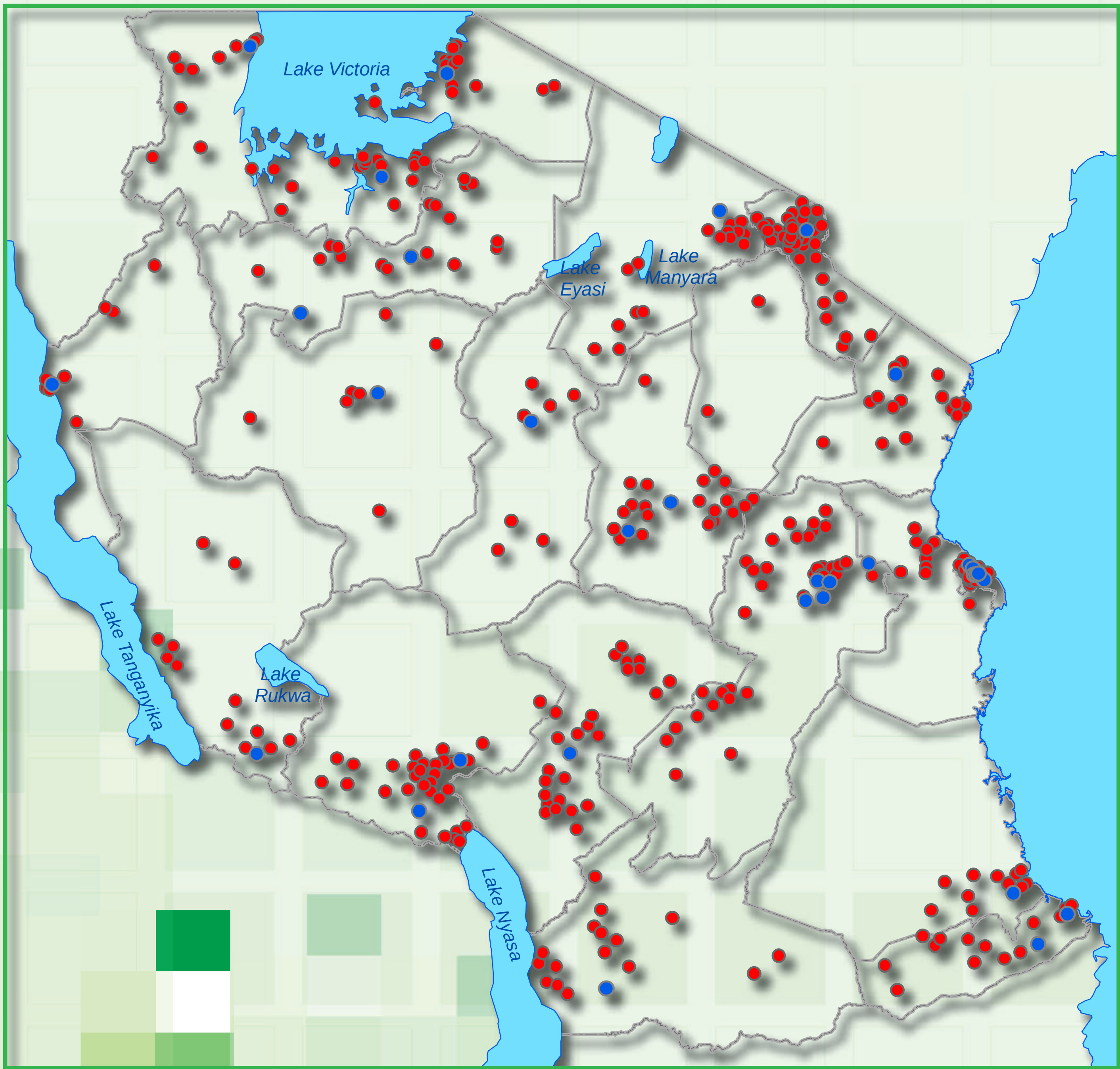
CRDB MICROFINANCE SERVICES COMPANY LIMITED

Annual Report 2008

CRDB Microfinance

NATIONAL MICROFINANCE COVERAGE BY CRDB BANK PLC



KEY:

- CRDB Partner Institution
- CRDB Branches

CRDB MICROFINANCE SERVICES COMPANY LIMITED
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008

CONTENTS PAGE

OUR VISION

We aspire to provide financial and non-financial services throughout Tanzania targeting people at the bottom of the banking pyramid so as to cultivate them into CRDB Bank customers and include them in the country's financial system.

OUR MISSION

We are a market leader in wholesale microfinance, providing a wide range of needs-driven financial services to retail financial intermediaries using a motivated, knowledgeable and skilled workforce. We will operate commercially adding volume of business to the holding company from a market segment previously impossible to harness with normal banking system.

OUR VALUES

- Accountability
- Commitment
- Cost consciousness
- Courtesy
- Decisiveness
- Knowledge
- Professional integrity
- Promptness
- Result oriented
- Responsiveness

BOARD CHAIRMAN'S STATEMENT

2008 is the first year that the company has prepared its financial reports after registration under the Companies Act, of 2002 Cap 212 on the 27th November 2007.

Year 2008 has been a year for consolidation of our business with emphasis directed at improving the management of the loan portfolio and mobilization of deposits form partner microfinance institutions. Given the strategies that we are implementing, we remain confident about sustaining our competitive position and our ability to generate attractive performance results in the coming year 2009. Our long term growth strategy will be the guiding tool while market insights will drive innovation that creates value to our customers.

Performance

In 2008, Company made a pre tax profit of Tshs. 254 million. The outstanding loan portfolio booked in the Holding Company accounts was Tshs. 58.8 billion in December 2008. Loans worth more than Tshs. 48.5 billion were disbursed to microfinance institutions that benefited micro entrepreneurs at the grass root level building and improving their businesses. Under the Uwezeshaji Credit Guarantee Scheme the Company disbursed a total of Tshs. 22.9 billion to 203 microfinance institutions surpassing the government target of disbursing Tshs. 22.0 billion. In the same year the Company participated in Mwananchi Empowerment scheme initiated by the National Economic Empowerment Council that aim at facilitating lending in selected regions.

Dividends

The Board will not recommend any dividend to the Annual General Meeting.
The Company has just started and needs capital enhancement for future expansion.

Business development

Our priority is to expand our microfinance initiatives to reach out more districts and provide services to more Tanzanians who have no access to financial services. As a result the company will continue opening new service centers for MFIs and enhancing Staff numbers depending on needs. In lending, emphasis will be directed in stock financing through warehouse receipt system while direct financing of agricultural production will focus on irrigated farming schemes.

The following market developments had a profound impact on the performance of our Company.

Agriculture

Proud farmer enjoying benefits obtained from SACCOS finance.

The agriculture sector continued to be the lynchpin of the economy. The sector employs about 85% of the country's workforce and it accounts for over 30% of the Gross Domestic Product (GDP) at factor cost and 25% of foreign exchange earnings. The loan portfolio to the agriculture sector was 18% of the total loan portfolio and will seemingly grow, in the coming year; major crops financed are paddy, sugarcane, tea, coffee, tobacco, sisal and cashew nuts.

Trade

The Trade sector including, restaurant and hotels has demonstrated its capacity to withstand adverse shocks, such as bad weather, high fuel prices and the underdeveloped energy sector by maintaining a consistent high rate of 11 percent for year 2008 and projected to be 12 percent for year 2008/2009. Trade finance contributed 16% of the microfinance loan portfolio.

Social Service

The Education sector has achieved a commendable progress including countrywide construction of primary schools has gone together with recruitment of teachers. The Ministry planned to employ 14,490 primary school and 397 non teachers up to end of 2008. By end of 2008 the loan portfolio to employees in this sector was 66% of the total microfinance loan portfolio. We aim at diluting the concentration of loans to this sector, and increased lending to other sectors particularly agriculture and trade.

Prospects for 2009

Looking ahead, the major goal for 2009 will be to grow our lending portfolio to the productive sector without compromising the loan portfolio quality. In agriculture we will put more emphasis in financing microfinance institutions serving members in organized irrigated farming schemes of Tanzania whose crops have a reliable market. To ensure better prices for farmers' crop financing through Warehouse Receipt System will be encouraged.

Acknowledgement

I acknowledge overwhelming support that I have received from fellow board members which has enabled the company to achieve this remarkable performance. I thank our partners the microfinance institutions for continuing to source loans and other banking services from us. The pivotal role played by our staff in ensuring success of the company can not be understated and I am extremely grateful for their commitment and hard work.

Good relations with key strategic stakeholders in the microfinance sector were a factor in our achievements. I recognize the support from DANIDA, Financial Sector Deepening Trust Fund, Rural Financial Services Programme, Agricultural Marketing Support and Development Programme that has enabled the company implement its activities smoothly. I also wish to acknowledge support from the Government, Bank of Tanzania, National Economic Empowerment Council and all company's stakeholders. I am confident that the Company will generate attractive performance results in the coming years.

Dr. Charles Kimei
Chairman

24 February 2009

GENERAL MANAGER'S REPORT

Performance Highlights

DETAILS	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008
Regions Covered by MFSC	4	5	10	16	21	21
District covered by MFSC	21	26	60	77	105	109
CRDB MFSC Loans Disbursement (Cummulative)to MFIs (Tshs bn)	27.4	46.84	84.5	137.4	183.6	215.57
CRDB MFSC Outstanding Loan Portfolio (Tshs bn)	2.92	7.21	9.11	27.03	72.3	58.8
No. of institutions with Bank Loans	-	46	83	129	268	251
CRDB MFSC Loans repayment perfomance (Arreas rate %)	100	100	100	100	99	98
MFIs Deposit with CRDB (Tshs bn)	0.8	2.2	2.8	7.16	10.87	9.6
Number of Bureaus	4	5	7	12	21	23
Number of Staff	7	8	12	29	35	41
Number of partner MFIs	76	109	171	227	345	376

CRDB Microfinance Services Company Limited continued to offer a range of services to enable people who have limited access to banking services, to access them. It offers wholesale services to intermediary Microfinance Institutions (MFIs), which are usually but not limited to Savings and Credit Co operative Societies (SACCOS), Financial NGO's and Microfinance companies.

In fulfilling diversified needs of Microfinance Institutions and their clientele the Company strived to design and repack various products and services to increase their utility and suit the client needs.

Normal Loan Products were repackaged to enrich them and new one were introduced; To increase lending business for the Holding Company, MFIs whose most members are farmers were given special loans for acquiring power tillers to pursue modern cultivation and increase acreage yields. Importantly the Company has also introduced Micro insurance as a way to mitigate risk. To start with our partners have been empowered to sell funeral insurance to their customers

The warehouse receipt system has proved to be a good mechanism for ensuring higher agricultural produce prices in the areas of Magugu (Babati), Chimala (Mbeya) to mention a few, farmers under special arrangement with their Saccos were able to stock their grains immediately after harvest when the prices were low against short

MFI's efficiency Improved through Technology

term loans to meet their immediate financial needs and afterward they were able to sell at much higher prices and settle the loans thereby realizing gains.

The microfinance industry is remarkably growing in terms of new practitioners, new products and services and technological innovations for service delivery to increase customer outreach. Nevertheless, the challenge remaining un-tackled and accelerating in magnitude by these new developments is the failure of the financial system to reach out to the low-income people in remote areas of Tanzania.

Competition is growing in the formal banking market, measured by increased number of banks and other financial institutions. This is posing a challenge on our delivery model and hence a need for effective management rearrangement to ensure sustainable diversified products and services to meet the changing needs of the microcredit market. Moreover in order to cope with competition there is a need to ensure constant improvement in our quality of services, in terms of loan processing time as well as adequate and timely business advice support.

Outreach

In the year under review, 22 new microfinance institutions were recruited making a total of 376 partners. District coverage increased to 109 districts out of 136 Tanzania districts. Individual beneficiaries served by the company through its network of partners by December were 498,030. One new microfinance support center for MFIs was opened at Kilombero while arrangements are underway to open new centers in Njombe, Mbozi, Geita and Zanzibar.

Automation of partner institutions

In ensuring that partners automate their business operations, the Company acquired a banking system known as Finance Solutions suitable for microfinance institutions with all features to support individual as well as group lending methodologies. The system is rich in MIS reports, with remarkable ease of use including multi lingual functionality yet with enhanced security features. Distribution to partners has already started with installations done at some Dar es Salaam and Morogoro partners and the exercise is intended to be rolled out to all partners. By automating operations it is anticipated that microfinance institutions will be able to improve efficiency, and easen report production.

NEW UNITS

Compliance and Monitoring Unit

To cope with the growing size of our business in terms of number of partners, expansion of territorial coverage and size of the loan portfolio. It has become necessary to establish a Unit of Compliance and Monitoring that is responsible for ensuring that all staff and management of the Company and that of Partner intermediaries comply with regulations and laid down policies and procedures. Currently the unit is manned by two people and its priority has been to identify gaps and breaches and advising management on appropriate steps to take.

Information Communication Technology Unit

Early 2008 a unit of ICT was formed within the Company. This unit has been responsible for the acquisition of the Financial Solution Software suitable for automating our partners operations while meeting our reporting requirements. The Unit is now engaged in the rollout exercise for the software to all Saccos.

Lending Activities

Outstanding loan portfolio at the end of 2008 was Tshs. 58.8 billion. The number of institutions with CRDB Bank loans was 251. In the year, the Company disbursed a total of Tshs. 48.5 billion. Currently, the Company is focusing in developing sustainable community based SACCOS.

Empowering the MFIs through tailor made trainings.

Participation in Credit Guarantee Schemes

Involvement of the Company in the empowerment programmes such as Uwezeshaji Credit Guarantee Scheme (the JK Fund) and Mwananchi Empowerment Fund enabled the Bank to extend loans worth Tshs 23.32 billion to 210 SACCOS countrywide.

The Mwananchi Empowerment Fund, also administered by the National Economic Empowerment Council (NEEC), is focusing on marginalized regions of Ruvuma, Rukwa, Manyara, Lindi, Mtwara and Singida. The start up guarantee fund is expected to be enhanced annually with each subsequent Government budget. Disbursement under this arrangement in 2008 was Tshs 420.4 million and benefited members of 7 SACCOS.

Support to partner MFIs

In cognizance of the need of having startup equipment such as money safes and attractive counters at all our partners' premises, the company has been assisting them with these essential facilities. Provision of safes aims at enhancing security for the money held at Saccos while attractive counters give the MFI an office outlook which is essential in attracting customers and building their confidence towards the institution. The initial support is expected to be a catalyst for growth and as the supported institution grows in size and ability it is expected that it will be able to build its own capacity to acquire adequate facilities.

Capacity building to MFIs through training and couching was the Company's priority in year 2008. Through its own training team the Company continued training ordinary members, board members and professional staffs of the partner institutions. Training is considered to be key component in imparting best practices to microfinance institutions especially for those which are new in the market. The idea is to give them knowledge and skills to manage financial institutions at acceptable standards. Company's staff continued to provide assistance to our partner MFIs in product development support, marketing support and development of management information system.

In year 2008 we were able to train 307 board members, 24 credit officers, 23 managers; and 9,287 ordinary members.

Prospects for 2009

As we close year 2008 we see a promising year 2009 and in CRDB Microfinance Services Ltd we have prepared ourselves to accomplish the targets as outlined in our strategy through commercialization of consultancy services, introduction of insurance products and acquiring Mobile Phone Banking technology for MFIs. We are optimistic that these new initiatives will propel the company forward in providing financial services to the masses while giving us a competitive advantage over our competitors.

2008 was a successful year and I would like to extend my appreciation to the Board of Directors for their support, our partners microfinance institutions for their confidence in us, our strategic alliances and other stake holders for their support and cooperation. Many thanks to our management team and staff for their dedication, commitment and hard work that have been crucial for our success this year.

Sebastian A.P. Masaki
General Manager

24 February 2009

Women have emerged as proficient entrepreneurs through improved access to credit.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31st DECEMBER 2008

The Directors are pleased to present their report and the audited financial statements of the CRDB Microfinance Services Company Limited for the year ended 31 December 2008.

Principal Activities and Business review

CRDB Microfinance Services Company Ltd was incorporated in the United Republic of Tanzania on 27 November 2007 under the Companies Act 2002 with Registration number 49884. It is wholly owned by CRDB Bank Plc, the company incorporated in the United Republic of Tanzania.

The principle business activities of the company are to offer wholesale microfinance services throughout mainland Tanzania with hubs (regional offices). The company provides technical assistance, capacity building, development of management information system, and tailor made products and services to Microfinance Institutions, mostly SACCOs in Tanzania

Deposits

Total deposits mobilized from Microfinance Partner Institutions (MFIs) and banked with the holding company was Tshs. 9.6 billion as at 31 December 2008. This is not a core function of the company it only mobilizes for the Holding company.

Lending

In year 2008 the outstanding loan portfolio under the management of the company but held in the books of the Holding Company decreased by 19% from Tshs 72.3 billion in December 2007 to Tshs. 58.8 billion in December 2008. This was mainly due to deliberate limitation of credit expansion in order to manage emerging loan arrears. The loan portfolio has been distributed among three categories of SACCOs namely; employee-based 66%, agricultural-based 18% and trade finance 16%. Under Uwezeshaji Credit Guarantee Scheme the Company successfully originated a total of Tshs. 22.9 billion to 203 MFIs by December 2008. The Company has been given an additional guarantee fund of Tshs. 2.1 billion for the second phase to enable it extend loans to districts that were not reached in the first phase. In addition to that, the government is planning to inject additional funds for the National Economic Empowerment Programme.

Future plan of the company

The reformulation and reorganization of the company to a service company give us extra miles as we intend to offer financial and non financial services such as consultancy, brokerage and Insurance services and collateral management to add up on services rendered by the company and remain a market leader. We have also extended our services to Zanzibar.

Number of Partners

The Company offers its services through a network of partners. The number of partner MFIs increased by 9% from 345 in December 2007 to 376 at the end of 2008 covering 109 districts in 21 regions. We feel proud on our presence in all Tanzania mainland regions.

Solvency

The state of affairs of the company as at 31 December 2008 is set out on page 19 of the financial statements. The directors' consider the company to be solvent within the meaning ascribed by the Tanzanian Companies Act 2002.

Results and dividends

Profit before tax for the year ended 31 December 2008 was Tshs. 254 million. And the major source of income is fees from the services rendered to the Holding Company as agreed by both parties. The Directors do not recommend payment of dividend to the Annual General Meeting. The Company has just started and requires capital enhancement for future expansions and operations.

Share Capital

The capital of the Company was Tshs 728 million comprised of 7,281,359 issued and fully paid ordinary shares at the end of the year.

Directors

The following directors served the Company during the year:

1	Dr. Charles Kimei	Chairman	Tanzanian
2	Prof. Andrew E. Temu	Member	Tanzanian
3	Mr. Jens Ole Pedersen	Member	Danish
4	Mr. Anderson Mlabwa	Member	Tanzanian
5	Mr. Joseph Witts (January – April 2008)	Member	Tanzanian
6	Mrs. Nellie Ndossa (May – December 2008)	Member	Tanzanian
7	Mr. Sebastian Masaki (also General Manager)	Member (ex-officio)	Tanzanian

Remuneration of Directors

All Directors except one ex- officio member were non- executive. Remuneration for one independent non executive Director was approved by the last Annual General Meeting. Total fees paid for the year were Tshs. 15,246,000/=.

Employee Welfare

As at December 2008 the Company had 41 employees out of whom 38 (93%) were males and 3 (7%) females. The annual growth in staffing was 17% from 35 employees in 2007 to 41 employees as at 31 December 2008. This is in keeping with the overall strategy of rolling the microfinance operations to the district level.

Auditors

A resolution proposing the re-appointment of Deloitte & Touche as auditors of the Company for 2009 will be put to the Annual General Meeting.

Acknowledgement

The Board wishes to thank customers, other stakeholders, management and all employees for their support in Microfinance business development.

BY ORDER OF THE BOARD

CHAIRMAN

24 February 2009

DIRECTORS STATEMENT ON CORPORATE GOVERNANCE

The Directors consider corporate governance a key to good performance of the Company. In view of this, the Directors strengthened good governance system by reviewing policies in the areas of the Board activities and general management of the Company.

Board Structure

The Board comprises of 7 directors. 5 members are executive directors of the Holding Company, one is an independent member. The General Manager is ex officio member. All directors are non executive with the exception of the General Manager.

Board Meetings

The Board held four meetings in 2008.

Committees

The Board has not established any committees.

Appointment of Directors

The Board of Directors of the Holding Company appoints all Directors to the Company.

CHAIRMAN

24 February 2009

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The Tanzanian Companies Act 2002 requires Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the operating results of the Company for that period. It also requires the Directors to ensure that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position for the Company. They are also responsible for safeguarding the assets of the Company.

The directors are responsible for the preparation and fair presentation of 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 financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Tanzanian Companies Act 2002. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal control.

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

CHAIRMAN

24 February 2009

DIRECTOR

24 February 2009

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF CRDB MICROFINANCE SERVICES COMPANY LTD

We have audited the accompanying financial statements of CRDB Microfinance Services Company Limited set out on pages 19 to 32 which comprise the balance sheet as at 31 December 2008, income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act 2002. 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31 December 2008 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act 2002.

Report on Other Legal Requirements

As required by the Tanzania Companies Act 2002 we report to you, based on our audit, that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and

iii) the company's balance sheet and income statement are in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (T)

E A Harunani
Dar es Salaam

27 February 2009

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 Tshs '000
Turnover	7	2,125,211
Other operating income	8	773,053
General and administrative expenses		(1,416,388)
Staff costs		(1,241,057)
Profit before taxation	9	240,819
Taxation	10	13,246
NET PROFIT FOR THE YEAR		254,065

BALANCE SHEET AS AT 31 DECEMBER 2008

	Note	2008 Tshs '000
ASSETS		
Property and equipment	11	554,856
Deferred taxation	12	13,246
Other assets	13	541,479
Taxation recoverable		103,164
Cash and bank balances		519,761
Total assets		1,732,506
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	14	728,136
Retained earnings		254,065
		982,201
Liabilities		
FSDT grants	15	334,228
RFSP Asset grant	16	115,500
Accruals and other liabilities		300,577
Total liabilities		750,305
Total equity and liabilities		1,732,506

The financial statements on pages 19 to 32 were approved by the Board of Directors on 24 February 2009 and signed on its behalf by:

Dr. Charles Kimei *Chairman*	Mr. Sebastian Masaki *General Manager*	Mr. Anderson Mlabwa *Director*	Prof. Andrew Temu *Director*

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

	Share capital Tshs '000	Retained earnings Tshs '000	Total Tshs '000
At 1 January 2008	-	-	-
Issue of shares	728,136	-	728,136
Profit for the year	-	254,065	254,065
At 31 December 2008	728,136	254,065	982,201

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 Tshs '000
Operating activities:	
Profit before taxation	240,819
Adjusted for:	
Depreciation	161,071
	401,890
Movement in working capital:	
Increasein other assets	(541,479)
Increasein grants	449,728
Increase in accruals and other liabilities	300,577
Net cash generated from operations	610,716
Income tax paid	(103,164)
Net cash generated from operating activities	507,552
Investing activities:	
Purchase of property and equipment	(715,927)
Net cash used in investing activities	(715,927)
Financing activities:	
Proceeds from issue of ordinary shares	728,136
Net cash generated from financing activities	728,136
Increase in cash and cash equivalents	519,761
Cash and cash equivalents at 1 January	-
Cash and cash equivalents at 31 December	519,761

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

1. GENERAL INFORMATION

The CRDB Microfinance Services Company Limited was incorporated in the United Republic of Tanzania on 27 November 2007 under the Companies Act 2002 with registration number 49884. Its holding company is CRDB Bank Plc.

The company prepares its financial statements in accordance with International Financial Reporting Standards.

2. ADOPTION OF NEW AND REVISED STANDARDS

Standards and interpretations effective in the current period

The following new interpretations issued by the International Financial Reporting Interpretations Committee and revised standard are effective for the current period:

- IFRIC 12, Service Concession Arrangements (effective 1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (effective 1 July 2008);
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective 1 January 2008);
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008);
- IAS 39, Financial Instruments: Recognition and Measurement: Reclassification of financial assets (effective for accounting periods beginning on or after 1 November 2008).

The adoption of these Interpretations and standards has not led to any changes in the Company's accounting policies.

Early adoption of Standards and Interpretations

In addition, the Company has elected to adopt the revisions of IAS 23 - Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009) in advance of its effective date.

The principal change to the Standard, which was to eliminate the previously available option to expense all borrowing costs when incurred, has no impact on these financial statements because it has always been the Company's accounting policy to capitalise borrowing costs incurred on qualifying assets

Standards and Interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the following revised standards and interpretations were in issue but not yet effective.

- IFRIC 15, Agreements for the construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009)

- IFRIC 17, Distributions of Non-cash Assets to Owners (effective for accounting periods on or after 1 January 2009)
- IFRS 1, First-Time Adoption of International Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption (effective for accounting periods beginning on or after 1 January 2009)
- IFRS 3, Business Combinations – Comprehension revision on applying the acquisition method (effective for accounting periods beginning on or after 1 July 2009)
- IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009)
- IAS 27, Consolidated and Separate Financial Statements: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009)
- IAS 28, Investments in Associates: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009)
- IAS 31, Interests in Joint Ventures: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009).
- IAS 32, Financial Instruments: Presentation: Amendments relating to puttable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009)
- IAS 39, Financial Instruments: Recognition and Measurement: Amendments for eligible hedged items (effective for accounting periods beginning on or after 1 July 2009)
- "Improvements to IFRSs" was issued in May 2008 and its requirements are effective over a range of dates, with the earliest effective date being for annual periods beginning on or after 1 January 2009. This comprises a number of amendments to IFRSs, which resulted from the IASB's annual improvements project.

The directors are currently assessing the impact and expected timing of adoption of these amendments on the company's results and financial position.

3. PRINCIPAL ACCOUNTING POLICIES

3.1 Basis of preparation

The financial statements have been prepared on the historical cost basis in accordance with International Financial Reporting Standards (IFRS). The principal accounting policies adopted are set out below.

3.2 Turnover

Turnover comprises of the fees and commission charged to CRDB Bank Plc under the service level agreement signed between the two parties.

Other revenues earned by the Company are recognised on the following basis:

- Sale of equipment- when product is delivered and title has passed;

- Interest income - on accruals basis.

3.4 Foreign currencies

These financial statements are presented in Tanzania Shillings (Tshs.), which is also the functional currency of the Company. Transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the income statement in the period in which they arise except for exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowing.

3.5 Financial instruments

Financial instruments are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instruments. Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

Trade and other receivables
Trade and other receivables are stated at their fair value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade and other payables
Trade and other payables are stated at their fair value.

Cash and cash equivalents
Cash and cash equivalents are measured at fair value.

Equity instruments
Equity instruments are recorded at the proceeds received.

Financial liabilities
Non-derivative financial liabilities are recognized at fair value.

Gains and losses on subsequent measurement
Gains and losses arising from a change in the fair value of financial instruments that are not part of a hedging relationship are included in net profit or loss in the period in which the change arises.

Offset
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Fair values
The fair values of all financial instruments are substantially identical to carrying values reflected in the balance sheet.

3.6 Taxation
The tax expense represents the sum of the current tax and deferred tax.

Current tax is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at currently enacted tax rates and the net movement charged or credited in the income statement.

3.7 Retirement benefit costs
The company contributes to two statutory defined pension schemes, the National Social Security Fund (NSSF) and Parastatal Pension Fund. Contributions are determined by local statute and are currently made at 10% of employee gross earnings per month.

Contributions by the company in respect of retirement benefit costs are charged to the income statement in the year to which they relate.

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the liability for annual leave earned but not taken at the balance sheet date.

3.8 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment.

Depreciation is calculated on the straight-line method to write off the cost of the property and equipment over their expected useful lives, which are as follows:-

Buildings improvements	55 years
Trailers, tractors, and tools	3-5 years
Computers, furniture, and fittings	3-5 years
Motor vehicles	3-5 years

3.9 Impairment of assets

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such conditions exist, the assets' recoverable amount is estimated and an impairment loss recognised whenever the carrying amount of an asset exceeds its recoverable amount.

3.10 Dividends

Dividends payable on ordinary shares are charged to retained earnings in the period in which they are declared. Dividends declared after the balance sheet date, are not recognized as liabilities at the balance sheet date.

3.11 Grants

Grants related to assets are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned.

Grants towards improvement of the company's and its affiliate processes are recognized as income over the periods necessary to match them with the related costs.

3.12 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise cash, short term liquid investments which are readily convertible into known amounts of cash and which are within three months maturity from the date of acquisition.

4. 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the company'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. The key areas of judgement in applying the company's accounting policies are dealt with below:

Impairment losses

At each balance sheet date, the company reviews the carrying amounts of its 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 in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Property, plant and equipment

Critical estimates are made by directors in determining the useful lives and residual values to property, plant and equipment based on the intended use of the assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a variety of financial risks, including credit risk, liquidity risk and market risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the Board of Directors. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, and services offered. The most important types of risks are:

- Credit risk
- Liquidity risk
- Market risk particularly interest rate risk

a) Credit risk

Potential concentration of credit risk consists principally of short-term cash and cash equivalent investments, and other sundry receivables. The company deposits short-term cash surpluses with major banks of quality credit standing. Trade receivables comprise amount receivable from its parent company, CRDB Bank Plc. The company did not consider there any significant concentration of credit risk which had not been adequately provided for.

The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the companies' management based on prior experience and the current economic environment. The carrying amount of financial assets represents the maximum credit exposure.

The amount that best represents the company's maximum exposure to credit risk at 31 December 2008 without taking account of the value of any collateral obtained was:

a) Credit risk

	Fully performing Tshs' 000	Past due Tshs' 000	Impaired Tshs' 000
Accounts receivable	342,705	-	-
Cash and cash equivalents	519,761	-	-
Total credit exposure	862,466	-	-

b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the entity could be required to pay its liabilities earlier than expected.

The company manages liquidity risk by monitoring forecast cash flows. The directors may from time to time at their discretion raise or borrow monies for the company as they deem fit. There are no borrowing limits in the articles of association of the company.

Maturity analysis for financial liabilities at 31 December 2008 showing the remaining contractual maturities:

	<2 month Tshs' 000	2 - 5 months Tshs' 000	5 -12 months Tshs' 000	> 1 year Tshs' 000	Total Tshs' 000
Other liabilities	22,792	277,785			300,577

c) Interest rate risk

The Company is not exposed to interest rate risk as it does not have interest bearing instruments.

6. CAPITAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The company's objective when managing capital are to sustain a strong capital base to support the development of business and to safeguard the company's ability to continue as a going concern, in order to provide returns to the shareholders and maintain an optimum structure to reduce the cost of capital.

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of cash and cash equivalents and equity attributable to equity holders of the Company.

The Board of Directors reviews the capital structure on a regular basis. As part of this review, the board considers the cost of capital and the risks associated with each class of capital.

The constitution of company's share capital is as shown in the statement of changes in equity.

7. TURN OVER

	2008 Tshs'000
Commission from term loans	2,077,416
Deposit mobilization fee	47,795
	2,125,211

8. OTHER OPERATING INCOME

Uwezeshaji disbursed loan	56,535
Uwezeshaji guarantee interest	188,025
Grants amortization	528,493
	773,053

9. PROFIT BEFORE TAXATION

The profit before taxation is stated after charging:

Depreciation	161,072
Directors fees	15,246
Auditors remuneration	13,450

10. TAXATION

(a) Tax credit

(a) Tax credit	
Current taxation	-
Deferred tax credit	(13,246)
	(13,246)
(b) Reconciliation of tax based on accounting profit and tax expense:	
Profit before taxation	240,819
Tax at applicable tax rate of 30%	72,246
Effect of income not subjected for tax	(158,548)
Effect of expenses not allowable for tax	73,056
	(13,246)

11. PROPERTY AND EQUIPMENT

11. PROPERTY AND EQUIPMENT	Motor vehicles Tshs '000	Office equipment Tshs '000	Furniture Tshs '000	Total Tshs '000
Cost				
At 1 January 2008	-	-	-	-
Additions	613,849	87,708	14,370	715,927
At 31 December 2008	613,849	87,708	14,370	715,927
Depreciation				
At 1 January 2008	-	-	-	-
Charge for the year	135,193	21,740	4,138	161,071
At 31 December 2008	135,193	21,740	4,138	161,071
Net book value				
At 31 December 2008	478,656	65,968	10,232	554,856

12. DEFERRED TAXATION

	2008 Tshs'000
The deferred tax asset is attributable to the following items:	
Accelerated capital allowances	(66,509)
Tax losses carried forward	66,357
Other general provisions	13,398
	13,246
The movement on the deferred tax account is as follows:	
At 1 January 2008	-
Income statement credit	13,246
At 31 December 2008	13,246

13. OTHER ASSETs

Prepayments	198,774
Sundry debtors	342,705
	541,479

14. SHARE CAPITAL

	2008 Tshs'000
Authorised	
50,000,000 ordinary shares of Tshs 100 each	5,000,000
Issued and fully paid	
7,281,360 ordinary shares of Tshs 100 each	728,136

15. FSDT GRANT

Grant received during the period	804,971
Credited to income statement	(470,743)
At the end of the year	334,228

On 26 May 2008, CRDB Bank Plc signed a three years funding agreement with Financial Sector Deepening Trust of Tanzania (FSDT) amounting to US$ 3,806,500 as a grant for strengthening of the bank's microfinance partner institutions and increase outreach.

On 30 May 2008, a tranche of US$ 628,872 was received, by CRDB Bank Plc, which transferred the amount to CRDB Microfinance Services Company Limited.

16. RFSP ASSET GRANT

	2008 Tshs'000
Grant transferred from CRDB Bank Plc	173,250
Grant received during the year	-
Credited to income statement	(57,750)
At the end of the year	115,500

In 2005, CRDB Bank Plc signed a Memorandum of Understanding (MoU) with Rural Financial Sector Programme (RFSP) which is under the Prime Minister's office. The programme is aimed at developing a sustainable rural financial system which can be integrated within a gradually liberalized financial sector. Under the MoU, the Bank received four motor vehicles, which during the year were transferred to CRDB Microfinance Services Company Limited.

17. CAPITAL COMMITMENTS

	2008 Tshs'000
Amount committed and contracted for	334,228

18. RELATED PARTY TRANSACTIONS

During the year, the Company entered into the following transactions with related parties:

	Fee and Commission Tshs '000	Deposits Tshs '000	Current account Tshs '000	Fixed assets purchase Tshs '000
CRDB Bank PLC	2,369,771	519,761	248,195	542,678

The Microfinance outstanding Loans and Advances issued to Microfinance Partner Intermediaries was Tshs 58,808 millions, and deposits of Tshs 9,559 million were mobilized from Microfinance Partner Institutions and banked with the Holding Company. The Company provides Microfinance loan management services on behalf of its holding company, and receives commission of 3% out of 14% of the interest income generated. During the year, the company received a total of Tshs 2,370 millions.

The company acquired the fixed assets items amounting to Tshs 543 million from its holding company, CRDB Bank Plc.

Compensation of Key Management Personnel

The remuneration of Directors, General Manager and Heads of units who are reporting directly to the General Manager was as follows:

	Tshs '000
Short term benefits	294,177
Post employment benefits	118,435
	412,612

Director remuneration (i.e. Directors fees) which is included in the compensation of key management personnel was Tshs 15,246,000.

19. INCORPORATION AND ULTIMATE HOLDING COMPANY

The company is incorporated in Tanzania under Companies Act 2002, and domiciled in the United Republic of Tanzania.

The ultimate holding company is CRDB Bank Plc.

20. CURRENCY

These financial statements are presented in thousands of Tanzanian Shillings (Tshs'000).


MSHIKAMANO SACCOS
MAGUGU


KIGOMA BRANCH, KIGOMA
KIGOMA SACCOS LIMITED
MILIONI MIA TANO SITINI NA MOJA
MIA SITA ISHIRINI NA TANO ELFU TU


125
CHC

CRDB
Microfinance