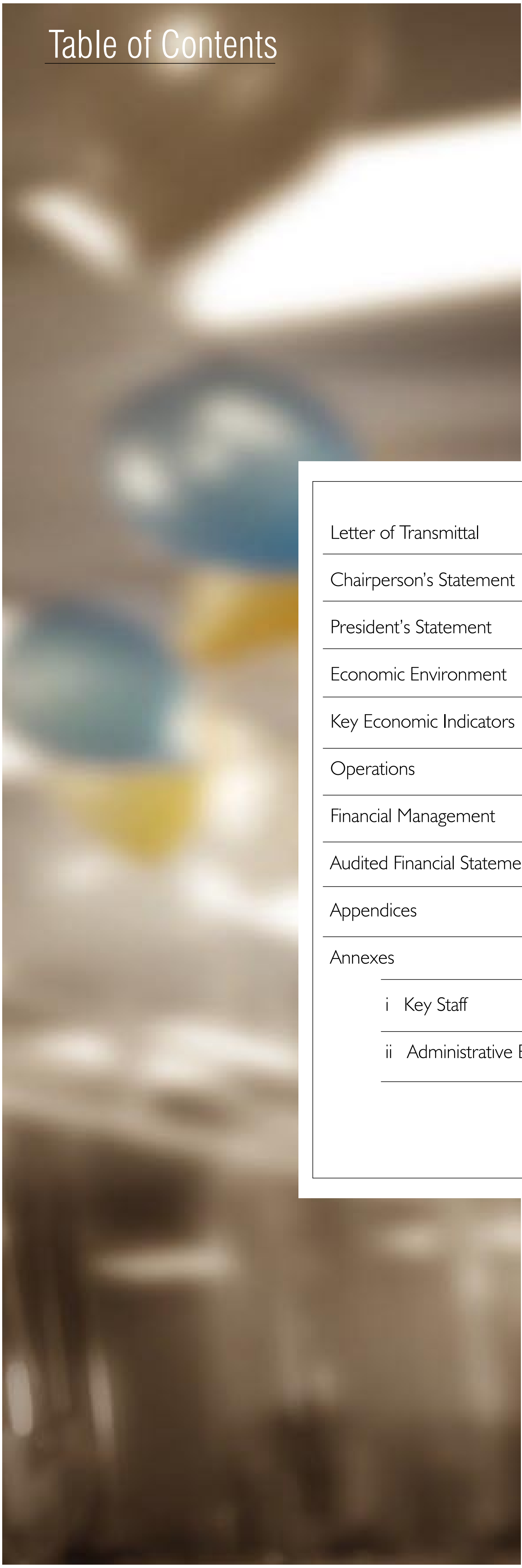
Our Vision

We are committed to become a world class development financial institution , with professional and capable employees delivering quality services to its clients, and contributing to the economic growth and prosperity of the Eastern and Southern Africa Region.

Our Mission

Our Mission is to be at the forefront of providing development capital in the sub-region, through customer focused and innovative financing instruments backed by competitively priced funds, mobilised from international capital markets in order to maximise returns to our shareholders.



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

Dear Mr. Chairman,

In accordance with Article 35 (2) of the Bank's Charter, I have the honour, on behalf of the Board of Directors, to submit herewith the Annual Report of the Bank for the period 1 January to 31 December 2006.

The report covers the year's activities and audited financial statements as well as the administrative budget for the period 1 January to 31 December 2007.

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

W. Mlaki
Chairman

AT A GLANCE

- Member States posted positive economic growth
- Corporate Plan on course

Chairman's Statement

On behalf of the Board of Directors, I have the pleasure of presenting the Bank's 2006 Annual Report.

Although high oil prices impacted negatively on growth, the global economy was estimated to have grown by 5.1% in 2006 compared to 4.9% recorded in 2005. The growth was led by the United States at 3.4%, Japan at 2.7% and the Euro area at 2.4%. Emerging markets continued to grow rapidly during the year at 7.3% with China sustaining a growth rate of 10%. Africa grew at 5.4% with sub-Sahara Africa growing at an average rate of 5.2%. These growth rates were achieved notwithstanding the high oil prices, which rose to a record high of USD76 a barrel during the course of the year. The growth rates are also partially attributed to non-oil commodity prices, which had a phenomenal increase in 2006. This was mainly spurred by high commodity appetite from China, which accounted for about 25% of the world demand for commodities such as copper, aluminum and steel.

> "One of the strategies to be formulated for the Plan will be the effective mobilization of competitive financial resources to meet the demands of the market. This will include consideration by the Bank's policy organs for a general capital increase"

Notwithstanding their dependence on oil imports, most of the Bank's Member States experienced record economic growth rates with increased business opportunities. The developments in the global economy had a positive effect on the sub-region's terms of trade as the increase in oil prices was outweighed by the increase in non-oil commodity prices.

China continued its spectacular growth during the period, with its Gross Domestic Product (GDP) growing at 10.7 percent to USD 2.7 trillion in 2006. This strong growth in China contributed considerably to global growth. The Board commends China, a shareholder of the Bank for sustaining this pace of growth, which the eastern and southern African sub-region, and indeed the whole of Africa, should continue to benefit from.

The Bank's operations continued to be guided by the long-term strategies laid out in the Third Five-Year Corporate Plan. This resulted in the Bank recording an impressive 24% balance sheet growth and a 42% increase in net profit from USD 3.22 million in 2005 to USD 4.57 million in 2006. The increase in the Bank's net profit was attributable to increased business volumes being transacted at higher levels of efficiency.

Preparations for the Fourth Five-Year Corporate Plan (2008 – 2012) began in 2006. One of the strategies to be formulated for the Plan will be the effective mobilization of competitive financial resources to meet the demands of the market. This will include consideration by the Bank's policy organs for a general capital increase.

During the year, the Eleventh Summit of the COMESA Authority Heads of State and Government met in Djibouti. Among other deliberations, the Authority decided that with peace having been restored in Burundi, the Bank should relocate its principal office back to Bujumbura. In compliance with this directive, the relocation exercise will be effected in phases, starting March 31, 2007. The phased approach recognises the need to safeguard the Bank's financial integrity and also to minimise operational disruptions.

In conclusion, and on behalf of the Board, I wish to express my sincere appreciation to our Board of Governors for their continued support and confidence in the Bank. A word of thanks goes to my immediate predecessor, Mr. Abii Tsige for the able leadership and guidance he provided during his tenure, and to all my colleagues on the board for their invaluable contributions and commitment to the Bank's affairs. I commend Management and staff for their diligence and loyalty to the Bank as we look forward to another year of improved performance.

W. Mlaki
Chairman, Board of Directors

W. Mlaki
Chairman, Board of Directors

AT A GLANCE

- Profits up 42 percent
- Balance sheet grows by 24 percent
- Bank rating remains good

President's Statement

Strategic Overview

The improved economic and political environment that continued to prevail within the Bank's Member States ensured that the momentum gathered over the last three years continued into 2006. Emphasis was placed on expanding the volume of the Bank's lending activities within Member Countries to meet the increasing demand for both trade and development financing. The Bank intends to continue to broaden its regional coverage in the forthcoming year by extending credit facilities to as many Member States as possible.

The Bank focused on ensuring that adequate funds were available for its lending programmes through an aggressive and demand driven resource mobilization programme. Measures were also implemented to improve the loan portfolio and to bring on board high value, good quality projects. In order to improve efficiency at the departmental level, steps were taken to rationalize the Bank's operating procedures through SAP (the Bank's Management Information System). These steps will be pursued further with the customized modules in SAP being rendered fully operational in 2007.

During the year, the Bank embarked on a rigorous programme of revamping its risk management policies and procedures, which have been in use since inception. In this regard, a comprehensive study, funded by the African Development Bank (AfDB), was commissioned to review and evaluate the Bank's existing Risk Management policies and procedures. In addition, the Risk Management Unit (RMU) was established to manage the risk management function in line with best practice. Management is confident that as the Bank enters the fifth and final year of implementing its Third Five Year Corporate Plan, most of the milestones that had been set out in the Plan will be achieved, paving the way for the Bank to become the leading Development Finance Institution in the region.

Lending Operations

The Bank continued to strengthen its foothold in the key priority sectors. New initiatives were undertaken in sectors such as transport, housing and financial services. Emphasis on telecommunications and agri-business was continued. The Bank also made a deliberate effort to address portfolio imbalances by increasing its lending activities in countries and sectors that had hitherto been underplayed.

Project Finance

During the year, the Bank approved 23 projects worth USD 103.00 million compared to 27 projects worth USD 112 million approved in 2005. In value terms, the 2006 approvals were 3% higher than the budget for the year, which stood at USD100 million. Project finance disbursements, which amounted to USD 45.2 million, compares with disbursements in 2005 that stood at USD 53.06 million. This decline was mainly attributable to the procurement lead times associated with some big projects, which extended well into the following year, thus delaying the full disbursement. However, disbursements were well above the USD 14.50 million and USD 21.89 million recorded in 2004 and 2003, respectively.

2006 was yet another year in which the Bank continued to secure significant levels of repeat and referral business provided by existing clients. The growth of this business evidences both the significant scope for increased project financing in the region and the high satisfaction levels currently enjoyed by the Bank's clients. There were notable improvements in the Bank's business development processes and, in particular, the project identification and commitment processes leading to increased levels of disbursements.

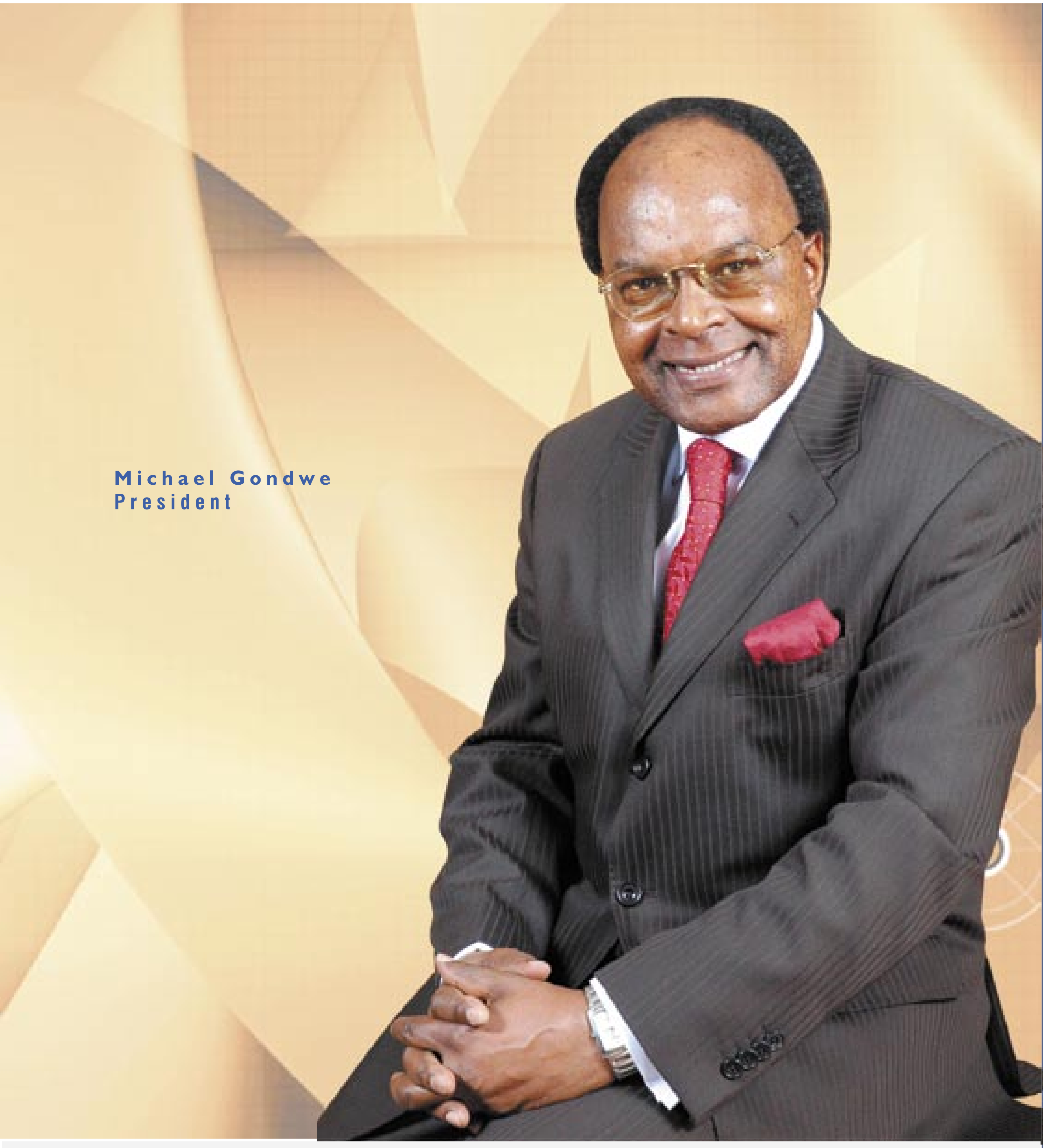
Trade Finance

The Trade Finance Unit recorded significant business in 2006 that saw short-term loan disbursements increase by 30% from USD 159.8 million for 2005 to USD 207.3 million for 2006. Letters of Credit Facilities increased by 26% from USD 139.7 million in 2005 to USD 176.6 million in 2006. This growth reflects the positive pay-offs of a deliberate portfolio consolidation strategy of booking sizeable transactions for petroleum and fertilizer importation in the region.

Import Credit Facilities dominate the region's absorption of the Bank's short-term facilities reflecting competitiveness of the funding structures particularly those incorporating collateral management arrangements. The Bank has also witnessed robust performance of export finance facilities that have been mainly utilized in financing the export of leaf tobacco, cotton lint and gold bullion. The Bank will continue to formulate responsive trade financing structures to address the working capital needs of businesses in the region.

Portfolio Management

During the year, the Bank continued to consolidate the effectiveness and efficiency of its portfolio supervision techniques and work out solutions along with systematic debt recovery processes. The loan portfolio strategy remained



Michael Gondwe
President

focused at refining and rationalising the methods used in maintaining and improving the quality of portfolios. The Bank has now strengthened and realigned its credit risk management system to address the dynamic changes in member countries' macro-economic environments and the specific sectoral problems. To this end, tangible results have been achieved in portfolio performance and timely collection of arrears.

Resource Mobilisation

The Bank continued its aggressive resource mobilisation effort so as to effectively fund the rapidly growing volumes of project and trade finance transactions. In this regard, the Bank signed a USD 10.0 million line of credit with Exim Bank of India and a USD 20.0 million line of credit with Development Bank of South Africa. A further USD12.5 million facility was concluded with Japan Bank for International Co-operation (JBIC), making PTA Bank the first sub-Saharan Bank outside of South Africa to sign such an agreement. The Bank also secured new short term financing facilities from ING Bank of Brussels, Standard Chartered Bank, London and Barclays Bank. The existing facility with Standard Bank of South Africa was significantly increased. New deposits were received from Southern African Media Development Fund and Comesa

Yellow Card insurance pool during the year.

The Bank continued to be well rated by Global Credit Rating Co. of South Africa. It maintained its long-term and short-term national ratings of AA and A1+ respectively and its international rating of BB with a positive outlook.
By year-end, the Bank had resources available for utilisation in excess of USD 115 million. These resources will be used to fund the Bank's project and trade finance business in 2007.

Financial Management

During 2006, the Bank continued to augment and consolidate its financial performance. Interest income amounted to USD 23.52 million, a 48% increase from the USD 15.91 million recorded in 2005. The increase is attributable to the higher disbursement levels for both project and trade finance transactions in addition to the modest increase in US dollar interest rates experienced during the year.

The Bank's fees and commission income continued to grow substantially, reaching USD 7.22 million from USD 5.79 million in 2005. This 25% increase in fees and commission income is attributable to the significant volume of trade finance business underwritten. Operating expenses increased to USD 7.03 million compared to USD 5.50 million incurred in 2005. The 28% increase is attributable to the increased levels of business activities. Consistent with the policy of reflecting fair and realistic values of the loan portfolio, the Bank increased its provisions for credit risk from USD 4.01 million in 2005 to USD 7.81 million. The increased provisions were determined in accordance with the applicable International Financial Reporting Standards.

The Bank continued its growth momentum for the fourth year running. In 2006, the Bank's asset base grew by 24% to reach USD 351.22 million. While most of the growth was portfolio related, the Bank's liquidity position continued to improve. Liquid assets grew by 20% from USD 31.4 million in 2005 to USD 37.8 million in 2006.

Overall, the Bank achieved a net profit of USD 4.57 million, representing an increase of 42% from the USD 3.22 million recorded in 2005. The improved profitability is attributable to the favourable business environment, which resulted in increased business volumes being transacted at higher levels of efficiency.

HR and Administration

The Bank's performance during the year is largely attributable to the professionalism and competence of its staff members drawn from most member states. To further sharpen the skill levels of staff members, various short and long term training programs were carried out both at Management, Professional and Support Staff levels. A leadership training program for the Board of Directors was also conducted during the year.

Compliance

The Bank continued to strengthen the compliance function by expanding the scope of its review. The compliance objective is spelt out in the Bank's Compliance Charter, which is to ensure that the Bank conducts its business in accordance with the approved regulatory framework and internal policies and procedures. Key compliance activities undertaken include review of monthly monitoring returns from the Credit and Legal departments, review of quarterly monitoring returns from Portfolio Management department, review of fulfilment of loan facilities conditions precedent and recommending issuance of certificates of effectiveness.

Information Services

The Bank's SAP system was upgraded, paving the way for the implementation of various new functionalities. This is line with the Bank's strategic plan of enhancing usage of high end IT infrastructure to increase efficiency across the board. The Bank's website also underwent a major revamp in recognition of the vital role it plays as a marketing and information tool.

Conclusion

The conducive business environment, which prevailed within the eastern and southern African sub-region enabled the Bank to underwrite increased business volumes in 2006. This contributed to the Bank's improved performance, with profitability increasing by 42% compared to 20% the previous year and assets growing by 24%.

The across the board growth would not have been possible without the invaluable support the Bank received from the Board of Directors who exhibited an unparalleled sense of commitment and enthusiasm in providing guidance to management. I also wish to recognize the key role played by the staff of the Bank, who displayed professionalism and enthusiasm in achieving the Bank's key goals, and lived our Core Values of innovation, integrity, teamwork, client orientation and adaptability. I am confident that with the continued commitment of the Board of Directors and diligent staff, the performance of the Bank will continue to improve even further in the coming years.

I would also like to acknowledge the invaluable support and guidance given to the Bank by our Board of Governors. Their support and guidance remains the pillar upon which the Bank's future success will be built.

Finally, my sincere gratitude goes to our valued clients and business partners for their support during the period under review.

Michael Gondwe
President

ECONOMIC ENVIRONMENT

ECONOMIC ENVIRONMENT

World gross domestic product is estimated to have expanded by 3.9% in 2006 compared to 3.5% in 2005. The expansion was mainly a reflection of a 7% growth in developing and emerging economies which accounted for about 38% of the increase in global output. China's 10.4% growth contributed significantly to this growth and is estimated to have contributed about 0.5% to global growth. India also added impetus to developing and emerging market growth. However even excluding both India and China, growth in the remainder of the countries was considerable at 5.5% in 2006. Merchandise trade grew by 11% during the first eight months of 2006, up from 6% the previous year. Most of the growth was mainly in the first quarter and occurred in China, Japan and the United States with exports from Japan and China rising by 10% and 30% respectively.

AFRICA

According to the IMF, growth for Africa is expected to reach 5.4% in 2006 similar to the growth recorded in 2005. Going by sub-regions, the Maghreb States and the Horn of Africa expanded to 5.8% and 9.4% respectively. The rest of the regions including CFA franc zone, West and Central Africa, Southern Africa, and The Great Lakes grew at a slower rate of 3.2%, 4.6%, 6.1% and 5.7% in 2006 respectively. Sub-Sahara Africa grew at a much slower pace of 4.8% during the year down from 5.6% in 2005. Excluding South Africa and Nigeria the decline in growth was lower at 5.1% in 2006. Despite the rise in the international price of oil which affected the non oil producing countries the increase in price of non oil commodities helped mitigate the impact of oil price increases.

Economic growth in oil-importing countries is estimated to have slowed to an estimated 4.5% in 2006. This was mainly due to the impact of a decline in the largest economy - South Africa - which declined from 4.9% in 2005 to 4.2% in 2006. A decline in agriculture in countries like Ethiopia, Rwanda and Tanzania added to the downward pressure on growth. However, the impact of an increase in the price of copper, diamonds and other mining products saw growth in Zambia, Namibia and Guinea exceed 5% in 2006.

Average inflation in sub-Saharan Africa picked up slightly to an estimated 12% in 2006 from 10.8% in the previous year. Despite the rise in oil prices, stable macro-economic environment and prudent monetary policy helped contain inflation. Inflation in oil-exporting countries fell to single digits for the first time since 1990, declining to 8% in 2006. The decline was mainly from lower food prices in Nigeria and a stable market environment in Angola. Moderate inflation in the rest of the oil exporting countries also assisted in lowering inflation. The fall in inflation rates in oil importing countries was moderate at 6.5% in 2006 compared to 6.8% in the previous year. Implementation of prudent macro-economic policies helped contain the impact of higher oil prices.

COMESA

Growth within the COMESA region, although high, declined to 5.8% in 2006 from 6.6% in 2005. Inflation in COMESA rose to 32.4% during 2006 from 23.3% in the previous year. Total investment as a percentage of GDP stood at 17.8% in 2006 compared to 16.4% in 2005. Countries that registered increased investment during this period include, Sudan, Burundi, Egypt, Zambia, Uganda, Tanzania, Mauritius and Kenya.

The overall fiscal balance including grants is estimated to have moved into a surplus of 0.8% of GDP from a deficit of 0.3% of GDP in the previous year. However excluding grants the fiscal deficit widened to 3.8% of GDP from 3.4%. Government revenue excluding grants only rose marginally in the region at 25.7% of GDP in 2006 from 25.2% in the previous year while expenditure rose to 29.5% of GDP from 28.6% of GDP in the previous year. Money growth grew to 31.8% of GDP from 31.2% of GDP.

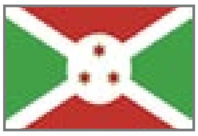
In the external sector exports of goods and services as a percentage of GDP rose to 31.1% while imports of goods and services also rose in line with the economic expansion to 41.7%. The trade balance widened significantly to 7.6% of GDP while the current account moved into a surplus position.

CONCLUSION

The economic outlook for Africa and COMESA region in particular is more favourable than it has been for many years. Improved macro-economic stability and sustained demand for commodities, oil and industrial raw materials in addition to significant increases in official development aid - driven largely by debt relief and emergency assistance - have all contributed to this positive economic outlook.

Following are brief profiles of the economic environment in the Bank's Member Countries.

BURUNDI



The structure of the Burundi economy is fairly similar to that of its fellow member states in COMESA, with the agricultural sector playing a dominant role in the economy. Subsistence farming accounts for the largest share of GDP at about 50% while commercial farming of tea and coffee contribute about 5% to GDP although they make up 90% of the country's export earnings. The economy is estimated to have expanded by 3.8% in 2006 compared to an expansion of 0.8% in 2005. The return to peace is expected to boost the economy in the coming years, with growth estimated to expand by over 5% in 2007.

Monetary Policy

Burundi's monetary policy is carried out by its central bank, the Banque de la Republique du Burundi (BRB). Monetary policy reforms undertaken in the last two years have resulted in controlled liquidity growth through the use of more indirect monetary instruments. Narrow money growth (M1) declined during the first half of 2006 and was at 7.2% year-on-year at the end of the second quarter. This compares to 26.8% year-on-year percentage change at the end of the second quarter of 2005. Broad money (M2) also declined during the same period and was at 11.4% year-on-year compared to 28.3% in the previous quarter of 2005. Poor rains in the beginning of 2006 saw a decline in harvest but by mid year normal weather patterns resulted in a good 'B' harvest in 2006 which helped in taming inflation. The annual average inflation rate is expected to be significantly lower at 5% in 2006 compared to 13.5% in 2005.

Fiscal Policy

The fiscal deficit after grants is expected to widen to 8.7% of GDP in 2006 reflecting mainly a decline in government revenues from a reduction in donor support in the form of grants and a decline in tax revenues from the abolition of levies on some goods. Revenues are estimated to have fallen to 18.9% of GDP while expenditures are budgeted to have risen to 41.8% of GDP directed mainly at poverty reduction and education. Figures for the first half of 2006 indicate that revenues and grants were considerably lower at Bufr 116.77 billion compared to Bufr146.03 billion in the first half of 2005. Expenditure also declined to Bufr 151.91 billion in the first half of 2006 from Bufr 183.84 billion in the previous year. Despite the fall in revenues, the government with the assistance of the World Bank and the IMF have implemented measures to strengthen and modernize tax administration and the impact of this will be an increase in much needed tax revenues.

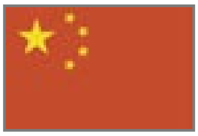
Real Sector

Coffee and tea are Burundi's main cash crops. Coffee whose quality and output was traditionally excellent has suffered over the years from tree disease and poor producer prices. However the government has embarked on reforms to liberalise the sector and in 2006 the government started preparations to sell the state owned coffee washing stations. In 2005/06 coffee production suffered significantly and output was estimated to be less than 10,000 tonnes compared to the bumper harvest of 48,000 tonnes produced in 2004/05. In the 2006/07 season coffee harvest stood at 35,801 tonnes by the end of October 2006. Tea production declined significantly by 33% totalling 26,000 tonnes (of green tea) at the end of October 2006 compared to the same period in 2005. The decline was as a result of lack of fertilizer, the use of old equipment and poor weather conditions.

BOP and Foreign Exchange

Figures for the first eleven months of 2006 show that total exports declined to BIF51,133.4 million compared to BIF58,939.0 million during the same period in 2005. Of this, coffee constituted the largest portion of exports as well as the reason for the decline in exports. During the first eleven months of 2006 coffee exports declined by 21.4% to BIF33,398.8 million compared to BIF 42,476.9 million in the previous year. In quantity, coffee exports declined to 15,584 tonnes compared to 20,853 tonnes. Tea exports on the other hand rose to BIF 9,756.5 million compared to BIF 9,081.5 million in the first eleven months of 2005. Imports rose significantly by 47.9% to BIF 396,637.3 million from BIF 268,252.5 million in the same period of the previous year. Available figures for current account deficit are from January to July 2006 which indicate a much wider deficit of BIF 90,327 million compared to BIF 21,401.3 million. The overall balance of payment moved from a surplus position to a deficit of BIF 55,290.6 million. On a yearly basis, total exports in 2006 are expected to decline to USD 41.3 million from USD 57.2 million while imports are expected to rise to USD 269.1 million from USD 239 million. The current account balance is expected to widen to 20.8 % of GDP from 10.5 % of GDP in 2005.

CHINA



In 2006, the Chinese economy maintained steady and rapid growth with generally good economic performance. Consumer demand became stronger, fixed-asset investment gradually moderated from a high level, and foreign trade expanded briskly. Household income, enterprise profits, and fiscal revenue all increased substantially. Market prices remained stable. In 2006, the GDP grew 10.7 percent to RMB20.9 trillion yuan and the CPI rose by 1.5 percent year-on-year. The value added of the primary industry, secondary industry and the tertiary industry was 2,470.0 billion yuan, 10,200.4 billion yuan and 8,270.3 billion yuan, contributing 11.8 percent, 48.7 percent and 39.5 percent respectively to the GDP.

Monetary Policy

In 2006, the People's Bank of China continued to carry out a sound monetary policy to tackle problems such as excessive investment growth, overexpansion of credit, a widening trade surplus, and growing pressure on the environment and resources. A combination of measures was employed to withdraw excess liquidity in the banking system, including three increases in the reserve requirement ratio of financial institutions by 1.5 percentage points and intensified open market operations. As leverage, the benchmark deposit and lending rates of financial institutions were also raised two times to guide appropriate growth of investment and credit. The RMB exchange rate regime reform was further deepened to improve the managed floating exchange rate regime, and the foreign exchange management system reform was accelerated. To optimize the credit structure, efforts were made to strengthen window guidance and credit policy guidance. At end-2006, outstanding broad money M2 amounted to 34.6 trillion yuan, an increase of 16.9 percent year on year.

Fiscal Policy

In 2006, fiscal revenue amounted to 3.76 trillion yuan, up 677 billion yuan or 21.9 percent year on year. The combined turnover of the Shanghai and Shenzhen Stock Exchanges hit a record high, and the stamp tax revenue grew by a substantial 166 percent. The personal income tax registered 245.2 billion yuan, up 17.1 percent; in the first eleven months, the corporate income tax amounted to 712.23 billion yuan, up 37.7 percent. In 2006, fiscal expenditures increased sharply in agriculture, social security, and social development. In the first eleven months, expenditures in agriculture, forestry, water conservancy, and weather services stood at 149.32 billion yuan, expenditures in social security stood at 147.06 billion yuan, and expenditures in education, science, culture, and public health stood at 561.44 billion yuan, up 17.9 percent, 17.4 percent, and 15.5 percent respectively.

Real Sector

The growth of household income accelerated and domestic consumer demand was strong. In 2006, per capita disposable income of urban residents stood at 11,759 yuan, a nominal growth of 12.1 percent, an inflation-adjusted real growth of 10.4 percent, and an acceleration of 0.8 percentage points on a year-on-year basis. The per capita net income of rural residents came to 3,587 yuan, a nominal growth of 10.2 percent, an inflation-adjusted real growth of 7.4 percent, and an acceleration of 1.2 percentage points on a year-on-year basis.

BOP and Exchange Rates

The total value of imports and exports in 2006 reached USD 1,760.7 billion, up 23.8 percent over the previous year. Of this total, the value of exports was USD 969.1 billion, up 27.2 percent, and the value of imports was USD 791.6 billion, up 20.0 percent. China had a trade surplus of USD 177.5 billion, an increase of USD 75.5 billion over the previous year.

The current account and capital account continue to run a surplus and the official foreign exchange reserves grew briskly to USD 1,066.3 billion at the end of the year, up USD 247.3 billion on a year-on-year basis. Under the capital account, FDI remained in a large surplus albeit by a smaller amount, due to the combined effects of rapid outward investment by Chinese firms and slower FDI inflow. FDI in the non-financial sectors (sectors other than banking, insurance, and securities) was USD 63 billion, up by 4.5 percent.

The elasticity of the RMB exchange rate was strengthened markedly. In 2006, the RMB exchange rate appreciated by a small margin, and the fundamental role of market supply and demand was further enhanced. At end-2006, the central parity of the RMB against the US Dollar was 7.8087 yuan per US Dollar, appreciating 3.35 percent over the beginning of 2006. From the exchange rate regime reform on July 21, 2005 to the end of 2006, the RMB cumulatively appreciated by 5.99 percent, 2.46 percent, and 11.32 percent respectively against the US Dollar, the Euro, and Japanese Yen.

COMOROS

The Union of Comoros consists of the islands of Grand Comore - the largest of the three - Anjouan and the smallest, Moheli. The three islands are unified by one president whose term rotates every four years between the islands. In 2006, the Union transferred power from Grande Comore's Colonel Azali Assoumane to Anjouan's Ahmed Abdallah Sambi. The next power shift will be in 2010 when the presidency will move to the island of Moheli.

The Union's economy is mainly driven by the agricultural sector whose main export commodity is Vanilla. Real GDP growth is estimated to have declined in 2006 to an estimated 1.2% from 2.5% in 2005. The cause of the contraction was the low international prices of vanilla. The decline in growth can also be attributed to a fall in tourism earnings caused by the political uncertainty of the elections held in 2006. The forecast for 2007 shows a slight increase in growth to about 2.5% which is attributed to a rise in investments mainly from the Middle East.

Monetary Policy

Monetary policy in the Union is managed within the regulations and framework of the Franc Zone. The membership limits the ability of the government to finance its budget deficits through the printing of more money and ensures a more efficient and effective management and operations of the central bank. During the first half of 2006, inflation is estimated to have accelerated due to the strengthening of the international price of oil and a rise in government spending related to the run-up to the 2006 presidential election. The annual average inflation is thus expected to be higher in 2006 and is estimated to have reached 3.8% compared to 3.2% in 2005. The indications show that government spending will continue to remain high and with an expected increase in donor flows, inflation is expected to remain within the 3-4% region for 2007.

Fiscal Policy

Expenditure is estimated to have risen sharply in 2006 particularly with the run up to the presidential elections in May 2006. As a percentage of GDP, expenditure rose to an estimated 22.1% of GDP in 2006 compared to 19.9% of GDP in 2005. Revenues are estimated to have declined in 2006 by an estimated 13% due to problems related to governance in customs administration and public enterprises as well as the poor co-ordination of fiscal policy between the islands. Figures show that the deficit in the first half of 2006 stood at USD 5.8 million compared to a surplus of USD 369,000 during the first half of 2005.

In early 2005, the Islands' Union Assembly adopted the organic law which outlined the revenue sharing arrangements between the union and island governments. In an effort to enhance the revenue sharing mechanism which has had a few problems, the government took steps in 2006 to open a single account at the central bank to channel all revenues from the three islands. In the second half of the year, the government also approved a budget that contained measures to increase revenues and limit spending. On a yearly basis, the domestic primary balance is expected to slip into a deficit of 0.3 % of GDP compared to a surplus of 1.1% of GDP in 2005.

Real Sector

Comoros is the world's leading vanilla producer and it is the island's main cash crop and export earner. However productivity has suffered from poor agriculture techniques and the collapse in price from a peak of USD230/kg in 2003 to just USD25/kg in 2005. In 2006 the prices continued to remain depressed due to an over supply from other world producers such as India, Indonesia and Vietnam who continue to flood the markets pushing prices further downwards. Other cash crops include cloves - of which Comoros is the largest world producer - and ylang ylang. Both crops, like vanilla, are susceptible to price instability.

Although the agricultural sector is the main economic activity, it does not produce enough food to feed the population making Comoros dependent on food imports. The government's efforts to amalgamate small plots into larger ones, create more active local marketing systems and developing co-operatives have assisted in increasing food harvests. However the shortage of land and the damage from the recent clearing of the rain forest have somewhat hindered the effectiveness of the government initiatives.

The Indian Ocean provides for a tremendous potential for the development of the fisheries industry and a way of diversifying the economy away from vanilla. Experts believe that the Comoros waters could sustain fish output of 85,000 tonnes per year while the current production from local inshore fisherman is about 13,000 tonnes per year. On the other hand, the tourism sector, the islands only successful diversification away from vanilla, was not as vibrant in 2006 as tourist arrivals dropped following uncertainty associated with elections.

BOP and Foreign Exchange

The external sector suffers from a very limited range of export goods, the main one being vanilla which is highly susceptible to weather conditions and the prevailing international prices. The continued low prices of vanilla is expected to result in the reduction of export revenues to USD 11.9 million in 2006 from USD 13.8 million in 2005. By mid 2006 vanilla exports had fallen by 32% while clove exports rose due to an increase in production to an estimated 3,500 tonnes in 2006 compared to 1,500 tonnes in 2005. Ylang ylang production on the other hand remained constant at 50 tonnes in 2006.

The strength of the Comorian franc which is pegged to the euro, coupled with high oil prices are behind the increase in imports in 2006. Also the lack of a developed manufacturing sector causing the importation of most processed goods has added to the import bill. Total imports are estimated to have risen to USD 92.5 million in 2006 compared to USD 90.6 million in the previous year. During the first half of the year the trade deficit is estimated to have risen to Cfr20 billion compared to Cfr 15.7 billion during the same period in 2005.

The overall current account balance is estimated to have widened to USD 13 million in 2006 from USD 12.3 million in the previous year. Remittances from the diaspora continue to be high accounting for about 50% of current account receipts. As a percentage of GDP, these accounted for about 18% of GDP in 2006. The Comorian franc strengthened to exchange at an average of Cfr391.2 against the dollar in 2006 compared to Cfr395.6 against the dollar in 2005.

Exports of agricultural products, such as tea and coffee continues to provide strong earnings for a number of the Bank's Member States. There is a growing focus on value addition in these industries.

DJIBOUTI

Among COMESA member states, Djibouti is one of the least naturally endowed countries due to its volcanic desert land. Agriculture production canot satisfy the country's food requirement as it only meets about 3% of the food requirement while in terms of mineral resources, Djibouti's significant deposit is of salt at Lake Assal. However, Djibouti's strategic location between the Red Sea and the Gulf of Aden makes it an ideal gateway to the African continent. Its seaport, the Djibouti port is thus the main economic activity which contributes significantly to the economy. The economy is estimated to have grown by 4.2% compared to 3.2% in 2005. This growth was led by increased investment at the ports of Doraleh. This trend is expected to continue into 2007 as the development at the ports continue, with economic growth estimated at about 5% in 2007.

Monetary Policy

Moderate inflationary pressures were evident in the first half of 2006 emanating from the rise in oil prices, higher food prices following continued drought in the region and the general increase in economic growth. The second half of the year saw an improvement in food security following better rains in June to September which resulted in a reduction in prices, thereby easing inflationary pressures. Interest rates remained fairly unchanged rising during the first half of the year. The lending rate rose marginally to average 11.64% during the second quarter of 2006 from 11.39% in the first quarter. Compared to 2005, lending rates remained unchanged at 11.5% throughout 2005. Broad money stood at Dfr102, 681 million at the end of the second quarter of 2006, while during the same quarter of 2005, broad money was at Dfr95,570 million.

Fiscal Policy

The budget deficit grew from Dfr6.3bn (USD35m) in 2004 to Dfr7.3bn in 2005, and rose further in 2006 to reach Dfr9.3bn. Receipts in 2006 rose minimally to Dfr39.2 billion from Dfr39 billion in 2005 while expenditure rose to stand at Dfr48.5 billion in 2006 compared to Dfr46.3 billion in 2005.

Debt-servicing interest payments are estimated to have risen by 21.3% in 2006, and accounted for 6.9% of government expenditure, compared with 6% in 2005.

Real Sector

Growth in the real sector emanated from port activities triggered the new investments at the port of Doraleh in particular the opening of the Doraleh oil and petroleum terminal in February 2006 while construction of the new USD 300 million container are still underway with expected completion in 2008.

The aridity of the land makes Djibouti a net importer of food. Animal husbandry is more prominent than crop production and the country has large numbers of livestock.

BOP and Foreign Exchange

According to the mid year figures for 2006, Djibouti's trade deficit is expected to have widened significantly. It is estimated that the rise in imports following an increase in large capital goods associated with large investment developments at the ports of Doraleh stood at USD 714.5 million for the first half of 2006 while exports stood at USD 147.7 million. This resulted in the trade deficit widening to USD 566.8 million which translates to an almost 24% increase over the same period in 2005. On a yearly basis, trade deficit widened by almost 45% in 2005 to reach USD 932.5 million compared to the previous year.

The services account is estimated to have been in surplus as a result of a large number of goods passing through the port which is expected to somewhat offset the growing trade deficit and lessen the growth of the current account deficit. Since 1949 the Djibouti franc has been pegged to the US dollar and has had revaluations in 1971 and 1973. Currently there has been no movement recorded in the currency throughout 2006 as the franc remained pegged to the US dollar at Dfr177.72 per US dollar as was the case in 2005.

EGYPT

Egypt registered an annual real growth rate of 6.8% in 2005/06, an expansion from the growth registered in 2004/05 of 4.6%. This growth mainly emanated from the mining, construction and building sectors which are estimated to have grown by 20.8% and 14% in fiscal year 2005/06 from 0.6% and 5% in the previous fiscal year respectively. Strong domestic demand also contributed to this impetus particularly in the last quarter of 2005/06 where household consumption grew by 10.2% year on year. According to the Central Bank of Egypt (CBE) stronger growth was registered during the first quarter of 2006/07 at 7.1% due to good performance in the construction and communications sectors.

Monetary Policy

Annual inflation rate markedly increased to 12.4% during the year ending December 2006 compared to 3.1% during the year ending December 2005. Inflationary pressures emanated from accelerating economic growth mostly from the construction and manufacturing sectors. Also contributing to inflationary pressures was a reduction in income tax, which fed through to increased domestic demand. Also, a general increase in the prices of commodities added to this pressure. Energy costs were considerably higher as a result of a reduction in subsidies by the government. Food prices also rose as demand for non-poultry protein rose in response to the outbreak of avian flu. Inflation is expected to average 7% in 2006 compared to 4.9% in 2005.

During the first half of 2006 money supply as measured by M1 (narrow money) expanded by 20.3% year on year in May 2006. During the second half of 2006 reserve money grew by 8.7% from an increase in currency circulation and an increase in bank deposits in local currency. Total liquidity (M2) decreased during November 2006, for the first time since January 2000, by 0.3% to LE 587.3 billion. However, the year-on-year M2 grew by 13.2 %.

Fiscal Policy

Government expenditure rose to 33.1% of GDP or LE204.5 billion in fiscal year 2005/06 compared to 30% of GDP or LE162 billion in fiscal year 2004/05. The rise in expenditure mainly emanated from increased spending in subsidies, grants and social benefits which rose by an estimated 130%. Government revenues and grants also rose by 35% to LE149 billion from the previous fiscal year.

Of the total revenue, tax revenues rose by 29.4% to LE 98.1 billion while non-tax revenues rose by 47% to LE51.5 billion. The increase in revenue reflects both stronger growth in the Egyptian economy and the implementation of tax reforms which broadened the tax base and increased compliance despite the reduction in the income tax. There was a general improvement in government operations as both the overall and primary deficits reached 8% and 2.4% of GDP respectively, down from 8.9 and 3.3% of GDP in 2004/05 fiscal year.

Real Sector

According to the CBE, growth in the Egyptian economy was strong during 2005/06. The largest growth emanated from the mining sector which includes oil, natural gas and other mining which grew by 20.8% compared to 0.6% growth. The gas industry grew by 50.2% while the oil industry contracted as in the previous year albeit at a lower rate of negative 2.1% compared to negative 4.9% in 2004/05. The manufacturing sector in relation to the oil industry, that is, oil refining showed slower growth at 2.2% compared to 3.6% previously while non-oil manufacturing grew to 5.9% in 2005/06 from 4.5%.

The number of tourist arrivals during fiscal year 2005/2006 increased marginally by less than 1% to 8.7 million tourists while tourist nights declined slightly by 0.7% to 85.1 million nights compared to 85.7 million nights in 2004/05. Tourist revenue on the other hand rose to USD 7.2 billion in fiscal year 2005/06 compared to USD 6.4 billion in the previous year. There was a recovery during the second half of 2006 in the tourism sector with tourist arrivals increasing by 8.9% to about 4.7 million tourists. Similarly, tourist nights increased by almost 9% to 50.5 million nights compared to 46.3 million nights during July-December 2005.

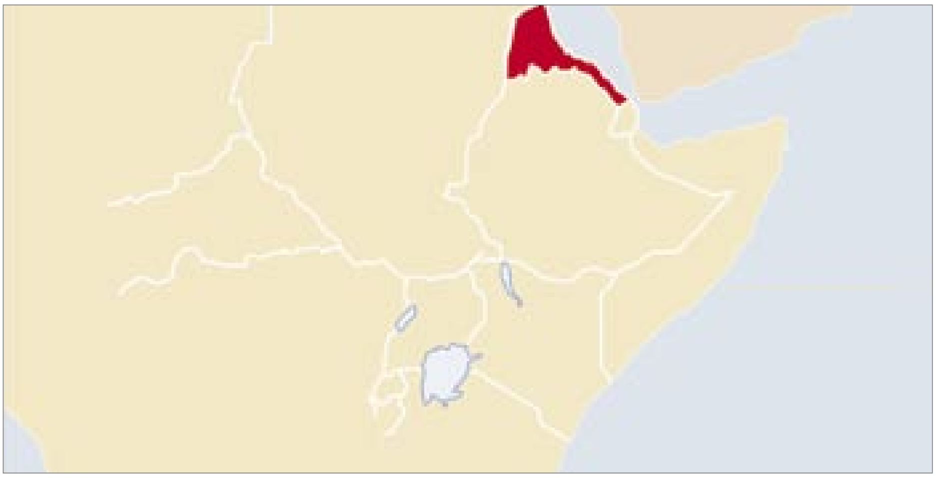
BOP and Foreign Exchange

Total exports for the first nine months of 2006 rose significantly to USD 15.3 billion from USD 11.5 billion in the first nine months of 2005. This was as a result of large increases in crude and petroleum products exports to USD 2.5 billion and USD 5.5 billion in the first nine months of 2006 from USD 1.7 billion and USD 3.2 billion in the same period of 2005. This increase was as a result of increases in the international oil prices and an increase in natural gas exports. Exports of finished goods rose to USD 4.6 billion from USD 4.0 billion while exports of semi finished goods rose to USD 1.1 billion from USD 0.5 billion.

However exports of raw materials which comprise mainly agriculture products declined in the first nine months to USD 0.4 billion from USD 0.5 billion in a similar period of the previous year, while cotton exports declined also to USD116.2 million from USD 137.4 million in the previous year. Imports rose to USD 24.1 billion compared to USD 20.1 billion during the first nine months of 2005. This led to the widening of the trade deficit to USD 9 billion from USD 8.6 billion. The current account surplus increased from USD 1.3 billion to USD 2.2 billion while the overall balance of payment surplus increased to 5.4% of GDP compared to 4% of GDP.

By the end of December 2006, official reserves stood at USD 26.1 billion. The Egyptian pound appreciated marginally against the dollar and exchanged at an average of LE5.73 vis-a-vis the US dollar in 2006 compared to LE5.78 in 2005.

ERITREA



After Eritrea gained its independence in 1993, it enjoyed strong economic growth supported by the activities at its port on the Red Sea. Following the war onslaught, Eritrea has struggled to stimulate the much needed private sector growth to foster economic growth in its economy and hence economic growth has been very modest rarely growing beyond 3% per annum over the last few years. The prevalence of drought almost every year has adversely impacted the agriculture sector resulting in poor food harvests and making food security a major issue for the estimated 1.4 million Eritreans in need of food aid in 2006.

Real GDP is estimated to have grown by about 2% in 2006 driven by the construction and services sector which were mainly supported by government led capital projects and international funds for demobilization and reconstruction.

Forecasts indicate that growth in 2007 will emanate from these same areas and is forecast to stand at around 2-3%.

Monetary Policy

The large government borrowing had an adverse effect on monetary policy as the government has continued to fund its deficits through domestic borrowing. However available data shows that inflation is estimated to have declined to 14.2% from 15% and forecasts indicate that inflation declined further in 2007 to average 11.8%. Broad money by the end of the second quarter stood at Nfa22,320 million compared to Nfa20,301 million during the second quarter of 2005. The year on year percentage change was 9.9% at the end of the second quarter of 2006 compared to 10.8% at the end of the second quarter of 2005.

Real Sector

The agricultural sector (mainly pastoralism) and fishing is responsible for about 70% of the population's livelihood and produces Eritrea's main export commodities. The challenges that this sector faces include lack of irrigation, extensive soil erosion, outdated technology, and a lack of financial and marketing services. Eritrea's 1,000 km coastline offers the opportunity for a thriving fisheries industry and it is estimated that this industry will attract investment which will impact positively on the economy.

There were some major developments in investments in 2006 which are expected to boost future activity in the real sector. The telecoms sector in 2006 was a recipient of a low-interest loan of USD 22 million for the modernisation of telecommunications infrastructure from the Chinese government. The town of Keren received a loan of USD16.7m from the Kuwait Development Fund for development of the drinking water supply system.

BOP and Foreign Exchange

Eritrea's imports continued to be high in 2006 as a result of high food imports from drought related food insecurity in the country and increased to an estimated USD 705.7 million in 2006 compared to USD 621.0 million in 2005. Exports continue to remain low and underdeveloped and were virtually unchanged at an estimated USD 17 million in 2006 compared to USD 17.1 million in 2005. The trade deficit continued on its widening trend to an estimated USD 345.8 million compared to USD 258.6 million in the previous year. However, assistance from China and Pakistan is expected to offset the trade deficit and the opening up of the border with Sudan will assist in improving the country's external sector in the 2007 and 2008.

In 1997, Eritrea introduced its own currency the nakfa (Nfa) which replaced the Ethiopian birr. It was floated in 1998 and has since lost against major trading currencies. The adverse effects of high oil prices, a collapse in trade with neighbouring Ethiopia and a decline in remittances led to acute shortages in hard currency. There were huge disparities between the official rate which was exchanging at Nfa15: USD1 in January 2005 and the parallel markets which attracted a premium of 40-50% to the nakfa. In response the government closed all the country's private foreign-exchange bureaux in 2005 while at the same time pegging the nafka official exchange at Nfa13.78:USD1, although a large premium still exists on the parallel market. In 2006 the nafka is estimated to have been exchanging at Nfa 15.4 to the US dollar.

ETHIOPIA

The Ethiopian economy is estimated to have registered robust growth of 8.5% in 2006 compared to 8.9% in the previous year. Growth was supported by an expansion in the agricultural sector, the mainstay of the economy. Spill-over effects from good agricultural production also helped boost expansion of both the industry and services sector. Ethiopia is mainly dependent on the agriculture sector, which is estimated to have contributed about 47% of GDP in 2005/06. The sector is predominately rain-fed and is thus prone to vagaries of weather which dictate the level of economic growth.

Monetary Policy

Despite the good rains that led to a bumper harvest, the prices of food did not decline in response to the increase in the supply. During the first eight months of 2006 year-on-year, inflation is estimated to have averaged 12.4%. The reason for the inflationary pressures was increased overall demand particularly in the rural areas and market inefficiencies. However pressure on prices are estimated to have eased during the last quarter of the year and yearly inflation is expected to average 10.5%. High fuel prices also put upward pressure on inflation. On an annual basis, money supply was 18.1% higher in November 2006 compared to the previous year reflecting an increase in domestic credit. Interest rates remained largely unchanged in 2006, with the average lending rate constant at 10.5% and the T-bill constant at 0.04% until it started to decline in the last quarter of 2006 to end at 0.095%.

Fiscal Policy

The fiscal deficit excluding external grants according to the IMF is expected to have reached 5.2% of GDP in fiscal year 2005/06. There was a shortfall in revenue mainly from a reduction in grants and general inefficiencies in the collection of tax revenues. Government expenditure is estimated to have risen during the same period which was mainly directed towards the priority sectors of health, education, agriculture and infrastructure. On an annual basis, total revenue and grants and total expenditure were higher by 42.1% and 23.1% during fiscal year 2005/06 respectively.

Real Sector

The agricultural sector is the dominant one accounting for an estimated 47% of GDP in 2005/06 with crop production contributing the largest share to GDP at approximately 30% followed by livestock at 9% and then forestry at 4%. The sector is mainly driven by smallholders who mainly rely on rain which makes them susceptible to the varying weather patterns which adversely affect their crop production. The agricultural sector is estimated to have grown by 10.5% in 2005/06. This was due to the good rainfall, resulting in a bumper harvest, which is expected to spillover into fiscal year 2006/07. The heavy rains in late 2006 resulted in a bumper harvest for the production season, which produces about 90% of annual production.

Floriculture is quickly gaining significance as a major source of growth in the agriculture sector as well as export earnings. A raft of government including a five year tax holiday, cheap land leases coupled with the good growing conditions have resulted in flower exports growing from USD 13 million in 2004/05 to USD 23 million in 2005/06 and it is estimated that future earnings could rise to as much as USD 100 million annually.

Ethiopia continues to boast one of the largest livestock herds in Africa with approximately 35 million cattle, 25 million sheep and 18 million goats. The opening up of the market to allow local and foreign private investment in 1999 in the sector has allowed the increase in export earnings attributed to livestock and livestock products. Exports for leather and leather products and meat and live animals rose to USD 75 million and USD 46 million in 2005/06 compared to USD 44 million and USD 10 million in 2004/05 respectively.

The services, manufacturing and mining sectors also recorded growth in 2006. The manufacturing sector whose main activity is agro-processing was boosted by the growth in agriculture sector from increased output.

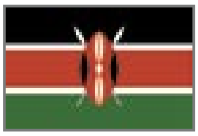
BOP and Foreign Exchange

Agriculture products which make up the bulk of Ethiopia's exports performed well in 2006 from the good rains which saw a rise in output and hence volume that was exported. Coffee, the country's main export earner brought in significant export revenue. Other agriculture products such as oil seeds, horticulture produce, meat and live animals, leather and leather products all registered increased export earnings. Gold also recorded an increase in exports receipts. As such total exports are expected to have risen by 28% in 2006 to USD 1.1 billion from USD 917 million in 2005. Imports also rose significantly from USD 3.7 billion to USD 4.3 billion, leading to a widening of the trade deficit. The current account deficit is estimated to have widened to 16.3% of GDP in 2006 from 16.1% of GDP in the previous year from reduced donor inflows during the earlier part of the year.

The birr was stable during the year and depreciated only marginally. It exchanged at 8.69 vis a vis the US dollar in 2006 compared to 8.67 in 2005. Reserves declined during the first half of 2006 to stand at USD 1.1 billion or 13 weeks of import cover.

PTA Bank has funded electricity generation projects in a number of countries in the sub region, a basic ingredient for economic growth and nurturing future entrepreneurs like the one above.

KENYA



Kenya is richly endowed with good agricultural land and abundant wildlife. The economic structure is thus built around the agricultural sector whose inputs also support the country's thriving manufacturing sector. Real GDP growth is estimated to have expanded by 6% in 2006 compared to 5.8% in 2005. This growth is attributed to the increased investor confidence, which resulted in high investment in tourism, telecommunications, energy, construction and manufacturing sectors.

Monetary Policy

Annual average inflation rose to 11.84% in 2006 from 10.3% in 2005. This is a reflection of higher food prices due to the poor rains received during the first half of the year and the continued impact on high oil prices. Money supply (M3) grew by 17.9% in the year to December 2006 compared with 10.2% in a corresponding period in 2005 while broad money (M2) grew by 16.7% compared with 9.7%. Overall liquidity rose to 17.1% compared to 12.4% in the twelve months to December 2005.

In May 2006, the Central Bank of Kenya introduced the Central Bank rate which became effective in June 2006. It is the lowest rate at which the central bank lends to commercial banks and it stood at 10% from August to the end of the year. The lending rate was slightly higher in 2006 compared to the previous year rising to over 14% in the months of May and October 2006. The 91-day T-Bill rate was stable although it declined from 2005 to settle at 5.71% in December 2006 compared to 8.07% a year earlier.

Fiscal Policy

Fiscal policy is focused towards maintaining macro-economic stability with spending directed towards poverty alleviation. Government revenue for fiscal year 2005/06 rose by 8.5% to Ksh330.6 billion from Ksh304.7 billion in 2004/05, although this was lower than budgeted revenue by Ksh30.6 billion. The increase was driven by a rise in both revenue and grants by Ksh20.8 billion and Ksh5.1 billion respectively. Government expenditure and net lending amounted to Ksh386.9 billion for fiscal year 2005/06 increasing by 27.4% from the previous fiscal year. The deficit on both commitment and cash basis widened to 3.6% and 2.7% of GDP in 2005/06 respectively.

During the first five months of 2006/07 expenditure totalled Ksh157.5 billion representing a 11.5% increase over the same period of 2005/06. Revenues plus grants stood at Ksh 133.7 billion, which was slightly below budgeted levels in the period under review but 14.9% higher than the same period in 2005/06. This increase was attributed to a 27.6% increase in tax revenues during the period under review. The deficit stood at Ksh23.8 billion which is equivalent to 1.4% of GDP.

Real Sector

The real sector performed well in 2006 with growth registered in the main sectors of the economy. Growth in the agriculture sector was from both an increase in output as well as an increase in the price of cash crops. Output of most of the country's main cash crops showed positive growth in 2006 with the exception of tea which is estimated to have declined by 7.54% to 276,178 tonnes in the first eleven months of 2006 compared to 298,702 tonnes in the same period of 2005. Tea prices however were higher and improved by 36.5%. The reason for the decline in tea output was attributed to the poor weather experienced during the first quarter of 2006.

After a 3.4% decline in coffee output in 2005, it rose by 5.1% during the first eleven months of 2006 from 46,594 metric tonnes during a similar period in 2005 to 48,908.91 metric tonnes. Developments to improve coffee output were implemented in July 2006 where the Government published new regulations allowing farmers to seek better prices in export markets through vetted and authorized marketing agents. It is hoped that this will translate into higher incomes.

In horticulture, the overall output rose by 2.2 % in the period January to November 2006 from 150,253 metric tonnes produced in January to November 2005 to 153,570 metric tonnes. Of this, flower production which contributes the bulk of horticulture exports rose by 7.3% while production of vegetables and fruits declined by 3.8% and 17.5% respectively during the period.

The good performance in tourism reflects success of the vigorous marketing around the globe and improved security that has seen increased number of tourists from both traditional and new markets. Tourist arrivals for the first eleven months of 2006 rose by 14% compared to arrivals of 748,018 in the corresponding period in 2005 and earnings from tourism rose by USD 47 million to USD 622 million.

The telecommunications sector continued to grow underpinned by increasing mobile phone connections and internet services. By June 2006, mobile subscribers had increased by 40.6% from 4,611,970 in June 2005 to 6,484,791. Similarly, fixed telephone lines increased by 7.9% from 278,867 to 303,905 over the same period

BOP and Foreign Exchange

Imports rose by USD 1,485 million to USD 7,168 million in the year to November 2006. This increase was mainly due to a USD 470 million increase in oil imports, USD269 million increase in manufactured goods imports and a USD 346 million increase in chemicals and machinery and transport equipment. The share of oil and manufactured goods in total import rose from 23% and 13.6% in November 2005 to 24.8% and 14.6% in the year to November 2006 respectively. The shares of machinery and transport equipment and chemicals in total imports however declined from 31% and 14.5% in November 2006 to 29.4% and 14%, respectively over the same period in 2006.

Exports increased by USD 164 million to USD 3,405 million in the year to November 2006 following a USD 119 million increase in tea exports, a USD 76 million increase in horticulture exports and a USD 15 million increase in coffee exports. The rise in export earnings in coffee and tea largely reflect the higher export prices of both commodities, while the higher value of horticulture exports reflected increased export quantities. Export values of manufactured goods rose by USD 65 million during the year following increased exports of cement, processed leather and metal manufactures. Coffee, tea and horticulture collectively accounted for 38.3% of the total value of exports in the year to November 2006 compared with 33.8% a year earlier. The contribution of manufactured goods to the total value of exports also rose to 12.1% compared with 10.7% a year earlier.

The 26.1% and a 5.1% growth in imports and export respectively led the trade deficit widening by USD 1,321 million during the year to November 2006. The overall balance of payment surplus increased from USD 293 million in the year to November 2005 to USD 784 million in the year to November 2006. Official foreign exchange reserves rose from USD1,799 million as at the end of December 2005 to USD 2,415 million or equivalent to 4.5 import months as at the end of December 2006.

MALAWI

Malawi's agricultural sector contributes an estimated 35.5% to the country's GDP. As such, economic growth is dependent on the sector's output. The drought of 2005 which saw the sector contract by 9.1% directly contributed to the modest growth of only 2.2% in 2005. In 2006 the sector made a remarkable rebound from improved harvest due to better rains and the implementation of the fertilizer subsidy programmes which saw the sector expand by 11.5% pushing real GDP growth to 8.5%.

Monetary Policy

Money supply for the first three quarters of 2006 was up, with broad money (M2) growing to K60.6 billion. This was in line with the beginning of the agriculture marketing season. By the third quarter, money growth rose to 18.7% year-on-year compared to 17.6% in the previous year. Narrow money also grew by 10.1% during the first half of the year a reflection of the start of the tobacco season. Given this expansion in the supply of money the monetary policy stance was tightened to control inflation and maintain a stable macro-economic environment. The liquidity reserve requirement was lowered from 27.5% to 20% in February 2006 while any excess liquidity was mopped up through the sale of treasury bills by the Reserve Bank of Malawi (central bank).

An improvement in the macro-economic performance of Malawi and falling inflation rates prompted the central bank to cut interest rates late in 2006 from 25% to 20%. This move by the government is expected to motivate the private sector into borrowing more thereby stimulating production. According to the National Statistics Office, the annual average national inflation rate for 2006 is estimated to have fallen to 13.9% from 15.4% recorded in 2005. This was due to improved food harvests from intensified irrigation programmes, stable exchange rates against major trading currencies and declining world oil prices supported by prudent fiscal and monetary policies.

Fiscal Policy

The government's budgetary operations were encouraging as the fiscal budget recorded a surplus during the first three quarters of 2006 of K257.3 million compared to a deficit of K4.2 billion in the same period of the previous year. This was a reflection of increased government revenue which rose by 32.2% to K89.2 billion compared to K67.5 billion in the first three quarters of 2005. This increase was particularly from foreign grants which increased by 96.4% to K32.9 billion following the resumption of the Poverty Reduction and Growth Facility program with the IMF since the third quarter of 2005. The increase was also supported by an increase in tax revenues, which rose by 10.9% to K56.3 billion from K47.8 billion the previous year. Government expenditure during the first three quarters of 2006 also rose by 25.2% to K89 billion mostly reflecting an increase in recurrent expenditure to K70.7 billion.

Real Sector

The structure of the Malawian economy is structured around the agriculture sector which currently contributes 35.5% to GDP. The distribution sector contributed 23.4% while manufacturing contributed 11.7% to GDP. There has been little diversification in the economy with factors such as high interest rates inhibiting the growth of other industries particularly the manufacturing sector. There was a significant boost in investment pledges in 2006 compared to the previous year.

The agricultural sector was forecast to grow at 11.8% in 2006 but estimates were revised reflecting a downward revision of large scale production from 4.2% to 2.3%. Tobacco, the main cash crop under large scale farming recorded reduced output and figures at the tobacco auctions for end September recorded an overall decline in sales of 6.8% to 128.3 million kilograms from a decrease of 17.1% and 83.9% in burley and western tobacco respectively. However growth in the agriculture sector was still very

A good number of our Member States are endowed with rich natural resources. The Bank has played a key role in financing viable businesses in the tourism and extraction industries among other sectors.

impressive and is estimated to have grown by 11.5% in 2006 compared to a contraction of 9% in 2005. This was supported by an upward revision of the growth in the small-scale agricultural sector which is now estimated to have grown by 14.4% instead of the forecasted 14.2%. The government's fertiliser and input programme assisted in boosting small-scale farming across the country.
Tea sales, another of Malawi's cash crops is estimated to have increased to USD 18.8 million for the half year to June 2006 selling approximately 15.3 million kilogrammes and fetching a price of USD 1.23/kg. Sugar production is also estimated to have risen to 279,113 tonnes from 269,256 tonnes in 2006.

Revised statistics show that the manufacturing sector is estimated to have grown at a slower pace in 2006 at 5.9% compared to 7.6% in the previous year. Other sectors also recorded similar movements with construction, distribution and transport sectors growing at 6%, 7.9% and 6.3% in 2006 compared to growth rates of 12.7%, 12.9% and 9.7% in 2005 respectively.

BOP and Foreign Exchange

Malawi's exports depict the country's economic structure and are therefore largely derived from the agricultural sector, with the four dominant ones being tobacco, tea, sugar and cotton. Over the last few years, efforts by the government have been made to diversify the export base to non traditional crops which have been reflected in the increase of coffee and pulses exports. For the first three quarters of 2006 total exports amounted to K57.8 billion compared to K44.7 billion during the same period of 2005. Of this tobacco accounted for 43% while earnings rose to K24.8 billion compared to K20.5 billion in the previous year. Tea and sugar exports are also estimated to have risen to K5.7 billion and K6.1 billion in 2006 compared to K5.3 billion and K4 billion in 2005 respectively. Imports rose to K99 billion widening the trade deficit to K44.2 billion. The overall balance of payments as measured by the change in net international reserves recorded a deficit of K3.6 billion.

During the first half of the year 2006, the kwacha depreciated by 12.2% against the dollar from pressures arising from the increased domestic demand coupled with falling foreign reserves. At the start of the second half, the kwacha strengthened against the dollar from K138.3 to the dollar at the end of September to K137.8 against the dollar at the end of October. As the end of the year approached the currency depreciated in line with seasonal factors owing to a decline in the supply of foreign exchange as a result of the closure of the tobacco marketing season. Overall, the kwacha depreciated by 12.6% to average K136 to the dollar in 2006 compared to K118.4 in 2005. Forecasts for 2007 indicate that the kwacha will depreciate further and exchange at an average of K144.19 to the US dollar.

MAURITIUS

Among the COMESA member states Mauritius has the most well diversified economy. It has successfully diversified the economy away from agriculture since independence and is now estimated to have contributed only 5.6% to GDP in 2006. The economy is mainly built around the tertiary sector and is driven by activities in transport, storage and communications, financial intermediation, wholesale and retail trade and business services. This is followed by the secondary sector then the primary sector which mainly consists of agricultural activities. The Mauritian economy is estimated to have grown by 5.0% in 2006 compared to 2.2% in 2005. Excluding the sugar industry, real GDP growth was 5.3% against 2.8% in 2005. In terms of contribution to real GDP growth in 2006, the secondary and tertiary sectors contributed 1.2 and 4.3 percentage points to the overall GDP growth while the contribution of the primary sector was marginal. The economy is forecasted to grow by around 5.0 % in 2007. Excluding the sugar industry, the growth rate would be around 5.2%.

Monetary Policy

The Consumer Price Index (CPI) increased from 119.5 in December 2005 to 133.7 in December 2006. This represents an increase of 14.2 points or 11.9% during the year 2006. In the 2006 calendar year, inflation works out to 8.9% compared to 4.9% in 2005 while the rate of inflation for financial year 2005/06 was 5.1%. The rise in inflation was attributed to the cut of government subsidies in 2006 which were aimed at limiting price increases in the domestic economy in 2005. Money supply growth slowed in 2006 and is estimated to have dropped to 10% compared to 14.2% in 2005. The Lombard rate was abolished in December 2006 to be replaced by the Repo rate as the main policy rate. It started the year at 11.5% and was increased in June 2006 to 12%. Prior to its abolition, the Lombard rate stood at 13%. Lending rates also responded in similar manner and ranged from 10.7% to 11.75% at the end of the year compared to 9.2% to 10.25% at the beginning of the year.

Fiscal Policy

In fiscal year 2005/06, both government expenditure and revenues are estimated to have grown. Total expenditure rose to Rs49.6 billion compared to the budgeted Rs48.1 billion and compared to the expenditure of Rs45.1 billion in 2004/05. Higher tax revenues grew by 8.1% whereas non-tax revenue increased by 16% which led to total recurrent revenues increasing to Rs38.5 billion with total revenues rising to Rs39.2 billion compared to the budgeted Rs38.6 billion and compared to the revenue of Rs36.1 billion in 2004/05. Thus, the budget deficit for 2005/06 widened to stand at Rs10,345 million or 5.3% of GDP at market prices compared to 5% in 2004/05.

Real Sector

The performance of the real sector in 2006 showed positive growth in the tertiary and secondary sector while the primary sector, which comprises agriculture, mining and quarrying was stagnant. The stagnant growth was due to the 2.9% contraction in the sugar sector despite the 9.1% growth in the mining and quarrying industry during the year. The secondary sector rebounded by 4.2% in 2006 after a negative growth of 4.7% in 2005 and contributed 27.6% to GDP in 2006. There was a 3.9 % increase in the manufacturing sector from a contraction of 5.5% in 2005 and a 4.6% and 4.1 growth in the EPZ manufacturing and non-EPZ manufacturing industries respectively compared to a contraction in 12.3% in the EZP manufacturing in 2005. Significant growth was also noted in the construction industry which grew by 5.1% from the building of new hotels and implementation of projects under the Integrated Resort Scheme (IRS). On the other hand the sugarcane/milling industry is estimated to have contracted by 2.9% as sugar production declined to around 504,857tonnes compared to 519,816 tonnes in 2005.

The tertiary sector which contributed 66.9% to GDP in 2006 grew at a lower rate by 5.8% compared to 6.3% in 2005. This growth was driven by hotels and restaurants which are estimated to have grown by 3.5% based on an estimate of 788,276 tourist arrivals in 2006. According to the Bank of Mauritius, gross tourism receipts for the year amounted to Rs 31,942 million, showing an increase of 24.3% compared to the 2005 figure of Rs 25,704 million. Other tourism industry statistics showed good growth of the sector.

Total tourist nights spent in the country in 2006 was estimated at 7.8 million, up by 4.5% over the preceding year while room occupancy rate for all hotels for the year 2006 averaged 66%. Forecasts for 2007 show that the tourism industry will continue to grow with arrivals estimated at 850, 000 representing a 7.8% increase from 2006 while receipts will be Rs 35,900 million a 12.4 % increase over 2006 earnings. Growth in wholesale and retail trade emanating from distribution activities grew at a lower rate of 5.1% in 2006 compared to 5.6% in 2005 while growth in financial intermediation was strong in 2006 and estimated at 7.4% as a result of growths of 5.0% and 8.4% in insurance and other financial intermediation activities respectively.

BOP and Foreign Exchange

Imports of goods and services grew by 9.4% in real terms compared to 6.4% in 2005 while exports of goods and services grew by 8.9% compared to 11.6% in 2005. The growth of exports was due to higher EPZ exports, sale of aircraft and increased activities in the Freeport. This led to a deficit of Rs 22,650 million in 2006 compared to Rs 11,127 million in 2005 or a deficit representing 11.0% of GDP at market prices in 2006 compared to 2.4% and 6.0% in 2004 and 2005 respectively. Exclusive of the aircraft purchase in 2006, the percentage worked out to 8.3%. The overall balance of payments deficit narrowed marginally in 2006 to Rs4, 573 million compared Rs4, 888 in 2005. Net international reserves rose and as at end December 2006 stood at Rs74, 192 million compared to Rs56, 548 million the previous year. The rupee depreciated by 6.2% during 2006 to exchange at an average of Rs31.72 vis a vis the US dollar compared to an average of Rs29.75 to the US dollar in 2005.

RWANDA

Rwanda has made significant economic gains over the past decade. A mainly agriculture based economy, the sector accounts for 40% of GDP and is the country's main employer. Concerns over land shortages, declining yields and high population growth rate has seen a reduction in food production which is inadequate to cover the country's food requirements. Efforts by the government have been implemented to increase food production through its Poverty Reduction Strategy of rural capitalization by improving rural infrastructure and boosting the use of fertilizer. Real GDP growth for 2006 is expected to average 5.8% mainly driven by growth in the construction and mining sectors although the IMF has projected growth to be much lower at 4.2%. Growth in agriculture was only marginal and this was reflected by the marginal growth in the manufacturing sector which depends on raw materials from the agricultural sector.

Monetary Policy

The government's inflation target of 5% for 2006 is unlikely to be met because of higher than anticipated inflationary pressures. The pressures emanated from an increase in food prices particularly in the first half of the year as a result of poor weather conditions which hampered the domestic agricultural production coupled with the high prices of oil. Estimates from the IMF indicate that inflation will average 5.5% in 2006. There was an increase in broad money to above 8% year-on-year in September 2006 reflecting an expansion of about 26% credit to the private sector in 2006.

Fiscal Policy

Rwanda continues to draw heavily on donor assistance for budget support with external grants estimated to contribute more than 50% of government revenue. Donor support from the EU continued and helped increase government revenue for 2006. Revenue collected by the Rwanda Revenue Authority is estimated to have increased, accounting for 15.2% of GDP in 2006 compared to 15.1% in 2005. This was a reflection of a tight fiscal policy during the first half of 2006. Government expenditure and net lending is estimated to have declined to 28.5% in 2006 compared to 28.1% in the previous year. The fiscal deficit including grants is expected to stand at 0.4% of GDP in 2006.

Real Sector

Coffee and tea constitute the main cash crops earning the country 80% of export revenues. There have been efforts by the government to diversify the economy away from coffee and tea. The new focus has been in the development of the floriculture industry. Despite the stiff regional competition from more established exports, Rwanda commenced exports of floriculture products to Europe in 1999.

Rwanda's mining industry is built around deposits of cassiterite, Colombo-tantalite (coltan), wolfram, gold and sapphires all of which are mined artisanally. The manufacturing sector is mainly agro based and geared towards food processing. The construction sector boomed in 2005 and is expected to have continued in 2006 mainly driven by the large population growth which has necessitated the construction of residential areas and commercial buildings.

BOP and Foreign Exchange

Exports for 2006 are estimated to have grown to USD 135.4 million from USD 125 million in 2005. Imports also rose to USD 390.4 million in 2006 from USD 357.5 million. The current account deficit widened to USD104.1 million from USD 61.9 million: in terms of contribution to GDP it grew to 4.5% from 3% in 2005. The strong exports, donor support and a weak US dollar was behind the stability of the Rwandan franc in 2006 although it depreciated mildly to exchange at an average of Rwfr560.63 in 2006 compared to Rwfr555.84 in the previous year. Gross official reserves are estimated to have declined to USD 368.7 million for 2006 from USD 405.8 million in 2005.

The emergence of the cellular phone industry has contributed significantly to growth in many of the Member States. The Bank has financed several cellular operators in the region.

SEYCHELLES

The Seychelles archipelago in the western Indian Ocean has a total land area of only 455 sq km. The island of Mahe is by far the largest while the islands to the south are mainly uninhabited coral atolls. The Seychelles economy is dominated by the services sector, mainly transport, tourism, communications and commerce which contribute about 70% to GDP and are the main engines of growth. In 2006 the economy of Seychelles seemed to have come out of its recession as the economy is estimated to have grown by 1% from a negative growth of 1.5% in 2005. This was supported by strong growth in the tourism sector which saw an 11.5% increase in visitor arrivals coupled with increased government spending.

Monetary Policy

Strict price controls continue to restrain inflation growth. It is estimated that in 2006 inflation averaged negative 0.3% compared to 0.9% in 2005. The deflation would have been much more significant but was moderated due to the liberalization of the exchange rates in October 2006 which saw the rupee devalued for the first time in 3 years. As a result, prices are estimated to have risen by 2.2% during the last quarter of 2006. The significant drop in inflation was also aided by the large oil subsides which curtailed the impact of increased oil prices on the domestic market particularly in the petroleum, electricity and public transport sectors. The government was also keen to maintain low and stable prices in the run-up to the presidential elections in mid 2006.

There were efforts to adjust the current CPI basket to capture the consumption patterns that have evolved. In 2006, the National Bureau of Statistics started an exercise to adjust the weights in the CPI to correspond more to the current levels.

In the year ending September 2006, broad money (M2) grew by almost 11%, the highest in three years due to an increase in net foreign assets. This however did not have any significant impact on inflation. In terms of interest rate movements, the enforcement of the minimum 2.5% annual interest is anticipated to raise the term structure of deposit rates in the banking sector. There was little movement in other interest rates, with the weighted average lending rate falling from 10.06% to 10.03% from the first to the second quarter and was maintained throughout the third quarter.

Fiscal Policy

In line with an election year, government expenditure rose significantly during the run-up to the election in July 2006. The estimates show that for the first three quarters of 2006 expenditure rose by 36% to USD 298 million of which recurrent expenditure rose by 20% driven by increases in pre-election spending, Independence Day celebrations and higher petroleum price subsidies. Capital spending on the other hand rose by an estimated 187% compared to the first three quarters of 2005. In comparison to the government budget, it represented a 73% increase in capital spending mainly driven by investments in the on-going government housing projects and associated infrastructure. Revenues however declined by 2% year-on-year during the first three quarters of 2006 mainly in line with the lower growth rate.

Real Sector

The main economic activities in the Seychelles are structured around services with the main ones being transport, communication, commerce and tourism. Tourism, the country's mainstay recorded robust growth as tourism arrivals triggered higher earnings. Increased foreign direct investment to the sector rose significantly in 2006. Tourist arrivals for the first three quarters of 2006 rose by an estimated 11% to 102,015. In line with this, revenues also rose to R504.4 million compared to R452.2 million during the first three quarters of 2005.

Indicators for the first three quarters of the year 2006 show that production of canned tuna grew moderately to

30,162 tonnes compared to 29,606 tonnes during the first three quarters of 2005. However, both the production and export of prawns declined slightly during the same time period. Production and exports of prawns stood at 726 tonnes in 2005 compared to the first three quarters of 2006 where the production of prawns was estimated at 547 tonnes while exports were significantly lower at 256 tonnes. On agricultural produce, cinnamon bark deliveries to the warehouse declined to 131 tonnes compared to 158 tonnes while exports rose to 17 tonnes compared to only 9 tonnes in the first three quarters of 2005.

BOP and Foreign Exchange

The current account deficit is estimated to have narrowed somewhat in response to higher tourism receipts to USD164 million or 21.4% of GDP in 2006 compared to USD 179.3 million or 23.8% of GDP in 2005. Total exports are estimated to have risen to USD 364.4 million from USD 355.8 million while imports rose to USD 656.8 million compared to USD 620.4 million in the previous year. Foreign exchange reserves were boosted to an all time high in October 2006 to USD 133.1 million or 161% higher year-on-year in response to the issuance of the first International Bond by the government. There was no change in the exchange rate of the rupee against the US dollar from 2005 and averaged R5.5 vis a vis the US dollar during the first nine months of 2006. The rupee depreciated in October for the first time in three years and ended the year at R5.79 to the dollar. This depreciation was as a result of the liberalization of the exchange rates and currency markets which commenced in October 2006.

SOMALIA

The economy of Somalia has continued to be heavily dependent on livestock and agriculture throughout the political instability that has beleaguered this country. The World Food Programme estimates that livestock rearing accounted for 40% of GDP and 65% of exports in the year 2000. Reliable economic data is difficult to obtain in order to correctly assess economic performance. Over the last few years it is estimated that the economy contracted from the effects of a ban imposed by Saudi Arabia and other Gulf states in livestock imports. However the lifting of this ban in December 2006 is expected to see increased activity in this sector and particularly export earnings and tax revenues from the port of Berbera.

Most of the central and southern parts of Somalia enjoyed a relative return to peace under the Islamic courts in 2006 which was expected to foster an environment of positive economic growth. However, the situation changed dramatically following ouster of the courts. Latest inflation figures show that it reached 12% in 2005 with the main source of inflationary pressures emanating from food shortages due to the drought which affected most parts of the country in late 2005 and early 2006.

The collection of duties and taxes makes up a significant source of government revenue. In the south of Somalia tax revenue in some cases has been used to restore schools and hospitals as well as paying militiamen. Somaliland however has a more organized system where taxes are levied on trade at the port of Berbera and are estimated to generate 85% of government revenue. The revenues are mostly spent on armed forces and civil service salaries. The latest data shows that 2005 revenue was estimated at USD 24 million which represented a 13% increase over the 2004 budget of USD 22 million.

Animal husbandry is the main economic activity and livestock exports constitute the main export commodity. Latest estimates for 2005 show that exports increased to USD249 million compared to USD189 million in the previous year while imports rose to USD671 million from USD 586 million in 2004. It is estimated that the number of livestock exported through the port of Berbera fell slightly in 2006 compared to the previous year. However the lifting of the livestock import ban in late 2006 by Saudi Arabia is expected to boost export earnings in 2007.

The largest source of foreign currency continues to remain remittances from Somalis in the diaspora. These are estimated at about USD800 million annually. There are multiple currencies circulating in Somalia. The Somalia shilling which is estimated to have exchanged at SoSh20,000 vis a vis the US dollar in 2005 is used in the south. On the other hand, the Somaliland shilling is estimated to have been trading at SolSh6,250 vis a vis the US dollar in 2005.

SUDAN

Despite the significant development of the oil industry which is changing the economic structure of Sudan, the agriculture sector continues to remain dominant in contributing to both economic growth and as a source of employment for many Sudanese. Growth in 2006 is estimated to have risen to 9.6% from 8.5% in 2005. Contributing to this growth was the rise in oil production and revenues as well as an increase in foreign direct investment in the energy sector which are estimated to have increased by 69% year-on-year.

Monetary Policy

Sudan has separate banking systems in the north and south. In the north, all financial institutions are governed by sharia (Islamic) law while in the south the Bank of Southern Sudan (central bank) which was set up in July 2006, is based on the international banking system. During the first half of 2006 inflation started at 4.1% in the month of January and it rose to above 5% during the first quarter of 2006 and then declined during the second quarter to stand at 4.3% in June. Year-on-year, inflation fell and averaged 4% during the first half of 2006.

This was as a result of a tightening of the domestic liquidity situation. During the second half of the year inflation rose sharply to double digits and peaked at 15.7% in September before declining to stand at 12.2% in November of 2006. This was from increased prices during the second half following a reduction in subsidies on sugar and fuel in August 2006.

Fiscal Policy

Government revenue reached SD1.6 trillion (USD 7.4 billion) in 2006, largely from increased tax receipts particularly from the oil sector. Total government expenditure is estimated to have increased to SD1.9 trillion in 2006. The overall result is that the fiscal balance reached an estimated SD321 billion or 3.7% of GDP in 2006

Real Sector

In recent years, Sudan has been a major recipient of Foreign Direct Investment (FDI) among COMESA member states. Most of the FDI, mainly from China, Malaysia, India and recently Canada has been directed towards the oil sector particularly in the upstream activities. China has now become one of Sudan's main trading partners consuming about 70% of Sudan's export commodities with Sudan sourcing majority of its imports from China. However the government is keen to attract investors into the non-oil sector of Sudan. Strides have been made with the privatization of the telecommunications network which has made way for rapid growth in the provision of services for both fixed line subscribers and mobile phone subscribers.

Good infrastructure remains a key driver of economic development, a realisation that has prompted heavy investments in the sector.

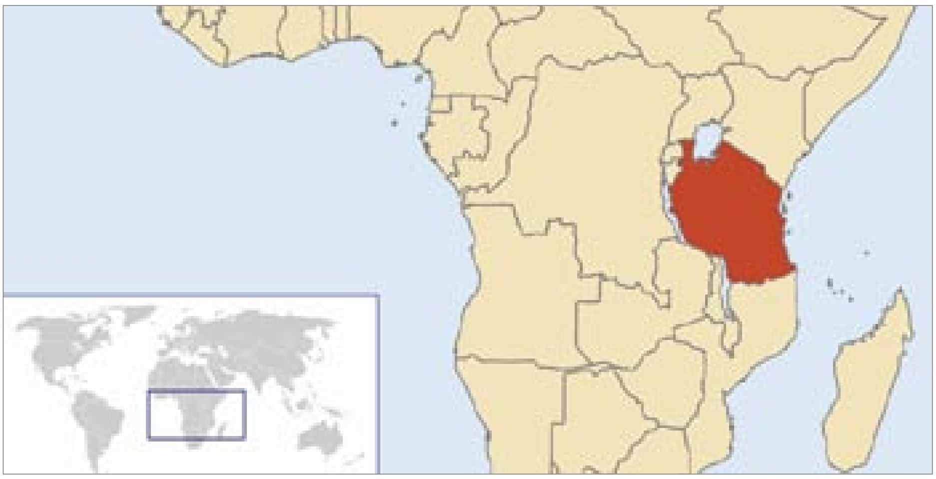
BOP and Exchange Rates

With the high prices of oil on the international markets, Sudan, a predominant oil exporter, is estimated to have registered significant growth in export revenues in 2006. Figures from the Bank of Sudan indicate that for the first nine months of 2006 total exports amounted to USD 4.4 billion compared to USD 3.6 billion in the same period of the previous year. Exports earnings of petroleum products, predominantly crude oil and benzine rose to USD 3.9 billion during the first nine months of 2006 compared to USD 3.2 billion during the first nine months of 2004. During this period, crude exports alone were estimated to account for nearly 89% of total export earnings and rose by an estimated 22%. However, during the first nine months of 2006, non-oil exports registered a small decline to USD 435.8 million compared to USD 461.2 million in the first nine months of 2005. Non-oil export commodities mainly include livestock, sesame seeds, gum arabica and gold. On a yearly basis total export revenue are estimated to have risen to USD 6 billion in 2006 from USD 4.8 billion in 2005, largely owing to high international oil prices increasing export receipts Sudan's main export earner.

Total imports rose significantly to USD 6 billion during the first nine months of 2006 compared to USD 4.6 billion. On an annual basis total imports in 2006 are estimated to have risen significantly to USD 8.7 billion in 2006 from USD 5.9 billion in the previous year. The trade deficit as a result widened sharply to USD 2.7 billion in 2006. The current-account deficit is estimated to have widened to around USD 5.5 billion or 13.8% of GDP in 2006 from USD 3 billion or 10.2% of GDP in the previous year.

The existing national currency, the Sudanese dinar, is principally used in the north, whereas foreign currencies tend to be used in the south. By early December 2006 the dinar had strengthened to below SD203 vis a vis the US dollar representing a year-on-year rise of round 12%. The appreciation is mainly from the significant increase in oil exports in 2006. Foreign reserves stood at USD 2.4 billion representing 2.6 months of imports as at the end of the third quarter of 2006.

TANZANIA



Tanzania's recent economic performance has been characterized by high growth, low inflation, sufficient reserves and a sustainable external debt position. However the recent energy crisis has led to a revision downwards of real GDP growth for 2006. The reduction in hydropower generated electricity and high prices of fuel have negatively impacted on output throughout the various industries in the economy. In recognition to this problem, the government has initiated the development of alternative sources of energy away from dependency of hydropower. Of particular interest has been ways to generate power from the natural gas reserves.

According to the Bank of Tanzania (central bank), real GDP growth for 2006 is estimated to have grown by 5.9% compared to 6.8% in 2005. Previous estimates for 2006, had initially indicated more robust growth of 7.2% but has since been revised downwards. The agricultural sector also suffered from the poor weather conditions of 2005/06 which saw a drop in output. Despite the poor performance of the agricultural sector, there was strong growth from the construction and tourism sectors.

Monetary Policy

The Bank of Tanzania's monetary policy statement is to control the growth of broad money while allowing strong real GDP growth and maintaining inflation at 4%. However, the year 2006 saw increased inflationary pressures mainly emanating from the effects of the 2005/06 drought causing constraints in the food supply which was reflected in the increases in food prices. Non-food inflationary pressures emanated from an increase in the international prices of oil. As a result headline inflation which started the year at 5.4% in January 2006 rose to peak at 7.7% in May before it declined to 5.4% in July but rose again for the remainder of the second half of the year to end at 6.7% in December 2006. The overall annual average inflation for 2006 therefore was significantly higher at 6.2% compared to an average of 4.4% in 2005. Lending rates rose in 2006 to 15.5% from 15.1% in 2005.

Fiscal Policy

The fiscal budget deficit widened to 4.9% of GDP in 2005/06 compared to a widening of 4.1% of GDP in 2004/05. This widening was from a reduction in grants of which the government of Tanzania is still reliant on. Efforts to reduce this reliance were seen from efforts to boost domestic revenue collection through the widening of the tax base and improvement in tax administration. Tax revenues rose to Tsh 1,946.4 billion in 2005/06 from Tsh1,615.2 billion in 2004/05

For the budget of 2006/07, it is expected that donor grants will continue to support the fiscal deficit, which is expected to decline to 4.6% of GDP. Total revenues are estimated to increase to Tsh 2,461 billion with tax revenue rising to Tsh2, 269.6 billion. Government expenditure is expected to increase significantly to Tsh4, 788.5 billion from Tsh3,873.3 billion in 2005/06.

Real Sector

After the liberalization of the mining sector in 1997, there has been significant growth in the sector through the attraction of foreign direct investment. Between 2000 – 2005 the mining sector was estimated to have grown by an average of 15.3% peaking at 18% in 2003. The growth however has only been limited to only one commodity, gold, which has now become one of the country's largest export earners accounting for 90% of the country's mineral earnings. This growth has also seen an increase in the sector's contribution to GDP, which is now estimated at about 3% compared to 1.6% in 1996.

Dry weather conditions experienced in most parts of the country in 2006 led to a decline in the production of most cash crops and food crops. The volume of all traditional cash crops with the exception of tea saw a reduction in the volumes exported. The largest decrease was recorded in cotton which had a 50% decline followed by tobacco, coffee, sisal and cashewnuts which decreased by 19.3%, 17.3%, 15.9% and 15.3% respectively. On the other hand tea registered a 20.9% increase in export volumes.
Coffee production in the 2005/06 season dropped to 34,300 metric tonnes from 54,000 metric tonnes in 2004/05 due to the drought conditions in coffee growing areas. Cotton and tea output declined to 100,600 tonnes and 30,300 tonnes from 114,500 tonnes and 30,700 tonnes respectively. On the other hand, production of cashew nuts, tobacco and sisal increased to 90,400, 52,000 and 27,800 from 72,000, 47,000 and 27,000 metric tonnes respectively.

The tourism sector showed large growth in 2006 owing to the positive response from the government and other stakeholder efforts to promote Tanzania as a tourist destination. The transport sector also showed significant growth from increased transit cargo to and from neighbouring countries. Recently acquired equipment to improve the railway operations between Tanzania and Zambia is expected to further boost the transport sector.

BOP and Foreign Exchange

Export of goods and services rose in 2006 by 6.4% to USD 3.1 billion largely reflecting increases in services receipts while goods exports remained almost unchanged at USD 1.7 billion compared to USD 1.8 billion in 2005. The little change in exports in 2006 was as a result of poor performance of the traditional exports from the agricultural sector which was adversely affected by the 2005/06 drought. The traditional exports declined by 24.6% to USD 267.1 million in 2006. Non-traditional exports rose by 7.4% from increases in gold and manufactured goods receipts to USD 737.1 million and USD 195.8 million respectively. Services exports rose by 11.2% to USD1.4 billion mainly reflecting an impressive performance from the transport and tourism sectors. In 2006, the largest contributor to total exports of goods and services was from the tourism sector which accounted for 27.3% followed by gold which contributed 23.5%.

Imports rose by 28.9% in 2006 to USD 3.9 billion compared to USD 3 billion in 2005. As a result the current account deficit widened further by 64.8% to USD 2.2 billion compared to USD 1.3 billion in 2005. The overall balance of payments deteriorated and widened by 64.9% to USD 1.6 billion from USD 1.0 billion in 2005.

The Tanzanian shilling depreciated against the US dollar in 2006. This was from an increase in fuel demand and food products brought on by the drought and electricity shortages. The shilling averaged Tsh 1,253.5 against the dollar in 2006 compared to Tsh 1,128.9 to the dollar in 2005.

UGANDA

Uganda's economic performance over the last few years has been impressive with average real GDP growth for the last eight years at over 6% and in most years exceeding the average growth of the COMESA sub-region. Behind this growth has been the successful implementation of sound macro-economic policies through responsible fiscal policy, prudent monetary policy, sound banking sector and substantial donor support which have created an enabling environment for high positive growth rates. Growth in 2006 is estimated to have reached 5% a slight decline from the 5.5% recorded in 2005. This was a reflection of electricity supply constraints throughout the country despite the heavy rains in late 2006. The worst hit industries were the manufacturing and high value agriculture industries whose profits diminished due to the high costs of using alternative power in the form of high-cost thermal generators.

Monetary Policy

Monetary policy management by the Bank of Uganda continued to focus on using foreign exchange sales as the primary liquidity sterilization tool which helped interest rates to decline in 2005/06 to 7.8% from 8.5% in 2005/04. Broad money growth was estimated at 18.9% in 2005/06 compared to 12.1% in the previous fiscal year. For the year ended December 2006 inflation rose to 11.3% the highest level since July 2005. Inflationary pressures emanated from increases in the prices of food and fuel. Food prices in particular rose during the latter part of the year due to the heavy rains which destroyed crops and affected transportation of farm produce

Fiscal Policy

The fiscal deficit during 2005/06 narrowed to 7.5% of GDP representing a 1% decline from the precious year. This was from an increase in tax revenues from improved tax administration and new tax measures implemented to boost domestic revenues. In particular, tax revenues rose significantly from international trade and value added taxes. Another contribution to the decline in the deficit was a reduction in donor financed development expenditures. IMF estimates for 2006/07 indicate that the deficit will widen to 7.7% of GDP owing to an increase in government expenditure to 22.3% of GDP from 20.6% in 2005/06. Revenues are expected to increase only slightly to 13.6% of GDP in 2006/07 from 13.2% in 2005/06 while grants will remain unchanged at 6.6% of GDP.

Real Sector

Despite the favourable rainfall throughout 2006 which is expected to improve agricultural production, heavy rains during the latter part of the year caused some flooding in certain parts of Uganda and is expected to slightly dampen output. The success of diversifying the country away from coffee has proven successful as evidenced by the growth in the fishing industry in Uganda. Fish and its products are currently the country's second export earner from coffee and with only 40% of the processing capacity being used, the growth potential for this industry in terms of export earnings is significant. Efforts to increase production have resulted in an increase of commercial fish farms with current output at 10,000 tonnes per year from the estimated 120 commercial fish farmers. It is estimated that farmed fish is likely to surpass captured fish in the next ten years.

Uganda experienced an energy crisis despite the good rains in 2006 as water levels in rivers and lakes continued to remain inadequate to generate sufficient hydropower for the whole country. This resulted in frequent power cuts which constrained growth in many sectors and industries. It is estimated that the frequent power outages cost the flower industry over USD 20 million in export sales as two companies collapsed while two others relocated outside Uganda.

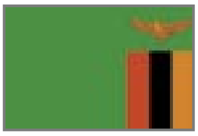
Due to the significant impact the retail sector has on economic growth, it has also received support from the Bank through provision of funding.

BOP and Foreign Exchange

Total exports for the first eleven months of the year stood at USD 900.73 million of which non-coffee exports constituted USD 732.69 million. Coffee is estimated to be the main export earner with receipts at USD 190.24 million for 2006. This was closely followed by fish and its products at USD 177.31 million in export receipts for the first eleven month of 2006 while gold receipts stood at USD 110.12 million for the first eleven months of 2006. Total imports for the first eleven months of the year rose to USD 2,057.03 million mainly driven by an increase in capital imports of thermal power generators to cover for the electricity shortfall. The current account deficit widened to USD 384 million for 2005/06 from USD 379 million in the previous year. The deficit is expected to widen significantly in 2006/07 to USD 581 million mainly reflecting significant increase in imports.

In 2006, the Ugandan shilling was exchanging at an average of Ush1,835 against the US dollar a slight depreciation from 2005 when the shilling exchanged at Ush1,810.3 to the US dollar. After depreciating during the first half of the year to reach Ush1,859.95 in June 2006, the shilling started to appreciate and by end December 2006 the bank mid rate was Ush1,775.33 to the dollar. The appreciation was due to an increase in export earnings, a weakening dollar, multilateral debt relief and the conclusion of elections. Foreign exchange reserves have been healthy throughout 2006. The reserves started the year at 9.12 import months of cover in January 2006 and declined slightly to 8.57 import months of cover in November 2006.

ZAMBIA



The Zambian economy performed well in 2006 with real GDP growth estimated at 5.8% against growth of 5.2% recorded in 2005. The expansion was largely driven by the mining, construction and transport sectors. Other sectors that registered positive growth were agriculture, tourism, manufacturing, wholesale and retail trade, and the services sector.

Monetary Policy

The annual rate of inflation was 8.2% as at end December, 2006 compared to the annual target of 10% and an outturn of 15.9% in 2005. This is the lowest rate of inflation recorded in the last 30 years despite the high prices of oil and rapid money supply growth. Stable prices of food assisted in lowering inflation during 2006 due to the bumper harvest which resulted in increase supply of maize, the staple food. The reduction in the level of Government borrowing also assisted in easing pressure on inflation and interest rates, as well as contain the interest cost on the domestic public debt.

The average Treasury bills yield rate declined from 16.7% to 9.8% while the composite Government bond yield rate declined from 23% to 12.6%. Falling inflation and the continued high demand for Government securities by both local and foreign investors explain this drop in yields. The average commercial banks' lending rate further declined to 27.9% in December 2006 from 33.9% in December 2005

Fiscal Policy

Total revenue and grants for 2006 were below the budget estimate by 8.4% and amounted to K8,240.9 billion. The fall was due to a reduction in domestic revenue from an under collection of VAT and excise duty. Total expenditures were also below target by 13.3% and amounted to K8,618.1 billion against the target of K9,942.4 billion. Domestic borrowing was thus within the set target of 1.6% of GDP and by year end, domestic borrowing was 1.5% of GDP.

Real Sector

Although the mining sector is the largest export earner, it contributes less than 10% to GDP. However, if one takes into account the various sectors that are built around mining such as the services sector and the manufacturing sector which provides inputs, the mining sector's contribution to GDP is significant. In recent years the sector has rebounded from the increase in the international prices of copper and estimates indicate that real GDP growth in the mining and quarrying sector increased to 11.8% from 7.9% in 2005. This was largely on account of the rise in mineral production. Copper, Zambia's main mineral and export commodity saw production increasing by 7.9% from 459,324 tonnes in 2005 to 492,016 tonnes in 2006. Cobalt production, however, declined from about 5,537 tonnes in 2005 to 4,658 tonnes in 2006.

The agriculture, forestry and fishing sector continued to perform well in 2006, registering a growth rate of 2.4%. Excluding forestry and fishing, the agricultural sub-sector grew by 3.9% from increased production of crops. The bumper harvest of 1.4 million metric tonnes of maize was recorded during the 2005/2006 farming season compared to 866,000 metric tonnes in the previous farming season. This was as a result of favourable weather, increased credit and also programmes such as the fertilizer support, food security pack and outgrower schemes which have boosted production of food and cash crops among the 800,000 small-scale farmers.

The construction sector grew by 9% albeit at a slower rate compared to the growth of 21.2% in 2005. Growth in this sector was driven by housing, road construction and other civil works. The manufacturing sector also grew in 2006 by 3.3% compared to 2.9% in 2005. Growth was mainly driven by the food, beverages and tobacco sub-sector, which grew by 4.5% in 2006 compared to 3.6% in 2005. Positive growth was also recorded in the chemicals, rubber and plastics, fabricated metal products, base metal products, and the paper and paper products sub-sectors, mainly on account of increased domestic and external demand.

The tourism sector continued to record positive growth with an increase in investment and tourist arrivals driven by improved infrastructure and marketing as well as private sector investments. Tourist arrivals in 2006 are estimated to have increased by 3.1% to 670,000 from 650,000 in 2005 while earnings are estimated to have risen to USD 176.7 million in 2006 compared to USD 164.8 million recorded in 2005.

BOP and Foreign Exchange

Total export earnings grew by 77.3% to USD 3.9 billion in 2006 from USD 2.2 billion in 2005 on account of an increase in the international price of copper to record levels, coupled with an increase in copper volumes. There was also a 29.3% increase in non-traditional exports from USD 576.7 million in 2005 to USD 754.9 million in 2006. Imports also rose by 22.7% and stood at USD 2.7 billion from USD 2.2 billion in 2005 in line with the economic expansion particularly from the mining sector. As such the trade balance surplus increased to US $1,176 million compared to a surplus of US $10 million in 2005.

The current account deficit as a percentage of GDP excluding grants reduced from 11.8% in 2005 to 2.3% in 2006. The reduction of the current account deficit was due to increased export receipts arising from the record high copper prices and increased export volumes. The average inter-bank mid-exchange rate depreciated by 20.5% from K3,428 per US dollar in December 2005 to K4,132 per US dollar in December 2006.

ZIMBABWE

Although Zimbabwe is a land locked country, it has a well diversified economy with the dominant sectors being agriculture and mining. However the economic challenges the country has recently undergone has resulted in the contraction of real GDP growth over the past few years. The economic contraction continued into 2006 albeit at a lower rate at negative 2.5% compared to a contraction of 3.1% in 2005. This was on the back of the positive trend experienced in agricultural production over the past few seasons which is estimated to have grown by 6.4% from the good weather experienced during the year.

Monetary Policy

Broad money supply (M3) growth continued to expand in 2006 and increased from 669.9% in May 2006 to 1,438.3 % in November 2006. Annual domestic credit grew by 1 278.4% to $526.5 billion in November 2006 with the expansion in domestic credit driven by an increase in credit to Government, private sector and public enterprises by 1,013.5%, 1,545.6% and 1,132.9% respectively. Among the Member States, Zimbabwe continued to record the highest levels of inflation. Inflation rose from 623.2% in January 2006 to end the year at 1,281% in December 2006. This was as a result of an increase in both food and non-food prices. The continued rise in the price of goods and services, coupled with resurging adverse inflation expectations continued to give impetus to growth in currency in circulation, which increased by 175.6% from $53.5 billion in August 2006 to $147.4 billion in November 2006.

Fiscal Policy

During the first eleven months of 2006, cumulative Government revenue including retained revenue, transfers and payments amounted to $300.6 billion. Government expenditure, net lending including retained grants for the same period was $372 billion, dominated by current expenditure of $285.8 billion. This resulted in a cumulative budget deficit of $71.4 billion, which was wholly financed from the domestic banking system.

Real Sector

There was a general decline in production in the real sector in Zimbabwe in 2006. However, the agricultural sector grew by about 6.4% in 2006. There was a lower than anticipated maize and wheat production. This was also reflected in the total agriculture export shipments, excluding tobacco, for the six months to June, 2006, which declined by 23%, while tobacco shipments during the same period declined by 16.3%.

Tobacco sales at the auctions in 2006 declined to 53 million kg from 58 million kg in the previous year. Tobacco average selling price on the other hand increased to USD 2.014, compared with USD 1.599 the previous year which assisted in pushing the total value of sales to USD107.4 million, compared with USD 92.4 million in 2005. Tobacco has been one of Zimbabwe's major foreign exchange earners due to its high quality. However over the years the industry has registered a continued decline in both quantity and quality.

The performance of the manufacturing sector continued to be negatively affected by low capacity utilisation and a shortage of foreign exchange which led to a decline of an estimated 7% in 2006. This was also reflected during the first 6 months of 2006 which saw a significant decline in total exports by 13.8% compared to the period in 2005.

The continued leakages in mineral exports especially gold and diamonds has resulted in a reduction in both deliveries and earnings. Gold deliveries to the Reserve Bank of Zimbabwe (central bank) declined by 24%, from 10,552.04 kgs during the first seven months of 2005, to 7,991.57 kgs during

In cognisance of the key role the transportation industry plays in economic growth and regional integration, projects in this sector have continued to be supported by the Bank.

the same period in 2006. This is compared to a delivery of 22,000 kgs in 2004. The sector is estimated to have declined by 14.4% in 2006.

Zimbabwe's tourism sector showed good signs of picking up as tourist numbers rose by 45% to 1.5 million tourists in the first three quarters of 2006 compared to 1.1 million in the same period in 2005. The increase in numbers was mainly from the non-traditional markets of the Middle-East, Africa, China and Asia which more than offset the 20% decline in tourist numbers from the traditional markets of Europe and North America.

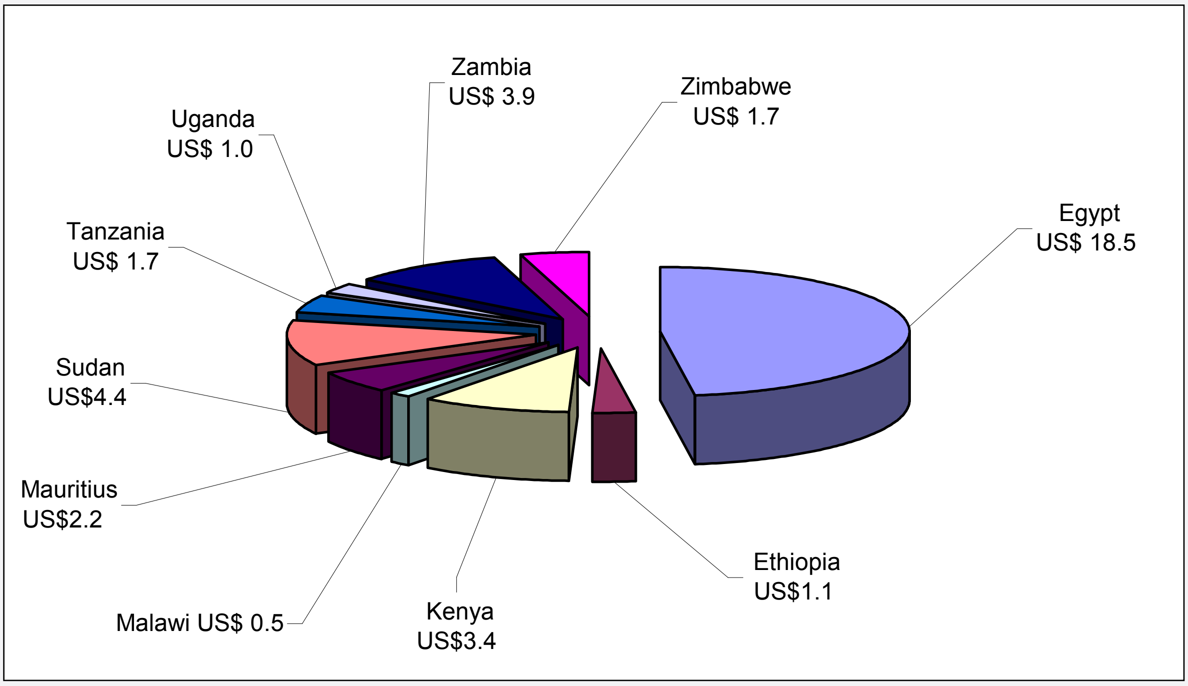
BOP and Foreign Exchange

Zimbabwe's balance of payments position continues to be under severe pressure, against a background of declining exports, absence of balance of payments support, lines of credit and foreign direct investment. Total exports declined in 2006 by 6% driven by a reduction in mineral, manufactured and agricultural exports which declined by 0.2%, 10.5% and 6.3%, respectively. Imports declined by 1.6% in 2006 compared to an increase of 0.2% in 2005. This was on the back of foreign currency shortages. As such, the current account deficit stood at USD543.3 million in 2006.

The Reserve Bank embarked on a redenomination exercise to remove three zeros from the currency which resulted in a new currency called the new Zimbabwe dollar. The Zimbabwean dollar was devalued against the US dollar in August 2006 to exchange at Z$250 vis a vis the US dollar from Z$101.

KEY
ECONOMIC INDICATORS

PTA Bank Member States Top Ten Exporters (USD bn) 2006



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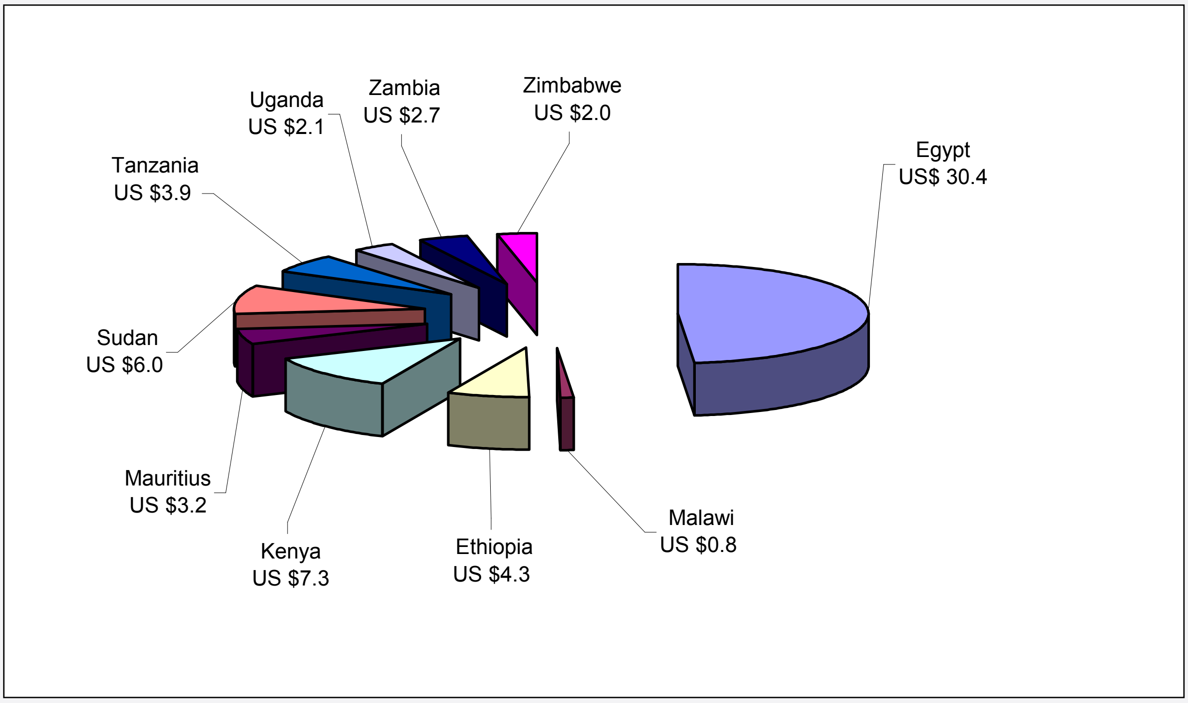


Economic Indicators 2005 - 2006

	Real GDP Growth %		Consumer Price Inflation %		Exchange Rate (Ave: USD)	
	2006	2005	2006	2005	2006	2005
Burundi	3.8	0.9	11.0	13.5	1,030.0	1,081.6
China	10.7	10.4	1.5	1.8	7.8	8.07
Comoros	1.2	2.5	3.8	3.2	391.2	395.6
Djibouti	4.2	3.2	3.0	3.5	177.7	177.7
Egypt9	6.8	4.9	12.4	3.1	5.73	5.78
Eritrea	2.0	2.0	14.2	15.0	15.4	15.4
EthiopiaF	8.5	8.9	12.2	11.6	8.7	8.7
Kenya	6.0	5.8	11.8	10.3	72.1	75.6
Malawi	8.5	2.2	13.9	15.4	136.0	118.4
Mauritius	4.7	2.3	8.9	4.9	31.7	29.8
Rwanda	5.8	5.2	8.0	9.2	560.0	555.8
Seychelles	1.0	-1.5	-0.3	0.9	5.5	5.5
Somalia	n/a	n/a	n/a	n/a	n/a	n/a
Sudan	9.6	8.5	7.5	8.4	217.7	243.6
Tanzania	5.9	6.8	6.2	8.5	1,254	1,129
UgandaF	5	5.5	6.4	8.2	1,834.90	1,780.70
Zambia	5.8	5.1	8.2	15.9	3,428.0	4,132.0
Zimbabwe	-2.5	-3.1	1,050.8	266.8	250.00	101.00

F - Fiscal year ending July

9- Figures for the first nine months of the year

Economic Indicators

External Trade 2005 - 2006

Country	Exports fob (USD m)		Imports fob (USD m)		Current Account Balance (USD m)	
	2006	2005	2006	2005	2006	2005
Burundi	42.3	57.2	269.3	239.0	-180.00	-84.00
China(bn)	969.1	762.0	791.60	628.1	184.2	160.8
Comoros	11.9	13.8	92.5	90.60	- 13.0	-12.30
Djibouti	100.0	94.0	440.0	420.0	- 70.0	-63.00
Egypt F	18,455.1	13,833.4	30,441.0	24,192.8	1,751.9	2,910.6
Eritrea	17.0	17.1	705.7	621.0	-345.8	-258.6
Ethiopia	1,114.6	917.3	4,274.3	3,700.8	-1903.5	-1567.8
Kenya	3,437.0	3,240.0	7,311.0	5,702.0	-986.00	-270.00
Malawi	528.9	496.8	830.6	783.5	239.30	-235.80
Mauritius F	2,170.5	1,944.8	3,190.6	2,834.4	- 326.5	-212
Rwanda	134.4	128.0	427.9	355.0	-169.0	-85.0
Seychelles	346.4	355.8	656.8	620.4	-164.0	-179.3
Somalia	n/a	249.0	n/a	671.0	n/a	n/a
Sudan 9	4,350.6	3,629.7	5,969.5	4,577.9	-5,500.1	-3,000.9
Tanzania	1,686.7	1,676.3	3,864.1	2,997.6	-1,639.0	-993.7
Uganda	988.1	864.3	2,138.8	1,785.0	-458.4	-259.2
Zambia	3,908.2	2,193.0	2,712.5	2,161.0	-309.0	-268.0
Zimbabwe	1,688.0	1,637.1	2,040.2	2,104.4	-327.3	-569.3

All figures estimates

F - Fiscal year ending July

9 - Figures for the first nine months of the year

Exports Under AGOA for Member States (US$ '000) 2005-2006

Country	2006	2005	% Change	% Share 2004
Burundi	1,866	0		
Djibouti	3,295	1,101	199%	0.39%
Ethiopia	81,120	61,803	31%	9.67%
Kenya	352,804	347,754	1%	42.04%
Malawi	79,010	82,444	-4%	9.42%
Mauritius	218,649	221,997	-2%	26.06%
Rwanda	8,854	6,301	41%	1.06%
Seychelles	10,121	5,884	72%	1.206%
Tanzania	34,567	34,066	1%	4.12%
Uganda	21,787	25,851	-16%	2.60%
Zambia	28,969	31,698	-9%	3.45%
TOTALS	**839,176**	**818,899**		**100%**

OPERATIONS

BUSINESS DEVELOPMENT

The year saw increased marketing efforts directed at increasing the Bank's foothold in the growth sectors of power, agribusiness and telecommunications. Co-financing arrangements with local commercial banks helped the Bank in securing a number of deals. Emphasis on repeat business from existing clients also helped the Bank to further the demand for its financial products during the year. Diversification of the loan portfolio remained one of the important business development guidelines of the Bank in 2006.

LOANS APPROVED

In the year, a total of USD 103 million was approved for project finance while in trade finance, USD 176.6 million letters of credit and disbursements worth USD 207.3 million inclusive of rollovers were recorded. The aggregate approval for project and trade finance transactions, standing at USD 487 million, represents an 18% increase over the USD 411.5 million recorded in 2005.

As at the end of 2006, cumulative values of approved investments were over USD 2.5 billion in project finance and trade finance, representing an increase of 25% over the cumulative figures as at end of 2005.

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

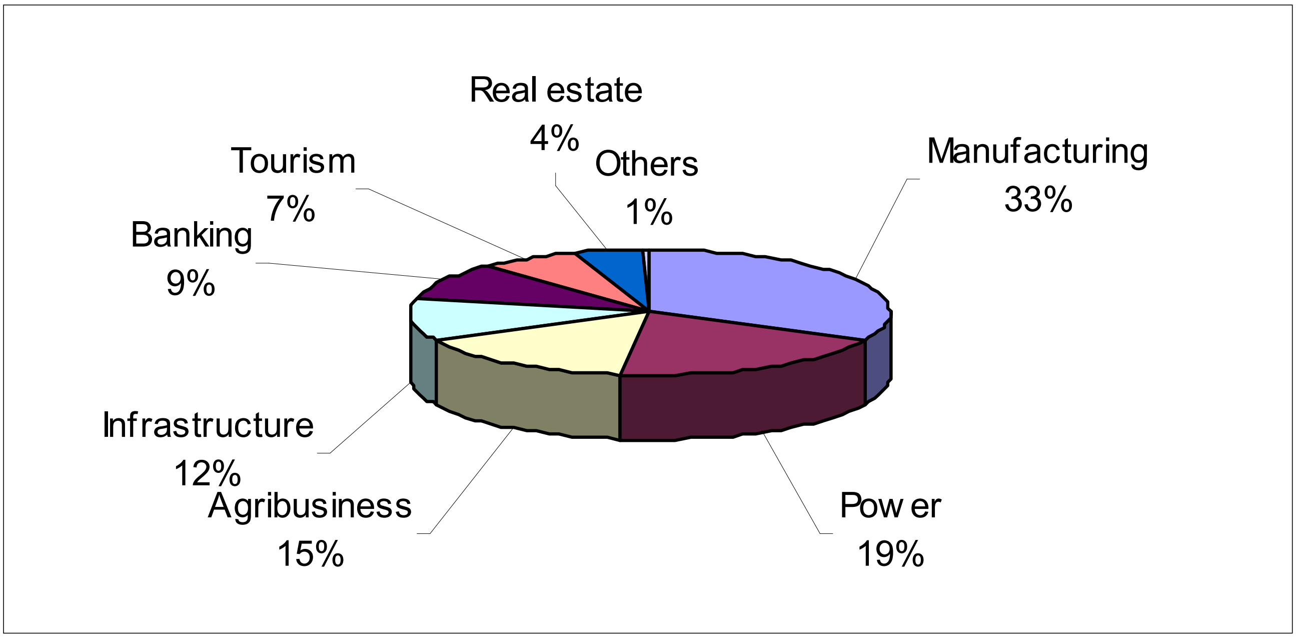
PROJECT FINANCE

The sectoral distribution of approved interventions were as follows: manufacturing – USD 33.5 million (33%); power – USD 20 million (19%); agribusiness – USD 15.8 million; infrastructure – USD 12 million (12%); banking and finance – USD 9.5 million (9%); tourism – USD 6.9 million (7%); real estate – USD 4.5 million (4%) and others USD 0.7 million (1%). Chart 1 shows the sectoral distribution of approved project finance.

Chart 1: Approvals by Sector

SECTOR	AMOUNT (USD)	PERCENTAGE	NO OF PROJECTS
Manufacturing	3,346,5000	33%	5
Power	20,000,000	19%	1
Agribusiness	15,840,000	15%	4
Infrastructure	11,979,000	12%	4
Banking	9,518,572	9%	2
Tourism	6,931,000	7%	4
Real estate	4,500,000	4%	2
Others	700,000	1%	1
Total	**102,933,572**	**100%**	**23**

Approvals by Sector

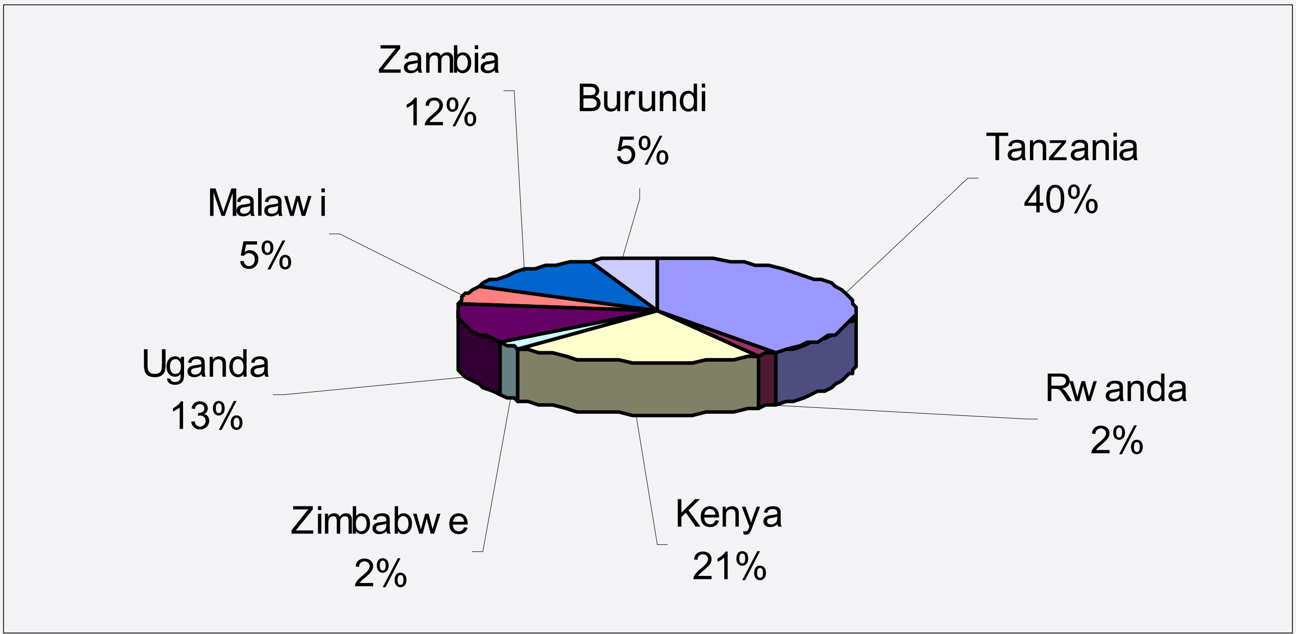


The geographical distribution of approved project finance interventions were as follows: Tanzania – USD 41 million (40%), Kenya – USD 21.5 million (21%), Uganda – USD 13.4 million (13%), Zambia – USD 12.8 million (12%), Burundi – USD 5.6 million (5%), Malawi – USD 5.3 million (5%), Zimbabwe – USD 1.9 million (2%), Rwanda – USD 1.6 million (2%). Chart 2 shows the geographical distribution of the approved project finance loans.

Chart 2 – Approvals by Country

COUNTRY	(USD)	PERCENTAGE
Tanzania	41,000,000	40%
Rwanda	1,556,000	2%
Kenya	21,518,572	21%
Zimbabwe	1,875,000	2%
Uganda	13,415,000	13%
Malawi	5,250,000	5%
Zambia	12,750,000	12%
Burundi	5,569,000	5%
Total	**102,933,572**	**100%**

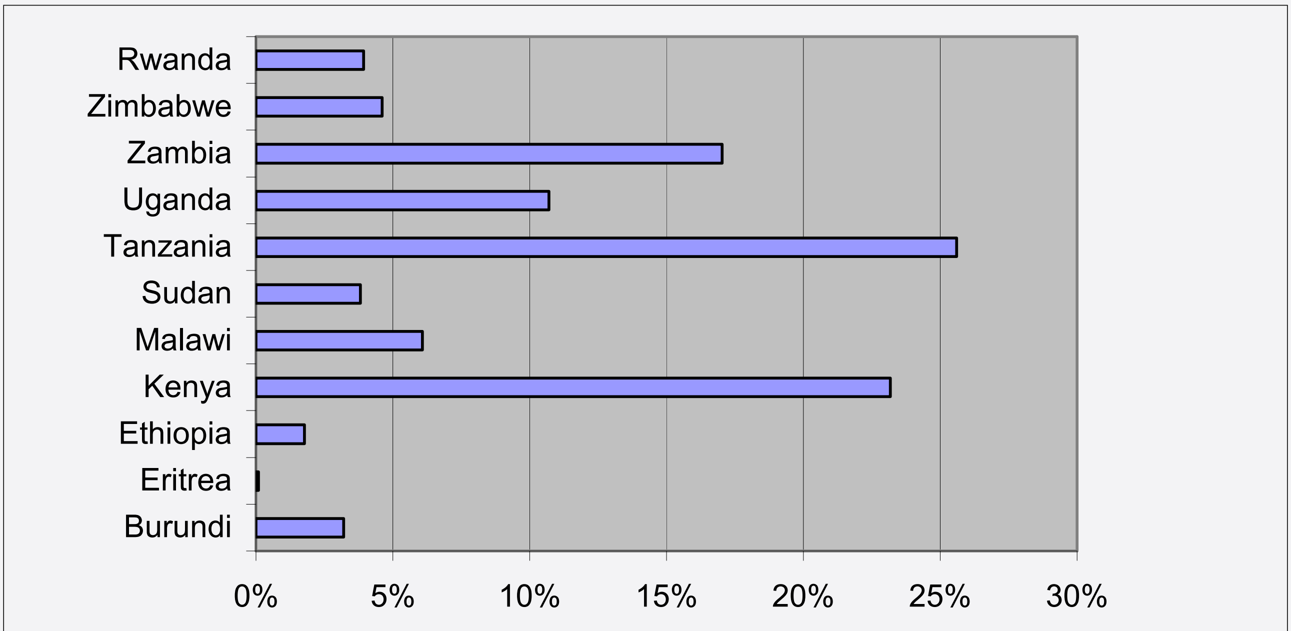
Geographical Distribution of Approvals



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

Chart 3

Geographical Distribution of Cumulative Approvals



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

PROJECT COMMITMENTS

A significant milestone in project finance is commitment and disbursement. However, commitments always fall short of approvals due to the time lag in the implementation of various projects. In 2006, the value of projects committed amounted to USD 48.5 million, which is less than the 2005 commitments amounting to USD 59.9 million. The decline is mainly due to the long lead-time required for big projects to finalize negotiations.

PROJECT DISBURSEMENTS

A total of USD 45.2 million was disbursed in the year, which is less than disbursements in 2005 which stood at USD 53.06 million. This decline was mainly because some big loans required long letter of credit period, which extended well into the following year, thus delaying the full disbursement to the projects.

PROFILES OF PROJECTS APPROVED

The Bank approved the following projects in 2006:

Maria Assumpta Pharmaceuticals Limited – Uganda

A term loan of USD 2.385 million was approved for Maria Assumpta Pharmaceuticals Limited to part finance the procurement of machinery and equipment, and furniture and fittings for their clinical absorbent cotton wool manufacturing plant in Kampala, Uganda.

Banque de Gestion et de Financement S. A. – Burundi

The Bank approved a term loan of USD 3 million for Banque de Gestion et de Financement S. A. to part finance the construction of the bank's headquarters and a business complex in Bujumbura, Burundi.

Consolidated Farming Limited – Zambia

A second term loan of USD 8.25 million for Consolidated Farming Limited was approved to assist the company to expand its sugar cane plantation and factory. The expansion project entails expansion of the factory's crushing capacity from 1,500 tons per day to 2,500 tons per day.

Abacus Parenteral Drugs Limited – Uganda

The Bank approved a term loan of USD 8.53 million for Abacus Parenteral Drugs Limited. The purpose of the loan is to part finance the establishment of an ultra modern blow-fill seal plant to manufacture life saving intravenous fluids and vials of water for injections in Kampala, Uganda.

Madison Investment Company Limited – Zambia

Madison Investment Company received approval for a term loan of USD 1.5 million to part finance the extension and renovation of House Number 316, on Independence Avenue in Lusaka, Zambia, which will become the headquarters of the Madison Group.

Alpha Fine Foods Limited – Kenya

The Bank approved a term loan of USD 2.59 million for Alpha Fine Foods Limited to part finance the establishment of a modern abattoir at Njiru, Kenya. The abattoir will have a nominal annual capacity of 300,000 cattle and 300,000 sheep and goats.

Zantel Telecommunications Limited – Tanzania

A second term loan of USD 6 million for Zantel Telecommunications Limited was approved to assist the company to acquire telecom capacity in the East Africa Submarine Cable System project.

Mitsuminet Cable Vision Limited – Kenya

The Bank approved a term loan of USD 1.5 million for Mitsuminet Cable Vision Limited to part finance the procurement and installation of new equipment for the provision of television viewing services to subscribers in Nairobi, Kenya through a combination of fiber optic and coaxial cable networks.

Operations

Hotel Gorilas S.A.R.L. – Rwanda

A term loan of USD 1.556 million for Hotel Gorilas S.A.R.L. was approved by the Bank to finance, in part, the construction of a new two-wing 87-room four-star hotel in Kigali, Rwanda.

Zambezi Portland Cement Limited – Zambia

The Bank approved a second term loan of USD 2.3 million for Zambezi Portland Cement Limited to finance, in part, the additional cost of the cement factory project under construction in Ndola, Zambia. The capacity of the project will increase from 700 metric tones to 1000 metric tons per day.

21st Century Food and Packaging Limited – Tanzania

A loan of USD 15 million was approved for 21st Century Food and Packaging Limited to part finance the rehabilitation and expansion of their wheat-milling project located in Dar es Salaam, Tanzania. The project entails the expansion of the existing capacity from 210 metric tons per day to 320 metric tons per day, and the installation of a new mill with a capacity of 750 metric tons per day.

Warm Heart Food Company Limited – Malawi

The Bank approved a term loan of USD 5.25 million for Warm Heart Food Company Limited to part finance the procurement and installation of machinery and equipment for the establishment of a tapioca starch manufacturing plant in Lilongwe, Malawi.

Africa Cellulaire S.A. – Burundi

Cellular operator, Africa Cellullaire of Burundi received a term loan of USD 1.569 million to part finance the expansion of their GSM telecommunications network countrywide.

Gulf African Bank – Kenya

The Bank approved an equity investment of USD 1.57 million for the Bank to acquire up to 10% equity (Ksh110 million including a 10% premium) in Gulf African Bank. The proposed bank seeks to operate as a commercial bank functioning on th

Kenya and later moving on to other countries in the region.

Family Finance Building Society – Kenya

The Bank approved a term loan of USD 7.95 million (Ksh 556.3 million) for Family Finance Building Society to finance, in part, its conversion from a building society into a commercial bank. The loan will be used to partly cover costs of some elements of the conversion, ATM rollout, computer hardware and core banking software upgrades.

Rainbow Tourism Group Limited – Zimbabwe

The Bank's loan of USD1.875 million is intended to assist Rainbow Tourism Group Limited finance the procurement of equipment, vehicles, and furniture and fittings for the establishment of a 3-star hotel in Beitbridge, Zimbabwe.

Kibos Sugar and Allied Industries Limited – Kenya

The Bank approved a second term loan of USD 4 million for Kibos Sugar and Allied Industries Limited to part finance the additional cost of procurement of machinery and equipment and civil works for the expansion of their new sugar mill near Kisumu town in Western Kenya. The sugar mill's expanded capacity will be 1,650 tons cane per day.

Karan Investments Limited – Uganda

The Bank approved a term loan of USD 2.5 million for Karan Investments Limited to finance the renovation and expansion of their Silver Springs Hotel complex into a 3-star hotel located at Kampla, Uganda.

Nectel (K) Limited – Kenya

The Bank's approved a loan of USD 2.91 million to assist Nectel (K) Limited to part finance the procurement and installation of new equipment and light commercial trucks for the provision of television viewing services to subscribers in Nairobi, Kenya through direct satellite to home transmission.

Kiwira Coal and Power Limited – Tanzania

The Bank approved a term loan of USD 20 million for Kiwira Coal and Power Limited to part finance the construction of a 50MW coal-fired power generation plant at Kiwira, Tanzania, and a 220kV power transmission line from the coal-fired power generation plant project at Kiwira to Tanzania Electric Supply Company's (TANESCO) substation at Mbeya, Tanzania.

Gatoka Limited – Kenya

The Bank approved a term loan of USD 1 million for Gatoka Limited to partly finance the rehabilitation of their floriculture project in Kenya.

Post Newspaper Limited – Zambia

The Bank approved a term loan of USD 0.7 million for Post Newspaper Limited to assist the company procure printing machine for its newspaper media business in Zambia.

Sun Safari Club S. A. – Burundi

The Bank's approved loan of USD 1 million to Sun Safari Limited will be used to part finance the expansion of an existing 24-room hotel to 80-room hotel and upgrading it to a 4-star hotel.

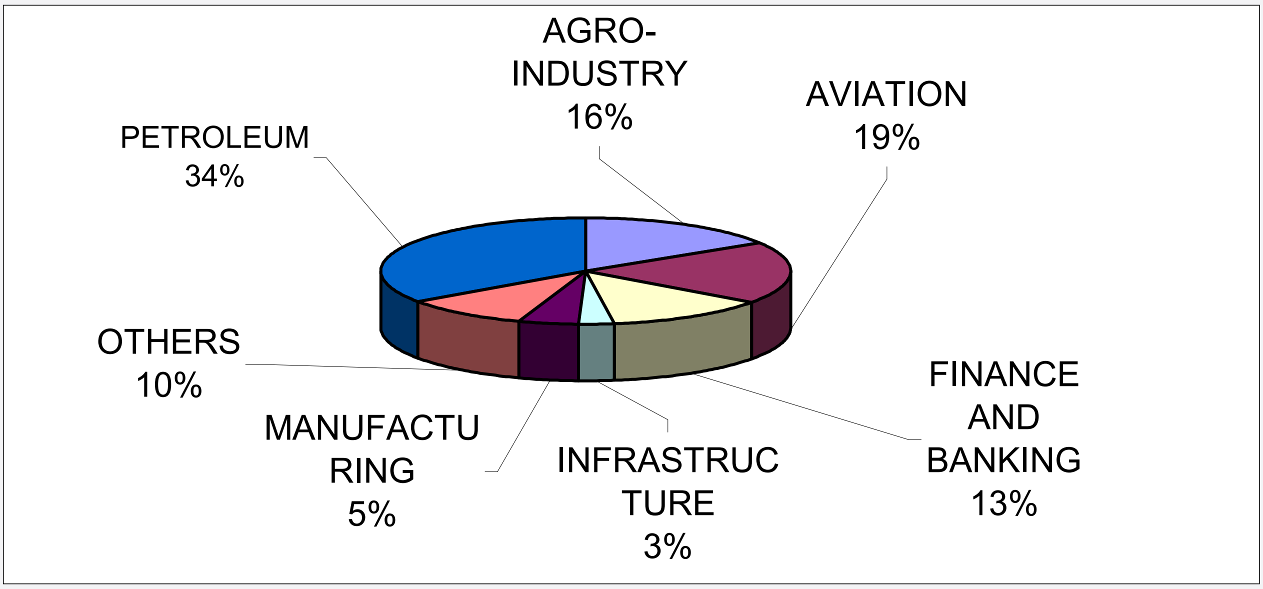
Trade Finance

In
began to show positive pay-offs. Import Credit Facilities for petroleum and fertilizers dominate the exposure for the Trade Finance Unit reflecting competitiveness of some of our facilities particularly those under Collateral Management Agencies (CMA).

Tr
interventions were as follows: petroleum – USD 40.7 million (34%), aviation – USD 22 million (19%), agribusiness – USD 19.0 million (16%), finance and banking – USD 15.3 million (13%) manufacturing – USD 5.3 million (5%), infrastructure – USD 3.2 million (3%) and the rest - 11.9 million (10%). Chart 4 below shows the sectoral distribution of trade finance interventions.

Chart 4

Trade Finance Approvals by Sector



The geographical distribution of trade finance interventions were as follows (value / % of total): Kenya – USD 41.2 million (35%), Zimbabwe – USD 26.9 million (23%), Tanzania – USD 14.1 million (12%), Malawi – USD 12.9 million (11%), Seychelles USD 6.8 million (6%), Uganda – USD 5.8 million (5%), Zambia – USD 3.7 million (3%), Sudan – USD 3.2 million (3%). As at December 31, 2006, the trade finance exposure stood at USD117.7 million. Table 5 shows the geographical distribution of trade finance interventions.

Table 5: Exposure by Country

The spatial distribution of the USD 117.7 million exposure was as follows:

COUNTRY	VALUES	%
Kenya	41,238,694	35%
Zimbabwe	26,893,656	23%
Tanzania	14,141,324	12%
Malawi	12,884,780	11%
Seychelles	6,819,042	6%
Uganda	5,751,075	5%
Zambia	3,707,772	3%
Sudan	3,202,749	3%
Total	**117,706,653**	**100%**

In 2006 the Bank consolidated its successes in import finance funding by adopting more responsive funding structures. The Bank has been making efforts to ensure geographic spread of exposure to avoid concentration risks.

Lines of Credit to local commercial and development banks are becoming more significant forms of distribution for the Bank's Facilities. This is a deliberate approach to ensure capacity building for local banks and ensure wholesaling of loan facilities through sell-downs to reach Small and Medium Scale Enterprises that would not ordinarily access the Bank's funding. Through such sell-down mechanisms the Bank achieves dual recourse to direct credit risk on final borrowers, thereby ensuring asset quality.

Portfolio Management

In 2006, the Portfolio Management Department strived to maintain a high-quality portfolio and to maximise loan recovery from defaulting borrowers. In carrying out these objectives, the Department, among other measures focused on pro-act
perform as per the original financial projections and approved terms and conditions.

In the year, the Department also made every effort to turnaround the projects and trade finance transactions that had operational problems. This approach bore positive results in that a significant number of projects which could have otherwise been non-performing were turned around whilst others settled their loans in full. In cases where it was necessary for the Bank to exit, appropriate exit mechanisms were examined and implemented to maximize recovery.

In 2006, another important area of focus was the enhancement of the process of reviewing and strengthening the procurement guidelines for Bank financed projects and trade finance transactions. This strategy aims at ensuring that Bank-financed procurement was always good value-for-money transactions.

Portfolio Management Department also strengthened and realigned its credit risk management system to address the dynamic changes in Member States' macro-economic environments and the specific sectoral problems in managing its loan portfolios. To this end, tangible results have been achieved in portfolio performance and in timely collection of arrears.

Administration and Corporate Services

CORPORATE AFFAIRS:

The Board of Governors held its 22nd Annual Meeting in Harare, Zimbabwe, on 29th June 2006. Hon. Dr. Herbert Murerwa, the then Minister of Finance and Economic Development of the Republic of Zimbabwe, was appointed as the Chairman of the Board of Governors succeeding Hon. Ng'andu Peter Magande, Minister of Finance and National Planning of the Republic of Zambia. During its Annual Meeting, the Board of Governors adopted the 2005 Annual Report and the 2005 Audited Financial Statements and also re-appointed Deloitte and Touche (Nairobi) as the Bank's External Auditors with e

of Directors also held four regular meetings during the review period and made decisions on the Bank's operational activities and on various progress reports including Audit Reports and other policy matters concerning the Bank.

HR and ADMINISTRATION:

The Bank's short and long term HR objectives are aimed at attracting, developing and retaining a motivated workforce. To this end, The Bank revised its HR Rules and Regulations ; carried out recruitment of five professional staff to meet the Bank's additional HR requirements and organized individual and group seminars aimed mainly at improving performance, team work and leadership competencies. During the year, it also revised its staff salary and benefit packages consistent with comparator institutions in the sub region. The Bank's staff complement at the end of the year was 63 out of which 42 were professional and the rest support staff.

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

LEGAL SERVICES:

The Legal section provided legal services and assistance by carrying out legal due diligence during project appraisal stage as well as drafting, negotiation, review and approval of all legal documentation between the Bank and its customers and co-fina

and other legal proceedings with the assistance of external legal counsel where necessary.

INFORMATION SERVICES:

In 2006, the Bank's SAP system was upgraded. The approach taken, which involved investment in training of in-house personnel to carry out the project, resulted in significant cost-savings in comparison to the option of procuring consultancy services. The upgrade has paved the way for the implementation of certain new functionality that had otherwise been deferred.

The Bank's website was fully revamped in terms of design, content and appeal. Procedures were also introduced to ensure that the content remains current. This will ensure that the website continues to serve as an effective information and marketing tool.

The IT function, in conjunction with CFBD as the user department, embarked upon the search to identify a suitable Credit Risk Management software solution. This is expected to culminate in the implementation of an appropriate product in 2007. As in previous years, phased replacement of obsolete software and hardware was carried out.

PUBLIC RELATIONS:

The Bank continued a proactive and media focused media strategy that bore fruit through positive coverage in most of the Bank's member states. This strategy was especially helpful throughout the year, as the Bank entered into many facility agreements with key international financiers. This strategy will be continued in the foreseeable future.

Financial Management

INCOME AND EXPENDITURE

In 2006 the Bank registered another strong financial performance. Total interest income for the year amounted to USD 23.52 million, a 48% improvement above the USD 15.91 million earned in 2005. This improvement is attributable to the incre

Net interest income increased by 36% to USD 11.92 million in 2006 compared to USD 8.77 million in 2005. Borrowing costs increased by 62% from USD 7.14 million in 2005 to USD 11.59 million in 2006. In addition to the general increase in interest rates, new borrowings secured as part of the Bank's resource mobilisation drive to fund its loan portfolio growth are responsible for the increase in borrowing costs. New advances were received from African Development Bank, Exim Bank of India, Export Development Corporation of Canada, Afrexim Bank, Fortis Bank, Islamic Development Bank, Commerzbank, ING Bank, Barclays Bank, Standard Chartered Bank and KBC Bank.

Fees and commissions income also increased significantly during the year. This income rose by 25% to USD 7.22 million in 2006 from USD 5.79 million in 2005. The increase in fees is attributed to the large volume of business transacted, which yielded increased appraisal, commitment, facility and letters of credit fees.

Fol
increased by 28% to USD 7.03 million from USD 5.50 million in 2005.

As in previous years, provisions were increased in respect of those loan accounts which either deteriorated or did not improve in the year. Additional provisions of US $7.81 million were made in 2006 bringing the total provisions to USD 24.62 million.

An amount of US $1.18 million of pre-2005 provisions was written off as part of the Bank's strategy of cleaning up the balance sheet. The Bank will, however, continue to pursue, on a cost effective basis, the respective defaulters in order to recover the underlying loans.

Overall, the Bank recorded a net profit of US $4.57 million compared to US $3.22 million in 2005. The 42% improvement in
Bank's cost control and rationalisation strategy.

ASSETS AND LIABILITIES

The Bank's total assets increased substantially to USD 351.22 million in 2006 from USD 284.30 million in 2005. This 24% balance sheet growth is mainly a result of increased loan disbursements. Project finance and trade finance loans increased by USD 31.51 million and USD 26.57 million respectively. Cash and bank balances also grew by USD 6.32 million above the 2005 level to USD 37.75 million. Draw downs on various borrowings contributed to the increase in cash and bank balances.

The Bank's equity investments increased to USD 4.87 million from USD 4.48 million. The net increase was due to new investments in equity netted off by the write off of non-performing investments.

BORROWINGS AND RESOURCE MOBILISATION

In order to fund the expanded level of operations and consistent with the level of success registered on its resource mobilisation programmes, the Bank's level of borrowings increased considerably. Long-term borrowings amounted to USD 100.01 million compared to USD 78.44 million in 2005, a 28% increase. Short-term borrowings increased by 45% to USD 108.47 million in 2005 from the USD 74.58 million level recorded in 2005. Overall, total borrowings increased by 36%. New advances were received from African Development Bank, Exim Bank of India, Export Development Corporation of Canada, Afrexim Bank, Fortis Bank, Islamic Development Bank, Commerzbank, ING bank, Barclays Bank, Standard Chartered Bank and KBC Bank. Notes 23 and 24 to the audited financial statements provide details of the borrowings outstanding as at 31st December 2006. Note 26(e) provides details of the facilities currently available for lending.

The Bank signed agreements with Exim Bank of India and the Development Bank of South Africa while negotiations for a medium term line of credit were concluded with the Japan Bank for International Cooperation.

The short term facility with Standard Bank of South Africa was significantly increased. New Deposits were received from Southern African Media Development Fund and COMESA yellow card insurance pool during the year.

Other payables increased by USD 6.00 million. The bulk of the other payables represent deposits held in collection accounts to secure trade finance loans and other trade finance facilities availed by the Bank.

CAPITAL CONTRIBUTIONS

During the year, capital contributions amounting to USD 0.91 million were received from Zambia and Zimbabwe for the additional shares that they subscribed for. This increased the paid-in capital from USD 116.58 million in 2004 to USD 117.49 million in 2006.

As at 31 December, 2006, the Bank's subscribed capital amounted to USD 354.12 million. Of the subscribed capital USD 236.08 million is callable and USD 118.04 million is payable.

Appendix III to the Audited Financial Statements shows the position of Members' contributions to the Bank's Capital Stock as at 31st December 2006.

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

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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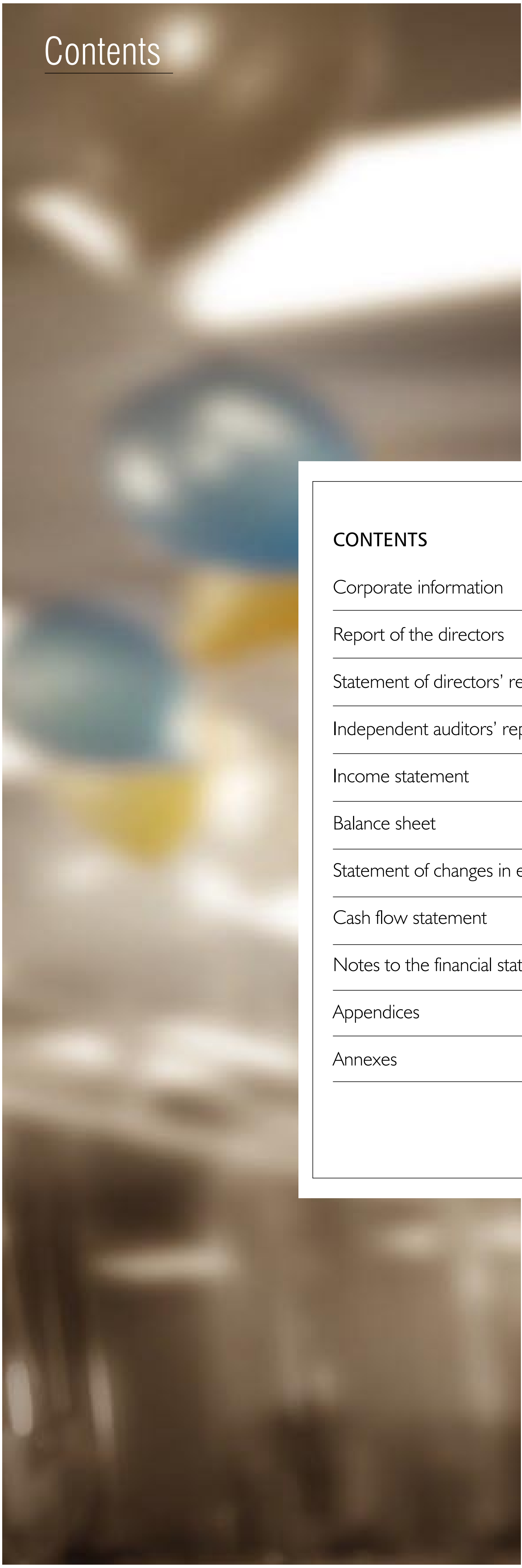

Board of Governors

Hon	Senator Dr. Samuel Mumbengegwi	Minister of Finance and Economic Development Republic of Zimbabwe Chairman of the Board of Governors
HE	Mme. Denise Sinankwa	Minister of Finance Republic of Burundi
HE	Hassane Hamadi	Minister of Finance, Budget, Economy, Planning and Promotion of Employment Federal Islamic Republic of Comoros
HE	Ali Farah Assoweh	Minister of Economy Republic of Djibouti
HE	Dr. Rachid Mohamed Rachid	Minister of Foreign Trade and Industry Republic of Egypt
Hon	Sufian Ahmed	Minister of Finance and Economic Development Republic of Ethiopia
Hon	Berhane Abrehe	Minister of Finance State of Eritrea
Hon	Dr. Mukhisa Kituyi	Minister of Trade and Industry Republic of Kenya
Hon	Dr. Goodall Gondwe	Minister of Finance Republic of Malawi
Hon	Rama Krishna Sithanen	Deputy Prime Minister and Minister of Finance and Economic Development Republic of Mauritius
Hon	James Musoni	Minister of Finance and Economic Planning Republic of Rwanda
Hon	Jacquelin Dugasse	Minister of Economic Planning & Employment Seychelles
Hon	El-Zubeir A Hassan	Minister of Finance and National Economy Republic of Sudan
Hon	Mrs. Zakia H Meghji (MP)	Minister of Finance United Republic of Tanzania
Hon	Dr. Ezra Suruma	Minister of Finance, Planning and Economic Development Republic of Uganda
Hon	Ng'andu Peter Magande (MP)	Minister of Finance and National Planning Republic of Zambia
Mr.	Mandla Gantsho	Vice President - Operations South, East and North African Region African Development Bank (ADB)
HE	Dr. Zhou Xiaochuan	Governor, People's Bank of China People's Republic of China

Directors

Mr. William A Mlaki	Director for Tanzania, Egypt and Djibouti Chairman
Mr. M Dhoorundhur	Director for Zimbabwe, Rwanda, Eritrea and Mauritius Vice Chairman
Mr. Abii Tsige	Director for Burundi, Malawi, Ethiopia and Seychelles
Hon. Dr Gerald Niyibigira	Alternate Director for Burundi, Malawi, Ethiopia and Seychelles
Mr. Moses K Nawa	Director for Kenya, Zambia and Somalia
Mr. David S O Nalo	Alternate Director for Kenya, Zambia and Somalia
Mr. John Rwangombwa	Alternate Director for Zimbabwe, Rwanda, Eritrea and Mauritius
Mr. A H Ibrahim	Alternate Director for Tanzania, Egypt and Djibouti
Mr. Elhafiz A E Taha	Director for Uganda, Sudan and Comoros
Mr. Lawrence Kiiza	Alternate Director for Uganda, Sudan and Comoros
Ms. Jin Luo	Director for China
Mr. Bu Yu	Alternate Director for China
Dr. Kordje Bedoumra	Director for African Development Bank (ADB)
Mr. A M A Ojelade	Alternate Director for African Development Bank (ADB)
Dr. Michael Gondwe	President

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
"Kirungii", Ring Road
Westlands, P O Box 40092 – 00100 Nairobi, Kenya

TEMPORARY OFFICE

Eastern and Southern African Trade and Development Bank
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Swift:	ESATKENA
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HEADQUARTERS

Eastern and Southern African Trade and Development Bank
P O Box 1750, Bujumbura, Burundi

Telephone:	257 (22) 224966 / 257 (22) 224625
Fax:	257 (22) 224983

Report of the Directors

The directors have pleasure in presenting their report and the audited financial statements for the year ended 31 December, 2006.

PRINCIPAL ACTIVITIES

The
make the economies of the Member States increasingly complementary to each other.

RESULTS

	USD
Profit for the year transferred to revenue reserve	4,570,819

DIRECTORS

to retirement by rotation, annually.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office in accordance with Article 26 (2) (e) of the Charter of the Bank.

BY ORDER OF THE BOARD

Chairman

Nairobi

31 March 2007

Statement of Directors' Responsibilities

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

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

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

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

Director

Director

31 March 2007

Independent Auditors' Report to the Members of Eastern and Southern African Trade and Development Bank

We have audited the financial statements of Eastern and Southern African Trade and Development Bank set out on pages 66 to 94 which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, together with the summary of significant accounting policies and other explanatory notes and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of directors and auditors

International Financial Reporting Standards and the provisions of the Bank's Charter. This responsibility includes: designing, im

free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

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

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

Opinion

In our opinion, proper books of account have been kept by the Bank and the financial statements, which are in agreement th

the year then ended in accordance with International Financial Reporting Standards and comply with the Bank's Charter.

Deloitte Touche

Nairobi

13 April 2007

Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 USD	2005 USD
INCOME			
Interest income	3	23,517,953	15,907,255
Interest expense	4	(10,537,064)	(6,366,631)
Other borrowing costs	5	(1,056,344)	(771,354)
		(11,593,408)	(7,137,985)
Net interest income		11,924,545	8,769,270
Fees and commissions income	6	7,219,485	5,792,171
Other income	7	636,105	187,954
TOTAL INCOME		19,780,135	14,749,395
EXPENDITURE			
Operating expenses	8	(7,025,715)	(5,496,483)
Asset impairment charge	10	(970,740)	(1,285,746)
Provisions for credit risk	17	(7,814,344)	(4,009,532)
Foreign exchange gains/ (losses)		601,483	(735,656)
		(15,209,316)	(11,527,417)
PROFIT FOR THE YEAR		4,570,819	3,221,978

	Note	2006 USD	2005 USD
ASSETS			
Cash and balances with other banks	11	37,753,985	31,437,573
Investment in government securities	12	2,973,344	-
Investment in subsidiary – held for sale	13	-	400,000
Other receivables	14	1,874,639	1,725,785
Trade finance loans	15	112,459,082	85,889,661
Project loans	16	173,138,111	141,625,248
Equity investments	18	4,867,548	4,479,513
Property and equipment	19	17,235,072	17,582,059
Intangible assets	20	40,723	193,730
Deferred expenditure	21	874,758	962,049
TOTAL ASSETS		351,217,262	284,295,618
EQUITY AND LIABILITIES			
LIABILITIES			
Other payables	22	17,631,593	11,632,901
Short term borrowings	23	108,466,655	74,584,848
Long term borrowings	24	100,005,879	78,442,219
TOTAL LIABILITIES		226,104,127	164,659,968
CAPITAL AND RESERVES			
Paid up capital	25	117,488,133	116,581,467
Revenue reserve		7,625,002	3,054,183
SHAREHOLDERS' EQUITY		125,113,135	119,635,650
TOTAL EQUITY AND LIABILITIES		351,217,262	284,295,618

The financial statements on pages 66 to 94 were approved by the Board of Directors on 31 March 2007 and were signed on its behalf by:

President

Director

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2006

	Share capital USD	Revenue reserve USD	Total equity USD
At 1 January 2005	114,099,467	(167,795)	113,931,672
Capital paid	2,482,000	-	2,482,000
Profit for the year	-	3,221,978	3,221,978
At 31 December 2005	116,581,467	3,054,183	119,635,650
At 1 January 2006	116,581,467	3,054,183	119,635,650
Capital paid	906,666	-	906,666
Profit for the year	-	4,570,819	4,570,819
At 31 December 2006	117,488,133	7,625,002	125,113,135

	Note	2006 USD	2005 USD
OPERATING ACTIVITIES			
Net cash generated from operations	26(a)	9,036,294	554,192
INVESTING ACTIVITIES			
Purchase of property and equipment		(90,504)	(59,303)
Purchase of intangible assets		(8,847)	(11,792)
Proceeds on disposal of furniture and equipment		141	1,393
Purchase of equity investments		(672,109)	(236,796)
Proceeds on disposal of subsidiary company		118,115	-
NET CASH USED IN INVESTING ACTIVITIES		(653,204)	(306,498)
FINANCING ACTIVITIES			
Receipt of capital subscriptions		906,666	2,482,000
INCREASE IN CASH AND CASH EQUIVALENTS		9,289,756	2,729,694
CASH AND CASH EQUIVALENTS AT 1 JANUARY		31,437,573	28,707,879
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	26(c)	40,727,329	31,437,573
FACILITIES AVAILABLE FOR LENDING	26(e)	115,675,041	132,760,903

1 ESTABLISHMENT

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

2 PRINCIPAL ACCOUNTING POLICIES

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

The principal accounting policies adopted remain unchanged from the previous year except as stated below:

Adoption of new and revised International Financial Reporting Standards

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRS 7 on Financial Instruments Disclosures
- IFRS 8 on Operating Segments
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment

The adoption of these standards and interpretations, when effective, will have no material impact on the financial statements of the Bank.

Basis of preparation

The financial statements are prepared on the historical cost basis of accounting.

Consolidation

The results of the subsidiary were not consolidated for the year ended 31 December 2005 as the control of the subsidiary was intended to be temporary since the subsidiary was acquired and held exclusively with a view to its subsequent disposal. The investment in the subsidiary was carried at cost until its disposal in 2006.

Income recognition

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

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

Borrowing costs

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

Foreign currencies

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

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

Property and equipment

Property and equipment are stated in the balance sheet at cost less accumulated depreciation and any accumulated impairment loss.

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

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

Freehold land is not depreciated.

Intangible assets

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

Impairment

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

Deferred expenditure

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

Provisions for credit risk

Provisions are made against loans when, in the opinion of the directors, recovery is doubtful. The aggregate provisions which are made during the year, less amounts released and recoveries of bad debts previously written off are dealt with in the income statement. Bad debts are written off in part or in whole when the extent of the loss has been confirmed.

Taxation

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

Share capital

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

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments

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

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

Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss

term or if so designated by management. Derivatives are also categorised as held for trading.

Available-for-sale financial assets

F

(c) financial assets held to maturity.

Fi

through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership.

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

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

Employee entitlements

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

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

Retirement benefit costs

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

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

Contingent liabilities

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

Critical judgements in applying the entity's accounting policies

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and 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.

Impairment losses on loans and advances

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

Estimates and uncertainties

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

	2006 USD	2005 USD
3 INTEREST INCOME		
On loans and facilities:		
Ordinary trade finance facilities	7,624,750	4,993,663
Project loans	14,496,135	9,865,776
	22,120,885	14,859,439
On placements:		
Foreign investments	1,397,068	1,047,816
	23,517,953	15,907,255
4 INTEREST EXPENSE		
Interest payable on funds borrowed from banks and financial institutions	7,221,579	4,640,257
Interest payable on funds borrowed from other institutions	3,315,485	1,726,374
	10,537,064	6,366,631

	2006 USD	2005 USD
5 OTHER BORROWING COSTS		
Facility and management fees	450,781	373,958
Amortisation of deferred expenses on funds raised	287,291	240,841
Drawdown fees	163,551	87,370
Others	116,394	31,659
Bank commissions and charges	38,327	37,526
	1,056,344	771,354
6 FEES AND COMMISSIONS INCOME		
Various fees on trade finance	5,449,876	4,324,329
Appraisal fees on project finance	1,065,096	967,136
Commitment fees on project finance	704,513	500,706
	7,219,485	5,792,171
7 OTHER INCOME		
Grant income	192,930	93,786
Asset recoveries	177,299	5,356
Excess accruals written back	138,274	-
Refund of receivership fees	78,757	-
Dividends receivable	33,311	41,502
Interest on staff loans	14,011	12,573
Other	1,523	34,737
	636,105	187,954

The grant is provided by the African Development Bank (ADB) to fund various consultancies and training. The proceeds are credited to the ADB liability account and included in other payables (note 22). Transfers are made to income upon utilisation of the grant funds.

	2006 USD	2005 USD
8 OPERATING EXPENSES		
Staff costs (Note 9)	4,788,287	3,473,728
Other operating expenses	452,816	435,957
Consultants and advisers	444,405	364,709
Provision for depreciation	437,491	422,073
Official missions	393,805	283,716
Provision for amortisation	161,854	160,829
Board of directors meetings	143,823	160,994
Board of governors meetings	119,088	114,728
Business promotion	54,146	56,949
Audit fees	30,000	22,800
	7,025,715	5,496,483

	2006 USD	2005 USD

9 STAFF COSTS

	2006 USD	2005 USD
Salaries and wages	2,738,470	2,115,444
Other costs	761,511	654,523
Staff provident fund contributions	563,707	413,619
Provision for service pay	550,683	201,336
Provision for leave pay	173,917	88,806
	4,788,287	3,473,728

10 ASSET IMPAIRMENT CHARGE

	2006 USD	2005 USD
Available for sale equity investment	284,074	-
Investment in subsidiary	281,885	917,342
Appraisal fees	254,643	28,650
Project loans	149,039	322,967
Others	1,099	16,787
	970,740	1,285,746

11 CASH AND BALANCES WITH OTHER BANKS

(i) Current accounts

	2006 USD	2005 USD
Amounts maintained in USD	2,227,931	209,418
Amounts maintained in other currencies:		
Kenya Shillings	60,582	35,470
Uganda Shillings	53,043	15,981
Euro	21,417	432,155
Burundi Francs	4,214	48,853
Tanzania Shillings	2,701	18,466
Malawi Kwacha	721	2,426
South African Rands	561	(106)
British Pounds	497	73,842
Japanese Yen	403	358
	144,139	627,445
	2,372,070	836,863

The average effective interest rate on current and call accounts was 4.06% (2005 – 3.28%).

	2006 USD	2005 USD

11 CASH AND BALANCES WITH OTHER BANKS (CONTINUED)

(ii) Call and term deposits with banks

	2006 USD	2005 USD
United States Dollars	31,330,074	21,664,919
Amounts maintained in other currencies:		
Kenya Shillings	2,613,707	3,669,050
Euro	700,591	1,027,862
Tanzania Shillings	696,895	4,185,288
Burundi Francs	40,648	-
British pounds	-	53,591
	4,051,841	8,935,791
	35,381,915	30,600,710
	37,753,985	31,437,573

The effective interest rates by currency of deposit were:	2006	2005
Tanzania Shillings	9.84%	7.00%
Burundi Francs	8.00%	-
Kenya Shillings	6.94%	7.81%
United States Dollars	4.53%	3.61%
British Pounds	4.40%	4.52%
Euro	2.25%	2.05%

12 OTHER INVESTMENTS

	USD	USD
Held to maturity:		
Treasury bills:		
Maturing within 90 days of the balance sheet date		
Face value	3,076,498	-
Less: Unearned discount	(103,154)	-
	2,973,344	-

The treasury bills, issued by the United Republic of Tanzania, represented investments in Tanzania Shillings bearing interest at 15.80% per annum. These investments were managed by CRDB Bank and they matured on 23 February 2007 and 23 March 2007.

	2006 USD	2005 USD

13 INVESTMENT IN SUBSIDIARY – HELD FOR SALE

	2006 USD	2005 USD
Investment in subsidiary (at cost)		
At 1 January	400,000	400,000
Disposal	(400,000)	-
At 31 December	-	400,000

The investment in COMESANET was written off during the year. The net assets of the subsidiary have been recognised as disposal proceeds.

14 OTHER RECEIVABLES

	2006 USD	2005 USD
Appraisal fees	966,157	710,119
Staff loans and advances	361,844	364,991
Deposit against Bank guarantee	333,799	-
Prepayments	136,067	125,802
Other debtors	76,772	58,730
COMESA NET current account	-	317,103
Structured pre-shipment finance facility (SPFF) receivables	-	149,039
	1,874,639	1,725,785

Staff loans and advances are granted in accordance with the Staff Rules and Regulations approved by the Board of Directors. The effective interest rate on staff loans and advances is 4.47% (2005 – 4.42%).
The deposit against guarantee fees relates to amounts deposited with a third party bank in respect of a guarantee awarded by the third party bank to the customer's supplier.

15 TRADE FINANCE LOANS

	2006 USD	2005 USD
Principal loans	114,171,004	89,151,078
Interest receivable	3,535,649	1,543,068
Gross loans	117,706,653	90,694,146
Provisions for credit risk (note 17)	(5,247,571)	(4,804,485)
Net loans	112,459,082	85,889,661

The weighted average effective interest rate was 8.13% (2005 – 6.48%)

	2006 USD	2005 USD

15 TRADE FINANCE LOANS (Continued)

ANALYSIS OF GROSS LOANS BY MATURITY:

	2006 USD	2005 USD
Maturing:		
Within one year	79,104,455	55,112,337
One to three years	38,602,198	35,581,809
	117,706,653	90,694,146

The aggregate non performing trade finance loans was USD 9,533,748 (2005 - USD 6,092,102). After provisions of USD 4,237,125 (2005 - USD 3,716,449) they are included in the balance sheet at a net figure of USD 5,296,623 (2005 – USD 2,375,653).

16 PROJECT LOANS

	2006 USD	2005 USD
Approved loans less cancellations	485,248,144	370,350,782
Less: Unsigned	(150,181,034)	(83,798,720)
Loans signed	335,067,110	286,552,062
Less: Undisbursed - Letters of credit opened	(15,614,685)	(17,250,345)
- Letters of credit not yet opened	(56,154,296)	(53,343,565)
Loans disbursed	263,298,129	215,958,152
Interest capitalised	18,618,720	18,031,505
Loans repaid	(108,197,250)	(93,112,449)
Principal loan balances	173,719,599	140,877,208
Interest receivable	18,793,186	13,929,163
Gross loans	192,512,785	154,806,371
Provisions for credit risk (note 17)	(19,374,674)	(13,181,123)
Net loans	173,138,111	141,625,248

The effective interest rate was 10.75% (2005 - 9.57%).

ANALYSIS OF GROSS LOANS BY MATURITY

	2006 USD	2005 USD
Maturing:		
Within one year	27,626,321	18,144,191
One year to three years	53,122,237	34,587,710
Three to five years	29,080,517	21,899,293
Over five years	82,683,710	80,175,177
	192,512,785	154,806,371

16 PROJECT LOANS (Continued)

The aggregate non performing project loans is USD 42,475,901 (2005 - USD 40,330,791). After provisions of USD 16,830,124 (2005 – USD 12,215,307) they are included in the balance sheet at a net figure of USD 25,645,777 (2005 - USD 28,115,484).

17 PROVISIONS FOR CREDIT RISK

The movement in provisions is as follows:

	Project loans USD	Trade finance loans USD	Total provisions USD
At 1 January 2005	13,045,665	2,797,549	15,843,214
Amounts written-off	(1,867,138)	-	(1,867,138)
Charge for the year	2,002,596	2,006,936	4,009,532
At 31 December 2005	13,181,123	4,804,485	17,985,608
At 1 January 2006	13,181,123	4,804,485	17,985,608
Amounts re-classified	200,000	(200,000)	-
Amounts written-off	(360,349)	(817,358)	(1,177,707)
Charge for the year	6,353,900	1,460,444	7,814,344
At 31 December 2006	19,374,674	5,247,571	24,622,245

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

18 INVESTMENTS

(i) EQUITY PARTICIPATION

Available for sale:

	Shareholding %	Original cost USD	Fair value gain/ (losses) to 31 Dec 2005 USD	Fair value as at 31 Dec 2005 USD	Additions at cost in year to 31 Dec 2006 USD	Fair value gain/ (losses) to 31 Dec 2006 USD	Fair value as at 31 Dec 2006 USD
PTA Reinsurance	7.16	841,588	-	841,588	-	1,360,489	2,202,077
Aureos East Africa Fund	5.00	734,525	-	734,525	672,109	-	1,406,634
African Export Import Bank	0.13	400,000	-	400,000	-	292,659	692,659
Tononoka	5.00	600,000	-	600,000	-	(300,000)	300,000
Tanruss	4.06	1,755,000	-	1,755,000	-	(1,537,222)	217,778
AFGEM	0.33	48,400	-	48,400	-	-	48,400
Africa Trade Insurance Company	8.00	100,000	-	100,000	-	(100,000)	-
		4,479,513	-	4,479,513	672,109	(284,074)	4,867,548

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

In 2006, USD 672,109 (2005 – 236,795) of new investments was made in Aureos East Africa Fund.

	2006 USD	2005 USD
(ii) INSTALMENTS PAID		
Total subscribed capital	7,186,576	7,186,576
Less: Instalments not due	(2,034,954)	(2,707,063)
Instalments paid	5,151,622	4,479,513
Unpaid subscriptions expressed in US dollars at year-end rates comprised:		
PTA Reinsurance	841,588	841,588
African Export Import Bank	600,000	600,000
Aureos East Africa Fund	593,366	1,265,475
	2,034,954	2,707,063

19 PROPERTY AND EQUIPMENT

	Freehold land and building USD	Motor vehicles USD	Furniture and fittings USD	Office equip-ment USD	Total USD
COST					
At 1 January 2005	18,520,559	272,325	560,577	876,245	20,229,706
Additions	-	20,840	13,506	24,957	59,303
Disposals	-	-	-	(130,445)	(130,445)
At 31 December 2005	18,520,559	293,165	574,083	770,757	20,158,564
At 1 January 2006	18,520,559	293,165	574,083	770,757	20,158,564
Additions	-	61,646	7,517	21,341	90,504
Disposals	-	(81)	-	-	(81)
At 31 December 2006	18,520,559	354,730	581,600	792,098	20,248,987
DEPRECIATION					
At 1 January 2005	740,180	272,325	476,067	796,305	2,284,877
Charge for the year	370,411	1,389	20,539	29,734	422,073
Disposals	-	-	-	(130,445)	(130,445)
At 31 December 2005	1,110,591	273,714	496,606	695,594	2,576,505
At 1 January 2006	1,110,591	273,714	496,606	695,594	2,576,505
Charge for the year	370,411	16,441	16,951	33,688	437,491
Disposals	-	(81)	-	-	(81)
At 31 December 2006	1,481,002	290,074	513,557	729,282	3,013,915
NET BOOK VALUE					
At 31 December 2006	17,039,557	64,656	68,043	62,816	17,235,072
At 31 December 2005	17,409,968	19,451	77,477	75,163	17,582,059

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

Included in furniture, fittings and office equipment are assets with a cost of USD 2,358,775 (2005 – USD 1,497,352) which were fully depreciated. The normal annual depreciation charge on these assets would have been USD 461,635 (2005 – USD 258,520).

	2006 USD	2005 USD
20 INTANGIBLE ASSETS		
COST		
At 1 January	1,045,595	1,033,803
Additions	8,847	11,792
At 31 December	1,054,442	1,045,595
DEPRECIATION		
At 1 January	851,865	691,036
Amortisation	161,854	160,829
At 31 December	1,013,719	851,865
NET BOOK VALUE		
At 31 December	40,723	193,730

Intangible assets relate to cost of acquired computer software.

21 DEFERRED EXPENSES

	2006 USD	2005 USD
COST		
At 1 January	1,232,049	1,070,013
Additions	200,000	162,036
At 31 December	1,432,049	1,232,049
DEPRECIATION		
At 1 January	270,000	29,159
Amortisation	287,291	240,841
At 31 December	557,291	270,000
NET BOOK VALUE		
At 31 December	874,758	962,049

Deferred expenses comprise export credit insurance costs and costs incurred to raise, issue and list local currency bonds in the Bank's member countries. These costs are amortised over the life of the underlying borrowings and bonds.

	2006 USD	2005 USD
22 OTHER PAYABLES		
Collection account deposits	13,830,184	8,843,872
Provision for staff benefits	2,087,572	1,429,099
Provident fund	1,301,194	881,723
Accrued expenses	186,282	260,046
Unspent ADB grant	102,364	100,229
Prepaid rent	66,654	49,771
Other creditors	57,343	68,161
	17,631,593	11,632,901

23 SHORT TERM BORROWINGS

(a) CERTIFICATES OF DEPOSIT

Lender	Date of Renewal/ Advance	Maturity Date	Currency	2006 USD	2005 USD
Southern African Media Development Fund	12/06/2006	11/06/2007	USD	700,000	-
PTA Reinsurance	14/08/2006	14/02/2007	USD	696,964	667,069
PTA Reinsurance	14/11/2006	14/05/2007	USD	559,465	528,179
PTA Reinsurance	28/07/2006	28/01/2007	USD	541,039	518,553
PTA Reinsurance	26/08/2006	01/03/2007	USD	394,200	376,996
PTA Reinsurance	17/08/2006	17/02/2007	USD	104,480	100,000
PTA Reinsurance	11/12/2006	11/06/2007	USD	68,040	64,730
PTA Reinsurance	03/10/2006	03/04/2007	USD	24,237	23,153
Comesa yellow Cards Ins Pool	21/08/2006	21/02/2007	USD	300,000	-
Comesa yellow Cards Ins Pool	02/08/2006	02/02/2007	USD	248,603	238,119
Comesa yellow Cards Ins Pool	19/07/2006	21/01/2007	USD	106,843	102,438
Comesa yellow Cards Ins Pool	16/08/2006	16/02/2007	USD	94,456	90,404
Comesa yellow Cards Ins Pool	28/12/2006	28/06/2007	USD	92,805	88,299
Comesa yellow Cards Ins Pool	04/01/2006	04/01/2007	USD	89,819	86,159
Sub total for Certificates of Deposit				4,020,951	2,884,099

(b) OTHER SHORT TERM BORROWINGS

Lender	Date of Renewal/ Advance	Maturity date	Currency	2006 USD	2005 USD
AFREXIM Bank	05/10/2006	30/09/2007	USD	20,200,000	18,666,667
FMO*	16/10/2006	16/01/2007	USD	15,000,000	15,000,000
Fortis Bank	03/07/2007	18/06/2007	USD	12,792,378	-
Commerzbank	10/10/2006	29/03/2007	USD	10,098,801	3,613,979
Standard Bank of South Africa	20/07/2006	04/06/2007	USD	10,065,130	19,076,657
Islamic Development Bank	03/07/2006	03/11/2007	USD	9,327,648	5,002,218
ING Bank	13/11/2006	29/03/2007	USD	8,478,147	-
Barclays Bank	15/05/2006	13/03/2007	USD	6,750,000	-
Bank of Tanzania	24/11/2006	22/02/2007	USD	5,000,000	5,000,000
CRDB Bank	01/11/2006	01/03/2007	USD	2,768,139	2,500,000
KBC Bank	03/11/2006	02/01/2007	USD	1,250,991	-
Bank Belgolaise Brussels	13/09/2006	04/12/2006	USD	-	2,067,350
Standard Chartered Bank	19/09/2006	21/05/2007	USD	1,534,625	-
Sub total for other short term borrowings				103,265,859	70,926,871
Interest payable				1,179,845	773,878
Certificates of deposit (note 23(a))				4,020,951	2,884,099
Total short term borrowings				108,466,655	74,585,848

The effective interest rate during the year was 6.24% (2005 – 4.68%).
* Nederlandse Financierings – Maatschappij voor Ontwikkelingslanden N.V.

Notes to the Financial Statements
FOR THE YEAR ENDED 31 DECEMBER 2006

24 LONG TERM BORROWINGS

Lender	Date of renewal/ disburse-ment	Maturity date	Currency	Amount in Currency	Amount as at 31 December 2006			Amount as at 31 December 2005		
					Amount in USD	Amount due within one year USD	Amount due after one year USD	Balance out-standing USD	Amount due within one year USD	Amount due after one year USD
African Development Bank	Various	31/05/18	USD	32,423,611	32,423,611	2,759,854	29,663,757	15,376,121	1,226,628	14,149,493
Tanzania Local Currency Bonds	01/09/03	15/02/10	TSH	12,887,244,710	10,163,442	2,365,899	7,797,543	12,877,084	2,575,417	10,301,667
KBC Bank	27/06/02	08/12/10	USD	10,878,634	10,878,634	2,948,460	7,930,174	12,106,351	3,637,597	8,468,754
Kenya local currency bonds	04/07/05	05/01/10	KES	800,000,000	11,009,439	11,282	10,998,157	10,988,908	-	10,988,908
Exim Bank of India Loan	29/11/99	Various	USD	18,426,103	18,426,103	4,505,653	13,920,450	10,450,346	2,966,612	7,483,734
M & T Bank	01/07/03	30/09/10	USD	7,207,181	7,207,181	2,222,369	4,984,812	9,427,817	2,219,546	7,208,271
Export Development Corporation of Canada	01/09/05	18/07/10	USD	6,620,831	6,620,831	1,810,624	4,810,207	4,020,690	877,242	3,143,448
Overseas Private Investment Corporation	17/09/03	15/03/15	USD	1,400,000	1,400,000	-	1,400,000	1,400,000	-	1,400,000
Bank of Uganda	31/12/04	30/06/11	UGX	1,158,982,524	665,222	212,337	452,885	728,725	132,496	596,229
Sub total for long term borrowings					98,794,463	16,836,478	81,957,985	77,376,042	13,635,538	63,740,504
Interest payable					1,211,416	1,211,416	-	1,066,177	1,066,177	-
Total long term borrowings					100,005,879	18,047,894	81,957,985	78,442,219	14,701,715	63,740,504

The effective interest rate during the year was 6.00% (2005 – 5.61%).

	2006 USD	2005 USD
25 SHARE CAPITAL		
Authorised capital: 40,000 (2005: 40,000) ordinary shares of US Dollars 13,600 each	544,000,000	544,000,000
Less: Unsubscribed	(189,883,200)	(192,603,200)
Subscribed capital: 26,038 (2005: 25,833) ordinary shares of US Dollars 13,600 each	354,116,800	351,396,800
Less: Callable capital	(236,077,867)	(234,264,533)
Payable capital	118,038,933	117,132,267
Less: Amounts not yet due	(489,600)	(550,800)
Capital due	117,549,333	116,581,467
Less: subscriptions in arrears	(61,200)	-
Paid up capital	117,488,133	116,581,467

The payable capital is one third of the subscribed capital. According to the Bank's charter, once a shareholder subscribes for shares, one third of the subscribed amount is payable over a period of six years as follows:

1st year – 10%
2nd year – 10%
3rd to 6th year – 80% (20% each)

The remaining two thirds of the subscribed capital constitutes callable capital.

26 NOTES TO THE CASHFLOW STATEMENT

	2006 USD	2005 USD
(a) Reconciliation of profit for the year to cash generated from operations		
Net profit for the year	4,570,819	3,221,978
Adjustments:		
Depreciation	437,491	422,073
Amortisation of intangible assets	161,854	160,829
Write off of equity investment	-	648,501
Profit on disposal of equipment	(141)	(1,393)
Loss on disposal of subsidiary	281,885	-
Loss on revaluation of available for sale investment	284,074	-
Profit before working capital changes	5,735,982	4,451,988
Increase in other receivables	(148,854)	(68,220)
Increase in trade finance loans	(26,569,421)	(17,846,803)
Increase in project loans	(31,512,863)	(30,838,455)
Decrease in deferred expenditure	87,291	78,805
Increase/ (decrease) in other payables	5,998,692	(1,790,155)
Increase in borrowings 26(b)	55,445,467	46,567,032
Net cash generated from operations	9,036,294	554,192
(b) Analysis of changes in borrowings		
Short term borrowings		
At 1 January	74,584,848	56,318,173
Loans received	200,458,668	134,426,574
Repayments	(166,576,861)	(116,159,899)
At 31 December	108,466,655	74,584,848
Long term borrowings		
At 1 January	78,442,219	50,141,863
Loans received	38,471,749	37,246,351
Repayments	(16,908,089)	(8,945,995)
At 31 December	100,005,879	78,442,219
(c) Analysis of the balance of cash and cash equivalents		
Cash and balances with other banks	37,753,985	31,437,573
Investment in government securities (91-day treasury bills)	2,973,344	-
	40,727,329	31,437,573

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

26 (e) FACILITIES AVAILABLE FOR LENDING (Continued)

As at 31 December 2006 the following facilities were available to the Bank for lending:

LONG-TERM FACILITIES

LENDER	Facilities available USD	Facilities utilised USD	Facilities Unutilised USD
African Development Bank	30,000,000	25,689,940	4,310,060
KBC Bank	27,407,770	12,707,865	14,699,905
Exim Bank India	25,000,000	10,943,407	14,056,593
Development Bank of South Africa	20,000,000	-	20,000,000
Kenya Shilling Bond	11,538,659	6,559,198	4,979,461
Tanzania Shilling Bond	11,829,653	8,053,406	3,776,247
Exim Bank USA MGA	No limit	-	-
	125,776,082	63,953,816	61,822,266

SHORT-TERM FACILITIES

LENDER	Facilities available USD	Facilities utilised USD	Facilities Unutilised USD
Commerzbank	42,300,000	34,858,728	7,441,272
Islamic Development Bank*	10,000,000	9,327,648	672,352
Fortis Bank	14,500,000	12,792,378	1,707,622
Bank Muscat	5,000,000	-	5,000,000
Standard Bank of South Africa	30,000,000	19,755,042	10,244,958
Stanbic Bank Kenya	5,000,000	-	5,000,000
Standard Chartered Bank	10,000,000	5,333,081	4,666,919
Barclays Bank	15,000,000	6,750,000	8,250,000
KBC Bank	7,500,000	7,476,556	23,444
BNP Paribas	6,000,000	2,375,645	3,624,355
Natexis Banques Populaires	5,000,000	200,000	4,800,000
ING Bank	10,900,000	8,478,147	2,421,853
	161,200,000	107,347,225	53,852,775
TOTAL FACILITIES	286,976,787	171,301,041	115,675,041

* This facility is availed under the Export Financing Scheme introduced by the Arab Bank for Economic Development in Africa (BADEA). The scheme is managed by the Islamic Development Bank.

27 CONTINGENCIES AND COMMITMENTS

(a) Pending litigation

As at 31 December 2006, there were legal proceedings involving the bank amounting to USD 1,558,463 (2005 - USD 1,662,644) that are yet to be determined. No provision has been made as, in the opinion of the Directors' and the Bank's lawyers, it is unlikely that any significant loss will crystallise.

	2006 USD	2005 USD
(b) Capital commitments		
Approved but not contracted	417,355	515,043
(c) Loans committed but not disbursed		
Project loans	56,154,296	53,343,565
Trade finance loans	26,336,445	8,678,592
	82,490,741	62,022,157

(d) Contingencies

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

	2006 USD	2005 USD
Letters of credit - Project loans	15,614,685	17,250,345
- Trade loans	15,435,002	9,899,438
Guarantees	4,500,000	5,600,000
	35,549,687	32,749,783

(e) Operating lease arrangements

The Bank as a lessor

Rental income earned during the year was USD 78,452 (2005: 76,694). At the balance sheet date the Bank had contracted with tenants for the following future lease receivables:

27 CONTINGENCIES AND COMMITMENTS (Continued)

(e) Operating lease arrangements (Continued)

	2006 USD	2005 USD
Within one year	102,000	72,000
In the second and third year inclusive	102,000	144,000
	204,000	216,000

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

The Bank as a lessee

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

	2006 USD	2005 USD
Within one year	123,154	117,515
In the second to fifth year inclusive	379,179	459,765
After five years	-	38,314
	502,333	615,594

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

(f) Assets pledged

The following assets have been pledged as collateral for borrowings from other banks, and are not available to finance the Bank's day to day operations:

	ASSETS		RELATED LIABILITY	
	2006 USD	2005 USD	2006 USD	2005 USD
Fixed deposit	-	2,694,403	-	2,500,000
Treasury bills (Note 12)	2,973,344	-	2,500,000	-
	2,973,344	2,694,403	2,500,000	2,500,000

28 LIQUIDITY RISK

Maturities of assets and liabilities as at 31 December 2006

	Up to 1month USD	1 to 6 months USD	6 to 12 months USD	1 to 5 years USD	Over 5 years USD	Total USD
ASSETS						
Cash and balances with other banks	33,994,647	3,759,338	-	-	-	37,753,985
Investment in government securities	2,973,344	-	-	-	-	2,973,344
Other receivables	1,576,788	101,649	78,171	118,031	-	1,874,639
Trade finance loans	15,051,480	51,776,322	12,276,653	31,213,969	2,140,658	112,459,082
Project loans	901,933	13,403,247	13,321,139	82,202,755	63,309,037	173,138,111
Equity participation	-	-	-	4,867,548	-	4,867,548
Property and equipment	-	-	-	195,516	17,039,556	17,235,072
Intangible assets	-	-	-	40,723	-	40,723
Deferred expenditure	-	-	119,604	755,154	-	874,758
Total assets	54,498,192	69,040,556	25,795,567	119,393,696	82,489,251	351,217,262
LIABILITIES						
Other payables	16,566,921	128,484	641,215	294,973	-	17,631,593
Short term borrowings	20,462,224	58,676,783	14,327,648	15,000,000	-	108,466,655
Long term borrowings	2,886,601	7,534,467	7,434,691	57,263,789	24,886,331	100,005,879
Total liabilities	39,915,746	66,339,734	22,403,554	72,558,762	24,886,331	226,104,127
Net liquidity gap	14,582,446	2,700,822	3,392,013	46,834,934	57,602,920	125,113,135
Cumulative gap	14,582,446	17,283,268	20,675,281	67,510,215	125,113,135	125,113,135
As at 31 December 2005						
Total assets	47,709,060	41,774,281	16,843,767	92,670,637	85,297,873	284,295,618
Total liabilities	36,548,870	33,303,037	16,744,478	71,170,983	6,892,600	164,659,968
Net liquidity gap	11,160,190	8,471,244	99,289	21,499,654	78,405,273	119,635,650
Cumulative gap	11,160,190	19,631,434	19,730,723	41,230,377	119,635,650	119,635,660

Th
balance sheet date to the contractual maturity date.

29 CURRENCY RISK

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

The Bank's currency position is as follows:

	USD	GBP	JPY	EURO	OTHER	TOTAL
ASSETS						
Cash and balances with other banks	33,558,005	497	403	722,008	3,473,072	37,753,985
Investment in government securities	-	-	-	-	2,973,344	2,973,344
Other receivables	1,874,639	-	-	-	-	1,874,639
Trade finance loans	105,711,132	-	-	-	6,747,950	112,459,082
Project loans	156,428,960	4,334,888	86,619	4,117,669	8,169,975	173,138,111
Equity investments	4,867,548	-	-	-	-	4,867,548
Property and equipment	17,235,072	-	-	-	-	17,235,072
Intangible assets	40,723	-	-	-	-	40,723
Deferred expenditure	874,758	-	-	-	-	874,758
Total assets	320,590,837	4,335,385	87,022	4,839,677	21,364,341	351,217,262
LIABILITIES AND EQUITY						
Other payables	17,620,693	-	-	-	10,900	17,631,593
Short term borrowings	108,198,516	-	-	-	268,139	108,466,655
Long term borrowings	76,641,558	-	-	1,670,321	21,694,000	100,005,879
Shareholders' funds	125,113,136	-	-	-	-	125,113,136
Total liabilities and equity	327,573,903	-	-	1,670,321	21,973,039	351,217,262
NET BALANCE SHEET POSITION	(6,983,066)	4,335,385	87,022	3,169,356	(608,698)	-
As at 31 December 2005	(6,295,511)	3,623,294	152,159	2,590,199	(70,141)	-

30 INTEREST RATE RISK

The
on its financial position and cash flows. This risk is summarised in the Table below:

	Up to 1 month USD	1 to 6 months USD	6 to 12 months USD	1 to 5 months USD	Over 5 years USD	Non-interest bearing USD	Total USD
ASSETS							
Cash & balances with other banks	33,994,647	3,759,338	-	-	-	-	37,753,985
Investment in government securities	2,973,344	-	-	-	-	-	2,973,344
Other receivables	-	-	-	-	-	1,874,639	1,874,639
Trade finance loans	14,903,980	93,121,425	-	-	-	4,433,677	112,459,082
Project loans	98,814,554	3,245,386	3,158,223	14,459,043	31,895,797	21,565,108	173,138,111
Equity participation	-	-	-	-	-	4,867,548	4,867,548
Property and equipment	-	-	-	-	-	17,235,072	17,235,072
Intangible assets	-	-	-	-	-	40,723	40,723
Deferred expenditure	-	-	-	-	-	874,758	874,758
Total assets	150,686,525	100,126,149	3,158,223	14,459,043	31,895,797	50,891,525	351,217,262
LIABILITIES							
Other payables	-	-	-	-	-	17,631,593	17,631,593
Short term borrowings	33,795,557	65,343,450	9,327,648	-	-	-	108,466,655
Long term borrowings	20,805,657	67,991,021	1,129,218	10,079,983	-	-	100,005,879
Total liabilities	54,601,214	133,334,471	10,456,866	10,079,983	-	17,631,593	226,104,127
Net interest rate exposure	96,085,311	(33,208,322)	(7,298,643)	4,379,060	31,895,797	33,259,933	125,113,135
Cumulative interest rate exposure	96,085,311	62,876,989	55,578,346	59,957,406	91,853,203	125,113,135	125,113,135
As at 31 December 2005							
Net interest rate exposure	81,866,030	(20,900,825)	(2,651,594)	(5,920,944)	23,326,877	43,916,106	119,635,650
Cumulative interest rate exposure	81,866,030	60,965,205	58,313,611	52,392,667	75,719,544	119,635,650	119,635,650

31 PROVISION FOR LIABILITIES AND CHARGES

Employees' entitlements to annual leave and service pay are recognised when they accrue to employees. USD 724,600 (2005 – USD 290,142) has been charged to the income statement in the current year as provision for service pay and leave pay.

32 RELATED PARTY TRANSACTIONS

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

Except for staff loans and advances disclosed in Note 14, there were no other related party transactions undertaken during the year.

Interest income received on staff loans and advances during the year amounted to USD 14,011 (2005 – USD 12,573). Staff loans and advances, are performing and no provisions have been made against these advances.

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

	2006 USD	2005 USD
Salaries and other short-term benefits	644,195	564,862
Post employment benefits	286,612	107,657
	930,807	672,519

33 FAIR VALUE

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

34 RISK MANAGEMENT POLICIES

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

Credit risk

The Bank's credit risk is primarily attributable to its loans and advances. The amounts presented in the balance sheet are net of allowances for doubtful advances, estimated by the Bank's management based on prior experience and their assessment of the current economic environment.

one borrower or group of borrowers.

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

The Bank has no significant concentration of credit risk, as exposure is spread over a diversified base of commercial customers in various countries.

34 RISK MANAGEMENT POLICIES (Continued)

Interest rate risk

The Bank is exposed to the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Interest rates on loans to customers are pegged to the Bank's specific cost of funds which is usually Libor based. The interest rates, therefore, fluctuate depending on the movement in the market interest rates. The Bank also invests in fixed interest rate instruments.

Fixed rate loans are provided only where the underlying funds are priced on a fixed rate basis.

These measures minimise the Bank's exposure to interest rate risk.

Liquidity risk

The Bank is exposed to the risk that it will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk is addressed through the following measures:

- The Bank enters into lending contracts subject to availability of funds.
- The Bank has an aggressive resource mobilisation strategy aimed at increasing lines of credit and other resources for lending.
- The Bank invests in short term liquid instruments which can easily be sold in the market when the need arises.
- Investments in property and equipment are properly budgeted for and performed when the bank has sufficient cash flows.
- Regular meetings of the asset and liability committee are held to review liquidity and other operational risks.

35 CURRENCY

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

	2006	2005
British Pound	0.50896	0.57845
UAPTA	0.66472	0.69966
Euro	0.75936	0.84155
South Africa Rand	6.97700	6.33630
Kenya Shilling	69.40000	72.73000
Japanese Yen	118.82000	117.33000
Malawi Kwacha	139.61000	122.25000
Burundi Franc	1,008.65000	975.00000
Tanzania Shilling	1,268.00000	1,165.75000
Uganda Shilling	1,742.25000	1,819.00000

Trade Finance Loan Portfolio

AS AT 31 DECEMBER 2006

Country	Number of loans	As at 31 December 2006 Balance Outstanding USD	Amounts Due within Six months USD	Amounts Due after Six months USD	As at 31 December 2005 Balance Outstanding USD	Amounts Due within Six months USD	Amounts Due after Six months USD
Ethiopia	1	3,067,341	1,090,896	1,976,445	6,754,261	1,250,000	5,504,261
Kenya	15	41,238,964	22,901,216	18,337,748	32,063,508	17,223,952	14,839,556
Malawi	2	12,884,780	5,369,125	7,515,655	11,692,352	3,847,753	7,844,599
Seychelles	1	6,819,042	6,819,042	-	-	-	-
Sudan	1	3,202,749	-	3,202,749	3,202,749	-	3,202,749
Tanzania	3	14,141,324	14,134,824	6,500	7,629,870	7,119,234	510,636
Uganda	3	5,751,075	141,978	5,609,097	5,634,510	217,322	5,417,188
Zambia	3	3,707,722	3,370,724	336,998	2,550,229	718,496	1,831,733
Zimbabwe	2	26,893,656	13,000,000	13,893,656	21,166,667	17,000,000	4,166,667
Gross Loans	31	117,706,653	66,827,805	50,878,848	90,694,146	47,376,757	43,317,389
Less: Provision for credit risk (note 17)		(5,247,571)	-	(5,247,571)	(4,804,485)	-	(4,804,485)
Net loans		112,459,082	66,827,805	45,631,277	85,889,661	47,376,757	38,512,904

APPENDIX II

Project Loans
AS AT 31 DECEMBER 2006

Country	No of Loans	Amounts Approved USD	Amounts Signed USD	Amounts Disbursed USD	Interest Capita-lized USD	Amounts Repaid USD	Amounts Written off USD	Interest Receivable USD	Exchange Rates Adjustment USD	As at 31 December 2006 Balance Outstanding USD	As at 31 December 2006 Due within One year USD	As at 31 December 2006 Due after One year USD	As at 31 December 2005 Balance Outstanding USD	As at 31 December 2005 Due within One year USD	As at 31 December 2005 Due after One year USD
Burundi	9	22,129,019	11,275,019	10,625,019	-	(3,435,399)	-	10,289	-	7,199,909	2,170,704	5,029,205	8,722,869	2,232,375	6,490,494
Eritrea	1	403,652	403,652	403,652	-	-	(403,652)	-	-	-	-	-	-	-	-
Ethiopia	5	8,284,439	4,464,439	4,464,439	-	-	(627,397)	1,413,904	-	5,250,946	769,410	4,481,536	4,742,442	767,408	3,975,034
Kenya	36	106,772,643	85,992,163	62,675,171	1,532,900	(17,461,947)	(4,147,928)	3,188,678	119,518	45,906,393	8,389,257	37,517,136	33,961,754	5,174,344	28,787,410
Malawi	10	28,415,409	22,054,175	22,054,175	-	(15,798,558)	(1,071,561)	79,175	146,961	5,410,192	772,425	4,637,767	4,325,131	229,355	4,095,776
Rwanda	3	16,838,000	2,338,000	958,000	-	(361,000)	-	16,312	-	613,312	119,400	493,912	48,393	48,393	-
Sudan	8	17,836,696	16,521,696	12,707,696	5,168,798	(2,073,254)	(1,880,918)	342,344	-	14,264,666	-	14,264,666	15,135,183	1,200,000	13,935,183
Tanzania	27	120,338,458	68,810,658	45,410,652	(701,377)	(22,698,571)	(2,915,426)	1,400,844	(379,652)	20,116,470	3,566,732	16,549,738	16,644,030	1,791,629	14,852,401
Uganda	22	50,033,723	41,259,723	31,887,403	254,748	(7,896,059)	(3,959,258)	5,472,313	400,085	26,159,232	3,247,059	22,912,173	18,187,971	869,038	17,318,933
Zambia	25	92,627,532	62,253,997	50,752,732	12,287,769	(13,045,068)	(2,546,909)	3,531,237	(441,585)	50,538,176	6,591,334	43,946,842	38,465,988	3,790,433	34,675,555
Zimbabwe	8	21,568,573	19,693,588	19,692,091	-	(4,822,568)	(850,587)	3,338,089	(303,536)	17,053,489	2,000,000	15,053,489	14,572,610	1,500,000	13,072,610
Gross loans	154	485,248,144	335,067,110	261,631,030	18,542,838	(87,592,424)	(18,403,636)	18,793,185	(458,209)	192,512,785	27,626,321	164,886,464	154,806,371	17,602,975	137,203,396
Less: provisions for credit risk (note 17)										(19,374,674)	-	(19,374,674)	(13,181,123)	-	(13,181,123)
NET LOANS										173,138,111	27,626,321	145,511,790	141,625,248	17,602,975	124,022,273

Statement of Subscriptions to the Capital Stock

AS AT 31 DECEMBER 2006

	Shares subscribed	Percentage of total	Value USD	Callable capital USD	Payable capital USD	Instalments due as at 31.12.06 USD	Instalments paid as at 31.12.06 USD	Instalment arrears as at 31.12.06 USD
Burundi	615	2.36	8,364,000	5,576,000	2,788,000	2,788,000	2,788,000	-
China	1,700	6.53	23,120,000	15,413,333	7,706,667	7,706,667	7,706,667	-
Comoros	27	0.10	367,200	244,800	122,400	122,400	122,400	-
Djibouti	27	0.10	367,200	244,800	122,400	122,400	122,400	-
Egypt	2,670	10.25	36,312,000	24,208,000	12,104,000	12,104,000	12,104,000	-
Eritrea	120	0.46	1,632,000	1,088,000	544,000	544,000	544,000	-
Ethiopia	2,670	10.25	36,312,000	24,208,000	12,104,000	12,104,000	12,104,000	-
Kenya	2,670	10.25	36,312,000	24,208,000	12,104,000	12,104,000	12,104,000	-
Malawi	660	2.53	8,976,000	5,984,000	2,992,000	2,992,000	2,992,000	-
Mauritius	783	3.01	10,648,800	7,099,200	3,549,600	3,549,600	3,549,600	-
Rwanda	624	2.40	8,486,400	5,657,600	2,828,800	2,828,800	2,828,800	-
Seychelles	135	0.52	1,836,000	1,224,000	612,000	122,400	61,200	61,200
Somalia	159	0.61	2,162,400	1,441,600	720,800	720,800	720,800	-
Sudan	2,460	9.45	33,456,000	22,304,000	11,152,000	11,152,000	11,152,000	-
Tanzania	2,607	10.01	35,455,200	23,636,800	11,818,400	11,818,400	11,818,400	-
Uganda	1,800	6.91	24,480,000	16,320,000	8,160,000	8,160,000	8,160,000	-
Zambia	2,041	7.84	27,757,600	18,505,067	9,252,533	9,252,533	9,252,533	-
Zimbabwe	2,770	10.64	37,672,000	25,114,667	12,557,333	12,557,333	12,557,333	-
African Development Bank	1,500	5.76	20,400,000	13,600,000	6,800,000	6,800,000	6,800,000	-
	26,038	100	354,116,800	236,077,867	118,038,933	117,549,333	117,488,133	61,200

Key Staff

Dr. Michael Gondwe
President

Mr. Alex Gitari
Director, Finance

Mr. Yotam Longwe
Director, Credit Facilities and Business Development

Mr. Yitaferu Kassaye
Director, Portfolio Management

Mr. James Kabuga
Principal Officer, Credit Facilities and Business Development

Mr. Kifle Hamza
Principal Officer, Administration and Corporate Services

Mr. Premchand Mungar
Principal Legal Counsel

Administrative Budget

	2007 USD	2006 USD
Personnel Costs	5,934,000	4,904,000
Board of Governors	161,000	163,000
Board of Directors	156,000	146,000
Consultants and Advisors	831,000	555,000
Official Missions	520,000	370,000
Business Promotion	84,000	75,000
Other Operating Expenses	475,000	470,000
Total Administrative Expenditure	8,161,000	6,683,000

Vision 2012

To be the Preferred Development Financial Institution in the Region