2014 imports increased by 8% from 2013, while exports grew by 3%, reflecting restrictions imposed on the movement of people between DRC and Rwanda that were in effect during the year, as well as a reduction in prices of minerals and tea. The current account deficit as percentage of GDP is estimated at 11.8%, the highest in five years, but is expected to slowly improve in the medium-term. The current account deficit is predominantly a factor of a growing trade deficit that is likely to be exacerbated by low global tea prices and restrictive mining regulations going forward. The official reserves for end-2013 covered 5.2 months of imports in 2014.

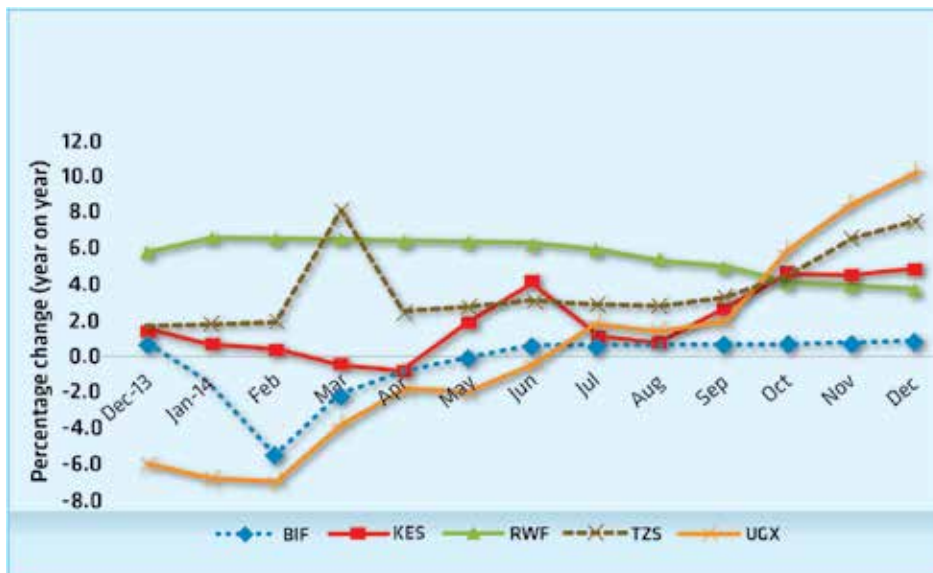
Tanzania: Tanzania's overall balance of payments recorded a deficit of USD 233.8 million by December 2014, which represents a deterioration from a surplus of USD 495.7 million recorded in 2013. The current account faces a growing deficit, on account of falling export values and increasing imports. By November 2013, the current account deficit stood at USD 4,756.1 million, equivalent to 13% of GDP, reflecting a decline in traditional exports such as cotton and tea, as well as, decline in value of Tanzania's gold exports by 22%. The impact of decline in oil prices from mid-2014 was to reduce the value of oil imports by 15% but did not have significant impact on current account balance as import of consumer goods increased by 12.4%. Looking forward, Tanzania's overall balance of payments is expected to remain in surplus mainly on account of tourism receipts and continued donor support buoying up the capital account. However, the account deficit is expected to deteriorate as gold prices stagnate. The current account deficit is expected to remain above 10% in medium term reflecting high appetite of consumable imports. The overall deficit will be financed by foreign direct investments and borrowing.

Uganda: In 2014, the overall balance of payment deficit for Uganda is estimated to have narrowed to USD 207 million from a deficit of USD 230 million in 2013. On the other hand, current account deficit has been widening consistently over the years reaching USD 2328.7 million in 2014. By the end of the year the current account deficit was around 8.4% of GDP as compared to 6.8% in 2013. Foreign reserve are at 4.3 months of import cover, sufficient enough to provide buffers should there be temporary shocks. The current account deficit is expected to widen in the coming three years as import growth accelerates. The current account deficit is expected to reduce over the medium term as oil production starts. The deficit in balance of payments will be financed by foreign direct investment and increased government borrowing.

Foreign Exchange Markets in East Africa

Foreign exchange markets have remained largely stable across EADB Member States throughout 2014, which may be accredited to prudential monetary policy reactions across the region. Figure 5, below, illustrates that from Mid-2014, all EAC Member States' currencies had begun to depreciate, albeit mildly. Currency depreciation pressures are expected to continue, particularly as US economic growth gains traction and advanced economies begin to normalise their highly expansionary monetary policy regimes; however, widening fiscal and current account deficits may exert additional depreciation pressures if not well managed.

Figure 5: Exchange Rate Movements for EADB Member States in 2014



Source EADB Member State Central Banks; EADB

Kenyan Shilling: The Kenyan Shilling has largely been stable over the year, apart from a deviation in June, when the currency depreciated by an annual rate of over 4%. Otherwise, the Shilling has experienced a mild and steady depreciation over the year, partly on account of low tea prices and a weak tourism sector and to a larger degree on account of the global strengthening of the US dollar.

While the Kenyan shilling remains vulnerable to global monetary tightening foreign exchange reserves would help to cushion the shilling and minimise volatilities in exchange rates. The medium term outlook will see the shilling sliding further beyond the current average exchange rate of KES 88 to the dollar.

Despite the temporary pressures on most international currencies reflecting the global strengthening of the US Dollar, the exchange rate of the Kenya Shilling against the US Dollar maintained its stability during the year. The Kenya Shilling strengthened, on average, against the other major international currencies and regional currencies.

The Kenya Shilling continued to be supported by the resilient foreign exchange inflows through diaspora remittances, increased net purchases of equity by foreign investors in the Nairobi Securities Exchange (NSE), and sustained confidence in the economy reflected in the massive over-subscription of the Sovereign Bond that was re-opened on tap in December 2014.

Rwandan Franc: The Rwandan Franc has depreciated steadily throughout the year, at an average annual rate of 5.5%. However, this presents the greatest depreciation in the history of the currency as the result of a newly adopted flexible exchange rate regime allowing economic fundamentals to determine the equilibrium exchange rate: reduced aid inflows and a sizeable current account deficit are causing the currency to depreciate, and are expected to continue to do so looking forward.

Tanzanian Shilling: The Tanzanian Shilling experienced a steady depreciation throughout 2014, driven by a widening current account deficit, which has only partly been offset by substantial aid inflows and tight liquidity conditions in the domestic market. The shilling experienced an unusually high depreciation of 8.2% and 7.6% in March and December. Looking forward, the depreciation trend is expected to continue, driven by the appreciation of the US dollar, but also affected by widening fiscal and current account deficits.

Uganda Shilling: The Ugandan Shilling appreciated throughout the first half of 2014 under an increase in portfolio inflows and foreign direct investment, particularly to the developing oil sector. However, the trend reversed and the currency began to depreciate against the dollar from June onwards. By November 2014, the shilling hit its highest depreciation against the USD at 2,779 before closing the year at 2773.1 by the end of 2014. The Ugandan Shilling is expected to continue to depreciate over 2015, again on account of the strengthening US dollar. However, if low oil prices suspend development of the oil sector and concerns mount over fiscal expenditure before the 2016 elections, then the depreciation will become exaggerated.

2.0 OVERVIEW OF THE YEAR'S ACTIVITIES

2.1 TREASURY SERVICES AND MANAGEMENT

During the year 2014, the Bank continued to implement its treasury activities in accordance with the provisions of Treasury Policies and Procedures under the supervision of the Assets and Liabilities Committee (ALCO).

The main treasury operations conducted included; investments, resource mobilization and hedging of currency risk exposures arising from its financing operations.

During the year 2014, the Bank drew on lines of credit from existing partners, while negotiated and concluded long term lines of credit from OPEC Fund for International Development (OFID) and from KfW for on-lending to viable development projects in the East African Region. Also the African Development Bank (AfDB) approved a Line of Credit of USD 40 million to EADB.

In an effort to mobilise domestic resources to finance infrastructure development and develop capital markets, the Bank finalised the legal documentation for the Umoja Bond and is awaiting final regulatory approval from relevant authorities in each jurisdiction.

In 2015, the Bank will initiate negotiation for financing from new development partners. In the same vein, the Bank is exploring the possibility of setting up an infrastructure fund in order to increase resource mobilisation efforts to better serve the Member States.

2.2 RISK MANAGEMENT

In 2014, the Bank continued to focus on managing risk exposure assumed in the normal course of providing development banking services. EADB's activities give rise to seven major banking risks namely; Capital/Solvency Risk, Credit Risk, Liquidity Risk, Market Risk (interest rate risk and foreign exchange risk), Operational Risk, Compliance & Legal Risk, and Strategic Risk. Active management of these risks is an essential part of the Bank's operations and a key determinant of its ability to maintain a growing capital and earnings base. The Bank has adopted several key financial and prudential policies and guidelines to manage and control the above mentioned risks.

The Bank initiated a program to upgrade its Enterprise Wide Risk Management Framework (ERM) including acquiring of a solution to support the risk management framework. The program which is being funded by the African Development Bank grant envisages to develop rating tools for projects, collateral database tool as well as pricing tool and capital adequacy calculation Tool within the framework of Basel II principals.

The ERM program reviewed and updated different manuals and guidelines including the treasury policy Manuals and procedures, Pricing Policy, Economic Sector Classification and Limits Policy.

A customized knowledge management tool is being developed under the program. The System will put EADB in position to collect information about clients, sectors, regions, collateral, covenants, specific transaction types and much more and use the information for risk assessment. The system shall store the information in a structured manner and make it available to loan officers and risk managers for the purpose of analysing and

approving additional transactions. This shall become the core instrument for EADB's goal to be the most knowledgeable and experienced financial institution in its niche market.

2.3 EADB INTERNATIONAL CREDIT RATING AND AWARDS

Credit Rating

In June, 2014, Moody's Investor Service reaffirmed credit rating for the Bank at Ba1 foreign currency issuer rating with stable outlook. The reaffirmation of the rating and the stable outlook reflects the Bank's very strong liquidity position, improving governance and risk management culture and strong support from the African Development Bank.

The Bank's long term international rating was retained at BB in 2014 by GCR.

Rating by AADFI

On 21 May 2014, the Bank received an award as Best Performing Development Finance Institution for 2013. The award follows AADFI's rating of the Bank as the second best development bank in Africa out of 39 African Financial Institutions. This rating exercise is very important in transforming development finance institutions (DFIs), in monitoring and ensuring compliance with best standards and promoting greater transparency. It is a good criterion for benchmarking, and also enhances prospects for resource mobilization. The rating has further reaffirmed the Bank's international reputation.

Awards to Bank management

During the year 2014, the Director General of the Bank, Vivienne Yeda, received three respected international awards:

On 21 May 2014, she won the African Banker of the Year Award. The award was presented at an awards ceremony and gala dinner in Kigali, Rwanda, by the African Banker magazine.

On 22 September 2014, The Africa-America Institute awarded Ms. Yeda, the 2014 Business Leader Award. The event took place at the Institute's 30th Annual Awards Gala Honours, held in New York. The award was in recognition of the Director General's distinguished contribution to the world of development banking, finance and business over more than 20 years.

On 21 November 2014, The Centre for Economic and Leadership Development (CELD) named Ms. Vivienne Yeda, the winner of its 2014 Africa Female Economic Champion Award – Banking. Ms. Yeda was also inducted into the Global Women Leaders Hall of Fame, 2014. The Award was conferred at the Africa – Middle East – Asia Women Summit in Dubai, UAE. In a statement, CELD said the award is aimed at shining the spotlight and celebrating women leaders who are shattering stereotypes and beating the odds while transforming communities, countries, economies and cultures.

Supported by shareholders capital and rising profitability since 2009, the Bank's net worth (including shares not allotted) increased by 95% from 2010. There is notable improved efficiency as cost to income ratio declined to 47% as compared to 78% (2010). The total usable equity (excluding callable capital) more than fully covered the investment portfolio,

representing 165% of the sum of gross loans outstanding and equity operations, compared to 33% in 2007. This is one of the highest rates among Multilateral Development Banks. Cleaning-up of the portfolio through aggressive debt collection saw the non-performing loans declining to record low levels of 1.3% by December 2014.

2.4 HUMAN RESOURCE MANAGEMENT AND DEVELOPMENT

The Bank's focus during 2014 sought to redress gaps in systems and processes that previously limited operational efficiency and effectiveness. This has been done through continuous on-the-job employee development. The bank also encourages staff to pursue self-development initiatives to aid their career progression and enhance individual work performance.

The fact that the bank's performance is in line with set targets demonstrates that the steps taken to date have been appropriate. The Bank has delivered on its growth agenda, enhanced the quality of the loan book through improved appraisal and portfolio management and improved its overall performance.

A career development plan for bank staff is being developed to help secure the future staffing requirements of the bank whilst supporting employees to attain their own career development objectives.

The challenges of acquiring quality talent still persist. The short to medium term approach used to meet human resource requirements has been to look to the international market for specialists with development banking related skills such as project finance, structured finance, risk management, capital markets, legal services etc. Individuals who have been contracted under this initiative are not only expected to provide the required technical support to bank operations, but also tasked with responsibility of developing the capability of the bank's core team. During 2014, four international experts were contracted to support Operations, Legal and Public relations.

Substantial milestones were achieved in the management of the Staff Retirement Benefits scheme of the Bank.

Substantial milestones were achieved in the management of the Staff Retirement Benefits scheme of the Bank.

1. Alexander Forbes is the Fund Administrator, Pine-bridge Investments is the Investment Manager, Standard Chartered Bank is the Custodian and PKF are the Fund Auditors.
2. An Annual General meeting was held on 5th July 2014. The scheme financials are up to date and the individual statements were dispatched to members for those respective years with interest earned in 2013.
3. The Board of Trustees attended two trainings during 2014 to enhance their knowledge in retirement fund management.

2.5 REGIONAL ECONOMIC INTEGRATION ACTIVITIES

Activities with East African Community

The Bank continues to strengthen existing relationships with the EAC Secretariat and other organs and institutions of the EAC as well as other key players in regional integration.

During the year under review, the Bank participated in key EAC meetings intended to foster regional integration and growth. The meetings included:

- The Heads of State Summit retreat in Nairobi, Kenya, in November 2014; and
- The Council of Ministers' Meetings in August and November 2014.

During the reporting period, the Bank participated in the development of the Institutional, Policy and Legal Framework for the East African Community Development Fund. The Bank provided a significant contribution to the draft EACDF Bill which is a key legal document for establishment of the Fund. The Bill provides for governance structure, management and operational modality for the fund. Once the bill is operational the Bank will play a critical role of hosting and partly managing the fund on behalf of the EAC.

The Bank also provided inputs on the operational modalities of the Regional Public-Private Partnership (PPP) Resource Centre to be hosted at the headquarters of the Bank in Kampala from 2015. In so doing, the Bank participated in the PPP conference organised by the EAC Secretariat in Nairobi from October 2014. Subsequently, the EAC Secretariat commenced the recruitment of staff for the resource centre

The Bank will continue to work with the EAC Secretariat, its organs and institutions in ensuring the fruition of these initiatives.

Partnership with JICA

On August 25, 2014, the Japan International Cooperation Agency (JICA) signed a Memorandum of Understanding with the East African Development Bank for cooperation and collaboration in matters of common interest for socio-economic development in the East African Community. Some of the areas of cooperation include but are not limited to:

- Exchange of information on regional infrastructure development such as policies, programs, strategies and development schemes as well as sharing of research projects and development experience in East Africa.
- Organising and undertaking joint actions on development issues through joint seminars, research and knowledge management
- Collaboration in identifying projects in areas of economic and social infrastructure, private sector development, education and health
- Provision of joint technical assistance for project development
- Collaboration in capacity building within and outside the two organisations.
- Collaboration on accelerating private sector activity through seminars and consultations.

Partnership with the International Atomic Energy Agency

During the year 2014, the Bank entered into a partnership with the International Atomic Energy Agency to establish a Virtual University of Cancer Control Network in Africa (VUCCnet). The initiative is part of IAEA's Program of Action for Cancer (PACT) in East Africa. The PACT seeks to assist all low and middle income countries, especially in Africa, to address the global cancer crisis. PACT aims to assist African Countries develop capacities and systems to provide adequate diagnosis and treatment options for cancer.

The VUCCnet once established will help in addressing the human resource deficit by facilitating local training of health professionals for effective early detection, diagnosis and treatment of cancer. The local training of health professionals in the cancer area will curtail the need and expenses for travelling overseas to acquire the same training.

EADB's support would entail financing the services of a legal expert to design legal instruments for establishment of the VUCCnet and financial support to the VUCCnet Secretariat to be hosted at the Ministry of Health of the Government of Uganda.

Collaboration with the United Nations Framework Convention on Climate Change

In February, 2013, the Bank partnered with the Secretariat of the United Nations Framework Conventional on Climate Change (UNFCCC) and established a Regional Collaboration Centre (RCC) at the Bank's headquarters in Kampala. The objective of working together was to assist regional countries to achieve emission limitation targets through the Clean Development Mechanism (CDM). The centre which covers 23 countries, mainly Anglophone Africa, aims at overcoming identified limitations and gaps in skills and technical knowledge that inhibit CDM stakeholders in least developed and developing countries from promoting and supporting CDM projects. Under the arrangement, the EADB and the UNFCCC Secretariat are pooling resources jointly to support governments, non-governmental organisations and the private sector in the identification and development of potential CDM project activities and programs. In so doing, this will create sustainable capacity for future local engagements in these activities as well as in the global carbon market.

The Centre works through capacity building and outreach activities and provides direct support to project activities or Programs of Activities (POAs). The Centre is presently supporting 103 projects in different countries. RCC Kampala has supported the development and submission of Standardised Baselines (SBLs) in the region. RCC Kampala is providing support for the development of five standardized baselines in the areas of Institutional Cook Stoves (Uganda), Rural Electrification (Ethiopia) and GEF SBLs (Kenya, Uganda and Rwanda).

In the initial planning phase of the RCC, the focus was on providing support to the supply side of the market. The current focus has expanded to incorporate the importance of nurturing existing and future demand sources. In support of this initiative, the RCC Kampala has been able to provide a connection between new demand centres (World Bank C-Dev, NEFCO, Swedish Energy Agency and South African carbon tax proposals) and viable project activities.

The presence of the RCC has catalysed the attention of several international and regional agencies operating in Uganda. This has led to the establishment of strong partnerships and collaborations in organising regional and international events. On 29th and 30th September 2014, the EADB in partnership with the United Nations Framework Convention on Climate Change (UNFCCC), the UNEP DTU Partnership Centre on Energy, Climate and Sustainable Development (UDP), and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) hosted the first ever Climate Finance and Investment Forum in East Africa. The forum was jointly presided over by the EADB Director General, The United Nations Resident Co-coordinator, UNFCCC Secretariat and the Ugandan Minister for State on Environment and was attended by 60 participants drawn from both private and public financial sectors including; ministries, Central Banks and the secretariats of the East African Community (EAC) and the South African Development Community (SADC). The main objective of the forum was to showcase the latest practices and achievements with respect to climate finance and to facilitate the understanding of climate change mitigation projects in the region by both public and private financial institutions.

Strengthening capacity on extractive industry contract negotiations in East Africa

During the year under review, the Bank and DLA Piper, a global law firm, co-hosted workshops for public sector lawyers and law professors on structuring and negotiating international commercial contracts and agreements. The workshops were intended to build the capacity of public sector lawyers involved in negotiating transactions and drafting agreements for extractive and other industries. Two such workshops took place from 9th to 14th March 2014 in Kigali Rwanda and a follow-up workshop took place from 8th to 12th September 2014 in Dar Es Salaam, Tanzania. A total of 87 lawyers from East Africa attended the workshops.

Collaboration with the Inter-University Council of East Africa (IUCEA)

The Bank continues to work with the IUCEA (Inter-University Council of East Africa) to develop a proposal on Research and Innovation program for East Africa. The objective is to promoting enterprise evolution and growth through research and innovation, capacity building, and knowledge development and transfer for strengthening entrepreneurship and enterprise development in East Africa.

Collaboration with Brazilian Development Bank

The Bank and the Brazilian Development Bank (also known as the National Bank for Economic and Social Development) agreed to conclude a non-exclusive general framework Memorandum of Understanding (MoU) for collaboration in the East African Community (EAC) Partner States, with particular reference to providing support in the implementation of development project and activities.

Collaboration with the AfDB Group

The EADB and the African Development Bank and the African Development Fund (the AfDB Group) agreed to enter into MoU to establish general, strategic and dynamic partnership to enhance effectiveness of assistance programmes to EAC Partner States.

Cooperation agreement with the African Finance Corporation (AFC)

EADB and African Finance Corporation (AFC) have finalised the terms and conditions for cooperation agreement to facilitate collaboration in the promotion of project and trade finance in the EAC Partner States. The areas of collaboration include co-financing of project developments and sharing of financial risks; identification, preparation and appraisal of projects as well as monitoring and post evaluation of projects and exchange of information in respective country risks and project analysis.

3.0 GOVERNANCE AND CORPORATE AFFAIRS

3.1 GOVERNING COUNCIL

The Governing Council, comprising of the Ministers responsible for Finance from each of the Bank's Member States, is the supreme governing authority of the Bank. The Governing Council met once, on 15th March 2014, to discharge its' duties. During the meetings the Council, among others, undertook the following:

- Approved the Bank's audited Annual Accounts for the Year 2013 and commended management and staff for the good performance.
- Took note of a number of activities and provided guidance on equity subscription and allotment of shares and progress on the establishment of the Multinational Umoja Bond.
- Appointed PricewaterhouseCoopers as external auditors of the Bank for 2014.

3.2 ADVISORY PANEL

The Advisory Panel comprises of eminent persons in international finance who provide the Bank with strategic guidance on its mandate during formal sessions held concurrently with the meetings of the Governing Council. The current Advisory Panel members are; Mr. Lars Ekengren, Mr. Mahesh K. Kotecha, Mr. Jannik Lindbaek and Mr. Toyoo Gyohten.

3.3 BOARD OF DIRECTORS

The Bank's Board of Directors is required to meet at least once every quarter to conduct the business of the Bank. The Board of Directors met four times in 2014 to discharge its statutory functions. During the meetings, the Board among other things undertook the following:

- Approved proposal to mobilise resources from AfDB, OPEC and KFW.
- Reviewed the EACDF bill and advised the management to submit the same to the EAC Secretariat for approval by the Council of Ministers.
- Considered Burundi's formal application to join the EADB that was submitted in June 2014 and directed the Bank's management to commence the valuation of the Bank's Capital in preparation for formal accession of Burundi into the Bank. Subsequent to valuation by PricewaterhouseCoopers (PwC), the Board directed the Bank management to commence negotiations with the Republic of Burundi on the share price to be paid.
- Approved the Bank's budget for the year 2015.

4.0 FINANCIAL PERFORMANCE FOR THE YEAR ENDED 2014

NB: The Full Director's report and Financial Statements for the year ended 31st December 2014 is posted in the EADB website: www.eadb.org

4.1 SUMMARY OF FINANCIAL PERFORMANCE

The Bank posted a net income of USD 9.8 million for the year ended 31st December 2014, which was 16% increase from a net income of USD 8.5 million made in 2013. Net interest income increased by 34% from USD 9.3 million achieved in 2013 to USD 12.4 million in 2014. This was largely due to increased loans and advances and the higher volume of deposits placed with banks.

Overall, total assets grew by 24% to USD 294 million in 2014 from USD 238 million in 2013. Asset growth was financed largely by additional equity subscriptions by shareholders, continued profitability and the revaluation of the bank's land and buildings.

4.2 INCOME STATEMENT

The Bank made a 16% increase in income in 2014 closing at USD 9.8 million compared to USD 8.5 million in 2013 (Figure 6). Table 4 is the income statement for the Bank.

Figure 6: Profitability (in thousands of USD)



Table 4: Income Statement

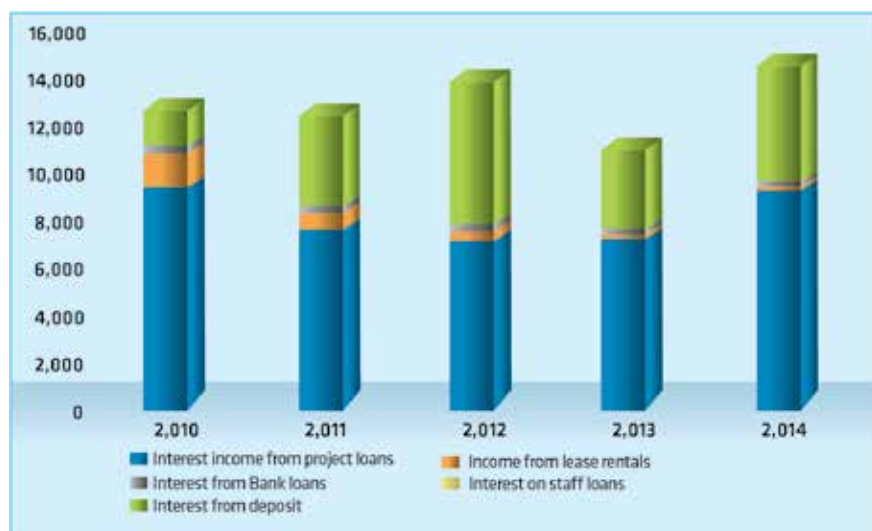
	2010	2011	2012	2013	2014
Interest income	12,470	12,522	14,517	11,549	15,142
Interest expense	(4,540)	(3,691)	(4,408)	(2,281)	(2,753)
Net interest income	7,930	8,831	10,109	9,268	12,389
Other Income					
Fee and commission income	304	410	780	368	567
Net exchange gain (loss)	(1,846)	(2,668)	1,192	41	(656)
Other operating income	1,730	3,113	817	1,771	1,040
Fair value (gain)/ loss	0	(71)	(841)	629	203
Net fair value gain on Investment Property	-	-	-	1,402	1,472
Total other income	188	784	1,948	4,211	2,626
Operating income before recoveries	8,118	9,615	12,057	13,479	15,015
Recoveries / Impairment charge	1,728	4,163	3,815	2,329	2,546
Operating income after impairment	9,846	13,778	15,872	15,808	17,561
General operating expenses					
Staff costs and other benefits	(3,378)	(3,174)	(3,735)	(4,402)	(4,119)
Depreciation and amortization	(988)	(437)	(541)	(550)	(613)
Other operating expenses	(3,276)	(3,277)	(4,281)	(2,378)	(3,009)
Total Operating Expenses	(7,642)	(6,888)	(8,557)	(7,330)	(7,741)
Profit before income tax	2,204	6,890	7,315	8,477	9,820
Income tax expense	-	-	-	-	-
Profit for the year	2,204	6,890	7,315	8,477	9,820
Other Comprehensive Income					
Revaluation surplus on land and buildings	-	-	-	-	8,052
Total Comprehensive Income	2,204	6,890	7,315	8,477	17,872

The Bank's total operating expenses for the year ended 2014 of USD 7.7 million were 6% above prior year operating expenses.

4.3 INTEREST INCOME

The Bank posted a total interest income of USD 15 million in 2014 which was 31% above prior year interest income earned of USD 12 million(Figure 7).

Figure 7: Interest Income (in thousands of USD)



4.4 IMPACT OF REVALUATION ON COMPREHENSIVE INCOME

Over the years the Bank has been changing its use of property from owner occupied to investment. This has necessitated a change in account policy from IAS 16(Property Plant and Equipment) to IAS 40(Investment Property). The effect has been retrospective change in fair value gain of USD 14.509 million in 2012, USD 1.402 million in 2013 and USD 1.472 million in 2014 plus revaluation surplus of USD 8.052 million in 2014. These have been recognised in statement of comprehensive income in respective years.

Other operating expenses

Overall, other operating expenses increased by 27%, the increase was due to a rise in advertising and publicity (475%), establishment expenses (51%), and other administrative costs (35%). Legal expenses dropped by 31% from 2013 expenditure.

Advertising and publicity expenses increased in 2014 as the bank carried more activities in 2014 such as the sponsorship of the training of lawyers in Kigali and Dar es Salaam and the sponsorship / branding at the 2014 AfDB annual conference held in Kigali.

Other administrative expenses increased by 35%; with extra costs incurred in relocating Bank tenants at plot 4 Nile Avenue to pave way for the renovations. There was also an increase in insurance costs by 9%, and professional fees by 48%.

Compared to 2013, professional fees increased as a result of the engagement of PWC to perform a valuation of the Bank for the purpose of negotiations with the Republic of Burundi.

4.5 BALANCE SHEET

Total assets were up by 16% in 2014 compared to financial year 2013(Table 4). There was a 12% increase in medium and long term borrowing, and a 16% growth in capital and reserves which was boosted by the Bank's continued profitability and share capital injections and increase in revaluation reserves. There was a 7% growth in project loans and advances in 2014 from financial year 2013.

Table 5: Balance Sheet (in Thousands of USD)

	2010	2011	2012	2013	2014
Assets					
Cash and bank balances	1,862	2,238	5,532	4,463	10,306
Deposits due from banks	117,305	129,978	112,396	124,537	142,095
Equity investments	798	2,803	743	711	713
Loans and Leases receivable	97,710	63,885	80,267	99,910	106,750
Derivative Financial Assets	0	1,535	398	72	108
Other investments at cost	1,135	1,027	931	909	644
Intangible assets	0	0	0	1	1
Investment property	0	0	15,814	17,216	18,688
Property and equipment	3,868	3,530	2,799	4,904	14,261
Total Assets	224,212	206,255	219,479	253,900	294,425

SHAREHOLDERS' FUNDS AND LIABILITIES

EADB bonds	8,620	2,582	0	0	0
Other accounts payable	3,402	11,425	6,408	4,931	2,039
Medium and long term borrowings	94,632	59,785	54,031	52,120	58,282
TOTAL Liabilities	106,654	73,792	60,439	57,051	60,321
Grants/ Special funds					
Special funds	13,840	13,840	0	3,990	3,990
Grants	150	150	150	3,373	3,245
Capital fund	7,479	7,479	0	7,479	7,479
Total Grants and Special funds	21,469	21,469	150	14,842	14,714
TOTAL Liabilities and Grants	128,123	95,261	60,589	71,893	75,034
CAPITAL					
Share capital	99,900	99,900	99,900	152,159	173,097
Share Premium	1,425	1,425	1,425	2,532	3,084
Quasi Equity (Grants)					
Special reserve	9,875	9,970	10,313	10,624	11,030
Revaluation reserve- Investment					0
Revaluation reserve- PPP					8,052
Fair value Reserve	0	(71)	(180)	475	566
Retained earnings	(21,649)	(14,965)	6,625	14,136	23,460
Total Shareholders' Equity	96,054	110,960	158,890	182,006	219,390
TOTAL SHAREHOLDERS EQUITY & LIABILITIES	224,212	206,255	219,479	253,900	294,425

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EAST AFRICAN DEVELOPMENT BANK

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Head Office, Kampala Uganda

Plot, 4 Nile Avenue Kampala,
P.O. Box 7128 Kampala,
Tel: +256 417 112900/5,
Fax: +256 414 253585,
Email: admin@eadb.org



Kigali, Rwanda

Kacyiru, Glory House, Ground Floor
B.P. 6225, Kigali, Rwanda
Tel: +250-252-570323/788-187500
Fax: +250-788-309446
Email: cor@eadb.org



Dar es Salaam, Tanzania

Plot 349, Lugalo Road Upanga
P.O Box 9401, Dar-es-Salaam,
Tel: +255-22-2113195/2116981/2163000
Fax: 255-22-2113197
Email: cot@eadb.org



Nairobi, Kenya

2nd Floor, Rahimtulla Tower,
Upper Hill Road
P.O Box 47685, Nairobi
Tel: +254-202 992 000
Fax: +254-20-2731590
Email: cok@eadb.org