Tanzania Banking Sector Report

A Review of the Calendar Year 2022

EY
Building a better working world

Contents

FOREWORD

I am delighted to present to you this comprehensive report on the Tanzania banking sector. This report aims to offer a thorough analysis and invaluable insights into the present condition and emerging trends within the banking industry in this dynamic market, covering the period 1st January to 31st December 2022.

The banking sector plays a pivotal role in driving economic growth, facilitating financial inclusion, and fostering socio-economic development. As Tanzania continues to make significant strides in its journey towards becoming a middle-income country, the banking sector remains a key pillar in supporting the country's aspirations.

Over the years, Tanzania's banking industry has witnessed remarkable growth and transformation. The sector has evolved from its early days of traditional banking to a more technologically advanced and innovative landscape. The banking sector has witnessed an increase in competition amongst players and an improvement in access to financial services by citizens. This is against the backdrop of expanding bank and financial institutions networks and divers banking products and services.

This report endeavors to provide a comprehensive overview of the banking sector, covering aspects such as market structure, regulatory environment, emerging trends, challenges, and opportunities. The report will offer valuable insights to policymakers, industry stakeholders, investors, and researchers who seek to understand the dynamics of the Tanzanian banking landscape and its potential for growth.

This report also outlines the impact of data protection policies on the banking sector and how economic, social and governance (ESG) considerations are delivered in financial services.

It is my hope that this report serves as a valuable resource, guiding stakeholders in making informed decisions, fostering dialogue, and propelling the Tanzanian banking sector towards sustainable growth and development. Together, let us seize the opportunities and address the challenges to build a robust and inclusive financial ecosystem that contributes to Tanzania's socio-economic progress.

Joseph Sheffu

Country Leader

EY Tanzania

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Executive Summary

Executive Summary

The Tanzania Banking sector demonstrated resilience, adaptability, and proactiveness in the financial year 2022 despite various challenges such as rising inflationary pressure due to geopolitical pressure in Eastern Europe which disrupted global supply chains while economies were still rejuvenating from COVID-19.

Executive Summary

- The primary focus of our 2022 banking sector report is on the analysis of performance indicators within the industry, data protection and ESG considerations offering valuable insights to enhance the collective knowledge base.
  - **Total Assets:** The banking sector demonstrated impressive growth, with total assets reaching TZS 46.0 trillion. This represents a substantial increase of 17.3% compared to the previous year. The expansion of total assets is the sector's resilience and ability to attract investments, reflecting positive market sentiment and confidence in the Tanzanian economy.
  - **Customer Deposits:** The total value of customer deposits increased by 11.4% to TZS 30.6 trillion in 2022 with CRDB Bank Plc and NMB Bank Plc contributing almost 49.2% of the total deposits. The growth in customer deposits demonstrated the growing trust and confidence individuals and businesses have in the banking sector. The growth implied the increase in financial inclusion and the importance of banking services in facilitating savings and fostering economic stability.
  - **Loans, Advances, and Overdrafts:** The banking sector demonstrated a remarkable surge in lending activities, with the total value of loans, advances, and overdrafts reaching TZS 26.0 trillion representing a 24.9% growth compared to the previous year. The increase in lending activities showcases banks' efforts to provide access to credit, support investment opportunities, and fuel economic growth. Banks with the highest growth in loans and advances during the period included CRDB, NMB, NBC, Stanbic and Azania at 25.8%, 23.2%, 6.8%, 4.2% and 3.7% respectively.
  - While this growth in lending activities presents significant opportunities, it is imperative to carefully consider the associated challenges and risks that arise in tandem. Factors such as regulatory frameworks, risk management practices, and cybersecurity concerns must be given due attention to safeguard the stability and integrity of the banking sector.
  - In line with the growing importance of data protection and privacy, banks are now required to adhere to the provisions set forth by the Data Protection Act of 2022. This legislation necessitates the implementation of robust data protection measures. By complying with the Data Protection Act, banks can ensure the confidentiality of customers' personal and financial information, preventing unauthorized access or misuse.
  - Furthermore, in a commendable move, banks have began aligning themselves with sustainable development goals, actively promoting environmentally friendly practices, and addressing pressing social issues such as financial inclusion and community development. By embracing sustainability as a core principle, banks contribute to the preservation of the environment while also supporting efforts to provide financial services to underserved populations.

Key highlights

TZS46.0t (up by 17.3%)

Total value of assets

TZS30.6t (up by 11.4%)

Total value of customer deposits

TZS26.0t (up by 24.9%)

Total value of loans, advances and overdrafts

> *"The banking sector was adequately capitalized, liquid and profitable during the period July 2022 to April 2023, thus facilitating the smooth conduct of monetary policy. The sector continued to leverage technology in financial services delivery that contributed to a growing level of deposits and assets, while remaining resilient to internal and external shocks."*

Monetary Policy Statement, Bank of Tanzania, June 2023.

Segmentation

EY's 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 Bank of Tanzania (BOT's) Annual Report 2021/2022, as at the end of June 2022, the number of supervised institutions was 61. The supervised institutions comprised 46 banking institutions and 15 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 did not include microfinance banks and non-deposit taking institutions.
- Our review cover 41 licensed institutions comprising of 34 commercial banks, 2 development finance banks and 5 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.
- Our segmentation and categorization of banking institutions is based on the market value of total assets as at the end of 2022.
- Our analysis is based on the review of audited financial statements for the year ended 31st December 2022. We have relied on published unaudited financials for the following banks as we could not obtain audited financial statements; DCB, Uchumi, Mkombozi and Mucoba. As such, our analysis presents indicative figures for the sector.
- The legal names for the adjacent entities are presented in the abbreviations section in appendices.

Large
ABSA
Azania
Citibank
CRDB
DTB
Exim
KCB
NBC
NMB
PBZ
Stan Chart
Stanbic
TCB

Regional & Small
GTB
ICB
KCBL
Letshego
MCB
MUCOBA
TACOBA
Uchumi

Medium
Akiba
Amana
Banc ABC
BOA
BOB
BOI
Canara
China Dasheng
DCB
Ecobank
Equity
Habib
I&M
Maendeleo
MHB
Mkombozi
NCBA
UBA

NBFIs
TADB
TIB Development

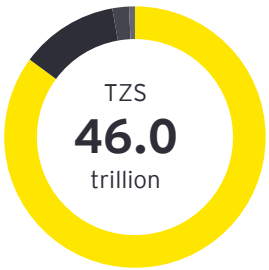
Banking Sector Overview

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

Our review covers 41 licensed institutions comprising of 34 commercial banks, 2 development finance banks and 5 regional and community banks, all categorized as large, medium, regional, and small and non-bank financial institutions in our analysis. Our review did not include microfinance banks and non-deposit taking institutions.

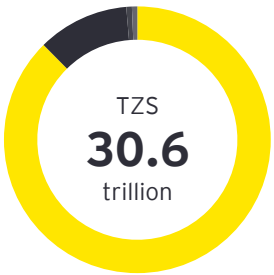
13	18	8	2
Large	Medium	Regional and Small	NBFIs

Market share of total assets



Market share of loans and advances

Market share of customer deposits



- Tanzania's banking sector remains resilient and continues adapting to an ever-changing environment. The sector is forecast to flourish as supported by the country's forecast real GDP of $316 billion in 2028 according to the IMF (*World economic outlook report, April 2023).*
- After witnessing a slower growth of total asset in 2021, Tanzania's fragmented banking sector had an acceleration in 2022 as the country's economy stabilized from the Covid-19 pandemic.
- The implementation of BOT policy measures introduced in 2021 to promote credit to private sector and lowering interest rate by reduction of statutory minimum reserve (SMR) requirement and Introduction of special loan amounting to TZS 1.0 trillion to banks have led to improvement in banking sector performance in 2022.
- Ongoing efforts to improve banking sector supervision are likely to ensure that banks' average capital ratios remain strong in the coming years.

Key highlights

~17.3% (2021: 14.6%)

Growth in total assets

~11.4% (2021: 17.1%)

Growth in customer deposits

~24.9% (2021: 13.0%)

Growth in loans and advances to customers

16.8%	2.1%	13.4%	4.8%	8.0%	87.8%
Capital Adequacy	ROAA	ROAE	NPL	Net Interest Margin	Loan to Deposit

Special Topic

ESG and the future of banking industry

ESG considerations have gained prominence globally as investors, regulators, and customers recognize the importance of sustainable and responsible business practices. The financial sector in Tanzania is no exception and has aligned itself with international standards and local regulations for economic and social development by embracing ESG principles. Regulatory reforms in the banking industry aim to enhance financial stability, increase access to financial services and promote sustainable economic growth. Key developments in Tanzania in the recent years include the following:

The National Board of Accountants and Auditors (NBAA) issued the Tanzania Financial Reporting Standard 1 (TFRS 1) - Report by Those Charged with Governance, effective from January 1, 2021. This standard provides guidelines and criteria for reporting on governance-related matters, ensuring transparency and accountability in financial reporting practices across the country. Additionally, guidelines on corporate governance practices for listed companies in Tanzania, based on Section 10 (d) of the Capital Markets and Securities Act, 1994, operate on a "comply or explain" basis, serving as the benchmark for corporate governance standards.

Sustainability reporting enhances the effectiveness and relevance of organizations' decision-making processes. As a partner exchange to the United Nations Sustainable Stock Exchanges (UN-SSE) Initiative, the Dar es Salaam Stock Exchange (DSE) actively encourages listed companies to disclose pertinent ESG information. In line with this commitment, the DSE published its inaugural sustainability report, which highlights the implementation of the Sustainable Development Goals (SDGs) in 2021. Moreover, the DSE has issued ESG Reporting Guidance and conducted capacity-building sessions to raise awareness and facilitate the transition towards mandatory sustainability reporting.

In February 2022, the Capital Markets and Securities Authority (CMSA) approved the issuance of the NMB Jasiri Bond, marking it the first social bond in Tanzania and sub-Saharan Africa with a focus on advancing gender equality and women's economic empowerment. The bond's framework aligns with the Social Bond Principles administered by the International Capital Markets Association (ICMA) standards. The NMB Jasiri Bond garnered substantial investor interest, being oversubscribed by 197 percent and attracting both local and foreign capital. This achievement has positioned Tanzania among the select few markets globally to have successfully issued and listed a gender bond.

In March 2022, the DSE introduced specific rules governing the issuance, listing and reporting of sustainability-themed financial instruments. Among these instruments is the introduction of the "Sustainable Bond" under Cap. 212, making Tanzania the fourth country in Africa, after Kenya, South Africa, and Nigeria, to have national guidelines specifically tailored for these types of bonds. Going forward, these rules will serve as guidelines for listed companies, including banks interested in issuing green, social, or social-sustainability bonds.

The DSE's new rules go beyond customary and regulatory disclosure practices by emphasizing holistic reporting that encompasses social and environmental aspects. Listed financial institutions are encouraged to disclose their sustainability policies, including risk mitigation, performance data, and other material information that enhances stakeholders' understanding of corporate performance.

To address climate-related financial risks within the banking sector, the (BOT) released guidelines in 2022. These guidelines establish the BOT's expectations regarding the prudent management of climate-related financial risks, aiming to enhance the resilience of the banking sector against physical and transition risks. The guidelines provide a framework for banks and financial institutions to adopt appropriate measures and strategies to mitigate the potential impacts of climate-related risks on their operations and the broader financial system.

Furthermore, the IFRS Foundation's International Sustainability Standards Board (ISSB) introduced two standards, IFRS S1 and IFRS S2, in June 2023. These standards are expected to transform the sustainability reporting landscape once they are adopted by regulators worldwide. IFRS S1 will mandate companies to disclose sustainability-related financial information, while IFRS S2 will require specific climate-related disclosures.

The introduction of these standards represents a crucial milestone towards globally recognized and consistent sustainability reporting practices. By promoting greater transparency and accountability, these standards will significantly contribute to the advancement of corporate sustainability efforts in Tanzania and its banking sector.

Sustainability reporting enhances the effectiveness and relevance of organizations' decision-making processes.

ESG and the future of banking industry

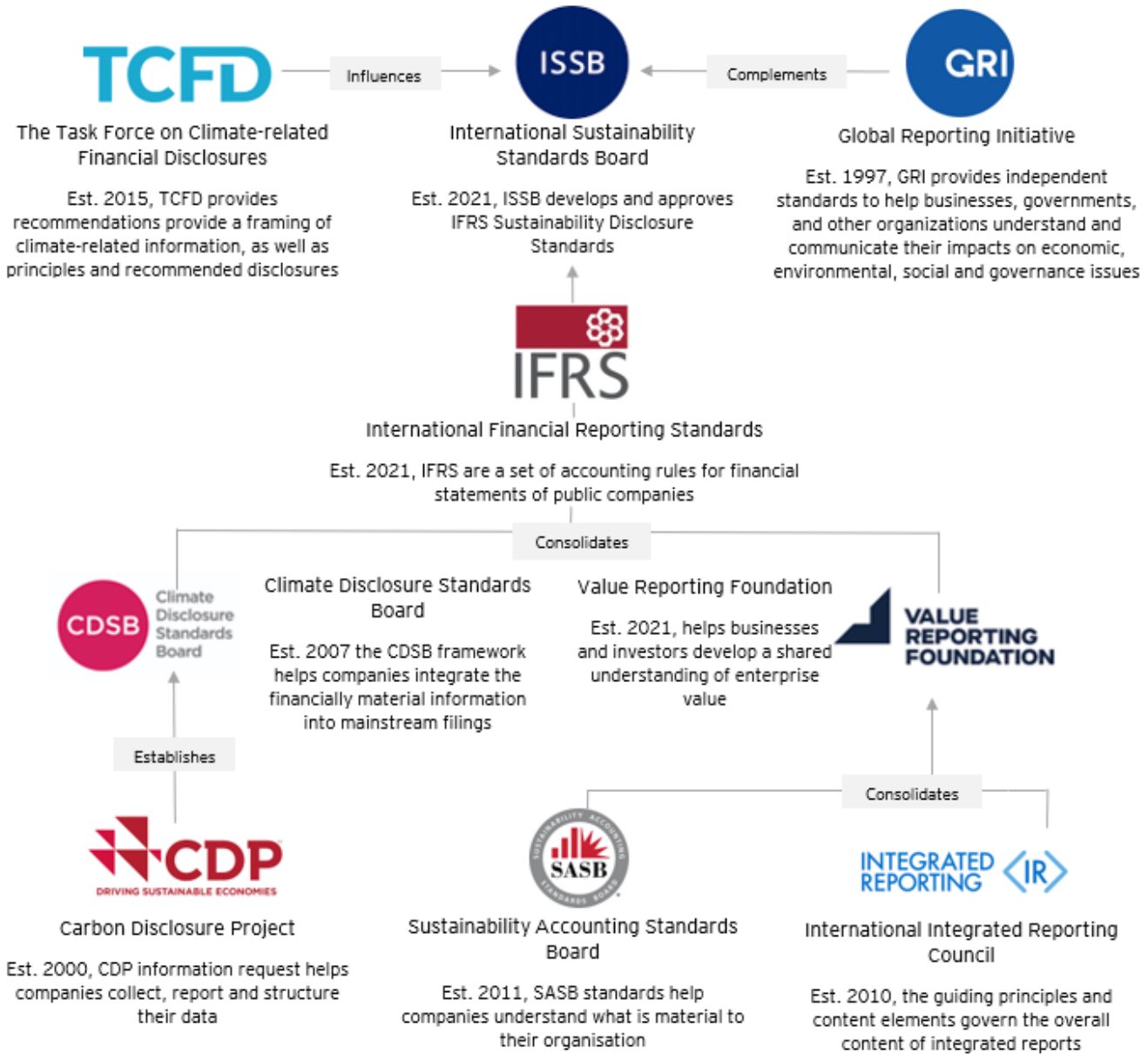


Figure 1: Convergence of Voluntary Sustainability Disclosure Standards

Special Topic

Data protection

Personal Data Protection (PDP) Act was passed by the parliament in November 2022 and came to effect in May 2023 as per notice from the Ministry of Information and Communication who were given the mandate to state the effective date. The Act sets minimum requirements for the collection and processing of personal data in Tanzania.

Undeniably, the protection of personal data existed before the enactment of the Act. The Cybercrime's act, 2015, the anti-money laundering act, 2006 and the Bankers' duty of confidentiality to customer (Banking and financial institutions act section 48) all addressed data protection before the PDP act enactment.

The Act applies to both public and private institutions with the responsibility to collect and process personal data in Tanzania.

Upon violation of the act, victims can issue complaints to the Personal Data Protection Commission. The commission upon accepting the complaint as viable, will conduct a thorough investigation. Penalties will be involved where the respective party has failed to remedy the violation within the given period.

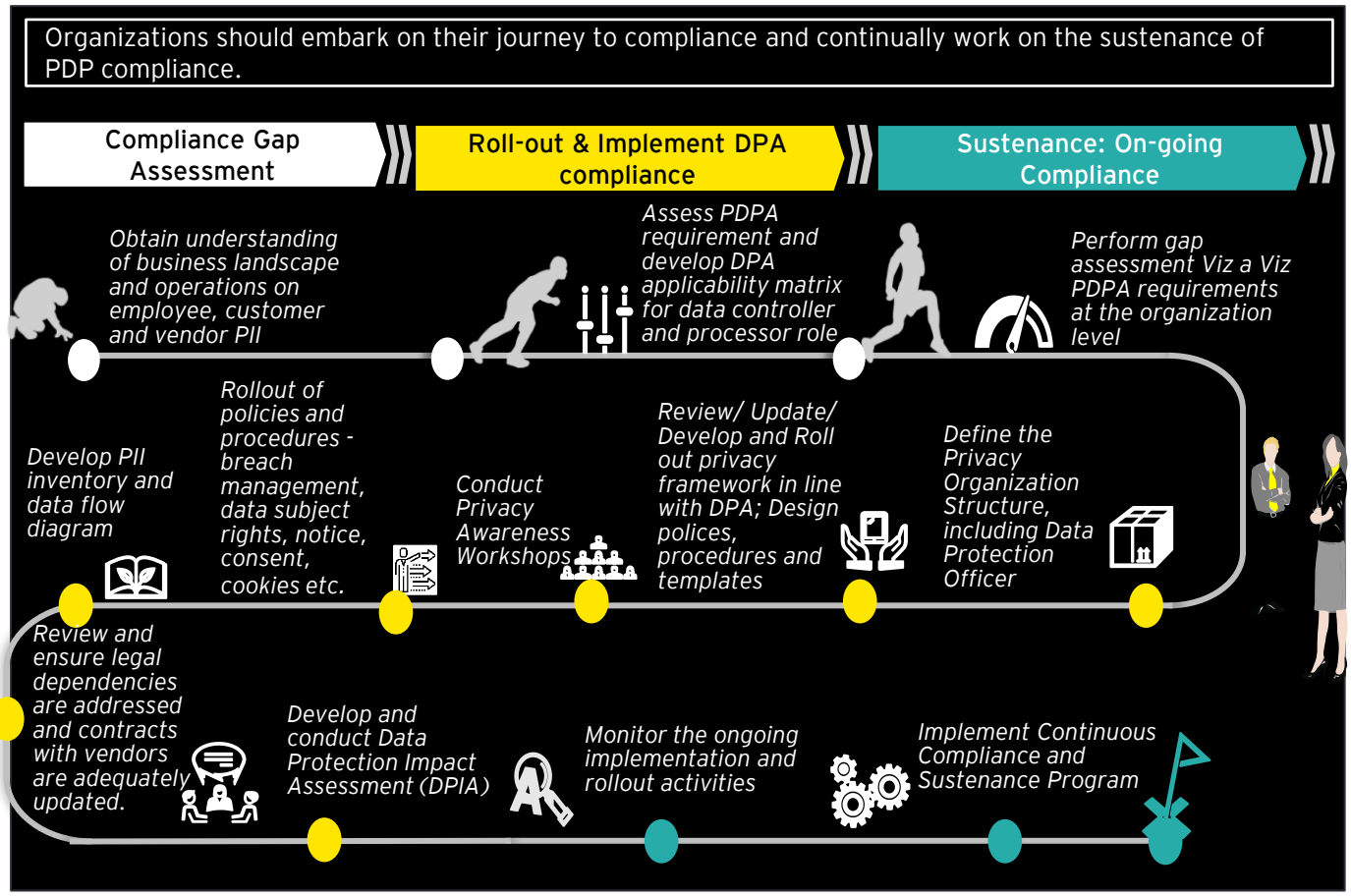
To banks, the Act requires customers be given permit to exercise their data privacy rights such as access, rectification, deletion, or restriction of the processing of their personal data along with data protection policies.

Banks need to obtain explicit consent from customers before collecting and processing their personal data. Banks are required to implement appropriate security measures to protect customers' personal data from unauthorized access, loss, or misuse. This may include encryption, access controls, firewalls, and regular data backups. Banks need to ensure that their IT and infrastructure systems are secure and regularly audited to identify and address vulnerabilities.

Data protection officers should be appointed along with regular audit assessments, data minimization/ retention and cross border data transfers.

It is recommended to refer to the act and consult legal professionals, IT consultants or regulatory authorities for precise and updated guidance on data protection obligations and walkthrough journey on compliance to the new act.

The Journey to Personal data protection (PDP) Act compliance.



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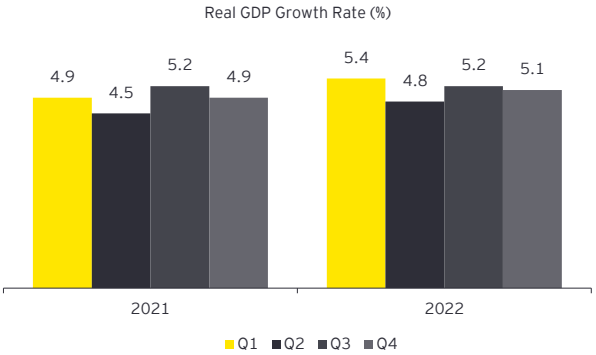
Macroeconomic Overview

Macroeconomic Overview

In 2022, Tanzania's macroeconomic landscape saw a slightly higher inflation, easing down of interest rates and a higher growth rate in GDP compared to the prior year.

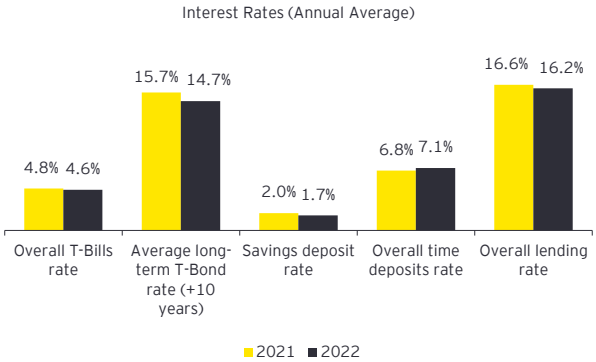
Real GDP

- Tanzania's real GDP growth recorded a growth rate of 4.8% in Q2 2022, a 0.3% higher than 4.5% in 2021. The growth momentum picked up in the subsequent quarters, with a growth rate of 5.2% in Q3 and 5.1% in Q4. These figures suggest a resilient and expanding economy, driven by various sectors and government initiatives. The positive growth rates in Q3 and Q4 indicate the effectiveness of policies aimed at promoting economic activity and attracting investment. Despite the fluctuations, Tanzania's economy maintained an overall upward trend, demonstrating its potential for sustained growth.



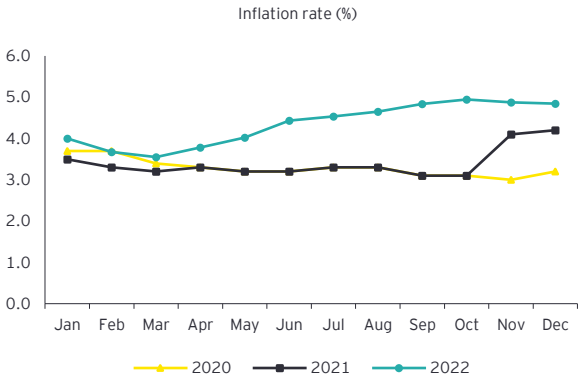
Interest Rates

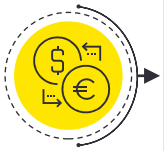
- Interest rates across all government securities have gradually eased down in 2022. In line with the implementation of accommodative monetary policy, overall time deposit rate increased from averaged 6.8% in 2021 compared to 7.1% in 2022 incentivizing individuals and businesses to save and invest their funds with financial institutions. Subsequently, the annual average overall lending interest rate declined from 16.6% in 2021 to 16.2% in 2022. There was a declining trend in both treasury bill rates and long-term T-bond rates reflecting the broader interest rate dynamics within the Tanzanian financial market.



Inflation

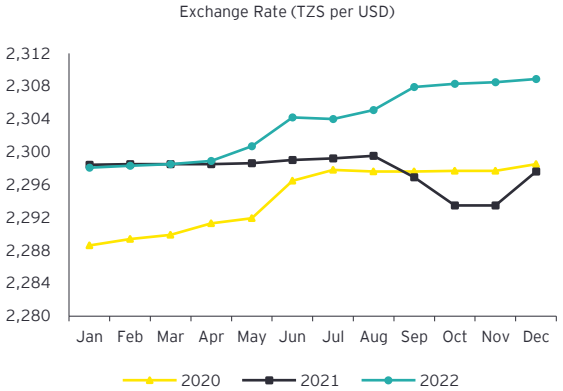
- In 2022, headline inflation increased to 4.3% compared to 3.7% in 2021. Several reasons contributed to this conclusion, including an overall increase in domestic food prices and global oil prices heavily influenced by the Russia-Ukraine conflict. The inflation turnout remained within the government's 5.0% target and in line with the EAC and SADC convergence standards of a maximum of 8.0% and a range of 3.0% to 7.0%, respectively. In 2023, the government is projected to retain an accommodating monetary policy stance, and inflation is expected to range between 4.0% and 5.0%.

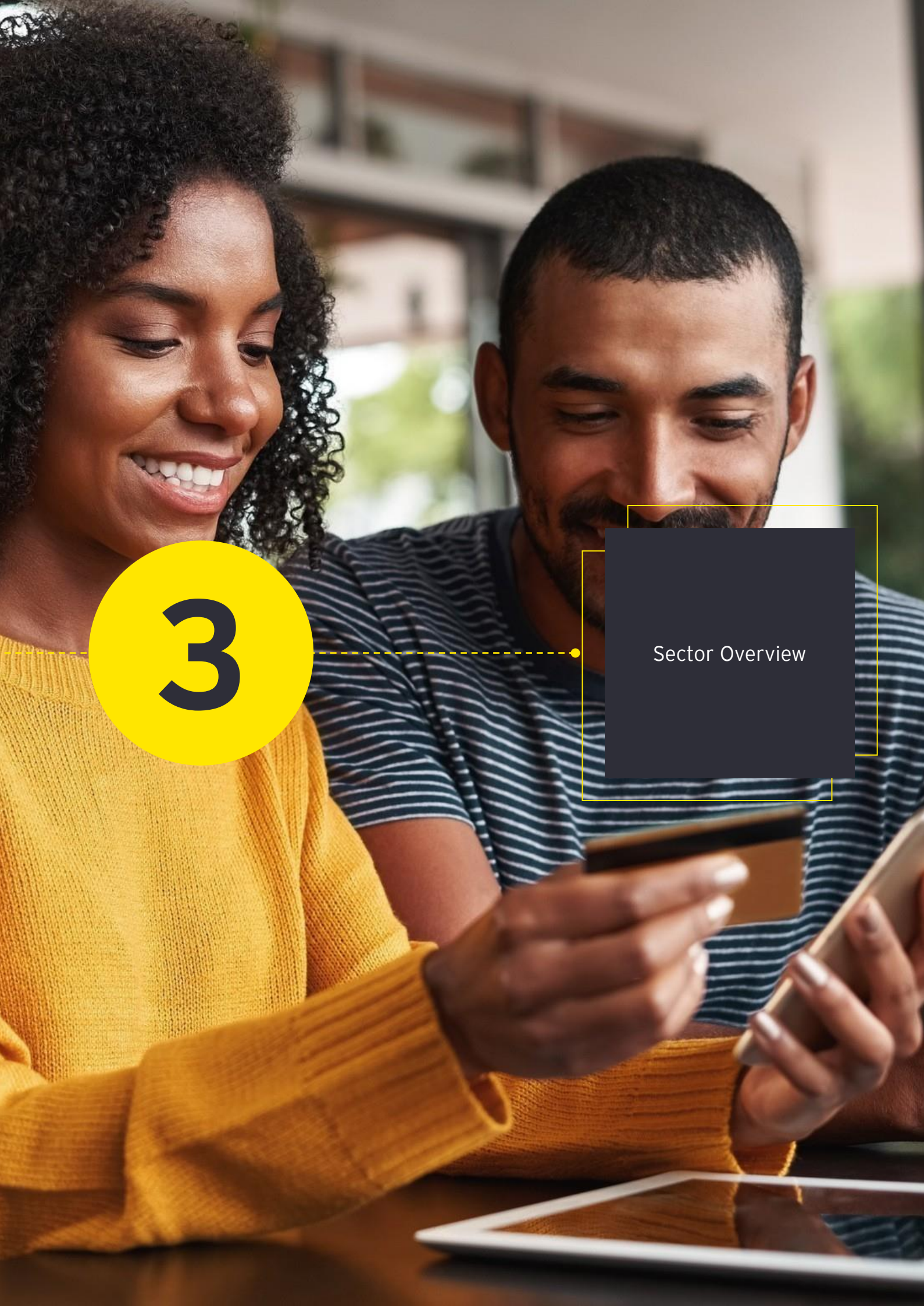




Exchange Rate

- Despite enduring some pressure in Q2'2022, the Tanzanian shilling remained relatively stable during the year 2022. 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 2,298 per USD and TZS 2,304 per USD in 2022. The Tanzanian shilling is expected to remain stable over the short to medium term.





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Sector Overview

Balance Sheet

The banking sector experienced an outstanding growth in total assets mainly contributed by the growth of loan book.

Amounts in TZS million	2018	2019	2020	2021	2022
Cash and balances with BOT	3 950 342	3 909 395	3 766 271	4 584 232	5 037 336
Balances w/other banks	2 264 523	1 546 443	1 777 547	2 466 953	1 923 223
Investment in government & debt securities	4 561 920	5 020 321	5 794 737	6 899 294	8 081 892
Loans, advances and overdrafts (net)	15 484 719	17 427 978	18 391 702	20 787 935	26 067 749
Other assets	3 102 416	4 270 492	4 463 826	4 451 161	4 842 451
Total assets	29 363 920	32 174 630	34 194 082	39 189 575	45 952 651
Customer deposits	20 592 661	22 426 771	23 497 112	27 519 786	30 648 061
Deposits from other banks	1 610 375	1 213 984	1 249 820	1 331 762	2 387 219
Other liabilities	2 796 897	3 703 016	4 052 266	4 163 579	5 992 889
Total liabilities	24 999 933	27 343 772	28 799 198	33 015 126	39 028 169
Paid up share capital	1 745 264	1 754 687	1 914 025	2 214 272	2 358 096
Retained earnings	1 466 538	1 700 592	1 863 736	2 202 250	2 938 494
Profit & loss account	189 741	275 252	419 531	527 037	929 267
Others	962 443	1 100 327	1 197 593	1 230 891	698 625
Total shareholders funds	4 363 986	4 830 858	5 394 884	6 174 449	6 924 482
Total liabilities and shareholders funds	29 363 920	32 174 630	34 194 082	39 189 575	45 952 651

Key highlights

- In 2022, the banking sector experienced a notable growth in total assets. Total assets increased by 17.3% to TZS 46.0 trillion from TZS 39.2 trillion the previous year. The overall increase in the value of banking assets was driven by a 25.2% increase in the loan book, and a TZS 1.2 trillion increase in investment in government securities from TZS 6.9 trillion in 2021. Overall, the two largest banks, CRDB and NMB, drove the growth in the value of banking sector assets, with assets increasing by 24.0% and 22.4%, respectively, over the review period.
- Total liabilities of the sector grew by 18.2% in line with growth in total assets to TZS 39.0 trillion compared to TZS 33.0 trillion recorded in the preceding year. The increase in total liabilities was attributed to a 79.3% increase in deposit from other banks. Customer deposits accounted for 78.5% of total liabilities in 2022 (83.4% in 2021).
- The sector's total capital increased by 12.1% in 2022, compared to 14.5% in 2021. The increase was driven by an increase in paid up capital and retained earnings as banks increased their capital to meet capital adequacy standards, as well as an increase in the sector's overall profitability.

Income Statement

Banking sector's profitability was robust, driven by growth in loans as a result of banks' strategic initiatives during the year.

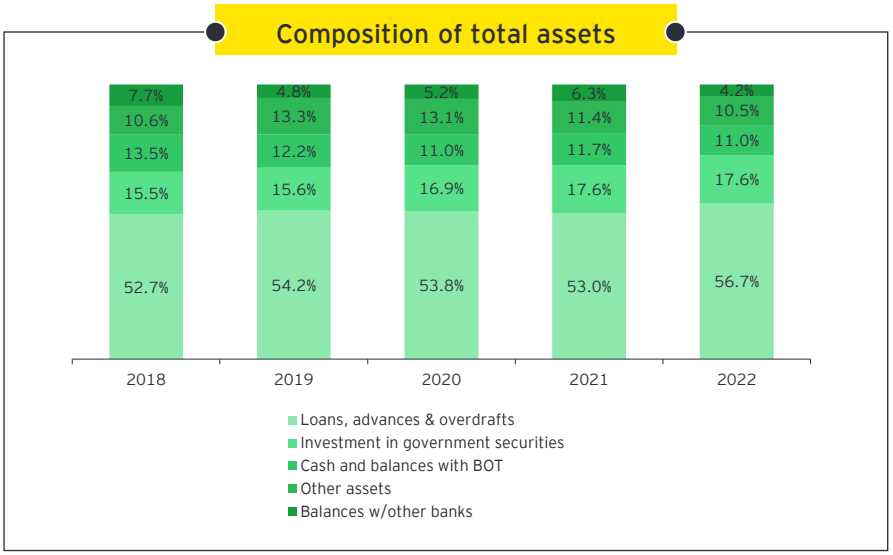
Amounts in TZS million	2018	2019	2020	2021	2022
Interest income	2 764 076	2 815 136	3 006 280	3 234 229	3 726 982
Interest expense	(693 007)	(685 192)	(748 294)	(760 177)	(934 249)
Net interest income	**2 071 069**	**2 129 944**	**2 257 986**	**2 474 052**	**2 792 733**
Bad debt provisions and write offs	(515 416)	(365 718)	(438 515)	(376 369)	(400 920)
Net income after provisions	**1 555 653**	**1 764 226**	**1 819 472**	**2 097 683**	**2 391 813**
Foreign exchange gain/loss	197 290	231 496	235 497	232 209	357 880
Fees, commissions & other income	626 910	649 061	705 754	811 125	797 187
Other Income	74 975	57 616	119 031	113 770	208 145
Non-interest income	**899 175**	**938 173**	**1 060 281**	**1 157 104**	**1 363 212**
Gross income	**2 454 828**	**2 702 399**	**2 879 753**	**3 254 787**	**3 755 025**
Non-interest expense	(2 067 908)	(2 125 421)	(2 215 585)	(2 199 827)	(2 298 228)
Profit/(loss) before tax	**386 920**	**576 978**	**664 167**	**1 054 959**	**1 456 797**
Income tax provision	(179 710)	(201 772)	(265 851)	(378 096)	(581 770)
Net income after income tax	**207 210**	**359 305**	**403 155**	**676 863**	**875 027**
Number of employees	16 060	16 203	16 443	16 448	16 731

Key highlights

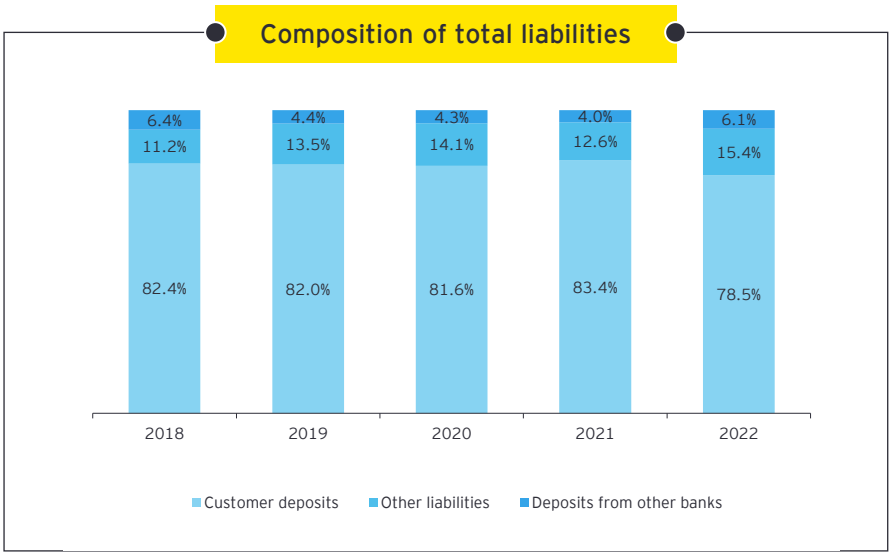
- The banking sector registered improved profitability in 2022, with the sector's profit before tax increasing by 38.1% to TZS 1.5 trillion during the year ended December 2022 from TZS 1.1 trillion during the year ended December 2021.The growth in profitability was driven by an increase in interest income 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 45.2% from 50.1% reported in 2021 due to a decrease in non-interest expenses.
- During the review period, 34 banks (about 83% of all banks) reported profits, and the remaining 7 reported losses.
- Net interest income grew by 12.9%; improving considerably from the growth of 9.6% in 2021. The growth stemmed from a higher increase in interest income compared to the corresponding increase in interest expenses. Interest income grew by 15.2% while interest expenses grew by 22.9% in 2022.
- The sector's net income after tax grew by 29.3%, driven by a 25.4% growth in the loan book and an increase in non-interest income mainly fees and commission income.
- In addition, the number of employees increased by 1.7% from 16,448 to 16,731 reported in 2022.

Balance Sheet and Funding Structure

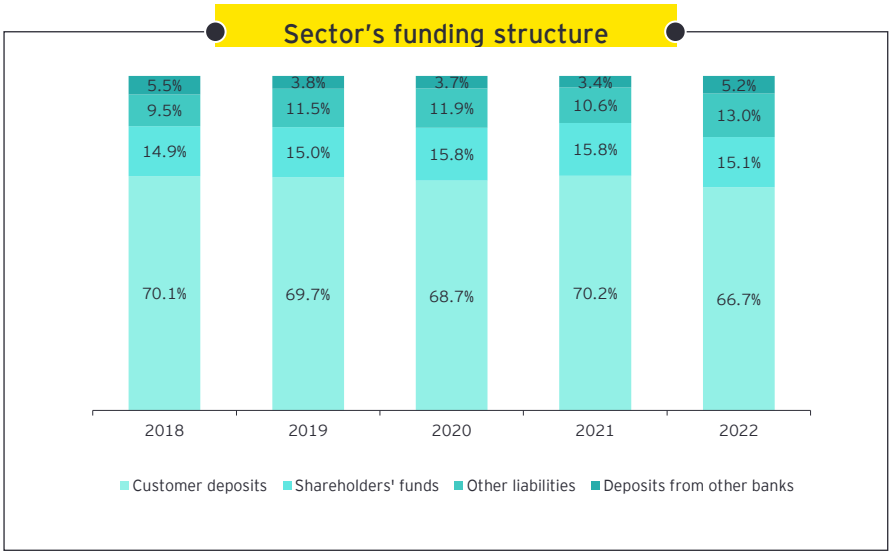
The main source of funding in 2022 remains customer deposits, accounting for 66.7% of total funding sources



- The major components of the sector's assets were loans, advances and overdrafts which accounted for 56.7%, investment in government securities (17.6%), cash, balances with BOT (11.0%) while the remaining assets accounted for 14.7% of the total assets.
- Loans, advances and overdrafts make up the largest portion of total assets at the end of 2022 in line with prior year.



- During the year under review, customer deposits accounted for 78.5% of total liabilities (down from 83.4% in 2021). This was followed by other liabilities (15.4%) and deposits with other banks (6.1%).
- The decline of customer deposits to total liabilities was due to the decrease in saving amounts as prices of commodities and services increased.

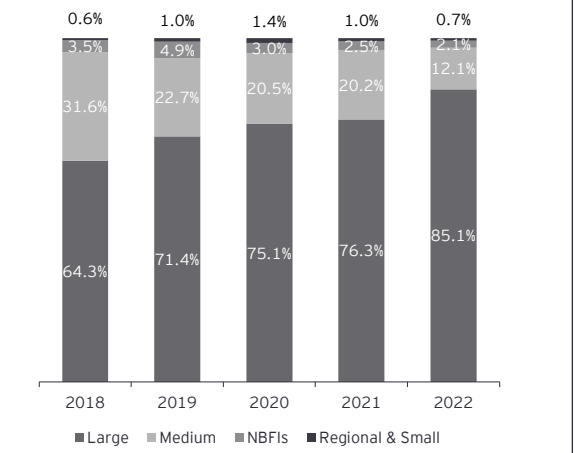


- Total funding for the sector stood at TZS 46.0 trillion in 2022 (TZS 39.2 trillion in 2021). The main source of funding remains customer deposits, accounting for 66.7% (70.2% in 2021) of total funding sources, followed by shareholders' funds at 15.1% (15.8% in 2021).
- Other liabilities increased by 43.9% accounting for 13.0% of the total funding (10.6% in 2021). The portion of deposits from other banks increased to 5.2% from 3.4% in 2021 of the total funding sources.

Competitive Landscape

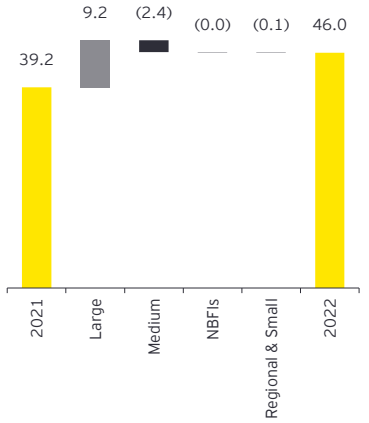
Large banks continued to dominate the market with their share of total assets, customer deposits and loans and advances increasing in 2022.

Market share of total assets

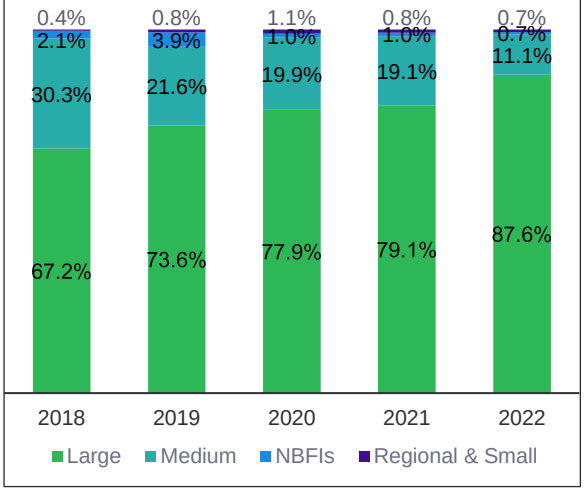


- Large banks continued to dominate the banking sector. Their share of total assets increased to 85.1% in 2022 from 76.3% in 2021. The number of large banks has increased as a result of economical growth.
- Market share of medium-sized banks decreased to 12.1% while the combined market share of NBFIs, regional and small declined to 2.8% from 3.5% recorded in 2021.
- NMB and CRDB, the largest banks by quite a considerable margin, held a combined market share of nearly 46.4% in 2022, with their combined share consistently rising in recent years.
- Top 5 banks accounted for about 61.7% of the total assets as at the end of 2022.

Contribution of assets by banks

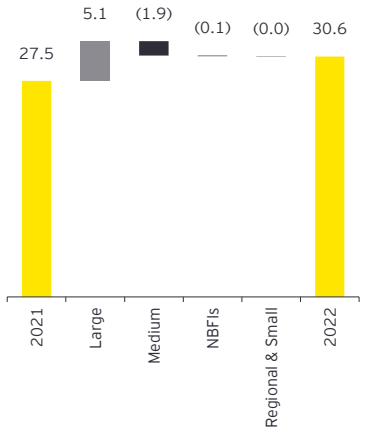


Market share of customer deposits

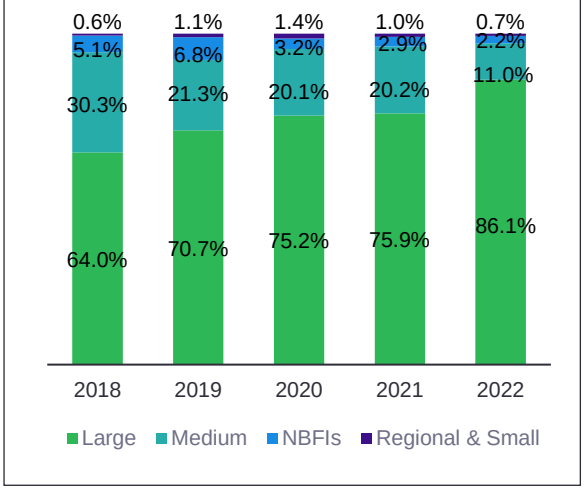


- Large banks increasingly dominate customer deposits with the share of total deposits by large banks increasing to 87.6% in 2022 from 79.1% in 2021. In 2022, medium banks and the remaining banks contributed about 11.1% and 1.4% of total deposits, respectively.
- Two banks dominated the customer deposit market, accounting for nearly half of the sector customer deposits. CRDB and NMB dominated the market share of customer deposits by 24.9% and 24.3% respectively.
- Top 5 banks accounted for about 68.4% of the total customer deposits as at the end of 2022.

Contribution of deposits by banks

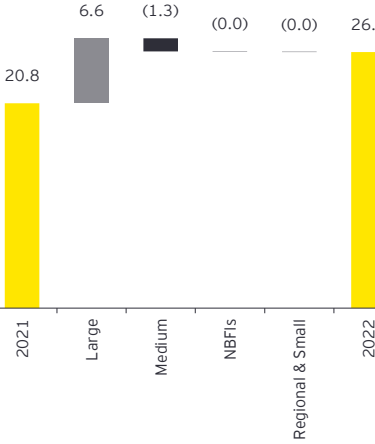


Market share of loans and advances



- 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 to 86.1% in 2022 from 75.9% in 2021.
- At the end of 2022, top 5 banks accounted for approximately 63.7% (61.0% in 2021) of the sector's outstanding loans and advances to customers.
- CRDB topped the list with its loans and advances accounting for 25.8% of the sector's loan book followed by NMB (23.2%), NBC (6.8%), Stanbic (4.2%), Azania (3.7%) and other banks contributing to 36.4% of the outstanding loans.

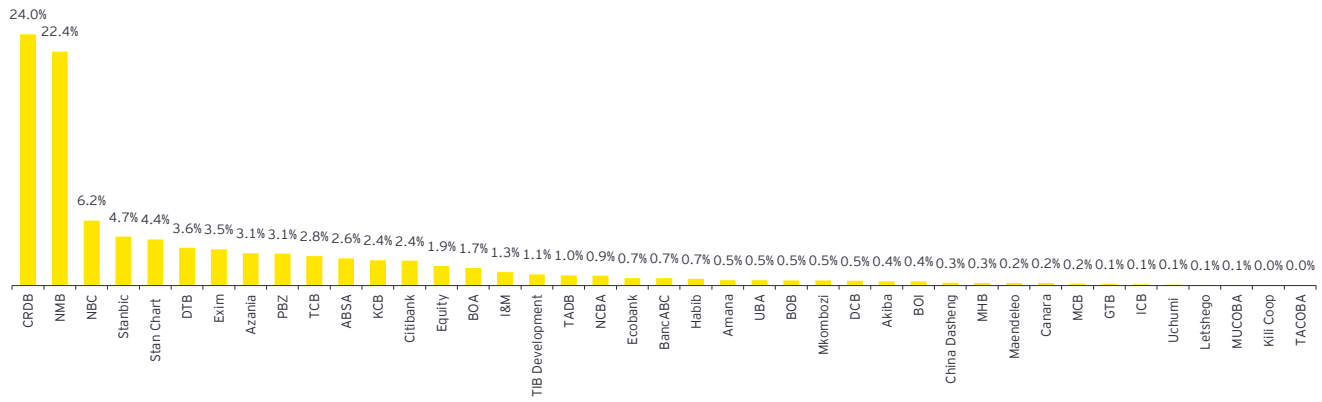
Contribution of loans by banks



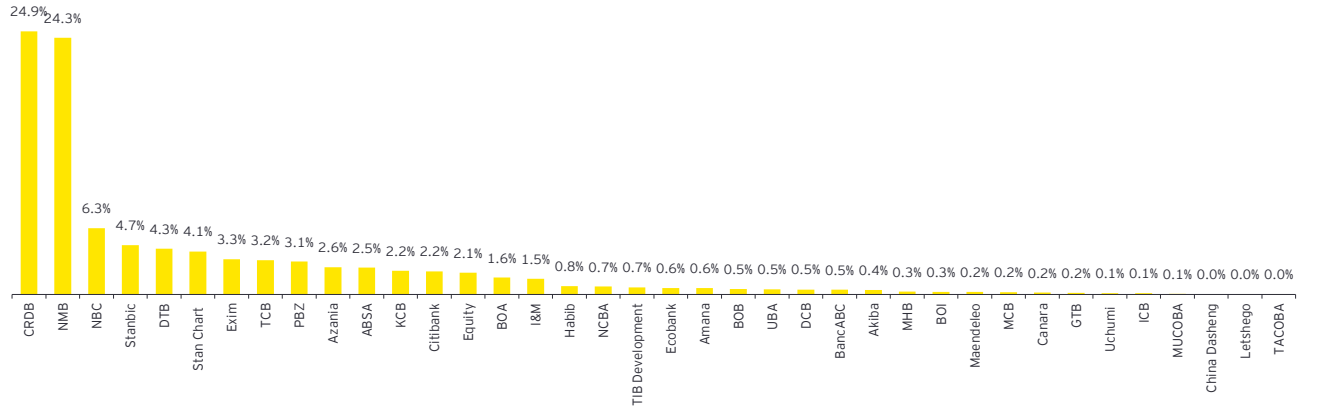
Competitive Landscape

CRDB and NMB continue to lead the banking sector accounting for 46.4%, 49.2% and 49.0% of total assets, customer deposits and loans and advances respectively

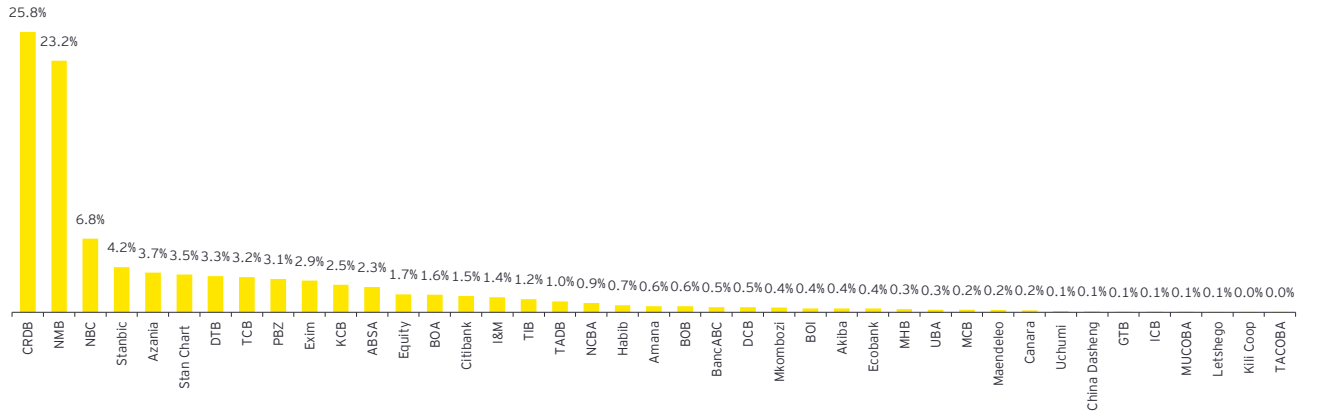
Composition of total assets



Market share of customer deposits



Market share of customer loans and advances



Activities in 2022

Government policies and incentives boosted market activity while banks continue seeking funding to support growth

2022

1 JAN

PROPARCO supports CRDB in the development of its SME loans, via a EUR 44.6m senior credit line and a EUR 18.5m EURIZ guarantee, as well as a technical assistance grant of EUR 430,000 to assist the bank with its loans for women entrepreneurs.

NMB Bank's Sh74 billion Jasiri bond is listed on Wednesday on the Luxembourg Stock Exchange (LuxSE).

2 FEB

3 MAR

The BoT announces new coupon rates for Treasury bonds. The rates will be applied prospectively from 13th April 2022 and do not affect previously issued Treasury bonds.

Standard Chartered Bank plans to sell its consumer, private, and business banking segments in Tanzania.

4 APR

5 MAY

The BoT issues stress testing guidelines for banks and financial institutions.

6 JUN

The BoT issues new Foreign Exchange Regulations, 2022 under the Foreign Exchange Act. The Regulations, among others, permit residents of the East African Community and Southern African Development Community, to invest in Treasury bills and bonds. The Regulations also permit a person resident in Tanzania to invest in the prescribed territory.

7 JUL

Exim bank completes the acquisition of FNB Bank Tanzania.

IFC provides a $100 million loan to CRDB Bank Tanzania, half of which is in local currency, and a $5 million loan to CRDB Bank Burundi to support lending to smaller businesses in both countries, especially to women-owned businesses.

8 AUG

BOT issues Tanzania Quick Response (TANQR) code standard 2022 to will promote customer convenience, security, and support interoperability amongst different payment service providers.

9 SEP

To address climate-related financial risks within the banking sector, the BoT releases guidelines in 2022.

10 OCT

11 NOV

The Personal Data Protection Act of 2022 is assented by the President of the United Republic of Tanzania.

12 DEC

The BoT took over and placed Yetu Microfinance Bank Plc under statutory administration. The decision to take over and place Yetu Microfinance Bank Plc under statutory administration follows failure of the bank to meet regulatory requirements regarding liquidity and capital adequacy.

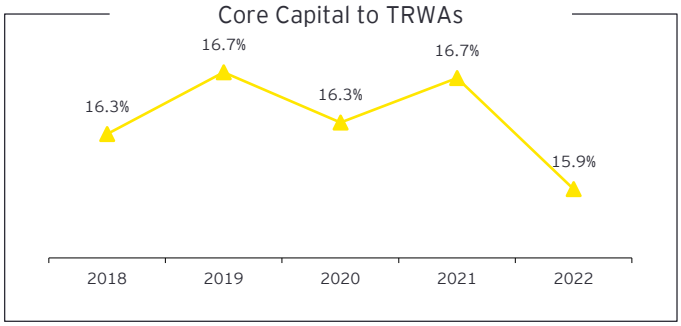
4

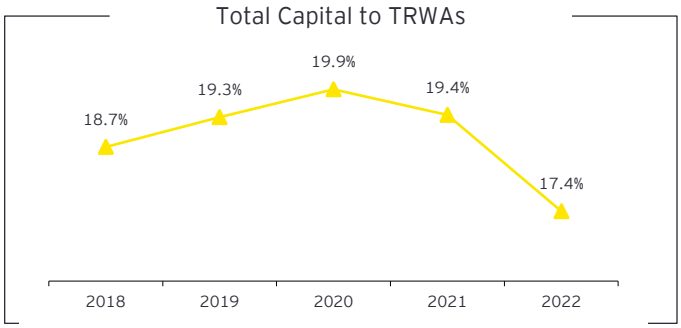
Sector Analysis

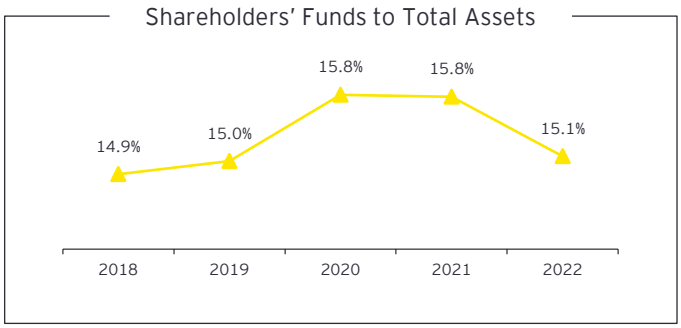
Capital Adequacy

There is a drop in capital adequacy ratios, that highlights the need for certain banks, especially large banks, to reinforce their capital positions to maintain a healthy financial system.

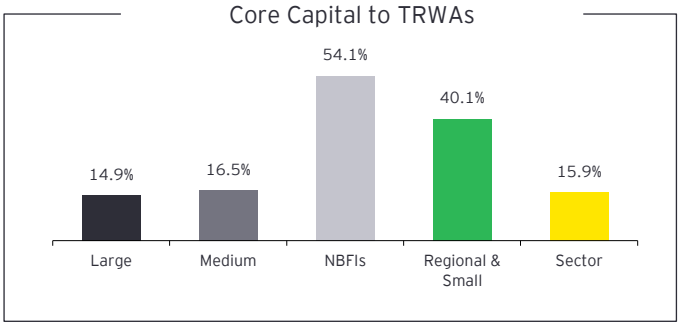
Capital Adequacy Ratios

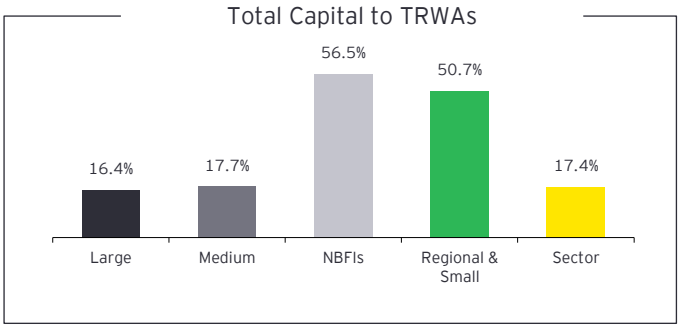


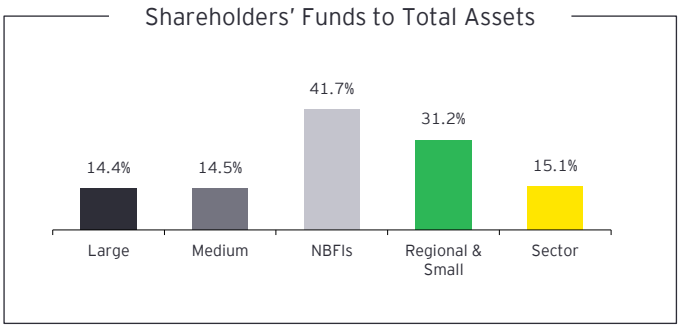




Capital Adequacy Ratios (2022)







Key highlights

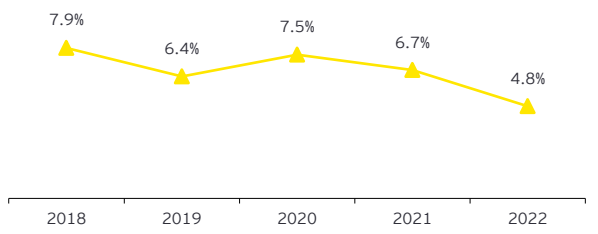
- The capital adequacy ratios, specifically the core capital to total risk-weighted assets (TRWAs), showed a slight decline from 16.7% in 2021 to 15.9% in 2022. Among the different types of financial institutions, large banks had the lowest ratio at 14.9%, indicating a potential need for them to strengthen their capital base. On the other hand, non-bank financial institutions (NBFIs) exhibited a significantly higher core capital to TRWAs ratio of 54.1% in 2022, suggesting a relatively stronger financial position.
- When considering the total capital to TRWAs ratio, Tanzanian banks experienced a decrease from 19.4% in 2021 to 17.4% in 2022. Large banks had the lowest ratio at 16.4%, indicating a potential need for them to enhance their overall capitalization. Conversely, NBFIs showcased a relatively robust total capital to TRWAs ratio of 56.5% in 2022, indicating their stronger capital position compared to other financial institutions.
- The shareholders' funds to total assets ratio, which measures the proportion of a company's assets funded by shareholders, experienced a decline from 15.8% in 2021 to 15.1% in 2022. Large banks had a slightly lower ratio at 14.4%, suggesting a potential need for them to strengthen their shareholder base. NBFIs, however, had a highest ratio of 41.7%.

Asset Quality

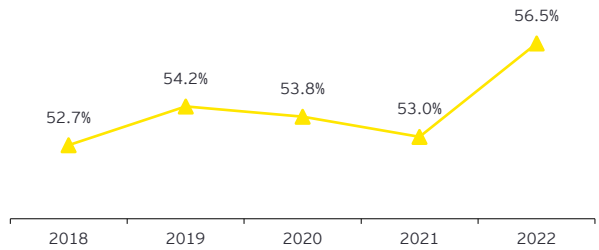
Asset quality improved as reflected by the decrease in the ratio of non-performing loans (NPLs) to gross loans with a corresponding increase in earning assets to total assets

Asset Quality

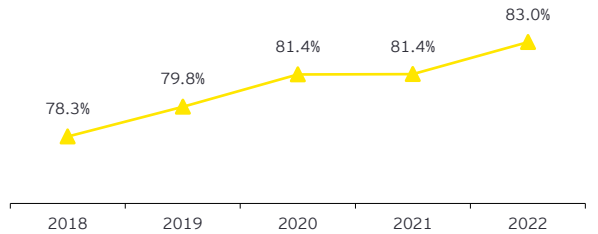
NPL Ratio



Loans and Advances to Total Assets

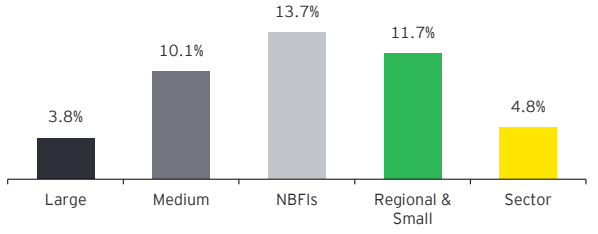


Earning Assets to Total Assets

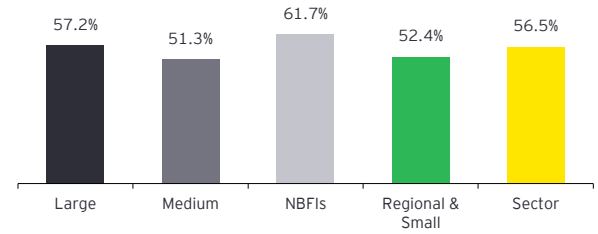


Asset Quality (2022)

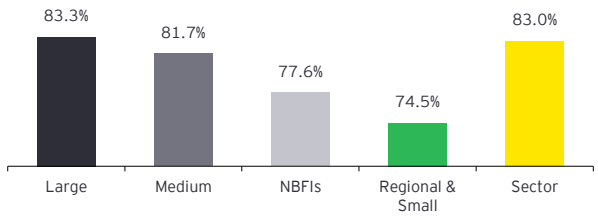
NPL Ratio



Loans and Advances to Total Assets



Earning Assets to Total Assets



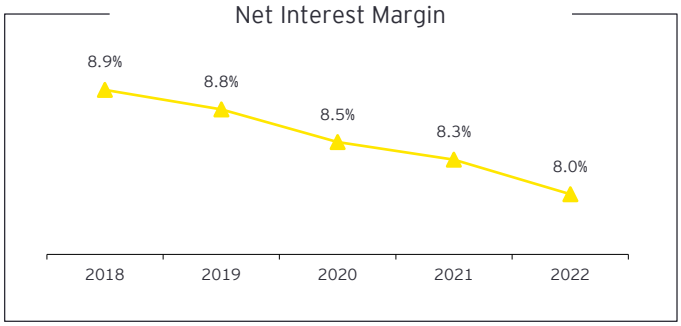
Key highlights

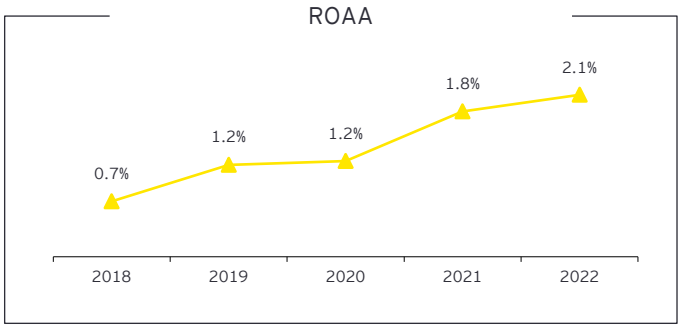
- The asset quality ratios provide insights into the health of the banking sector. The non-performing loans (NPL) ratio, which measures the proportion of loans that are not being repaid, showed improvement from 6.7% in 2021 to 4.8% in 2022. Among different financial institutions, large banks had the lowest NPL ratio at 3.8%, indicating better loan repayment rates. However, non-bank financial institutions (NBFIs) recorded the highest NPL ratio of 13.7% in 2022, suggesting a higher level of non-performing loans within their portfolios.
- The loans and advances to total assets ratio, which indicates the percentage of total assets composed of loans and advances, increased from 53.0% in 2021 to 56.5% in 2022. Among the different types of banks, medium banks had the lowest ratio at 51.3%, while NBFIs had the highest ratio at 61.7% in 2022. This implies that NBFIs allocated a larger portion of their assets to loans and advances compared to other financial institutions.
- The earning assets to total assets ratio, which measures the proportion of assets generating income, experienced a slight increase from 81.4% in 2021 to 83.0% in 2022. Regional and small banks had a relatively lower ratio at 74.5%, while large banks exhibited a higher ratio at 83.3%. This indicates that large banks had a greater portion of their total assets generating income compared to other banks.

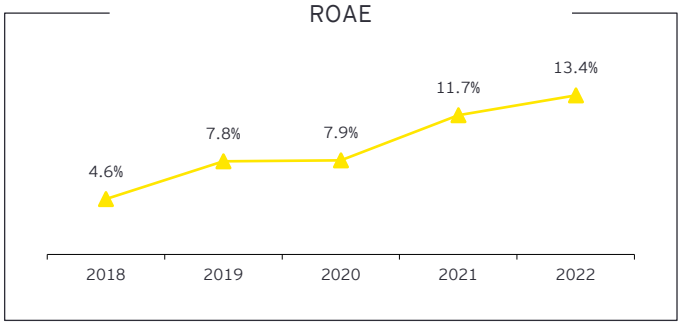
Earnings Quality

Large banks demonstrated strong profitability, as indicated by their high ROAA and ROAE ratios

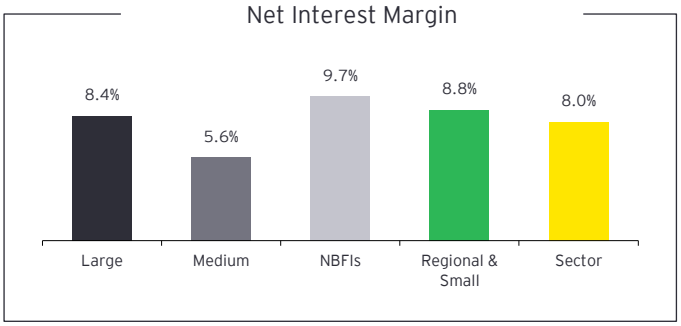
Profitability Ratios

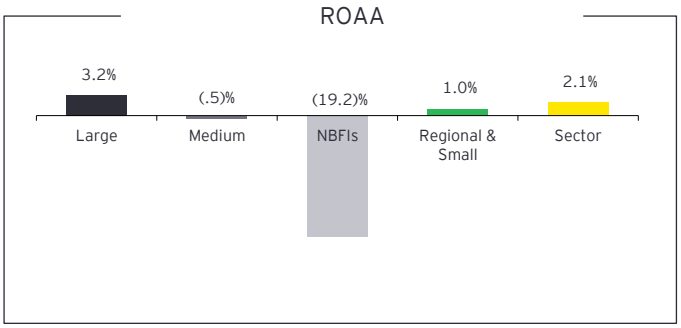


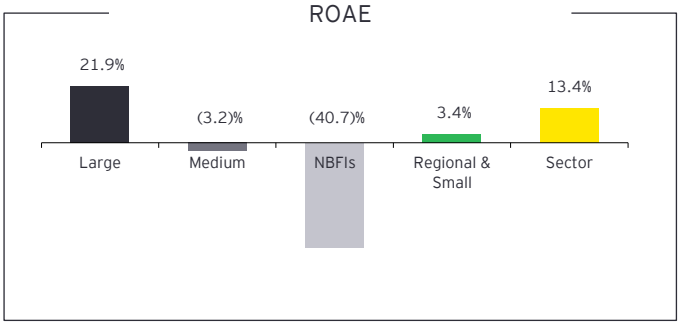




Profitability Ratios (2022)







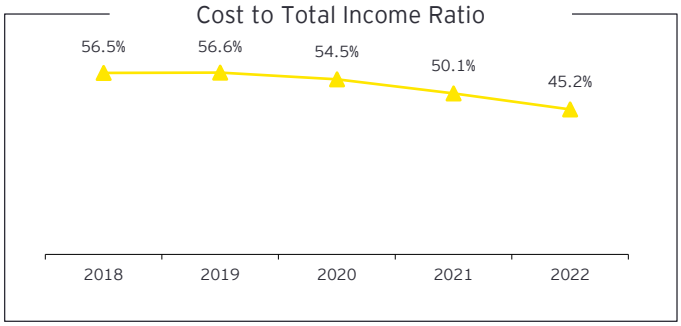
Key highlights

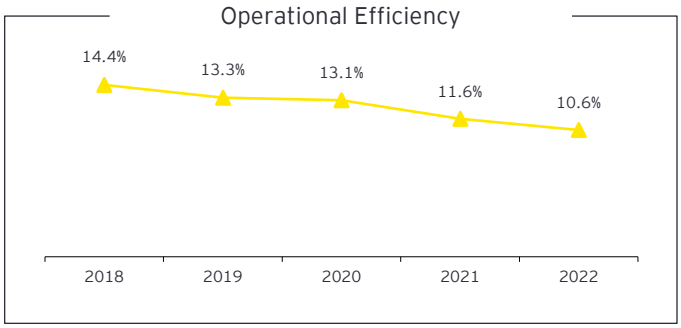
- Profitability ratios provide insights into the financial performance of different financial institutions. The net interest margin (NIM), which measures the difference between interest income and interest expenses, decreased from 8.3% in 2021 to 8.0% in 2022. Among the various types of financial institutions, medium banks had the lowest NIM at 5.6%, while non-bank financial institutions (NBFIs) had the highest NIM at 9.7% in 2022. This indicates that NBFIs were more effective in generating income from their interest-related activities.
- The return on average assets (ROAA) ratio, which assesses the profitability of assets, increased from 1.8% in 2021 to 2.1% in 2022. However, NBFIs recorded the lowest ROAA, with a negative value of 19.2%, suggesting significant financial challenges within these banks. On the other hand, large banks exhibited the highest ROAA at 3.2% in 2022, indicating their ability to generate profits more efficiently from their assets.
- The Return on Average Equity (ROAE) ratio, which measures the profitability generated for shareholders' investments, rose from 11.7% in 2021 to 13.4% in 2022. NBFIs had the lowest ROAE, with a negative value of 40.7%, indicating substantial losses relative to their equity investments. Conversely, large banks showcased the highest ROAE at 21.9% in 2022, indicating their ability to generate higher returns for their shareholders.

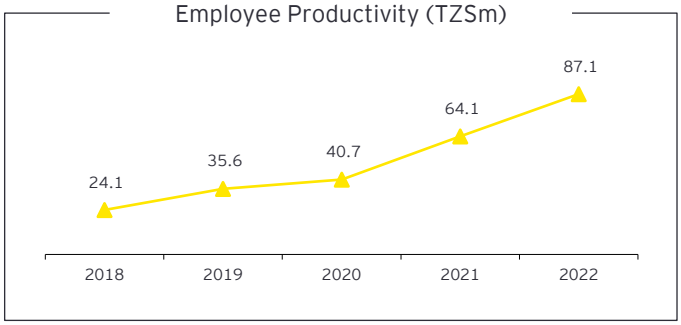
Efficiency

Regional and small banks face potential challenges in optimizing their operational efficiency and enhancing employee productivity

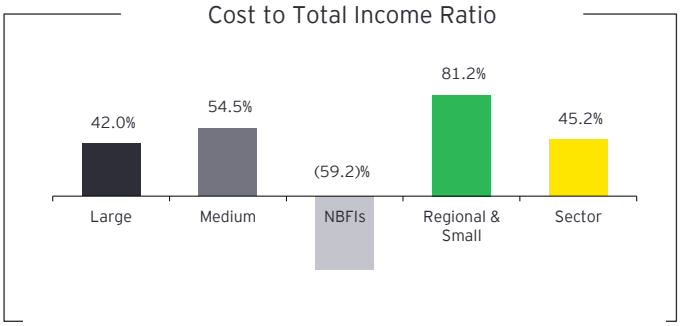
Efficiency Ratios

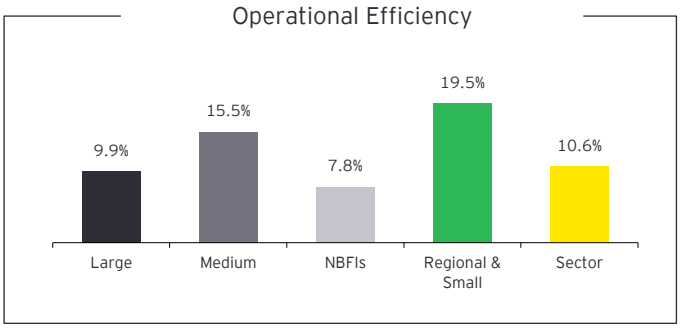


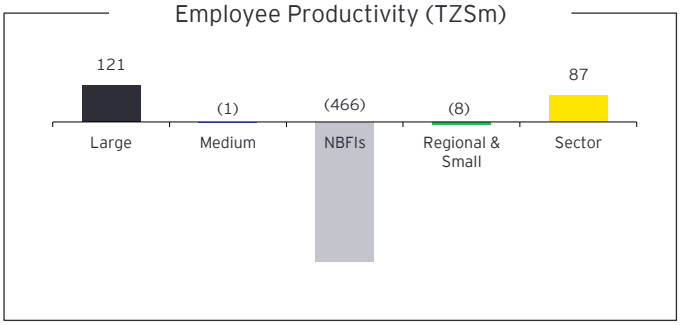




Efficiency Ratios (2022)







Key highlights

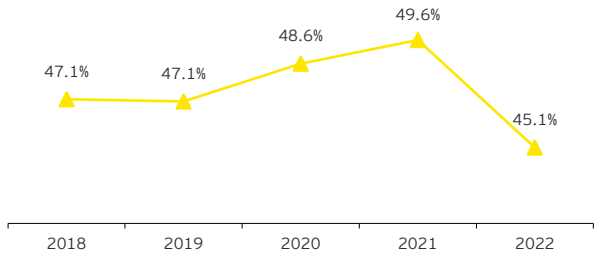
- Efficiency ratios provide insights into the operational efficiency and productivity of different financial institutions. The cost to total income ratio, which measures the proportion of costs to total income, decreased from 50.1% in 2021 to 45.2% in 2022. Among the various financial institutions, non-bank financial institutions (NBFIs) recorded the lowest ratio at a negative 59.2%, indicating that their income exceeded their costs. Regional and small banks, however, had a higher Cost to Total Income Ratio of 81.2% in 2022, suggesting a relatively higher cost burden on their income generation.
- Operational Efficiency, which assesses the efficiency of operations in generating income, improved from 11.6% in 2021 to 10.6% in 2022. NBFIs demonstrated the lowest Operational Efficiency ratio at 7.8%, indicating a more efficient utilization of their operations in generating income. On the other hand, regional and small banks had a higher Operational Efficiency ratio of 19.5% in 2022, suggesting potential areas for improvement in their operational effectiveness.
- Employee Productivity, which measures the value of output generated per employee, increased from TZS 64.1 million in 2021 to TZS 87.1 million in 2022. NBFIs exhibited the lowest Employee Productivity at TZS 466 million, suggesting a lower level of output generated per employee. In contrast, large banks showcased the highest Employee Productivity at TZS 121 million in 2022, indicating a higher level of productivity per employee within these institutions.

Liquidity

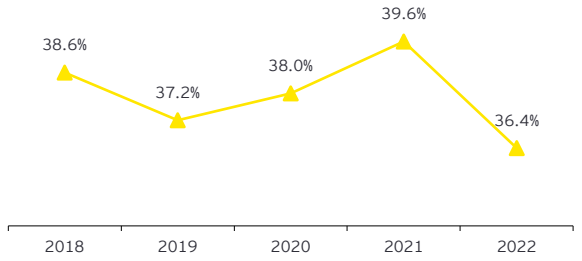
Overall, the decline in the liquid assets to customer deposits and liquid assets to total assets ratios suggests a slight decrease in the liquidity levels of financial institutions

Liquidity Ratios

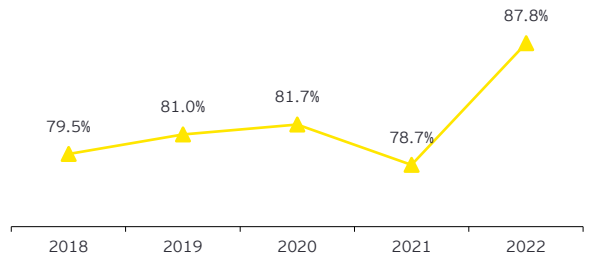
Liquid Assets to Customer Deposits



Liquid Assets to Total Assets

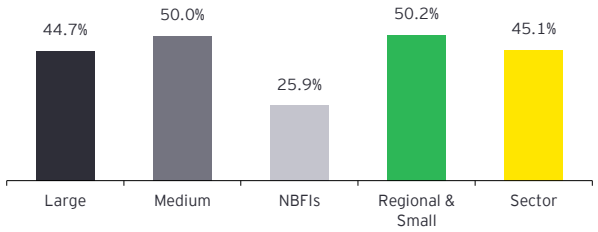


Gross Loans to Customer Deposits

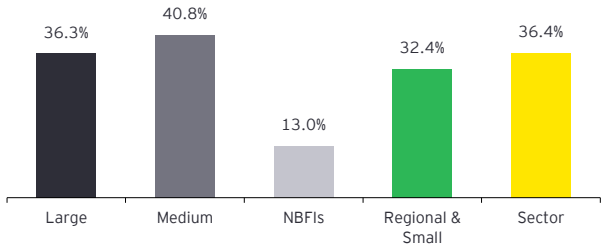


Liquidity Ratios (2022)

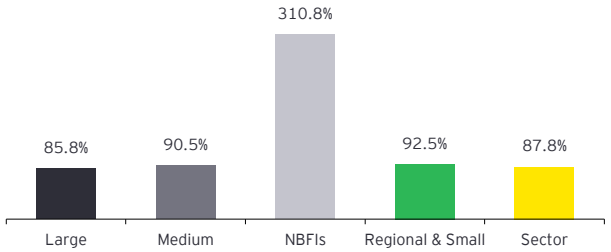
Liquid Assets to Customer Deposits



Liquid Assets to Total Assets



Gross Loans to Customer Deposits



Key highlights

- Liquidity ratios provide insights into the ability of financial institutions to meet their short-term obligations. The liquid assets to customer deposits ratio decreased from 49.6% in 2021 to 45.1% in 2022. Among the different financial institutions, non-bank financial institutions (NBFIs) recorded the lowest ratio at 25.9%, indicating a relatively lower level of liquid assets available to cover customer deposits. In contrast, regional and small banks exhibited a higher ratio of 50.2% in 2022, suggesting a relatively stronger liquidity position to meet customer demands.
- The liquid assets to total assets ratio, which assesses the proportion of liquid assets to total assets, declined from 39.6% in 2021 to 36.4% in 2022. NBFIs showcased the lowest ratio at 13.0%, indicating a relatively lower proportion of liquid assets compared to their total assets. Conversely, medium banks had a higher ratio of 40.8% in 2022, suggesting a relatively stronger liquidity position in terms of their total assets.
- The gross loans to customer deposits ratio increased from 78.7% in 2021 to 87.8% in 2022. NBFIs recorded a ratio above 100%, indicating that their loan portfolio exceeded their customer deposits, potentially indicating a reliance on other funding sources. Large banks had the lowest ratio at 85.8% in 2022, suggesting a relatively lower reliance on loans compared to customer deposits.

SWOT Analysis

The sector benefits from Tanzania's young population with rising digitalization and financial inclusion

Strengths

- Tanzania has experienced consistent economic growth over the years, providing a solid foundation for the banking sector.
- The expanding middle class in Tanzania presents an opportunity for banks to offer a range of financial services and products.
- Efforts by the government and financial institutions have resulted in improved access to banking services for previously unbanked populations.
- The banking sector in Tanzania operates under a well-defined regulatory framework, ensuring stability and security.

Opportunities

- With the rapid increase in mobile phone penetration, there is a significant opportunity for banks to offer mobile banking and digital payment solutions to reach a wider customer base.
- Tanzania has a thriving small and medium-sized enterprise (SME) sector, which presents opportunities for banks to provide tailored financial services and products to support their growth.
- Agriculture plays a vital role in Tanzania's economy, and there is potential for banks to develop specialized products and services to support farmers and agribusinesses.
- Tanzania's strategic location in East Africa provides opportunities for banks to facilitate cross-border trade and expand their services to neighboring countries.

Weaknesses

- Although financial inclusion is improving, a significant portion of the population still lacks access to basic banking services, particularly in rural areas.
- Inadequate physical and digital infrastructure in some regions can hamper the expansion of banking services, especially in remote areas.
- Some banks in Tanzania continue to struggle with a relatively high level of non-performing loans, which affects profitability and stability.
- Compared to some other markets, the banking sector in Tanzania has been relatively slow in adopting and leveraging innovative technologies and digital solutions.

Threats

- External factors such as global economic conditions and commodity price fluctuations can impact Tanzania's economy and, consequently, the banking sector.
- As digital banking and online transactions increase, the banking sector faces heightened cybersecurity risks, including the potential for data breaches and fraud.
- The banking sector in Tanzania is highly competitive, with both domestic and international players vying for market share, which can put pressure on profitability.
- Changes in regulations and policies imposed by the government or regulatory bodies can impact the banking sector's operations and profitability.

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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
CDP	Carbon Disclosure Project
CDSB	Climate Disclosure Standard Board
CAR	Capital Adequacy Ratio
CIR	Cost-to-Income Ratio
CRBs	Credit Reference Bureaus
DPIA	Data Protection Impact Assessment
EAC	East African Community
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IR	Integrated Reporting
ISSB	International Sustainability Standards Board
NBFIs	Non Banking Financial Institutions
NBS	National Bureau of Statistics
NIM	Net Interest Margin
NPLs	Non-Performing Loans
PDP	Personal Data Protection
PII	Personal Identifiable Information
ROAA	Return on Average Assets
ROAE	Return on Average Equity
SASB	Sustainability Accounting Standards Board
SADC	Southern African Development Community
TBA	Tanzania Bankers Association
TCFD	The Task Force on Climate-related Financial Disclosures
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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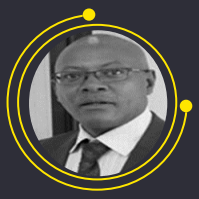

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