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VISION AND MISSION STATEMENTS

Our Mission

Exim Bank is committed to providing world-class banking in Tanzania through innovative products, highly competitive rates and excellent customer service.

Our customers come first and we strive to make banking with Exim a rewarding experience.

Our Vision

We strive to become the best bank in Tanzania

REPORT OF THE DIRECTORS

1 The directors present their report and audited financial statements for the year ended 31 December 2005, which disclose the state of affairs of Exim Bank (Tanzania) Limited (the Bank).

2 Activities

The Bank is engaged in taking deposits on demand, providing short-term and medium term credit facilities and other banking services and is licensed under the Banking and Financial Institutions Act, 1991.

3 Results and Business Developments

Business developments

In 2005, the Bank completed eight years of operations and maintained its position as the seventh largest bank in the country in terms of total assets and deposits.

The following achievements were recorded in the year

- The Bank acquired a 5.8% stake in the National Microfinance Bank Limited;
- The Bank widened its branch network by opening a second branch in Dar es Salaam;
- The Bank extended its network of Automated Teller Machines (ATMs) at BP-Petrol stations in Mwenge, Mbezi and Mwalimu Julius Nyerere International Airport. In addition, the Bank successfully installed Point of Sales terminals (POS) in 25 merchant locations in Dar es Salaam and Arusha; and
- The Bank introduced SmartStatements which enables its customers to view balances up to the previous day's transaction online.

Financial achievements

- The Bank recorded a profit before tax of TShs 7,538 million (2004:TShs 5,825 million)
- The Bank achieved significant growth in deposits to TShs 179 billion (2004:TShs 125 billion)
- The lending portfolio increased to TShs 99 billion (2004:TShs 68 billion)
- Total assets increased to TShs 215 billion (2004:TShs 152 billion)

The audited financial statements for the year are set out on pages 5 to 26.

Report of the Directors (Continued)

4 Directors

The directors of the Bank at the date of this report and who have served in office since 1 January 2005 and up to the date of this report were:

Name	Nationality
Mr. Yogesh Manek	Tanzanian (Chairman)
Mr. Hanif Jaffer	Tanzanian
Mr. Shaffin Jamal	Tanzanian
Mr. Pascal Kamuzora	Tanzanian
Prof. Charles Inyangete	British
Mrs. S.M.J Mwambenja	Tanzanian

Directors' Interests

With the exception of Mr. Pascal Kamuzora, Professor Charles Inyangete and Mrs S.M.J Mwambenja, who do not hold any shares in the Bank, the rest of the Directors of the Bank hold, equally, 60% of the total issued share capital.

5 Dividends

The directors recommend the payment of a dividend of TShs 5,000 million (2004: Nil) for the year ended 31 December 2005.

6 Statement of Directors' Responsibilities

The directors are required by the Companies Ordinance, CAP 212 to prepare financial statements for each financial year that 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 profit or loss of the Bank for the year.

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgement and estimates have been made in the preparation of the financial statements for the year ended 31 December 2005. The directors also confirm that the International Financial Reporting Standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and which enable them to ensure that the financial statements comply with the Companies Ordinance, CAP 212. The directors are also responsible for keeping proper accounting records, for safeguarding the assets of the Bank and, hence, for taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

7 Capital Adequacy

The Bank monitors the adequacy of its capital using ratios established by the Bank of Tanzania (BOT). These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at a weighted amount to reflect their relative risk.

The Bank's risk weighted assets and capital adequacy ratios are presented below:

	Nominal Balance sheet amount		Risk weighted amount	
	2005 TShs'000	2004 TShs'000	2005 TShs'000	2004 TShs'000
Balance sheet assets (net of provisions)				
Cash and balances with Bank of Tanzania	**20,322,998**	17,727,656	**-**	-
Loans and advances to Banks	**30,392,232**	37,777,370	**7,656,915**	14,425,195
Loans and advances to customers and staff	**98,897,785**	67,661,240	**94,804,575**	57,101,300
Investment securities held to maturity	**49,388,778**	23,438,645	**2,180,312**	997,500
Available for sale equity investments	**3,991,229**	-	**3,991,229**	-
Tax recoverable	**38,156**	**-**	**-**	-
Premises and equipment	**2,799,296**	1,940,464	**2,799,296**	1,940,464
Other assets	**9,139,345**	3,303,851	**9,139,345**	3,303,851
	214,969,819	151,849,226	**120,571,672**	77,768,310
Off-balance sheet positions				
Credit related commitments	**36,597,163**	22,162,235	**24,389,145**	7,823,405
Total risk-weighted assets			**144,960,817**	85,591,715

Capital ratios	Capital		Ratios	
	2005 TShs'000	2004 TShs'000	2005 %	2004 %
Tier 1 capital	**13,078,759**	9,614,817	**9%**	11.2%
Tier 1 capital + Tier 2 capital	**14,944,519**	11,947,017	**10.3%**	13.9%

The Bank has met all the Bank of Tanzania's (BoT) liquidity and capital adequacy ratios and is considered solvent by the Board of Directors.

8 Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing the re-appointment of PricewaterhouseCoopers as auditors of the Bank for the year 2006 will be put to the Annual General Meeting.

BY ORDER OF THE BOARD

CHAIRMAN: ....

DATE: 20th February, 2006

EXIM BANK (TANZANIA) LTD.

REPORT OF THE AUDITORS

To the members of Exim Bank (Tanzania) Limited

We have audited the financial statements of Exim Bank (Tanzania) Limited on pages 5 to 26 for the year ended 31 December 2005. The financial statements are in agreement with the accounting records and we obtained the information and explanations we required.

Respective responsibilities of directors and auditors

As described on page 2, the Bank's directors are responsible for the preparation of the financial statements. Our responsibility is to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Bank as at 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply with the Companies Ordinance, CAP 212.

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS
Certified Public Accountants
DAR ES SALAAM

Date: 24th February, 2006

The notes on pages 9 to 26 form an integral part of these financial statements.

INCOME STATEMENT

For the year ended 31 December 2005

	Notes	2005 TShs'000	2004 TShs'000
Interest income	3	**15,537,672**	9,591,736
Interest expense	4	**(6,472,156)**	(3,556,112)
Net interest income		**9,065,516**	6,035,624
Non interest income			
Fees, commissions and other income	5	**4,924,615**	4,262,706
Foreign currency dealings and translation gains		**1,027,906**	637,973
Operating income		**15,018,037**	10,936,303
Impairment losses on loans and advances	13	**(803,831)**	(38,414)
Operating expenses	6	**(6,676,008)**	(5,072,525)
Profit before tax		**7,538,198**	5,825,364
Tax	8	**(2,119,371)**	(1,723,549)
Profit for the year		**5,418,827**	4,101,815

The notes on pages 9 to 26 form an integral part of these financial statements.

EXIM BANK (TANZANIA) LTD.

BALANCE SHEET

as at 31 December 2005

	Notes	2005 TShs'000	2004 TShs'000
Assets			
Cash and balances with Bank of Tanzania	9	**20,322,998**	17,727,656
Loans and advances to banks	10	**30,392,232**	37,777,370
Held to maturity investment securities	11	**49,388,778**	23,438,645
Available for sale equity investments	12	**3,991,229**	-
Loans and advances to customers and staff	13	**98,897,785**	67,661,240
Other assets	14	**9,139,345**	3,303,851
Tax recoverable		**38,156**	-
Premises and equipment	15	**2,799,296**	1,940,464
Total assets		**214,969,819**	151,849,226
Liabilities			
Deposits	16	**179,158,837**	125,381,930
Other liabilities	17	**13,277,864**	11,718,018
Tax payable		**-**	216,871
Borrowings	18	**3,865,337**	4,317,631
Deferred tax liability	19	**22,988**	88,810
Total liabilities		**196,325,026**	141,723,260
Equity			
Share capital	20	**12,900,000**	3,500,000
Retained earnings		**5,713,589**	6,339,834
Regulatory reserve		**31,204**	286,132
Total equity		**18,644,793**	10,125,966
Total equity and liabilities		**214,969,819**	151,849,226

The financial statements were approved by the Board of Directors on 20th February 2006 and signed on its behalf by: -

……………………………………………… Chairman

……………………………………………… Managing Director

……………………………………………… Director

……………………………………………… Director

The notes on pages 9 to 26 form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2005

	Share capital TShs'000	Retained earnings TShs'000	Regulatory reserve TShs'000	Total TShs'000
Balance at 1 January 2004	3,500,000	2,524,151	-	6,024,151
Profit for the year	-	4,101,815	-	4,101,815
Transfer to regulatory reserve	-	(286,132)	286,132	-
Balance at 31 December 2004	3,500,000	6,339,834	286,132	10,125,966
Balance at 1 January 2005	3,500,000	6,339,834	286,132	**10,125,966**
Bonus issues	6,300,000	(6,300,000)	-	**-**
Rights issues	3,100,000	-	-	**3,100,000**
Profit for the year	-	5,418,827	-	**5,418,827**
Transfer from regulatory reserve	-	254,928	(254,928)	**-**
Balance at 31 December 2005	**12,900,000**	**5,713,589**	**31,204**	**18,644,793**

Regulatory reserve represents an amount set aside to cover additional provision for loan losses required in order to comply with the requirements of Bank of Tanzania's prudential guidelines. This amount is not available for distribution.

The notes on pages 9 to 26 form an integral part of these financial statements.

EXIM BANK (TANZANIA) LTD.

CASH FLOW STATEMENT

For the year ended 31 December 2005

	2005 TShs'000	2004 TShs'000
Operating activities		
Profit before taxation	**7,538,198**	5,825,364
Adjustments to reconcile net income to net cash generated by operating activities:		
Depreciation	**785,619**	677,910
Gain from sale of equipment	**(3,000)**	-
Increase in statutory minimum reserve	**(7,650,000)**	(633,000)
Increase in loans and advances to customers and staff	**(31,236,545)**	(25,303,093)
Increase in other assets	**(5,835,494)**	(1,603,238)
Increase in deposits	**53,776,907**	35,290,541
Increase in other liabilities	**1,559,846**	7,434,287
Increase in investments held to maturity with maturity over three months	**(29,960,649)**	(1,264,288)
Tax paid	**(2,440,220)**	(1,639,060)
Net cash (outflow)/inflow from operating activities	**(13,465,338)**	18,785,423
Investing activities		
Purchase of equipment	**(1,644,451)**	(861,129)
Proceeds from sale of equipment	**3,000**	-
Acquisition of available for sale equity investments	**(3,991,229)**	-
Net cash outflow from investing activities	**(5,632,680)**	(861,129)
Financing activities		
Proceeds from long term loans	**-**	1,042,770
Repayment of Loans	**(452,294)**	(487,331)
Proceeds from issues of shares	**3,100,000**	-
Net cash inflow from financing activities	**2,647,706**	555,439
Net (decrease)/increase in cash and cash equivalents	**(16,450,312)**	18,479,733
Cash and cash equivalents at the beginning of the year	**57,091,806**	38,612,073
Cash and cash equivalents at the end of the year (Note 21)	**40,641,494**	57,091,806

EXIM BANK (TANZANIA) LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

These notes form an integral part of the financial statements.

1 Principal Accounting Policies

The principal accounting policies adopted in the preparation of the financial statements are set out below:

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial liabilities at fair value through profit or loss.

(b) Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

When loans and receivables are written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(c) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party is recognised on completion of the underlying transaction.

(d) Foreign currency translation

(i) <u>Functional and presentation currency</u>
Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The financial statements are presented in Tanzanian Shillings, which is the Bank's functional and presentation currency.

(ii) <u>Transactions and balances</u>
Foreign currency transactions are translated into Tanzania Shillings using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement

of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statements.

(e) Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statements.

(f) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

(g) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classifield as operating leases. The leases entered into by the Bank are operating leases. The total payments made under the operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(h) Financial assets

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

(i) <u>Financial assets at fair value through profit or loss</u>
This category has two sub-categories; financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges.

(ii) <u>Loans and receivables</u>
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivable.

(iii) <u>Held-to-maturity</u>
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

(iv) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date the date on which the Bank commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognized in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank established fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis.

(i) Impairment of financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a 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.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(j) Deferred taxation

Deferred tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset or deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

(k) Provisions

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

(l) Premises and equipment

Premises and equipment are stated at historical cost less depreciation. Depreciation is provided on the straight line basis so as to write down the cost of assets to their residual values over their useful economic lives, at the following rates: -

	%
Leasehold premises	11
Motor vehicles	25
Office equipment	15 - 20
Computer equipment and software	25
Furniture and fittings	15
Boat	10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each balance sheet date. An asset's carrying amount is written down immediately to its unrecoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(m) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash balances, balances with the Bank of Tanzania, treasury bills and short term money market placements.

(n) Comparatives

Where necessary, comparative figures have been adjusted/reclassified to conform with changes in presentation in the current year.

2 Critical Accounting Estimates and Judgements in applying Accounts Estimate

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next 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.

a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows in an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) Held to maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

c) Premises and Equipment

Critical estimates are made by the directors in determining depreciation rates for premises and equipment and their residual values. The rates used are set out in Note 1(i).

3 Interest Income

	2005 TShs'000	2004 TShs'000
Loans and advances	**11,696,941**	8,065,679
Investment securities held to maturity	**3,143,482**	1,102,976
Placements	**612,249**	337,626
Corporate bond	**85,000**	85,455
	15,537,672	9,591,736

Included under interest income above is interest income of TShs 49 Million (2004: Nil) earned from related parties.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

4 Interest Expense

	2005 TShs'000	2004 TShs'000
Time deposits	**5,867,800**	3,193,244
Savings deposits	**250,892**	93,249
Borrowed funds from IFC and PROPARCO	**300,093**	233,336
Others	**53,371**	36,283
	6,472,156	3,556,112

Included under interest expense above is interest expense of TShs 26 million (2004 : TShs 10 million) paid to related parties.

5 Fees, Commissions and other Income

	2005 TShs'000	2004 TShs'000
Commissions on letters of credit and guarantees	**1,201,569**	1,407,241
Commissions on telegraphic transfers and other international trade finance activities	**847,359**	684,497
Commissions and fees from banking operations	**921,049**	673,632
Facility fees from loans and advances	**1,607,317**	1,403,888
Other income	**347,321**	93,448
	4,924,615	4,262,706

6 Operating Expenses

		2005 TShs'000	2004 TShs'000
Staff and related costs	Note 7	**2,397,010**	1,895,678
Traveling expenses		**228,837**	224,690
Depreciation	Note 15	**785,619**	677,910
Repairs and maintenance		**414,266**	277,450
Advertising and business promotion		**507,236**	401,887
HSBC Equator Bank facility fees		-	59,156
Directors' emoluments		**131,292**	99,498
Auditors' remuneration		**20,716**	19,340
Legal and professional fees		**316,969**	75,607
Correspondent bank and SWIFT charges		**151,571**	147,116
Occupancy costs		**932,314**	287,234
Others		**790,178**	906,959
		6,676,008	5,072,525

EXIM BANK (TANZANIA) LTD.

7 Staff and Related Costs

Staff costs

Staff and related costs (including emoluments of Managing Director) comprise the following:

	2005 TShs'000	2004 TShs'000
Wages and salaries	**1,518,556**	1,084,735
Social security costs (NSSF contributions)	**249,565**	249,440
Other employment costs and benefits	**628,889**	561,503
	2,397,010	1,895,678

8 Tax

	2005 TShs'000	2004 TShs'000
The tax charge for the year is arrived at as follows:		
- Current year's charge at 30% of taxable profits	**2,402,064**	1,743,668
- (Over)/under provision in previous years – current tax	**(216,871)**	16,028
- Deferred tax credit	**(114,023)**	(55,071)
- Under provision of deferred tax in previous years	**48,201**	18,924
	2,119,371	1,723,549

The tax assessments for the years of income 2001 to 2004 have not yet been finalised.

The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2005 TShs'000	2004 TShs'000
Profit before tax	**7,538,198**	5,825,364
Tax calculated at a tax rate of 30%	**2,261,459**	1,747,609
Tax effect of:		
- Income not subject to tax	**-**	(45)
- Tax allowance on statutory provision	**-**	(85,840)
- Expenses not deductible for tax purposes	**26,582**	26,873
- (Over)/under provision of tax in prior years – current tax	**(216,871)**	16,028
- Under provision of tax in prior years – deferred tax	**48,201**	18,924
	2,119,371	1,723,549

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

9 Cash and Balances with Bank of Tanzania

	2005 TShs'000	2004 TShs'000
Cash on hand	**2,951,342**	3,349,019
Balances with the Bank of Tanzania:		
Statutory minimum reserve (SMR)	**15,943,000**	8,293,000
Clearing account	**1,428,656**	6,085,637
	20,322,998	17,727,656

The SMR deposit is not available to finance the Bank's day-to-day operations and is hence excluded from cash and cash equivalents for the purpose of the cash flow statement (See Note 21). Cash in hand and balances with Bank of Tanzania and the SMR are non-interest bearing.

10 Loans and Advances to Banks

	TShs'000	TShs'000
Items in course of collection	**4,568,279**	5,443,822
Placements with local banks	**988,203**	7,139,258
Placements with foreign banks	**24,835,750**	25,219,814
Less: allowances for losses	**-**	(25,524)
Included in cash and cash equivalents (Note 21)	**30,392,232**	37,777,370

All the loans granted by the Bank bear variable interest rates linked to the changes in the Bank's base lending rate.

11 Held to maturity investment securities

	2005 TShs'000	2004 TShs'000
Maturity analysis:		
Treasury bonds		
Maturing after one year	**6,484,723**	2,545,028
Treasury bills		
Maturing within 3 months	**5,869,264**	9,879,780
Maturing between 3 months and 1 year	**36,005,002**	10,016,337
	41,874,266	19,896,117
Corporate bond		
PTA Bank bond maturing after one year	**1,029,789**	997,500
Total investment securities held-to-maturity	**49,388,778**	23,438,645

11 Held to maturity investment securities (Continued)

Treasury bills are debt securities issued by the Bank of Tanzania for a term of 35 days, 91 days, 182 days or for 364 days. All bills are subject to variable interest rate risk.

The corporate bond is a fixed rate seven-year TShs 1 billion bond issued by Eastern and Southern African Trade & Development Bank (PTA Bank) on 1 September 2003. The interest rate is 8.5% and is paid semi annually in arrears from February 2004.

12 Available for Sale Equity Investments

	TShs'000	TShs'000
Investment in National Microfinance Bank Limited	**3,991,229**	-
Investment in Tanzania Oxygen Limited - cost	**84,573**	84,573
Provision for loss in market value	**(84,573)**	(84,573)
Total available for sale equity investments	**3,991,229**	-

The investment in Tanzania Oxygen Limited relates to 211,432 shares, purchased at TShs 400 per share on the Dar es Salaam stock exchange. The market value of these shares at 31 December 2005 was TShs 295 per share (2004:TShs 330 per share). The investment has been written down on instructions from the Bank of Tanzania.

13 Loans and Advances to Customers and Staff

	2005 TShs'000	2004 TShs'000
Advances to customers (gross)	**99,387,619**	68,364,159
Less:		
Allowance for losses on loans and advances	**(1,488,792)**	(705,195)
Interest in suspense	**(24,196)**	(24,026)
Advances to customers (net of allowance)	**97,874,631**	67,634,938
Advances to staff	**1,023,154**	26,302
Net loans and advances	**98,897,785**	67,661,240

All the loans granted by the Bank bear variable interest rates linked to the changes in the Bank's base lending rate. Staff loans were made at rates below market. Total advances of related parties amounted to Tshs. 524 million (2004: Tshs. 40 million).

EXIM BANK (TANZANIA) LTD.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

Movement in allowance for losses on loans and advances

	2005 TShs'000	2004 TShs'000
Balance at beginning of the year	**705,195**	666,781
Provision for loan impairment	**803,831**	38,414
Recoveries made during the year	**(20,234)**	-
Balance at the end of the year	**1,488,792**	705,195

Sector concentration

Economic sector risk concentrations within the customer loan portfolio were as follows:

	2005 %	2004 %
Wholesale and retail trade	**50**	67
Transport and communications	**4**	5
Manufacturing	**10**	15
Private individuals	**14**	4
Agricultural	**8**	6
Others	**14**	3
	100	100

14 Other Assets

	2005 TShs'000	2004 TShs'000
Sundry debtors	**8,744,140**	2,354,707
Prepaid expenses	**279,902**	225,017
Stocks of stationery and other related items	**115,303**	63,371
Inward cheques for collection	**-**	660,756
	9,139,345	3,303,851

15 Premises and Equipment

	Leasehold /owned premises TShs'000	Motor vehicles TShs'000	Office equipment & machinery/ boat TShs'000	Computer software TShs'000	Furniture & fittings TShs'000	Capital work in progress TShs'000	Total TShs'000
Cost							
At 1 January 2004	670,397	174,963	1,210,954	288,983	724,267	5,758	3,075,322
Additions	49,121	94,456	572,167	83,746	61,639	-	861,129
Disposals	-	-	(1,755)	-	(1,820)	-	(3,575)
Transfers in/(out)	-	-	5,758	-	-	(5,758)	-
At 31 December 2004	719,518	269,419	1,787,124	372,729	784,086	-	3,932,876
Depreciation							
1 January 2004	371,394	117,858	515,002	189,522	124,301	-	1,318,077
Charge for the year	79,993	66,459	345,027	71,740	114,691	-	677,910
Disposals	-	-	(1,755)	-	(1,820)	-	(3,575)
At 31 December 2004	451,387	184,317	858,274	261,262	237,172	-	1,992,412
Net book amount:							
At 31 December 2004	268,131	85,102	928,850	111,467	546,914	-	1,940,464
Cost							
At 1 January 2005	719,518	269,419	1,787,124	372,729	784,086	-	3,932,876
Additions	123,988	30,700	991,390	153,356	182,826	162,191	1,644,451
Disposals	-	(38,050)	-	-	-	-	(38,050)
At 31 December 2005	843,506	262,069	2,778,514	526,085	966,912	162,191	5,539,277
Depreciation							
1 January 2005	451,387	184,317	858,274	261,262	237,172	-	1,992,412
Charge for the year	84,429	67,239	400,819	110,079	123,053	-	785,619
Disposals	-	(38,050)	-	-	-	-	(38,050)
At 31 December 2005	535,816	213,506	1,259,093	371,341	360,225	-	2,739,981
Net book amount:							
At 31 December 2005	**307,690**	**48,563**	**1,519,421**	**154,744**	**606,687**	**162,191**	**2,799,296**

None of the premises and equipment has been pledged as security for liabilities (2004: Nil).

EXIM BANK (TANZANIA) LTD.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

16 Deposits

	2005 TShs'000	2004 TShs'000
Interest bearing deposits:		
Customer accounts	**118,513,875**	66,276,760
Banks and other financial institutions	**12,761,406**	25,457,745
Non interest bearing deposits:		
Customer accounts	**47,883,556**	33,647,425
	179,158,837	125,381,930

All deposits from banks and other financial institutions have variable interest rates.

Included in customer accounts above is TShs 2,647 million (2004: Shs 671 million) in respect of deposits from related parties.

The related party balances relate to transactions entered into with individual shareholders/ directors and other companies in which they are also shareholders/directors. These transactions are carried out on normal commercial terms and at prevailing market rates.

17 Other Liabilities

	2005 TShs'000	2004 TShs'000
Bank drafts payable	**3,978,853**	5,160,287
Accruals and other provisions	**5,670,594**	1,424,244
Other creditors	**3,628,417**	5,133,487
	13,277,864	11,718,018

18 Borrowings

	2005 TShs'000	2004 TShs'000
Subordinated loans:		
International Finance Corporation (IFC) due 2009	**1,166,100**	1,042,770
PROPARCO due 2009	**1,166,100**	1,042,770
	2,332,200	2,085,540
Senior loan:		
International Finance Corporation due 2007	**1,457,625**	2,172,438
	3,789,825	4,257,978
Interest payable	**75,512**	59,653
	3,865,337	4,317,631

The IFC loans were received for the purposes of increasing the Bank's capacity to finance exporters of agricultural products. The Bank will commence paying the principal amount on the subordinated loans on 15 March 2008, in four (4) consecutive equal semi-annual installments, ending on 15 September 2009. The loans are unsecured.

The senior loan is repayable in six (6) equal semi-annual installments commencing 15 September 2004 and ending on 15 March 2007. The loan is unsecured.

The interest rates on the above loans are pegged to the 6 months LIBOR rate, plus a mark up.

The Bank has not had any defaults of principal, interest or other breaches with respect to their loan obligations during the period (2004:Nil).

19 Deferred Tax

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 30%. The movement on the deferred tax account is as follows:

	2005 TShs'000	2004 TShs'000
At 1 January	**88,810**	124,957
Income statement credit	**(65,822)**	(36,147)
At 31 December	**22,988**	88,810

Deferred tax assets and liabilities and deferred tax charge to the income statements are attributed to the following items:

	1 January 2005 TShs'000	Credited to income statement TShs'000	31 December 2005 TShs'000
Deferred tax liabilities			
Accelerated depreciation charge	(114,181)	65,822	**(48,359)**
Deferred tax assets			
Provisions	25,371	-	**25,371**
	(88,810)	65,822	**22,988**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

20 Share capital

	Nominal amount	Number of shares	TShs'000
Authorised			
At 1 January 2005	1,000	6,000,000	6,000,000
New shares	1,000	14,000,000	14,000,000
At 31 December 2005		**20,000,000**	**20,000,000**
Called up and fully paid			
At 1 January 2005	1,000	3,500,000	3,500,000
Bonus issue	1,000	6,300,000	6,300,000
Rights issue	1,000	3,100,000	3,100,000
At 31 December 2005		**12,900,000**	**12,900,000**

On 6 May 2005, the authorised share capital of the Bank was increased from TShs 6 billion to TShs 20 billion by the creation of 14 million new ordinary shares of TShs 1,000 each ranking pari passu in all respects with the existing shares in the capital of the Bank.

In addition, upon the recommendation of the directors, TShs 6.3 billion of the Bank's revenue reserve was capitalised and the amount was appropriated to the holders of the ordinary shares at the close of business on 31 December 2005 in the ratio of 18 for every 10 ordinary shares held. In addition, there was a further application and approval by the existing shareholders for the issue at par 620,000 new shares to each of the five shareholders.

21 Cash and Cash Equivalent

	2005 TShs'000	2004 TShs'000
Cash and balance with Bank of Tanzania	**4,379,998**	9,434,656
Loans and advances to Banks	**30,392,232**	37,777,370
Investment securities held to maturity (with maturities of 3 months or less)	**5,869,264**	9,879,780
	40,641,494	57,091,806

22 Contingent Liabilities and Commitments

	2005 TShs'000	2004 TShs'000
Capital commitments		
Capital expenditure that has been approved by the Board, but not yet contracted for.	**444,614**	366,520

The contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers are as follows:

	2005 TShs'000	2004 TShs'000
Outstanding letters of credit (foreign currency)	**9,260,410**	7,249,135
Outstanding guarantees and indemnities:		
- foreign currency	**3,840,238**	2,723,036
- Local currency	**9,037,206**	5,152,714
Commitments to extend credit	**14,459,309**	7,037,350
	36,597,163	22,162,235

23 Related Party Transactions

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits. Details of related party transactions, outstanding balance at the year end, and relating interest expenses and income for the year are shown on notes 3, 4, 13 and 16.

Directors' remuneration

A listing of the members of the Board of Directors is shown on page 2 of the Directors' report. In 2005, the total remuneration of the directors was TShs 314 million (2004: TShs 99 million).

24 Financial Risk Management

Credit risk

The Bank takes on exposure to credit risk, which is the risk that counter party will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represent a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements.

Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

25 Maturity Analysis of Assets and Liabilities

At 31 December 2005	Up to 1 month TShs'000	>1 –3 months TShs'000	>3– 12 months TShs'000	>1 –5 years TShs'000	More than 5 years TShs'000	Total TShs'000
Assets						
Cash and balances with BOT	20,322,998	-	-	-	-	20,322,998
Loans and advances to banks	29,514,672	877,560	-	-	-	30,392,232
Held to maturity investment securities	1,901,428	3,967,836	36,005,002	5,099,816	2,414,696	49,388,778
Available for sale equity investments	-	-	-	-	3,991,229	3,991,229
Loans and advances to customers and staff	64,655,825	166,827	8,810,041	16,237,347	9,027,745	98,897,785
Premises and equipment	-	-	-	-	2,799,296	2,799,296
Tax recoverable	-	-	-	38,156	-	38,156
Other assets	9,139,345	-	-	-	-	9,139,345
Total assets	125,534,268	5,012,223	44,815,043	21,375,319	18,232,966	**214,969,819**
Liabilities						
Deposits	113,348,858	23,111,431	40,457,445	2,241,103	-	179,158,837
Other liabilities	13,277,864	-	-	-	-	13,277,864
Borrowings	-	-	-	3,865,337	-	3,865,337
Deferred tax liability	-	-	-	-	22,988	22,988
Total liabilities	126,626,722	23,111,431	40,457,445	6,106,440	22,988	**196,325,026**
Net liquidity gap	**(1,092,454)**	**(18,099,208)**	**4,357,598**	**15,268,879**	**18,209,978**	**18,644,793**
At 31 December 2004						
Total assets	114,811,547	1,476,050	12,513,637	18,661,028	4,386,964	151,849,226
Total liabilities	101,402,819	12,725,000	17,095,530	10,499,911	88,810	141,723,260
Net liquidity gap	13,408,728	(11,248,950)	(4,581,893)	8,161,117	4,298,154	10,125,966

26 Interest Rate Risk

The table below summarizes the exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items.

As at 31 December 2005	**Up to 1 month TShs'000**	**>1 - 3 months TShs'000**	**>3 - 12 months TShs'000**	**>1-5 years TShs'000**	**More than 5 years TShs'000**	**Non-interest bearing TShs'000**	**Total TShs'000**
Assets							
Cash and balances with Bank of Tanzania	-	-	-	-	-	20,322,998	20,322,998
Loans and advances to banks	29,514,672	877,560	-	-	-	-	30,392,232
Held to maturity investment securities	1,901,428	3,967,836	36,005,002	6,129,605	1,384,907	-	49,388,778
Available for sale equity investments	-	-	-	-	-	3,991,229	3,991,229
Loans and advances to customers and staff	64,655,825	166,827	8,810,041	16,237,347	9,027,745	-	98,897,785
Premises and equipment	-	-	-	-	-	2,799,295	2,799,296
Tax recoverable	-	-	-	-	-	38,156	38,156
Other assets	-	-	-	-	-	9,139,345	9,139,345
Total assets	96,071,925	5,012,223	44,815,043	22,366,952	10,412,652	36,291,024	**214,969,819**
Liabilities and capital							
Deposits	65,465,302	23,111,431	40,457,445	2,241,103	-	47,883,556	179,158,837
Borrowings	-	-	-	3,865,337	-	-	3,865,337
Other liabilities	-	-	-	-	-	13,277,864	13,277,864
Deferred tax liability	-	-	-	-	-	22,988	22,988
Shareholders' funds	-	-	-	-	-	18,644,793	18,644,793
Total liabilities and capital	65,465,302	23,111,431	40,457,445	6,106,440	-	79,829,201	**214,969,819**
Interest sensitivity gap	**30,606,623**	**(18,099,208)**	**4,357,598**	**16,260,512**	**10,412,652**	**(43,538,177)**	**-**
At 31 December 2004							
Total assets	93,780,040	1,476,050	12,513,637	18,661,028	2,446,500	22,971,971	151,849,226
Total liabilities and capital	58,717,617	12,725,000	17,066,454	10,440,204	-	52,899,978	151,849,226
Interest sensitivity gap	35,062,423	(11,248,950)	(4,552,817)	8,220,824	2,446,500	(29,928,007)	-

EXIM BANK (TANZANIA) LTD.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

27 Currency Risk

The various currencies to which the Bank is exposed at 31 December 2005 are summarised in the table below (All amounts expressed in thousands of Tanzania Shillings).

Assets	**TShs**	**USD**	**GBP**	**EURO**	**KES**	**TOTAL**
Cash	2,132,590	636,945	20,485	161,218	104	**2,951,342**
Balances with the BOT	16,438,402	933,254	-	-	-	**17,371,656**
Loans and advances to banks	5,419,300	21,704,093	941,987	2,321,933	4,919	**30,392,232**
Investment securities held to maturity	49,388,778	-	-	-	-	**49,388,778**
Loans and advances to customers and staff	59,374,806	39,515,495	2,377	5,106	1	**98,897,785**
Tax recoverable	38,156	-	-	-	-	**38,156**
Available for sale equity Investment	-	3,991,229	-	-	-	**3,991,229**
Other assets	7,653,919	1,484,925	501	-	-	**9,139,345**
Premises and equipment	2,799,296	-	-	-	-	**2,799,296**
Total assets	**143,245,247**	**68,265,941**	**965,350**	**2,488,257**	**5,024**	**214,969,819**
Liabilities and capital						
Deposits	119,645,587	55,558,672	1,234,064	2,720,514	-	**179,158,837**
Borrowings	75,512	3,789,825	-	-	-	**3,865,337**
Other liabilities	9,270,150	3,833,600	141,642	32,472	-	**13,277,864**
Deferred tax liability	22,988	-	-	-	-	**22,988**
Total liabilities	**129,014,237**	**63,182,097**	**1,375,706**	**2,752,986**	**-**	**196,325,026**
Net balance sheet position	**14,231,010**	**5,083,844**	**(410,356)**	**(264,729)**	**5,024**	**18,644,793**

28 Country of Incorporation and Registered Office

The Bank is incorporated in the United Republic of Tanzania under the Companies Ordinance, CAP 212, and is licensed to operate as a Bank under the Banking and Financial Institution Act, 1991.

The Bank's registered office is at:
Exim Bank (T) Limited, Plot No 9. Samora Avenue, PO Box 1431, Dar es Salaam, Tanzania