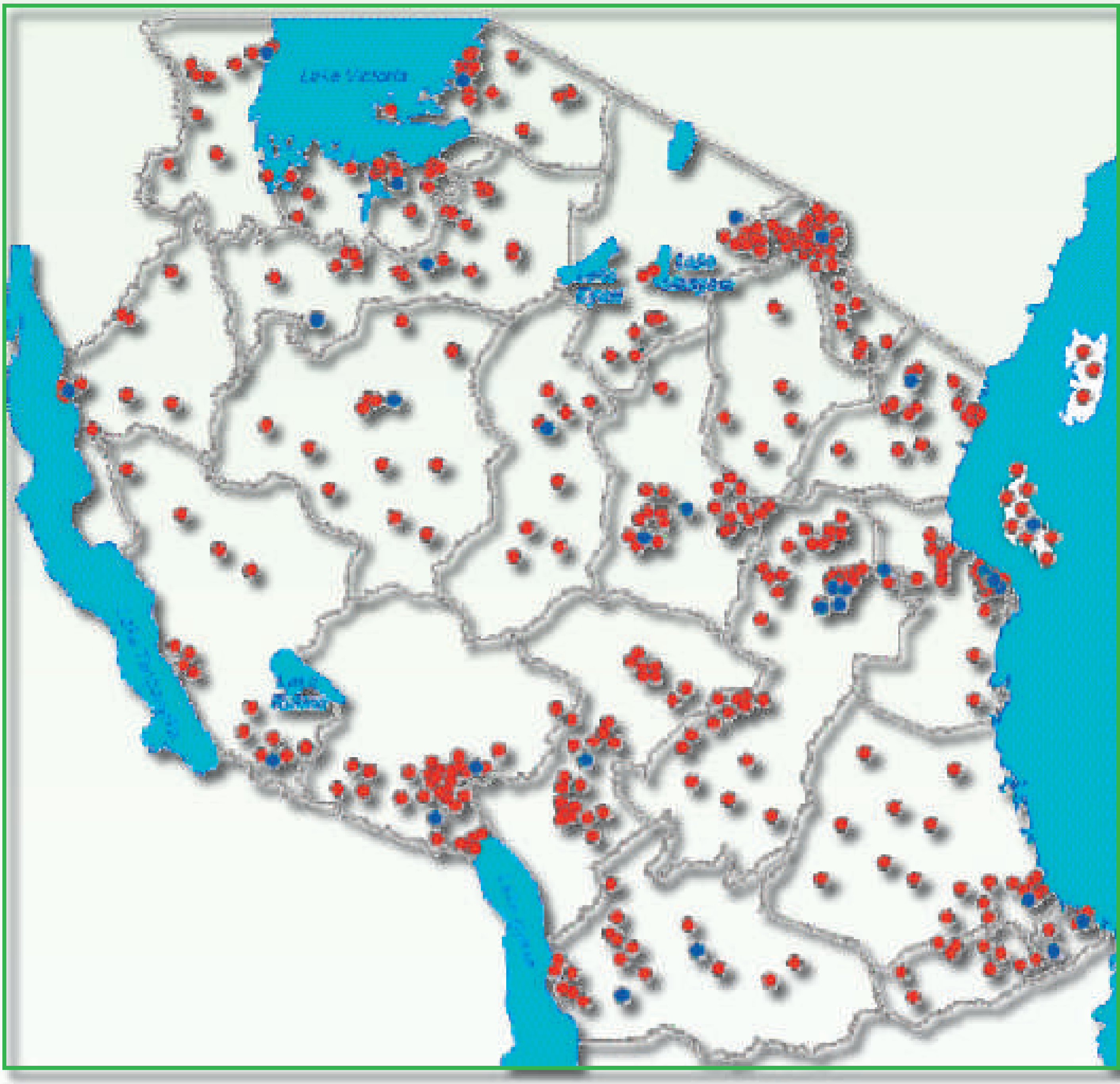
CRDB MICROFINANCE SERVICES COMPANY LIMITED

Annual Report 2010

CRDB Microfinance

A Subsidiary of CRDB Bank Plc

THE WIDEST OUTREACH



Through our linkages we can reach all places.

KEY:

- CRDB Partner Institution (red dot)
- CRDB Branches (blue dot)

CONTENTS

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

OUR BELIEF

We believe that people are created equal and should be treated fairly. That poor people are capable of improving their lives through economic activities if given the opportunity by having access to financial services (including credit) while having their entrepreneurial skills enhanced.

CHAIRMAN'S STATEMENT

It is my pleasure to announce that year 2010 was a successful year for the CRDB Microfinance Services Company Ltd. The Company retained its leadership position in offering wholesale microfinance services in Tanzania.

Last year, we reviewed CRDB Microfinance Services Company's business performance and realigned the strategy to connect explicitly to our Company's long-term goals. We focused on three specific choices: to extend outreach so as to offer services to the unserved and underserved populations with an unrelenting focus on innovation and use of technology; to strengthen internal capacities of affiliate MFIs to provide quality services to clients; and last, to increase the volume of business while improving and sustaining the quality of the loan portfolio. These strategic choices are unified by one simple, over-arching growth strategy: to reach and include more people in the country's financial system.

As a result during the year, the Company expanded its presence from 23 to all 26 regions of Tanzania. It increased its network coverage to 123 of the country's total 136 districts through strategic partnerships with 472 affiliate microfinance institutions; these affiliates are reaching and providing customer focused financial services to 613,782 clients and have been able to locally mobilize deposits worth Tshs. 107.3 billion being an increase by 17% from Tshs 92 billion in December 2009.

Performance

We measure our progress through a combination of outreach, loan portfolio and financial goals. We made substantial progress in year 2010.

- Profit before Income Tax grew by 2,362%, (almost 24 times) over the profit for the preceding year.
- Volume of microfinance loan portfolio grew by 33.2%, to outstanding loan portfolio of Tshs. 93.3 billion from Tshs. 70 billion at end of year 2009.
- Quality of the loan portfolio was good with portfolio in arrears for more than 90 days at 1.8%, well above our target level.
- Number of clients served with the network grew 11%, in line with Company's expectations.

The Company recovered from the impacts of climatic shocks and financial crisis of preceding year and managed to generate a pre tax profit of Tshs 1.245 billion from a meager profit of Tshs 50.6 million in the year 2009. This sharp growth has been largely contributed by the surge in growth of the loan portfolio from Tshs. 70 billion to Tshs 93.3 billion and income from non-core businesses of Tshs. 451.3 million.

During the year, loans worth more than Tshs. 117.6 billion were disbursed to microfinance institutions compared to Tshs. 51.7 billion disbursed in year 2009 - a percentage increase of 127%. In maintaining the pro-poor focus of the Company, most of these loans were for small-scale farmers and micro-entrepreneurs in rural and remote areas of the country.

Business outlook for 2011

Business of the Company for year 2011 will focus on achieving the following:

- Fostering business linkages with other categories of microfinance institutions such as microcredit companies, financial NGOs, Community banks and Microinsurance Companies.
- Promoting competitive spirit among affiliate MFIs for excellence in operations through implementation of incentive-based rating scheme.
- Remain responsive to the market needs by refining existing products and introducing others.
- Sharing the Company's rich experience in microfinance through promotion of consultancy business in line with the emerging opportunities in the market.
- Supporting agriculture through financing value chains particularly for crops in irrigated farming schemes or those with reliable markets.
- Emphasizing more on the use of technology in reaching the widely dispersed population particularly in the rural areas of the country. In this, the Company will continue with rollout of TemboCard SACCOS tailored for microfinance institutions, deployment of SMS banking and linking the MFIs core systems to that of bank to facilitate transfers across institutions.

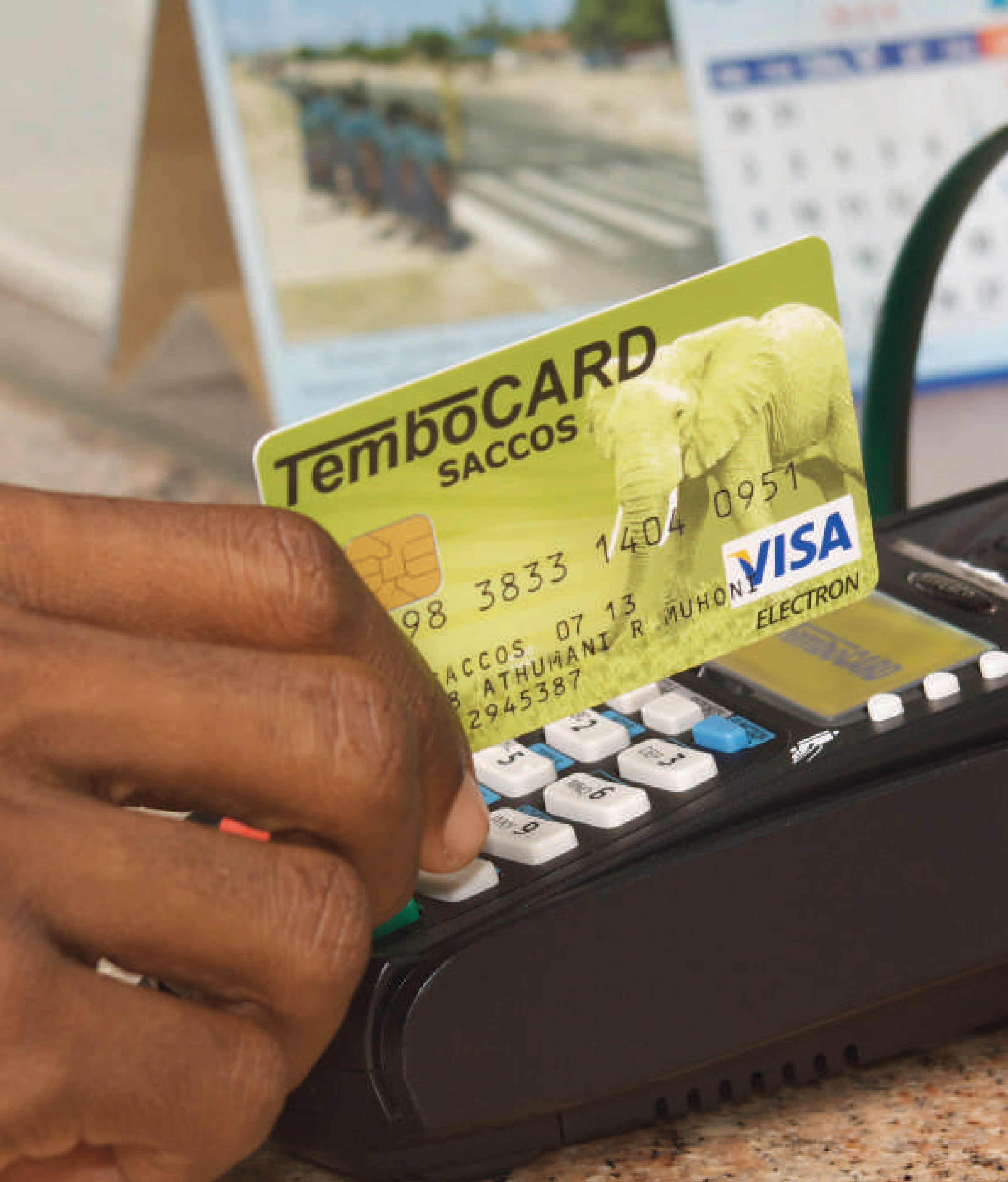
Despite the outstanding infrastructural challenges in the country - poor roads, lack of irrigation systems, inadequate power supply - that affect the development of the agricultural sector, the company will enhance its efforts in serving the rural population.

Acknowledgement

Without keen support from our stakeholders, the Company would have never attained such good results. We therefore extend our sincere gratitude to our shareholders, board members, management and staff for their overwhelming support throughout year 2010. For our esteemed customers, collaborating MFIs, I would like to reassure them and their members that the Company will continue to be responsive to their needs, provide them with high quality services for them to unlock the country's potential for economic growth.

I wish to recognize the support from our strategic partners, including the Financial Sector Deepening Trust Fund, National Economic Empowerment Council, the Government of Tanzania, and the Bank of Tanzania - certainly it's their support that accelerated our growth, and we can confidently foresee a brighter future. For this, on behalf of the Board, we are highly appreciative and grateful.

Dr. Charles Kimei
Chairman
24 March 2011



With Tembocard SACCOS we are reaching more people with a technology that is simple and secure.

Use of such efficient irrigation technologies improves quality of grapes and productivity per unit acre, with assured markets; we will expand our intervention in grape production.
"We dared, we have succeeded and we are moving forward"

GENERAL MANAGER'S REPORT

Performance Highlights

Despite the challenges in 2010 that demanded extra hard work to sustain our operations, it was a year of success to the Company, as shown in the table below. Subsequently, we assisted the Parent Company to mobilize Tshs. 13.62 billion from the previously unbanked rural population through partner MFIs and disbursing a cumulative amount of Tshs 392.3 billion catering for financial demand of microentrepreneurs, especially in remote and rural areas of Tanzania, for financing their small scale productive activities.

Details	Dec 2008	Dec 2009	Dec 2010
Regions covered by MFSC	21	24	26
District covered by MFSC	109	111	123
Number of partner MFIs	376	425	472
CRDB Loans Disbursement (cum) to MFI (Tshs. bn)	215.57	274.6	392.3
CRDB Outstanding Loan Portfolio (Tshs. bn)	58.8	69.5	93.3
CRDB Loans Repayment Performance (%)	93	97	98
MFI Deposits with CRDB (Tshs. bn)	9.5	12.45	13.62
Number of Offices (bureaus)	23	25	25
Number of Staffs	42	48	51

Outreach

During the year, 47 new microfinance institutions joined the network of our affiliate institutions, increasing the number of intermediaries from 425 in December 2009 to 472 in December 2010 – giving us coverage of 90% - reaching 123 districts out of 136 districts of Tanzania mainland and Zanzibar.

Through this network, we were able to serve 613,782 clients countrywide, some of whom with first time access to financial services – providing them with loans for agricultural production, working capital for expanding their businesses, school fees for children's education or even bridge financing during difficult times while awaiting harvests or business to peak up. Further, more people have been able to access reliable deposit services – conveniently being able to put aside some extra incomes for their future expenditure and as a form of insurance.
Similarly, there has been significant improvement on the quality of the services

offered by our affiliate microfinance institutions – the products and services are much better matching the financial needs of the communities.

Lending Activities
During the year, the Company was able to disburse loans worth Tshs. 117.6 billion to 321 microfinance institutions as compared to 222 institutions in 2009 – a borrower-base increase of 45%. Likewise, our outstanding loan portfolio grew from Tshs 69.5 billion in the year 2009 to Tshs 93.3 billion as at the end of year 2010 – an increase of 34%. Despite of these positive highlights, the quality of loan portfolio remained good that portfolio at risk (PAR) for more than 90 days as at the end of December 2010 was at 1.8%; and categorical composition of the loan portfolio in the three major sectors was within the targeted bounds: employee-based (62%), agricultural based (28%) and trade based MFI's (11%).

Remarkable achievement was the Company's interventions in tobacco financing that have facilitated reliable supply of finance to small tobacco farmers that was previously obtained either at higher cost or through stringent means. On this, we have developed a sustainable service model – involving SACCOS and AMCOS, which will, at later stage, facilitate a comprehensive supply of financial services to farmers.

Therefore, the Company was continuously keeping pace in innovating for more suitable products and services in supporting and harnessing opportunities in agriculture through the ongoing Government's initiatives under the 'Kilimo Kwanza (Agriculture First) in other crops like cashew nuts, cotton, coffee and other crops through the growing internal expertise on the sector.

Similarly, our menu of credit products and delivery mechanisms was well refined for meeting consistently changing financial needs of our partners – linking our products and services to address the needs of their individual borrowers. In strengthening confidence of these institutions to the public, we implemented an office premises loan – assisting partner institutions to construct or renovate office premises and subsequently, these institutions have been able to attract sizable members within their communities to join and start using their financial products and services.

Microinsurance Products
In 2010 emphasis was in selling two insurance products - Credit Life and Family Funeral Plan that were delivered in a healthy partnership with African Life Assurance (T) Ltd. Annual sales for the insurance products by December 2010, reached Tshs. 436 million worth of premiums, reaching 94 microfinance institutions. With the on going marketing and awareness campaigns, we foresee a positive surge in insurance consumption in year 2011.

Tembocard SACCOS
Tembocard SACCOS services were reintroduced to five affiliate microfinance institutions, and the response has been amazing and many other affiliate MFIs have expressed the need for this service due to its convenience, safety and cost-savings compared to other electronic alternatives. In the coming year 2011 we target to increase the speed of roll-out to comprehend with this demand.

Automation of partner institutions
The Company continued with automation of operations of microfinance institutions, 66 institutions were installed with the software in year 2010; making a total of 129 institutions automated with the Finance Solution by December 2010.

The software has been upgraded with new features like electronic loan appraisal and recording of a value per unit share – that will improve financial operations of the MFIs.

Support to partner MFIs
The Company provided a supplementing support for the construction or renovation of 32 modern front office counters of partner institutions – greatly enhancing their image that raised public confidence to transact with partner MFIs. Similarly over the same period, the Company supported 96 new partner institutions with money safes for guaranteeing safety of micro-depositors money.

Capacity building programme
The Company continued building capacity to MFIs through training and regular coaching – as a key component in imparting knowledge and best practices; enabling them to acquire tools for effective management and hence offering quality services to their clients. During the year, the Company conducted training programmes to management and leaders of MFIs to 291 board members, 362 professional staff and 27,367 ordinary members. On the other hand, a total of 522 members of staff of these institutions were given end-user training on Finance Solution system.

Participation in Credit Guarantee Schemes
Through the growing partnership with the Government of Tanzania in empowerment the poor, the Company continued its involvement in the Mwananchi
Empowerment Scheme under the National Economic Empowerment Council (NEEC) – focusing on marginalized regions of Singida, Mtwara, Lindi, Manyara, Rukwa, Coast region, Ruvuma, Tanga, Dodoma, and Shinyanga.

The bank also signed an MOU with the Revolutionary Government of Zanzibar on the Guarantee Scheme to facilitate economic empowerment to youths and women under the Ministry of Labour, Youth, Women and Children Development - the program covering both Unguja and Pemba.

Prospects for year 2011
As we close year 2010, we see 2011 as a promising year ahead of us. We are prepared and determined to accomplish the targets in our business strategy: venturing into direct micro financing, expanding insurance functions, venturing into collateral management, further commercialization of ICT services, scaling up the consultancy services and strengthening our interventions in agriculture financing – replicating our financing model involving SACCOS and AMCOS to other crops and areas.

Appreciation

I would like to express my sincere gratitude to our esteemed customers for availing us an opportunity for working with them and making year 2010 a success. I also wish to thank the Board of Directors of CRDB MFSC and the Parent Company for their tireless support that has greatly contributed into achieving our goals; finally I extend my special appreciation to members of staff for the their outstanding commitment and hard work in serving our customers.

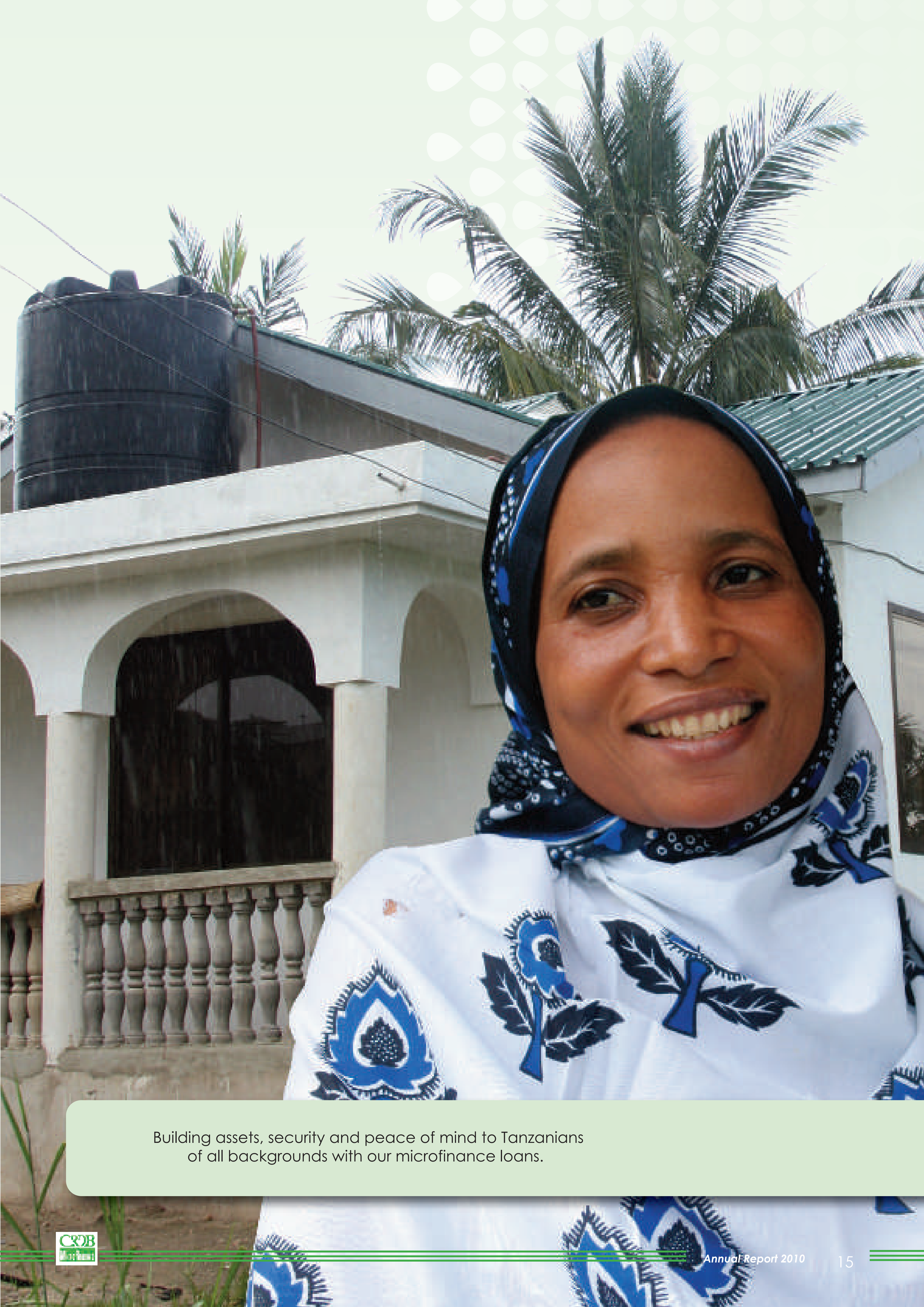
Sebastian A.P. Masaki
General Manager
24 March 2011

KEY ACTIVITIES FOR THE YEAR 2010

Extending financial services to the needy
Company expanded its presence from 23 to all 26 regions of Tanzania. It increased its network coverage to 123 of the country's total 136 districts through strategic partnerships with 472 affiliate microfinance institutions, these affiliates are reaching and providing customer focused financial services to 613,782 clients. The coverage area is 90% of all Tanzania's mainland and islands districts.

Notably is the Company's expansion of activities in Zanzibar, where twelve microfinance institutions were recruited and strengthened to deliver financial services to the excluded populations in both Isles of Unguja and Pemba.

Microfinance lending
Microfinance loans have played a pivotal role in helping people lift themselves from poverty through access to capital to finance economic activities, for example farmers have been able to obtain finance for purchase of inputs, mechanize agriculture with powertillers and tractors or enhance farm returns through stock financing by providing bridge finance while awaiting prices to improve. Mushrooming of small scale processors has been noted particularly in rural areas made possible by microfinance institutions for value addition for various crops. Traders such as Mama-ntilie or shop owners are among beneficiaries of trading loans for capital enhancement for expanding businesses. It is no wonder that a good number of microfinance clients have graduated into SME or corporate customers of the Bank it comes from the strong link between the activities of the micro-entrepreneurs and the affiliate MFIs products and services.



Building assets, security and peace of mind to Tanzanians of all backgrounds with our microfinance loans.

Securing the future with insurance products
In 2010 emphasis was in selling two insurance products - Credit Life and Family Funeral Plan that were delivered in healthy partnership with African Life Assurance (T) Ltd. Credit Life provided cover to MFIs loans on the eventuality of disability or death of a member giving MFIs confidence to lend more with assurance that some risks have been taken care-strengthening social responsibility through loan forfeiting after borrowers death or disability. Family Funeral Plan provided families with relief from worry and anxiety about how the family will meet the cost of funeral in the event of death of a family member increasing the menu of insurance products available to microfinance clients.

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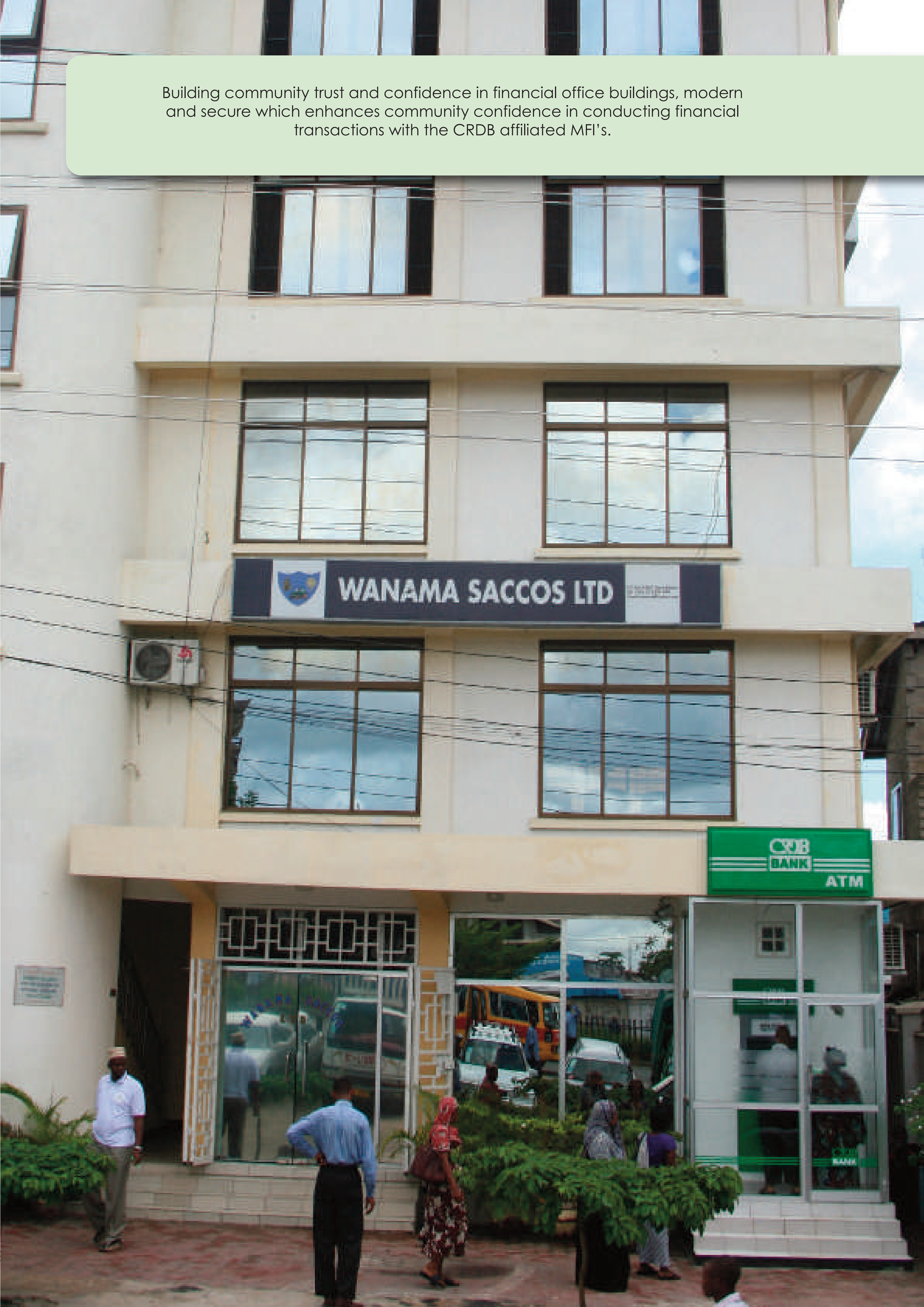
Improving deposit environment at MFIs
The Company supported construction of strong and attractive office buildings across the country and placement of good-looking counters; all this together with provision of safes particularly to the new MFIs has been instrumental in building the confidence of the communities to conduct transactions with the MFIs.

Enhancing access with technology
During the year, the Company reintroduced Tembocard services to microfinance clients in response to their call, to use Tembocard as a secure wallet for storing cash whether in transit or at home, the card has become more appealing following enrichment of benefits such as ability to transact not only on counters of CRDB Bank or SACCOS but in all local Visa enabled ATMs. A milestone was reached when ATMs were introduced to affiliate SACCOs premises to allow microfinance clients to get services conveniently 24 hours seven days a week.

Automating operations of partner institutions
The Company continued with automation of operations of microfinance institutions, such that 129 microfinance institutions were installed with the Finance Solution software by December 2010. The system has been important in improving efficiency through production of accurate and timely reports but also in providing incentives to depositors through automation of interest computation and application.

Capacitating MFIs to offer quality services
The Company continued with capacity building to MFIs through training and regular coaching. This is a key component in imparting knowledge and best practices to affiliate microfinance institutions, enabling them to acquire tools for effective management of the financial institutions to offer quality services to their clients. During the year, the Company conducted training on the management of MFIs to 291 board members, 362 professional staffs and 27,367 ordinary members, On the other hand another 522 staffs were trained on the use and management of the Finance Solution system.

Building community trust and confidence in financial office buildings, modern and secure which enhances community confidence in conducting financial transactions with the CRDB affiliated MFI's.



Providing financial security at affordable rates, our microinsurance products secure families during unfortunate events.

CORPORATE INFORMATION

DIRECTORS

Name	Remarks	Nationality
Dr. Charles Kimei	Chairman	Tanzanian
Prof. Andrew E. Temu	Member	Tanzanian
Mr. Jens Ole Pedersen	Member	Danish
Mr. Anderson Mlabwa	Member	Tanzanian
Mrs. Nellie Ndossa	Member	Tanzanian
Mr. Sebastian Masaki	Member (ex-officio)	Tanzanian

REGISTERED OFFICE

CRDB Bank House, Mikocheni Industrial Area
P.O. Box 268
Dar es Salaam, Tanzania.

COMPANY SECRETARY

J. B. Rugambo
P.O.Box 268
Dar es Salaam, Tanzania..

AUDITORS

Deloitte & Touche
Certified Public Accountants (Tanzania)
10th Floor, PPF Tower
Ohio Street/Garden Avenue
P.O. Box 1559
Dar es Salaam, Tanzania.

MAIN BANKER

CRDB Bank Plc
P.O. Box 268
Dar es Salaam, Tanzania.

MAIN LAWYERS

Adept Chambers
Peugeot House, 1st Floor
Ali Hassan Mwinyi Road
Dar es Salaam, Tanzania.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2010

The Directors have pleasure in submitting their report and the audited financial statements of the CRDB Microfinance Services Company Limited for the year ended 31 December 2010, which disclose the state of affairs of the Company.

INCORPORATION

CRDB Microfinance Services Company Limited (CRDB MFSCL) was incorporated in the United Republic of Tanzania on 27 November 2007 under the Companies Act, 2002 as a private Company limited by share with registration number 49884. It is wholly owned by CRDB Bank Plc, a company also incorporated in the United Republic of Tanzania.

VISION

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

MISSION

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

PRINCIPAL ACTIVITIES

The principal business activities of the Company are to offer microfinance services in Tanzania through the parent company's branch network. The company provides technical assistance, capacity building, development of management information systems, and various tailor made financial products and services to microfinance institutions (MFI's), mostly Savings and Credit Cooperative Societies (SACCOs) throughout Tanzania

DIRECTORS' REPORT (Continued)

COMPOSITION OF THE BOARD OF DIRECTORS

The Directors of the Company at the date of this report and who have served since January 2010, except where otherwise stated, are:

	Name	Position	Age (years)	Qualifications/ Discipline	Nationality	Appointed/ Resigned	Date of Ap-pointment/ Resignation
1	Dr. Charles Kimei	Chairman	57	Economist	Tanzanian	Appointed	May 2004
2	Prof. Andrew E. Temu	Member	50	Agricultural Economist	Tanzanian	Appointed	January 2008
3	Mr. Jens Ole Pedersen	Member	59	Banker	Danish	Contract expired	April 2010
4	Mr. Anderson Mlabwa	Member	49	Banker	Tanzanian	Appointed	October 2004
5	Mrs. Nellie Ndossa	Member	54	Banker	Tanzanian	Appointed	May 2008
6	Mr. Sebastian Masaki (also General Manager)	Member (ex-officio)	42	Banker	Tanzanian	By position	October 2004

The Company secretary during the same period was Mr. John B. Rugambo

CORPORATE GOVERNANCE

The Directors consider corporate governance a key to good performance of the Company. The Board takes overall responsibility for the Company, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and for compliance with sound corporate governance principles.

Board structure

As at 31st December 2010, the Board comprises of 4 directors after Mr. Jens Ole Pedersen contract expired in April 2010. Three members are executive directors of the parent company, and one is an independent member. The General Manager is an ex-officio member. All directors are non executive with the exception of the General Manager.

Board meetings

The Board is required to meet at least four (4) times a year. The Board delegates the day to day management of the business to General Manager assisted by senior management. The Board held four (4) meetings in 2010.

DIRECTORS' REPORT (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

Committees

The Company is committed to the principles of effective corporate governance. The Directors also recognize the importance of integrity, transparency and accountability. During the year the Board of CRDB Microfinance Services Company Limited formed an Audit Committee to ensure a high standard of corporate governance throughout the company

Audit Committee members are:

Name	Position	Qualifications/ Discipline	Nationality	Remarks
Prof. Andrew Temu	Chairman	Agricultural Economist	Tanzanian	Working at Sokoine University of Agriculture as a Associate Professor
Mr. Anderson Mlabwa	Member	Banker	Tanzanian	Working with Parent Company as a Director of Credit
Mrs. Nellie Ndossa	Member	Banker	Tanzania	Working with Parent Company as a Director of Retail Banking

The activities of the Audit Committee are governed by the Committee Charter and the committee reports to the full Board

The Committee held one meeting during the year end which was attended by the General Manager.

CAPITAL STRUCTURE

As of the end of the financial year, share Capital in CRDB Microfinance Services Company Ltd was 7,281,359 issued and fully paid ordinary shares out of 50,000,000 authorised ordinary shares with a par value of Tshs 100.00.

MANAGEMENT

The Management of the Company is under the General Manager and is organized in the following departments:

- Finance and Administration Department
- Operations Department
- Credit Department
- Consultancy Department
- Information and Communication Technology Department
- Monitoring and Compliance Department

DIRECTORS' REPORT (Continued)

SHAREHOLDERS OF THE COMPANY

The total number of shareholders during the year 2010 is two (2) shareholders as in the previous year 2009

Director holding share is listed below

S/N	Name	Nationality	Number of Ordinary share(s)
1	Dr. Charles Kimei	Tanzanian	1

The shares of the Company are held as follows:

S/N	Shareholders	Current Year Number of Shares		Previous Year Number of Shares	
		Ordinary	Preference	Ordinary	Preference
1	CRDB Bank Plc	7,281,358	-	7,281,358	-
2	Dr. Charles Kimei	1	-	1	-
	TOTAL	7,281,359		7,281,359	

FUTURE DEVELOPMENT PLANS

In implementing its goals in increasing income particularly from non-core operations, the Company will undertake the following in year 2011.

Establishing Insurance Brokerage Functions/Sign Multi MOU with Insurance Companies.

The company will widen its menu of insurance products offered to MFIs while exploring the opportunity of using the network of MFIs to become selling points for insurance products.

Agro financing to enhance lending and deposit mobilization

The company will continue capitalizing on agro-financing to enhance lending in the agriculture value chain (such as financing farm inputs, processing, storage and transportation) and emphasis will be directed to agricultural arrangements that involves irrigation schemes model, contract farming model and SACCOS-AMCOS link model.

Introduction of Microfinance Services Centres

The Company will compliment the wholesale model by introducing Microfinance Service Centres to provide direct microfinance services in areas with demand for financial services but where the wholesale model has proven ineffective.

Collaboration with mobile phone companies for financial inclusion

The Company will take advantage of the growing number of the mobile phone users and agents by establishing a working modality with mobile phone companies to compliment services offered by the operators.

DIRECTORS' REPORT (Continued)

Consultancy services
The microfinance industry in Tanzania is promising and vastly growing and the Government is remarkably increasing its efforts in strengthening the microenvironment – hence an increasing number of services providers. However, the growing demand in the market is in need of a wider range of products and services and appropriate delivery mechanisms. Therefore, given our knowledge and hands on experience in the microfinance industry in Tanzania, and our countrywide coverage, in this year we're looking forward working with such institutions on product development and delivery, capacity building and training, and development of internal operating systems.

Automation of partner institution
The company will focus in increasing the number of automated MFIs and in incorporation of the bulk payment solution through internet banking to make possible loan disbursements and salary payments. Further, with support from the parent company, CRDB Microfinance Services Company Ltd will introduce an interface model, which will allow transfer of funds across Bank channels and MFIs networks.

Collateral management functionalities
The company will venture into collateral management functionalities for proper management of warehouse receipt system for all stock financing related bank credits as a way of widening income generating avenues.

Cross border technology transfer
With the likely support from MICROLEAD, the company plans to be a market leader in transferring technology to DRC and Burundi.

RESULTS AND DIVIDENDS

Profit after income tax for the year ended 31 December 2010 was Tshs. 890 million. The major source of income is fees from the services rendered to the parent company as agreed by both parties.

The directors do not recommend payment of a dividend because the company requires capital enhancement for future expansion and operations.

PERFORMANCE FOR THE YEAR

The year 2010 is the third year of implementing the five – year business strategy of the Company, whose focus was improving and sustaining quality of the microfinance loan portfolio, developing and retaining a strong , effective and result oriented workforce, promoting and maintaining MFIs with huge business potential, Increasing income contribution from non-core products and services, and promoting deposits from MFIs.

The CRDB Microfinance Services Company Limited has delivered a record performance for the year ended 31 December 2010. Profit before taxation rose 2,362% to Tshs 1.245 billion. Income growth was driven by growth of wholesale microfinance lending, well diversified income from non-core products and services, proactive risk management and discipline on expenses.

Fee and commission income increased by 52% to Tshs 4.37 billion. The increase in fee and commission for the year 2010 was primarily attributable to higher Interest Income on term loans generated from Microfinance loans of which the company receives commission of 5% out of effective lending rate of 16% (2009: 4.27% out of 16%). In year 2010, the company also received 3.5% commission for deposit mobilized from MFI partners (2009: 2%) and 50% commission on guarantees from tobacco financing which started in 2010.

Other operating income (excluding amortised grants) improved by approximately 68% from Tshs 168 million in 2009 to Tshs 283 million in 2010, primarily due a 550% increase in software fees income of Tshs 104 million in 2010 compared to Tshs 16 million in 2009, and a 867% increase in net commission received from Insurance of 87 million in 2010 (2009: Tshs 9 million). Interest income from Uwezeshaji declined by Tshs 51 million to Tshs 92 million in 2010 as the arrangement with the Government was ended.

Expense management both staff and administrative (excluding MFIs training and support financed by FSDT grant) in 2010 was very good with overall cost growth of 14 %, well below 53% of total income growth (excluding amortised grant) resulting in net growth of operating income of 39%.

Our capital, liquidity and risk foundations are excellent and we enter 2011 with good momentum, well placed to meet the opportunities and challenges that we will face.

Deposits
Total deposits mobilized from Partner MFIs and banked with the parent company grew by Tshs 1.17 billion or 9.4% from Tshs 12.45 billion in 2009 to Tshs 13.62 billion as at 31 December 2010.

Lending
The outstanding loan portfolio as at 31st December 2010, under management of the company but held in the books of parent company increased by 33.2% from Tshs 70 billion in 2009 to Tshs 93.3 billion in 2010. Increase in loan portfolio was mainly attributed to agricultural finance. The amount of loans in arrears was 1.6% while Portfolio at Risk (PAR) under past due over 90 days was 1.8%.

The loan portfolio is built around three sector categories of MFI's namely; employee-based 62%, agricultural based 28% and trade based MFI's 11%. Total number of borrower MFI's as at 31 December 2010 was 321 compared to 222 (45% increase) as at 31 December 2009.

Number of partners
During the year 2010 the company increased the number of partner MFIs from 425 as at 31 December 2009 to 472 as at 31 December 2010 representing an increase of 11%. As at 31 December 2010, a total of 123 districts were covered as the company continued to expand its outreach.

DIRECTORS' REPORT (Continued)

RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for the risk management and internal control system of the company. It is the task of management to ensure that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations;
- The safeguarding of the Company's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal as well as adverse conditions: and
- Responsible behaviours towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system, of internal control can provide absolute assurance against misstatement or losses, the company's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

The Board assessed the internal control systems throughout the financial year ended 31 December 2010 and is of the opinion that they met accepted criteria.

The Board carries risk and internal control assessment through the Audit Committee.

SOLVENCY

The Board of Directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board of Directors has reasonable expectations that CRDB Microfinance Services company Limited has adequate resources to continue in operational existence for the foreseeable future.

EMPLOYEES' WELFARE

Management and Employees Relationship

There were continued good relation between employees and management for the year 2010. There were no unresolved complaints received by Management from the employees during the year.

Training Facilities

When presenting its annual budget for the year 2010, the company put aside a sum of Tshs. 105 million for staff training in order to improve employee's technical skills and hence effectiveness (previous year Tshs 90 million). Training programs has been and are continually being developed to ensure employees are adequately trained at all levels, all employees have some form of annual training to upgrade skills and enhance development.

Medical Assistance
All members of staff with a maximum number of four beneficiaries (dependants) for each employee were availed medical insurance guaranteed by the Board. The current services are provided by AAR Tanzania and Tanzania Consortium of Hospitals and Clinics

Health and safety
The company takes all reasonable and practicable steps to safeguard the healthy, safety and welfare of its employees. A safe working environment is ensured for all employees by providing adequate and proper personal protective equipment, training and supervision as necessary.

Financial Assistance to staff
Loans are available to all confirmed employees depending on the assessment of and the discretion of management as to the need and circumstances. Management has also encouraged staff to establish and join the company Welfare Revolving Fund to assist in promoting the welfare of its employees.

Persons with Disabilities
It is the company's policy to give employment to disabled persons wherever practicable. At present there is no registered disabled staff member.

Employees' Benefit Plan
The company pays mandatory contributions to a publicly administered pension schemes which qualifies to be a defined contribution plan.

Staffing
The average number of employees during the year was fifty one (51) compared to forty eight (48) in 2009.

The annual growth in staffing was 6% .This is in line with the overall strategy of rolling the microfinance operations to the district level and automation of the partner MFIs.

GENDER PARITY
As at December 2010 the company had 51 employees comprising 48 males and 3 females. The company is an equal opportunities employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribes, religion, and disability which does not impair ability to discharge duties.

RELATED PARTY TRANSACTIONS
All related party transactions and balances are disclosed in note 22 to these financial statements.

DIRECTORS' REPORT (Continued)

POLITICAL AND CHARITABLE DONATIONS

The company does not make any political donations. During the year, no charitable donations were made.

ENVIRONMENTAL CONTROL PROGRAMME

The company does not operate in a business sector which causes pollution or other adverse environmental effects.

CORPORATE SOCIAL RESPONSIBILITY

In the strategy to market our initiatives towards cooperatives and the need to support Government and other stakeholders in cooperatives, the company participated in two events pertaining to cooperatives. The company contributed Tshs.6 million to the International Cooperative Day held in Tanga on 3rd July 2010 and Tshs.5million to the International Credit union Day held in Dar es Salaam on 21st October 2010.

In cognizance of the needs for financial education to the majority of Tanzanians, the company continued with training programs that aimed at enhancing financial education. During the year, a total of Tshs.523.8 million was used to train 25,200 members of the MFIs and general community.

To bring financial services closer to people without such services, the company continued establishing microfinance institutions in areas without financial service providers. The company has been bearing all costs associated with the establishment of the MFIs until they are able to independently run on their own.

AUDITORS

The auditors, Deloitte & Touche, have expressed their willingness to continue in the office and are eligible for reappointment.

BY ORDER OF THE BOARD

Chairman

24 March 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Tanzania Companies Act, 2002 (Cap 212) 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

Director

24 March 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CRDB MICROFINANCE SERVICES COMPANY LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of CRDB Microfinance Services Company Limited, which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act 2002 and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, 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 entity's preparation of financial statements that give a true and fair view 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of CRDB Microfinance Services Company as at 31 December 2010, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act 2002

Report on Other Legal and Regulatory 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 statement of financial position (balance sheet) and statement of comprehensive income (profit and loss account) are in agreement with the books of account

Deloitte & Touche

Certified Public Accountants (Tanzania)
Dar es Salaam

Signed by: D C Nchimbi 24 March 2011

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 Tshs '000	2009 Tshs '000
Fee and commission income	5	4,366,216	2,865,618
Other income	6	1,856,669	1,098,394
General and administrative expenses	7	(2,979,947)	(2,333,841)
Staff costs	8	(1,997,872)	(1,579,590)
Profit before income tax		1,245,066	50,581
Income tax (expense)/ credit	9	(354,723)	(283,169)
Profit/ (Loss) for the year		890,343	(232,588)
Other comprehensive income :			
- Gain on revaluation of assets		-	129,818
Total comprehensive (loss) / income for the year		890,343	(102,770)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Notes	2010 Tshs '000	2009 Tshs '000
ASSETS			
Property and equipment	10	662,405	877,287
Intangible assets	11	233,116	301,404
Other assets	13	42,876	62,120
Income tax recoverable	14	441,080	193,716
Balances due from parent company	19	309,139	-
Cash and bank balances		543,012	432,963
Total assets		2,231,628	1,867,490
EQUITY AND LIABILITIES			
Share capital	15	728,136	728,136
Retained earnings		934,538	21,477
Revaluation reserve		107,100	129,818
		1,769,774	879,431
Liabilities			
FSDT grant	16(a),(b)	398,789	300,543
RFSP Asset grant	17	-	57,750
Deferred income tax liabilities	12	2,969	117,475
Accruals and other liabilities	18	60,096	56,309
Balances due to parent company	19	-	455,982
Total liabilities		461,854	988,059
Total equity and liabilities		2,231,628	1,867,490

The financial statements on pages 30 to 57 were approved by the Board of Directors on 24 March 2011 and signed on its behalf by:

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital Tshs'000	Retained earnings Tshs'000	Revaluation reserve Tshs'000	Total Equity Tshs'000
At January 2009	728,136	254,065	-	982,201
Loss for the year	-	(232,588)	-	(232,588)
Other comprehensive income for the year*	-	-	129,818	129,818
Total comprehensive income for the year	-	-	129,818	129,818
At 31 December 2009	728,136	21,477	129,818	879,431
At 1 January 2010	728,136	21,477	129,818	879,431
Profit for the year	-	890,343	-	890,343
Total comprehensive income for the year	-	890,343	-	890,343
Transfer of excess depreciation	-	32,454	(32,454)	-
Deferred tax on excess depreciation	-	(9,736)	9,736	-
At 31 December 2010	728,136	934,538	107,100	1,769,774

* Revaluation reserve represents the surplus realized from revaluation of the Company's motor vehicles which were 2009 year classified as assets held for sale but could not be sold. As a result, these assets have been re-classified back to property and equipment as required by International Financial Reporting Standard (IFRS) 5.

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 Tshs'000	2009 Tshs'000
Cash flows from operating activities:		
Profit before tax	1,245,066	50,581
Adjustment for:		
Depreciation of property and equipment	346,003	230,803
Amortization of intangible assets	68,288	40,038
	1,659,357	321,422
Movement in working capital:		
Decrease in other assets	19,244	231,164
Net movement in grants	40,496	(91,435)
Increase/(decrease) in accruals and other liabilities	3,787	(244,268)
Net movement in balances with related parties	(765,121)	704,177
Cash generated from operations	957,764	921,060
Income tax paid	(716,594)	(243,000)
Net cash generated from operating activities	241,170	678,060
Cash flows from Investing activities		
Purchase of property and equipment	(131,121)	(423,416)
Purchase of intangible assets	-	(341,442)
Net cash used in investing activities	(131,121)	(764,858)
Net increase/(decrease) in cash and cash equivalents	110,049	(86,798)
Cash and cash equivalents at 1 January	432,963	519,761
Cash and cash equivalents at 31 December	543,012	432,963

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

1. GENERAL INFORMATION

CRDB Microfinance Services Company Limited (CRDB MFSCL) is a company incorporated in the United Republic of Tanzania under Companie's Act 2002 with registration number 49884. The company is wholly owned subsdiary of CRDB Bank Plc.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

a) New standards and amendments to published standards effective for the year ended 31 December 2010

The following revised standards issued in 2009 as part of improvements to IFRSs have been applied in the current period and have had no material effect on amounts reported in the company's financial statements:

Amendments and revised standards	Effective for annual periods beginning on or after
IFRS 1, First-time adoption of International Financial Reporting Standards – revised and restructured	1 July 2009
IFRS 1, First-time adoption of International Financial Reporting Standards – amendments relating to oil and gas assets and determining whether an arrangement contains a lease	1 January 2010
IFRS 2, Share-based payment – amendments relating to group cash-settled share-based payment transactions	1 January 2010
IFRS 3 (Revised 2008), Business Combinations – comprehensive revision on applying the acquisition method	1 July 2009
IAS 27, Consolidated and Separate Financial Statements; IAS 28, Investments in Associates; and IAS 31, Interests in Joint Ventures – consequential amendments arising from amendments to IFRS 3	1 July 2009
IAS 39, Financial Instruments: Recognition and Measurement – amendments for eligible hedged items	1 July 2009
Various improvements resulting from May 2008, April 2009 and May 2010 Annual Improvements to IFRSs	1 July 2009 and 1 January 2010
New interpretations	
IFRIC 17, Distributions of Non-cash Assets to Owners	1 July 2009
IFRIC 18, Transfers of Assets from Customers	Transfers received on or after 1 July 2009

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

b) New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2010

Amendments and revised standards	Effective for annual periods beginning on or after
IFRS 1, First-time Adoption of International Financial Reporting Standards – limited exemption from comparative IFRS 7 disclosures for first-time adopters	1 July 2010
IFRS 1, First-time Adoption of International Financial Reporting Standards – replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'; and additional exemption for entities ceasing to suffer from severe hyperinflation.	1 July 2011
IFRS 7, Financial Instruments: Disclosures – amendments enhancing disclosures about transfers of financial assets	1 January 2011
IFRS 9, Financial Instruments – Classification and Measurement	1 January 2013
IAS 12, Income Taxes – limited scope amendment (recovery of underlying assets)	1 January 2012
IAS 24, Related Party Disclosures – revised definition of related parties	1 January 2011
Various improvements resulting from May 2010 Annual Improvements to IFRSs	1 July 2010 and 1 January 2011
IAS 32, Financial Instruments: Presentation – amendments relating to classification of rights issues	
New interpretation	1 February 2010
IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

c) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2010 and future annual periods

IFRS 3, 'Business combinations' effective 1 July 2009

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit or loss. There is a choice, on an acquisition-by-acquisition basis, to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The company will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

IAS 27, 'Consolidated and separate financial statements' effective 1 July 2009

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The company will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010. In the future, this guidance will also tend to produce higher volatility in equity and/or earnings in connection with the acquisition of interests by the company.

IFRS 9, Financial Instruments

IFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subse quently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

c) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2010 and future annual periods (Continued)

IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the lliability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will not have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities.

IAS 24 Related Party Disclosures (as revised in 2009)

This modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the company because the company is not a government-related entity. However, disclosures regarding related party transactions and balances in these financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the defintion of a related party may come within the scope of the Standard.

The amendments to IAS 32 titled Classification of Rights Issues

These address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the company has not entered into any arrangements that would fall within the scope of the amendments. However, if the company does enter into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

c) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2010 and future annual periods (Continued)

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments

This provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the company has not entered into transactions of this nature. However, if the company does enter into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The amendment is effective date for annual periods beginning on or after 1 January 2011). The company will apply this amendment prospectively. The directors, however, anticipate no material impact to the company financial statements.

Amendments to IAS 7 Statement of Cash Flows (as part of improvements to IFRS issued in 2009)

The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. However there were no any effects of this in the company accounts.

(d) Early adoption of standards

The company did not early-adopt any new or amended standards in 2010.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards. The significant accounting policies adopted, which remain unchanged from previous year, are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation

The financial statements have been prepared on the historical cost basis modified to include the revaluation of certain non-current assets. The principal accounting policies adopted are set out below.

Fee and commission income

Turnover comprises of the fees and commission charged to CRDB Bank Plc recorded on an accruals basis. Other income which is also recorded on an accruals basis is interest income.

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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. 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 profit or loss 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.

Financial instruments

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

The company 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 financial 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 at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and receivables (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of trading the receivable.

Held to maturity

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

Available for sale financial assets

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans, and receivables, or (c) financial assets held to maturity.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized 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 profit or loss 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 in other comprehensive income or directly in equity until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the profit or loss. Dividends on available-for-sale equity instruments are recognised when the company'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.

Impairment and uncollectability of financial assets

At the end of each reporting period, all financial assets are subject to review for impairment. If it is probable that the company will not be able to collect all

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment and uncollectability of financial assets (Continued)

amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment loss has occurred. The amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate (recoverable amount). The carrying amount of the asset is reduced to its estimated recoverable amount. The amount of the loss incurred is included in profit or loss for the period. If a loss on a financial asset carried at fair value (recoverable amount is below original acquisation cost) has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised directly in equity is removed from equity and recognised in profit or loss for the period even though the financial asset has not been derecognised.

Financial liabilities

After initial recognition, the company measures all financial liabilities other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs, finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Offset

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position 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.

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 the 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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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 the end of each reporting period 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 profit or loss.

Retirement benefits obligations

The company contributes to two statutory defined pension schemes, the National Social Security Fund (NSSF) and Parastatal Pension Fund (PPF). 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 profit or loss 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 end of the reporting period.

Property and equipment

Except for motor vehicles which are stated at revalued amounts, other property and equipment are 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 , Motor cycles	3-5 years
Intangible assets	3-5 years

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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 and its affiliate processes are recognized as income over the periods necessary to match them with the related costs.

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.I CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF UNCERTAINITIES

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 and equipment

Critical estimates are made by directors in determining the useful lives and residual values to property 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.

4.II FINANCIAL RISK MANAGEMENT

Financial risk management objectives

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 changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

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 and foreign exchange risk

4.II FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk

Credit risk refers the risk that counterparty will default on its contractual obligations resulting in financial loss to the company.

Potential concentration of credit risk consists principally of cash & bank balances, 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 does not consider there exist significant concentrations 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 2010 without taking account of the value of any collateral obtained was:

	Fully performing Tshs' 000	Past due Tshs' 000	Impaired Tshs' 000
Sundry debtors	42,876	-	-
Bank balances	543,012	-	-
Due from parent company	309,139	-	-

The amount that best represents the company's maximum exposure to credit risk at 31 December 2009 without taking account of the value of any collateral obtained was:

	Fully performing Tshs' 000	Past due Tshs' 000	Impaired Tshs' 000
Sundry debtors	62,120	-	-
Bank balances	432,963	-	-

4.II FINANCIAL RISK MANAGEMENT (Continued)

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 2010 showing the remaining undiscounted contractual maturities:

	<2 month Tshs' 000	2 - 5 months Tshs' 000	5 -12 months Tshs' 000	> 1 year Tshs' 000	Total Tshs' 000
Financial assets					
Bank balance	-	357,555	185,457	-	470,747
Sundry debtors	17,842	-	25,034	-	42,876
Due from related parties	-	-	309,139	-	309,139
	17,842	357,555	519,630		895,027
Financial liabilities					
Other liabilities excluding grant per note 20	-	(32,935)	-	-	(32,935)
	-	-	-	-	(32,935)
Difference incontractual cash flows	17,842	324,620	519,630	-	862,092

4.II FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

b) Liquidity risk (Continued)

Maturity analysis for financial liabilities at 31 December 2009 showing the remaining undiscounted contractual maturities:

	<2 month Tshs' 000	2 - 5 months Tshs' 000	5 -12 months Tshs' 000	> 1 year Tshs' 000	Total Tshs' 000
Financial assets					
Cash and bank balance	132,420	300,543	-	-	432,963
Sundry debtors	-	62,120	-	-	62,120
	132,420	362,663	-	-	495,083
Financial liabilities					
Other liabilities	(18,283)	-	(10,865)	(27,161)	(56,309)
Due to related parties	-	-	(455,982)	-	(455,982)
	(18,283)	-	(466,847)	(27,161)	(512,291)
Difference in contractual cash flows	114,137	362,663	(466,847)	(27,161)	(17,208)

c) Interest rate risk

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

d) Foreign exchange risk

The company exposure to foreign exchange risk is very minimal as there are no significant transactions being done which involves the use of foreign currency.

4.III CAPITAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The company's objective when managing capital is 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. Further, the company did not have any borrowing as at year end.

5. FEE AND COMMISSION INCOME

	2010 Tshs'000	2009 Tshs'000
Commission income	3,783,522	2,616,613
Deposit mobilization fee	476,683	249,005
Commission on guarantees	106,011	-
	4,366,216	2,865,618

6. OTHER OPERATING INCOME

"Uwezeshaji" disbursed loan	29,308	5,593
"Uwezeshaji" guarantee interest	62,207	137,786
Grants amortization	1,573,482	930,245
Software fee	104,400	15,900
Commission received - insurance	87,272	8,870
	1,856,669	1,098,394

7. GENERAL AND ADMINISTRATIVE EXPENSES

Directors' fees	17,609	16,771
Auditors' remuneration	37,185	21,392
Depreciation and amortization of intangible assets	414,291	270,841
MFIs training and support	1,493,065	861,162
Other expenses	1,017,797	1,163,675
	2,979,947	2,333,841

8. STAFF COSTS

Salaries & Wages	1,361,473	1,062,387
Staff training	171,663	91,191
Social security contribution	180,535	138,839
Provision for post - employment benefits	81,157	81,157
Leave allowance	82,483	65,124
Medical expenses	50,113	42,545
Others	70,448	98,346
	1,997,872	1,579,590

9. INCOME TAX EXPENSE

(a) Tax charge comprises:

Current taxation at 30% (2009: 30%)	469,229	152,448
Deferred tax (credit)/charge	(114,506)	130,721
	354,723	283,169

(b) Reconciliation of tax expense/ (credit) to the expected tax based on ac counting profit:

Accounting profit before taxation	1,245,066	50,581
Tax at applicable at the rate of 30%	373,520	15,174
Tax effect of income not subject to tax	23,928	158,548
Tax effect of expenses not allowable for tax	3,037	557
Prior year tax under provision	(45,762)	108,890
	354,723	283,169

10. PROPERTY AND EQUIPMENT

	Motor vehicles at fair value Tshs '000	Office equipment at cost Tshs '000	Furniture at cost Tshs '000	Total Tshs '000
Cost or valuation				
At 1 January 2009	613,849	87,708	14,370	715,927
Additions during the year	330,885	78,778	13,753	423,416
Gain on revaluation	129,818	-	-	129,818
At 31 December 2009	1,074,552	166,486	28,123	1,269,161
At 1 January 2010	1,074,552	166,486	28,123	1,269,161
Additions during the year	112,897	12,509	5,715	131,121
Gain on revaluation	-	-	-	-
At 31 December 2010	1,187,449	178,995	33,838	1,400,282
Depreciation				
At 1 January 2009	135,193	21,740	4,138	161,071
Charge for the year	192,212	32,291	6,300	230,803
At 31 December 2009	327,405	54,031	10,438	391,874
At 1 January 2010	327,405	54,031	10,438	391,874
Charge for the year	302,531	37,401	6,071	346,003
At 31 December 2010	629,936	91,432	16,509	737,877
Net book value				
At 31 December 2010	557,513	87,563	17,329	662,405
At 31 December 2009	747,147	112,455	17,685	877,287

11. INTANGIBLE ASSETS

	2010 Tshs '000	2009 Tshs '000
Cost		
At 1 January 2009 & 2010	341,442	-
Addition during the year	-	341,442
At 31 December	341,442	341,442
Amortization		
At 1 January 2009 & 2010	40,038	-
Charge for the year	68,288	40,038
At 31 December	108,326	40,038
Net book value		
At 31 December	**233,116**	**301,404**

Intangible assets relate to computer software.

12. DEFERRED INCOME TAX LIABILITIES

The deferred income tax liabilityis attributable to the following items:

Accelerated capital allowances	(91,946)		(155,220)
Other general provisions	88,977		37,745
	(2,969)		(117,475)

The movement on the deferred tax account is as follows:

At 1 January	(117,475)		13,246
Credit/ (charge) to the statement of comprehensive income	114,506		(130,721)
At 31 December	(2,969)		(117,475)

13. OTHER ASSETS

	2010 Tshs '000	2009 Tshs '000
Sundry debtors	42,876	62,120

Sundry debtors as at 31 December 2010 relate to accrued interest on "Uweze-shaji" Credit scheme arrangement of Tshs 25.03 million and Insurance Commission of Tshs 17.84 million.

14. CURRENT TAX RECOVERABLE

	2010 Tshs '000	2009 Tshs '000
At beginning of year	193,716	103,164
Payments during the year	716,594	243,000
Current year tax charge	(469,229)	(152,448)
At end of year	441,080	193,716

15. SHARE CAPITAL

	2010 Tshs'000	2009 Tshs'000
Authorised		
50,000,000 ordinary shares of Tshs 100 each	5,000,000	5,000,000
Issued and fully paid		
7,281,359 ordinary shares of Tshs 100 each	728,136	728,136

16. (a) FSDT GRANT

	2010 Tshs'000	2009 Tshs'000
At 1 January	247,480	334,228
Grant received during the year	1,603,114	774,365
Grant amortised to the statement of comprehensive income during the year	(1,493,065)	(861,113)
At 31 December	357,529	247,480

16. (b) FSDT ASSET GRANT

	2010 Tshs'000	2009 Tshs'000
At 1 January	53,063	-
Grant received during the year	-	59,013
Grant amortised to the statement of comprehensive income during the year	(11,803)	(5,950)
At 31 December	41,260	53,063

On 26 May 2008, CRDB Bank Plc signed a four 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. In 2010 the amount of USD 1,121,916 was received by CRDB Bank Plc which transferred the amount to CRDB Microfinance Services Company Limited.

17. RFSP ASSET GRANT

	2010 Tshs'000	2009 Tshs'000
At January	57,750	115,500
Grant transferred from CRDB Bank Plc	-	-
Grant received during the year	-	-
Grant amortised to the statement of comprehensive income during the year	(57,750)	(57,750)
At 31 December	**-**	**57,750**

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 Limited.

18. ACCRUALS AND OTHER LIABILITIES

	2010 Tshs '000	2009 Tshs '000
Accrued expenses	32,935	18,283
CRDB grant (Note 20)	27,161	38,026
	60,096	**56,309**

19. BALANCES DUE FROM/ (TO) THE PARENT COMPANY

	2010 Tshs '000	2009 Tshs '000
At 1 January	(455,982)	248,195
Net (decrease)/ increase during the year	765,121	(704,177)
At 31 December	**309,139**	**(455,982)**

The balances due to and from the parent company mainly arise from commission income receivable from parent company as well as expenditure paid by the parent company on behalf of the Company

20. PARENT COMPANY GRANT

	2010 Tshs '000	2009 Tshs '000
At January	38,026	-
Grant transferred during the year	-	43,458
Grant amortised to the statement of comprehensive income during the year	(10,865)	(5,432)
At 31 December	**27,161**	**38,026**

The grant relates to taxes on purchase of the motor vehicle for the Company's General Manager which was paid on behalf by the parent company.

21. CAPITAL COMMITMENTS

	2010 Tshs'000	2009 Tshs'000
Amount committed and contracted for	357,529	300,543

Capital commitments authorized and contracted for are in respect of unutilised FSDT grant for capacity building of the partner affiliates.

22. RELATED PARTY TRANSACTIONS

Transactions with related parties

The Company is a wholly owned subsidiary of CRDB Bank Plc. Presented below are the transactions with related parties during the year are as well as balances resulting from those transactions as at year end.

	2010 Tshs'000		2009 Tshs'000
CRDB Bank Plc:			
(i) Fees and commissions*	4,366,216		2,865,618
(ii) Expenses paid by CRDB Bank Plc on behalf of the Company	214,303		90,269
(iii) Cash and advances maintain with CRDB Bank Plc	543,012		432,963

The Company provides Microfinance loan management services on behalf of its parent company and receives commission of 5.0% out of 16% charged to the customers by the parent company (2009: 4.27% out of 16%).

Compensation of key management personnel

The remuneration of directors, General Manager and heads of units who are reporting directly to the General Manager were as follows:

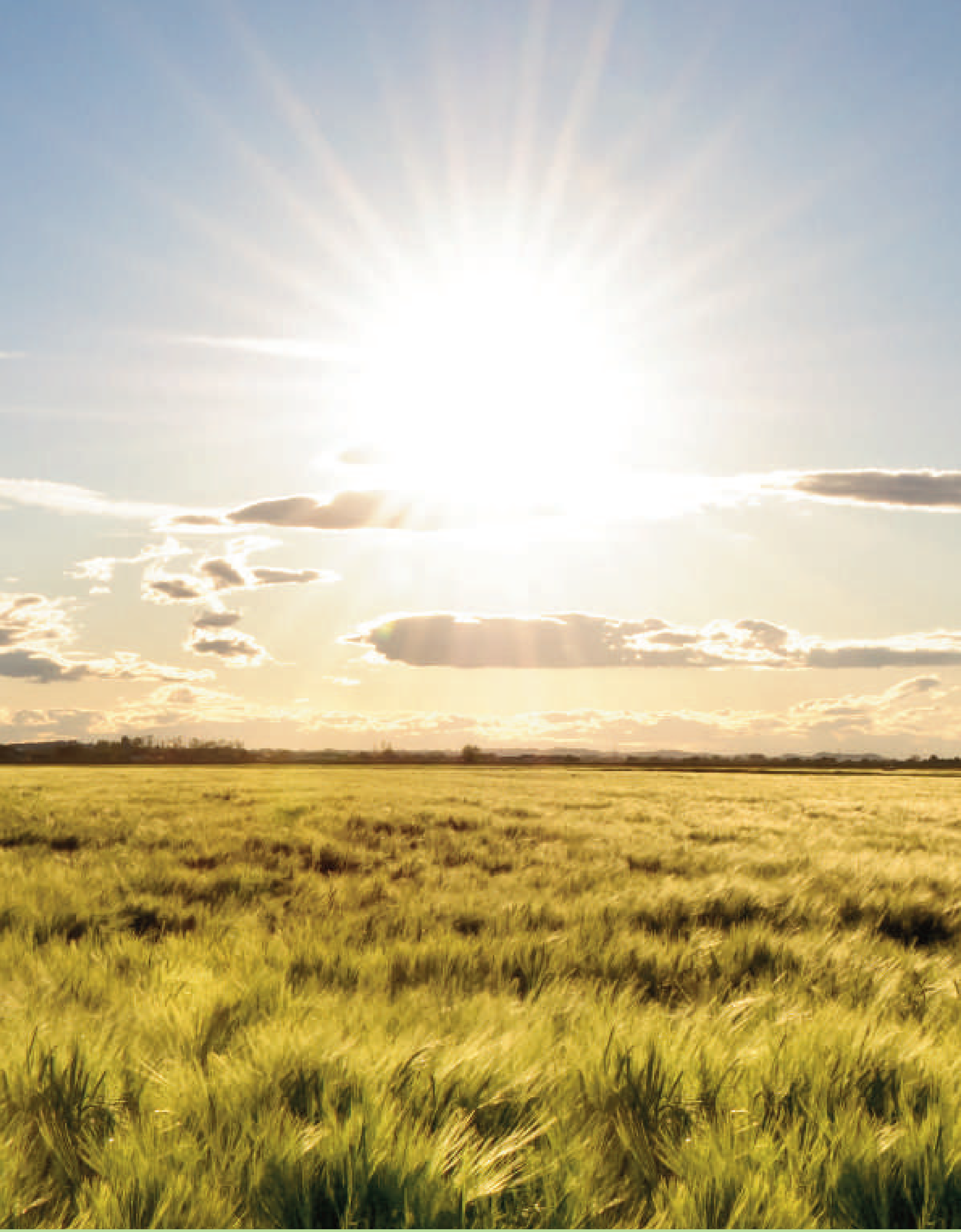
	2010 Tshs'000		2009 Tshs'000
Short term benefits	459,209		367,154
Post-employment benefits	154,560		128,504
	613,769		495,658

23. INCORPORATION AND ULTIMATE PARENT COMPANY

The Company is incorporated in Tanzania under Companies Act, 2002 and domiciled in the United Republic of Tanzania. The ultimate parent company is CRDB Bank Plc.

24. CURRENCY

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



A Subsidiary of CRDB Bank Plc