ABC GROUP

CREDIT RATING REPORT

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CREDIT RATING REPORT

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Currency used in this report	:	This report is presented in the Tanzanian Shilling (TZS) unless otherwise noted.

Table 1

ICRA Assigned Rating

AAA	AA	A	BBB +	BB	B	CCC	CC	C	D

(The assigned rating is based on ICRA National Rating Scale for Tanzania)

Table 2

RATING RATIONALE

ICRA has assigned a **"BBB"** rating (based on the ICRA National Rating Scale for Tanzania) with a **"Positive *(+)*"** outlook to **"ABC Group (Tanzania)"** on **12th August 2023**, subject to the absence of any material adverse events that may affect the group's business activities during the validity period.

The assigned rating primarily stems from ABC Group's commendable performance across its geographical locations. The group's notable market leadership as one of the largest banks in the operating countries, along with strong governance, compliance, and leadership practices, further contributes significantly to the final rating. Furthermore, the group's robust capital adequacy, favourable asset quality, and strong liquidity position are additional factors that bolster the positive rating. It is noteworthy that the group successfully transitioned from incurring net losses for two consecutive years (FY18 and FY19) to generating net profits. This achievement emphasizes both the group's inherent potential and its management's resilience, even amid the challenges posed by the COVID-19 pandemic in FY20 and FY21.

Nevertheless, it's important to underline the group's focus on improving net operating profits, as a substantial portion of net profits in the preceding three years originated from non-operating income. Additionally, sustaining the growth momentum in profitability in the upcoming periods is critical for the growth strategy of the group.

In FY22, the group experienced a net cash burn, leading to a slight decline in cash balances. Addressing these concerns vigilantly is necessary to ensure the group's financial stability and enhance confidence among investors and stakeholders. Nevertheless, it is recommended that the group maintain a vigilant watch over industry trends and macroeconomic factors, given their sensitivity to the group's operations.

In conclusion, while the assigned rating and positive outlook reflect the group's strengths, proactive measures are advised to address the highlighted considerations and maintain the positive trajectory.

FACTORS THAT COULD LEAD TO AN UPGRADE

An upgrade to the assigned rating can be reviewed based on the following factors:

- Sustained and ongoing enhancement in performance, marked by consistent growth in profitability coupled with improved earnings in a stable pattern.
- Elevated net operating profits contribute to a more foreseeable and lasting profitability profile, reducing reliance on non-operational gains.
- A transformation of net cash outflows (cash burn) into net cash surpluses, highlighting the group's potential for cash generation capabilities.
- Stable and improving cash balances, leading to a stronger liquidity position.
- Constantly advanced efforts in reducing Non-Performing Loans (NPLs), while emphasizing the promotion of a higher-quality client portfolio.

FACTORS THAT COULD LEAD TO A DOWNGRADE

The assigned rating could further be downgraded based on the following aspects:

- A significant reduction in the group's revenues, profits, or weakened cash flow, significantly impacting financial performance.
- A sudden and substantial surge in non-performing loans, coupled with elevated bad debts.
- Additional deterioration in the group's cash balance due to heightened cash outflows or a continuous cash-burning position in the coming periods.
- Negative effects stemming from adverse market and economic conditions directly affecting the banking sector, thereby presenting challenges for the group.
- Unfavourable trajectory in the group's capital adequacy, earnings, asset quality, and liquidity.
- Implications arising from regulatory alterations or compliance breaches with adverse repercussions on business operations.

CONTENTS

ICRA RATING APPROACH

SCOPE OF THE REPORT

ICRA conducts a comprehensive evaluation of the financial institution's overall business and financial performance before assigning the final credit rating. The objective of the credit rating report is to provide a thorough assessment of the issuer's creditworthiness. To achieve this, ICRA utilizes a combination of financial and non-financial factors, along with qualitative and quantitative credit analysis tools and techniques based on the BASEL III and CAMELS frameworks. ICRA aims to offer valuable insights into the institution's credit profile, helping investors and stakeholders make well-informed decisions regarding their investment and lending activities.

SOURCES OF THE INFORMATION

The credit analysis is carried out based mainly on the documents and information available from reliable third-party sources or provided by the issuer. Further, ICRA also conducts interviews to clarify and gain additional information regarding the institution when needed. Additionally, publicly accessible data is gathered from reputable online domains, research reports, news flows, and third-party databases. Below are the main categories of information sources:

- KYC documents
- Annual audited financial reports
- Industry research articles
- News articles
- Institution/Government press releases
- Third-party data providers (paid/unpaid)
- Management interviews

METHODOLOGY

The credit analysis is carried out based on the *'ICRA methodology for financial institutions credit rating'* which was designed by the in-house ICRA credit risk department. We continuously review the methodology for improvements in line with industry peers and the latest developments in the rating world.

COMPONENTS	Weightage
Business Model/Profile Review	**15%**
Size of the Business	
Competitive Advantages	
Uncertainty (Future Revenues & Profitability)	
Concentration Risk	
Management Quality	**10%**
Governance, Regulatory, and Legal Compliance	
Board of Directors	
Management Team	
Ownership	
Industry Risk	**15%**
Country Risk with Economic, Political, and Social Stability	
Industry Risk	
Financial Analysis	**20%**
Performance	
Financial Position	
Cash Flows	
Ratio Analysis	**40%**
Capital Adequacy	
Earnings	
Asset Quality	
Liquidity	

Table 3

ICRA CREDIT RATING SCALE

CATEGORY	SCALE	DEFINITION
Extremely Low Credit Risk	**AAA**	The entity is in an exceptionally stable and strong position to fulfil its financial commitments. There is a zero or minimal risk of being adversely affected by foreseeable events.
Very Low Credit Risk	**AA**	The entity is in a highly stable and strong position to fulfil its financial commitments. There is a low risk of being adversely affected by foreseeable events.
Low Credit Risk	**A**	The entity is in a stable and strong position to fulfil its financial commitments. There is a marginal risk of being adversely affected by foreseeable events.
Moderate Credit Risk	**BBB**	The entity has a controllable risk level to fulfil its financial commitments. There is a moderate risk of being adversely affected by foreseeable events.
Elevated Credit Risk	**BB**	The entity has considerable risk level to fulfil its financial commitments. There is a considerable risk of being adversely affected by foreseeable events.
Substantial Credit Risk	**B**	The entity has a high-risk level of fulfilling its financial commitments. There is a high risk of being adversely affected by foreseeable events.
Very High Credit Risk	**CCC**	The entity is in a doubtful position to fulfil its financial commitments. There is a significantly high risk of being adversely affected by foreseeable events.
Extremely High Credit Risk	**CC**	The entity is in a highly unlikely position to fulfil its financial commitments. The entity has a high vulnerability to being adversely affected by foreseeable events.
On the Verge of Default	**C**	The entity is incapable of fulfilling its financial commitments and is on the verge of default. The continuity of the business is highly doubtful.
Default Entity	**D**	The entity is already defaulted on or in the process of bankruptcy filing, liquidation, or winding up procedures.
No Rating Assigned	**NRA**	A rating has not been assigned due to insufficient information, legal or regulatory requirements, a lack of reliability of information, or a new or unique entity structure.

(Rating Scales are based on Tanzania national scale)

Outlook: *(+) Positive - Entity's creditworthiness is expected to improve in the near future, potentially leading to rating upgrade.*
( ) Stable - Entity's creditworthiness is expected to remain stable in the near future, with no significant changes anticipated.
(-) Weak - Entity's creditworthiness is expected to deteriorate, potentially leading to rating downgrade.

Table 4

BUSINESS PROFILE OF THE BANK

OVERVIEW

GROUP STRUCTURE

ABC Group

The ABC Group comprises ABC Bank (Tanzania) Limited and its subsidiaries, namely ABC Bank Djibouti S.A., ABC Bank Uganda, ABC Bank Comoros S.A., and Core Securities Limited, collectively referred to as the ABC Group. This conglomerate of entities represents a strategically structured financial network with a diversified presence across multiple regions. The ICRA comprehensive credit rating report offers an analytical assessment and credit rating for the ABC Group (The Group).

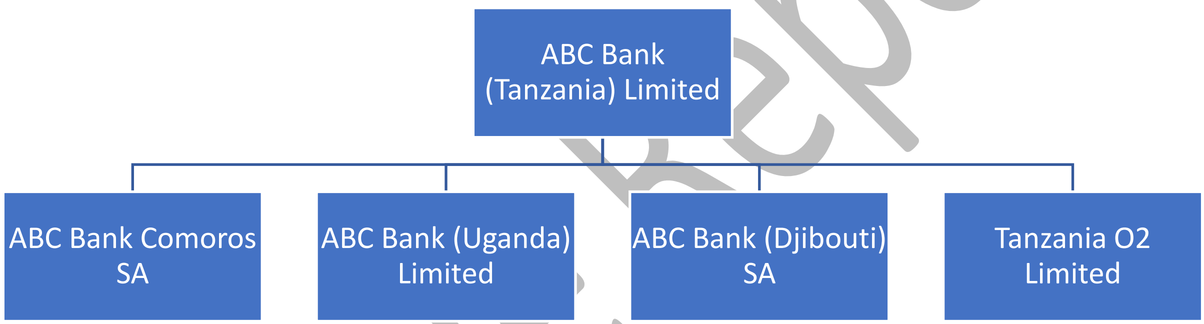

Exhibit 1

ABC Bank (Tanzania) Limited

ABC Bank (Tanzania) Limited is a leading commercial bank operating in the United Republic of Tanzania. The bank is one of the leading financial services providers in four countries and Tanzania's first international bank. It is licenced under the Tanzania Banking and Financial Institutions Act, 2006. Established in 1997, the bank has evolved into a reliable financial institution, catering to the diverse banking needs of individuals, businesses, and industries across the country. With a customer-centric approach, modern technology, and a dedicated team of professionals, ABC Bank Tanzania has earned a reputation for delivering innovative financial solutions.

The bank has had significant breakthrough innovations through the deployment of world-class technology and customer-focused products. It also pioneered mobile ATM facility solutions and an exclusive financing scheme for women in Tanzania. Further, ABC Bank has officially acquired CCC Bank under the supervision of the Bank of Tanzania (BoT) as a continuation of the group's and bank's growth strategy.

ABC Bank (Comoros)

ABC Bank (Comoros) is a subsidiary of ABC Bank Tanzania, established in Comoros in December 2007. It is a member of the ABC Group, a financial services conglomerate with subsidiaries in Djibouti and Uganda. The bank is one of the commercial banks licensed by the Central Bank of the Comoros. It continues to remain at the forefront of providing top-notch banking services in the country. Since its inception, the bank has built a strong brand image through its relationship management and its ability to provide faster service turnarounds. It takes great pride in being the first bank to offer credit cards in Comoros with the introduction of the International Debit MasterCard, Visa Platinum cards, and Visa credit cards. The bank has been awarded the title of 'Bank of the Year' for Comoros for two consecutive years, in recognition of its steady financial improvement and its investment in its sister operations in Uganda.

ABC Bank (Djibouti)

ABC Bank Djibouti is another subsidiary of ABC Bank Tanzania. It was established as a private commercial bank in 2012 in Djibouti with the aim of pioneering new markets across the continent. The bank is among the top four banks in the country in terms of assets, deposits, and advances. The bank was awarded the 'Bank of the Year' award in 2017 and 2018 in Djibouti. The bank provides a range of banking services to its clients, including personal banking, business banking, and corporate banking.

ABC Bank (Uganda) Limited

ABC Bank Uganda is a Tier One (1) supervised financial institution based in Kampala and part of the ABC Bank of Tanzania. ABC Bank (Uganda) Limited (EBUL) was incorporated in 2016 and is regulated by the Bank of Uganda. At its seven branches in and around Kampala city, the bank provides a broad range of corporate, retail, and SME banking products and services at affordable rates with exceptional client service.

The bank has registered its achievements in the industry over the years and continues to grow its asset and liability portfolio through a well-crafted business model that is premised on business intelligence, relationship management, and adherence to the best banking practices. The bank has positioned itself as the preferred choice for customers from the upper middle class when it comes to retail, businesses, and high-net-worth SMEs for corporate banking, all of whom desire to experience world-class service and financial solutions. In 2021, EBUL reached a major milestone when it achieved a profitability threshold amidst the uncertainties brought about by the Covid-19 pandemic. This marked a significant turning point in the history of the bank and set the course for its continued expansion.

VISION AND MISSION

The ABC's visionary objective is articulated as "To emerge as the preferred banking institution," while its overarching mission entails a steadfast dedication to sustaining its innovative stature as a Tanzanian financial entity, delivering services aligned with global benchmarks of excellence.

BRANCH NETWORK

ABC Group has effectively increased its scope and grown its asset base over the years by capitalising on its underlying resilience. The group's operations span Dar es Salaam, Zanzibar, Tanga, Morogoro, Kilimanjaro, Arusha, Manyara, Mwanza, Shinyanga, Kigoma, Iringa, Mbeya, and Mtwara regions in Tanzania and overseas subsidiaries in the Anjouan, Moheli, and Moroni Islands of the Union of Comoros, in the Republic of Djibouti, and Uganda, an international presence unmatched by other Tanzanian banks. From 1997 to date, the ABC Group has managed to expand its network from 4 branches in Dar es Salaam to 30 across the country in Tanzania and 16 others in subsidiaries. In total, there are 46 branches across the group.

The group's impressive pioneering efforts stretch across boundaries. In 2007, the group became the first indigenous bank to establish its footprints overseas in the Union of Comoros. The group has three operational branches on the islands of Moroni, Anjuoan, and Moheli. Inspired by this success, ABC Group also spread its wings further into Djibouti to establish yet another subsidiary, affording a strategic link to landlocked countries in the Horn of Africa. The group further expanded its regional footprint by going into Uganda in 2016 with five branches. These subsidiaries are licensed under the respective laws of Uganda, Comoros, and Djibouti.

PRODUCTS AND SERVICES

Personal Banking

The bank offers a comprehensive range of retail banking products, including savings accounts, current accounts, fixed deposits, personal loans, vehicle loans, and credit cards for individuals. The bank is committed to catering to the banking needs of various individual segments and offers competitive interest rates to customers.

Corporate Banking

ABC Bank provides a comprehensive suite of banking services for businesses, including trade finance, bill discounting, export credit, bank guarantees, letter of credit, pre-and post-shipment financing, working capital finance, short-term finance, project finance, and loan syndication. On the front end of transaction banking, the bank offers corporate current accounts, NGO current accounts, tax bank accounts, school fee collection accounts, and cash management solutions. In addition, the bank also extends its services as a treasury advisor and offers foreign exchange solutions. These solutions have been specifically designed to support the growth and expansion of businesses in Tanzania.

Digital Banking

Recognizing the significance of technology, ABC Bank has invested in digital banking channels. Customers can conveniently access their accounts and other banking services through Internet banking, perform transactions, and avail themselves of various banking services through user-friendly online and mobile platforms.

Alternative Service Delivery Channels

The bank rolled out a number of alternative delivery channels, such as ATMs which are 61, mobile banking services, online banking services, and cash management solutions. The bank is also looking to engage agents across the country to increase the accessibility of its services. The bank had 749 agents at the end of 2022.

AWARDS AND RECOGNITIONS

The group and its subsidiaries have received many awards and recognitions for its quality of services and dedication towards its customers. Below are few of the awards and recognitions the group and subsidiaries have received.

- "Best Innovation Bank" of the year award in 2019 – ABC Bank Comoros
- "Bank of the Year" award in 2017,2018 and 2019 – ABC Bank Djibouti
- "Best Investment Bank" in 2016,2017,2018 and 2019 – ABC Bank Tanzania
- Awarded the first runner up local employer at Employer of the year awards 2022 – ABC Bank Tanzania

MARKET COMPETITION

ABC Group operates in a dynamic and competitive industry environment characterised by both local and international players. The Group is primarily focused on promoting and facilitating international trade. Some of the competitive advantages include the following:

Trade Financing Expertise: ABC Group specializes in providing trade financing solutions, including export credit, import financing, and trade guarantees. Their expertise in understanding the complexities of international trade transactions gives them a competitive edge in serving businesses engaged in cross-border trade.

Extensive Trade Network: The Group has an extensive network of correspondent banks, trade partners, and international connections. This network allows them to provide seamless trade services and faster transaction processing, making them a preferred choice for businesses engaged in global trade.

Customized Financial Solutions: ABC Group may offer tailored financial solutions to meet the unique needs of exporters and importers. This customization could include trade finance packages, foreign exchange, and structured financing options, providing added value to their clients.

Geographic Presence: In addition to Tanzania, the Group is present in Uganda, Comoros, and Djibouti, which gives it a substantial competitive advantage over its rivals. This enables the group to expand its reach and outperform rivals to gain market dominance.

Digital Banking Services: To stay competitive in the modern banking landscape, ABC offers digital banking services, enabling customers to access their accounts, make transactions, and manage their finances conveniently through online platforms and mobile applications.

Innovation and Pioneer Solutions: The Group boasts itself to be the first bank to introduce credit cards with the launch of international debit Master Card, Visa platinum cards, TANAPA debit cards, and Visa credit cards in Comoros. It is also the pioneer of mobile ATM solutions and a special financing program for women in Tanzania.

WORKFORCE

ABC Group is an equal opportunity employer, and this is reflected in the breadth and diversity of its workforce. The bank welcomes individuals from all backgrounds and understands the need to foster an inclusive atmosphere where each person can reach their full potential and prosper. The total staff strength of the Group is 967, out of which 463 are female and 504 are male. The proportion of women in executive management was 34% during the most recent fiscal year. The bank is dedicated to creating an innovative and welcoming workplace environment where the ideas, opinions, attitudes, and abilities of the staff are respected. It intends to promote an environment that fosters personal and professional development.

Drawing from the company profile, the ABC Group has consistently maintained a high level of competitiveness within the Tanzanian banking industry, solidifying its position as a prominent player in the market. This is attributed to its extensive product portfolio, well-established branch network, and over 25 years of industry expertise. As a result, the ABC Group's business profile stands out as robust in comparison to its market competitors.

LEADERSHIP REVIEW

BOARD OF DIRECTORS

The Board of Directors (the "Board") currently comprises eight members. No director held an executive position during the latest fiscal year. The board is required to meet at least four times a year. During the year, the board and its committees met twenty-five times. The board delegated the day-to-day management of the business to the executive management team, comprising the Chief Executive Officer, assisted by the senior management staff. The management team is invited to attend the board sub-committee and board meetings, depending on the agenda items. Management remains responsible for the effective control of the operational activities and acts as a medium of communication and coordination among the various business and operational units of the group.

The group and the bank are committed to high standards of corporate governance. The group has a comprehensive range of policies and procedures in place designed to ensure that it is well-managed with effective oversight and controls. The board of directors sees governance as promoting strategic decision-making that balances short, medium, and long-term outcomes and safeguarding the interests of the bank and the group, shareholders, and the society in which it operates to create sustainable shared value.

Name of Director	Age	Position	Nationality	Qualifications
Mr. John	81	Chairman	Tanzania	Bachelor of Law and Post Graduate Diploma in International Law
Mr. Croos	68	Director	Tanzania	Bachelor of Arts
Mr. Robin	60	Director	Tanzania	Certified Public Accountant
Mr. Shetty	53	Director	Tanzania	MBA
Mr. Kapil	52	Director	British	FCA, Bachelor of Arts (Eco) Hons
Mr. Sunil	71	Director	American	Bachelor of Arts, Government and Economics
Mr. Hassan	70	Director	Singapore	BBA - Finance
Ms. Stella	49	Director	Tanzanian	MBA

Table 5

BOARD COMMITTEES

The Board places substantial reliance on its committees by delegating a broad range of responsibilities and issues to them to achieve effective independent oversight and stewardship. It, therefore, remains crucial that effective linkages are in place between the committees and the Board as a whole, not least because it is impracticable for all non-executive directors to be members of all the committees.

The Board has the following sub-committees to ensure a high standard of corporate governance throughout the year:

Board Credit Committee (BCC): The Credit Committee seeks to ensure that the quality of the asset books remains within acceptable parameters and that the business has an effective credit policy consistent with regulatory requirements and prudent risk management practices, including credit impairment adequacy. This committee met nine times during the latest fiscal year.

Board Risk Management Committee (BRMC): This committee oversees and advises on the current and potential risk exposures of the group, the enterprise risk management framework, risk appetite, risk strategy, including strategy for capital and liquidity management, and promoting a risk awareness culture across the group, alongside established policies, and procedures. The committee met three times during the latest financial year.

Board Audit Committee (BAC): The audit committee is responsible for overseeing the financial reporting process and ensuring that internal control systems are adequate and effective. The committee is responsible, among other things, for reviewing audit plans of both internal and external auditors, communicating areas of concern or improvement, and reviewing management report letters from auditors concerning areas of improvement and deviations in accounting and operating controls. The committee met four times during the last fiscal year.

Board Executive Committee (EXCOM): The executive committee, among other duties, is responsible for some policy development for the bank and group both on a scheduled and ad-hoc basis. It oversees the implementation of policy while acting as a liaison for the main board in decision-making and as a collaboration outlet. This is placed to fill specific gaps in the decision-making process, which is critical to governance best practices. The committee met five times during the last year.

MANAGEMENT TEAM

The group benefits from a management team that is not only highly qualified but also brings a wealth of experience from the financial and banking industries. Their proficiency and deep understanding of the sector became especially evident during the pandemic. Despite the challenges, the group managed to navigate through the situation adeptly, experiencing fewer negative effects compared to its peers in the industry. This underscores the effective leadership and strategic capabilities of the management team.

Mr. Suleman Kaizer – Chief Executive Officer: Mr. Suleman Kaizer is a seasoned banking and finance executive with over twenty years of progressive leadership roles in esteemed financial institutions. He has a proven track record of driving organizational growth, financial excellence, and strategic vision. Mr. Suleman is a graduate of the University of Oxford's Said Business School. He joined ABC Bank Tanzania as Deputy CEO in June 2018, and later, in May 2019, he was appointed CEO of ABC Bank Tanzania. Prior to joining ABC Bank, he was serving as Executive Director of NBC Limited, which is one of the oldest-serving banks in Tanzania. With an extensive background in banking, finance, and strategic management, Mr. Suleman brings a wealth of experience to steer the bank towards growth, stability, and continued success.

Mr. Faizal Gupta – Chief Financial Officer: Mr. Faizal Gupta is performing his duties as CFO of ABC Bank Tanzania. He is an ACCA-certified chartered accountant and joined the bank in January 2020. He boasts a distinguished career in the banking sector, spanning over a decade. He began his journey as a bright and ambitious professional in tax and auditing, working diligently to understand the intricacies of the industry. Over the years, he has held various critical roles in the banking sector, which equipped him with a comprehensive understanding of the market, regulatory landscape, and emerging trends. Prior to becoming the Chief Financial Officer of ABC Bank, he served as the Head of Tax and Statutory Reporting, where he played a crucial role in streamlining operations, enhancing efficiency, and fostering a customer-centric culture.

Mr. Mario Ayub – Chief Internal Auditor: As the Chief Internal Auditor of ABC Bank, Mr. Mario Ayub is a highly skilled and accomplished professional in the fields of auditing and risk management. He is a Certified Public Accountant (CPA) and distinguished financial strategist with a proven track record of driving fiscal excellence and sustainable growth in the banking sector. He joined ABC Bank in November 2018 and has an extensive background in auditing, accounting, and strategic planning. Prior to joining ABC Bank, Mr. Mario was working with KCB Bank Tanzania as Head of Internal Audit. With an impressive background in finance, audit practices, and regulatory compliance, he plays a pivotal role in ensuring the bank's operations are conducted with the utmost transparency, integrity, and adherence to established policies and procedures.

Mr. Suwin Merchant – Chief Technology and Digital Transformation: As Chief Technology and Digital Transformation Officer of ABC Bank, Mr. Suwin is responsible for driving innovation, technology adoption, and digital transformation within the bank. He focuses on enhancing the digital customer experience by leveraging technology to deliver seamless, personalized, and user-friendly interactions. He is also responsible for implementing robust security measures, ensuring compliance with relevant regulations, and proactively addressing cybersecurity threats to safeguard the bank's digital assets.

Apart from the above-mentioned executives, the different departments of the bank are headed by department heads, who play a vital role in the smooth functioning of various arms of the bank and contribute to overall growth functions.

CORPORATE GOVERNANCE

Corporate governance involves balancing the interests of various stakeholders, such as shareholders, management, customers, employees, suppliers, the government, and the community. The board of directors is a fundamental component of corporate governance in a bank. The Board of ABC Group has separate committees, board credit committee, board risk management committee, board audit committee, and the board executive committee, which reflect a high standard of corporate governance throughout the bank. Moreover, the business affairs of the bank are run by a professional management team, suggesting a commitment to operational excellence, effective resource allocation, and the pursuit of strategic initiatives that enhance the bank's overall performance.

Effective corporate governance is vital for the long-term success and sustainability of ABC. It ensures that the bank operates with transparency, accountability, and integrity while managing risks and safeguarding the interests of all stakeholders.

CORPORATE SOCIAL RESPONSIBILITIES (CSR)

Corporate social responsibility involves a commitment to ethical and responsible business practices that go beyond profit generation. It encompasses various initiatives aimed at positively impacting society, the environment, and the communities in which the bank operates. ABC Bank Tanzania is committed to giving back to society and actively engaging in various CSR initiatives.

In 2022, the bank strengthened its ABC Cares division, whose primary mission is to create platforms and initiatives through which ABC staff and associated partners can transform lives. ABC Cares is the social responsibility arm that addresses important social issues and builds on commitment. Further, in line with the ABC Cares mission, each department of the bank is given a budget to choose and support a cause of their choice. Through this approach, charitable activities, such as financing the installation of water at Machame Orphanage Centre and donating basic needs items to several orphanages, were conducted.

The bank supported a number of other programs in the areas of health, education, the environment, and charitable endeavours to supplement its CSR efforts.

OWNERSHIP

The ownership structure of ABC Group comprises five distinct individual businessmen, each possessing an equivalent shareholding percentage. Notably, three of these owners actively assume directorial roles within the group, contributing to its strategic decision-making and overall governance. The synergy of shared ownership, coupled with the engagement of directorial stakeholders, underscores the cohesive and well-structured foundation upon which ABC operates within the business landscape. The following outlines the ownership distribution and associated individuals:

Name	Ownership
Mr. Jay Shankar	20%
Mr. Jaali Awolowo	20%
Mr. Rehema Okpara Hanif Jaffer	20%
Mr. Rehema Okpara	20%
Mr. Kamili Ngige	20%
Total	**100%**

Table 6

RISK PROFILE REVIEW

Risk management in banks is a critical function aimed at identifying, assessing, and mitigating various types of risks that a bank may face in its operations. Banks are exposed to a wide range of risks, including credit risk, market risk, operational risk, liquidity risk, and more. An effective risk management approach and principles are essential to ensuring the stability, sustainability, and profitability of a bank.

The principal risks that may significantly impact the ABC Group's strategies and development are mainly operational and financial, as mentioned below.

Strategic Risks: The risk of the current and prospective impact on income, capital, and reputation of the bank arising from poor business decisions, improper implementation of decisions, or a lack of response to industry or technological changes. To avoid such risks, the bank monitors industry trends and the competitive landscape and conducts strategic reviews to anticipate and address potential challenges.

Credit Risks: The risk of loss arising from the failure of customers or counterparties to fully honour their obligations. This includes the risk of default on loans, bonds, and other credit instruments. To mitigate this risk, the bank has implemented numerous credits monitoring initiatives, ranging from portfolio management to the identification of early warning signs and the timely implementation of corrective actions.

Capital Risks: There is a risk that the bank won't have enough capital to support its regular business operations and satisfy regulatory capital requirements under typical operating circumstances. The bank diligently follows the regulatory guidelines to ensure its capital adequacy requirements are fully complied with.

Interest Rate Risk: The profitability of banks is susceptible to fluctuations in interest rates. The value of assets and liabilities can change in response to a swift and considerable change in interest rates, which can have an influence on net interest income. The bank continuously monitors interest rate fluctuations and aligns its policies according to the prevailing interest rates to avoid potential losses that may arise due to interest rate variations.

Liquidity Risks: This is the risk that a bank may not have sufficient liquid assets to meet its short-term obligations. It can arise from mismatches between assets and liabilities as well as abrupt changes in deposit levels. To minimize this risk, the bank maintains adequate levels of liquid assets to meet short-term obligations.

Market Risks: Banks are exposed to market fluctuations, including foreign exchange risk, and commodity price risk. Changes in these markets can impact the value of assets and liabilities. The bank has a diversified investment portfolio to minimize market risk. Moreover, it conducts stress tests to assess its resilience in extreme scenarios, such as economic downturns or market crashes.

Operational Risk: This risk arises from inadequate or failed internal processes, systems, human errors, fraud, and external events. It includes risks related to technology failures, data breaches, and legal and regulatory compliance. To counter this risk, the bank has implemented robust internal control and risk management procedures. Additionally, regular internal audits help identify operational weaknesses and take corrective measures to enhance operational efficiency.

Compliance and Legal Risk: Non-compliance with laws and regulations, including anti-money laundering (AML) and know your customer (KYC) requirements, can result in legal and financial penalties. The bank regularly reviews and updates its policies and procedures to ensure compliance with the regulations.

Reputation Risk: Reputation risk arises from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, negative public perception, and incorrect interpretation of relevant laws and regulations. Transparent communication with stakeholders and the public and a quick response to any negative events can help mitigate reputational damage.

MACRO ENVIRONMENTAL ANALYSIS

COUNTRY RISK REVIEW

Tanzania is the largest country in East Africa, encompassing the islands of Zanzibar, Pemba, and Mafia. It is bordered by the Indian Ocean and shares its boundaries with eight neighbouring nations, namely Kenya, Uganda, Rwanda, Burundi, the Democratic Republic of the Congo, Zambia, Malawi, and Mozambique. The estimated population of the country stands at approximately 67m (September 2023), with the official local currency being the Tanzanian Shilling (TZS). Dar es Salaam serves as the administrative capital of Tanzania, while Dodoma has been designated as the legislative capital of the nation.

The serving President of Tanzania is Samia Suluhu Hassan (September 2023), who holds the distinction of being the sixth president of the nation and its first female president. She was the former vice president and was sworn in as president following the death of Mr. John Magufuli in March 2021. Her policies and initiatives have geared up the growth of the economy and the development of the country, and as a result, she is expected to remain president until 2025, and there is a high chance she will be voted back for the second term if the success story of the country continues. The president serves as both the head of the country and the chief of the armed services. General elections are conducted once every five years to elect the country's leadership. Further, the shape of the political outlook of Tanzania is changing as opposition parties (CHADEMA and ACT) are collaborating with the main leading party (CCM) to continue the growth trajectory of the country, indicating that Tanzania is one of the most politically stable countries in the region.

Tanzania is currently listed under the "Grey List" by the Financial Action Task Force (FATF), often referred to as "Jurisdictions under Increased Monitoring." This designation signifies that Tanzania is actively collaborating with the FATF to rectify strategic deficiencies in its frameworks for countering money laundering (ML), terrorist financing (TF), and proliferation financing (PF). In October 2022, the Tanzanian government made a significant high-level political commitment in partnership with the FATF and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) to enhance the effectiveness of its Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime. Consequently, Tanzania has instituted institutional structures and enacted various laws to address the issues of money laundering and terrorism financing. Furthermore, the government is dedicated to bolstering the implementation and enforcement of a comprehensive anti-corruption strategy and legislation. The National Anti-Corruption Strategy and Action Plan 2023-28 (NACSAP) represents a key initiative in pursuit of this goal.

According to the World Bank, Tanzania's Gross Domestic Product (GDP) reached USD 75.1bn in FY22, representing approximately 0.03% of the global economy. In a recent update from Fitch in June 2023, Tanzania's real GDP is expected to grow by 5.7% y/y in FY23, compared to the 5.3% y/y growth observed in FY22. This growth is being driven by accelerated investments in large-scale infrastructure projects, resulting in higher wages and increased consumer spending, all of which are positive indicators of a thriving economy. Furthermore, it is anticipated that inflation will decrease to 3.7% by FY23, down from a higher level of 4.9% recorded in January 2023. This reduction in inflation is expected to enhance consumer purchasing power and instil confidence in both businesses and investors. Foreign-financed infrastructure projects are also set to play a significant role in Tanzania's economic growth, with a strong pipeline of projects in the works. In April 2023, the government signed joint venture agreements with three Australian firms—Evolution Energy Minerals, Eco Graf Ltd, and Peak Rare Earths Ltd.—with a focus on mineral extraction, processing, and transportation, including the launch of the country's first large-scale graphite mine. This aligns with the government's goal to expand the mining sector to contribute 10% of GDP by 2025. The mining sector is expected to see a 2.4% increase in gold production in FY23, compared to the 1.8% growth observed in FY22, supported by increased investments and growing gold prices due to financial market fluctuations. Additionally, the government has implemented several initiatives to bolster the agricultural sector, including subsidies for fertilizers and seeds as well as increased seed production. Lower lending rates for the agricultural sector have also been introduced. The tourism sector is expected to witness a 33.9% y/y increase in tourist arrivals in FY23, reaching 1.3 million visitors. Investments in Tanzania's port capacity will further facilitate greater transport exports from neighbouring East African countries like Burundi, Rwanda, the Democratic Republic of Congo (DRC), and Uganda. This is projected to result in an 8.8% rise in tonnage through the Port of Dar es Salaam, reaching 24.2 million tonnes in 2023, up from 22.2 million tonnes in 2022.

While there may be potential for an increase in the policy rate by the Bank of Tanzania in the latter half of FY23 and early FY24, overall consumer spending is expected to remain positive. The overall economic outlook for Tanzania is optimistic, supported by the factors mentioned above and the government's timely implementation of structural reforms aimed at strengthening the economy's competitiveness, improving the business and investment environment, and reducing the cost of regulatory compliance. The World Bank report also emphasizes that improving the efficiency and effectiveness of fiscal policies has enabled the country to boost revenue collection and increase public expenditure, leading to improved human capital outcomes, inclusive economic growth, and prosperity for its citizens.

As of June 2023, Tanzania's foreign exchange reserves stood at USD 5.28bn, an increase from the USD 5.11bn reported during the same period in 2022, as reported by the Central Bank. This growth in reserves ensures that there is sufficient balance to cover 4.8 months of imports, a figure that aligns with the country's minimum benchmark of 4 months, indicating a healthy level of reserves. Additionally, on the positive side, Tanzania managed to reduce its current account deficit to USD 833.2m during the 2Q 2023, compared to a deficit of USD 1.29bn in the same period in 2022. This improvement can be attributed to global commodity price moderation, which has had a favourable impact on the country's trade balance.

Here is a breakdown of Tanzania's imports and exports categorized by products and partner countries.

Import (Categories)	%	Export (Categories)	%
Mineral fuel, oil, distillation products	25%	Pearls, precious stones, metals, coins	44%
Machinery, nuclear reactors, boilers	11%	Cereals	4%
Vehicles other than railway, tramway	9%	Coffee, tea, mate, and spices	4%
Plastics	6%	Edible fruit, nut, citrus fruit, melons	4%
Electrical, electronic equipment	6%	Mineral fuels, oils, distillation products	4%
Other	43%	Other	40%
Total	**100%**	**Total**	**100%**

(Source: Trading Economics/2022 data/ United Nations COMTRADE database on international trade)

Import (Country)	%	Export (Country)	%
China	25%	India	17%
United Arab Emirates	16%	South Africa	14%
India	13%	United Arab Emirates	11%
Saudi Arabia	4%	Kenya	6%
South Africa	4%	Switzerland	5%
Other	38%	Other	47%
Total	**100%**	**Total**	**100%**

(Source: Trading Economics/2022 data/ United Nations COMTRADE database on international trade)

Considering the favourable and encouraging factors pertaining to the economic, political, and other macroeconomic drivers, ICRA anticipates that Tanzania is poised to exhibit a moderate level of country risk, with greater economic stability and sustainable growth potentials especially when compared to its neighbouring peer countries. This assessment is reinforced by the sustained positive economic growth rates and the alleviation of inflationary pressures, despite the global challenges encountered during recent review periods. Nevertheless, it is essential to underscore the inherent challenges faced by the country. These include issues of poverty and inequality, constrained access to quality educational and healthcare facilities, environmental concerns, and limited access to financial resources.

BANKING INDUSTRY

TANZANIA

The banking industry within Tanzania has displayed a level of stability and indications of advancement and improvement. The Bank of Tanzania oversees the country's monetary policies and financial sector regulations, and it plays a vital role in upholding price consistency, stimulating sustainable economic expansion, and upholding the equilibrium of the financial framework.

Tanzania's banking sector showcases diversity, encompassing a range of financial entities that cater to distinct portions of the populace and the economy. These financial institutions are categorized into three primary types:

Commercial Banks: Commercial banks are the most prominent players in Tanzania's banking sector. They provide a comprehensive range of financial services to both individuals and businesses. These services include savings and current accounts, loans, credit facilities, foreign exchange transactions, and trade finance. Commercial banks play a vital role in facilitating economic activities by providing essential financial products and services to individuals for personal needs and to businesses for investment and expansion purposes.

Community Banks: Community banks are smaller in scale compared to commercial banks and serve specific localities or communities. These banks are especially important in rural areas, where they cater to the banking needs of individuals and small businesses that may not have easy access to larger financial institutions. Community banks focus on fostering financial inclusion and supporting local economic development.

Microfinance Institutions: Microfinance institutions (MFIs) target low-income individuals and micro-entrepreneurs who lack access to traditional banking services. MFIs offer small loans, savings accounts, and other financial products to empower the unbanked or underbanked population to engage in income-generating activities and improve their economic conditions. Microfinance plays a significant role in poverty reduction and supporting sustainable development.

Tanzania's banking sector has experienced growth supported by multiple factors. These include a steady macroeconomic environment, increasing financial awareness, and government initiatives aimed at extending financial services to the unbanked population. The government has also adopted a regulatory framework conducive to responsible banking practices and innovation in financial services. Alongside traditional brick-and-mortar banking, there's been a gradual transition towards digital banking and fintech solutions. Urban centres have particularly embraced mobile banking and electronic payment platforms, rendering financial services more accessible and convenient to a broader spectrum of people.

According to the most recent annual report from the Bank of Tanzania, the country's banking sector exhibited robust and steady performance in 2022, marked by strong capital and liquidity levels. The number of supervised institutions in Tanzania's banking sector increased to 61, consisting of 46 banking and 15 non-banking entities. Importantly, all regulatory indicators for financial stability met the required standards, indicating satisfactory sector performance.

UGANDA

When examining Uganda's financial sector, as indicated by the Bank of Uganda (BOU), the outlook appears positive. The BOU is anticipated to loosen its stringent monetary policies with the aim of influencing various interest rates within the financial sector. This move is set to enhance liquidity and foster private sector credit. The projection is for a decrease in non-performing loans across the economy, supported by overall economic improvement and an enhancement in asset quality.

Nonetheless, it's expected that there will be a further depreciation of the Ugandan Shilling. This is primarily attributed to the maintenance of tight monetary policies by advanced economies. Despite this, the overarching prospects for both the Ugandan economy and the banking sector remain promising. This sentiment is underpinned by the anticipation of economic recovery through GDP growth, a reduction in inflationary pressures, and regulatory initiatives that support advancements in the financial and banking sectors. Based on the positive historical track record and the current strong performance of the banking industry, there are positive expectations for the future growth and performance of the Uganda banking sector.

COMOROS

Comoros, situated within the African region, represents a comparatively small economy with a projected GDP of approx. USD 1.28bn by 2023, as forecasted by Trading Economics. Notwithstanding its modest scale, the economic trajectory of Comoros appears promising in the medium term, as articulated by the African Development Bank. This outlook anticipates a GDP growth rate of 3.5% and 4% for the years 2023 and 2024, respectively. This positive momentum is substantiated by the strategic framework of the Plan Comoros Emergent, along with the four-year credit facility arrangement facilitated by the International Monetary Fund (IMF).

Integral to the economic resilience observed, the central bank of Comoros has diligently implemented a series of restrictive monetary policies throughout the preceding year of 2022. These measures were adroitly orchestrated to fortify the ongoing financial evolution within the economic landscape. Despite the encouraging overarching perspective for Comoros, it is discerned that the nation's banking sector may encounter relatively more pronounced challenges in comparison to other operational domains.

The Comoros economy, although modest in scale, is poised for promising advancement, guided by a progressive economic strategy, international collaborations, and astute monetary governance. However, it is more likely that the banking sector in Comoros might confront relatively heightened challenges in comparison to its peers in alternative geographical locations.

DJIBOUTI

Projected by Trading Economics, Djibouti's GDP is poised to reach USD 3.71bn by the end of 2023, with further growth to USD 3.95bn in 2024 and USD 4.23bn in 2025. This upward trajectory is sustained by strategic investments in transport infrastructure and the expanding financial services sector.

A key driver in Djibouti's economic landscape is its strategic move to liberalize banking activities since 2006. This decision has positioned Djibouti as an attractive destination for banks and insurance companies, capitalizing on the growing demand associated with logistics services and trade. The expansion of the financial sector has significantly contributed to Djibouti's overall economic advancement. Despite a comparatively lower population, Djibouti's strategic location as a regional maritime transport hub provides a competitive edge. This, coupled with a relatively growing financial services sector, highlights the untapped potential for both traditional and technology-driven banking services. Djibouti's positioning as a trade hub enhances its significance as a centre for commerce, while the underdeveloped financial sector offers avenues for growth.

ICRA expects a positive banking industry outlook in the operating geo-locations of ABC Group, with strong economic indicators and moderate industry risk. There's a balanced approach to growth and stability. However, it is prudent to underscore the imperative of vigilant economic trend monitoring and macroeconomic factors, as the banking sector is highly sensitive to these variables in order to sustain the operational and financial growth of the group.

FINANCIAL ANALYSIS

PERFORMANCE ANALYSIS

The group has exhibited a positive and consistent upward trend in its interest income over the past five years. In FY22, the interest income experienced a remarkable 15% y/y growth, reaching TZS 179,632m. Enhanced business performance spanning various regions has contributed to this growth, with notably remarkable outcomes observed in Comoros and Djibouti.

In terms of geographical contribution, Tanzania remains the largest revenue contributor with 59%, followed by Djibouti (15%), Uganda (12%), and Comoros (7%). Especially during FY22, Comoros and Djibouti outperformed all other geographies with an impressive 58% y/y growth rate.

While analysing the contribution from core business revenue streams, it is noted that interest income from customers accounted for the largest share, while interest income from banks emerged as the best-performing segment, displaying a significant 47% y/y growth. Additionally, the group has shown a significant increase in income from bonds in FY22.

These positive trends and strong performance in various geographies and product segments indicate the group's sound financial position and effective strategies for driving interest income growth during FY22.

Geographical Revenue Breakdown				
Country	**2021**	**2022**	**Contribution**	**y/y**
Tanzania	104,143	105,750	59%	2%
Comoros	7,880	12,430	7%	58%
Djibouti	16,664	26,409	15%	58%
Uganda	19,344	21,662	12%	12%
Other	8,740	13,381	7%	53%
Total	**156,771**	**179,632**	**100%**	**15%**

Table 7

Segment Breakdown of Revenue				
Segment	**2021**	**2022**	**Contribution**	**y/y**
Interest Income from Customers	111,115	119,390	66%	7%
Interest Income from Banks	2,138	3,144	2%	47%
Income from Govt. Securities	43,455	54,957	31%	26%
Income from Bonds	63	2,141	1%	3298%
Total	**156,771**	**179,632**	**100%**	**15%**

Table 8

Although the net interest income after allowances experienced a decline of 4% during FY22, this can be attributed to higher allowances for credit losses resulting from the adoption of IFRS 9, which fundamentally changed the group's loan loss impairment methodology. However, it is noteworthy that the net interest income before allowance for credit losses showed an impressive 19% y/y growth, reaching TZS 137,631m, surpassing the growth rate of interest income during FY22.

In FY22, the net non-interest income reached TZS 35,692m, demonstrating a substantial y/y growth of 28%. This growth was supported by improved commission incomes.

The group's interest expense has demonstrated a stable pattern over the past three years, with interest expense standing at TZS 42,001m in FY22. This stability in interest expense, despite the improving performance, reflects the group's well-defined strategy towards direct cost management and efficient portfolio management.

Total operating expenses have exhibited a 14% y/y increase, reaching TZS 136,532m, primarily driven by higher operational and administrative costs, as well as increased personnel expenses. The profit before tax has shown remarkable growth, rising to TZS 67,808m with a significant 47% y/y expansion largely supported by income from non-operating activities. The rise in operating costs partially offsets the positive impact of the topline on the net profits for the group.

Over the last three years, the net profit has demonstrated a positive and upward trajectory, rebounding from a loss for two consecutive years in FY18 and FY19 as a result of the adverse effects of the COVID-19 pandemic. The group's ability to outperform its pre-crisis performance over the past three years highlights its resilience and strong growth potential for the future.

Furthermore, a robust performance in FY22 indicates the group's reduced vulnerability to adverse market conditions. Despite ongoing post-COVID impacts on the global economy, disrupted supply chains due to the Russia-Ukraine war, rising inflation, and changing customer spending patterns, the group was able to achieve impressive results during FY22. This resilience underscores the group's adaptability and strategic capabilities in navigating challenging environments.

Performance Trend					
TZS (Millions)	**2018**	**2019**	**2020**	**2021**	**2022**
Net Interest Income	101,515	91,797	99,224	115,329	137,631
Net Non-Interest Income	34,844	35,643	33,471	27,876	35,692
Total operating Expenses	(126,237)	(117,208)	(129,023)	(120,245)	(136,532)
Total Non-Operating Income	15,649	21,384	26,047	28,430	63,332
Profit After Income Tax	(15,779)	(14,993)	15,892	26,669	44,093

Table 9

FINANCIAL POSITION ANALYSIS

The ABC Group has shown strong growth in its total asset base, which reached TZS 2,390,549m during FY22, marking a 14% y/y increase when compared to FY21. This impressive expansion can be primarily attributed to the organic development in both the customer asset portfolio and other income-generating assets of the group.

A substantial portion of the total assets, represented by net loans and advances (63% of total assets), reflects a 14% y/y increase to TZS 1,508,476m by the end of FY22. The loans extended to customers constitute the largest component, contributing 83% to the total loans and advances. Meanwhile, loans and advances offered to banks account for the remaining 17% share. Moreover, an analysis of growth trends reveals that loans and advances to banks experienced a significant 25% y/y growth, contrasting with the 12% y/y increase in loans and advances to customers during FY22. It is relevant to mention that loans and advances to banks encompass short-term lending exclusively to regulated financial institutions, which are characterized as unsecured arrangements. On the other hand, loans and advances to customers contain a diverse range of offerings, including overdrafts, personal loans, and commercial loans. The largest segment among the loans and advances to customers is commercial loans, which consist of 58% of the total customer portfolio.

The bank's prudent investment strategy involves placements in government securities, equity investments, and corporate bonds, collectively amounting to TZS 550,475m as of FY22. Furthermore, the group's holdings in property, plant, and equipment, which also include rights of use assets, recorded a 4% y/y growth when compared to FY21, reaching TZS 67,030m by the end of FY22.

FY22 witnessed a notable shift in total cash balances for the ABC Group, amounting to TZS 234,241m, reflecting a 20% year-on-year contraction compared to the TZS 293,621m recorded in FY21. The decline in cash balance is mainly underpinned by reduced cash allocation to clearing accounts, which declined significantly by 98% in FY22. Within the total cash balance, TZS 95,485m is allocated as part of the Statutory Minimum Requirement (SMR), while the remainder is allocated to cash in hand and clearing accounts within the bank's operational framework. This prudently managed cash position reflects the bank's strategic focus on maintaining regulatory compliance while efficiently managing its liquidity resources.

Key Asset Components					
TZS (Millions)	2018	2019	2020	2021	2022
Cash Balances and SMR	179,235	178,644	307,325	293,621	234,241
Loans and Advances to Banks	130,935	233,278	76,292	208,164	260,219
Loans and Advances to Customers	877,073	953,374	1,095,304	1,113,913	1,248,257
Government Securities	234,779	244,827	324,196	341,060	500,757
Equity Investments	1,722	2,529	2,447	2,571	2,608
Corporate Bonds	30,817	30,583	29,301	20,534	47,110
Intangible Assets	17,390	13,636	13,048	9,417	6,740
PPE	30,292	32,787	35,632	38,042	43,736
Rights of Use Assets	-	34,991	28,644	26,144	23,294
Total Assets	**1,564,365**	**1,785,904**	**1,964,410**	**2,095,199**	**2,390,549**

Table 10

During FY22, the total liabilities of the organisation experienced an increase of 12% y/y, reaching a total of TZS 2,126,059m. This surge was predominantly attributed to increased deposits owed to both banks and customers.

The deposits owed to banks reached TZS 157,452m, reflecting a substantial y/y increase of 195%. These deposits are characterized by their short-term nature and are backed by collateral of TZS 24,500m in the form of pledged treasury bonds. The group's liabilities included deposits due to customers, amounting to TZS 1,815,508m, demonstrating a comparatively modest year-on-year increase of 8%. This predominantly consists of current and demand deposits, savings accounts, and fixed deposits. Current and demand deposits constitute 65% of total customer deposits, while the remaining 35% come under savings accounts and fixed deposit accounts. The group has pledged no collateral for deposits.

In addition to deposits, the group also holds external debt, (incl. lease liabilities), totalling TZS 88,873m. This debt is associated with term borrowing, subordinated debt, senior loans, and lease liabilities. The term borrowing is the TZS 8,566m acquired from the Tanzanian Mortgage Refinance Company, which is set to mature over a 5-year timeframe. This specific borrowing is safeguarded by mortgage loans and advances extended to customers, providing a collateral equivalent to 125% of the outstanding balance. Notably, the combined value of subordinated debt and senior loans decreased to TZS 55,231m in FY22, as opposed to TZS 73,987m in FY21. This encompassed both fixed and floating interest rate arrangements. As of 1st July 2023, the group transitioned from using the LIBOR benchmark to adopting the SoFR benchmark.

The debt maturity profile underscores that a substantial 94%, equivalent to TZS 1,905,490m, of the obligations are to be matured within the upcoming 12 months. To effectively fulfil these contractual obligations, the group has access to available cash balances held with central banks, items in the process of collection, treasury assets, and other eligible financial instruments like bills, loans, and advances provided to banks and customers. Moreover, to address any unforeseen liquidity requirements, the organization maintains a portfolio of securities and possesses additional funding options, such as asset-backed markets, to ensure the fulfilment of obligations without encountering any failures, providing more confidence and extra cushioning to the lenders at large.

Debt Maturity Profile					
TZS Millions	**Less than 3 months**	**3 months to 1 year**	**1-5 years**	**Over 5years**	**Total**
Deposits due to Banks	122,484	34,968		-	**157,452**
Deposits due to Customers	1,527,233	199,886	88,390	-	**1,815,509**
Sub. Debts and Senior Loans	9,082	11,771	34,468	-	**55,321**
Term Borrowing	-	66	-	8,500	**8,566**
Total	**1,658,799**	**246,691**	**122,858**	**8,500**	**2,036,848**

Table 11

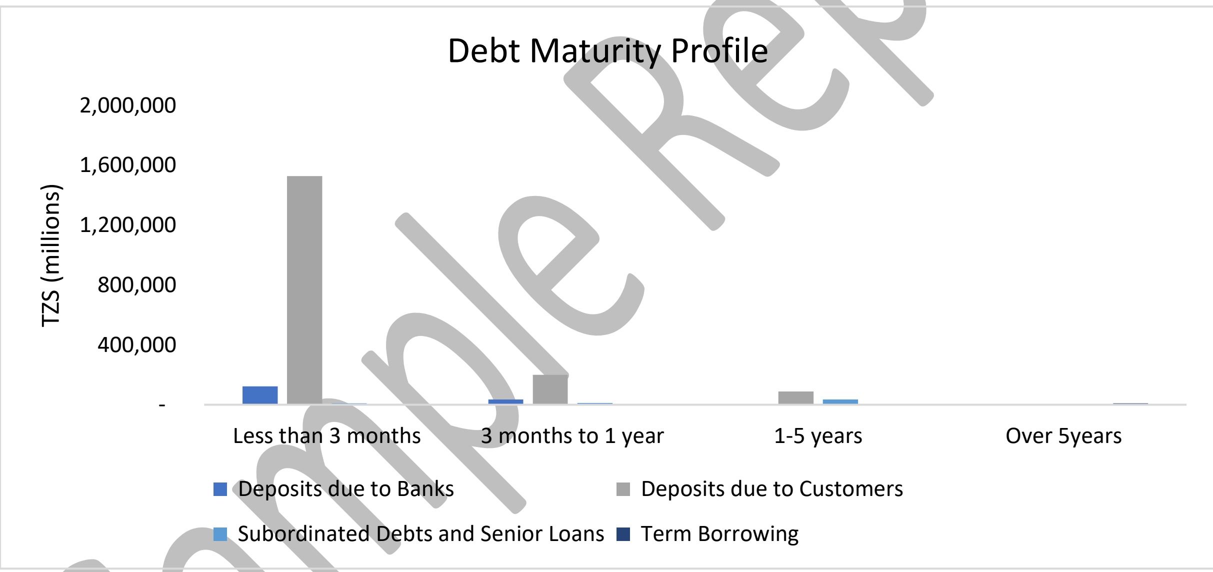

Exhibit 2

In FY22, the consolidated equity of the group experienced growth, reaching TZS 264,490m. This upward trajectory was primarily driven by an increase in retained earnings, backed by improved profitability achieved throughout the year.

Within this equity structure, 7%, equivalent to TZS 19,788m, was apportioned to non-controlling interests, reflecting their stake in the group's operations. The predominant proportion of the equity, totalling TZS 244,702m or 93%, was attributed to the proprietors of the group, signifying their substantial ownership stake.

Moreover, an aggregate amount of TZS 35,550m was reserved in adherence to regulatory requirements stipulated by central banking institutions. This allocation serves to ensure compliance with pertinent financial regulations and standards.

Based on the analysis, ICRA assumes that there are no material risks associated with the financial positions of the ABC group. This assessment is underpinned by a careful evaluation of both internal and external sources of funding, which, coupled with robust liquidity measures, collectively fortify the group's financial standing.

The pronounced diversity evident in the group's portfolio, coupled with its management strategy pertaining to asset maturities, remains a significant point. This strategic initiative significantly bolsters the group's positioning, underscoring its capacity to operate with a heightened degree of resilience within the banking landscape in the immediate future.

Nevertheless, it is imperative to underscore the prevailing declining trajectory of the consolidated cash balance. This aspect warrants careful consideration as it may potentially impact the group's overall liquidity dynamics and merit prudent management strategies to mitigate any adverse effects.

CASH FLOW ANALYSIS

The net operating cash flows have registered a considerable decline of 86% y/y, amounting to TZS 25,109m in FY22. This decline can be primarily attributed to a comparative reduction in favourable working capital adjustments in contrast to FY21 and an increased outflow linked to other adjustments.

Specifically, the cumulative total of working capital adjustments for FY22 was recorded at TZS 23,022m, in contrast to the prior fiscal year's total of TZS 172,955m. This decline is largely underscored by outflow adjustments related to loans and advances, as well as government securities. However, this decrease was partially offset by inflow adjustments pertaining to outstanding deposit dues. These adjustments collectively shaped the dynamic of the net operating cash flows for FY22.

The aggregate of net investing cash outflows exhibited a modest 18% y/y increase, reaching TZS 14,251m in FY22. This upswing primarily stems from increased investments in property, plants, and equipment, amounting to TZS 15,101m during the year.

Conversely, the cumulative net financing cash outflows saw a decline of 49% y/y, reaching TZS 21,838m in the fiscal year 2022 in contrast to TZS 43,042m in the previous year. The group's financing activities encompassed a total obligation settlement of TZS 29,872m, along with an additional debt acquisition of TZS 9,144m.

Furthermore, over the year, the group's financials reflected a net cash burn of TZS 11,070m, in contrast to the net cash surplus of TZS 117,824m achieved during FY21. ICRA foresees a forthcoming transition for the ABC group from a cash-burning status to a cash surplus, aligning with the group's growth strategy to avoid any unexpected liquidity issues.

Cash Flow Statement Extracts

TZS Millions	2018	2019	2020	2021	2022
Net Cash from Operating Activities	26,827	94,253	42,335	172,955	25,019
CAPEX	(9,441)	(11,178)	(14,977)	(12,143)	(16,319)
Net Cash Flow from Investing Activities	(10,120)	(15,142)	(14,681)	(12,089)	(14,251)
Net Cash Flow from Financing Activities	(7,848)	25,520	(53,896)	(43,042)	(21,838)

Table 12

RATIO ANALYSIS

CAPITAL ADEQUACY RATIO

The ABC Group has demonstrated a noteworthy upward trend in its capital adequacy, reflecting a positive evolution in its financial strength. In FY22, the Tier 1 capital ratio witnessed an improvement, reaching 15.1% as compared to 13% in FY21. This enhancement has ensured the group's compliance with the central bank's stipulated minimum requirement of 12.5%. The principal driver behind this improvement can be attributed to a remarkable 37% y/y increase in Tier 1 capital, despite an 18% y/y escalation in risk-weighted assets. This augmentation underscores the group's proactive measures to fortify its core capital base, while concurrently alleviating accumulated losses. This collective effort has culminated in the attainment of a more robust capital position.

Echoing the trend observed in the Tier 1 capital ratio, the total capital ratio has also displayed consistent growth over the past three years. In FY22, the total capital ratio reached 17%, compared to 14.5% in FY21. This advancement comfortably exceeds the minimum central bank-prescribed threshold of 14.5%.

The favourable and concurrent improvement in both capital ratios underscores the group's combined actions to enhance its capital position. This development promises well for the group's financial well-being, underscoring its capacity to effectively absorb potential losses and reinforcing its overall financial resilience.

Capital Adequacy Ratio						
	2018	**2019**	**2020**	**2021**	**2022**	**CB Requirement**
Tier 1 Capital Ratio	13.0%	7.9%	11.3%	13.0%	15.1%	≥ 12.5%
Total Capital Ratio	15.0%	9.9%	13.3%	14.5%	17.0%	≥ 14.5%

Table 13

EARNINGS RATIOS

The group's return on equity (ROE) has exhibited a consistent trend of improvement, rebounding from the adverse impact observed in FY19 due to the effects of the COVID-19 pandemic. The upward trend culminated in a strong ROE of 17% during FY22, signifying noteworthy 4ppts y/y growth. This progression underscores the bank's adept management of its cost structure, which has been instrumental in driving sustainable profitability. The enhancement in ROE is indicative of the bank's capacity to effectively leverage the capital invested by its shareholders, translating into enhanced returns.

Concurrently, the return on assets (ROA) has also shown improvement, transitioning from 1% in FY21 to 2% in FY22. This shift points to enhanced utilization of assets and improved efficiency in deriving profitability from the asset base.

The net interest margin experienced a slight decline to 7% in FY22 from 8% in FY21, this can be primarily attributed to a marginal reduction in net interest income resulting from the adoption of IFRS 9, followed by increased allowances for credit losses. However, when allowances are excluded, the net interest margin reveals a consistent performance of 9%.

The bank's cost-to-income ratio (CIR) demonstrated commendable progress, improving to 79% in FY22 from 84% in FY21, reflecting a positive trajectory observed over the past three fiscal years. This upward trend in the CIR signals robust cost management and operational efficiency measures undertaken by the bank. Nonetheless, a CIR of 79% signifies that the bank expends TZS 0.79 to generate one Tanzanian Shilling, slightly surpassing industry averages.

In conclusion, the growing trends in earnings ratios showcase the bank's commitment to prudent financial management, operational excellence, and its ongoing pursuit of enhanced profitability and efficiency.

Earnings Ratios					
	2018	**2019**	**2020**	**2021**	**2022**
Return on Equity	-9%	-9%	9%	13%	17%
Return on Assets	-1%	-1%	1%	1%	2%
Net Interest Margin	8%	4%	8%	8%	7%
Cost to Income Ratio	91%	92%	94%	84%	79%

Table 14

ASSET QUALITY RATIOS

The bank's gross non-performing loans (NPL) ratio exhibited an improvement, declining from 7% in FY21 to 6% in FY22. This positive shift has been supported by a notable expansion in the volume of gross loans within the group, a development indicative of enhanced loan portfolio quality.

The net NPL ratio, which incorporates provisions for bad debts, also demonstrated a favourable advancement by 2ppts y/y, reaching 4% in FY22. This signifies the effectiveness of the bank's provisioning practices in mitigating non-performing loans within the context of an expanding loan portfolio. This evident enhancement underscores the bank's proactive stance in managing its non-performing loans, thereby fortifying its risk mitigation framework.

Additionally, the provision for loan losses ratio experienced a slight uptick, elevating from 2% in FY21 to 3% in FY22, a shift largely attributed to the adoption of IFRS 9. This increase contributes to expanding the ABC group's capacity to prudently accumulate reserves, thereby bolstering its resilience against potential losses and enhancing its overarching risk management protocols.

As we look forward, the group's sustainable performance indicates vigilant monitoring and effective risk management. These ongoing practices will be instrumental in steering the ABC group's trend towards sustained growth, regulatory compliance, and sound financial health in the years to come.

Asset Quality Ratio					
	2018	**2019**	**2020**	**2021**	**2022**
Gross NPL Ratio	10%	16%	6%	7%	6%
Net NPL Ratio	n/a	13%	5%	6%	4%
Provision for loan losses ratio	8%	6%	3%	2%	3%

Table 15

LIQUIDITY RATIOS

The group's loan-to-deposit ratio has demonstrated significant stability post-FY19. Across FY21 and FY22, this ratio has remained stable at 76%, denoting the group's aptitude to sustain a balance between its loan and deposit portfolios. This consistency is indicative of prudent portfolio management practices, reinforcing the healthiness of the bank's operations vis-à-vis industry benchmarks.

Parallel to this, the loan-to-asset ratio has repeated a similar trend, exhibiting stability at 63% over the previous two years. This underscores the group's commitment to maintaining a balanced alignment between its lending activities and the overall asset composition.

In summation, the bank's measured approach to lending during the analysis period becomes evident through its healthy liquidity ratios. This can be attributed to an emphasis on risk mitigation, aligning with a primary strategic focus on preserving a steady balance between the loan and deposit components of its operations. Such a strategy underscores the bank's commitment to financial stability and risk-conscious growth.

Liquidity Ratios					
	2018	**2019**	**2020**	**2021**	**2022**
Loan to Deposit Ratio	80%	85%	74%	76%	76%
Loan to Asset Ratio	64%	66%	60%	63%	63%

Table 16

RATIO FORMULAS

Cost to income ratio	:	*Total Operating expenses/Total Operating income*
Gross NPL Ratio	:	*Gross NPL/Gross Advances*
Loan to deposit ratio	:	*(Total Loans/Total Deposits) *100*
Loan to Asset Ratio	:	*(Total Loans/Total Assets) *100*
Net interest margin	:	*(Interest income - Interest expense)/Total loans*
Net NPL Ratio	:	*Net NPL/Net Advances*
Return on Assets	:	*Net Income/Total Assets*
Return on Equity	:	*Net Income/Shareholders' Equity*
Tier 1 CAR	:	*Tier 1 Capital /Risk Weighted Assets*
Total CAR	:	*(Tier 1 Capital + Tier 2 Capital)/Risk Weighted Assets*

Exhibit 3

GLOSSARY

&	:	*And*
ACCA	:	*Association of Chartered Certified Accountants*
AML	:	*Anti Money Laundering*
ATM	:	*Automated Teller Machine*
BA	:	*Bachelor of Arts*
BAC	:	*Board Audit Committee*
BCC	:	*Board of Credit Committee*
bn	:	*Billions*
BoT	:	*Bank of Tanzania*
BoU	:	*Bank of Uganda*
BRMC	:	*Board Risk Management Committee*
BSC	:	*Bachelor of Sciences*
CAGR	:	*Compound Annual Growth Rate*
CAPEX	:	*Capital Expenditure*
CAR	:	*Capital Adequacy Ratio*
CEO	:	*Chief Executive Officer*
cf.	:	*Compared to*
CFO	:	*Chief Financial Officer*
CPA	:	*Certified Public Accountant*
CSR	:	*Corporate Social Responsibilities*
D&A	:	*Depreciation and Amortization*
EBIT	:	*Earnings before Interest and Tax*
EBUL	:	*ABC Bank Uganda Limited*
etc.	:	*Et cetera*
EXCOM	:	*Board Executive Committee*
FI	:	*Financial Institutions*
FYxx	:	*Financial Year ending 31-December-20xx*
GDP	:	*Gross Domestic Product*
ICRA	:	*International Credit Rating Agency*
IMF	:	*International Monetary Fund*
ISO	:	*International Organization for Standardization*
k	:	*Thousands*
KYC	:	*Know Your Customers*
LIBOR	:	*The London interbank offered rate*
LLB	:	*Bachelor of Laws*
LLC	:	*Limited Liability Company*
m	:	*Millions*
MBA	:	*Master of Business Administration*
MFI	:	*Micro-Finance Institutes*
na	:	*Not Applicable*
NGO	:	*Non-governmental organization*
NPL	:	*Non-Performing Loans*
OPEX	:	*Operating Expenses*

PPE	:	*Property, Plant and Equipment*
ppts	:	*Percentages points*
ROCE	:	*Return on Capital Employed*
RWA	:	*Risk Weighted Assets*
SME	:	*Small and Medium-sized Enterprises*
SMR	:	*Statutory Minimum Reserve*
SoFR	:	*The Secured Overnight Financing Rate*
SSB	:	*Sharia Supervisory Board*
TRA	:	*Tax Receivable Agreement*
TZS	:	*Tanzanian shilling*
UAE	:	*United Arab Emirates*
USD	:	*United States Dollar*
x	:	*times*
y/y	:	*Year over Year*

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