BMI Research
A FitchGroup Company

Q4 2016

www.bmiresearch.com

TANZANIA

COMMERCIAL BANKING REPORT

INCLUDES 5-YEAR FORECASTS TO 2020

Published by:BMI Research

Tanzania Commercial Banking Report Q4 2016

INCLUDES 5-YEAR FORECASTS TO 2020

Part of BMI's Industry Report & Forecasts Series

Published by: **BMI Research**

Copy deadline: September 2016

ISSN: 2053-3020

BMI Research
2 Broadgate Circle
London
EC2M 2QS
United Kingdom
Tel: +44 (0) 20 7248 0468
Fax: +44 (0) 20 7248 0467
Email: subs@bmiresearch.com
Web: http://www.bmiresearch.com

CONTENTS

BMI Industry View

Table: Commercial Banking Sector Indicators

Date	Total assets	Client loans	Bond portfolio	Other	Liabilities and capital	Capital	Client deposits	Other
March 2015, TZSbn	24,679.5	12,419.4	4,297.2	7,962.8	24,679.5	3,178.8	15,412.5	6,088.1
March 2016, TZSbn	29,002.5	15,243.9	4,195.5	9,563.1	29,002.5	3,993.7	17,630.0	7,378.8
% change y-o-y	17.5%	22.7%	-2.4%	20.1%	17.5%	25.6%	14.4%	21.2%
March 2015, USDbn	13.2	6.7	2.3	4.3	13.2	1.7	8.3	3.3
March 2016, USDbn	13.3	7.0	1.9	4.4	13.3	1.8	8.1	3.4
% change y-o-y	0.2%	4.7%	-16.7%	2.4%	0.2%	7.2%	-2.4%	3.4%

Source: BMI; Central banks; Regulators

Table: Commercial Banking Sector Key Ratios, March 2016

Loan/deposit ratio	Loan/asset ratio	Loan/GDP ratio	GDP Per Capita, USD	Deposits per capita, USD
86.47%	52.56%	16.48%	839.9	149.6
Rising	Falling	Falling	na	na

na = not applicable/available. Source: BMI; Central banks; Regulators

Table: Annual Growth Rate Projections 2015-2020 (%)

	Assets	Loans	Deposits
Annual Growth Rate	18	20	15
CAGR	18	20	15
Ranking	7	6	13

Source: BMI; Central banks; Regulators

Table: Ranking Out Of 75 Countries Reviewed In 2016

Loan/deposit ratio	Loan/asset ratio	Loan/GDP ratio
41	39	68
Local currency asset growth	**Local currency loan growth**	**Local currency deposit growth**
7	4	10

Source: BMI; Central banks; Regulators

Table: Commercial Banking Sector Indicators, 2013-2020

	2013	2014	2015e	2016f	2017f	2018f	2019f	2020f
Total assets, TZSbn	20,426.3	23,436.5	27,655.1	32,356.4	38,180.6	45,053.1	53,162.7	62,731.9
Total assets, USDbn	12.8	13.5	12.9	14.3	16.1	18.1	20.3	23.1
Client loans, TZSbn	9,888.9	11,848.5	14,751.4	17,849.1	21,419.0	25,702.8	30,843.3	37,012.0
Client loans, USDbn	6.2	6.8	6.9	7.9	9.0	10.3	11.8	13.6
Client deposits, TZSbn	13,322.9	15,195.9	17,475.3	20,096.6	23,111.1	26,577.8	30,564.4	35,149.1
Client deposits, USDbn	8.4	8.8	8.1	8.9	9.8	10.7	11.7	12.9

e/f = estimate/forecast. Source: BMI; Central banks; Regulators

SWOT

Commercial Banking

Tanzania Commercial Banking SWOT	
Strengths	▪ Tanzania's economic growth outlook is extremely positive thanks to, among other things, massive natural gas reserves. ▪ While a monetary union is some way off, Tanzania's membership in the East African Community means Tanzanian policymakers can leverage off the resources and experience of their fellow EAC members.
Weaknesses	▪ Economic growth, although strong over the last decade, has been relatively unequal with the average Tanzanian not seeing a material improvement in income or living standards. This has limited demand for banking services. ▪ Like in many African countries, difficulties in assessing creditworthiness means that banks charge extremely high interest rates in order to compensate for this risk.
Opportunities	▪ Mobile banking is expanding rapidly and will bring more people into the formal financial system sooner than would have been the case in its absence. ▪ Tanzania has one of the lowest levels of banking sector penetration out of the twelve SSA countries that we cover, meaning that there is substantial room for expansion.
Threats	▪ Domestic Tanzanian banks may face a challenge growing their market share in the face of competition from Kenyan and global rivals. ▪ As part of fiscal reform by the Magufuli government, new VAT has been imposed on bank fees and commissions, which will squeeze profitability in fiscal year 2016/17. The president's tendency towards rapid policy shifts in terms of taxes may provide an uncertain environment for the sector until the end of his term.

Political

SWOT Analysis	
Strengths	▪ Since becoming independent in the early 1960s, Tanzania has earned a reputation as one of the more stable political systems in Africa. ▪ Tanzania is largely free of ethnic enmity; an issue that has caused considerable strife in neighbouring Kenya and elsewhere in Africa.
Weaknesses	▪ The political system is not entirely free, and the opposition continues to claim elections have been rigged. ▪ Tensions on the semi-autonomous Zanzibar archipelago have been a source of instability in the past, although a power-sharing deal signed in 2010 between the Civic United Front and ruling Chama Cha Mapinduzi could see these risks dissipate. ▪ Corruption is endemic, with the government estimating that around 30% of the budget is lost to graft each year.
Opportunities	▪ Ongoing progress towards East African unification could present opportunities for better regional cooperation on economic policy and foreign affairs. ▪ Political stability provides reassurance to foreign investors, especially compared with more politically volatile neighbours. ▪ The ongoing redrafting of the constitution offers the opportunity to increase satisfaction with the state of the nation.
Threats	▪ Corruption remains an important problem; if not checked, it could seriously tarnish the country's reputation. ▪ The government is heavily reliant on foreign assistance for budget support, with the withdrawal of this support potentially having serious negative implications for the fiscal accounts.

Economic

SWOT Analysis

Strengths	▪ The country has significant underdeveloped natural resources, including mining deposits (gas, gold, diamonds, gemstones, industrial minerals, coal, kaolin, tin, gypsum and phosphate). ▪ There is room for productivity growth in the large agricultural sector. ▪ If key issues such as access to basic services and education can be resolved, the country has a large and potentially competitive labour force. ▪ Ongoing East African Community integration will provide a large, attractive market for foreign investors.
Weaknesses	▪ Heavy reliance on agriculture, which is subject to extremes of weather, means that periodic droughts can lead to crop failures and serious food shortages. ▪ The level of poverty is high - with GDP per capita at US$700 in 2014 - and a large proportion of the population has limited access to education, health and other basic services.
Opportunities	▪ Tourism is a significant growth industry, based on the country's vast natural resources base. ▪ Reforms to property ownership laws could allow better access to bank lending for the rural population. ▪ Development of the natural gas sector stands to be transformative for the economy by boosting growth, improving the balance of payments position and addressing persistent electricity shortfalls.
Threats	▪ Inclement weather not only poses a risk to economic growth due to the impact on agricultural production but also decreases efficiency as hydroelectricity is an important source of power. Droughts are often accompanied by high inflation and currency weakness which can undermine macroeconomic stability.

SWOT Analysis - Continued

- The cutting of international donor funds over a scandal in the Zanzibar elections in 2016 poses a threat to fiscal and external account stability.

Operational Risk

SWOT Analysis

Strengths

- There is limited risk of conflict with other states.
- The low cost of exporting from and importing to Tanzania makes the country competitive from a regional perspective and boosts the country's role as a transit point to landlocked countries.
- Tanzania has achieved nearly universal access to primary education.
- Increased regional integration, with Tanzania's participating in major sub-regional and regional trade agreements, benefits trade flows.

Weaknesses

- Porous borders leave the country vulnerable to regional terrorist groups.
- Access to water is poor, with some areas of the country experiencing just five hours of water per day. Sanitation rates are even worse, threatening the health of the labour force.
- A lack of resources for secondary and tertiary education lowers the quality of education received in Tanzania.
- A low number of bank branches per population means Tanzanian consumers have limited access to capital.

Opportunities

- Increased regional and international coordination may lower the threat of terrorism.
- The introduction of compulsory secondary education will boost the level of skill in the workforce.
- Rail is expected to play a growing role in freight transport owing to new routes between Tanzania and neighbours Rwanda and Burundi, as well as routes built out of the country's mining bases; this will decrease the pressure on road freight and aid in tackling congestion.
- The discovery of natural gas could significantly boost trade flows and foreign reserves.

SWOT Analysis - Continued	
Threats	▪ An inability to prevent the expansion of cyber and financial crime means these crimes will pose greater threat to companies in the medium term. ▪ Projections indicate that by 2025, Tanzania will experience water stress (defined as average per capita water resources below 1,500 cubic metres) due to population growth and the resulting increase in consumption. This will place further pressure on the country's utilities. ▪ Growing unemployment, particularly among the youth population, could lead to growing discontent and political instability. ▪ Widespread corruption, particularly in the legal system, will continue to drive up the cost of doing business in the country.

Industry Forecast

BMI View: *Credit growth in Tanzania is unlikely to exceed 2015 heights in the short term, as new taxes on banks and mobile financial services will cause a slowdown in financial deepening and monetary policy stays tight. In the long term, the outlook is brighter due to the country's high growth and a low base of financial inclusion.*

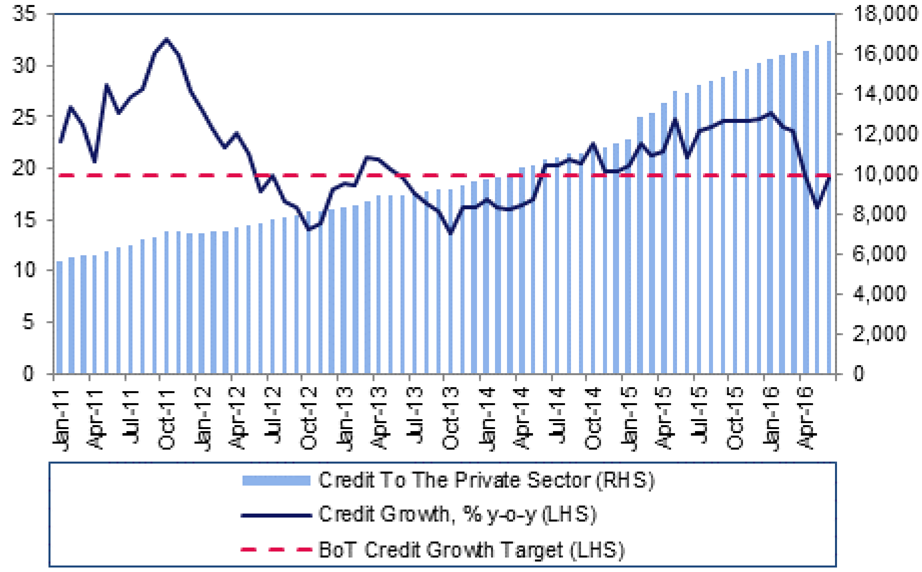
Tanzanian banks will see fairly strong credit growth in the next two years, but it will not attain the heights reached in H215 and Q116. This is due to tight fiscal and monetary policy hindering banks' ability to lend, and ability to expand their services. However, it will stay comfortably in double figures, near the Bank of Tanzania (BoT)'s target of 19.3% y-o-y. Furthermore, deposit growth is also likely to grow at a slower pace. Given that slower credit growth will have some stifling impact on business investment and private consumption, we have accounted for such developments in our real GDP growth forecasts for 2016 and 2017, which currently stand at 6.8% and 6.7% respectively, compared to 7.0% in 2015.

Taxes Will Slow Financial Inclusion Growth

We expect that new taxes imposed on the financial sector as a result of fiscal tightening will slow the pace of financial deepening in Tanzania in fiscal year (FY) 2016/17. New VAT imposed on bank fees and commissions and mobile financial services (MFS) transactions will squeeze profitability in the two sectors, which will hinder their expansion (*see 'Tighter Government Grip Hurting Business Environment', September 2*). Effective from July 1 2016, the Tanzania Revenue Authority imposed an 18.0% tax on bank fees and commissions excluding interest; and a 10.0% tax on telecoms providers (*see 'MFS Tax To Discourage Service Deepening', June 14*). As a result, financial deepening will occur at a slower pace in FY2016/17, due to banks and MFS providers having less cash at their disposal to invest in expansion of services. According to Q1 GDP estimates, the financial services sector boasted real growth of 13.5% y-o-y, the highest of all sectors. We expect this to slow down as profits cool.

Credit Growth Slower But Steady

Tanzania - Credit to the Private Sector, TZSbn & growth, % y-o-y and BoT Growth Target, % y-o-y



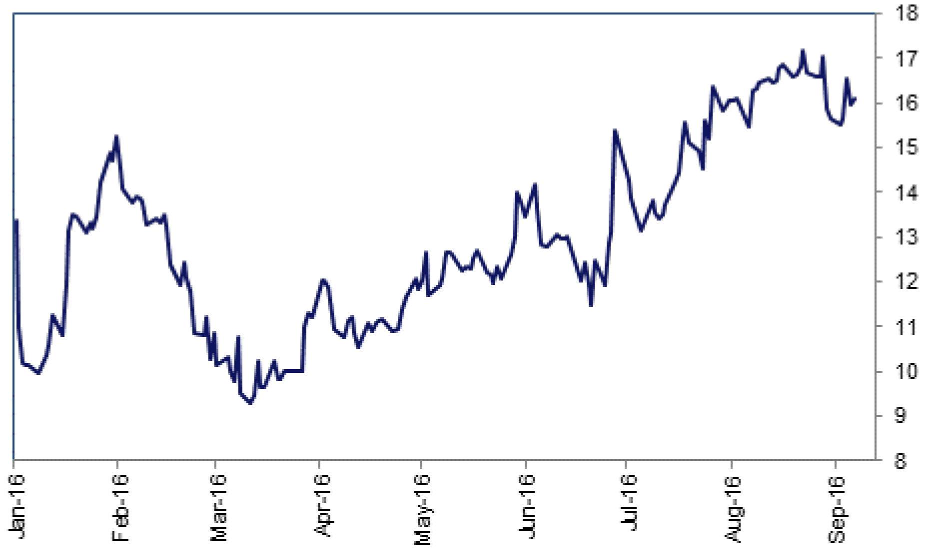
Source: BoT

Credit And Deposit Growth To Level Out

We expect that private sector credit growth will reach 20.3% at end-2016, compared to 24.6% in 2015. However, it will be close to the BoT target of 19.3% due to a continuation of tight monetary and fiscal policy. Due to the Statutory Minimum Reserve (SMR) ratio being held at 10.0% since March last year, liquidity has been relatively tight, as shown by the gradual rise in the repo rate since June (see chart below). This is likely to lead to a slowdown in lending in H216. We also expect that average lending rates are likely to rise from their current levels of around 16.0%. Meanwhile, deposit growth will remain in double figures, but will occur more slowly than previously in FY 2016/17. This will be the result of reduced expansion by banks, which will subdue financial inclusion growth in rural areas. In light of this, we forecast deposit growth to slow down to 15.0% in 2016 from 19.5% in 2015.

Liquidity Squeezed

Tanzania - Weighted Average Repo Rate, %



Source: BoT

Long-Term Outlook Still Bright

Despite some deceleration in FY2016/17, Tanzania's low base of financial inclusion will still support growth in the banking sector on a long-term trajectory. Although tighter liquidity and reduced profitability in the banking sector will slow credit and deposit growth this year, we expect that it will pick up next year as banks restructure their operations to accommodate new taxes. Furthermore, Tanzania is one of the fastest-growing economies in Sub-Saharan Africa, which will afford a number of lending opportunities to the country's banks (*see 'Robust GDP Will Bolster Loan Growth', June 21*). This, in addition to an already-large MFS network, will provide easily accessible financial services to a large swathe of population, keeping Tanzania's banking sector growing quickly in the coming years.

Commercial Banking Risk/Reward Index

Middle East And Africa Commercial Banking Risk/Reward Index

Commercial Banking Risk/Reward Index Methodology

Since Q108, we have described numerically the banking business environment for each of the countries analysed by **BMI**. We do this through our Commercial Banking Industry Risk/Reward Index (RRI), a measure that ensures we capture the latest quantitative information available. It also ensures consistency across all countries. Like all of **BMI**'s Industry Risk/Reward Indices, its takes into account the Rewards on offer within the banking sector in a given country, but also the Risks to investors being able to realise those opportunities. The overall index is weighted 70% towards Rewards and 30% towards Risks.

Within the Rewards category, we look at factors that are specific to the banking industry (accounting for 60% of the score within this category), and elements that relate to that country in general (accounting for 40% of the weighting). These include, but are not limited to, total assets, asset and loan growth, GDP and taxation. Likewise on the Risks side, we look at industry-specific Risks (weighted 40% of the Risks total) and country-specific Risks (weighted 60%). These include, but are not limited to, the regulatory framework and environment, the competitive environment, financial risk, legal risk and policy continuity.

In general three aspects need to be borne in mind when interpreting the RRIs. The first is that the Industry Rewards element is the most heavily weighted of the four elements, accounting for 42% (60% of 70%) of the overall Index. Second, if the Industry Rewards score is significantly higher than the Country Rewards score, within the Rewards category, it usually implies that the banking sector is (very) large and/or developed relative to the general wealth, stability and financial infrastructure in the country.

Conversely, if the industry score is significantly lower, it usually means that the banking sector is small and/or underdeveloped relative to the general wealth, stability and financial infrastructure in the country. Third, within the Risks category, the industry-specific elements (ie, how regulations affect the development of the sector, how regulations affect competition within it, and Moody's Investor Services' Ratings for local currency deposits) can be markedly different from **BMI**'s long term Country Risk Index for a given market.

Table: Middle East and Africa Commercial Banking Risk/Reward Index

	Limits of Potential Returns		Risks to Potential Returns		Overall	
	Market Structure	Country Structure	Market Risks	Country Risks	Index	Ranking
Bahrain	30.0	90.0	73.3	64.0	58.1	41
Egypt	53.3	62.5	46.7	56.0	55.6	48
Iran	70.0	50.0	10.0	52.0	54.0	49
Israel	53.3	82.5	90.0	66.0	68.2	27
Jordan	30.0	75.0	50.0	42.0	47.2	60
Kuwait	36.7	87.5	53.3	60.0	57.1	43
Lebanon	43.3	72.5	46.7	50.0	53.1	51
Oman	30.0	80.0	66.7	56.0	53.1	52
Qatar	63.3	92.5	53.3	70.0	71.5	21
Saudi Arabia	70.0	87.5	66.7	72.0	74.9	17
UAE	63.3	82.5	66.7	62.0	68.9	24
Ghana	20.0	55.0	50.0	50.0	38.8	67
Kenya	33.3	47.5	53.3	50.0	42.7	64
Nigeria	46.7	57.5	53.3	52.0	51.5	54
South Africa	56.7	75.0	90.0	60.0	66.4	31
Botswana	10.0	72.5	83.3	66.0	46.4	62
Mauritius	20.0	80.0	73.3	62.0	50.8	57
Mozambique	10.0	45.0	50.0	36.0	29.3	72
Namibia	10.0	60.0	46.7	46.0	34.9	69
Tanzania	10.0	40.0	33.3	42.0	27.0	74
Uganda	10.0	47.5	50.0	46.0	31.8	70
Zambia	10.0	50.0	46.7	42.0	31.4	71
Zimbabwe	10.0	37.5	23.3	20.0	21.1	75

Scores out of 100, with 100 the highest. Source: BMI

Market Overview

Middle East And Africa Commercial Banking Outlook

Table: Banks' Bond Portfolios, 2014

	Bond portfolio, USDbn	Bond as % total assets	Year-on-year growth %
Bahrain	8.7	10.9	8.8
Egypt	126.4	45.9	23.0
Iran	na	na	na
Israel	37.8	11.4	-5.1
Jordan	13.1	20.7	2.9
Kuwait	11.9	6.3	-4.9
Lebanon	37.2	21.3	-0.8
Oman	7.6	11.7	14.2
Qatar	37.3	13.5	-16.1
Saudi Arabia	14.2	2.5	7.1
UAE	73.5	11.7	21.2
Ghana	2.9	18.8	24.6
Kenya	7.2	19.9	15.4
Nigeria	21.7	14.5	12.6
South Africa	45.3	12.5	10.7
Botswana	0.5	6.8	-24.8
Mauritius	2.3	6.3	26.1
Mozambique	2.0	21.0	24.9
Namibia	1.1	12.8	12.0
Tanzania	2.3	16.9	6.2
Uganda	1.6	25.2	22.6
Zambia	1.8	23.0	-2.7
Zimbabwe	0.3	4.8	141.9

Source: Central banks, Regulators, BMI

Table: Comparison Of Loan/Deposit, Loan/Asset And Loan/GDP Ratios, 2016

	Loan/Deposit ratio %	Rank	Trend	Loan/Asset ratio %	Rank	Trend	Loan/GDP ratio %	Rank	Trend
Bahrain	88.1	41	Rising	26.8	71	Falling	62.1	39	Falling
Egypt	41.4	73	Rising	30.8	69	Falling	35.4	61	Rising
Iran	81.2	51	Rising	41.1	66	Rising	57.1	49	Rising
Israel	77.4	57	Falling	61.3	25	Falling	74.2	30	Falling
Jordan	66.6	68	Falling	46.1	59	Rising	77.3	29	Rising
Kuwait	88.5	40	Rising	59.0	33	Rising	90.8	23	Falling
Lebanon	31.0	75	Rising	26.0	72	Rising	94.8	22	Rising
Oman	104.4	24	Rising	63.0	17	Falling	69.3	34	Rising
Qatar	118.4	10	Rising	67.1	9	Falling	108.9	16	Falling
Saudi Arabia	90.1	39	Rising	65.4	19	Rising	54.4	46	Falling
UAE	102.4	25	Rising	59.7	31	Falling	104.1	18	Falling
Ghana	79.0	47	Falling	46.9	52	Falling	20.1	67	Falling
Kenya	85.3	44	Falling	61.0	23	Falling	38.3	59	Rising
Nigeria	76.9	61	Rising	46.7	56	Rising	12.3	74	Falling
South Africa	107.6	16	Rising	73.8	5	Rising	87.9	28	Rising
Botswana	75.1	53	Falling	60.4	27	Falling	31.3	65	Rising
Mauritius	30.5	74	Falling	23.6	75	Rising	67.1	35	Falling
Mozambique	72.1	59	Falling	55.9	32	Falling	39.0	58	Falling
Namibia	96.3	26	Falling	73.7	4	Falling	52.6	48	Falling
Tanzania	88.8	48	Rising	55.2	45	Rising	17.8	71	Rising
Uganda	71.4	62	Falling	54.3	41	Falling	15.8	73	Rising
Zambia	65.7	67	Falling	47.3	57	Rising	18.1	72	Rising
Zimbabwe	69.6	60	Falling	40.8	58	Falling	19.6	68	Falling

Source: Central banks, Regulators, BMI

Table: Comparison Of Total Assets, Client Loans And Client Deposits (USDbn)

	2016			2015		
	Total Assets	Client Loans	Client Deposits	Total Assets	Client Loans	Client Deposits
Bahrain	87.2	23.4	26.5	83.9	22.7	26.0
Egypt	345.0	106.4	256.8	318.7	100.9	245.5
Iran	586.1	240.7	296.3	532.8	206.9	260.8
Israel	363.7	222.9	288.0	349.0	215.5	278.3
Jordan	69.6	32.0	48.1	66.6	29.8	44.1
Kuwait	196.5	115.9	131.0	194.3	114.1	130.4
Lebanon	198.3	51.6	166.0	186.0	48.0	158.1
Oman	78.1	49.2	47.1	73.2	47.0	46.4
Qatar	332.5	223.1	188.4	305.6	205.6	178.6
Saudi Arabia	607.9	397.3	440.8	589.0	376.2	427.9
UAE	711.3	425.0	415.0	674.2	404.8	401.0
Ghana	16.4	7.7	9.7	15.8	7.8	9.2
Kenya	39.2	23.9	28.0	35.0	21.7	25.3
Nigeria	124.2	58.0	75.4	141.3	65.2	86.6
South Africa	342.4	252.8	234.9	332.9	243.5	227.3
Botswana	8.2	4.9	6.6	7.5	4.6	5.8
Mauritius	34.3	8.1	26.5	33.7	7.9	25.3
Mozambique	8.9	5.0	6.9	8.3	5.0	6.5
Namibia	7.9	5.8	6.0	7.6	5.6	5.6
Tanzania	13.8	7.6	8.6	12.3	6.6	7.8
Uganda	6.1	3.3	4.7	5.2	2.8	3.8
Zambia	5.3	2.5	3.8	5.3	2.4	3.5
Zimbabwe	6.6	2.7	3.9	6.3	2.8	3.7

Source: Central banks, Regulators, BMI

Table: Comparison Of USD Per Capita Deposits, 2016

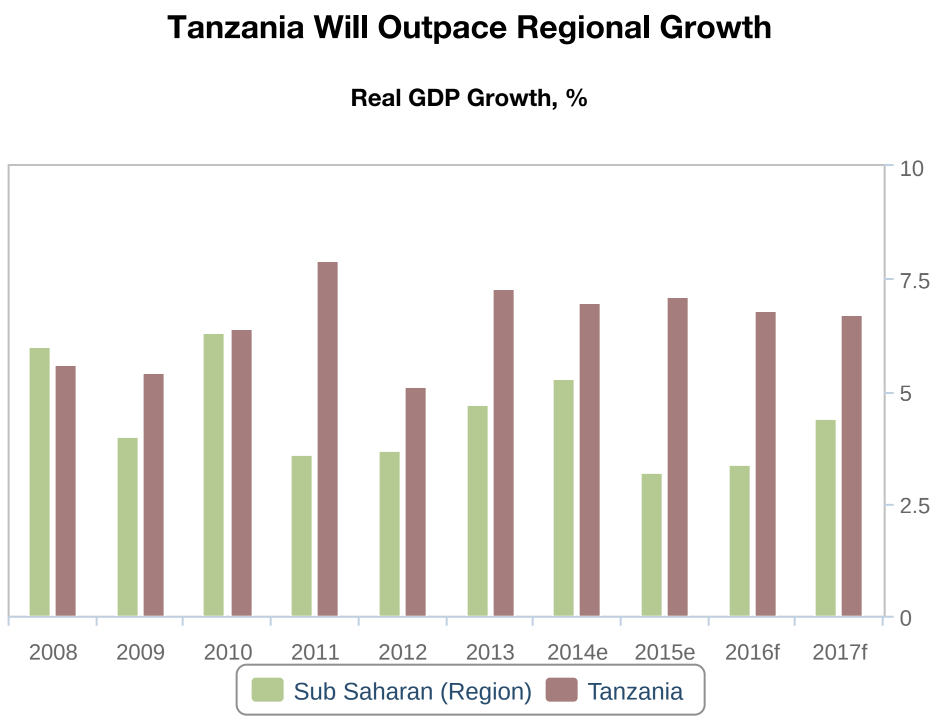
	GDP Per Capita	Client Deposits, per capita	Rich 20% Client Deposits, per capita	Poor 80% Client Deposits, per capita
Bahrain	27,268	18,993	75,974	4,748
Egypt	3,701	2,750	10,999	687
Iran	5,407	3,702	14,809	926
Israel	36,652	35,155	140,620	8,789
Jordan	5,879	6,210	24,839	1,552
Kuwait	35,245	32,697	130,788	8,174
Lebanon	10,716	27,727	110,909	6,932
Oman	16,459	10,124	40,497	2,531
Qatar	84,833	82,229	328,916	20,557
Saudi Arabia	23,998	13,707	54,826	3,427
UAE	41,841	44,784	179,137	11,196
Ghana	1,390	347	1,389	87
Kenya	1,329	593	2,371	148
Nigeria	2,613	403	1,612	101
South Africa	5,473	4,272	17,087	1,068
Botswana	7,649	2,860	11,440	715
Mauritius	9,555	20,763	83,050	5,191
Mozambique	458	239	956	60
Namibia	4,643	2,399	9,597	600
Tanzania	813	156	623	39
Uganda	594	116	463	29
Zambia	859	227	908	57
Zimbabwe	890	244	975	61

Source: Central banks, Regulators, BMI

Economic Analysis

BMI View: *Tanzania's real GDP growth will far outstrip its Sub-Saharan African counterparts in 2016 and 2017. While a pull-back in international aid will temper growth modestly, the country will benefit from strong investment and low inflation.*

A cut-off in aid from international donors will offer headwinds to the Tanzanian economy in the coming quarters, weighing on current and capital spending. However, while this will see real GDP growth slow modestly, Tanzania will still outpace the bulk of its Sub-Saharan African (SSA) peers. Low inflation and still-strong credit growth will support a significant expansion in the retail sector, while a large infrastructure development pipeline will buoy the construction sector. As such, we forecast real GDP growth of 6.8% in 2016 and 6.7% in 2017 after an average 7.1% expansion between 2013 and 2015.



e/f = BMI estimate/forecast. Source: UN

Reduced Donor Aid Will Offer Headwinds

In the near term, we expect a modest slowdown in growth, as the impact of a cut-off in donor aid feeds through the economy. Concerns over the legitimacy of the elections on the semi-autonomous archipelago of Zanzibar have seen 10 out of 14 international donors cut general budget support for Tanzania at the end of March. This followed an earlier announcement by the Millennium Challenge Corporation that it was cutting USD470mn of aid. The donors have criticised the annulling of the presidential election in Zanzibar in November 2015, which the authorities claim was cancelled due to irregularities but critics believe was cancelled due to the fact that the opposition was likely to win. A re-run was held in March, but with the opposition having boycotted the vote, the donors were not satisfied, and have pulled their aid from Tanzania.

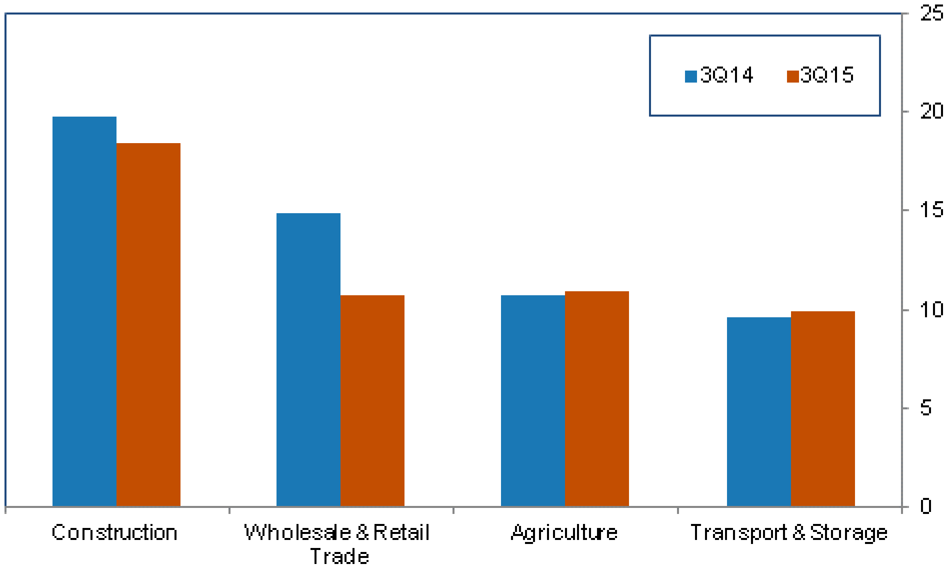
Ultimately we expect that donor funding will eventually be resumed as Tanzania makes greater efforts to show that it is pursuing inclusive policies. For example, should the long-planned constitutional referendum take place this year, it might be a good opportunity for donors to revise their suspension. Amongst other issues, the referendum plans to address the issue of how Zanzibar and Tanganyika (the mainland) fit together within Tanzania. However, the vote is unlikely to happen before 2018 at best. This suggests that the impact of the reduced donor funds will last through at least 2017. This will force the government to pare back discretionary spending and temporarily delay some capital projects.

Outlook Still Bright

That said, we are still highly positive towards the Tanzanian economy's trajectory. Growth in Tanzania will be broad-based, led by retail (10.7% of GDP growth over the first three quarters of 2015) and construction (18.4% of GDP growth in the same period). The retail sector will benefit from continued low inflation and strong credit growth. As a net importer of oil, Tanzania has benefited from lower global oil prices, tempering inflationary pressures. Even as crude oil prices rise moderately - we forecast that Brent crude will average USD46 per barrel (/bbl) in 2016 and USD53/bbl in 2017, compared to USD54/bbl in 2015 and USD100/bbl in 2014 - we expect inflation will remain subdued as stronger harvests help to temper food prices. Strong credit growth as the banking sector expands from its current low base will also drive an expansion in the retail sector. While the bank's 2015 decision to raise reserve requirements will offer some headwinds to credit growth in the near term, we expect it remain comfortably in double-digit territory. As such, we expect retail to remain a major driver of real GDP growth.

Construction And Retail Will Continue To Drive Growth

Tanzania - Sectoral Contribution To GDP Growth, %



Source: Bank of Tanzania

The outlook for the construction sector in 2016 is also positive, and will be bolstered by the 2015 election of President John Magufuli (*see 'Magufuli Premiership A Positive For Economy', May 19*). Through tackling the budget deficit, cutting red tape and clamping down on corruption, we believe that the new president will encourage greater inflows of private investment, with much of this going into infrastructure projects including expansions of the port of Dar es Salaam and the Julius Nyerere International Airport. Moreover, while a large number of public projects have long languished in the pipeline, we expect Magufuli's hard-nosed approach will see him improve Tanzania's traditionally low infrastructure project realisation rates. Indeed, his reputation for pushing through his policy agenda earned him the nickname 'the Bulldozer' while minister for the interior, and we expect a similar approach to public policy as president. While our Infrastructure team has recently modestly downgraded our growth projections for the sector on the back of the uncertainty around the feasibility of the USD10bn Bagamoyo Port project - our forecast for 7.2% real GDP growth in 2016 and 2017 is still well above the SSA average.

Competitive Landscape

Market Structure

Table: Protagonists In Tanzania's Commercial Banking Sector

Central Bank: Bank of Tanzania (BOT)

www.bot-tz.org

According to the Bank of Tanzania Act, 2006, 'The primary objective of the bank shall be to formulate, define and implement monetary policy, directed to the economic objective of maintaining domestic price stability, conducive to a balanced and sustainable growth of the national economy of Tanzania'.

In other words, it is the primary responsibility of the bank to establish monetary conditions conducive to Price Stability over time. Empirical evidence throughout the world suggests that Inflation is mainly caused by excessive creation of money.

Principal Banking Regulator: Bank of Tanzania (BOT)

The Bank of Tanzania Act, 2006, specifies functions and objectives among others as to the regulation and supervision of banks and financial institutions in Tanzania.

The Act is to provide more responsive regulatory role of the Bank of Tanzania in relation to the formulation and implementation of monetary policy; to provide for the supervision of banks and financial institutions and to provide for other related matters.

The Banking and Financial Institutions Act (BFIA), 2006 emanated from the Banking and Financial Institutions Act, 1991 which was repealed and replaced by BFIA, 2006. BFIA, 2006 consolidates the law relating to business of banking, to harmonise the operations of all financial institutions in Tanzania, to foster sound banking activities, to regulate credit operations and provide for other matters incidental to or connected with those purposes.

The Act is to provide for comprehensive regulation of banks and financial institutions; to provide for regulations and supervision of activities of savings and credit co-operative societies and schemes with a view to maintaining the stability, safety and soundness of the financial system aimed at reduction of risk of loss to depositors; to provide for repeal of the Banking and Financial Institutions Act, (Cap. 342) and to provide for other related matters.

Banking Trade Association: Tanzania Bankers Association (TBA)

www.tanzaniabankers.org

The Tanzania Bankers Association (TBA) is an association of banks and non-bank financial institutions registered in September 1995 under the Societies Ordinance Cap. 337 of 1954. The objectives of the TBA include the facilitation of consideration and discussion of matters of common interest to members; to develop and maintain a code of banking practice for its members and to facilitate the harmonisation of operations in the banking sector; to facilitate the promotion of on-the-job training as well as professional training leading to professional banking qualifications or other relevant qualifications in the banking industry; to work closely with the Bank of Tanzania with a view to promoting and sustaining a vibrant banking sector in Tanzania; to co-operate or affiliate with any organisation or body, local or foreign, whose objectives are substantially similar to those of the Association; and to take any measures deemed desirable to further the interests of the banking sector in Tanzania.

Definition of the Commercial Banking Universe

The Bank of Tanzania lists 34 licensed commercial banks. Tanzania Bankers Association (TBA) membership has risen from seven founding members in 1995 to include all 34 members as of latest available data.

List Of Banks

Table: List of Banks in Tanzania
AccessBank Tanzania Ltd.
Advans Bank (Tanzania)
Akiba Commercial Bank Ltd.
African Banking Corporation Tanzania Ltd.
Amana Bank Ltd.
Azania Bank Ltd.
Bank of Baroda Tanzania Ltd.
Bank of India Tanzania Ltd.
Bank of Africa Tanzania Ltd.
Barclays Bank Tanzania Ltd.
Bank M Tanzania Ltd.
Citibank Tanzania Ltd.
Commercial Bank of Africa Tanzania Ltd.
CRDB Bank Plc.
DCB Commercial Bank Ltd.
Diamond Trust Bank Tanzania Ltd.
Ecobank Tanzania Ltd.
Equity Bank (Tanzania) Ltd.
Exim Bank Tanzania Ltd.
FBME Bank Ltd.
First National Bank (Tanzania) Ltd.
Habib African Bank Tanzania Ltd.
I & M Bank (Tanzania)
International Commercial Bank Tanzania Ltd.
KCB Tanzania Ltd.
Mkombozi Commercial Bank Ltd.
National Bank of Commerce Ltd.
National Microfinance Bank Plc.

List of Banks in Tanzania - Continued
NIC Bank (Tanzania) Ltd
Peoples Bank of Zanzibar Ltd.
Stanbic Bank Tanzania Ltd.
Standard Chartered Bank Tanzania Ltd.
United Bank for Africa
UBL Bank Tanzania Ltd.

Source: BOT, TBA, BMI

Company Profile

CRDB Bank Plc

Strengths	▪ Tanzania's largest commercial bank in terms of assets. ▪ Strong track record of progressive profits. ▪ Offers a wide range of banking products and services.
Weaknesses	▪ Only a small number of Tanzanians have formal bank accounts.
Opportunities	▪ Focus on reducing NPL ratio. ▪ Expanding client base via agency banking rollout. ▪ Establishing footprint in neighbouring countries. ▪ Sector set to enjoy strong growth over the coming years.
Threats	▪ Net profit fell by 6% in H114. ▪ Tier 1 capital ratio declined in 2013.

Company Overview

CRDB Bank Plc is a leading, wholly-owned private commercial bank in Tanzania. The bank was established in 1996 and has grown and prospered over the years to become the most innovative, first choice, and trusted bank in the country. CRDB Bank has been recording progressive profit every year since its foundation and has paid dividends annually. The bank was listed on the Dar es Salaam Stock Exchange on June 17 2009.

CRDB Bank offers a comprehensive range of Corporate, Retail, Business, Treasury, Premier, and wholesale microfinance services through a network of over 118 branches, 335 ATMs, 13 Mobile branches, 984 Point of Sales (POS) terminals and over 450 Microfinance partners institutions. The bank also operates through Internet and Mobile banking services. The average number of employees in 2014 was 2,352.

During 2012, the board decided to venture into neighbouring countries by establishing the first subsidiary in Burundi. CRDB Bank's first subsidiary in Burundi was officially launched on December 7 2012 and closed the following year with an asset base of

TZS31.8bn, though the subsidiary suffered a net loss. The bank expects to break even by 2015.

Corporate Highlights

The total assets of the Group grew by 28% y-o-y from TZS3,145.5bn at the end of June 2013 to TZS4,029.7bn at end-June 2014. Deposits grew by 26% to reach TZS3,324.6bn and loans expanded by 25% y-o-y to reach TZS2,223.3bn over the same period.

The Group achieved a net profit of TZS40.6bn in H114, a decrease of 6% from TZS43.0bn realised in the same six-month period of the previous year.

The bank's NPL ratio fell remained at 8% at end-H114, the same as at June 30, 2013.

Company Data

Website: www.crdbbank.com

Table: Stock Market Indicators

	2009	2010	2011	2012	2013	2014	2015	8 Mar 2016
Market Capitalisation TZS	347,008	261,679	375,452	326,480	609,429	935,909	881,496	705,196
Market Capitalisation USD	259	174	237	206	384	540	408	325
Share Price TZS	147.58	111.29	166.93	145.16	270.96	416.12	405.00	270.00
Share Price USD	0.11	0.07	0.11	0.09	0.17	0.24	0.19	0.12
Share Price USD, % change (eop)	na	-32.9	42.7	-13.2	86.4	40.6	-21.9	na
Shares Outstanding (mn)	2,249	2,249	2,249	2,249	2,249	2,249	2,612	na

na = not available. Source: CRDB Bank Plc, Bloomberg

Table: Balance Sheet (TZSmn)

	2008	2009	2010	2011	2012	2013	2014	2015
Total Assets	1,449,800	1,854,867	2,305,402	2,713,641	3,074,816	3,558,668	4,210,097	5,407,817
Loans & Mortgages	836,803	949,505	1,123,348	1,429,262	1,806,865	1,993,106	2,545,296	3,260,587
Total Deposits	1,273,082	1,621,019	2,019,394	2,408,676	2,591,033	3,024,429	3,390,921	4,246,168
Total Shareholders' Equity	140,933	207,774	233,511	254,764	317,432	375,750	441,151	687,398
Earnings per share (TZS)	158.49	21.08	21.00	16.76	35.81	37.51	35.22	54.28

Source: CRDB Bank Plc, Bloomberg

Table: Balance Sheet (USDmn)

	2008	2009	2010	2011	2012	2013	2014	2015
Total Assets	1,100	1,385	1,532	1,715	1,940	2,242	2,429	2,504
Loans & Mortgages	635	709	746	903	1,140	1,256	1,469	1,510
Total Deposits	966	1,210	1,342	1,523	1,635	1,906	1,957	1,966
Total Shareholders' Equity	107	155	155	161	200	237	255	318
Earnings per share (USD)	0.13	0.02	0.01	0.01	0.02	0.02	0.02	0.03

Source: CRDB Bank Plc, Bloomberg

Table: Key Ratios (%)

	2008	2009	2010	2011	2012	2013	2014	2015
Return on Assets	3.1	2.8	2.3	1.5	2.8	2.5	2.5	2.7
Return on Equities	33.0	26.3	21.4	15.4	28.2	24.3	23.4	22.9
Loan Deposit Ratio	66.6	60.6	57.1	61.2	71.0	67.1	76.0	78.7
Loan Asset Ratio	58.5	53.0	50.0	54.4	59.8	57.0	61.2	61.8
Equity Asset Ratio	9.7	11.2	10.1	9.4	10.3	10.6	10.5	12.7
Total Risk Based Capital Ratio	na	21.0	na	na	na	na	17.7	19.4
Tier 1 Capital Ratio	na	21.0	na	14.0	16.0	14.5	15.8	14.1

Source: CRDB Bank Plc, Bloomberg

FBME Bank LTD (Tanzania)

Strengths
- Largest bank in Tanzania by assets.
- Market leader in deposits.

Weaknesses
- Relatively new player to banking sector in Tanzania.
- Small number of branches and employees.

Opportunities
- Strong increase in total assets and deposits during 2013.

Threats
- Central banks of Cyprus and Tanzania took over management of FBME operations after accusations of money laundering by US authorities.
- Not much competition in banking sector in Tanzania.

Company Overview

In 1982, the Federal Bank of the Middle East Limited (FBME) was established in Cyprus as a subsidiary of the Federal Bank of Lebanon SAL. In 1986 it changed its country of incorporation to the Cayman Islands and its banking presence in Cyprus was transformed to that of a branch of the Cayman Islands entity. FBME'S Cyprus operations are licensed and supervised by the Central Bank of Cyprus in its capacity as host supervisory authority.

In 2003, however, FBME terminated its banking presence in the Cayman Islands by re-establishing itself as a legal entity in Tanzania, its Cyprus operations becoming, at the same time, a branch of FBME Tanzania. The bank's Tanzanian operations are licensed and supervised by the Bank of Tanzania. It has been serving its clientele through five branches in Dar Es Salaam, Mwanza, Arusha, and Zanzibar.

In July 2014, FBME's Cyprus branch was taken over by the country's Central Bank after it was accused of money laundering by US authorities. The Cypriot Central Bank stated that it would seek to sell FBME's operations in the country. FBME, meanwhile, said it was the victim of a 'hostile takeover'. In Tanzania, the central bank also took over management of FBME on 24th July in order to 'ensure stability' and protect clients' savings.

Corporate Highlights

Latest available data show FBME posted total assets of TSZ431.0bn as of December 31, 2013, up 43.9% on a year earlier, while total deposits reached TSZ399.8bn, up

51.9% y-o-y. However, around 90% of the group's assets are based in Cyprus, and including these the bank was the largest in Tanzania (in 2012).

Company Data

- **Website:** www.fbme.com/en/home

National Microfinance Bank (NMB)

Strengths

- Largest bank in Tanzania by customer base and branch network.
- Preliminary net profit up 16% in 2014, second year of stellar growth.

Weaknesses

- Competing against a flurry of new entrants into the banking sector over the past few years.

Opportunities

- Rise in both pre-tax and post-tax profit during 2014 full-year.
- Continues to expand branch network.
- Continues to gain market share at the expense of its rivals.
- Sector set to enjoy strong growth over the medium term.

Threats

- NPL ratio ticked up slightly in 2013.

Company Overview

In 1997, the National Microfinance Bank Limited Incorporation Act established the NMB. In 2005, The Government of the United Republic of Tanzania started the privatization process and sold part of its shareholding (49%) to a consortium led by the Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. ('Rabobank Group'). In 2008, the Government reduced its share to 31.8% through the sale of shares to the general public in an IPO (16%) and to the NMB staff (5%). NMB was listed on the Dar es Salaam Stock Exchange on November 6 2008.

NMB is the largest bank in Tanzania, when ranked both by customer base and branch network, with over 150 branches and nearly 500 ATMs located in more than 95% of Tanzania's districts, reaching over 2.2mn customers. This broad branch network distinguishes NMB from other financial institutions in Tanzania, and it says it will continue to provide access to capital to citizens in all areas of Tanzania, including the most remote. The bank had 2,929 employees at end-June 2014 (latest available data).

In August 2014, National Microfinance Bank PLC (NMB) was named "the Best Bank in Tanzania for 2014" by pre-eminent international finance magazine Euromoney, for the second consecutive year. It received the same award from The Banker Magazine for 2014.

In November 2013, NMB launched an account for business customers branded NMD Business Account Plus in Mwanza that would provide an opportunity for self service channels. In May 2014 it also launched a special Executive Network for large scale and medium enterprises to foster closer ties with business customers. In December 2014, NMB announced an agreement with MasterCard to roll out 1.5mn payment cards.

Corporate Highlights

Thanks to the resilient domestic economy, NMB continued to do well in 2014. All key indicators point to continued solid growth, including deposits (up 4.2% y-o-y to TZS2.98trn). Meanwhile total assets increased from TSZ3.78trn to end 2014 at TZA3.88trn.

The bank announced preliminary net profit for 2014 full-year with a profit of TZS155.8bn, up 16% on 2013 (TZS133.9bn) and marking a second year of very strong growth. This was supported by a 14.6% rise in net interest income, to TZS378.3bn.

The bank's non-performing loan (NPL) ratio remained at a relatively low rate of 2.6% as of December 31 2014, thanks to conservative write off and impairment decisions.

Company Data

- **Website:** www.nmbtz.com

Table: Stock Market Indicators

	2009	2010	2011	2012	2013	2014	2015	8 Mar 2016
Market Capitalisation TZS	405,000	330,000	425,000	560,000	1,310,000	1,700,000	1,250,000	1,375,000
Market Capitalisation USD	302	219	269	353	825	981	579	635
Share Price TZS	810.00	660.00	850.00	1,120.00	2,620.00	3,400.00	2,500.00	2,750.00
Share Price USD	0.60	0.44	0.54	0.71	1.65	1.96	1.16	1.26
Share Price USD, % change (eop)	-17.9	-27.5	22.5	31.5	133.6	18.8	-41.0	na
Shares Outstanding (mn)	500	509	500	500	500	500	500	na

na = not available. Source: National Microfinance Bank (NMB), Bloomberg

Table: Balance Sheet (TZSmn)

	2008	2009	2010	2011	2012	2013	2014	2015
Total Assets	1,384,268	1,669,333	2,110,903	2,170,243	2,800,747	3,287,175	3,888,668	4,576,513
Loans & Mortgages	726,479	672,579	857,786	1,123,518	1,345,932	1,606,357	1,986,162	2,457,282
Total Deposits	1,200,484	1,459,399	1,812,441	1,804,495	2,288,074	2,577,946	3,005,585	3,564,770
Total Shareholders' Equity	159,689	192,239	230,520	285,262	364,380	467,189	576,708	665,111
Earnings per share (TZS)	97.41	95.10	108.00	143.62	194.64	267.28	309.68	297.96

Source: National Microfinance Bank (NMB), Bloomberg

Table: Balance Sheet (USDmn)

	2008	2009	2010	2011	2012	2013	2014	2015
Total Assets	1,051	1,246	1,403	1,372	1,767	2,071	2,244	2,119
Loans & Mortgages	551	502	570	710	849	1,012	1,146	1,138
Total Deposits	911	1,090	1,204	1,141	1,444	1,624	1,734	1,650
Total Shareholders' Equity	121	144	153	180	230	294	333	308
Earnings per share (USD)	0.08	0.07	0.08	0.09	0.12	0.17	0.19	0.15

Source: National Microfinance Bank (NMB), Bloomberg

Table: Key Ratios (%)

	2008	2009	2010	2011	2012	2013	2014	2015
Return on Assets	na	3.1	2.9	3.4	3.9	4.4	4.3	3.5
Return on Equities	na	27.0	25.5	27.9	30.4	32.9	30.3	24.3
Loan Deposit Ratio	na	na	na	63.1	60.1	63.8	68.1	69.9
Loan Asset Ratio	na	na	na	52.5	49.1	50.0	52.6	54.5
Equity Asset Ratio	11.5	11.5	10.9	13.1	12.7	13.9	14.5	14.5
Total Risk Based Capital Ratio	na	na	na	na	na	na	22.0	22.0
Tier 1 Capital Ratio	na	na	na	22.0	21.0	22.0	21.0	20.0

na = not available. Source: National Microfinance Bank (NMB), Bloomberg

National Bank of Commerce (Tanzania) Limited

Strengths	▪ Total assets increased for the second consecutive year during 2013.
	▪ Support from strong parent.
Weaknesses	▪ Has struggled to perform over recent years.
Opportunities	▪ Increase in operating income during 2013.
	▪ Strong increase in net profit in 2013.
	▪ Sector set to enjoy strong growth over the coming years.
Threats	▪ Administrative expenses increased during 2013.

Company Overview

NBC Ltd. was formed on April 1 2000 when NBC (1997) Ltd. was privatised and sold to ABSA Group Ltd. of South Africa, part of Barclays Group. NBC (1997) Ltd. was itself born out of the nationalisation of banks and financial institutions in Tanzania in 1967. Tanzania later deregulated banking in 1991. In 1997, a decision was taken to split NBC into three entities, namely NBC Holding Corporation, National Microfinance Bank (NMB) and NBC (1997) Limited. This was the first step towards the privatisation of NBC.

NBC's principal shareholders are Barclays Africa Group Ltd (55% stake), the government of Tanzania (30%) and the International Finance Corporation (15%). As of March 31 2014, the bank had 1,239 members of staff serving customers in 52 different branches.

On May 27 2013, NBC unveiled a new Managing Director, Ms Mizinga Melu. Ms Melu was formerly with Standard Chartered Zambia, where she served 6 years as the Managing Director of the bank. In August 2013, NBC launched a new Chinese currency offering to facilitate growing number of business transactions between Tanzania and China.

Corporate Highlights

As of March 31, 2014 (latest available data), NBC's total assets reached TZS1.66trn, compared with TZS1.59trn at the close of 2013. Total loans fell from TZS0.68trn as of December 2013 to TZS0.63trn by the end of Q114, while deposits rose from TZS1.29trn to TZS1.31trn over the same period.

In 2013, the bank recorded a positive year for its income statement, with net profit almost tripling from TZS3,303mn in 2012 to TZS9,872mn a year later. This came largely as the result of an increase in operating income to TZS150.5bn, compared with TZS131.9bn a year earlier.

At end 2013, the bank posted a NPL ratio stood at 6.5%.

Company Data

- **Website:** www.nbctz.com

Table: Stock Market Indicators

	2007	2008	2009	2010	2011	2012
Shares Outstanding (mn)	1	1	1	1	1	1

Source: National Bank of Commerce (Tanzania) Limited, Bloomberg

Table: Balance Sheet (TZSmn)

	2008	2009	2010	2011	2012
Total Assets	1,135,527	1,294,606	1,453,146	1,502,693	1,517,772
Loans & Mortgages	664,550	676,500	687,702	682,406	654,446
Total Deposits	901,551	1,047,993	1,219,377	1,281,984	1,291,335
Total Shareholders' Equity	136,810	164,446	137,150	147,846	135,933
Earnings per share (TZS)	39755.00	40885.00	-13641.00	11634.00	2252.00

Source: National Bank of Commerce (Tanzania) Limited, Bloomberg

Table: Balance Sheet (USDmn)

	2008	2009	2010	2011	2012
Total Assets	862	966	966	950	958
Loans & Mortgages	504	505	457	431	413
Total Deposits	684	782	810	810	815
Total Shareholders' Equity	104	123	91	93	86
Earnings per share (USD)	33.22	30.87	-9.48	7.35	1.42

Source: National Bank of Commerce (Tanzania) Limited, Bloomberg

Table: Key Ratios (%)

	2008	2009	2010	2011	2012
Return on Assets	3.8	3.4	-1.0	0.8	0.1
Return on Equities	32.5	27.1	-9.0	8.2	1.6
Loan Deposit Ratio	76.4	67.9	62.7	54.8	na
Loan Asset Ratio	60.6	55.0	52.6	46.8	na
Equity Asset Ratio	12.0	12.7	9.4	9.8	9.0
Total Risk Based Capital Ratio	16.8	16.2	12.0	12.6	na
Tier 1 Capital Ratio	na	na	na	na	na

na = not available. Source: National Bank of Commerce (Tanzania) Limited, Bloomberg

Global Industry Overview

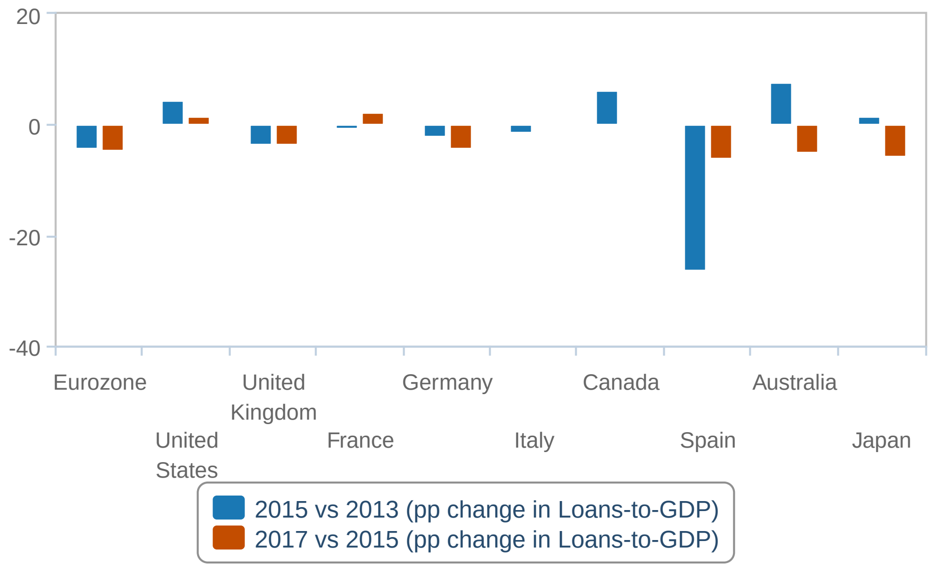
Global Overview

Most countries in **BMI**'s Commercial Banking universe will see continued loan expansion between 2015 and 2017, following on from expansion in 2013-2015. But with economic and political headwinds mounting in many parts of the globe, and high degrees of existing leverage in many cases, our analysts are projecting a generalised loan growth slowdown in most countries. With nominal loan growth rates sometimes providing a deceptive measure of rising leverage, given that domestic inflation can play a major factor in pushing up growth rates, we use the percentage point change in loans as a percentage of GDP. Of the largest 50 banking sectors by assets, we forecast a slowdown in the rise in leverage in 32 countries.

For developed markets, particularly in Europe, the 2013-2015 period saw significant deleveraging in many countries, but generally speaking, this process is not yet over. Loans as a percentage of GDP dropped in the five largest European economies (Germany, the UK, France, Italy, and Spain), with Spanish, Irish and Portuguese loans-to-GDP falling by more than 25pp in that two-year span. While deleveraging will decelerate in the coming two years in each of those countries, in contrast, we forecast a reversal in countries including Australia and Japan, which will deleverage between 2015 and 2017, compared with loan-to-GDP expansion in 2013 to 2015. Another key theme for developed market banking sectors is the squeeze on profitability, which continues to worsen due to a combination of increased regulation, narrowing net interest margins, weak economic activity and, in some cases, worsening asset quality. These conditions are likely to continue restraining credit growth. The US stands out as one of the few developed countries where loans-to-GDP will continue to increase in the next two years, but leverage will remain significantly below the levels prior to the 2008-2009 crisis.

DM Deleveraging To Continue

Bank Loans-to-GDP Changes (pp)



Source: National Sources, BMI

In emerging markets, the key question is how banking sectors will cope with slower structural economic growth going forward. Macroeconomic conditions will be challenging in many of the largest EM banking sectors, which in some cases are dealing with hangovers from unsustainable rises in leverage. The rapid growth in leverage in China stands out as a particular risk. For some commodity exporting countries, the collapse in commodity prices has left financial institutions exposed to bad assets and/or a deteriorating profit and growth outlook (this is particularly evident for banking sectors in oil exporting countries, such as those of the GCC and Nigeria). We see relatively stronger potential in some of the more underbanked markets, however, including the Philippines, Mexico and Peru.

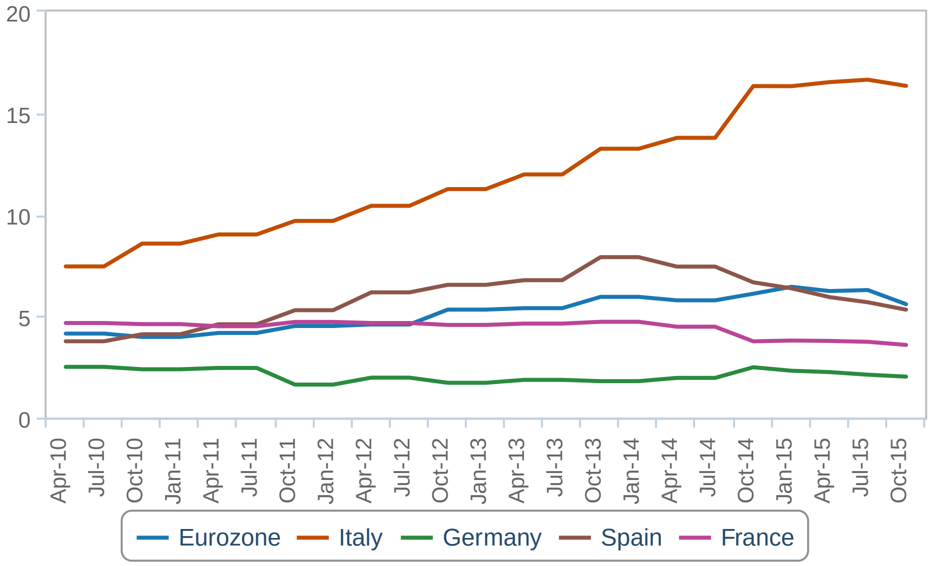
Regional Outlooks

US and Eurozone: The improvement in household balance sheets and steady economic growth will ensure that the recovery in US bank lending will persist in the remainder of 2016. But while the industry is on relatively solid ground, profitability will continue to suffer in a low-yield environment, and long-term risks are rising as a result of unusually aggressive extension of asset duration.

Despite an otherwise convincing recovery in asset and lending growth over the past two years, warning signs are appearing once again for the eurozone banking sector, with declining bank equity prices reflecting an increasingly difficult profit environment, as well as unresolved balance sheet problems. Systemic risks have risen following the UK's vote in June to leave the European Union, with eurosceptic-related political risk putting the woes of major banking sectors such as Italy's into focus.

Italian NPLs Miles Above The Rest

Domestic Banking Sectors' Gross Non-Performing Debt Instruments As % Of Total

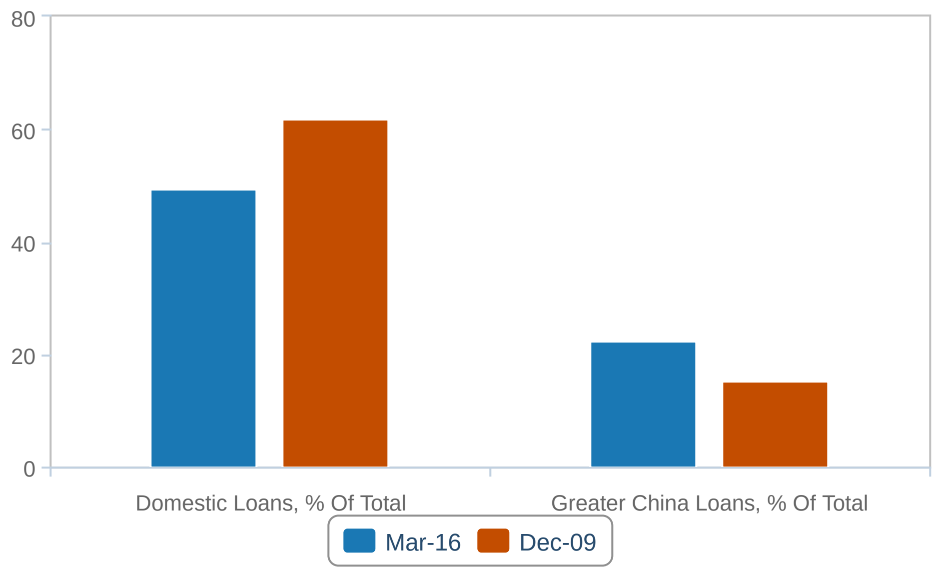


Source: ECB, BMI

Asia: Amid our expectations for Asia Pacific's economic growth to slow further over the coming years, we maintain our view that the general operating environment for Asian banks is likely to remain difficult. We believe that the profitability of Chinese and Indian banks will suffer from rising non-performing loans (NPLs). Singaporean banks are also significantly exposed to the Chinese slowdown, which will compound their domestic woes from a slowing property market. In contrast, we highlight that the fundamentals of banks in the Philippines are stronger, and they will be more resilient than others, despite some political risks stemming from a Rodrigo Duterte presidency.

Singapore Banks Hit By Domestic & China Slowdown

Singapore - Domestic & Greater China Loans, % Of Total

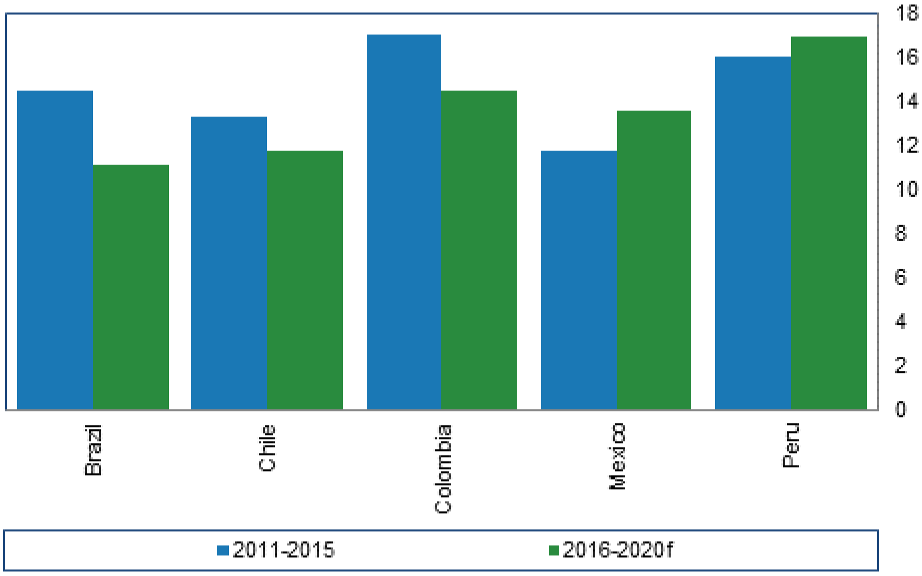


Source: BMI, Bloomberg, Financial Reports

Latin America: Less robust corporate and consumer demand for loans and a relatively risk averse approach to lending by banks will temper commercial banking sector expansion in Latin America over the next five years. Demand for credit will be more subdued as reduced profitability for firms will cap investment and limit borrowing, while dimmer employment prospects for consumers will weigh on their ability to take on new debt. Higher interest rates will also temper credit demand in the short term, raising the cost of capital, although we believe that the bulk of hiking cycles have run their course. At the same time, we expect banks will take a more prudent approach to lending in an environment of significant economic volatility and slower deposit growth. Nevertheless, we see strong long-term potential for expansion in several markets including Mexico, Argentina and Peru due to a combination of low banking sector penetration and economic reforms.

Mexico, Peru Bucking The Trend

Latin America - Average Loan Growth, %

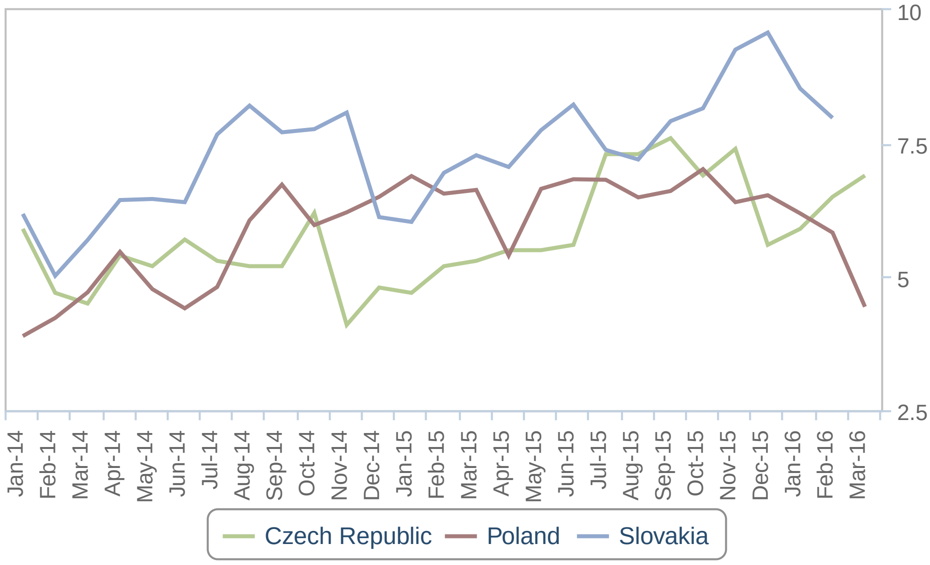


f = BMI forecast. Source: Respective banking sector regulators, BMI

Emerging Europe: Higher domestic and external risks in Emerging Europe will increasingly test banking sector endurance, despite solid macroeconomic fundamentals across most parts of the region. Slower real GDP growth on the back of the UK's vote in June to leave the EU has prompted us to lower our growth forecasts for the countries of Central and Eastern Europe (CEE) between 0.2-0.5pp for 2017. Slower growth will be negative for loan expansion in CEE, which in turn could worsen the region's non-performing loan ratios. It also implies that the low interest rate environment is here to stay, as significant rate hikes across the region seem unlikely. This means net interest incomes and banking sector profitability are set to stay low in CEE going into 2017. Additionally, heightened political risk in countries such as Poland and Turkey will also impair banks' willingness to lend and lead to lower confidence levels among households and non-financial corporations.

Political Uncertainty Weighing On Polish Loan Growth

Client Loan Growth, % chg y-o-y



Source: National sources, BMI

Sub-Saharan Africa: The banking sectors of Africa's two largest economies face a slowdown in loan growth in 2016 and 2017, as macroeconomic conditions remain challenging. South Africa's banking sector benefits from relatively robust capital buffers, suggesting limited systemic risk. However, consumer and business sentiment will continue to deteriorate in the months ahead due to macroeconomic and political factors, resulting in subdued demand from households and commercial enterprises for new loans. This will only be exacerbated in the wake of recent monetary tightening from the South African central bank. Nigerian banks will struggle to turn profits over the course of 2016 as they face challenges on multiple fronts, from weak economic growth, to a liquidity crunch, to an anti-corruption drive which threatens to undermine confidence in banks. Security threats pose a final, pertinent issue. We hold to our view that an all-out banking sector crisis similar to that seen in 2009 is unlikely given the more stringent regulation in place, but risks are mounting, and we project that the sector will endure negative growth in 2016.

Middle East and North Africa: We believe that the boom years for commercial banks in MENA are over, and expect to see slower asset growth across the board over the next five years. Having withstood the shock of lower oil prices in 2015, GCC economies are entering a protracted period of slower economic growth and fiscal retrenchment which will impact deposit growth and lending opportunities for banks. Egypt, Lebanon and Jordan will remain mired in a storm of challenging macroeconomic and political environments.

Table: 50 Largest Banking Sectors By Assets - Change In Loans-To-GDP

	2017 vs 2015 (pp change in Loans-to-GDP)	2015 vs 2013 (pp change in Loans-to-GDP)	Loans-to-GDP Ratio
Eurozone	-4.5	-4.3	166
China	9.9	15.8	152
United States	1.4	4.4	65
United Kingdom	-3.5	-3.6	89
Japan	-5.7	1.6	95
France	2.2	-0.6	97
Germany	-4.2	-2.0	134
Italy	-0.4	-1.2	87
Canada	0.3	6.3	102
Spain	-5.9	-26.3	158
Netherlands	3.9	8.5	134
Australia	-4.8	7.8	145
Hong Kong	-25.0	6.5	309
South Korea	4.0	9.2	125
Brazil	4.0	2.4	69
Switzerland	6.8	4.4	171
India	2.5	0.7	51
Taiwan	11.0	9.1	166
Russia	-0.1	4.2	58
Sweden	0.1	3.2	66
Belgium	-1.2	6.4	165
Ireland	-9.6	-30.7	80
Luxembourg	3.0	18.1	199
Austria	-0.3	-4.2	128
Singapore	8.7	5.6	157
Turkey	3.0	9.8	75
United Arab Emirates	-4.2	26.6	106
Finland	1.8	2.9	95
Saudi Arabia	-0.7	13.1	55
Malaysia	-2.3	3.0	124

50 Largest Banking Sectors By Assets - Change In Loans-To-GDP - Continued

	2017 vs 2015 (pp change in Loans-to-GDP)	2015 vs 2013 (pp change in Loans-to-GDP)	Loans-to-GDP Ratio
Iran	10.6	5.7	52
Norway	3.9	14.7	112
Denmark	0.5	-14.7	108
Thailand	-2.5	3.9	88
Portugal	-11.5	-25.2	110
Mexico	2.3	1.9	20
Indonesia	2.4	-1.8	34
Poland	4.4	5.4	62
Greece	-4.3	-2.4	119
Israel	0.7	2.7	76
South Africa	1.8	3.9	87
Egypt	1.0	3.4	35
Qatar	-1.0	30.7	109
Chile	9.6	7.1	91
New Zealand	3.0	6.3	168
Vietnam	1.6	12.9	110
Philippines	2.2	5.3	42
Czech Republic	1.1	0.8	62
Kuwait	-3.0	29.3	92
Lebanon	4.5	4.5	92

Source: National sources, BMI

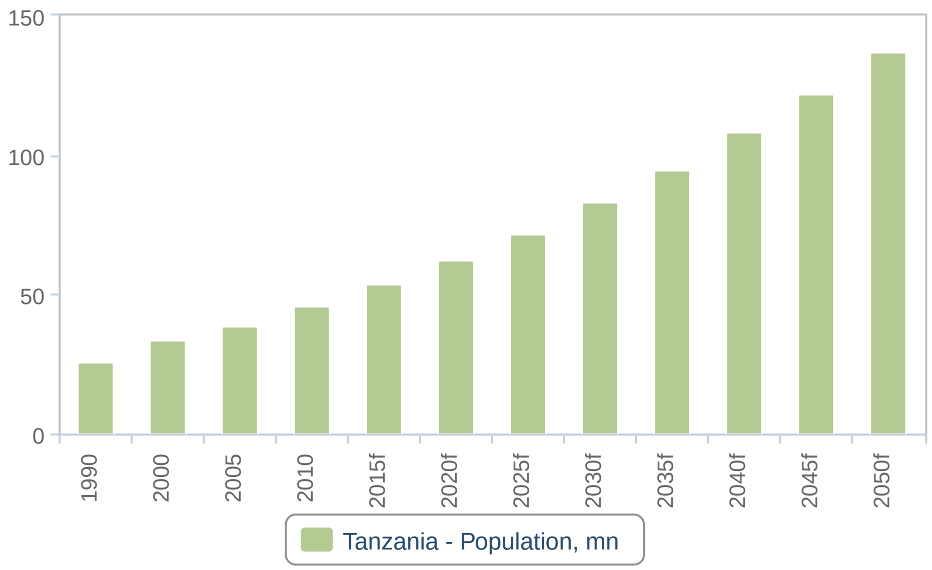
Demographic Forecast

Demographic analysis is a key pillar of **BMI**'s macroeconomic and industry forecasting model. Not only is the total population of a country a key variable in consumer demand, but an understanding of the demographic profile is essential to understanding issues ranging from future population trends to productivity growth and government spending requirements.

The accompanying charts detail the population pyramid for 2015, the change in the structure of the population between 2015 and 2050 and the total population between 1990 and 2050. The tables show indicators from all of these charts, in addition to key metrics such as population ratios, the urban/rural split and life expectancy.

Population

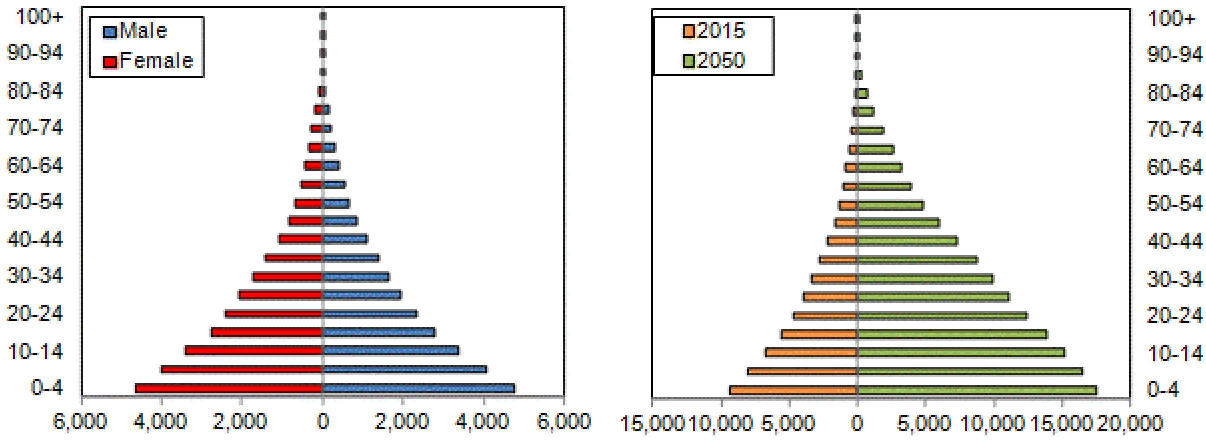
(1990-2050)



f = BMI forecast. Source: World Bank, UN, BMI

Tanzania Population Pyramid

2015 (LHS) & 2015 Versus 2050 (RHS)



Source: World Bank, UN, BMI

Table: Population Headline Indicators (Tanzania 1990-2025)

	1990	2000	2005	2010	2015f	2020f	2025f
Population, total, '000	25,458	33,991	39,065	45,648	53,470	62,267	72,032
Population, % y-o-y	na	2.6	3.0	3.2	3.2	3.0	2.9
Population, total, male, '000	12,608	16,910	19,394	22,665	26,574	30,992	35,900
Population, total, female, '000	12,849	17,080	19,671	22,982	26,896	31,275	36,132
Population ratio, male/female	0.98	0.99	0.99	0.99	0.99	0.99	0.99

na = not available; f = BMI forecast. Source: World Bank, UN, BMI

Table: Key Population Ratios (Tanzania 1990-2025)

	1990	2000	2005	2010	2015f	2020f	2025f
Active population, total, '000	13,054	17,744	20,295	23,641	27,590	32,573	38,575
Active population, % of total population	51.3	52.2	52.0	51.8	51.6	52.3	53.6
Dependent population, total, '000	12,403	16,247	18,769	22,006	25,880	29,693	33,457
Dependent ratio, % of total working age	95.0	91.6	92.5	93.1	93.8	91.2	86.7

Key Population Ratios (Tanzania 1990-2025) - Continued

	1990	2000	2005	2010	2015f	2020f	2025f
Youth population, total, '000	11,713	15,283	17,606	20,578	24,167	27,686	31,072
Youth population, % of total working age	89.7	86.1	86.7	87.0	87.6	85.0	80.6
Pensionable population, '000	690	963	1,163	1,428	1,712	2,007	2,384
Pensionable population, % of total working age	5.3	5.4	5.7	6.0	6.2	6.2	6.2

f = BMI forecast. Source: World Bank, UN, BMI

Table: Urban/Rural Population & Life Expectancy (Tanzania 1990-2025)

	1990	2000	2005	2010	2015f	2020f	2025f
Urban population, '000	4,807.5	7,583.2	9,705.8	12,833.6	16,900.9	21,879.5	27,804.7
Urban population, % of total	18.9	22.3	24.8	28.1	31.6	35.1	38.6
Rural population, '000	20,650.7	26,408.4	29,359.8	32,814.9	36,569.5	40,387.8	44,228.2
Rural population, % of total	81.1	77.7	75.2	71.9	68.4	64.9	61.4
Life expectancy at birth, male, years	48.5	49.9	55.1	60.6	64.1	66.2	67.6
Life expectancy at birth, female, years	51.5	51.1	56.1	62.8	66.9	68.6	70.4
Life expectancy at birth, average, years	50.0	50.5	55.6	61.6	65.5	67.4	69.0

f = BMI forecast. Source: World Bank, UN, BMI

Table: Population By Age Group (Tanzania 1990-2025)

	1990	2000	2005	2010	2015f	2020f	2025f
Population, 0-4 yrs, total, '000	4,641	5,907	7,008	8,135	9,398	10,427	11,486
Population, 5-9 yrs, total, '000	3,822	5,031	5,695	6,816	8,019	9,297	10,337
Population, 10-14 yrs, total, '000	3,249	4,344	4,901	5,625	6,750	7,961	9,248
Population, 15-19 yrs, total, '000	2,722	3,733	4,191	4,811	5,540	6,663	7,880
Population, 20-24 yrs, total, '000	2,247	3,166	3,599	4,107	4,717	5,441	6,559
Population, 25-29 yrs, total, '000	1,844	2,590	3,031	3,502	4,005	4,614	5,333
Population, 30-34 yrs, total, '000	1,510	2,066	2,429	2,917	3,393	3,900	4,507
Population, 35-39 yrs, total, '000	1,222	1,646	1,897	2,309	2,797	3,282	3,792
Population, 40-44 yrs, total, '000	1,036	1,322	1,488	1,786	2,194	2,687	3,175
Population, 45-49 yrs, total, '000	836	1,062	1,215	1,404	1,695	2,101	2,591

Population By Age Group (Tanzania 1990-2025) - Continued

	1990	2000	2005	2010	2015f	2020f	2025f
Population, 50-54 yrs, total, '000	676	891	976	1,142	1,329	1,615	2,014
Population, 55-59 yrs, total, '000	539	709	821	903	1,077	1,259	1,538
Population, 60-64 yrs, total, '000	416	555	643	755	839	1,006	1,181
Population, 65-69 yrs, total, '000	303	412	485	564	677	758	913
Population, 70-74 yrs, total, '000	200	279	339	408	476	577	650
Population, 75-79 yrs, total, '000	114	163	199	257	309	366	448
Population, 80-84 yrs, total, '000	51	76	96	141	163	200	240
Population, 85-89 yrs, total, '000	16	26	33	44	67	80	100
Population, 90-94 yrs, total, '000	3	5	7	10	14	22	27
Population, 95-99 yrs, total, '000	0	0	0	1	1	2	4
Population, 100+ yrs, total, '000	0	0	0	0	0	0	0

f = BMI forecast. Source: World Bank, UN, BMI

Table: Population By Age Group % (Tanzania 1990-2025)

	1990	2000	2005	2010	2015f	2020f	2025f
Population, 0-4 yrs, % total	18.23	17.38	17.94	17.82	17.58	16.75	15.95
Population, 5-9 yrs, % total	15.01	14.80	14.58	14.93	15.00	14.93	14.35
Population, 10-14 yrs, % total	12.76	12.78	12.55	12.32	12.62	12.79	12.84
Population, 15-19 yrs, % total	10.70	10.98	10.73	10.54	10.36	10.70	10.94
Population, 20-24 yrs, % total	8.83	9.32	9.22	9.00	8.82	8.74	9.11
Population, 25-29 yrs, % total	7.25	7.62	7.76	7.67	7.49	7.41	7.40
Population, 30-34 yrs, % total	5.93	6.08	6.22	6.39	6.35	6.26	6.26
Population, 35-39 yrs, % total	4.80	4.84	4.86	5.06	5.23	5.27	5.26
Population, 40-44 yrs, % total	4.07	3.89	3.81	3.91	4.10	4.32	4.41
Population, 45-49 yrs, % total	3.29	3.12	3.11	3.08	3.17	3.37	3.60
Population, 50-54 yrs, % total	2.66	2.62	2.50	2.50	2.49	2.59	2.80
Population, 55-59 yrs, % total	2.12	2.09	2.10	1.98	2.01	2.02	2.14
Population, 60-64 yrs, % total	1.64	1.63	1.65	1.66	1.57	1.62	1.64
Population, 65-69 yrs, % total	1.19	1.21	1.24	1.24	1.27	1.22	1.27
Population, 70-74 yrs, % total	0.79	0.82	0.87	0.89	0.89	0.93	0.90
Population, 75-79 yrs, % total	0.45	0.48	0.51	0.56	0.58	0.59	0.62
Population, 80-84 yrs, % total	0.20	0.23	0.25	0.31	0.31	0.32	0.33

Population By Age Group % (Tanzania 1990-2025) - Continued							
	1990	**2000**	**2005**	**2010**	**2015f**	**2020f**	**2025f**
Population, 85-89 yrs, % total	0.07	0.08	0.09	0.10	0.13	0.13	0.14
Population, 90-94 yrs, % total	0.01	0.02	0.02	0.02	0.03	0.04	0.04
Population, 95-99 yrs, % total	0.00	0.00	0.00	0.00	0.00	0.00	0.01
Population, 100+ yrs, % total	0.00	0.00	0.00	0.00	0.00	0.00	0.00

f = BMI forecast. Source: World Bank, UN, BMI

Methodology

Industry Forecast Methodology

BMI's industry forecasts are generated using the best-practice techniques of time-series modelling and causal/econometric modelling. The precise form of model we use varies from industry to industry, in each case being determined, as per standard practice, by the prevailing features of the industry data being examined.

Common to our analysis of every industry is the use of vector autoregressions, which allow us to forecast a variable using more than the variable's own history as explanatory information. For example, when forecasting oil prices, we can include information about oil consumption, supply and capacity.

When forecasting for some of our industry sub-component variables, however, using a variable's own history is often the most desirable method of analysis. Such single-variable analysis is called univariate modelling. We use the most common and versatile form of univariate models: the autoregressive moving average model (ARMA).

In some cases, ARMA techniques are inappropriate because there is insufficient historic data or data quality is poor. In such cases, we use either traditional decomposition methods or smoothing methods as a basis for analysis and forecasting.

We mainly use OLS estimators, and, in order to avoid relying on subjective views and encourage the use of objective views, we use a 'general-to-specific' method. **BMI** mainly uses a linear model, but simple non-linear models, such as the log-linear model, are used when necessary. During periods of 'industry shock', for example poor weather conditions impeding agricultural output, dummy variables are used to determine the level of impact.

Effective forecasting depends on appropriately selected regression models. **BMI** selects the best model according to various different criteria and tests, including but not exclusive to:

- R^2 tests explanatory power; adjusted R^2 takes degree of freedom into account;
- Testing the directional movement and magnitude of coefficients;
- Hypothesis testing to ensure coefficients are significant (normally t-test and/or P-value); and
- All results are assessed to alleviate issues related to auto-correlation and multi-collinearity.

Human intervention plays a necessary and desirable role in all of our industry forecasting. Experience, expertise and knowledge of industry data and trends ensure analysts spot structural breaks, anomalous data, turning points and seasonal features where a purely mechanical forecasting process would not.

Sector-Specific Methodology

BMI's Commercial Banking Report series is closely integrated with our analysis of country risk, macroeconomic trends and financial markets. The reports draw heavily on our extensive economic dataset, which includes up to 550 indicators per country, as well as our in-depth view of each local market. We collate our commercial banking databank from official sources (including central banks and regulators) wherever possible, and only fall back on secondary sources where all attempts to secure primary data have failed. Company data is sourced, in the first instance, from company reports, with central bank, regulator or trade association data only used as a backup.

- The reports focus on total assets, client loans and client deposits.
- Total assets are analogous to the combined balance sheet assets of all commercial banks in a particular country. They do not incorporate the balance sheet of the central bank of the country in question.
- Client loans are loans to non-bank clients. They include loans to public sector and state-owned enterprises. However, they generally do not include loans to governments, government (or non-government) bonds held or loans to central banks.
- Client deposits are deposits from the non-bank public. They generally include deposits from public sector and state-owned enterprises. However, they only include government deposits if these are significant.
- We take into account capital items and bond portfolios. The former include shareholders funds, and subordinated debt that may be counted as capital. The latter includes government and non-government bonds.

In quantifying the collective balance sheets of a particular country, we assume that three equations hold true:

- Total assets = total liabilities and capital;
- Total assets = client loans + bond portfolio + other assets;
- Total liabilities and capital = capital items + client deposits + other liabilities.

In terms of the equations, other assets and other liabilities are balancing items that ensure equations two and three can be reconciled with equation one. In practice, other assets and other liabilities are analogous to inter-bank transactions. In some cases, such transactions are generally with foreign banks.

In most countries for which we have compiled figures, building societies/thrifts are an insignificant part of the banking landscape, and we do not include them in our figures. The US is the main exception to this.

In some cases, total assets and client loans include significant amounts that are owned or that have been lent to customers in another country. In some cases, client deposits include significant amounts that have been deposited by residents of another country. Such cross-border business is particularly important in major financial centres such as Singapore and Hong Kong, the richer OECD countries and certain countries in Central and Eastern Europe.

Risk/Reward Index Methodology

BMI's Risk/Reward Index (RRI) provides a comparative regional ranking system evaluating the ease of doing business and the industry-specific opportunities and limitations for potential investors in a given market. The RRI system is divided into two distinct areas:

Rewards: Evaluation of a sector's size and growth potential in each state, and also broader industry/state characteristics that may inhibit its development. This is further broken down into two sub categories:

- Industry Rewards. This is an industry-specific category that takes into account current industry size and growth forecasts, the openness of market to new entrants and foreign investors, to provide an overall score for potential returns for investors.
- Country Rewards. This is a country-specific category, and the score factors in favourable political and economic conditions for the industry.

Risks: Evaluation of industry-specific dangers and those emanating from the state's political/economic profile that call into question the likelihood of anticipated returns being realised over the assessed time period. This is further broken down into two sub categories:

- Industry Risks. This is an industry-specific category whose score covers potential operational risks to investors, regulatory issues inhibiting the industry, and the relative maturity of a market.
- Industry Risks. This is a country-specific category in which political and economic instability, legislation and overall business environment are evaluated to provide an overall score.

We take a weighted average, combining industry and country risks, or industry and country rewards. These two results in turn provide an overall Risk/Reward Index, which is used to create our regional ranking system for the risks and rewards of involvement in a specific industry in a particular country.

For each category and sub-category, each state is scored out of 100 (100 being the best), with the overall risk/reward index score a weighted average of the total score. Importantly, as most of the countries and territories evaluated are considered by BMI to be 'emerging markets', our score is revised on a quarterly basis. This ensures that the score draws on the latest information and data across our broad range of sources, and the expertise of our analysts.

In constructing these index scores, the following indicators have been used. Almost all indicators are objectively based.

Table: Commercial Banking Risk/Reward Index Indicators

	Rationale
Industry Rewards	
Estimated total assets, 2015	Indication of overall sector attractiveness. Large markets are considered more attractive than small ones.
Estimated growth in total assets, 2015-2019	Indication of growth potential. The greater the likely absolute growth in total assets, the higher the score.
Estimated growth in client loans, 2015-2019	Indication of the scope for expansion in profits through intermediation.
Country Rewards	
GDP per capita	A proxy for wealth. High-income states receive better scores than low-income states.
Active population	Those aged 16-64 in each state, as a % of total population. A high proportion suggests that the market is comparatively more attractive.
Corporate tax	A measure of the general fiscal drag on profits.
GDP volatility	Standard deviation of growth over seven-year economic cycle. A proxy for economic stability.
Risks	
Industry risks	
Regulatory framework and industry development	Subjective evaluation of de facto/de jure regulations on overall development of the banking sector.
Regulatory framework and competitive environment	Subjective evaluation of the impact of the regulatory environment on the competitive landscape.
Country Risks	
Short-term financial risk	Rating from BMI's Country Risk Ratings (CRR), evaluating currency volatility.
Policy continuity	Rating from CRR, evaluating the risk of a sharp change in the broad direction of government policy.
Legal framework	Rating from CRR, to denote strength of legal institutions in each state. Security of investment can be a key risk in some emerging markets.
Bureaucracy	Rating from CRR to denote ease of conducting business in the state.

Source: BMI

Weighting

Given the number of indicators/datasets used, it would be inappropriate to give all sub-components equal weight. Consequently, the following weights have been adopted:

Table: Weighting Of Indicators

Component	Weighting, %
Rewards	70, of which
Industry Rewards	60
Country Rewards	40
Risks	30, of which
Industry Risks	40
Country Risks	60

Source: BMI