Tanzania Banking Sector Overview

A review of the 2020 calendar year

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Introduction

Banking Sector Overview

- Despite a marginal decline in growth in 2020 as a result of the COVID-19, the banking sector remained resilient growing at 4.1% in the year.
- Digital banking services continue to expand driven by increasing financial inclusion and mobile penetration rate. In May 2020, BOT increased MNOs' daily transaction limit to customers from TZS3.0m to TZS5.0m and daily balance from TZS5.0m to TZS10.0m to encourage the use of digital payment platforms for transactions. Interoperability in mobile money services has also contributed to the overall growth of total mobile money transactions of 6.9% in transaction value. The number of active registered accounts for mobile money stood at 29.4m at the end of December 2020, compared with 24.4m and 27.2m at the end of December 2019 and June 2020, respectively.
- In the wake of the pandemic, BOT continued to take a series of policy measures to bolster the banking sector, including cutting the discount rate from 7.0% to 5.0% and reducing the statutory minimum reserves (SMR) requirement from 7.0% to 6.0% effective from 8th June 2020, to support the increase in market liquidity. Beyond this, the central bank is focused on tightening up banking supervision and encouraging industry consolidation to enhance its stability and operating efficiency.
- Overall, the banking sector's remained resilient in 2020. The sector is expected to continue to remain on its growth trajectory supported by policy, prudential and regulatory measures undertaken by the BOT towards improving the business environment and efficiency in financial services delivery.

In 2020 major changes in the sector included;

- In February 2020, then Barclays Bank Tanzania, a subsidiary of Absa Group, officially rebranded and changed its legal name to Absa Bank Tanzania upon approval from the regulator;
- In June 2020, NCBA Bank Tanzania was formed following the merger of NIC Tanzania and Commercial Bank of Africa. The new entity, NCBA Bank Tanzania, began operations on July 8, 2020, as a Tier 2 lender. In the same month, TPB Bank Plc joined the tier 1 category with c.TZS1t in assets following its third acquisition in recent years of TIB Corporate Bank.
- On 30th July 2020, BOT licensed Mwanga Hakika Microfinance Bank (MHB) following the merger between Mwanga Community Bank (MCBL), Hakika Microfinance Bank (HK MFB), and EFC Microfinance Bank. The merger came into effect in Q3'2019 and was subsequently approved by BOT in January 2020.
- In November 2020, KCB Group Plc signed an agreement with London-listed financial services firm, Atlas Mara Limited and TDFL for the purchase of the issued share capital of BancABC (Tanzania). During the same month, BOT took over the management of China Commercial Bank and placed it under statutory administration following the institution's failure to meet capital adequacy requirements and inability to affect the restoration of capital to required levels. In March 2021, NMB Bank Plc acquired all assets and liabilities of China Commercial Bank Limited.
- Further, in Q4 2020, Arise, an African investment company in Sub -Saharan Africa, completed the acquisition of 34.9% shareholding previously owned by Rabobank in NMB Bank Plc. On 28 December 2020, CMSA approved the transfer of 174.5m NMB Bank Plc shares owned by Rabobank to Arise. The share transfer process was completed on 31 December 2020.

Segmentation

The report segments banking institutions into four key groupings, that is, 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.

EY Banking Review - Peer Groups Definition

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

1. Notes:

- The directory of banks and financial institutions operating in Tanzania as at 31st December 2020 were as follows: 36 fully fledged commercial banks, 6 community banks, 5 microfinance institutions, 3 financial leasing companies, 2 development banks, 1 mortgage refinancing company and 1 housing financing company;
- Our analysis does not include microfinance banks, credit reference bureaus, financial leasing companies and mortgage finance institutions. Our analysis covers 37 fully fledged commercial banks, 1 development financial institutions and 1 community bank, all categorized as large, medium, regional and small and financial institutions.
- We have also excluded TADB, KCBL, TADB and MUCOBA from our analysis due to the difficulties of obtaining reliable and timely financial information. We have relied on quarter 4 (Q4 2020) published unaudited balances for the following banks as we could not obtained audited financial statements; TCB, TIB Development, Access and Exim bank. As such, our analysis only presents indicative figures for the sector.
- The legal names for the above entities are presented in the Abbreviations section in appendices.

Banking Sector Consolidation

Consolidation in the banking sector

- In any market, oversupply triggers a wave of mergers, acquisitions, and bankruptcies. In Tanzania, the banking sector is fragmented with more than 45 banks and non-bank financial institutions. The smaller banks are deficient in extensive branch networks and are unable to compete with the reach larger banks. In 2020, large banks were operating about three times more branches than those owned by medium and small banks combined.
- In recent years there have been several reasons behind M&A between banks in Tanzania. This included the recent changes in the operating and regulatory environment, expansion/diversification, and synergies.
- Bank mergers in Tanzania dated back to 1967 during the Arusha declaration when all eleven commercial banks were nationalized and merged into the National Bank of Commerce in Tanzania and People's Bank of Zanzibar (PBZ) in Zanzibar. However, this era was plagued by high NPL levels and low operating efficiencies. As a result the financial sector reform programs started in 1991, reducing government control in the daily management of banks and allowing privatization in the banking sector. This led to an increase in private banks leading to a string of M&A transactions including Delphis Bank Ltd & Trust Bank Ltd, Stanbic (T) Ltd & Meridian Biao Bank Ltd, FBME & Delphis Bank Ltd, and African Banking Corporation Ltd & ULC Bank Ltd. Despite the reforms and M&A, the sector experienced several bank failures including Delphis Bank (2003), Karadha Company Ltd (2000), First Adili (T) Ltd, and Bank Ltd (2000).
- In the financial sector assessment program (FSAP) report for 2010, IMF recommended that BOT promote consolidation of medium-sized banks by judiciously raising minimum capital requirements. In March 2015, BOT increased the minimum capital requirement conforming with the Base III capital requirement of an additional buffer of 2.5%. Since 2015, the BOT has been working to improve capital adequacy and solvency to protect the public interest and ensure a stable financial sector. Subsequently, 9 M&A transactions have been announced. Further in the event marking the merger of China Bank and NMB, the BOT Governor, Prof Florence Luoga, noted that there are at least 8 banks in the process of merging.

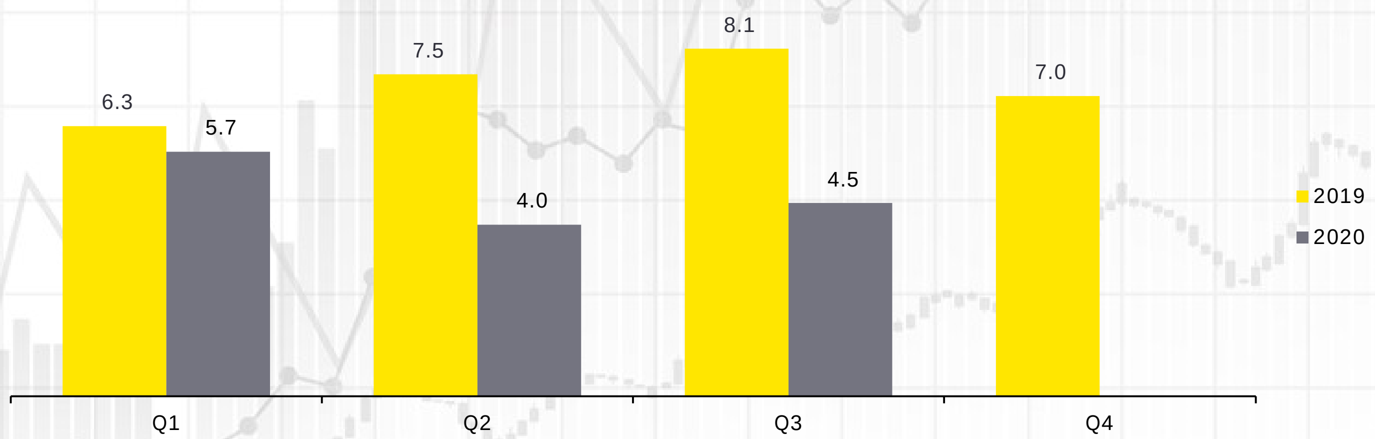
Macroeconomic Overview

- Globally, every economy was hit hard in 2020 by the COVID-19 pandemic. The impact has already been felt in Tanzania where a marginal decline in GDP growth is noted in 2020 despite additional policy actions to mitigate the economic effects. Globally, tourism has been disrupted and exports have slumped. In combination with labour market disruptions from the pandemic, this led to a decline in private consumption and deterioration of domestic business conditions.
- Tanzania's economy continues to offer long-term growth potential, backed by the country joining the "lower-middle-income" category in July 2020, well ahead of projections. Although the government did not implement lockdown measures, the pandemic still affected several economic sectors, including tourism, manufacturing, and trade.
- Formal economic production in Tanzania is mainly driven by the agriculture sector which accounted for about 28% of GDP over the past five years. Tanzania's economy continues to benefit from the large and growing young population, rising income levels, and increasing demand for goods and services. The services sector is still dominated by wholesale and retail trade.
- Financial services and IT sectors have shown commendable growth over the past decade mainly due to increasing financial inclusion and mobile money transactions. On the other hand, the country's industrial, mining, manufacturing, and construction sectors, which account for about 30% of GDP over the past five years, are supported by public infrastructure investments and the development of the country's nascent natural gas industry. Subsequently, the construction industry has been a key driver of economic growth over the past few years.

Real GDP growth in 2020

- The economy grew by an average of 4.7% in the first three quarters of 2020, notably lower than the 7.3% recorded in the corresponding periods in 2019.
- The decline in GDP growth in Q1-Q3 can be attributed to weaker performances in the services sectors particularly tourism-related activities such as accommodation and food services which declined by 13.8% reflecting the impact of the COVID-19 pandemic.
- On a calendar year basis, it is estimated that the economy grew by 5.5% in 2020. Beyond 2020, the economy is expected to rebound to 6.0% in 2021 and 4.6% in 2022 as the global economy progressively returns to normality. The recovery is expected predominately from a rebound in the services sector, higher private consumption, and a rise in public infrastructure spending.

Figure 1: Real GDP growth (%)



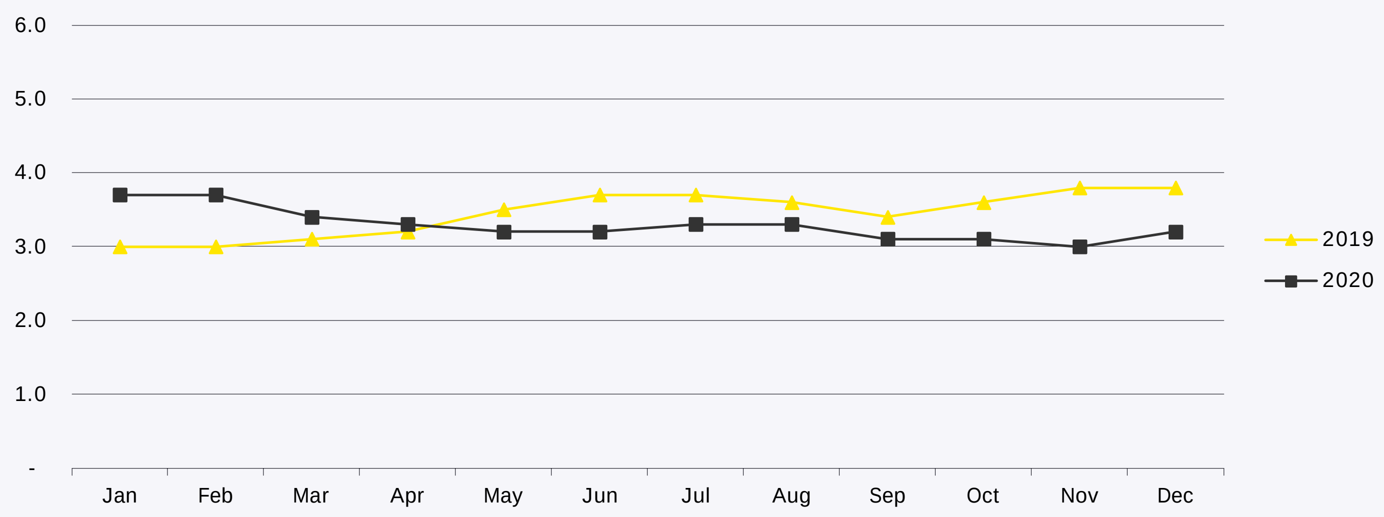
Source: National Bureau of Statistics (NBS)

Macroeconomic Overview

Inflation

- Headline inflation remained low and stable in 2020, averaging 3.3% in 2020 compared to 3.5% recorded in 2019. This was supported by several factors, including an overall decline in domestic food prices and subdued global oil prices. The inflation outturn 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%-7.0%, respectively. It is expected that the government will maintain an accommodative monetary policy stance in 2021, and subsequently, inflation is anticipated to trend around 3.0% to 5.0%.

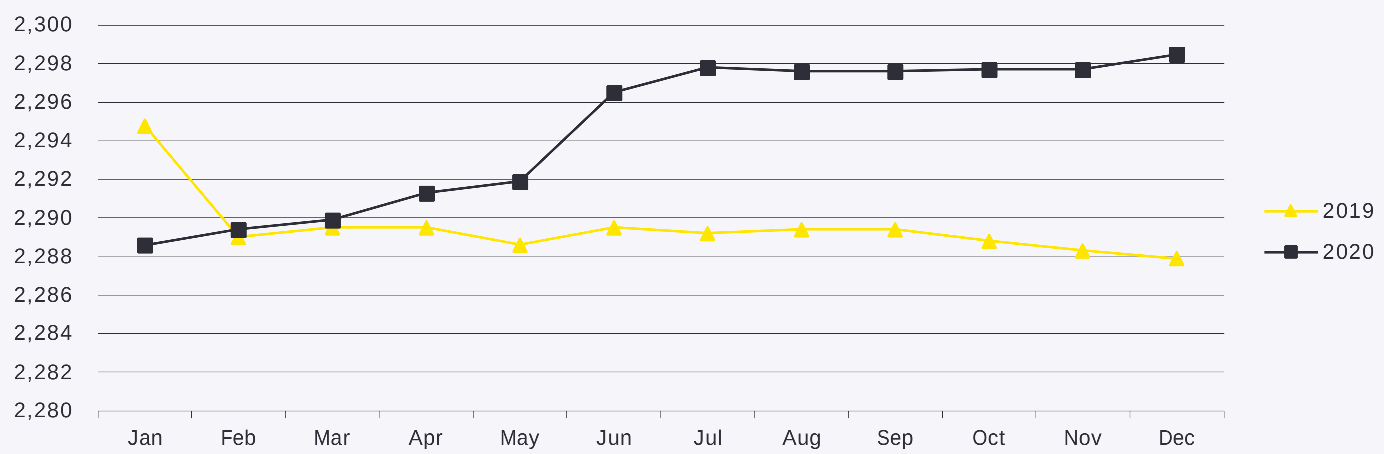
Figure 2: Annual Headline Inflation Rates



Exchange rate (TZS/USD)

- Despite enduring some pressure in Q2'2020, the Tanzanian shilling remained relatively stable during the year 2020. 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 TZS2,289/US$ and TZS2,299/$ in 2020. The Tanzanian shilling is expected to remain stable over the short to medium term.

Figure 3: Exchange Rate (TZS per US$)



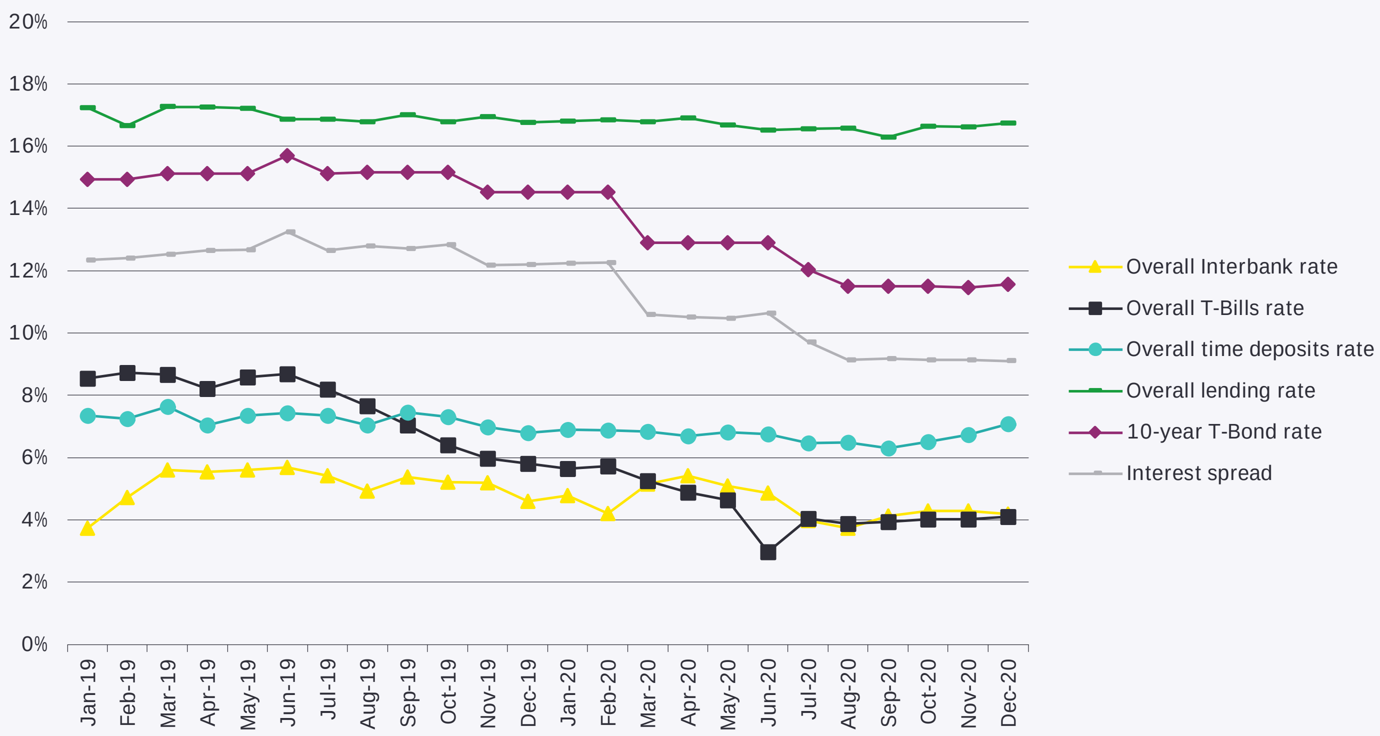
Source: Bank of Tanzania (BOT)

Macroeconomic Overview

Interest rates

- Interest rates across all government securities have gradually eased downward in 2020. The government has implemented policy actions to boost liquidity in the financial sector while additional policies to protect businesses in significantly affected sectors, such as those in tourism are being evaluated.
- In May 2020, BOT reduced the discount rate from 7% to 5%, lowered the minimum reserve requirement ratio from 7% to 6%, encouraged financial institutions to consider restructuring of loans for severely affected borrowers, and relaxed the limits on mobile money transactions. With these policy actions, a modest decline in interest rates was noted. However, these have remained relatively flat since August 2020.
- In line with the implementation of accommodative monetary policy, interest rates on loans and those offered on deposits by banks eased during the year 2020 compared to the prior year. The annual average overall lending interest rate declined from 17.0% in 2019 to 16.7% in 2020. Meanwhile, the overall time deposit rate averaged 6.7% in 2020 compared to 7.2% in 2019. Equally, the spread between the 12-months deposit and short-term lending rates narrowed to 7.5% from 7.9% recorded in 2019.

Figure 4: Interest rates



Source: Bank of Tanzania (BOT)

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Sector Overview

Sector Snapshot

As at 31 December 2020, the Tanzania Banking Sector had 53 registered and licensed bank and non-bank financial institutions. Our report includes the analysis of 39 banks and non-bank financial institutions.

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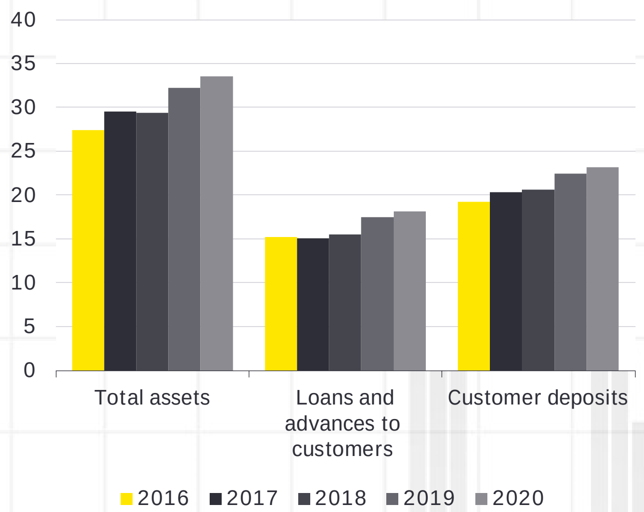
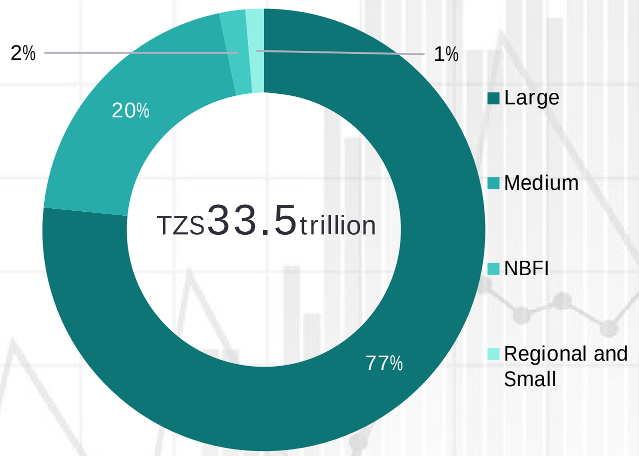
Large	Medium	Regional and Small	NBFI

Key financials (in TZS trillion)



Market share of total assets



Key highlights in 2020

~4.1% (2019: 9.6%)

Growth in total assets

~3.9% (2019: 12.5%)

Growth in loans and advances to customers

~3.4% (2019: 8.9%)

Growth in customer deposits

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

15.7%	1.2%	7.5%	7.5%	8.2%	81.3%
Capital Adequacy	ROAA	ROAE	NPL	Net Interest Margin	Loan to Deposit

Tanzania Banking Sector SWOT Analysis

S

- 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 strengthen the accessibility of banking and related services and further helped to carter the needs of customers.
- Competition is intensifying as banks and NBFIs looking to grow their profitability by tapping into new product range. 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.

W

- The banking sector is highly concentrated, with many medium, NBFIs, regional and small banks having struggled to grow. The combined market share for these bank has declined from 28.6% in 2019 to 23.4% in 2020.
- The asset quality has deteriorated, with the NPL ratio standing at 7.5% at the end of 2020, compared to 6.4% at the end of 2019.
- Difficulties in assessing creditworthiness mean that banks and financial institutions continue to charge incorporate high risk premiums to compensate for the uncertainties.
- It has been observed that the 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 in Tanzania.
- Limited range of financial instruments.

O

- Fintech, mobile penetration, digital and mobile banking are expanding rapidly, attracting more people into the formal financial system faster than would have been the case in its absence.
- Tanzania has very low banking sector penetration. 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.

T

- High levels of NPLs in some banks are some of the major threat to the stability of the banking and financial sector.
- Although there are no reported cases in Tanzania, banks remain a primary target for cyber-attacks.

Banking Sector Balance Sheet

Despite the COVID-19 shock in the economy, the Tanzanian banking sector assets grew by 4.1% in 2020 compared to 9.6% in 2019. Composition of banking sector assets include loans, advances and overdrafts (54.1%), investment in government and debt securities (17.1%), other assets (12.8%), cash, balance with banks and items for clearing (10.8%) and balance with other banks (5.2%) of total assets.

Loans, advances and overdrafts recorded an increase of 3.9% in 2020 which is in alignment to growth in total assets. This compares to a 12.5% increase recorded in 2019.

On liabilities and shareholders' funds, customers' deposits grew 3.4% in 2020 compared to an increase of 8.9% in 2019 while shareholders' funds grew by 8.7% in 2020 compared to 10.7% increase in 2019.

Table 1: Snapshot of the banking sector balance sheet

Amounts in TZS million	2016	2017	2018	2019	2020
Cash and Balances with BoT	3 800 339	4 321 139	3 950 342	3 909 395	3 611 846
Balances w/other banks	1 858 142	1 865 518	2 264 523	1 546 443	1 757 225
Investment in Government & Debt Securities	4 070 326	5 607 657	4 561 920	5 020 321	5 722 189
Loans, Advances & Overdrafts (net)	15 216 010	15 036 078	15 484 719	17 427 978	18 112 480
Other assets	2 367 372	2 682 362	3 102 416	4 270 492	4 301 773
Total Assets	27 312 189	29 512 754	29 363 920	32 174 630	33 505 512
Customer deposits	19 177 500	20 342 139	20 592 661	22 426 771	23 181 917
Deposits from other banks	1 639 479	1 621 257	1 610 375	1 213 984	1 307 699
Other Liabilities	2 261 011	2 973 388	2 796 897	3 703 016	3 765 650
Total Liabilities	23 077 990	24 936 784	24 999 933	27 343 772	28 255 266
Paid up share capital	1 570 782	1 790 874	1 745 264	1 754 687	1 829 784
Retained Earnings	1 260 239	1 416 665	1 466 538	1 700 592	1 835 502
Profit & Loss Account	259 005	169 189	189 741	275 252	397 030
Others	1 144 175	1 199 241	962 442	1 100 323	1 187 928
Total Shareholders Funds	4 234 200	4 575 970	4 363 985	4 830 854	5 250 244
Total Liabilities and Shareholders Funds	27 312 190	29 512 754	29 363 919	32 174 626	33 505 510

Table 2: Balance sheet growth over 5-year period

Amounts in Tshs million	2016	2017	2018	2019	2020
Cash and Balances with BoT	-8.6%	13.7%	-8.6%	-1.0%	-7.6%
Balances w/other banks	-0.5%	0.4%	21.4%	-31.7%	13.6%
Investment in Government & Debt Securities	10.4%	37.8%	-18.6%	10.0%	14.0%
Loans, Advances & Overdrafts (net)	0.6%	-1.2%	3.0%	12.5%	3.9%
Other assets	33.9%	13.3%	15.7%	37.7%	0.7%
Total Assets	2.7%	8.1%	-0.5%	9.6%	4.1%
Customer deposits	-3.0%	6.1%	1.2%	8.9%	3.4%
Deposits from other banks	44.0%	-1.1%	-0.7%	-24.6%	7.7%
Other Liabilities	16.8%	31.5%	-5.9%	32.4%	1.7%
Total Liabilities	1.0%	8.1%	0.3%	9.4%	3.3%
Paid up share capital	18.7%	14.0%	-2.5%	0.5%	4.3%
Retained Earnings	17.3%	12.4%	3.5%	16.0%	7.9%
Profit & Loss Account	-20.7%	-34.7%	12.1%	45.1%	44.2%
Others	11.6%	4.8%	-19.7%	14.3%	8.0%
Total Shareholders Funds	12.9%	8.1%	-4.6%	10.7%	8.7%
Total Liabilities and Shareholders Funds	2.7%	8.1%	-0.5%	9.6%	4.1%

Banking Sector Income Statement

In 2020, profitability remained strong despite changes in the economy. The sector portfolio yield (see definition in appendix) remained at 13.4% in 2020 significantly above the average rates paid on funds of 2.7%. Interest margin stood at 75.4% in 2020 from 75.7% in 2019.

In 2020, 12 of the 39 banks and NBFIs recorded a loss before tax while in 2019, 16 banks and NBFIs reported total loss before tax.

Table 3: Snapshot of the banking sector income statement

Amounts in TZS million	2016	2017	2018	2019	2020
Interest income	2 853 522	2 944 859	2 764 076	2 815 136	2 872 405
Interest expense	(876 501)	(922 742)	(693 007)	(685 192)	(705 638)
Net Interest Income	1 977 021	2 022 117	2 071 069	2 129 944	2 166 767
Bad debt provisions and write-offs	(378 308)	(571 804)	(515 416)	(365 718)	(442 183)
Non interest Income	864 273	919 860	899 175	938 173	1 023 786
Foreign exchange gain/loss	188 374	209 429	197 290	231 496	224 677
Fees, Commissions & other income	615 305	659 016	626 910	649 061	686 624
Other Income	60 594	51 414	74 975	57 616	112 485
Gross Income	2 462 986	2 370 173	2 454 828	2 702 399	2 748 370
Non interest expense	(1 892 330)	(2 038 934)	(2 067 908)	(2 125 421)	(2 120 297)
Operating Income/(loss) before tax	571 118	331 799	386 920	576 978	628 073
Income tax Provision	(196 213)	(124 640)	(179 710)	(201 772)	(252 767)
Net Income after Income Tax	357 253	206 927	207 210	359 305	380 144
Number of employees	17 015	16 734	16 060	16 203	16 234

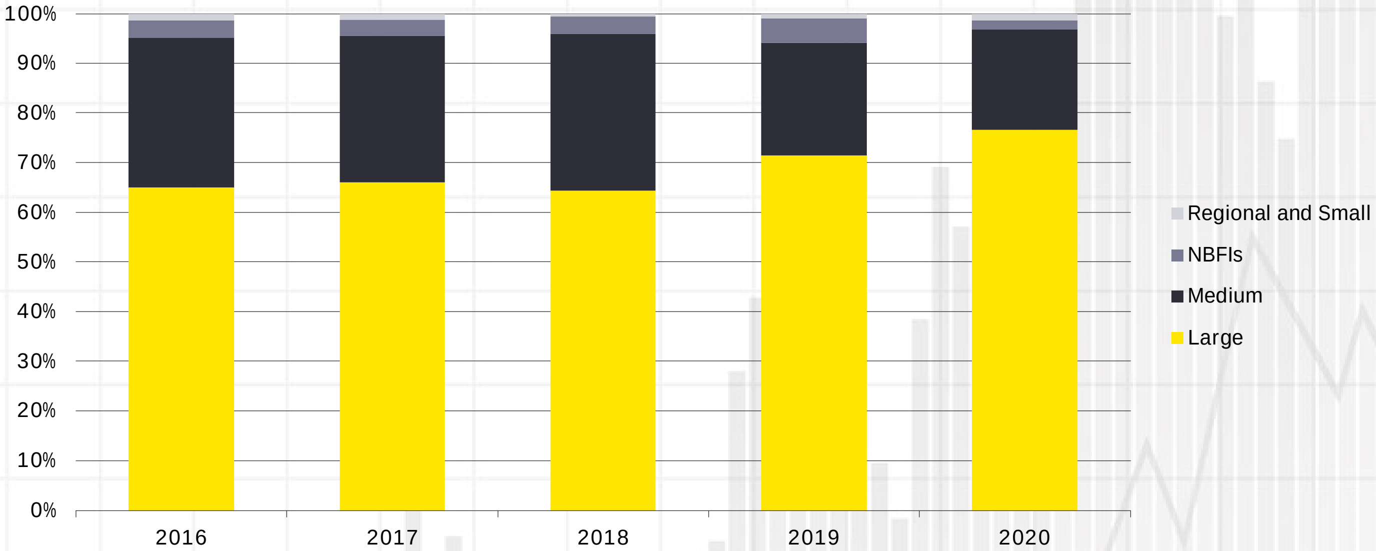
Table 4: Income statement growth over 5-year period

% Annual growth rate	2016	2017	2018	2019	2020
Interest income	19.5%	3.2%	-6.1%	1.8%	2.0%
Interest expense	25.0%	5.3%	-24.9%	-1.1%	3.0%
Net Interest Income	17.2%	2.3%	2.4%	2.8%	1.7%
Bad debt provisions and write-offs	75.2%	51.1%	-9.9%	-29.0%	20.9%
Non interest Income	1.5%	6.4%	-2.2%	4.3%	9.1%
Foreign exchange gain/loss	-26.4%	11.2%	-5.8%	17.3%	-2.9%
Fees, Commissions & other income	12.8%	7.1%	-4.9%	3.5%	5.8%
Other Income	21.1%	-15.1%	45.8%	-23.2%	95.2%
Gross Income	6.1%	-3.8%	3.6%	10.1%	1.7%
Non interest expense	10.7%	7.7%	1.4%	2.8%	-0.2%
Operating Income/(loss) before tax	-6.8%	-41.9%	16.6%	49.1%	8.9%
Net Income after Income Tax	-12.2%	-42.1%	0.1%	73.4%	5.8%
Number of employees	6.1%	-1.7%	-4.0%	0.9%	0.2%

Market share of Total Assets

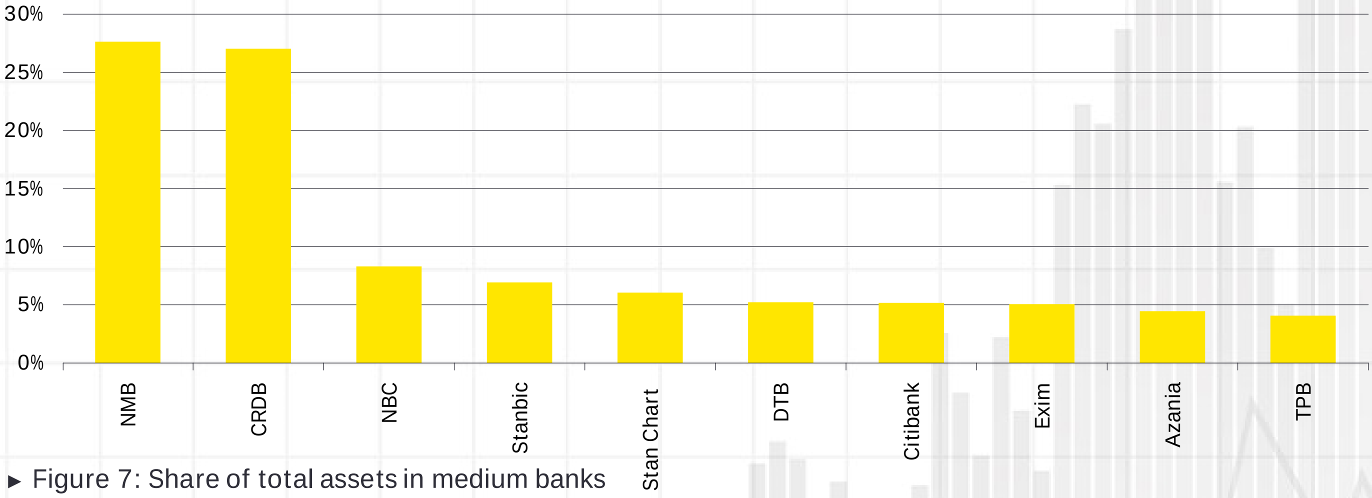
Large banks continued to dominate the banking sector with their share of total assets increased to 76.6% in 2020 (from 71.6% in 2019). The number of large banks has increased as a result of consolidation in the banking industry. The share of total assets by medium-sized banks reduced to 20.1% (from 22.7% in 2019). The share of total assets by regional and small banks remained fairly unchanged in 2020.

Figure 5: Market share of total assets by type of bank

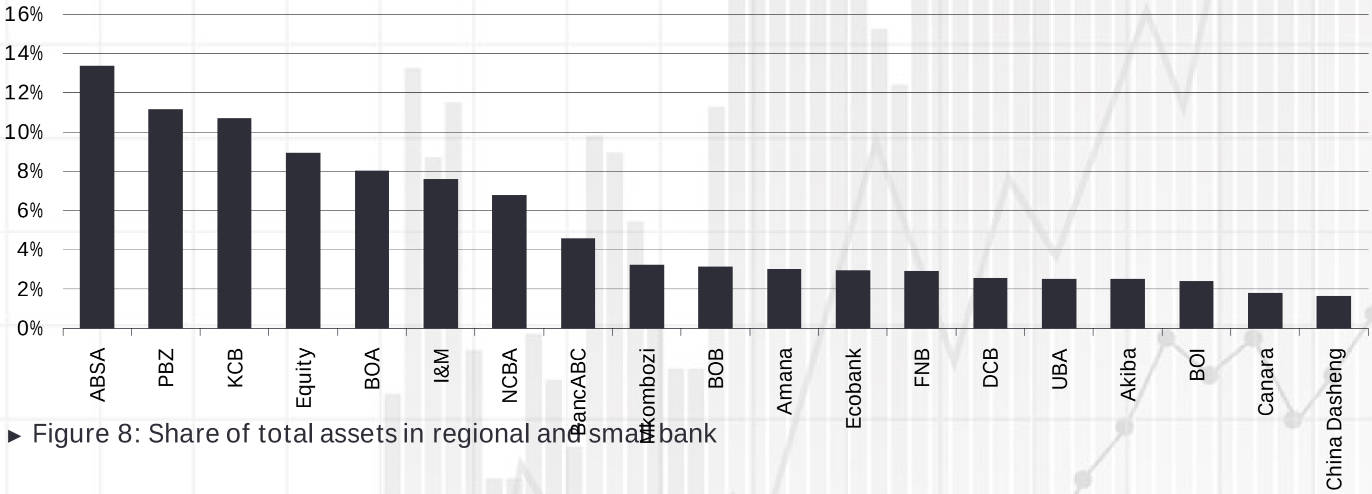


Market share of Total Assets

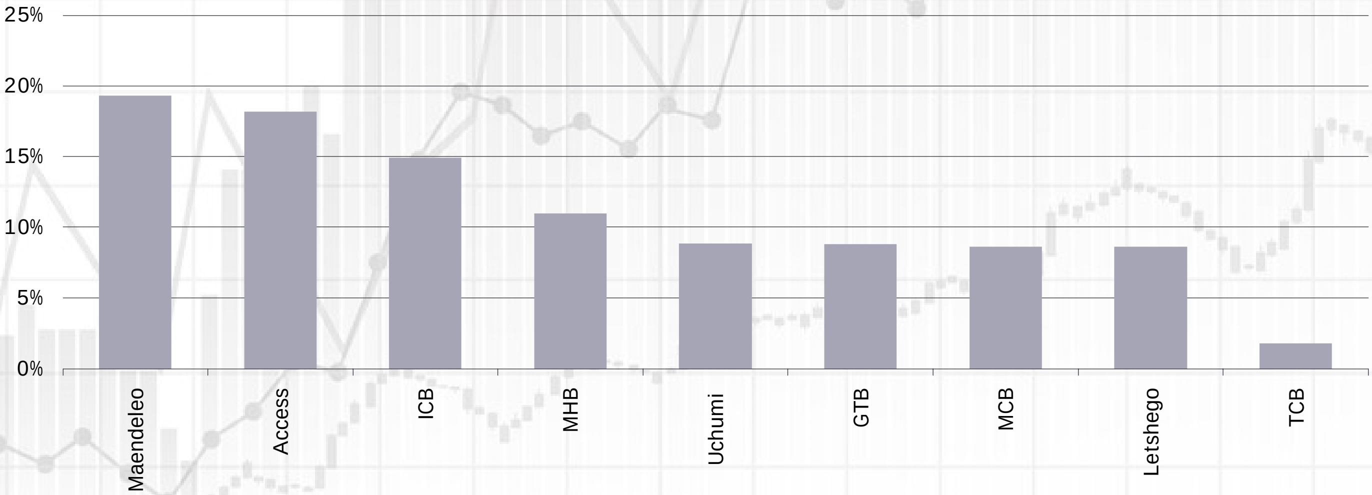
Figure 6: Share of total assets in large banks



▸ Figure 7: Share of total assets in medium banks



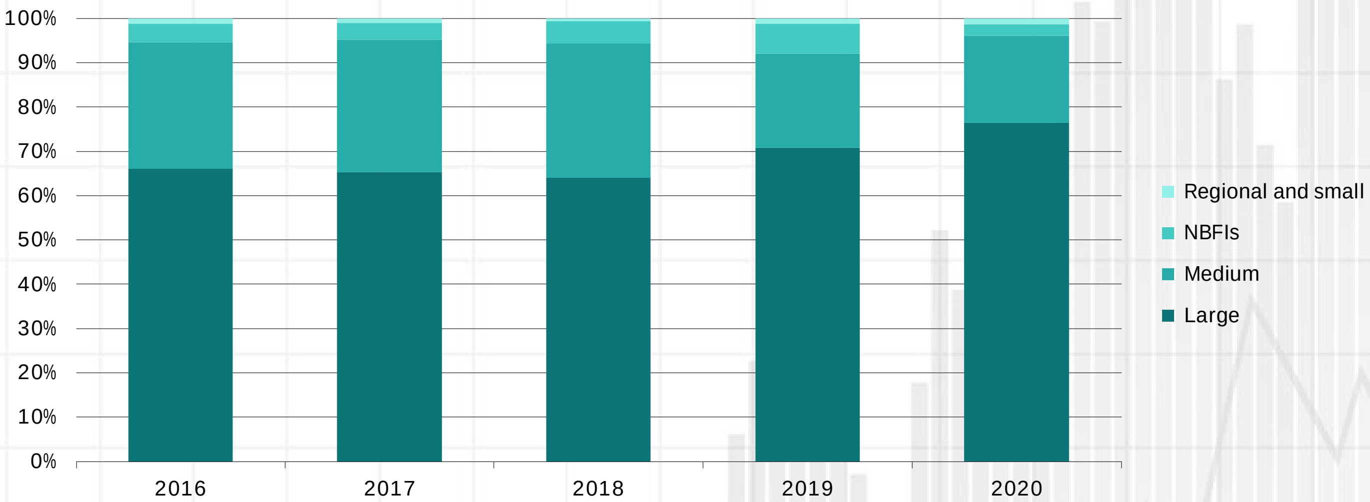
▸ Figure 8: Share of total assets in regional and small bank



Market share of Loans and Advances

The large banks continued to dominate the sector's loan book. The share of large banks in terms of loans, advances and overdrafts increased to 76.4% in 2020 from 70.7% in 2019.

Figure 9: Market share of loans and advances to customers by type of bank



Market share of Loans and Advances

Figure 10: Share of total loans and advances to customers in large banks

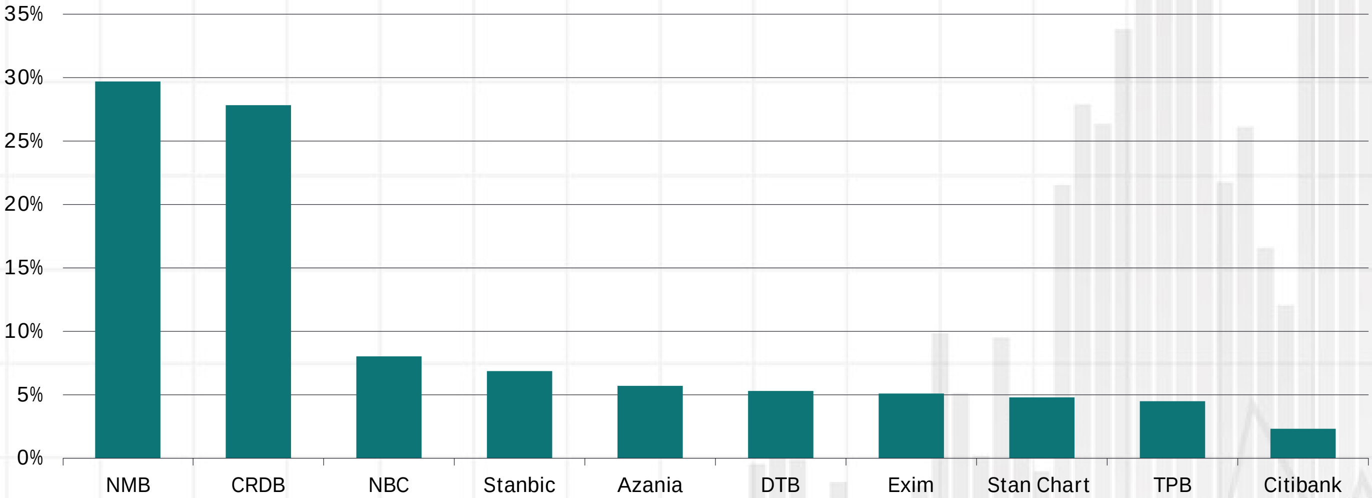


Figure 11: Share of total loans and advances to customers in medium banks

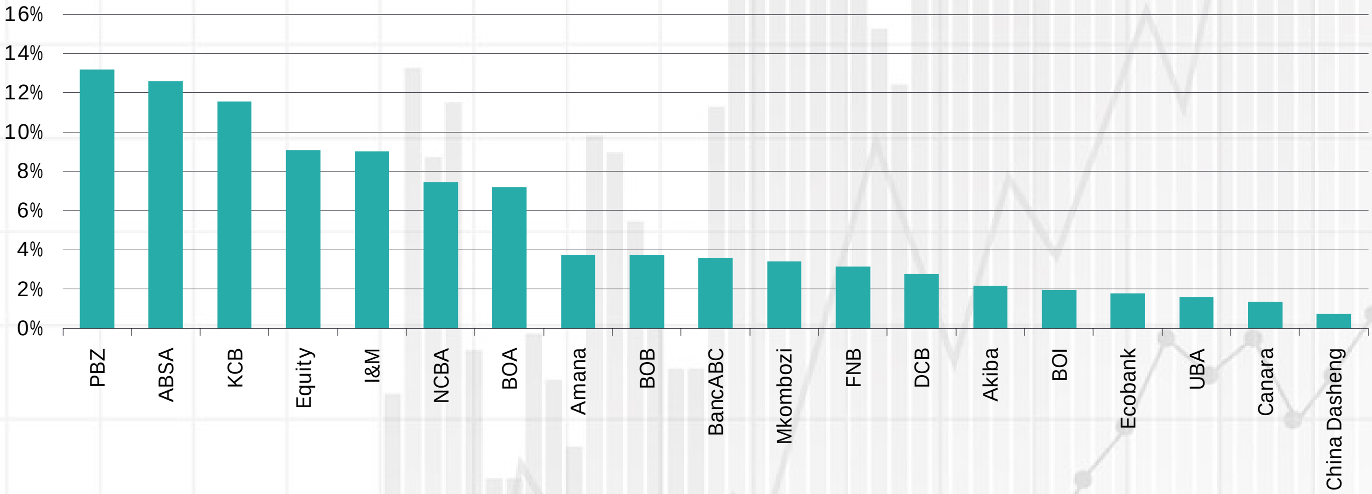
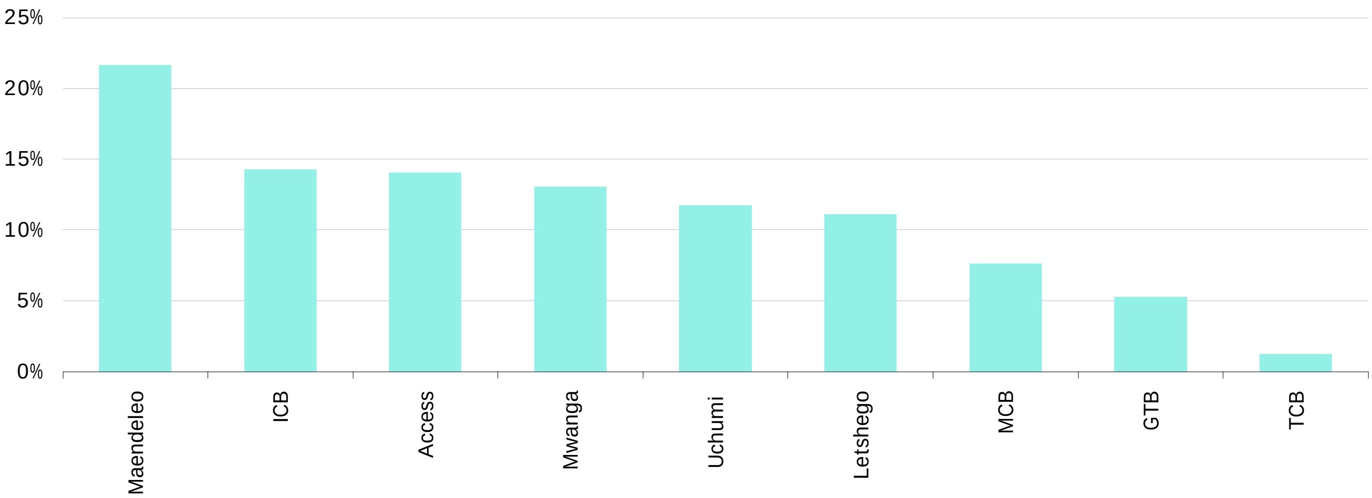


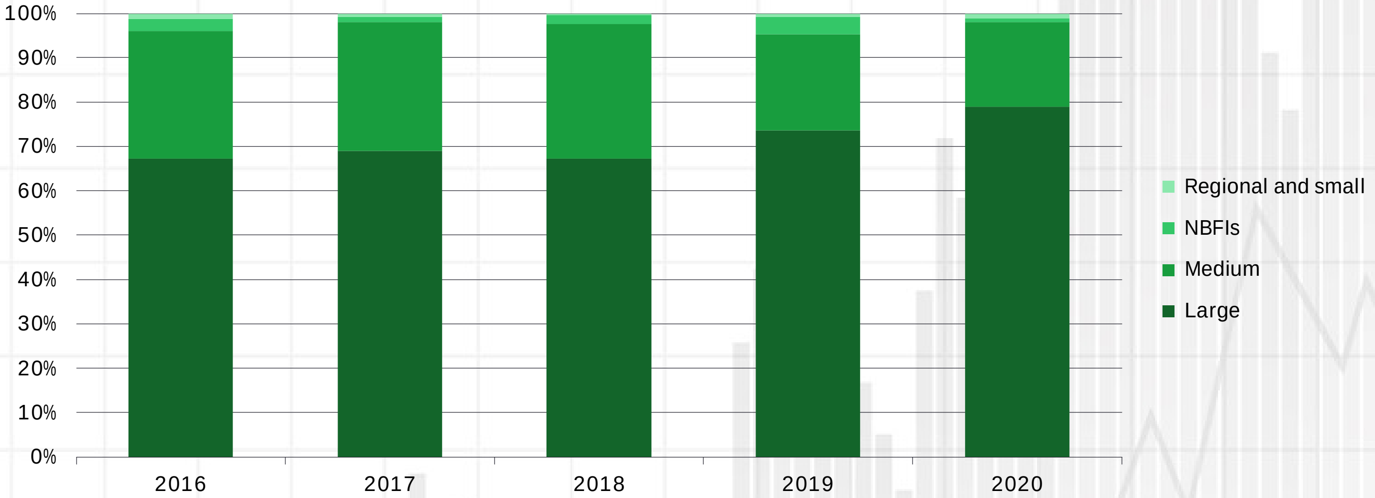
Figure 12: Share of total loans and advances to customers in regional and small bank



Market share of Customer Deposits

Large banks increasingly dominate customer deposits with the share of total deposits by large banks increasing to 79.0% in 2020 from 73.6% in 2019. As at 31 December 2020, two banks dominate the deposit market, accounting for 57.2% of the total customer deposits. Of the large banks, NMB and CRDB are tied in market share of deposits at 28.7% and 28.6% respectively.

Figure 13: Market share of customer deposits by type of bank



Market share of Customer Deposits

Figure 14: Share of customer deposits in large banks

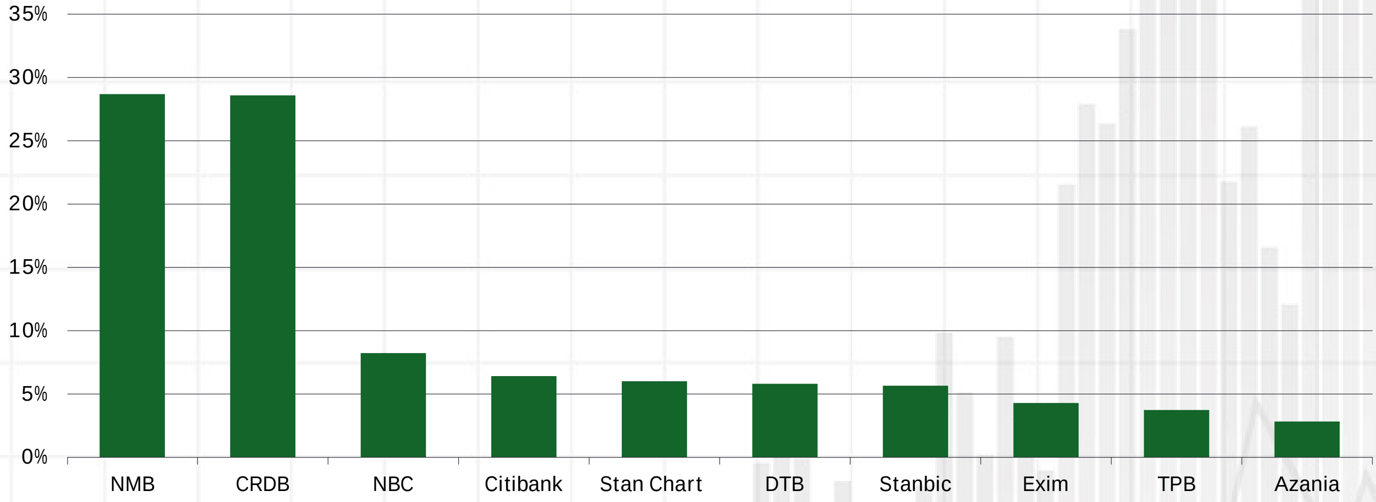


Figure 15: Share of customer deposits in medium banks

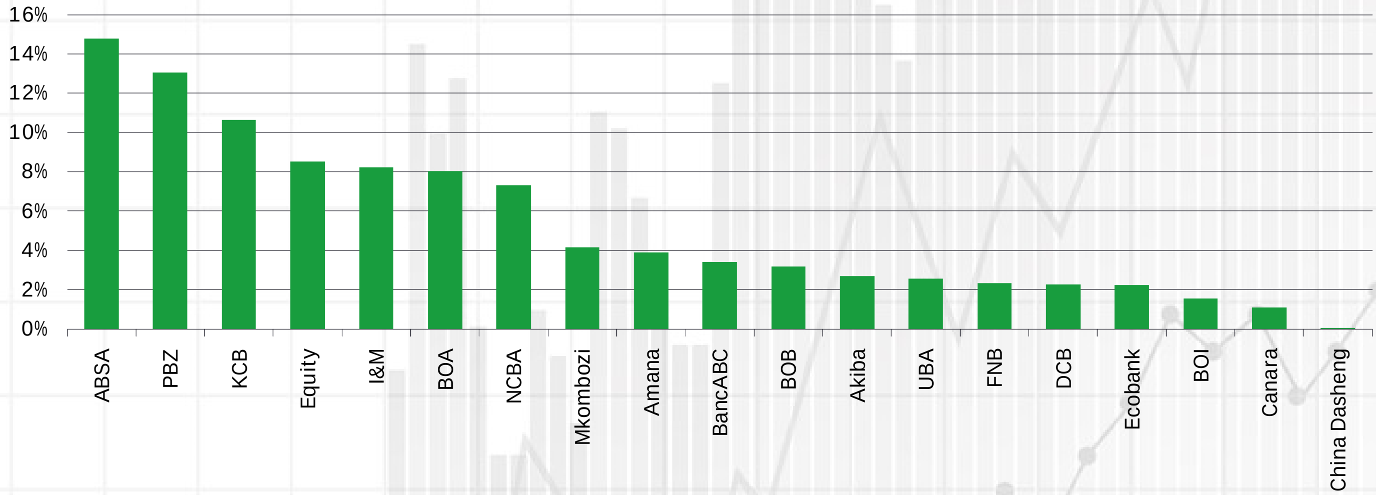
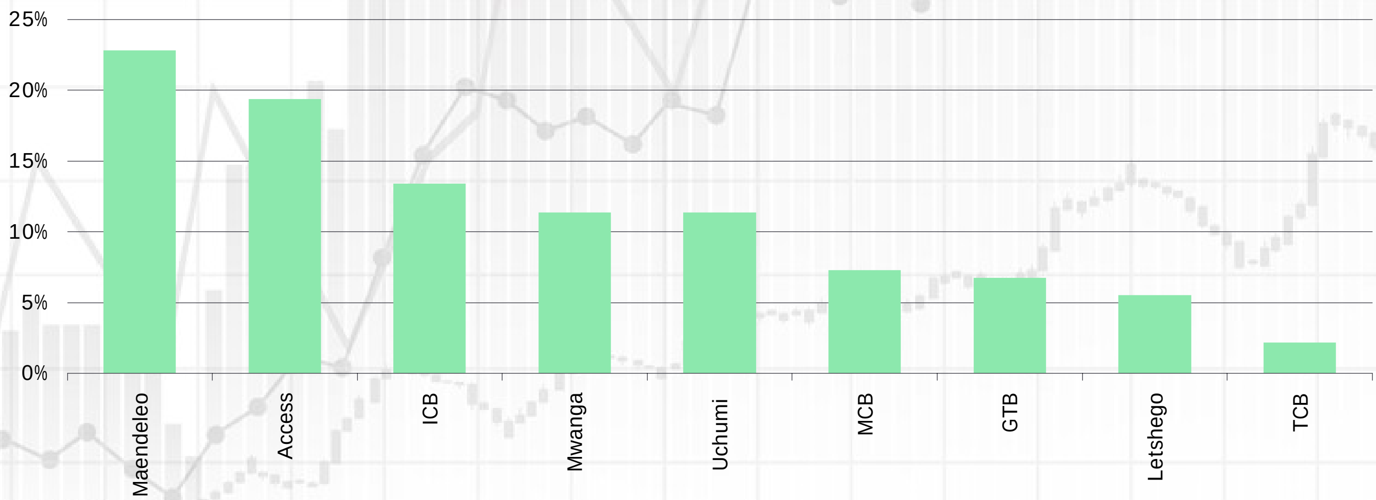


Figure 16: Share of customer deposits in regional and small bank



3

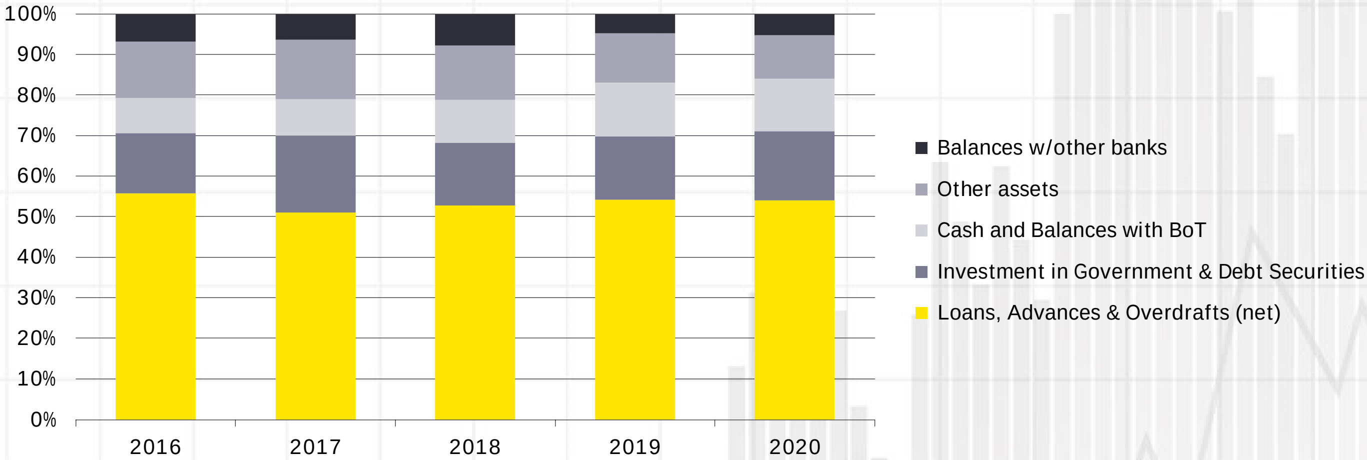
Asset Quality and Funding Structure

Asset Quality

Asset Composition

In 2020, the major components of the banking sector assets were loans, advances and overdrafts that accounting for 54.1% followed by investment in government and debt securities (17.1%), cash and balance with BOT (10.8%), balance with other banks (5.2%) and other assets (12.8%) of total assets.

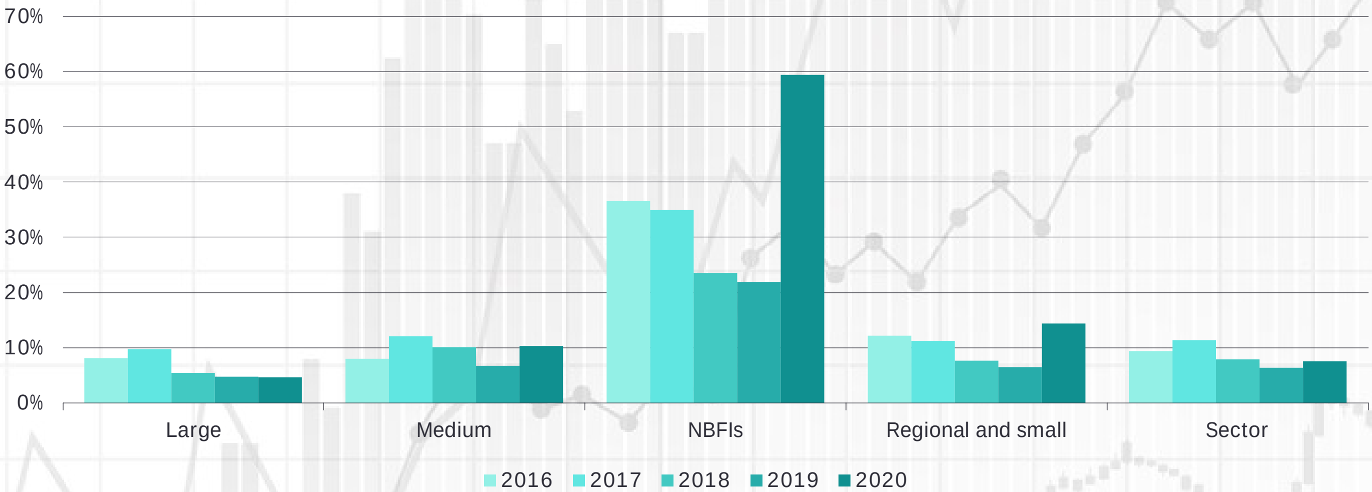
Figure 17: Asset composition of the banking sector



Asset Quality

Tanzania's banking sector saw an improvement in asset quality in the three years prior to 2020. Non-performing loans (NPLs) have ticked up in 2020 where the level of non-performing loans increased to TZS1.4t from TZS1.2t in 2019. The ratio of NPLs to gross loan also increased to 7.5% as at December 2020 from 6.4% recorded in December 2019.

Figure 18: Non-performing loans to gross loans and advances



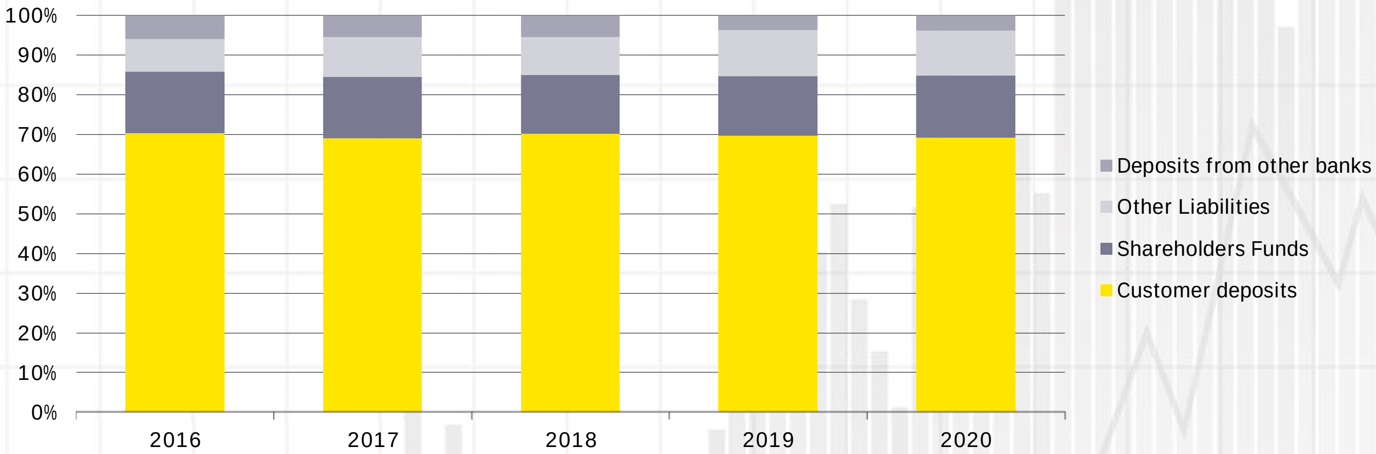
Funding Structure

Main sources of funding

The main source of funding in 2020 remain customer deposits, accounting for 69.2% (69.7% in 2019) of total funding sources, followed by shareholders' funds at 15.7% (15.0% in 2019). Other liabilities increased by 1.7% accounting for 11.2% of the total funding compared to 11.5% in 2019. Contribution of deposits from other banks increased slightly to 3.9% (3.8% in 2019) of the total funding sources.

Overall in past 3 years there has been a gradual decline in relative contribution of deposits from customers and an increase in reliance on funds from shareholders,

Figure 19: Composition of funding structure

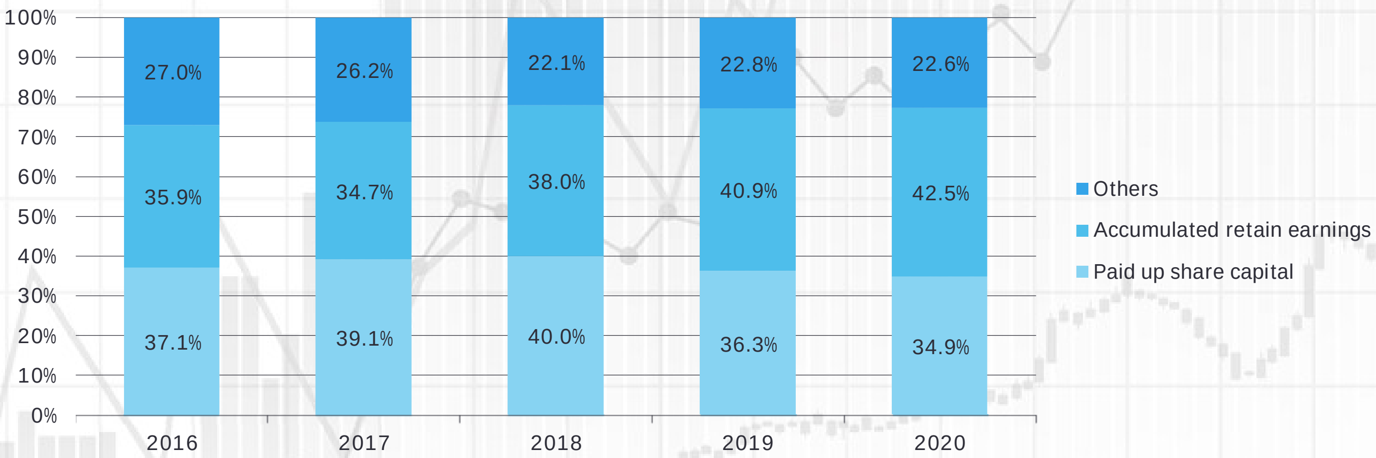


Capital Structure

During the year ended 31 December 2020, aggregate capital increased by 8.7% from TZS4 831b recorded in the previous year to TZS5 250b recorded in the year under review.

The general increase in capital and reserves is attributable to increase in accumulated retain earning from the profit earned in 2020 and capitalisation of medium, regional and small banks in efforts to meet capital adequacy requirements.

Figure 20: Capital structure of the banking sector




4
Profitability

Banking Sector Profitability

Earnings and Profitability

Sector profitability declined in 2020, with the average return on equity (ROAE) falling slightly to 7.5% from 7.8% in 2019. The ratio of non-interest expense to gross income was 54.4% in 2020 (56.6% in 2019).

The sector's interest margin marginally declined to 75.4% (75.7% in 2019) following a decline in yields on government securities in the period. Correspondingly, the net interest margin also declined to 8.2% compared to 8.8% recorded in 2019.

Further, the increase in NPLs to gross loan ratio from 6.4% in 2019 to 7.5% in 2020 contributed to the decrease in profitability.

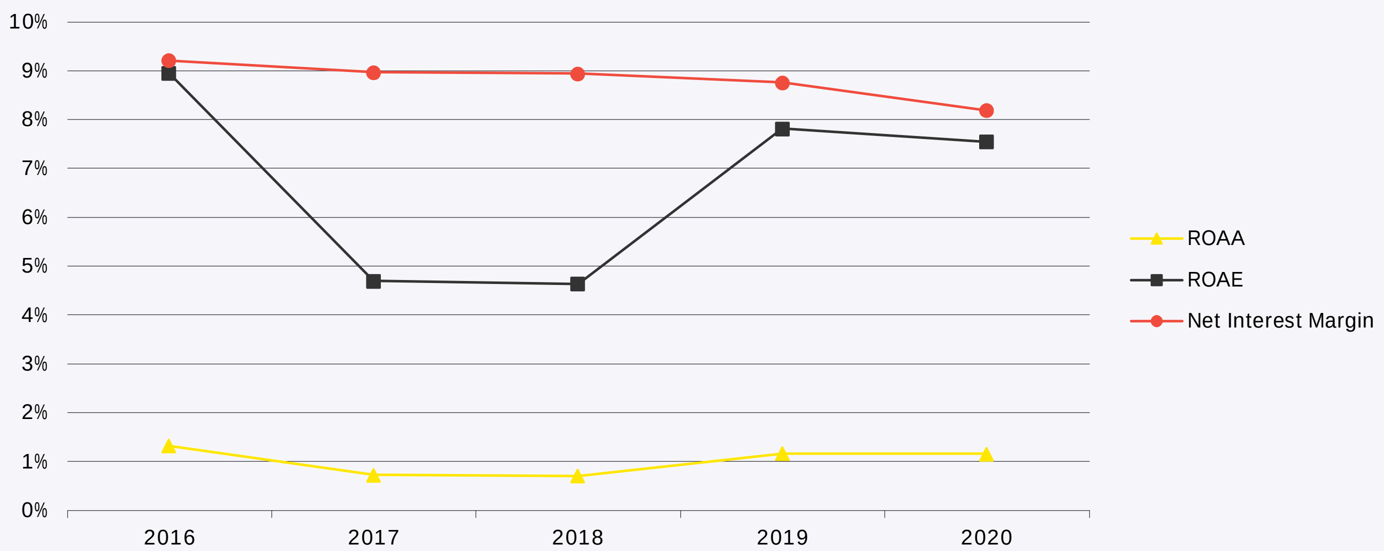
Table 5: Profitability and earnings ratio for 5-year period

Earnings and Profitability Ratios	2016	2017	2018	2019	2020
Non Interest Expense to Interest Income	66.3%	69.2%	74.8%	75.5%	73.8%
ROAA	1.3%	0.7%	0.7%	1.2%	1.2%
ROAE	8.9%	4.7%	4.6%	7.8%	7.5%
Non Interest Expense to Gross Income	50.9%	52.8%	56.5%	56.6%	54.4%
Gross Loans to Deposits	82.3%	78.1%	79.5%	81.0%	81.3%
Interest Income to Total Income	76.8%	76.2%	75.5%	75.0%	73.7%
Interest Margin	69.3%	68.7%	74.9%	75.7%	75.4%
Earning Assets to Total Assets	79.6%	79.1%	78.3%	79.8%	81.5%
Net Interest Margin	9.2%	9.0%	8.9%	8.8%	8.2%
Total Expenses to Interest Income	97.0%	100.6%	99.9%	99.8%	98.4%

Return on Average Assets and Equity

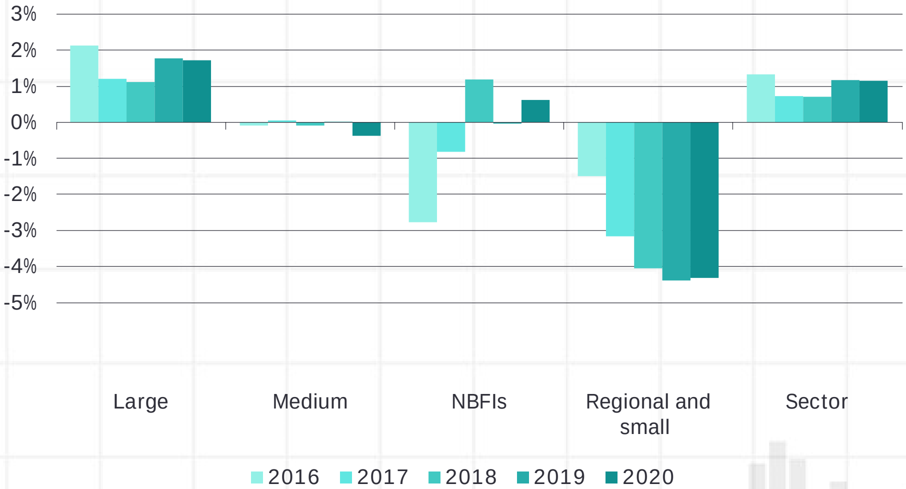
The banking sector return on average asset (ROAA) remained at 1.2% in 2020 (1.2% in 2019) while the return on average equity (ROAE) ratio decreased to 7.5% in 2020, compared to 7.8% recorded in 2019.

Figure 21: Selected profitability indicators



Profitability by Bank Type

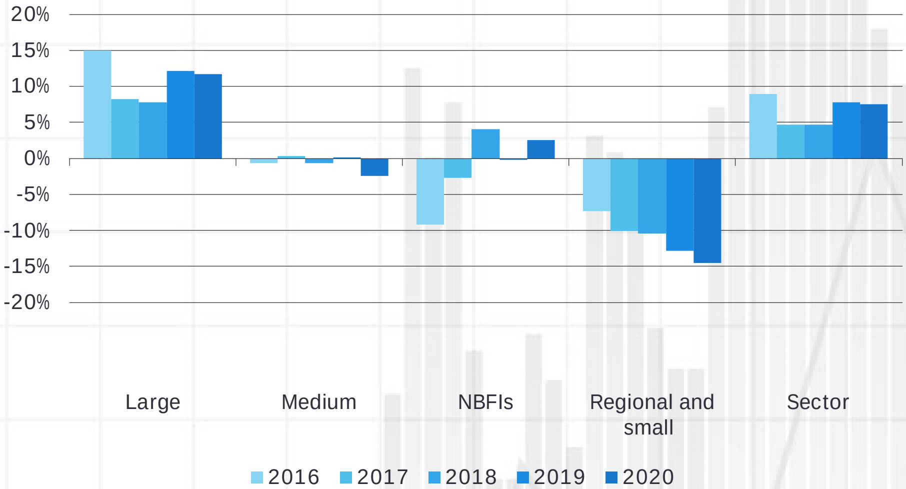
Figure 22: ROAA by bank type



Banks with highest ROAA	
Mwanga	8.0%
China Dasheng	3.9%
NMB	3.0%

Banks with lowest ROAA	
MCB	-11.8%
Access	-7.8%
Letshego	-7.3%

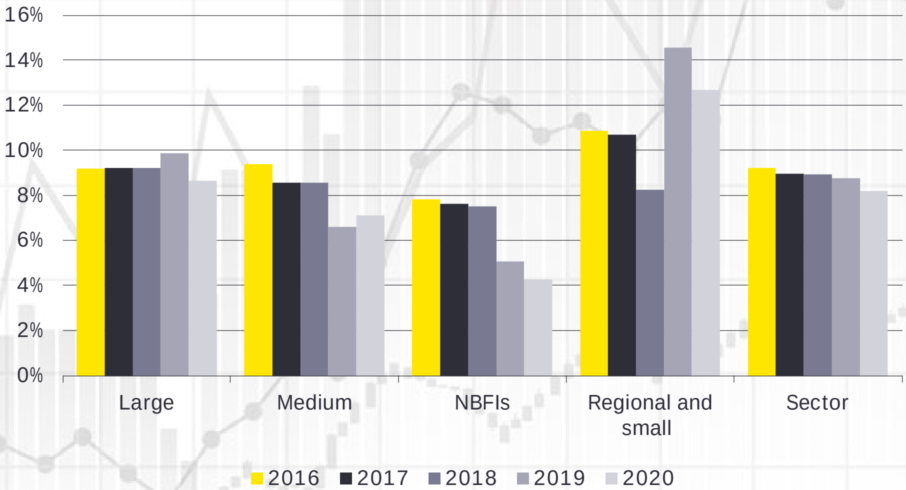
Figure 23: ROAE by bank type



Banks with highest ROAE	
Mwanga	34.7%
Mkombozi	20.6%
NMB	19.6%

Banks with lowest ROAE	
Ecobank	-49.1%
FNB	-40.6%
Akiba	-39.8%

Figure 24: Net interest margin by bank type



Banks with highest NIM	
Letshego	20.1%
Access	17.9%
Akiba	15.0%

Banks with lowest NIM	
Exim	1.8%
Citibank	2.0%
Ecobank	3.8%

5

Efficiency

Operating Efficiency

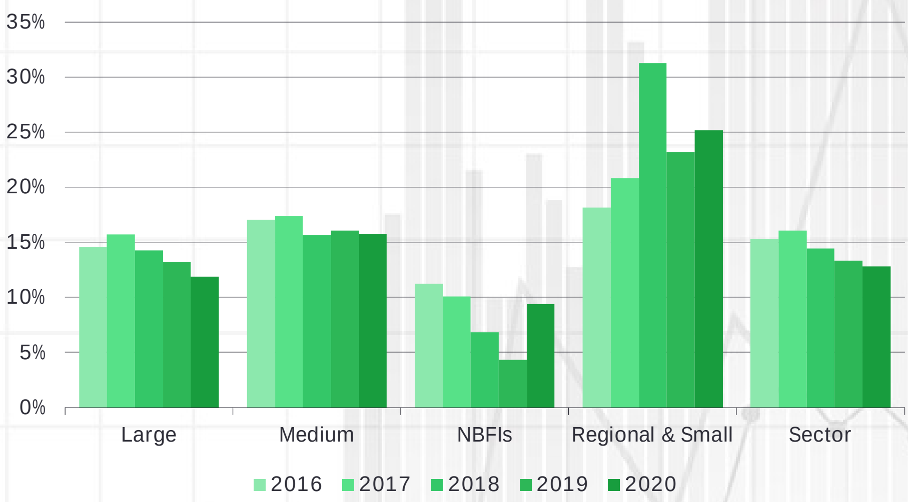
Operating Efficiency

Operating efficiency is defined as expenses to loan and advances. Overall, the sector's operating efficiency declined to its lowest levels in five years, measuring 12.8% in 2020 compared to 13.3% in 2019. Tanzanian banks have recorded consistent year-on-year improvements in operating efficiency ratios, indicating that their cost base is increasing at a slower rate relative to the loan book. Large banks, being able to benefit from larger economies of scale are the most efficient followed by medium-sized banks and NBFIs.

Table 6: Operating efficiency ratios

Efficiency Ratios	2016	2017	2018	2019	2020
Operating Efficiency	15.3%	16.1%	14.4%	13.3%	12.8%
Loan Portfolio per Staff (TZS Million)	892	904	950	1 016	1 095
Earnings per Staff (TZS Million)	33	20	24	36	39
Staff Income to Staff Portfolio	3.7%	2.2%	2.5%	3.5%	3.6%
Portfolio Yield	16.2%	16.7%	15.1%	13.8%	13.4%
Gross Yield on Earning Assets	13.3%	13.1%	11.9%	11.6%	10.9%
Rates Paid on Funds	3.9%	3.8%	2.9%	2.7%	2.7%
Portfolio Yield to Operating Efficiency	1.0%	0.7%	0.7%	0.5%	0.7%
Govt Securities as % Earning Assets	18.7%	24.0%	19.8%	19.8%	20.9%

Figure 25: Operating efficiency per bank type



Most efficient banks	
Exim	3.7%
Citibank	3.8%
BOB	6.2%

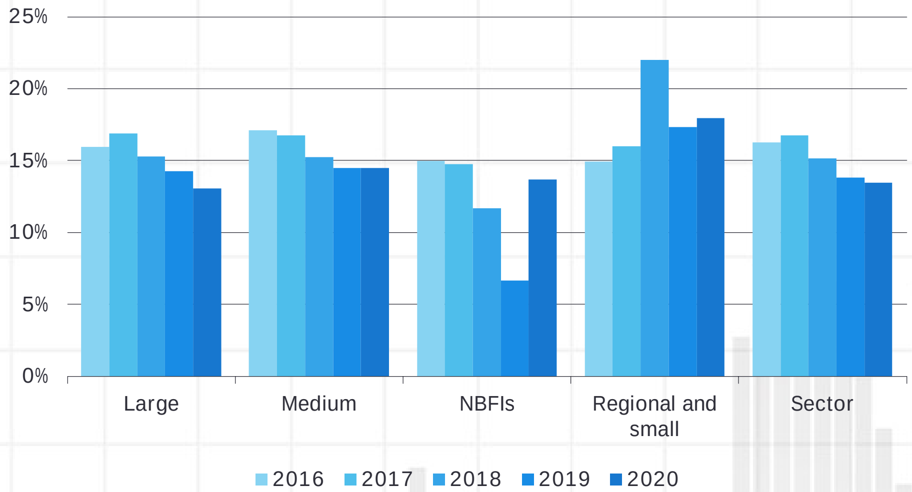
Least efficient banks	
Access	51.6%
Letshego	33.2%
Akiba	32.4%

Portfolio Yield

Portfolio Yield

Another measure of efficiency is the portfolio yield ratio. The yield is the ratio of interest income to bank loans and advances. The average portfolio yield in 2020 was 13.4%, down from the 13.8% recorded in 2019. Regional and small banks have the highest portfolio yield followed by medium and NBFIs. Overall, portfolio yields have declined since 2017 when portfolio yields were at the historical peak of 16.7%.

Figure 26: Portfolio yield per bank type



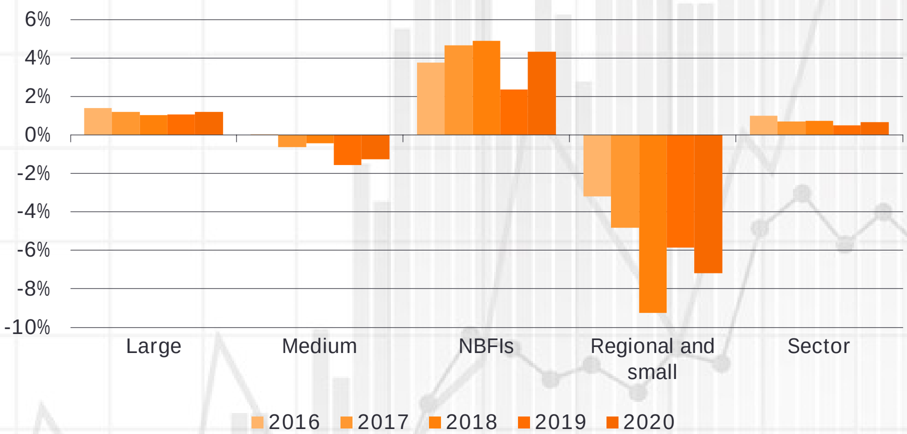
Banks with the highest portfolio yield	
Access	35.2%
China Dasheng	32.8%
Akiba	26.2%

Banks with the lowest portfolio yield	
Citibank	3.1%
Exim	3.7%
TCB	6.5%

Portfolio Yield to Operating Efficiency

Portfolio yield to operating efficiency compares the yield to the cost incurred in generating that yield. Ideally, the portfolio yield should be higher than the operating efficiency ratio. The sector's average yield to operating efficiency ratio for 2020 was 0.7% down from 0.5% recorded in 2019.

Figure 27: Portfolio yield to operating efficiency per bank type



Banks with the highest portfolio yield to operating efficiency	
China Dasheng	11.1%
TIB	7.4%
NMB	4.0%

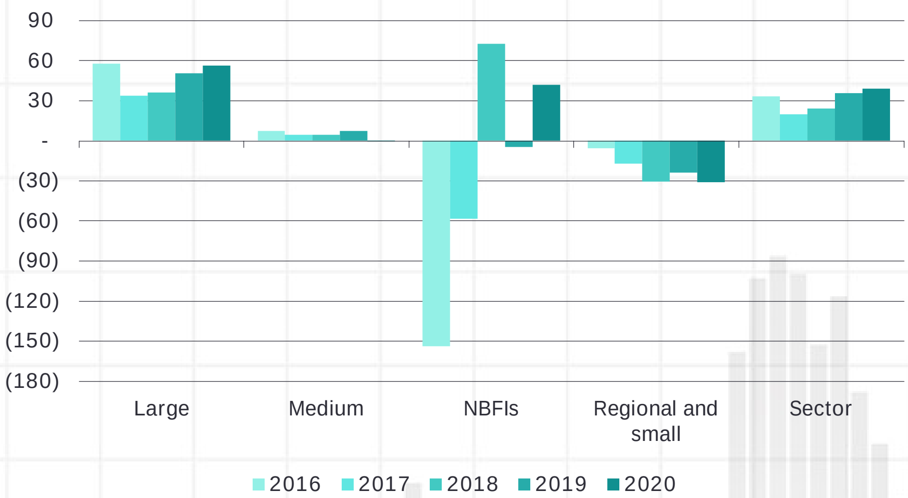
Banks with the lowest portfolio yield to operating efficiency	
GTB	-19.1%
Access	-16.4%
MCB	-16.1%

Staff Productivity

Earnings per staff

Earnings per staff increased from TZS35.6m in 2019 to TZS39.0m in 2020. Large banks have the most favourable ratio by a significant margin followed by NBFIs and medium banks. Regional and small banks recorded negative earnings throughout the period under review.

Figure 28: Earnings per staff per bank type



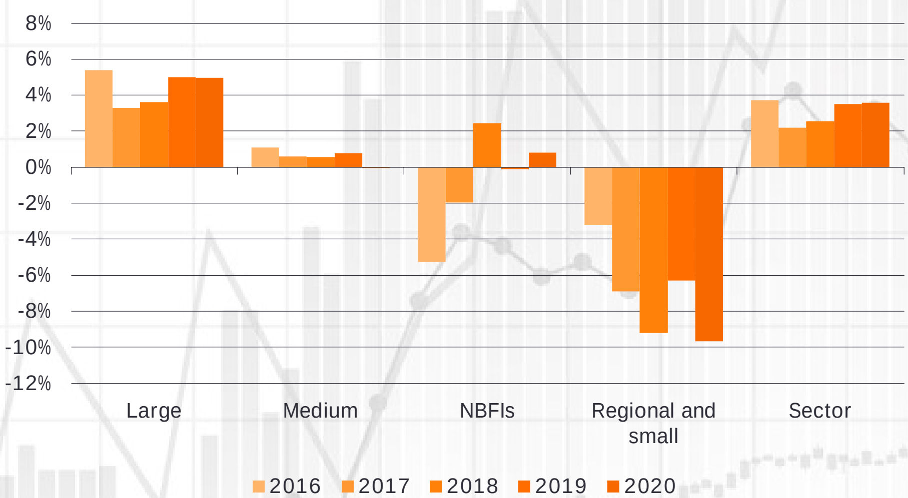
Banks with the highest earnings per staff (TZSm)	
China Dasheng	178.7
Stan Chart	116.4
BOB	109.4

Banks with the lowest earnings per staff (TZSm)	
FNB	(130.1)
Ecobank	(105.0)
ICB	(86.6)

Staff income to staff portfolio

This ratio theoretically shows how much each staff has contributed on average to the bank's earnings. In theory this suggests that a bank with a higher ratio has more productive staff. It's also based on relationship between earning per staff and loan portfolio per staff. Staff income to staff portfolio rose to 3.6% in 2020 from 3.5% in 2019. By bank group, large banks lead, with a 5.0% staff income to staff portfolio ratio, followed by medium banks. Regional and small banks recorded negative portfolio income per employee for five consecutive year due to negative profitability.

Figure 29: Staff income to staff portfolio

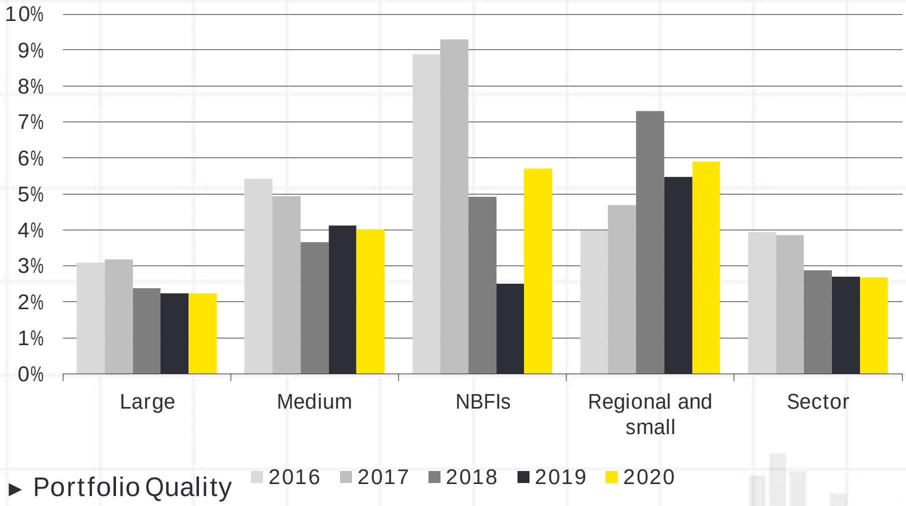


Banks with the highest staff income to staff portfolio	
China Dasheng	18.2%
Canara	10.7%
Mwanga	10.7%

Banks with the lowest staff income to staff portfolio	
Access	-26.5%
MCB	-23.0%
GTB	-23.0%

Average Deposit Rates

Figure 30: Average deposit rate by type of bank



Banks with the highest deposit rates	
Access	9.0%
BancABC	8.6%
Letshego	7.9%

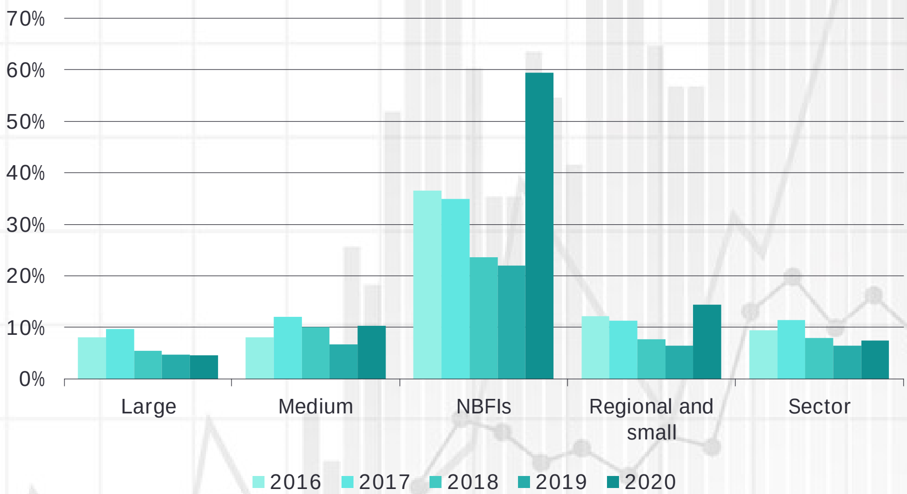
Banks with the lowest deposit rates	
TCB	0.6%
Exim	0.8%
Citibank	1.0%

▸ Portfolio Quality

The banking sector's asset quality has improved over the recent years. The improvement is largely due to various measures taken by the central bank, including the implementation of various policies and regulations seeking to safeguard the stability of the sector. Some of the measures include the flexibility on regulatory requirement for loan classification and restructuring as well as requiring banks and financial institutions to enhance credit-underwriting standards and loan recovery efforts. The central bank has also continued to strengthen risk management practices in the financial sector by requiring banks to improve credit underwriting standards using credit information reports from CRBs in loan application.

The sector’s non-performing loan ratio increased to 7.5% in 2020 from 6.4% in 2019.

Figure 31: Non-performing loan ratio by type of bank



6

Capital Adequacy and Liquidity

Capital Adequacy Ratios

Capital Adequacy

The sector remained adequately capitalized during the period under review. The ratios of core capital and total capital to total risk-weighted assets and off-balance sheet exposures were 16.9% and 20.7% in 2020 compared to 16.7% and 19.3% reported in the year ended December 2019, respectively.

The increase in capital adequacy ratios is partly attributable to retention of net income and additional capital injection relative to the growth in total risk-weighted assets. The ratios remained well above the statutory minimum requirement of 12.5% and 14.5%, respectively.

Table 7: Sector financial soundness ratios

Financial Soundness Ratios	2016	2017	2018	2019	2020
Non-Performing Loans to Gross Loans & Advances	9.4%	11.4%	7.9%	6.4%	7.5%
Total Capital to RWAs	19.9%	21.0%	18.7%	19.3%	20.7%
Core Capital to RWAs	16.6%	17.2%	16.3%	16.7%	16.9%
Interest Margin to Gross Income	53.2%	52.3%	56.5%	56.7%	55.6%
Liquid Assets to Total Assets	37.5%	42.4%	38.6%	37.2%	37.7%
Liquid Assets to Deposit Liabilities	46.1%	52.2%	47.1%	47.1%	47.8%
Total Capital to Deposit Liabilities	19.0%	19.1%	18.1%	19.0%	19.9%
Capital Adequacy	15.5%	15.5%	14.9%	15.0%	15.7%

Figure 32: Capital adequacy ratios

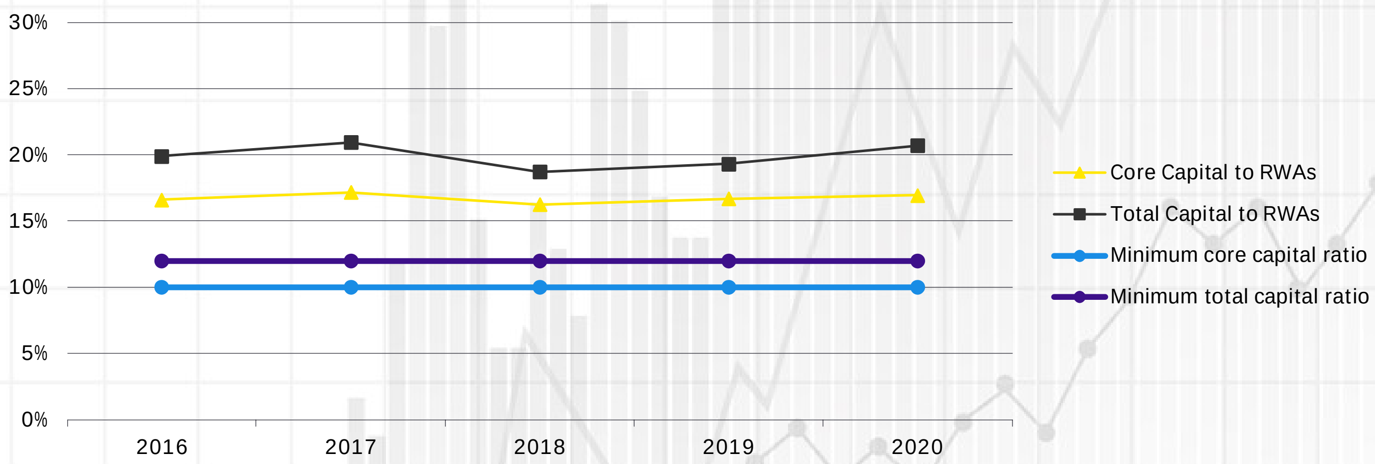
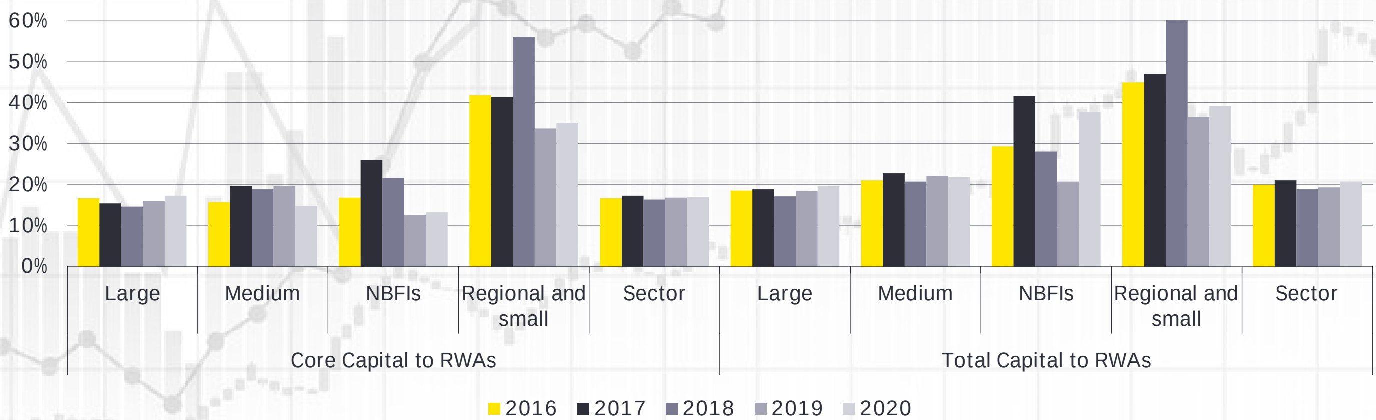


Figure 33: Capital adequacy ratios by type of bank



Liquidity

Liquidity

The sectors exposure to liquidity risk remained low. The ratio of liquid assets to demand liabilities stood at 47.8% (47.1% in 2019), considerably higher than the minimum limit of 20.0% and consistent with the increased allocation in government securities, cash, and balances with the central bank, providing sufficient buffer in the event of a liquidity shock.

The sector's overall ratio of liquid assets to total assets increased slightly to 37.7% in 2020 (37.2% in 2019).

Figure 34: Liquid assets to deposit liabilities by bank type

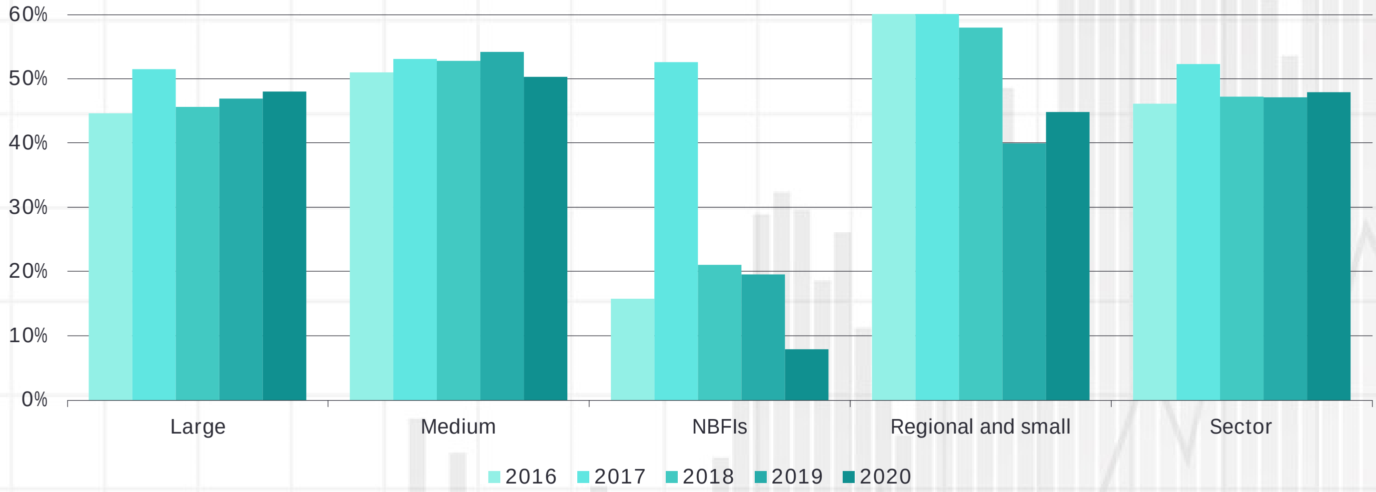
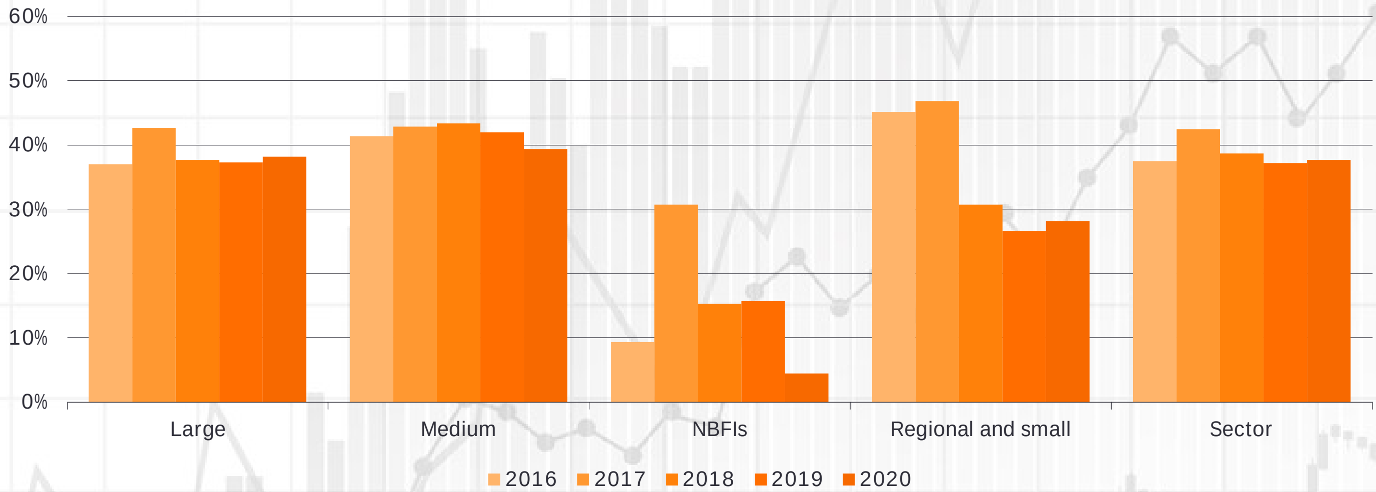


Figure 35: Liquid assets to total assets by bank type



7

Appendices

Appendix I: List of Financial Institutions

The report includes analysis of a total of 39 Tanzania institutions. The following is the full list of institutions mentioned in the report with the abbreviations used.

1	Access	Access Bank (T) Limited
2	Akiba	Akiba Commercial Bank Limited
3	Amana	Amana Bank Ltd
4	Azania	Azania Bank Ltd
5	BancABC	African Banking Corporation (T) Ltd
6	ABSA	Absa Bank Tanzania Limited
7	BOA	BOA Bank (T) Limited
8	BOB	Bank of Baroda (T) Limited
9	BOI	Bank of India (T) Limited
10	Canara Bank	Canara Bank (T) Limited
11	China	China Commercial Bank limited
12	China Dasheng	China Dasheng Limited Bank
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	I&M	I&M Bank (T) Limited
24	ICB	International Commercial 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	Mkombozi	Mkombozi Commercial Bank PLC
31	MUCOBA	Mufindi Community Bank Ltd
32	MHB	Mwanga Hakika Bank
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	TCB	Tandahimba Community Bank
41	TIB Development	TIB Development Bank Limited
42	TPB	Tanzania Postal Bank Ltd
43	UBA	United Bank for Africa (T) Limited
44	UBL	United Bank Limited (T) Limited
45	Uchumi	Uchumi Commercial Bank Ltd

Appendix II: Abbreviations

The following is the full list of abbreviations used and their description.

Abbreviation	Description
BMI	Business Monitor International Research
BOT	Bank of Tanzania
CRBs	Credit Reference Bureaus
GDP	Gross Domestic Product
Govt	Government
FBME	Federal Bank of the Middle East
FSAP	Financial Sector Assessment Program
FIs	Financial Institutions
IMF	International Monetary Fund
IT	Information Technology
MNO's	Mobile Network Operators
NBFIs	Non Banking Financial Institutions
NBS	National Bureau of Statistics
NIM	Net Interest Margin
NPLs	Non-Performing Loans
P&L	Profit and Loss
ROAA	Return on Average Assets
ROAE	Return on Average Earnings
RWAs	Risk Weighted Assets
T-Bill(s)	Treasury Bills
T-Bond(s)	Treasury Bonds
TMRC	Tanzania Mortgage Refinance Company
TRA	Tanzania Revenue Authority
TZS	Tanzania Shillings
TZSb	Tanzania Shillings in Billions
TZSm	Tanzania Shillings in Millions
USD	United States Dollar
US$	United States Dollar
WB	World Bank

Appendix III: Ratio Calculations and Definitions

Efficiency Ratios

- Operational Efficiency (%): Non-Interest Expense + Interest Expense/Loans & 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.
- Average Loan Portfolio: The loans and advances for the current and preceding period divided by 2. To show the increase/decrease in loan portfolio over the period under review.
- Loan Portfolio per Staff: Loans & Advances + Probable Losses/by number of staffs. To show theoretical staff productivity in terms of amount of loans per staff.
- Income to Staff: Profit before tax/number of staffs. To show, again theoretically, how much each staff has contributed to the bank's earnings.
- Staff Income to Staff Portfolio (%): The result of earnings to staff (4, above) as a % of result of portfolio to staff (3). To show how much each staff has contributed on average to the bank's earnings. In theory this suggests that a bank with a higher ratio has more productive staff.
- Portfolio Yield (%): Interest Income/Loans & Advances. To tell us what the portfolio actually earned. Ideally this should be at least equal to (and preferably better than) the bank's annual interest rate. A yield lower than the interest rate means there are one or a number of inefficiencies. (Note: the interest income figure may also include interest earned from non-lending sources).
- Gross Yield on Earning Assets (%): Interest Income /Earning Assets: Shows the gross interest income earned from all earning assets. This % can be compared to other investments such as Treasury Bills.
- Rates Paid on Funds (%): Interest expense/Customer Deposits. Basically, this gives the average deposit interest rate paid by the bank on customer deposits (Note: the interest expense may include interest on other borrowed funds).
- Portfolio Yield to Operating Efficiency (%): The result of the Portfolio Yield (6) minus the result of the Operating efficiency (1). The yield is compared to the costs incurred (operating efficiency %) to generate that yield. The yield % should obviously be higher than the Operating efficiency %.
- Government Securities to Earning Assets (%): Shows to what extent Earning Assets are made up of Government Securities (as opposed, for example, to loans and advances).
- Loans & Advances to Total Assets (%): Loans & Advances as a % of total assets.

Appendix III: Ratio Calculations and Definitions

Profitability and Earnings Ratios

- Return on Total Assets (%): Using profit after tax, to show the returns generated by the bank's assets.
- Return on Total Equity (%): Using Shareholders' funds, to show the return to Shareholders from the bank's operations.
- Interest Margin to Earning Assets (%): This is also known as Net Interest Margin and is Interest Income-Interest Expense/Average Earning Assets. Shows the net interest income earned on the bank's earning assets.
- Non-Interest Expense to Interest Income (%): To show how much non-interest expense would 'eat' into interest income especially if interest income was the bank's only income source. In other words, is the bank earning enough from its main source of income to cover other major (non-interest) expenses.
- Non-Interest Expense to Total income (%): To show the extent to which non-interest expense would 'eat' into total income.
- Gross Loans to Deposits (%): Loans and Advances + Probable Losses/Customer deposits.
- Interest Income to Total income (%): To show the extent to which interest income is the bank's major source of income (as it should be).
- Interest Margin (%): Interest Income-Interest Expense/Interest Income: This shows the bank's net interest income. The higher the interest margin % the more efficient is the bank's interest policy.
- Earning Assets to Total Assets (%): To show the composition of the bank's assets and if most of them are earning assets and how efficiently and productively the bank uses those earning assets.
- Total Expenses to Interest Income (%): To show the extent to which the bank's interest income covers total expenses if, hypothetically, assuming that interest income was the bank's only source of income.
- Interest Margin to Gross Income (%): Interest Margin/Interest and Non-interest income. To demonstrate how much of the bank's net interest earnings made up total earnings.

Appendix III: Ratio Calculations and Definitions

Financial Soundness Ratios

- Non-Performing Loans Ratio (%): Non-performing loans/loans & advances + probable losses. Tells how well the bank is managing its loan portfolio. The lower the % the better managed the portfolio.
- Capital to Risk Weighted Assets Plus Off-Balance Sheet Exposures (%): Shows the degree to which creditors are covered first, by Total capital and then by Core Capital only.
- Liquid Assets to Total Assets (%): To show the extent of the bank's liquidity. To be compared to the BOT minimum.
- Liquid Assets to Deposit Liabilities (%): To show how much liquid assets the bank has to cover Customer deposits e.g. in the event of a 'run on the bank'.
- Total Capital to Deposit Liabilities (%): Shows how much cover there is from total capital on all the bank's Deposit liabilities.
- 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
- RWAs – 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% + Inter-branch 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 IV: List of Tables

Appendix V: List of Figures

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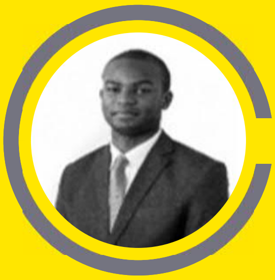

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