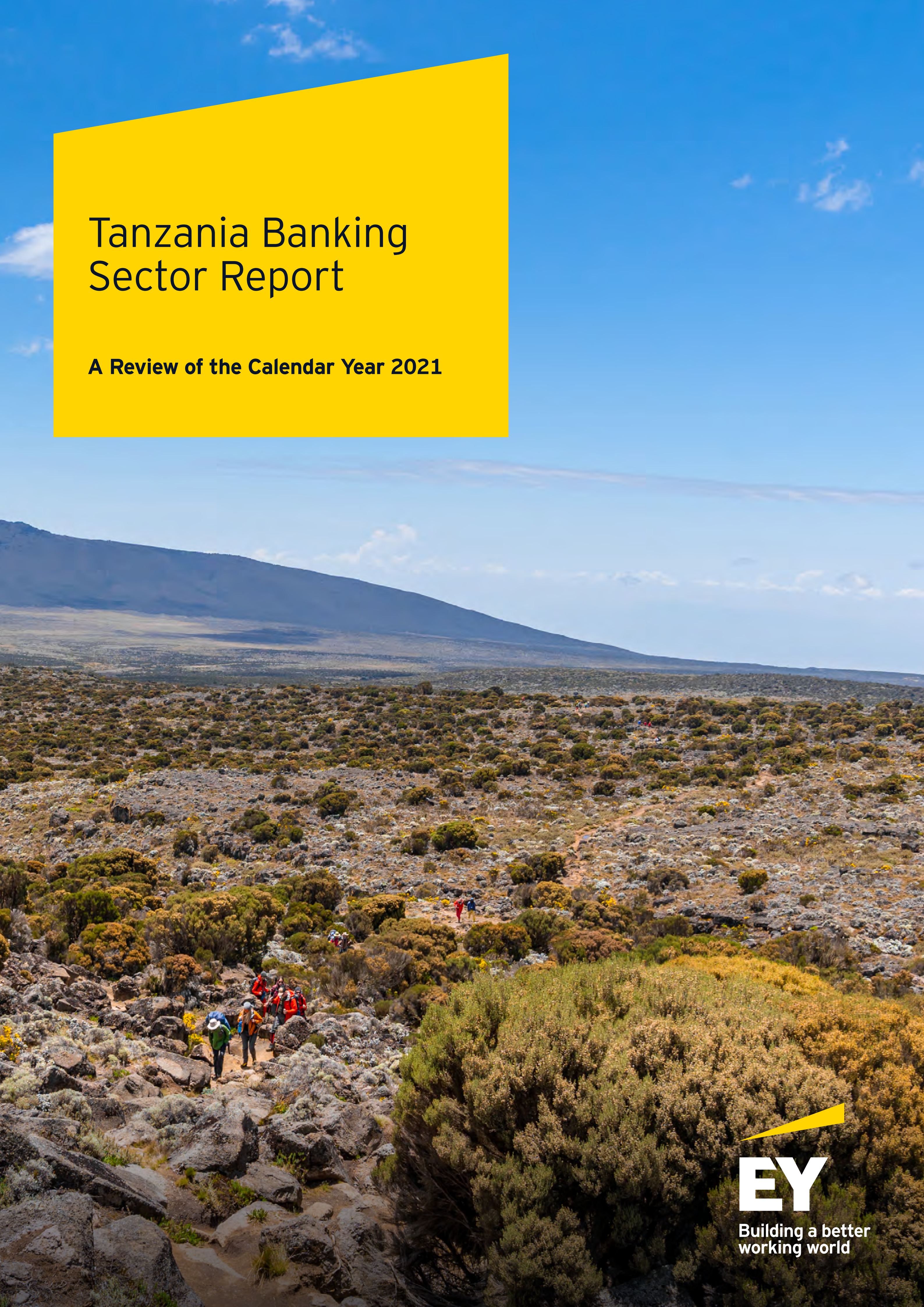
Tanzania Banking Sector Report

A Review of the Calendar Year 2021



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FOREWORD

We are excited to present our flagship annual Tanzania Banking Sector Report 2021 which provides insight to the public regarding performance and developments in the Tanzania's banking sector during the financial year ended 31st December 2021. The report covers selected performance analysis and major developments in the sector including regulatory changes made during the year.

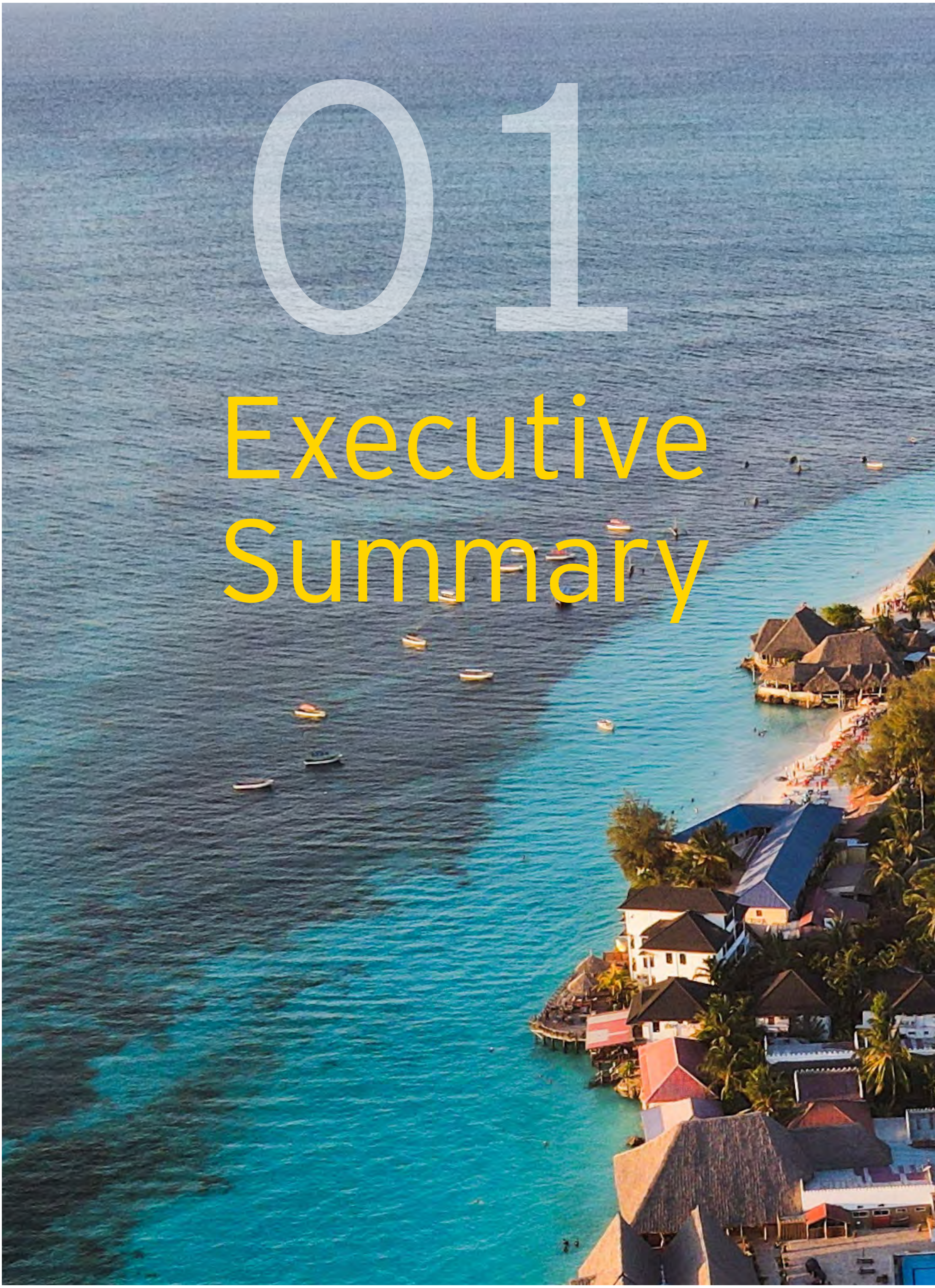
We have chosen to do this sector survey to provide insights to the readers as the financial services, and banking sector remains critical sector to the Tanzania's economy. As the banking sector remains in a strong growth cycle, the need for formal financial services typically rises in tandem, and so does the ratio of bank assets to GDP.

The survey is based on an analysis of the main categories of the banking sector, namely commercial banks, regional and community banks and as well as development finance banks. It provides highlights on some key trends and analysis, which we believe will become critical in driving financial inclusion and revenue growth in the future.

We trust you will find this survey insightful and thought-provoking and valuable in building your understanding of the Tanzanian banking sector.

I thank everyone for making the 2021 report a success.

Joseph Sheffu
Country Leader
EY Tanzania



01 Executive Summary

Executive Summary

Tanzania's banking sector remained resilient in the face of economic shocks associated with the COVID-19 pandemic. Accommodative policy measures helped increase the sector's capital adequacy, profitability, and liquidity and created room for increased credit to the private sector

Our 2021 report focuses exclusively on the Tanzania banking sector. The review aims to highlight key performance metrics in the banking sector, providing perspectives that contribute to building knowledge collateral.

The Tanzanian banking sector recorded robust performance improvement in 2021 with operating income increasing by 58.8% to TZS 1.1 trillion, the strongest in the decade. During the review period, the value of banking sector's assets increased by 14.6% which is the highest growth achieved since 2015. Efforts to merge the sector and initiatives to revamp banks' performance and the recovery of the economy from the COVID-19 pandemic has enabled banks and financial institutions to utilize the potential to strengthen the sector.

Total customer deposits, which accounted for about 83.4% of total liabilities, increased by 17.1% to TZS 27.5 trillion partly associated with enhanced deposit mobilization strategies by banks and growth in the agency banking business. Loans, advances, and overdrafts grew by 13.0% from TZS 18.4 trillion as of 31st December 2020 to TZS 20.8 trillion as of 31st December 2021 and accounted for about 53.0% of total assets.

Tanzania's fragmented banking sector continued to be dominated by two large banks. The leading banks continue to implement strategies geared towards growing their market share in terms of loans and customer deposits, maintaining their leadership, and widening their position in terms of total assets.

Other than NPL ratio and the cost to income ratio, all other banking sector performance indicators were within the regulatory requirements.

To support economic activities, the BOT issued various policy measures aimed at promoting banking activities and lowering interest rates. In January 2021, the BOT directed banks to achieve a cost-to-income (CIR) ratio threshold of 55% by December 2022. Also, in its circular, the BOT prohibited banks with either a CIR ratio of above 55% or an NPL ratio of above 5% from paying dividends and bonuses.

Other policy measures introduced include; the reduction of statutory minimum reserve requirement (SMR) for banks that extend credit to agricultural sector; limitation of interest rate paid on mobile money trust accounts; introduction of special loan amounting to TZS 1.0 trillion to banks and other financial institutions for on-lending to private sector; relaxation of agency banking eligibility criteria from the need of having at least 18 months of operating a commercial activity – instead applicants need to have a National ID only; and reduction of risk weight on different categories of loans in computation of capital adequacy requirement.

These accommodative policy measures helped increase the sector's capital adequacy, profitability, and liquidity and created room for increased credit to the private sector during the review period.

Key highlights

Total value of assets

TZS39.2t

(up by 14.6%)

Total value of customer deposits

TZS27.5t

(up by 17.1%)

Total value of loans, advances and overdrafts

TZS20.8t

(up by 13.0%)

"

The banking sector performance was generally satisfactory. It remained stable, resilient, adequately capitalized and profitable, with satisfactory level of liquidity.

Governor, Bank of Tanzania

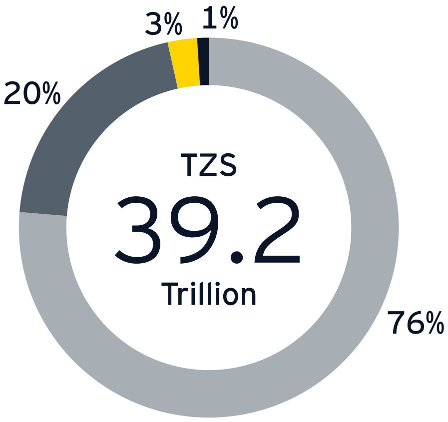
Banking Sector Overview

The sector remained stable and resilient to short-term internal and external shocks, mainly on account of a stable macroeconomic landscape

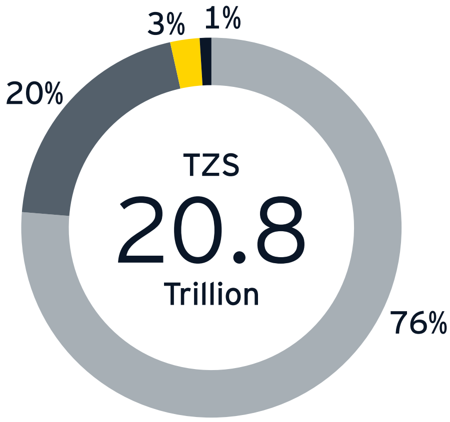
Our review covers 42 licensed institutions comprising of 34 commercial banks, 2 development finance banks and 6 regional and community banks, all categorized as large, medium, regional, and small and non-bank financial institutions in our analysis. Our review does not include microfinance banks and non-deposit taking institutions.

10 Large	21 Medium	9 Regional and Small	2 NBFIs

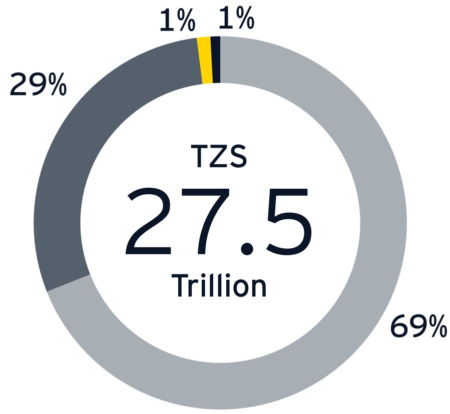
Market share of total assets



Market share of loans and advances



Market share of customer deposits



Tanzania's banking sector continues to offer strong growth, supported by the country joining the lower middle-income category in June 2020, well ahead of projections.

After witnessing a slower growth in both asset, customer deposits and loan book in 2020, Tanzania's fragmented banking sector had an acceleration of both once more in 2021 as the country's economy recovered from the Covid-19 pandemic.

The Bank of Tanzania has taken several measures to shore up the banking sector, including cutting the benchmark lending rate, relaxation of agency baking criteria, and reducing the bank reserve requirement, which helped increase banking sector performance in 2021.

Ongoing efforts to improve banking sector supervision are likely to ensure that banks' average capital ratios remain strong in the coming years.

Key highlights

Growth in total assets

~14.6%

(2020: 4.1%)

Growth in customer deposits

~17.1%

(2020: 3.9%)

Growth in loans and advances to customers

~13.0%

(2020: 3.4%)

19.4%	1.8%	11.7%	6.7%	8.3%	78.7%
Capital Adequacy	ROAA	ROAE	NPL	Net Interest Margin	Loan to Deposit

Segmentation

EY grouping of banks and non-banking financial institutions

The report segments banking institutions into four key groupings, i.e., large banks; medium banks; regional and small banks; and non-bank financial institutions ("NBFIs"). The peer groups are based on total asset size as laid out in the tables below.

Overview

- According to BOT's Annual Report 2020/2021, as at the end of June 2021, the number of supervised institutions was 59. The supervised institutions comprised 46 banking institutions and 13 non-banking institutions. Banking institutions (deposit taking) comprised of 34 commercial banks, 5 regional and community banks, 5 microfinance institutions and 2 development finance banks.
- Our review does not include microfinance banks and non-deposit taking institutions.
- Our review covers 42 licensed institutions comprising of 34 commercial banks, 2 development finance banks and 6 regional and community banks, all categorized as large, medium, regional and small, and non-bank financial institutions in our review.
- We have relied on financial statements at bank-level only excluding all operations of subsidiary entities and/or at a group level.
- We have also excluded previously known Access Bank from our analysis this year since it has been recategorized to a microfinance bank.
- Our segmentation and categorization of banking institutions is based on market value of total assets as at the end of 2021.
- Our analysis is based on the review of audited financial statements for the year ended 31st December 2021.We have relied on published unaudited financials for the following banks as we could not obtain audited financial statements; DCB, TADB, and Uchumi. As such, our analysis only presents indicative figures for the sector.
- The legal names for the adjacent entities are presented in the abbreviations section in appendices.

Large	Medium	Regional & Small	NBFIs
Azania	ABSA	GTB	TADB
Citibank	Akiba	ICB	TIB Development
CRDB	Amana	KCBL	
DTB	BancABC	Letshego	
Exim	BOA	MCB	
NBC	BOB	MHB	
NMB	BOI	MUCOBA	
Stan Chart	Canara	TACOBA	
Stanbic	China Dasheng	Uchumi	
TCB	DCB		
	Ecobank		
	Equity		
	FNB		
	Habib		
	I&M		
	KCB		
	Maendeleo		
	Mkombozi		
	NCBA		
	PBZ		
	UBA		

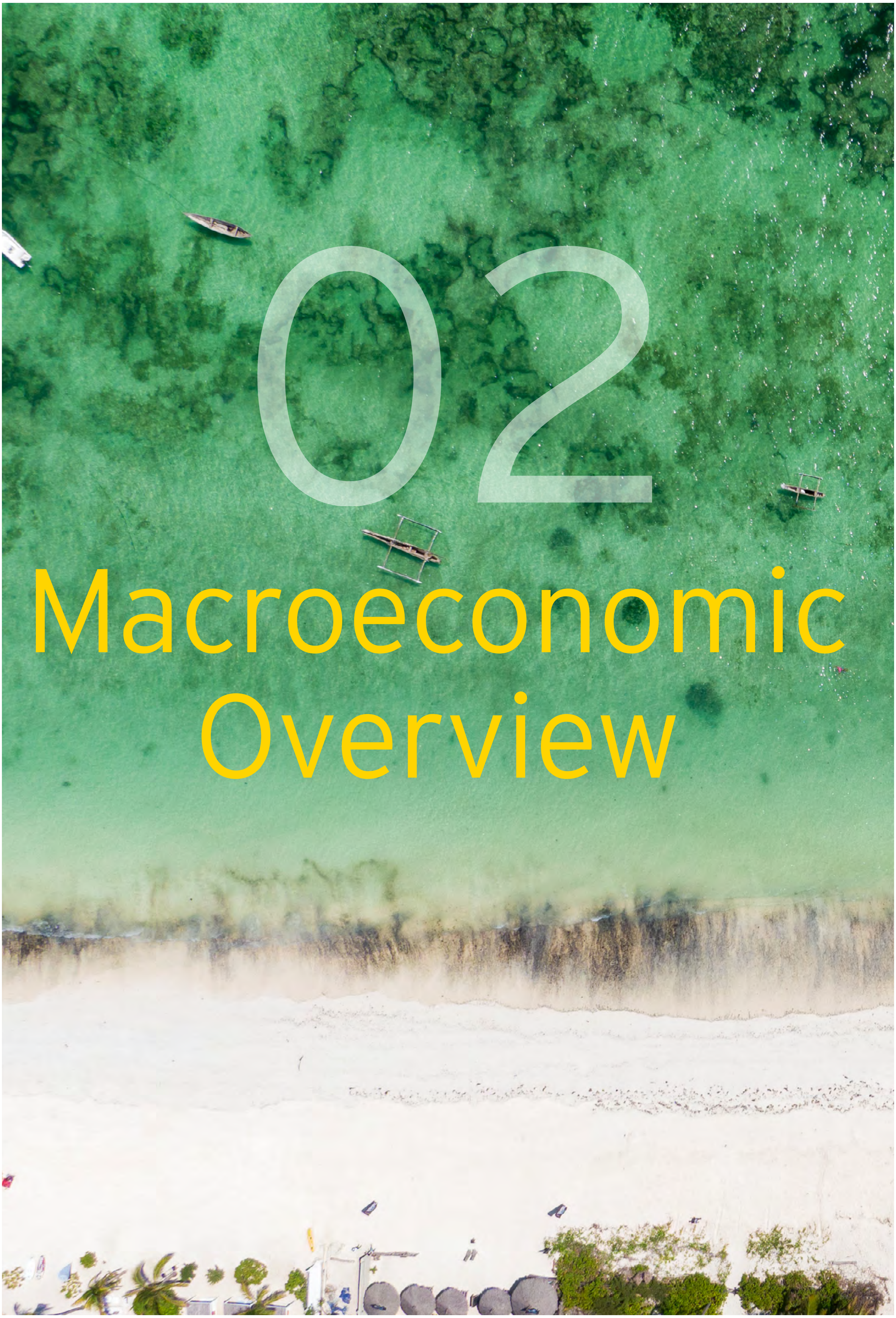
Special Topic

Tanzanian banks and the Capital markets

The report segments banking institutions into four key groupings, i.e., large banks; medium banks; regional and small banks; and non-bank financial institutions ("NBFIs"). The peer groups are based on total asset size as laid out in the tables below.

Tanzania Banks and the Capital markets

- To liberalize the financial sector, the Capital Markets and Securities Authority (CMSA) was established in Tanzania in 1994 under the Capital Markets and Securities Act. The CMSA is entrusted with responsibilities for the development and regulation of capital markets products and services, and intermediaries where savings and investments are channeled between people or institutions with capital to lend or invest.
- The Dar es Salaam Stock Exchange (DSE) was incorporated in 1996; The enactment of DSE came as a result of government's policy of transforming its economy from public government dominated economy to private sector driven economy. In 2008, the DSE listed the first commercial bank. As of December 2021, 28 companies were listed on the DSE, including 8 banks. DSE's financial products include equities and bonds. Companies that meet requirements are allowed to issue bonds at the Dar es Salaam Stock Exchange. Currently, the range of interest rate of bonds in the market is between 8.5% and 15%.
- In Tanzania, the bond market is biased towards central government bonds, with few corporate bonds and no municipal or local government bonds. As of 2011, the DSE had listed 7 bonds from 5 companies of which 4 were banks. These banks were East Africa Development Bank (EADB), East, Central, and Southern Africa Trade and Development Bank (PTA), Barclays Bank (T) Limited (now ABSA) and Standard Chartered Bank Limited. As of August 2021, there were 4 bonds listed on the DSE. Two of the bonds were from banks namely NMB Bank Plc and Exim Bank Tanzania and the other two bonds were all from a mortgage refinance institution (TMRC) with different maturity dates.
- The Exim Bank bond issued 2015 which raised TZS 19.97 billion was the first retail bond to be listed in DSE and the first Exchange-traded retail bond in the Southern Africa Development Corporation (SADC). The original IPO size was TZS 10.0 billion with a Green Shoe Option to go up to TZS 15.0 billion, but the bank ended up receiving TZS 20.0 billion from investors across the country. The bond was aimed to strengthen the capital base of the bank and was to be used for on-lending purposes.
- In 2016, NMB received approval from the CMSA and BOT to issue an unsecured subordinated bonds totaling TZS 200 billion in tranches. Tranche 1 (2016) raised TZS 41.4 billion, Tranche 2 (2017) raised TZS 23.3 billion , Tranche 3 (2019) raised TZS 83.4 billion and the latest bond, dubbed "Jasiri bond" in 2022 raised TZS 74.3 billion, with an oversubscription of 297% . These bonds have enabled the bank to boost its capacity to issue loans. The recent known Jasiri bond aimed to extend affordable loans for women-owned or controlled enterprises.
- The success of these bonds marks the untapped potential for banks to obtain funds from the market through capital markets. Unlike borrowings from other banks, bonds are considered as a cheaper source of funds for banks as they allow the banks to set preferable terms. As at the end of calendar year 2021, Out of 42 banks in Tanzania , only 2 banks had corporate bonds listed on the DSE. The question arises whether the low participation in the corporate bond market is because; the banks are unable to offer higher interest rates than government bonds rates to attract bidders; low awareness on the need to develop a dynamic bond market; or the associated fees discourage smaller banks from accessing the capital market.
- As banks and companies are not using bond markets to raise debt, we should note, western donors are also facing financial difficulties in their domestic markets, and the flow of funds to Tanzania could continue shrinking and without access to alternative sources of funding, including the bond market, it can be difficult to sustainably fund development projects.
- In 2021, the Government of Tanzania through the president, accented municipal funding in Tanzania to help Local Government Authorities (LGAs) to bankroll their projects. There have also been Initiatives to educate the public on municipal financing. It will be interesting to see some municipal bonds issued in Tanzania which will help LGAs fund some of their key projects and reduce reliance on the Central government.



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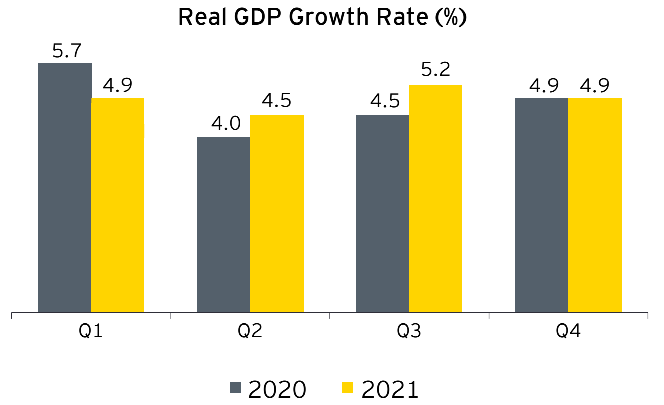
Macroeconomic Overview

Macroeconomic Overview

The economy grew by an average of 4.9% while the exchange rate and headline inflation remained low and largely stable in 2021

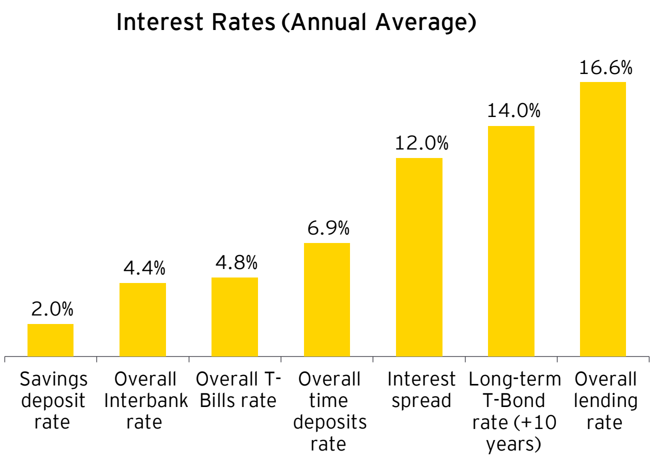
Real GDP

The Tanzanian economy grew by an average of 4.9% in 2021, notably slightly higher than the 4.8% recorded in 2020. The increase in GDP growth in 2021 indicate improved performance in the services sectors particularly tourism-related activities such as accommodation and food services reflecting the economy recovery from COVID-19 pandemic. Overall, the main growth drivers were construction, agriculture, mining and quarrying, manufacturing, transport and trade.



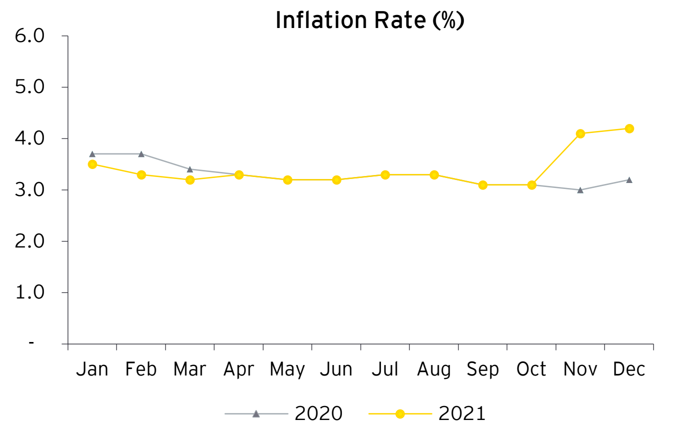
Interest Rates

Interest rates across all government securities have gradually eased downward in 2021. In line with the implementation of accommodative monetary policy, interest rates on loans and those offered on deposits by banks eased during the year 2021 compared to the prior year. The annual average overall lending interest rate declined from 16.6% in 2020 to 16.5% in 2021. Meanwhile, the overall time deposit rate averaged 6.7% in 2020 compared to 6.8% in 2021. The spread between the 12-months deposit and short-term lending rates broaden to 8.1% from 7.9% recorded in 2020.



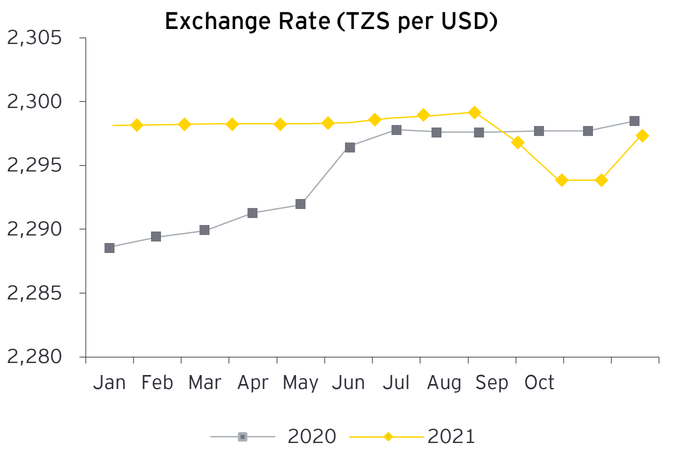
Inflation

Headline inflation remained low and largely stable, averaging 3.4% in 2021 compared to 3.6% recorded in 2020. This outcome was supported by several factors, including an overall decline in domestic food prices and subdued global oil prices post-COVID-19. Inflation remained within the government's target of 5% and in line with the EAC and SADC convergence criteria of utmost 8.0% and between 3.0% to 7.0%, respectively. According to IMF, It is expected that the government will maintain an accommodative monetary policy stance, and subsequently, inflation is anticipated to trend around 3.0% to 6.0% in 2022.



Exchange Rate

Despite enduring some pressure in Q2'2021, the Tanzanian shilling remained relatively stable during the year 2021. The stability of the Tanzanian shilling was supported by an adequate foreign reserve buffer and the implementation of accommodative fiscal and monetary policies. The shilling remained stable, trading in a very narrow band of between TZS 2,296 per USD and TZS 2,331 per USD in 2021. The Tanzanian shilling is expected to remain stable over the short to medium term.



03 Sector Overview

Balance Sheet

The banking sector assets have grown faster than the country's GDP signifying that the sector is playing a lead role in economic growth

Amounts in TZS million	2017	2018	2019	2020	2021
Cash and balances with BOT	4 321 139	3 950 342	3 909 395	3 766 271	4 584 232
Balances w/other banks	1 865 518	2 264 523	1 546 443	1 777 547	2 466 953
Investment in government & debt securities	5 607 657	4 561 920	5 020 321	5 794 737	6 899 294
Loans, advances and overdrafts (net)	15 036 078	15 484 719	17 427 978	18 391 702	20 787 935
Other assets	2 682 362	3 102 416	4 270 492	4 463 826	4 451 161
Total assets	**29 512 754**	**29 363 920**	**32 174 630**	**34 194 082**	**39 189 575**
Customer deposits	20 342 139	20 592 661	22 426 771	23 497 112	27 519 786
Deposits from other banks	1 621 257	1 610 375	1 213 984	1 249 820	1 331 762
Other liabilities	2 973 388	2 796 897	3 703 016	4 052 266	4 163 579
Total liabilities	**24 936 784**	**24 999 933**	**27 343 772**	**28 799 198**	**33 015 126**
Paid up share capital	1 790 874	1 745 264	1 754 687	1 914 025	2 214 272
Retained earnings	1 416 665	1 466 538	1 700 592	1 863 736	2 202 250
Profit & loss account	169 189	189 741	275 252	419 531	527 037
Others	1 199 241	962 442	1 100 323	1 197 593	1 230 891
Total shareholders funds	**4 575 970**	**4 363 985**	**4 830 854**	**5 394 884**	**6 174 449**
Total liabilities and shareholders funds	**29 512 754**	**29 363 919**	**32 174 626**	**34 194 082**	**39 189 575**

Key highlights

- In 2021, the banking sector experienced a remarkable growth in total assets. Total assets grew by 14.6% to TZS 39.2 trillion compared to TZS 34.2 trillion recorded in the preceding year. The overall growth in the value of banking assets was driven by a 13.0% growth or TZS 2.4 trillion increase in the loan book, a TZS 1.1 trillion increase investment in government securities and favorable operating environment. Overall, the growth in the value of banking sector assets has largely been driven by the two biggest banks, NMB and CRDB, whose assets grew by 22.9% and 21.2% respectively during the review period.
- Total liabilities of the sector grew by 14.6% in line with growth in total assets to TZS 33.0 trillion compared to TZS 28.8 trillion recorded in the preceding year. The increase in total liabilities was attributed to a 17.1% increase in customer deposits. The increase was partly associated with enhanced deposit mobilization strategies by banks. Customer deposits accounted for 83.4% of total liabilities in 2021 (81.6% in 2020).
- The total capital of the sector increased by 14.5% in 2021 compared to an increase of 11.7% in 2020. The increase was driven by increase in paid up capital and retained earnings as banks below the CAR ratio needed to boost their capital to meet capital adequacy requirements and an overall increase in the sectors profits.

Income Statement

Banking sector's profitability improved, driven by the loan book growth, cost containment, a decline in impairment provisions and accommodative policy measures

Amounts in TZS million	2017	2018	2019	2020	2021
Interest income	2 944 859	2 764 076	2 815 136	3 006 280	3 234 229
Interest expense	(922 742)	(693 007)	(685 192)	(748 294)	(760 177)
Net interest income	**2 022 117**	**2 071 069**	**2 129 944**	**2 257 986**	**2 474 052**
Bad debt provisions and write offs	(571 804)	(515 416)	(365 718)	(438 515)	(376 369)
Net income after provisions	**1 450 313**	**1 555 653**	**1 764 226**	**1 819 472**	**2 097 683**
Foreign exchange gain/loss	209 429	197 290	231 496	235 497	232 209
Fees, commissions & other income	659 016	626 910	649 061	705 754	811 125
Other Income	51 414	74 975	57 616	119 031	113 770
Non-interest income	**919 860**	**899 175**	**938 173**	**1 060 281**	**1 157 104**
Gross income	**2 370 173**	**2 454 828**	**2 702 399**	**2 879 753**	**3 254 787**
Non-interest expense	(2 038 934)	(2 067 908)	(2 125 421)	(2 215 585)	(2 199 827)
Profit/(loss) before tax	**331 799**	**386 920**	**576 978**	**664 167**	**1 054 959**
Income tax provision	(124 640)	(179 710)	(201 772)	(265 851)	(378 096)
Net income after income tax	**206 927**	**207 210**	**359 305**	**403 155**	**676 863**
Number of employees	16 734	16 060	16 203	16 443	16 448

Key highlights

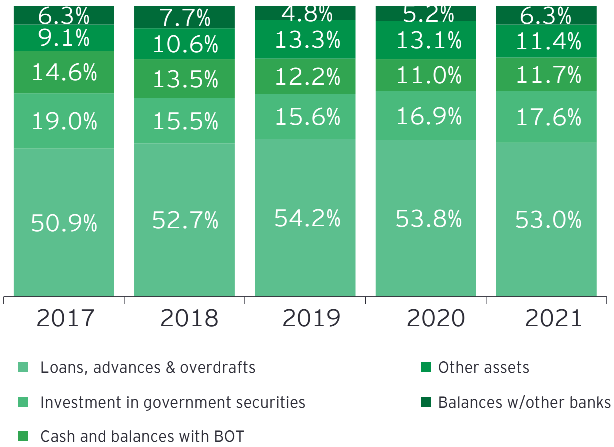
- The banking sector registered improved profitability in 2021, with the sector's profit before tax increasing by 29.3 percent to TZS 1.1 trillion during the year ended December 2021 from TZS 664 billion during the year ended December 2020. The growth in profitability was driven by an increase in interest income consistent with growth in the loan portfolio, an increase in non-interest income, and improvement in operational efficiency. Non-interest expenses to total income ratio decreased to 50.1% from 54.5% reported in 2020 due to a decrease in non-interest expenses.
- During the review period, 32 banks (about 75% of all banks) reported profits, and the remaining 10 reported losses.
- Net interest income grew by 9.6%; improving considerably from the growth of 6.0% in 2020. The growth stemmed from a higher increase in interest income compared to the corresponding increase in interest expenses. Interest income grew by 7.6% while interest expenses grew by 1.7% in 2021.
- During the review period, provisions for bad debts declined by 14.2% to TZS 376 billion driven by a decrease in write-offs by large banks (e.g., NMB,CRDB, Stanbic and DTB).
- The sector's net income after tax grew by 67.9%, higher than the 12.2% growth achieved in 2020 driven by a 13.0% growth in the loan book and an increase in non-interest income mainly fees and commission income.
- In addition, the number of employees increased from 16,443 to 16,448 reported in 2020.

Balance Sheet and Funding Structure

The main source of funding in 2021 remains customer deposits, accounting for 70.2% of total funding sources

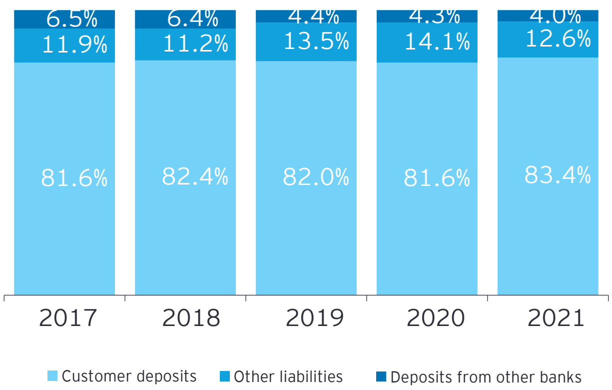
Composition of total assets

- The major components of the sector's assets were loans, advances and overdrafts which accounted for 53.0%, investment in government securities (17.6%), cash, balances with BOT (11.7%) while the remaining assets accounted for 23.1% of the total assets.
- Loans, advances and overdrafts make up the largest portion of total assets at the end of 2021 in line with prior year.



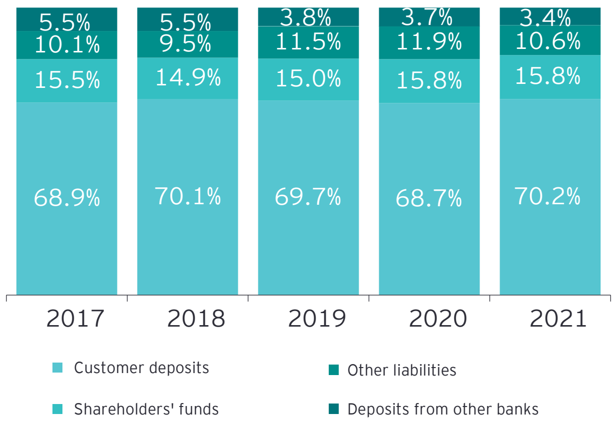
Composition of total liabilities

- During the year under review, customer deposits accounted for 83.4% of total liabilities (up from 81.6% in 2020). This was followed by other liabilities (12.6%) and deposits with other banks (4.0%).
- The growth of customer deposits to total liabilities was supported by mobilization of deposits through agency banking and an increase in branch network.



Sector's funding structure

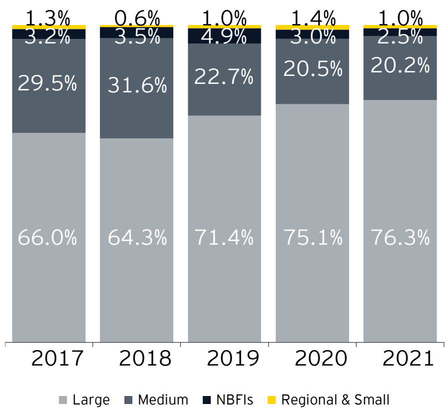
- Total funding for the sector stood at TZS 39.2 trillion in 2021 (TZS 34.2 trillion in 2020). The main source of funding remains customer deposits, accounting for 70.2% (68.7% in 2020) of total funding sources, followed by shareholders' funds at 15.8% (15.8% in 2020).
- Other liabilities increased by 2.7% accounting for 10.6% of the total funding (11.9% in 2020). The portion of deposits from other banks declined slightly to 3.4% from 3.9% in 2020 of the total funding sources.



Competitive Landscape

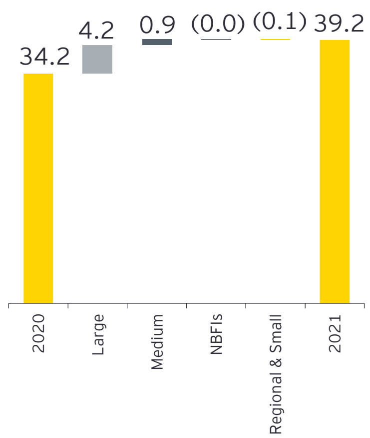
Large banks continued to dominate the market and accounted for 75.6% of total assets, 79.1% of total customer deposits and 75.9% of total outstanding loans and advances to customers

Market share of total assets

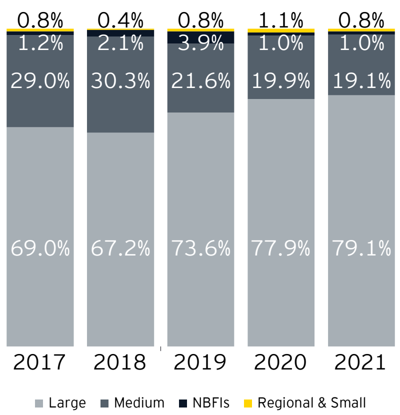


Contribution of assets by bank

- Large banks continued to dominate the banking sector. Their share of total assets increased slightly to 76.3% in 2021 from 75.1% in 2020. The number of large banks has increased as a result of consolidation in the banking industry.
- Market share of medium-sized banks decreased marginally to 20.2% while the combined market share of NBFIs, regional and small declined to 3.5% from 4.4% recorded in 2020.
- NMB and CRDB, the largest banks by quite a considerable margin, held a combined market share of nearly 43.7% in 2021, with their combined share consistently rising in recent years.
- Top 5 banks accounted for about 60.3% of the total assets as at the end of 2021.

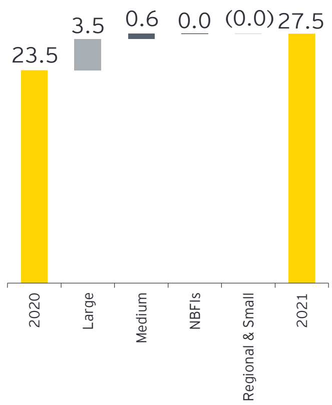


Market share of customer deposits

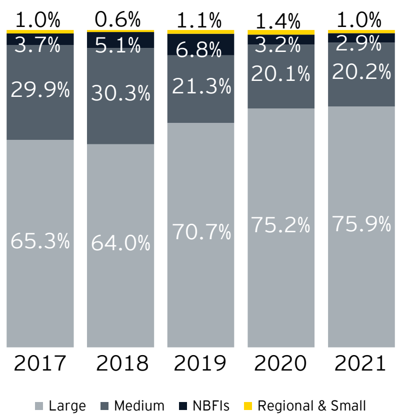


Contribution of deposits by bank

- Large banks increasingly dominate customer deposits with the share of total deposits by large banks increased to 79.1% in 2021 from 77.9% in 2020. In 2021, medium banks and the remaining banks contributed about 19.1% and 1.8% of total deposits, respectively.
- Two banks dominated the customer deposit market, accounting for nearly half of the sector customer deposits. NMB and CRDB dominated the market share of customer deposits by 23.7% and 22.3% respectively.
- Top 5 banks accounted for about 63.1% of the total customer deposits as at the end of 2021.

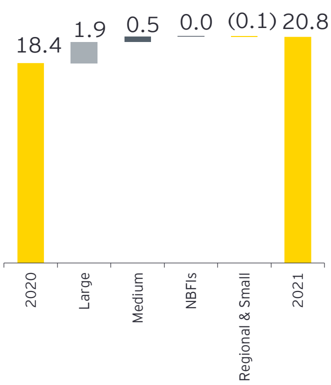


Market share of loans and advances



Contribution of loans by bank

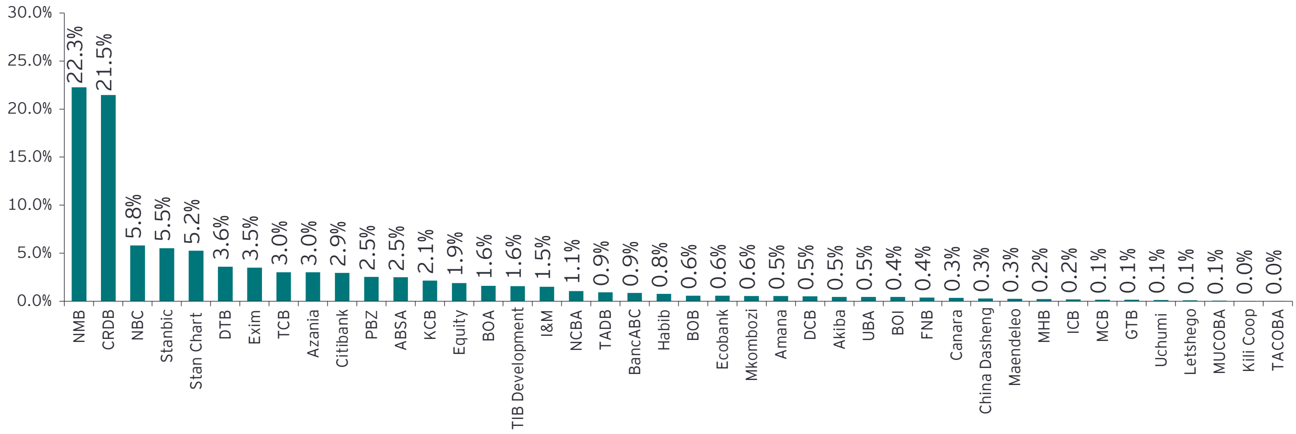
- Large banks continued to hold a significant share of the sector's loan book. The share of large banks in terms of loans, advances and overdrafts to customers increased marginally to 75.9% in 2021 from 75.2% in 2020.
- At the end of 2021, top 5 banks accounted for approximately 61.0% (58.7% in 2020) of the sector's outstanding loans and advances to customers.
- CRDB topped the list with its loans and advances accounted for 23.6% of the sector's loan book followed by NMB (22.4%), NBC (6.7%), Stanbic (4.5%), Azania (3.9%) and other banks contributing to 39.0% of the outstanding loans.



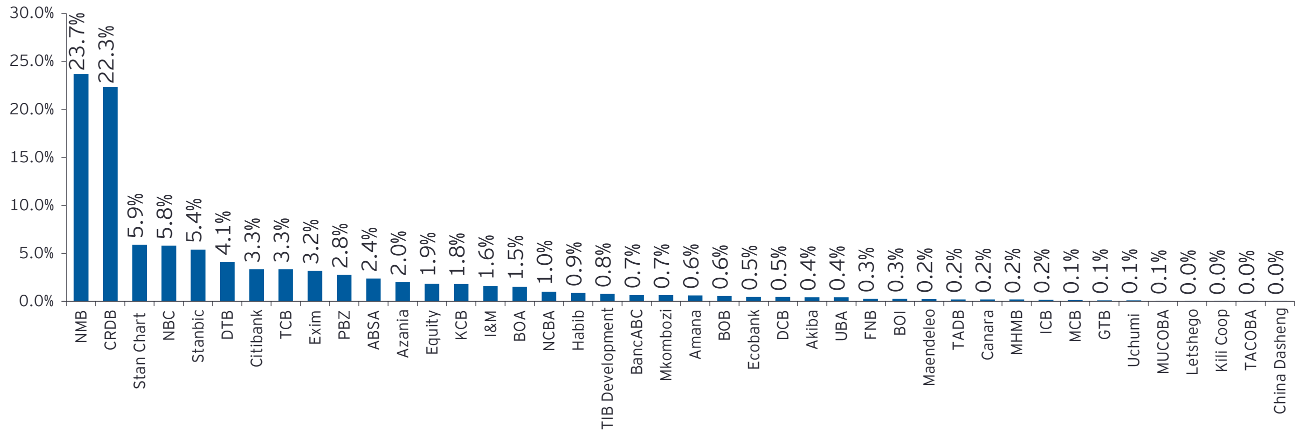
Competitive Landscape

NMB and CRDB control nearly half of the banking sector's assets, customer deposits, loans and advances to customers

Market share of total assets



Market share of customer deposits



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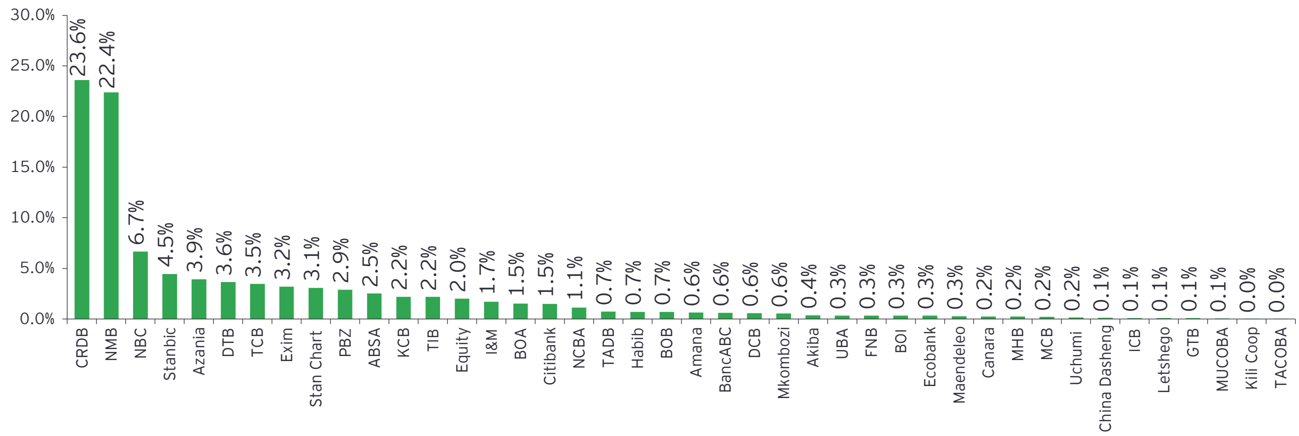
Market share of customer loans and advances



Activities in 2021

Government policies and incentives boosted market activity, along with mergers, new regulations and innovative financial products

1 Jan

- BOT directed banks and financial institutions to maintain a cost to income ratio of not more than 55%. The ratio is computed by dividing operating expenses (non-interest expenses) with summation of net interest income and non-interest income

2 Feb

- National Bank of Malawi (NBM) Plc completed the acquisition of a 51% controlling stake in Akiba Commercial Bank Plc (ACB)

3 Mar

- NMB completed the acquisition of China Commercial Bank
- BOT issued banking business license to Access Microfinance Bank Ltd to carry out microfinance banking business in Tanzania, after revoking its fully-fledged commercial bank license issued on 1st Sep 2008
- BOT issued a business license to Pass Leasing Company Limited to carry out financial leasing business in Tanzania
- CRDB launched Bancassurance services

4 Apr

- NMB Bank partnered with Reliance Insurance to launch digital mobile insurance solution for NMB Mkononi users

5 May

6 Jun

- TPB Bank changed its name to Tanzania Commercial Bank (TCB)

7 July

- The AlHuda Centre of Islamic Banking and Economics (CIBE) held the 7th African Islamic Finance Summit in Dar es Salam on 8th July 2021

8 Aug

- CRDB Bank Plc and the Tanzania Posts Corporation (TPC) relaunched their agency banking deal in an effort to boost their joint involvement with the country's financial inclusion agenda

9 Sep

- TIGO Pesa and BOA launched a mobile money savings product dubbed as Tigo Pesa Kibubu that enables their customers to save and earn interest
- Airtel Tanzania partnered with I&M Bank Tanzania to offer overdrafts through Airtel Money wallets
- BOT and the Tanzania Automated Clearing House (TACH) participants agreed on adjusting the TACH Operating Schedule in order to respond to the market needs. The adjustment include; addition of a fifth session for EFT clearing on weekdays; and Introduction of TACH operations on Saturdays.

10 Oct

- Exim Bank Tanzania signed the offer to acquire assets and liabilities of FNB Tanzania on October 26, 2021

11 Nov

- CRDB launched Islamic Banking (dubbed Al – Barakah)
- CRDB received USD 200 million (about TZS 460 billion) facility to finance climate resilient projects and green financing from United Nations Green Climate Fund (GCF)

12 Dec

- KCB Group PLC announced the termination of its shares purchase agreement with the ABC Holdings Limited ("ABCH") for the proposed acquisition of African Banking Corporation Tanzania Limited ("BancABC Tanzania")
- StanChart launched its first-ever digital banking branch

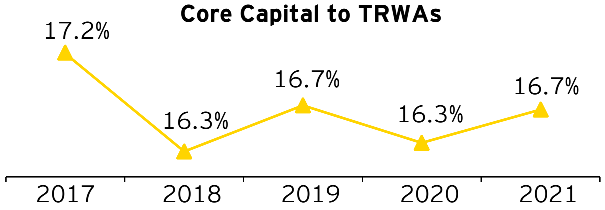
04 Sector Analysis

Capital Adequacy

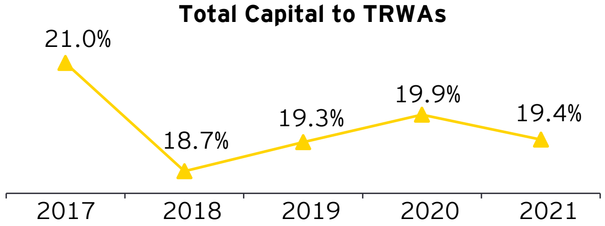
Tanzania' tier 1 capital adequacy ratio remained at 15.8% in 2021, meaning that banks have adequate capital reserve to cope with the deterioration in asset quality

Capital Adequacy Ratios

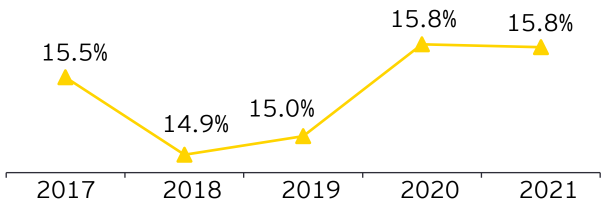
Core Capital to TRWAs



Total Capital to TRWAs

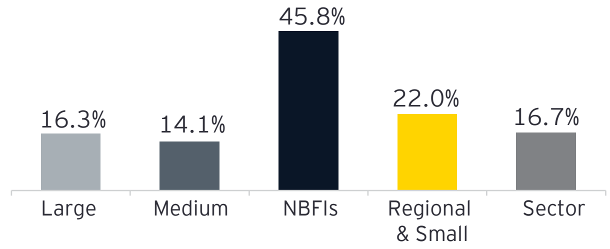


Shareholders' Funds to Total Assets

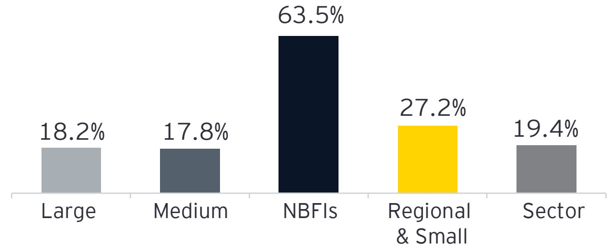


Capital Adequacy Ratios (2021)

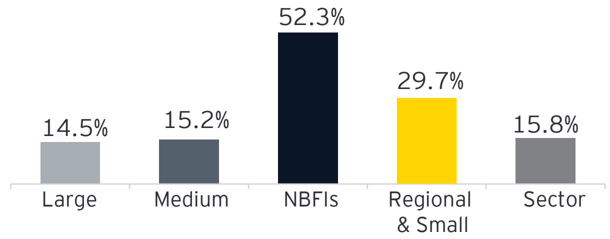
Core Capital to TRWAs



Total Capital to TRWAs



Shareholders' Funds to Total Assets



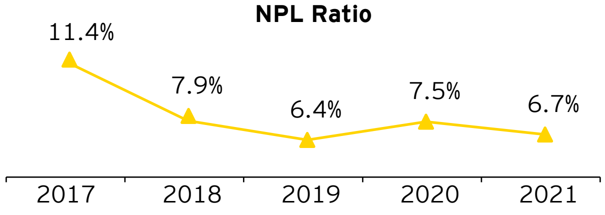
Key highlights

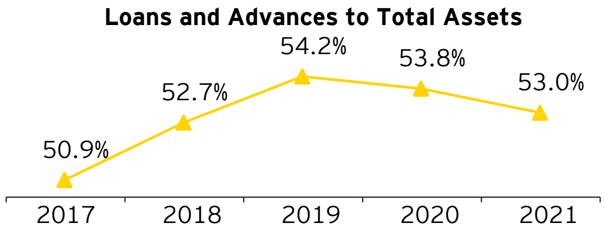
- The sector remained adequately capitalized as evidenced by core and total capital adequacy ratios which stood at 16.7% and 19.4% compared to 16.3% and 19.9% reported in 2020, respectively. Both ratios were above the minimum regulatory requirements of 12.5% and 14.5% for core and total capital, respectively.
- The stability in capital adequacy ratios is partly explained by retention of profit by banks and injection of additional capital by shareholders due to BOT's directives which requires banks to implement capital restoration plans. Another critical development was the reduction of risk weights on different categories of loans which resulted in increased capital ratios and in turn created room for further credit to the private sector.
- Total capital of the sector composed of share capital (35.9%), retained earnings (35.7%), share premium (5.6%) and other capital items (22.8%). Total equity increased by 14.5% to TZS 6.2 trillion compared to TZS 5.4 trillion recorded in prior year, mainly on account of an increase in profitability by 67.9% to TZS 677 billion recorded during the review period. During the period under review, off-balance sheet items increased by 32.4% to TZS 11.7 trillion (2020: TZS 8.8 trillion). Off-balance sheet items included guarantees and indemnities, undrawn balances of loans and overdrafts, letters of credit, and other items. The off- balance sheet items represented about 29.8% of the total assets compared to 25.8% recorded in prior year.
- The increase in capital implies enhanced resilience of the banking sector to withstand shocks that may arise from both internal and external environments.

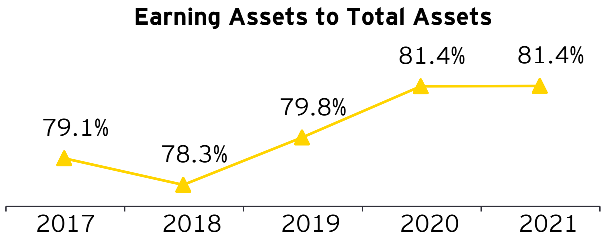
Asset Quality

Asset quality improved as reflected by the decrease in the ratio of non-performing loans (NPLs) to gross loans

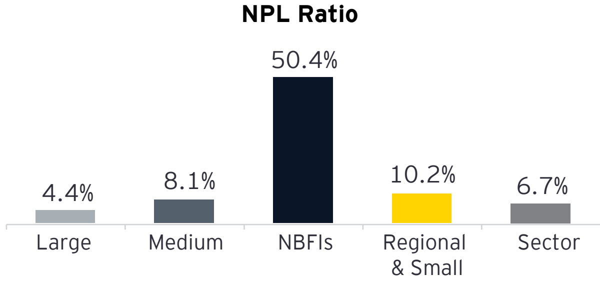
Asset Quality

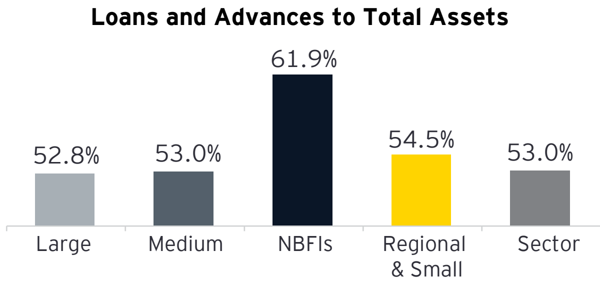


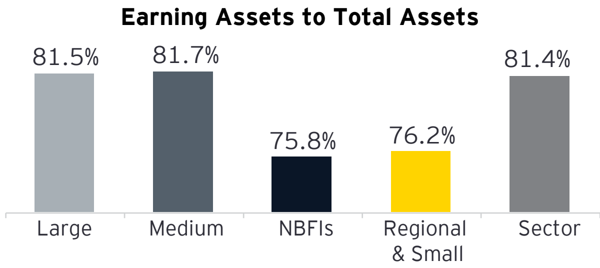




Asset Quality (2021)





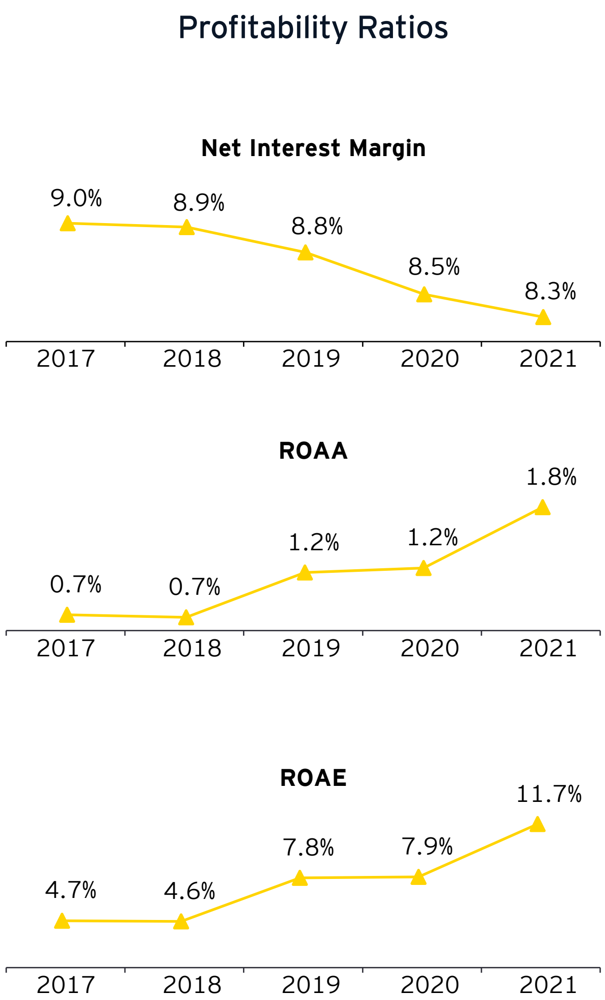


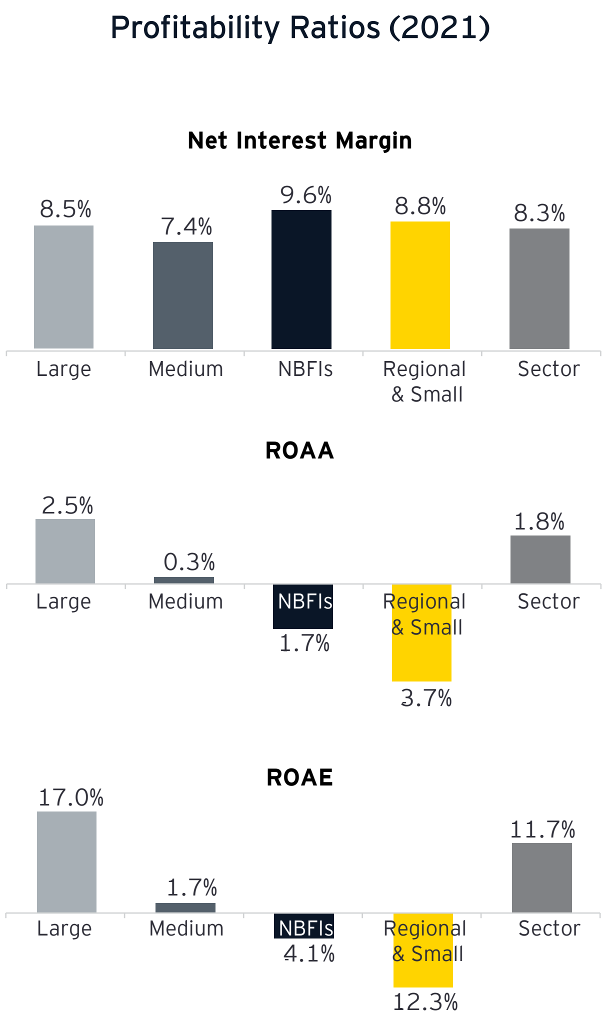
Key highlights

- Asset quality improved as reflected by the decrease in the ratio of non-performing loans (NPLs) to gross loans to 6.7% at the end of December 2021 compared with 7.5% reported in the corresponding period in 2020. Although the sector's NPL ratio is above the BOT's benchmark ratio of 5.0%, leading banks have shown a notable improvement that led to the overall decline. During the review period, about 62.5% of the banks had an NPL ratio above 5.0%.
- The BOT continued to take measures to ensure that banks and financial institutions strengthen their credit risk management practices and implement corrective measures.
- In November 2021, the BOT released a public notice listing measures to address the high levels of NPLs. The circular directed banks to determine employees who are directly responsible for NPLs without following procedures, fraud or integrity and take legal action and that the BOT would blacklist these employees. The circular also targeted civil servants who have high NPLs.
- Loans, advances, and overdrafts make up the largest portion of total assets at the end of 2021. Earning assets increased by 14.6% to TZS 39.1 trillion compared to TZS 27.8 trillion recorded in 2020.
- The ratio of earnings assets to total assets stood at 81.4%, in line with 2020's level, indicating that a significant part of the sector's assets continued to be channeled to productive sectors of the economy.

Earnings Quality

Profitability improved as depicted by increase in return on assets (ROAA) and return on equity (ROAE)





Key highlights

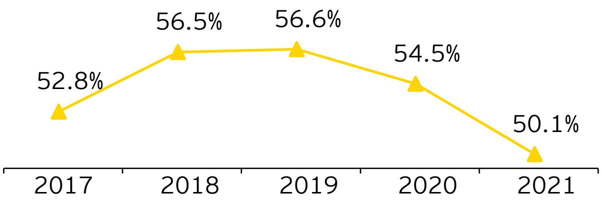
- The stability of the operating environment backed by a steady recovery in the domestic economy, a return to normalcy, accommodative policy measures, and the overall decrease in the sector's cost-to-income ratio resulted in strong credit growth and increase in the banking sector profitability in 2021.
- The sector's net interest margin marginally declined to 8.3% (8.5% in 2020) as a result of an increase in average earning assets relative to net interest income, a decline in interest spread, and yields on T-Bills during the Q1 and Q3 of 2021.
- Return on average equity (ROAE) and Return on Assets (ROAA) increased to 11.7% and 1.8% from 7.9% and 1.2% recorded in 2020, respectively
- The overall increase in profitability was driven by uptick in net income consistent with growth in loan portfolio, non-interest income and improvement in cost-to-income ratio and operational efficiency. Further, a decrease in NPL ratio from 7.5% in 2020 to 6.7% in 2021 contributed to the increased profitability during the review period.

Efficiency

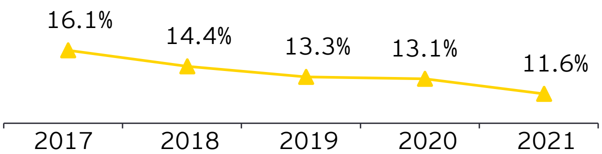
Operating efficiency ratios continued to improve, and large banks remain the most efficient benefiting from larger economies of scale

Efficiency Ratios

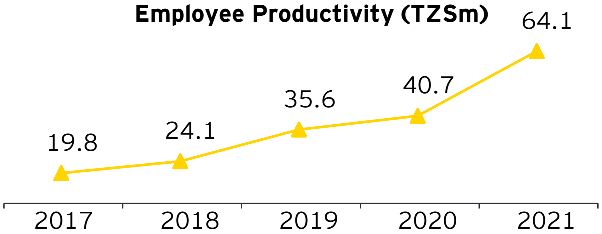
Cost to Total Income Ratio



Operational Efficiency

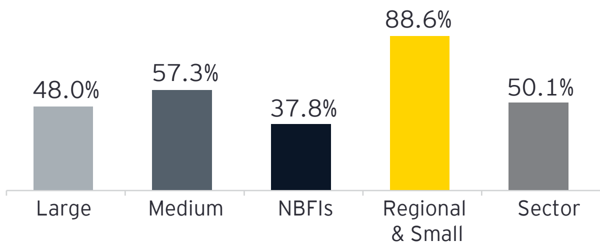


Employee Productivity (TZSm)

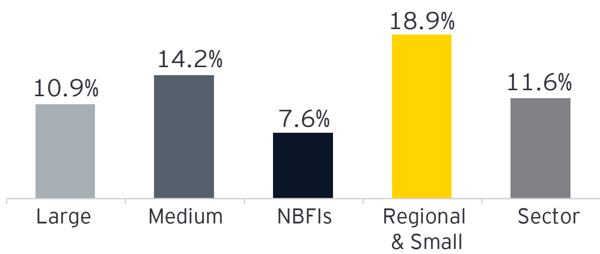


Efficiency Ratios (2021)

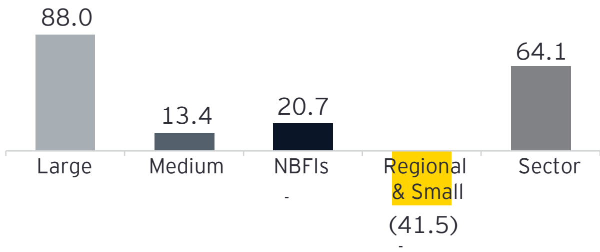
Cost to Total Income Ratio



Operational Efficiency



Employee Productivity (TZSm)



Key highlights

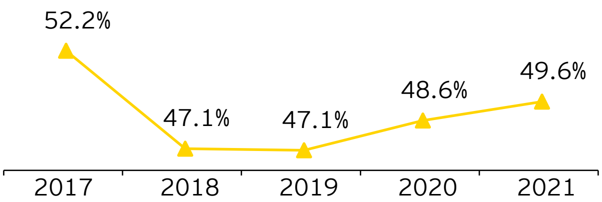
- The sector's cost-to- total income ratio decreased to 50.1% in 2021 compared with the prior year owing to improved income, complemented by strategic cost containment initiatives that were implemented by banks throughout the year.
- Operational efficiency shows the relationship between the bank's total expenses to its loan book. The ratio is used to theoretically show how efficient the bank has been in making its loans while keeping its costs down. Generally, the lower the ratio the more efficient the bank is.
- Overall, the sector's operational efficiency declined to its lowest level in five years, measuring 11.6% in 2021 compared to 16.1% in 2017. Tanzanian banks have recorded a consistent year-on-year decrease in operational efficiency ratios, indicating that their cost base is increasing at a slower pace than the growth in their loan book.
- Employee productivity measured by the ratio of earnings-per-employee is another widely used measure of efficiency. Earnings per employee rose by 57.6% to TZS 64.1 million in 2021 from TZS 40.7 million in 2020. Large banks have the highest earnings per employee, followed by NBFIs. Regional and small banks recorded negative earnings per employee for the second consecutive year due to negative profit before tax.
- Large banks, being able to benefit from larger economies of scale, are the most efficient banks followed by NBFIs and medium-sized banks. Small banks have the least favorable efficiency ratios, as they have fewer or less economies of scale opportunities.

Liquidity

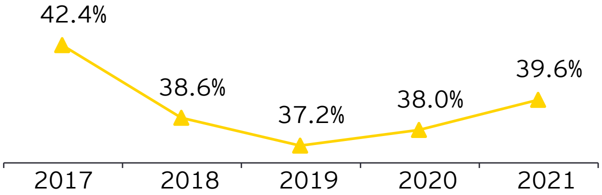
Overall, the sector's exposure to liquidity risk remained low evidenced by adequate liquidity levels sufficient to meet maturing obligations

Liquidity Ratios

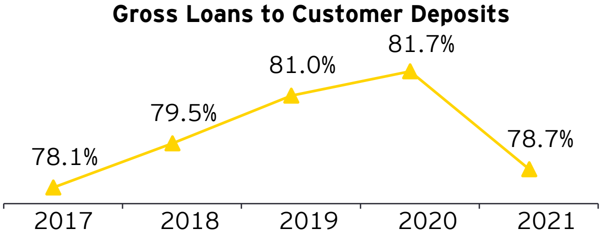
Liquid Assets to Customer Deposits



Liquid Assets to Total Assets

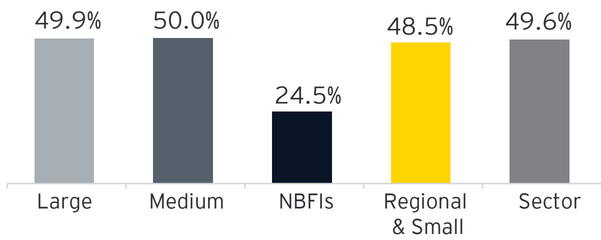


Gross Loans to Customer Deposits

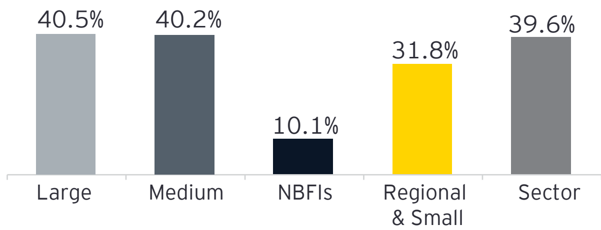


Liquidity Ratios (2021)

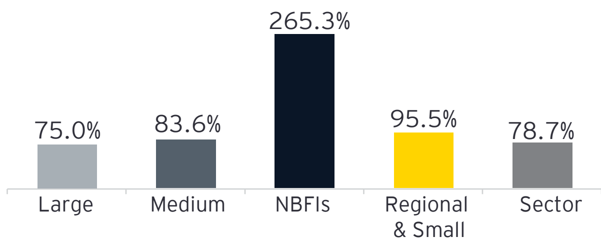
Liquid Assets to Customer Deposits



Liquid Assets to Total Assets



Gross Loans to Customer Deposits



Key highlights

- The banking sector continued to maintain adequate liquidity, sufficient to meet maturing obligations and fund asset growth.
- The banking sector's average liquidity in 2021 was way above 30% and compared with the statutory minimum requirement of 20%.
- The sector's liquid assets to demand liabilities increased slightly to 49.6% in 2021 compared to 48.6% in 2020, while the ratio of liquid assets to total assets increased slightly to 39.6% compared to 38.0% in 2020.
- The increase in the liquidity ratio is mainly attributed to higher growth in total liquid assets compared to the increase in total liabilities. Total liquid assets grew by 19.3%, while total liabilities grew by 14.6%. The higher growth in liquid assets was driven by a 81.3% increase in balances with the central bank, interbank balances (38.8%), and investment in government securities (19.9%).
- Overall, medium banks are slightly more liquid than their peers.
- The ratio of gross loans to customer deposits decreased slightly to 78.7% in December 2021 from 81.7% reported in December 2020 indicating a slight improvement in banks liquidity.

SWOT Analysis

Although profitable, the sector is overcrowded, with many small banks that are unable to significantly raise their market share or invest in expanding their networks

Strengths

- Tanzania's banking sector is still considered stable and resilient, as banks have more than adequate capital buffers and liquidity.
- Banks' ability to quickly capitalize on alternative channels such as agency, mobile and internet banking has strengthened the accessibility of banking and related services and further helped to carter the needs of customers.
- Competition is intensifying as banks are looking to grow their profitability by tapping into new product ranges. For instance, with the introduction of bancassurance guidelines in 2019, more than 10 commercial banks in the country have either been granted licenses or partnered with insurance companies.
- Strong and committed Central Bank support including provision of supportive infrastructure and guidelines which have continued to improve the functioning of the banking and financial sector.

Opportunities

- FinTech, mobile penetration, digital and mobile banking are expanding rapidly, attracting more people into the formal financial system.
- Tanzania has very low banking sector penetration. According to WB's Global Financial Inclusion, less than 40% of the adult population have an account (individually or jointly) at a bank or another financial institution, meaning that there is substantial room for expansion.
- Low penetration of mortgages and the presence of TMRC as mortgage liquidity provider provides upside potential for banks to tap into mortgage products.
- Collateral for movable assets has a potential to make loans and credit more easily available to customers.
- Uptick in Islamic banking products present an opportunity for banks to diversify their portfolios.

Weaknesses

- The banking sector is overcrowded with medium, NBFIs, regional and small banks which struggle to grow. The combined market share for these bank has declined from 24.9% in 2020 to 23.7% in 2021.
- Difficulties in assessing creditworthiness mean that banks and financial institutions continue to incorporate high-risk premiums to compensate for the uncertainties.
- According to TBA, collateral on movable assets has a lot of limitations and financial institutions discourage movable assets as collateral for long-term financing.
- It has been observed that the Tanzanian banking industry has limited presence in rural areas and focuses more on urban areas.
- Lack of activity in equity and debt capital markets hinder the growth potential for banks and non-bank financial institutions.

Threats

- High levels of NPLs in regional and small banks are some of the major threat to the stability of the banking and financial sector. In 2021 NPLs from regional and small banks accounted for about 68.7% of the NPL written which was due to poor performance of the credit departments.
- Although there are no reported cases in Tanzania, banks remain a primary target for cyber-attacks.
- Challenges of cash-based economy and cultural shift may affect the adoption of cash-less transactions.
- The minimal product differentiation in the banking industry enhances switching among consumers who seek high returns.
- The sector remains highly competitive, intensified by the disruptive technologies fronted by Mobile Network Operators (MNOs) and FinTech.

05 Appendices

Appendix A: List of financial institutions

S/N	Bank	Name of the Bank
1	ABSA	Absa Bank Tanzania Limited
2	Access	Access Microfinance Bank Tanzania Limited (AMBTL)
3	Akiba	Akiba Commercial Bank Limited
4	Amana	Amana Bank Ltd
5	Azania	Azania Bank Ltd
6	BancABC	African Banking Corporation (T) Ltd
7	BOA	BOA Bank (T) Limited
8	BOB	Bank of Baroda (T) Limited
9	BOI	Bank of India (T) Limited
10	Canara	Canara Bank (T) Limited
11	China	China Commercial Bank limited
12	China Dasheng	China Dasheng
13	Citibank	Citibank (T) Limited
14	CRDB	CRDB Bank PLC
15	DCB	Dar es Salaam Community Bank
16	DTB	Diamond Trust Bank (T) Limited
17	Ecobank	Ecobank (T) Limited
18	Equity	Equity Bank Tanzania Limited
19	Exim	Exim Bank (T) Limited
20	FNB	First National Bank (T) Limited
21	GTB	Guaranty Trust Bank (T) Limited
22	Habib	Habib African Bank Limited
23	ICB	International Commercial Bank (T) Limited
24	I&M	I&M Bank (T) Limited
25	KCB	Kenya Commercial Bank (T) Limited
26	KCBL	Kilimanjaro Co-operative Bank Limited
27	Letshego	Letshego Bank (T) Limited
28	Maendeleo	Maendeleo Bank PLC
29	MCB	Mwalimu Commercial Bank
30	MHB	Mwanga Hakika Bank
31	Mkombozi	Mkombozi Commercial Bank PLC
32	MUCOBA	MUCOBA Community Bank Ltd
33	NBC	National Bank of Commerce Limited
34	NCBA	NCBA Bank Tanzania Limited
35	NMB	National Microfinance Bank (T) PLC
36	PBZ	The People's Bank of Zanzibar Limited
37	Stan Chart	Standard Chartered Bank (T) Limited
38	Stanbic	Stanbic Bank (T) Limited
39	TADB	Tanzania Agriculture Development Bank Limited
40	TACOBA	Tandahimba Community Bank
41	TIB Development	TIB Development Bank Limited
42	TCB	Tanzania Commercial Bank Ltd
43	UBA	United Bank for Africa (T) Limited
44	Uchumi	Uchumi Commercial Bank Ltd

Appendix B: Abbreviations, acronyms and definitions

Abbreviation	Description
BOT	Bank of Tanzania
CAR	Capital Adequacy Ratio
CIR	Cost-to-Income Ratio
CRBs	Credit Reference Bureaus
EAC	East African Community
GDP	Gross Domestic Product
IMF	International Monetary Fund
NBFIs	Non Banking Financial Institutions
NBS	National Bureau of Statistics
NIM	Net Interest Margin
NPLs	Non-Performing Loans
ROAA	Return on Average Assets
ROAE	Return on Average Equity
SADC	Southern African Development Community
TBA	Tanzania Bankers Association
TRWAs	Total Risk Weighted Assets
T-Bill(s)	Treasury Bills
T-Bond(s)	Treasury Bonds
TMRC	Tanzania Mortgage Refinance Company
TZS	Tanzania Shillings
TZSb	Tanzania Shillings in Billions
TZSm	Tanzania Shillings in Millions
TZSt	Tanzania Shillings in Trillions
USD	United States Dollar
WB	World Bank

Appendix C: Definition of selected ratios

Capital Adequacy Ratios

- Core Capital to Total Risk-Weighted Assets (%): This is also referred to as Core Capital to Risk Weighted Assets plus Off-Balance Sheet Exposures. The ratio shows the degree to which creditors are covered first, by Total capital and then by Core Capital only
- Total Capital to Total Risk-Weighted Assets (%): This ratio is calculated by dividing a bank's total capital (Core Capital plus Supplementary Capital) by its risk-weighted assets.
- Shareholders' Funds to Total Assets (%): Show the proportion share of shareholders' total equity relative to the bank's total assets.

Asset Quality Ratios

- Non-Performing Loans Ratio (NPL) (%): Non-performing loans/ loans and advances + probable losses. Tells how well the bank is managing its loan portfolio. The lower the % the better managed the portfolio.
- Loans and Advances to Total Assets (%): Loans and Advances as a % of total assets
- Earning Assets to Total Assets (%): This ratio is used to show the composition of the bank's earning assets and if most of them are earning assets and how efficiently and productively the bank uses those earning assets

Profitability and Earnings Ratios

- Net Interest Margin (%): This is also known as the Interest Margin to Earning Assets (%) and is Interest Income-Interest Expense/Average Earning Assets. Shows the net interest income earned on the bank's earning assets.
- Return on Average Assets (%): Using profit after tax, to show the returns generated by the bank's assets.
- Return on Average Equity (%): Using Shareholders' funds, to show the return to Shareholders from the bank's operations.

Efficiency Ratios

- Cost to Total Income Ratio (%): This ratio is also known as Non-Interest Expense to Gross Income. The ratio is used to show the extent to which non-interest expense would 'eat' into total income.
- Operational Efficiency Ratio (%): Non-Interest Expense + Interest Expense/Loans and Advances (including inter-bank) + Probable Losses. To determine how efficient the bank has been in making its loans i.e., keeping its costs down. The lower the % the more efficient the bank.
- Employee Productivity (TZS million): This ratio is also termed as Earnings Per Employee or Income to Staff. It is calculated by taking profit before tax divide by the number of staff. The ratio is used to show, again theoretically, how much each staff has contributed to the bank's earnings.

Liquidity Ratios

- Liquid Assets to Customer Deposits (%): This shows the contribution of liquid assets to the banks' customer. The ratio is used to show the extent of the bank's liquidity.
- Liquid Assets to Total Assets (%): This shows the contribution of liquid assets to the banks' total assets. The ratio is used to show the extent of the bank's liquidity.
- Gross Loans to Customer Deposits (%): Loans and Advances + Probable Losses/Customer deposits.
- Note that some of the ratios may not adhere to the exact definition per the Bank of Tanzania regulations and prudential guidelines. Furthermore, ratios in the review may be limited by the level of detail of information disclosed by banks. The definitions are as outlined below:
- Core Capital = Paid up share capital + share premium + preference shares + retained earnings + profit and loss account
- Total Capital = Total shareholder's funds
- Off Balance Sheet Exposures = Contingent liabilities and contingencies
- TRWAs – Risk Weighted Assets is a 'minimum' amount of capital that banks should hold. This minimum capital is a percentage of the total capital of a bank, which is also called the minimum risk-based capital adequacy. Indeed, RWAs calculated as: cash * 0% +Balance with BoT*0 + (Balances with other banks + Interbank loans and receivables) * 20% + (investment in Government securities + investment in debt securities) * 0% +cheques and items for clearing*0.5+loans, advances and overdrafts * 100% + Accounts receivable*100+Bills negotiated*100%+Equity investment*100+Fixed Assets*100%+ customers liabilities acceptable*100% + Interbranch suspense*100%+Other assets*100
- Liquid assets – An asset is said to be liquid if it can be sold quickly without significant losses and has low risk with short maturity period (less price sensitive to interest rate movements with unlikely capital losses). Typical examples of bank assets are cash, reserves, securities (Government debt and commercial paper) and inter-bank loans. The calculation for liquid assets: Cash + Balances with Bank of Tanzania + Balances with other banks + Inter-bank loans and receivables + Cheques and items for clearing + Investment in Government securities + Investment in debt securities.

Appendix D: Sources of information

Source of information

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