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The Arise investment portfolio exceeded its initial USD 1 billion investment target during 2021.”



5. Organisational Highlights

5.1. Investment Portfolio Overview

The Arise investment portfolio value recorded an increase of 12% in 2021, with the value rising from USD 903 million in 2020 to USD 1 015 million at the end of 2021. This increase marks a significant milestone for Arise, as the company has now exceeded its initial USD 1 billion investment target. This achievement was primarily attributable to an overall increase in the value of the portfolio post the impact of COVID-19. Arise's investments in EGH, NMB and ETI have recorded strong financial returns and valuations.

5.2. Value Creation Overview

Arise's goal is to collaborate with its partner banks through long-term strategic value creation interventions aimed at supporting these banks to maintain their systemic economic role, sustainability and relevance. Arise's ability to contribute meaningfully to the above objective is premised on a positive partnership with the board and management of each partner bank, through which a joint approach to creating strategic value is formulated.

In identifying value creation collaboration opportunities with partner banks, Arise is guided by the following seven criteria, which we refer to as “value creation levers”:

01
SME02
**F&A
Value
Chain**03
**Green
Energy**04
**Capital
Optimisation
M&A**05
**Financial
Inclusion**06
Governance07
**Gender
Equality**

Annual reviews of our partner bank collaboration opportunities are undertaken, ensuring value creation initiatives are defined and agreed upon for the following year.

The strategic initiatives defined are guided by the following factors:

- Alignment to the partner bank strategy for product development, growth, new markets and acquisitions
- Macro market conditions, including financial and agricultural opportunities, climate vulnerability and gender equality
- Annual development impact data, specifically pertaining to loan ratios and SME numbers
- The relative maturity of the partner bank across several dimensions, including risk, compliance, governance, technology and operations
- Strategic intention to produce sustainable institutions that can weather systemic shocks and stand the test of time
- Shared accountability for the execution of the initiative, with Arise's value contribution being in the form of advisory and consulting capacity.

Arise can contribute skills in the following areas to support partner banks in delivering strategic value creation outcomes:

- Strategy formulation
- Technology management, fintech engagement, cyber security best practice and banking innovation
- Governance, risk and environmental, social & governance (ESG) management
- Agri finance and green finance strategy and implementation
- Credit and liquidity management.

Despite the COVID-19 pandemic continuing to play a disruptive role in Arise's ability to engage its partner bank network "on the ground", various strategic value creation activities were executed in 2021, spanning across the sectors of risk and compliance, technology, cyber security, banking innovation, credit management, liquidity management, data management and ESG interventions.

5.3. Environmental, Social and Governance (ESG) Performance – Strengthening Sustainable and Responsible Banking for our Partners

From an ESG perspective, 2021 saw several significant changes compared to the previous year. As a result of having a dedicated ESG resource in place, and despite

the ongoing pandemic impacting upon face-to-face engagements with partner banks, Arise was able to focus and reignite conversations with its partner banks regarding their respective ESG strategies. The intention is to ensure that sustainability features prominently and consistently on the agenda of partner banks' senior management teams.

A key focus area for the year under review was the enhancement of the quality of developmental reporting from our partner banks. This information is essential to Arise's shareholder reporting requirements and informs the progress made by partner banks against several key developmental objectives.

The reporting year saw Arise successfully host its first ESG-themed webinar event, in addition to a number of specific partner bank ESG-themed initiatives which were hosted during the year. We are pleased to report that the emphasis on ESG has taken a significant step forward. Partner banks have appointed dedicated ESG/sustainability managers and ESG is being reflected on board agendas, while partner banks are also taking bold steps by successfully issuing social and sustainability bonds, which have been oversubscribed to date.

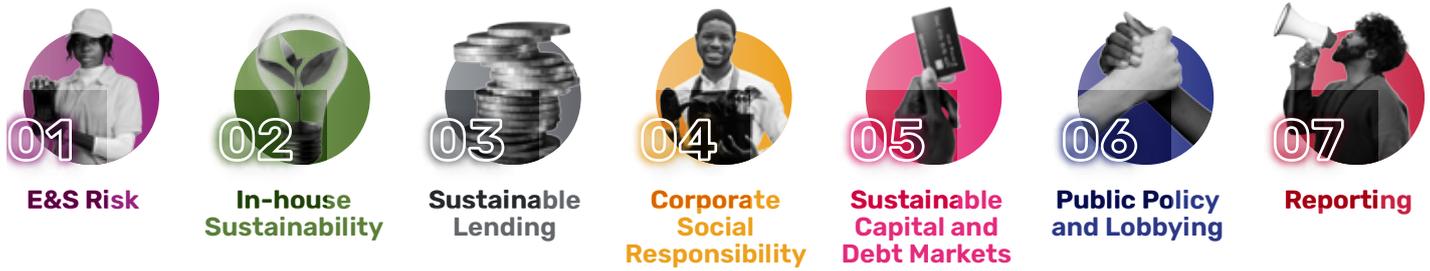
From a strategic perspective, and for the purposes of assessing our partner banks in terms of its ESG performance, it is important to reflect on Arise's approach to its ESG strategy. The United Nations Sustainable Development Goals (SDGs), which inform the Arise mandate, as well as broader principles of responsible investing, can be viewed as thematic aspects of sustainability that cut across the operational aspects of the Arise "Seven-Pillar Sustainability Framework" (Figure 1).

These pillars reflect the core areas of banking operations in which Arise believes sustainable business principles should be embedded, in order for our banks to become sustainable financial institutions over the long term. The framework must be underpinned by a foundation of good governance at both the management and board level.

Dependent on the size and the nature of the business of the partner bank, Arise forms a view as to how each organisation should perform. Armed with this overarching perspective, Arise is in a position to engage with each partner bank to emphasise the Arise ESG agenda. In this way, it aligns not only with each partner bank's existing strategy under each pillar, but also aligns with how Arise believes the partner bank's strategies should be evolving. This is all in the service of ultimately ensuring alignment with the overall Arise investment mandate.

Figure 1

Seven-Pillar Sustainability Framework for Arise Partner Banks



Management and Board Governance (Bank)

Seven-Pillar Sustainability Key

01 E&S Risk

Integration of the principles of responsible investing in the credit risk process, including systemic risk such as climate risk or nature-related risk.

02 In-house Sustainability

“Greening” of corporate real estate assets (head office, data centres, branches, etc.), as well as, in terms of personnel, gender representation at senior management/board level, stakeholder engagement and inclusion, equitable treatment of employees, etc.

03 Sustainable Lending

Lending products that achieve not only a financial return but also have a net positive impact on environmental issues (i.e. climate change) and/or social issues (i.e. financial inclusion). This would apply to products targeting corporate, SME banking, micro-enterprise or retail banking customers.

04 Corporate Social Responsibility

Community engagement initiatives, which should be strategically linked to the external environmental and social capital impacts and/or dependencies of the business and should be as financially self-sustaining as possible.

05 Sustainable Capital and Debt Markets

Encompassing sources of finance ranging from (equity) impact investors, lines of credit and/or loan guarantees from Development Finance Institutions (DFIs), as well as the green, social and sustainability bonds market.

06 Public Policy and Lobbying

Ensuring awareness of emerging regulatory trends with regard to the global sustainability agenda, including contributing to and influencing these trends in a constructive manner, through both individual and collective (i.e. sector-level) engagement.

07 Reporting

Non-financial reporting, including, for example, Taskforce on Climate-related Financial Disclosures integrated reporting, the Global Reporting Initiative and the Sustainability Accounting Standards Board/International Sustainability Standards Board.

Arise Sustainability Mandate

Cross-cutting SDGs include:



SDG #1:
NO
POVERTY



SDG #2:
ZERO
HUNGER



SDG #5:
GENDER
EQUALITY



SDG #8:
DECENT WORK AND
ECONOMIC GROWTH



SDG #13:
CLIMATE
ACTION

These sit alongside the EDFI Harmonised E&S Standards for Financial Institutions.

Bringing global best practice ESG risk management to the boardroom table

Arise, in collaboration with the International Finance Corporation (IFC), hosted an Environmental and Social (E&S) Risk Management masterclass aimed at the board members, executive team members, senior management and the ESG risk team members of our partner banks and subsidiaries.

Close on 130 attendees from the Arise partner network attended these two masterclass sessions. Of these, 49 were board members and 56 were executives and senior managers, affording Arise with a singular opportunity to engage with our partner banks at a senior level on the topic of ESG risk management.

The anecdotal post-webinar feedback was especially rewarding. By way of example, the ESG manager of one of Arise's partner banks described herself as "elated" with the impact that the webinar had on attending executives. A chief risk officer wrote to express how impressed he was with the session and to request support in strengthening the bank's E&S risk framework: this bank has subsequently created a senior sustainability manager role. In addition, one board chair at a major subsidiary of one of our partner banks also wrote to express their appreciation. A post-webinar satisfaction survey was also issued to elicit feedback. What was notable was that 100% of attendees expressed satisfaction with the event, with 60% of respondents indicating that they were "satisfied" with the masterclass, while 40% said they were "very satisfied".

A strategic imperative for Arise is to continue to create vital knowledge-sharing platforms for institutions in the portfolio, which support our long-term collaborative partnership mandate.

5.4. Risk Management Overview

Arise recognises risk as being inherent to its business activities which, if not anticipated and responded to effectively, has the potential to impact adversely on the company's ability to achieve its objectives of being the leading, most trusted local investment and development partner for independent financial service providers across SSA.

Risk management is therefore integral to the organisation's strategy, especially as we expand our footprint across the subcontinent. The Arise risk and compliance framework sets out the process by which the organisation identifies and manages risk within its investment portfolio. Arise takes a holistic and forward-looking view of risks taken, assessing current and emerging risks of the firm and its partner banks. Quantifying the impact of inherent risk exposure is

somewhat challenging, but diversification within asset class and geographical location aims to ensure that the default of one asset will not bring about the overall default of Arise as a going concern.

2021 saw the Arise portfolio continue to contend with the COVID-19 pandemic. Despite this, the partner banks continued to demonstrate their tenacity and resilience and successfully managed to navigate the challenging economic climate. To mitigate its own risk, Arise collaborated with several partner banks to improve their risk and compliance frameworks, employing risk and compliance maturity assessments, and facilitating open dialogue with partner banks on the various components of enterprise risk.

By adopting this approach, Arise understands and tracks the risk profile across its portfolio, maintaining the visibility of emerging risks. It can also assist partner banks in managing their own risk profiles within acceptable limits. We are pleased to report that Arise experienced no material change to its overall organisational strategic risk posture for the 2021 reporting period.

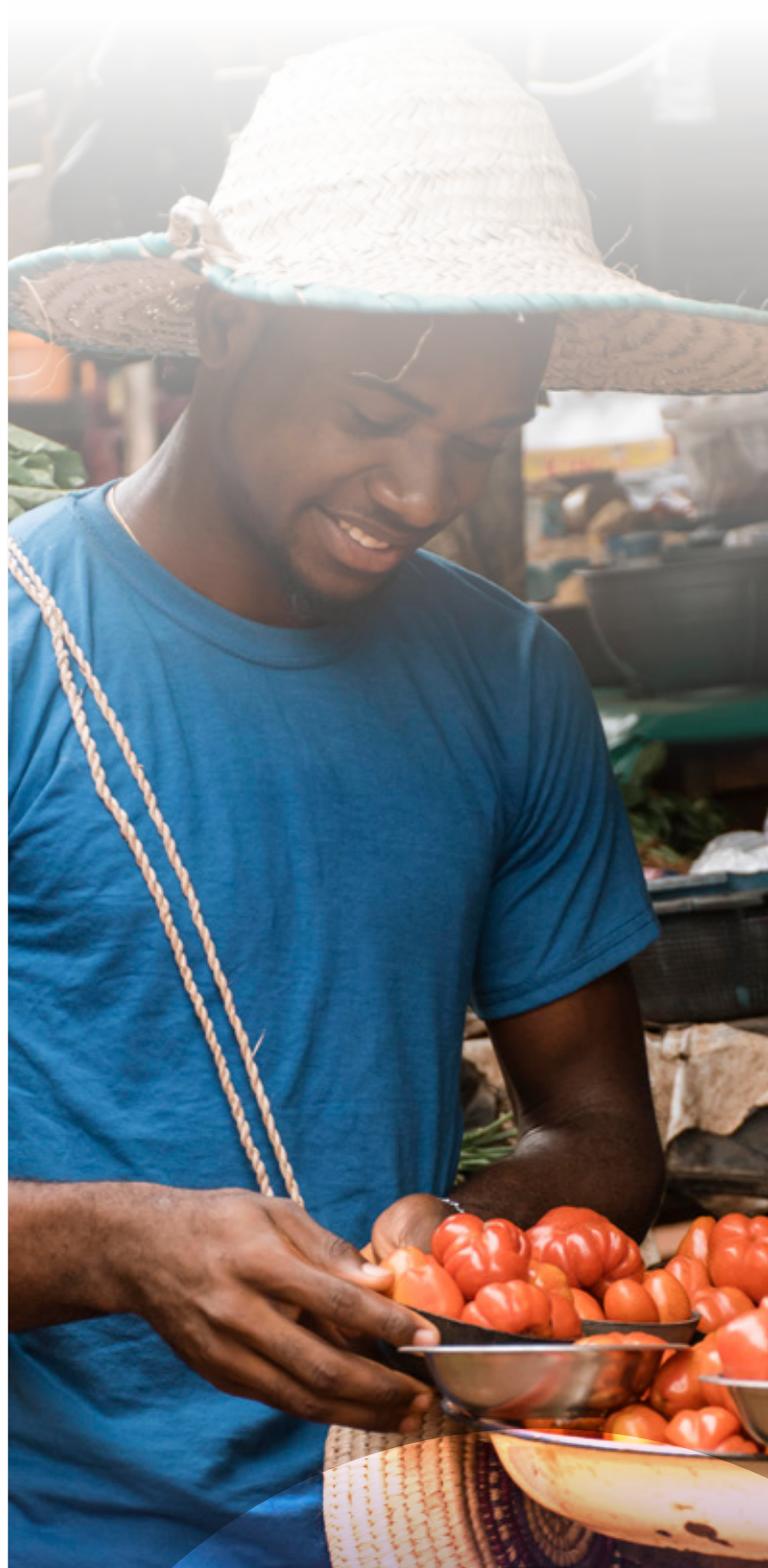
5.5. Innovation and Banking Development

The digital enablement of customer channels, business optimisation through technology, modernisation, cyber security practice, and data management were amongst the focal areas within this portfolio for the reporting period. Arise undertook several collaborative interventions which encompassed the following:

- **Cyber Security** – Arise provided detailed cyber security training at the request of two bank boards, leveraging best practice and cyber incident examples to great effect. The training had the outcome of cyber maturity assessments in both organisations, the adoption of expert cyber support (external) and a general heightened acknowledgement of the cyber risks facing banks.
- **Customer Journey** – Arise introduced the concept of the "customer journey" to two banks in support of driving customer engagement, growth in business and through both, identifying technology changes required to execute the respective customer journeys. Arise leveraged its network expertise to identify and recommend specialist third-party partners, who have expertise in driving large customer journey transformation programmes. With the pending technology modernisation across several banks, the customer journey approach will continue to receive focus from Arise.
- **Enterprise Architecture** – Four banks were introduced to the need for end-to-end enterprise architecture (EA) visibility, which would provide the bank concerned with a view of their current, transition and future-state technology landscape. The EA approach is seen as a

crucial element of a bank's technology modernisation strategy and several partner banks have embarked upon such a strategy. For those EA interventions concluded, a clear technology transition is available, with expected impact and value derivation articulated.

- **VISA Engagement** – Arise facilitated an engagement with VISA with three partner banks where a structured pricing approach across these entities was identified and implemented – this reflects the effect of partner bank collaboration and the “purchase power” of multiple versus one-to-one with VISA.
- **Core Banking** – Five partner banks have embarked upon core banking modernisation programmes as a factor of the banks' overall technology modernisation strategy. To this end, Arise has provided detailed advice and support in the defining of vendor options, vendor terms of reference, request for proposal compilation/adjudication and appropriate programme management, etc. This will remain a focal point for Arise over the next two years.
- **Innovation** – Arise provided detailed guidance relating to API integration, through which banks would be able to leverage fintech innovation through microservice API integration, and the appropriate use of “sandbox” enabling innovative experimentation to develop between the banks and fintech innovation opportunities. In line with the innovation theme, Arise introduced several fintech firms to partner banks, where we saw a synergistic opportunity between one or more fintech and the partner bank networks.
- **Cost management** – Through collaboration with Arise, partner banks and software vendors, significant cost savings were identified for several banks, through licence optimisation, functionality rationalisation, etc. Similar to the VISA engagement, the “virtual” aggregation of partner bank licencing requirements led to cost reductions in annual licence fees.
- **Partner Bank Ecosystem Innovation Impact** – Arise facilitated partner bank interaction across several topics, ranging from workplace banking (dfcu, NMB, Zanaco), multi-currency ATM discussions (Zanaco, NMBZ, Moza Banco), vulnerability risk management reporting (dfcu, Zanaco, Moza Banco and NMB) and robotic process automation (dfcu, Zanaco), amongst others. This facilitated interaction is valued by partner banks as they are able to share experiences within their own organisations and collectively understand the benefits of embarking on new product channel opportunities.



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Arise's goal is to collaborate with its partner banks through long-term strategic value creation interventions.”



The reporting year saw Arise successfully host its first ESG-themed webinar event, in addition to several sustainability initiatives.