MARKET DISCIPLINE GUIDELINES FOR BANKS AND FINANCIAL INSTITUTIONS, 2023

BANK OF TANZANIA

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TABLE OF CONTENTS

PART I 4
PRELIMINARY PROVISIONS 4
Citation 4
Authorization 4
Application 4
Definitions 4
Introduction 4
PART II 5
DISCLOSURE POLICIES AND MANAGEMENT 5
Disclosure Policies 5
Disclosure management 6
Materiality concept 6
PART III 7
PUBLICATION OF THE DISCLOSURES 7
Publication of disclosures 7
Submission of disclosures 8
Disclosures requirements 8
PART IV 8
GENERAL PROVISIONS 8
Sanctions 8
APPENDIX 1 9
The Disclosure Requirements 9
Table 1: Qualitative information about credit risk 9
Table 2: Prudential Regulatory Metrics 10
Table 3: Composition of regulatory capital 11
Table 4: Credit quality of assets 12
Table 5: Standardized approach – credit risk exposure and credit risk mitigation effects 13
Table 6: Standardized approach – exposures by asset classes and risk weights 14
Table 7: Additional disclosure related to the credit quality of assets 15
Table 8: Qualitative disclosure requirements related to credit risk mitigation techniques 16
Table 9: Credit risk mitigation (CRM) techniques – overview 17

Table 10: Operational risk – Qualitative disclosures 18
Table 11: Operational risk – Quantitative disclosures 19
Table 12: Market risk 21
Table 13: Interest rate risk in the banking book 22
Table 14: Leverage Ratio 23
Table 15: Liquidity Coverage Ratio 24
Table 16: Net Stable Funding Ratio 26

	PART I PRELIMINARY PROVISIONS
Citation	1. These Guidelines shall be cited as "*Market Discipline Guidelines for Banks and Financial Institutions, 2023".*
Authorization	2. These Guidelines are issued under Section 71 of the *Banking and Financial Institutions Act, 2006.*
Application	3. These Guidelines shall apply to all banks and financial institutions on solo and consolidated basis and shall come into operation on the 1st day of April 2025.
Definitions	4. In these Guidelines, unless the context otherwise requires: "Act" means the Banking and Financial Institutions Act; "Bank" means the Bank of Tanzania; "bank" has the same meaning ascribed to it in the Act; "financial institution" has the same meaning ascribed to it in the Act.
Introduction	5. Market discipline is the term that describes the monitoring and control of a bank or financial institution's management by outside stakeholders to ensure that it acts in their best interests. Market discipline is effective when relevant stakeholders are able to monitor the activities of a bank or financial institution and respond accordingly.
	6. Stakeholders who actively monitor the activities of a bank or financial institution and act accordingly, will be able to influence the behavior of the bank or financial institution and discourage it from taking actions that may be damaging to its own interests.
	7. Market discipline is most effective when market participants receive frequent, relevant and meaningful information concerning a bank or financial institution's risk management strategies and operations.
	8. The intention of these Guidelines is to encourage the development of disclosure requirements that allow market participants to assess key information on the scope of application, capital risk exposures, risk assessment processes and therefore the capital adequacy of a bank or financial institution. The disclosures have to be consistent with how the board of directors and senior management access and manage the risks of the bank or financial institution.

	9. Disclosure requirements complements the minimum risk-based capital requirements and other quantitative requirements (Pillar 1) and the supervisory review process (Pillar 2) and aims to promote market discipline by providing meaningful regulatory information to investors and other interested parties on a consistent and comparable basis.
	10. Disclosure should be clear, comprehensive, meaningful to users, consistent over the time, and comparable among banks and financial institutions.
	11. These Guidelines will also improve comparability and consistency of disclosures between banks and financial institutions. The use of a common framework will introduce the ability of market participants to engage in meaningful comparisons between banks and financial institutions so that they can reward those that manage their risks prudently and penalize those that do not.
	PART II **DISCLOSURE POLICIES AND MANAGEMENT**
Disclosure Policies	12. A bank or financial institution shall establish appropriate policies and procedures approved by the board that fully outlines its approach to market discipline. At minimum the established policies and procedures shall establish the disclosures to be made, the internal controls over the disclosure process, the frequency and location of disclosures, and the arrangements for ensuring the accuracy and validity of the disclosures.
	13. A bank or financial institution's established disclosure policies and procedures will include a methodology for reviewing and assessing the effectiveness of its established policies and procedures.
	14. The disclosure policies shall be reviewed annually or more frequently as may be necessary to ensure that they remain appropriate and prudent.
	15. The disclosure policies shall be submitted to the Bank not later than thirty days after being approved by the Board, provided that where any changes are made to the policies, the bank or financial institution shall clearly indicate areas of such changes.

Disclosure management	16. A bank or financial institution's disclosures shall take into consideration the nature, size, complexity, structure and diversity of its operations and all of the relevant risks of its operations in a consistent manner and establish a direct relationship between those risks and its capital requirements.
	17. A bank or financial institution's disclosures shall be consistent with the board of directors' and senior management's assessment and management of the bank or financial institution's operations and inherent risks.
	18. Board and senior management shall assess and verify the quality of disclosures before publication. The assessment shall form part of the bank or financial institution's system of internal controls. The board of directors and senior management are responsible for establishing and maintaining an effective internal control structure over the disclosure of financial information, including disclosure requirements made under these Guidelines. They must also ensure that appropriate review of the disclosures takes place. One or more senior officers of a bank, ideally at board level or equivalent, must attest in writing that disclosures have been prepared in accordance with the board-agreed internal control processes.
	19. The methodology used in preparing a bank or financial institution's disclosures must be consistent with those used for its audit purposes. Information in a bank or financial institution's disclosures should be consistent with information in its audited financial statements.
	20. A bank or financial institution's disclosures shall not conflict with established accounting requirements but shall aim to enhance the information of established accounting requirements.
Materiality concept	21. A bank or financial institution will decide what is relevant for disclosure purposes based on the materiality concept. Information shall be regarded as material if its omission or misstatement could change or influence the assessment or decision of a user or stakeholder relying on that information for the purpose of making economic decisions.
Proprietary and confidentiality	22. A bank or financial institution shall neither publicly disclose information that might put it at a competitive disadvantage nor disclose confidential customer information. A bank or financial institution shall ensure appropriate balance between the need for adequate and meaningful disclosure and the protection of proprietary and confidential information.

	23. A bank or financial institution shall take caution in exceptional cases where the disclosure of certain items of information required by these Guidelines may seriously prejudice the position of a bank or financial institution by making public information that is either proprietary or confidential in nature. In these exceptional cases a bank or financial institution will not be required to disclose those specific items, but must disclose general information pertaining to the subject matter or the disclosure requirement. The disclosure of the general information in this regard must be accompanied by confirmation that specific information is missing and the reason why the specific items of information have not been disclosed. This exemption will not under any circumstance conflict with the disclosure requirements under the accounting standards.
	PART III **PUBLICATION OF THE DISCLOSURES**
Publication of disclosures	24. A bank or financial institution shall publish basic quantitative information covering tier I capital, total capital and total required capital on a semi-annual basis and qualitative information that provide a general summary of its risk management objectives, policies, reporting systems and definitions on an annual basis.
	25. A bank or financial institution shall publish semi-annual disclosures under guideline 24 within 45 days after the end of the period to which they relate.
	26. A bank or financial institution shall publish annual disclosures under guideline 24 within 105 days after the end of the year.
	27. A bank or financial institution shall publish disclosures: (a) as a standalone document; or (b) as appendix to its financial reporting; or (c) as a discrete section of its financial reporting, but it must be easily identifiable to users.
	28. Where the disclosures are not contained in the financial reporting, the bank or financial institution's audited or unaudited financial statements will contain a reference as to where the disclosures can be found.

	29. A bank or financial institution shall publish its disclosures, in its website and in at least two newspapers of wide circulation in the United Republic, excluding weekends and public holidays, in the format prescribed by the Bank.
Submission of disclosures	30. A bank or financial institution shall submit to the Bank, a copy of the disclosures within 30 days after the end of the period to which they relate.
Disclosures requirements	31. The minimum disclosure requirements are set out in **Appendix 1**.
	PART IV **GENERAL PROVISIONS**
Sanctions	32. Without prejudice to penalties and actions prescribed by the Act, and unless otherwise required in these Regulations, the Bank may impose on any bank or financial institution any of the following sanctions for non-compliance- (a) a penalty of the amount to be determined by the Bank; (b) prohibition from participating in the Interbank Foreign Exchange Market; (c) prohibition from declaring or paying dividends; (d) suspension of the privilege to issue letters of credit or guarantee; (e) suspension of access to the credit facilities of the Bank; (f) suspension of lending and investment operations; (g) suspension of capital expenditure; (h) suspension of the privilege to accept new deposits; (i) revocation of banking license; (j) suspension from office of the defaulting director, officer or employee; and (k) disqualification from holding any position or office in any bank or financial institution under the supervision of the Bank.
	33. The penalty referred to in paragraph (a) of **guideline 32** may apply to directors, officers or employees of the bank or financial institution.

APPENDIX 1

The Disclosure Requirements

Table 1: Qualitative information about credit risk

A bank or financial institutions shall describe its risk management objectives and policies for credit risk, focusing in particular on:

(a) How the business model translates into the components of the bank's credit risk profile.

(b) Criteria and approach used for defining credit risk management policy and for setting credit risk limits.

(c) Structure and organization of the credit risk management and control function.

(d) Relationships between the credit risk management, risk control, compliance and internal audit functions.

(e) Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors.

Table 2: Prudential Regulatory Metrics

A bank or financial institution is required to disclose each metric's value using the corresponding standard's specifications for the reporting period-end (designated by T in the template below) as well as the four previous quarter-end figures (T-1 to T-4).

		a	b	c	d	e
S/n	Metric	T	T-1	T-2	T-3	T-4
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)					
2	Tier 1					
3	Total capital					
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)					
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)					
6	Tier 1 ratio (%)					
7	Total capital ratio (%)					
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5%)					
9	Total of bank CET1 specific buffer requirements (%)					
10	CET1 available after meeting the bank's minimum capital					
	Basel III leverage ratio					
11	Total Basel III leverage ratio exposure measure					
12	Basel III leverage ratio (%) (Tier 1 Capital / Exposure Measure)					
	Liquidity Coverage Ratio					
13	Total high-quality liquid assets (HQLA)					
14	Total net cash outflow					
15	LCR (%)					
	Net Stable Funding Ratio					
16	Total available stable funding					
17	Total required stable funding					
18	NSFR (%)					

Table 3: Composition of regulatory capital

(To be published semiannually)

CAPITAL ADEQUACY RETURN AS OF ________

S/n	Common Equity Tier 1 capital (CET1): Instruments and reserves	(Current Year) TZS Amount	(Prior Year) Amount
1	Fully Paid-up Ordinary shares Capital		
2	Share Premium arising from Ordinary shares		
3	Retained earnings less foreseeable dividends		
4	Other disclosed reserves;		
5	Year to date profits of:		
6	Fifty per cent of the year to date profits less foreseeable dividends where accounts are unaudited or;		
7	One hundred percent of the year to date profits, less foreseeable dividends, where accounts have been audited subject to submission of the signed accounts to the Bank;		
8	**CET 1 before Regulatory Adjustments**		
9	Regulatory adjustments applied to CET1:		
10	Year to date losses;		
11	Goodwill;		
12	Other intangible assets;		
13	Deferred tax assets that rely on future profitability;		
14	The amount of items where entities with which the bank has reciprocal cross holdings of Common Equity Tier 1 instrument that the Central Bank considers to have been designed to inflate artificially the own funds of the bank;		
15	The amount of items required to be deducted from Additional Tier 1 items that exceed the Additional Tier 1 capital of the bank.		
16	Pre-paid expenses;		
17	Pre-operating expenses.		
18	**Common Equity Tier 1**		
19	**Additional Tier 1 Capital**		
20	Non-cumulative Irredeemable Preference Shares		
21	Share Premium arising from Non-cumulative Irredeemable Preference Shares		
22	Other Qualifying Additional Tier-1 capital instruments plus any related share premium		
23	**Additional Tier 1 Capital before regulatory adjustments**		
24	**Total regulatory adjustment applied to Additional Tier 1 capital**		
25	The amount of items required to be deducted from Tier 2 items that exceed the Tier 2 capital of the bank.		
26	Other Items Qualifying to be deducted from Additional Tier-1 Capital.		
27	**Additional Tier 1 capital recognized for capital adequacy**		
28	**Tier 2 Capital**		
29	Qualifying Tier 2 capital instruments and subordinated loans that meet the conditions stipulated by the Bank.		
30	Share premium arising from capital instruments and subordinated loans qualifying as Tier 2 Capital		
31	Instruments issued by consolidate subsidiaries and held by third parties that met the criteria stipulated by the Bank.		
32	General provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets		
33	**Total Tier 2 capital admissible for capital adequacy**		
34	**TOTAL CAPITAL (Tier Capital plus Tier 2 Capital).**		
35	**Total Risk Weighted Assets (RWA)**		
36	**Capital Ratios and buffers (in percentage of risk weighted assets)**		
37	CET1 to total RWA		
38	Tier-1 capital to total RWA		
39	Total capital to total RWA		
40	Capital conservation buffer		
41	**National minimum capital requirements prescribed by the Bank of Tanzania**		
42	CET1 to total RWA	**8.50%**	**8.50%**
43	Tier-1 capital to total RWA	**10.00%**	**10.00%**
44	Total capital to total RWA	**12.00%**	**12.00%**
45	Capital conservation buffer	**2.50%**	**2.50%**

Table 4: Credit quality of assets

	a	b	c	d
	Gross carrying values of:		Allowances/ impairments	Net values (a+b-c)
	Defaulted exposures	Non-defaulted exposures		
Loans				
Debt securities				
Off balance sheet items				
Total				

Definitions

- Gross carrying values: on- and off-balance sheet items that give rise to a credit risk exposure. On- balance sheet items include loans and debt securities. Off-balance sheet items must be measured according to the following criteria: (a) guarantees given – the maximum amount that the bank or financial institution would have to pay if the guarantee were called. The amount must be gross of any credit conversion factor (CCF) or credit risk mitigation (CRM) techniques. (b) Irrevocable loan commitments – total amount that the bank has committed to lend. The amount must be gross of any CCF or CRM techniques. Revocable loan commitments must not be included. The gross value is the accounting value before any allowance/impairments but after considering write-offs. Banks and financial institutions shall not take into account any credit risk mitigation technique.

- Write-offs for the purpose of this template are related to a direct reduction of the carrying amount when a bank or financial institution has no reasonable expectations of recovery.

- Defaulted exposures: is a non-performing exposure as determined using criteria prescribed in the Banking and Financial Institutions (Management of Risk Assets), Regulations.

- Non-defaulted exposures: any exposure not meeting the above definition of defaulted exposures.

- Allowances/impairments: total amount of impairments, made via an allowance against impaired and not impaired exposures according to the applicable accounting framework and regulatory requirement.

- Net values: Total gross value less allowances/impairments.

Table 5: Standardized approach – credit risk exposure and credit risk mitigation effects

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks						
2	Non-central government public sector entities						
3	Multilateral development banks						
4	Banks and financial institutions						
5	Corporates and securities firms						
6	Retail						
7	Real estate						
8	Defaulted exposures						
9	Other assets						
10	**Total**						

Notes

- Exposures before credit conversion factors (CCF) and CRM – On-balance sheet amount: Banks and financial institutions shall disclose the regulatory exposure amount (net of specific provisions, including partial write-offs) under the regulatory scope of consolidation gross of (i.e. before taking into account) the effect of CRM techniques.

- Exposures before CCF and CRM – Off-balance sheet amount: Banks and financial institutions shall disclose the exposure value, gross of CCFs and the effect of CRM techniques under the regulatory scope of consolidation.

- Exposures post-CCF and post-CRM: This is the amount to which the capital requirements are applied. It is a net credit equivalent amount, after CRM techniques and CCF have been applied.

- RWA density: Total risk-weighted assets/exposures post-CCF and post-CRM (i.e. column (e) / (column (c) + column (d))), expressed as a percentage.

Table 6: Standardized approach – exposures by asset classes and risk weights

	0%	20%	50%	100%	150%	Total credit exposure amount (post-CCF and post-CRM)
Sovereigns and their central banks						

	20%	50%	100%	150%	Total credit exposure amount (post-CCF and post-CRM)
Public sector entities					

	0%	20%	30%	50%	100%	150%	Total credit exposure amount (post-CCF and post-CRM)
Multilateral development banks							

	20%	30%	40%	50%	75%	100%	150%	Total credit exposure amount (post-CCF and post-CRM)
Banks and financial institutions								

	20%	50%	75%	100%	150%	Total credit exposure amount (post-CCF and post-CRM)
Corporates and securities firms						

	75%	Total credit exposure amount (post-CCF and post-CRM)
Retail		

	20%	25%	30%	40%	50%	70%	Total credit exposure amount (post-CCF and post-CRM)
Residential real estate							
Commercial real estate							

	100%	150%	Total credit exposure amount (post-CCF and post-CRM)
Defaulted exposures			

	0%	20%	100%	1250%	Total credit exposure amount (post-CCF and post-CRM)
Other assets					

Table 7: Additional disclosure related to the credit quality of assets

A bank or financial institution shall provide the following disclosures:

- Qualitative disclosures
  - (a) The scope and definitions of “past due” and “impaired” exposures used for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes.
  - (b) The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.
  - (c) Description of methods used for determining impairments.
  - (d) The bank’s own definition of a restructured exposure.
- Quantitative disclosures
  - (d) Breakdown of exposures by geographical areas, industry and residual maturity.
  - (e) Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and related allowances and write-offs, broken down by geographical areas and industry.
  - (f) Ageing analysis of accounting past-due exposures.
  - (h) Breakdown of restructured exposures between impaired and not impaired exposures.

Table 8: Qualitative disclosure requirements related to credit risk mitigation techniques

A bank or financial institution shall disclose:

(a) Core features of policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting.

(b) Core features of policies and processes for collateral evaluation and management.

(c) Information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, and collateral).

Table 9: Credit risk mitigation (CRM) techniques – overview

	a	b	C
	Exposures carrying amount	Exposures secured by eligible collateral	Exposures not secured by eligible collateral ((a)-(b))
Loans			
Debt securities			
Total			
Of which defaulted			

Definitions

- Exposures carrying amount: is the amount of outstanding exposures net of allowances/impairments.

- The following collateral instruments shall be eligible for recognition:

    (a) Guarantee of the Government of the United Republic;

    (b) Guarantee of the Revolutionary Government of Zanzibar;

    (c) Guarantee of the Bank of Tanzania;

    (d) Cash, fixed deposit, treasury bills, notes or bonds, or other instruments as the Bank may approve;

    (e) Unconditional and irrevocable guarantee of a first class international bank or a first class international financial institution[1].

[1] "first class international bank or financial institution" means an international bank or financial institution that has a minimum long-term rating by internationally recognized rating agencies of "A" or above;

Table 10: Operational risk – Qualitative disclosures

A bank or financial institution shall describe:

(a) Their policies, frameworks and guidelines for the management of operational risk.

(b) The structure and organization of their operational risk management and control function.

(c) Their operational risk measurement system (i.e. the systems and data used to measure operational risk in order to estimate the operational risk capital charge).

(d) The scope and main context of their reporting framework on operational risk to executive management and to the board of directors.

Table 11: Operational risk – Quantitative disclosures

Minimum required operational risk capital

	BI and its subcomponents	T	T-1	T-2
1	Interest, lease and dividend component			
1a	Interest and lease income			
1b	Interest and lease expense			
1c	Interest earning assets			
1d	Dividend income			
2	Services component			
2a	Fee and commission income			
2b	Fee and commission expense			
2c	Other operating income			
2d	Other operating expense			
3	Financial component			
3a	Net P&L on the trading book			
3b	Net P&L on the banking book			
4	BI			
5	Marginal Coefficient (α)	12%	12%	12%
6	Business indicator component (BIC)			
7	Conversion Factor (Reciprocal of Total Capital Ratio)	8.33	8.33	8.33
8	Risk Weighted Assets for Operational Risk			

Definitions

Row 1: The interest, leases and dividend component (ILDC) = Min [Abs (Interest income - Interest expense); 2.25%* Interest-earning assets] + Dividend income. In the formula, all the terms are calculated as the average over three years: T, T-1 and T-2.

Row 1a: Interest income from all financial assets and other interest income (includes interest income from financial and operating leases and profits from leased assets).

Row 1b: Interest expenses from all financial liabilities and other interest expenses (includes interest expense from financial and operating leases, losses, depreciation and impairment of operating leased assets).

Row 1c: Interest Bearing Assets (balance sheet items): Balances with Other Banks; Investment in Debt Securities; Interbank Loans Receivables; Loans Advance and Overdraft;

Row 1d: Dividend income from investments in stocks and funds not consolidated in the bank's financial statements, including dividend income from non-consolidated subsidiaries, associates and joint ventures.

Row 2: Service component (SC) = Max (Fee and commission income; Fee and commission expense) + Max (Other operating income; Other operating expense). In the formula, all the terms are calculated as the average over three years: T, T-1 and T-2.

Row 2a: Income received from providing advice and services. Includes income received by the bank as an outsourcer of financial services.

Row 2b: Expenses paid for receiving advice and services. Includes outsourcing fees paid by the bank for the supply of financial services, but not outsourcing fees paid for the supply of non-financial services (e.g. logistical, IT, human resources).

Row 2c: Income from ordinary banking operations not included in other BI items but of a similar nature (income from operating leases should be excluded).

Row 2d: Expenses and losses from ordinary banking operations not included in other BI items but of a similar nature and from operational loss events (expenses from operating leases should be excluded).

Row 3: Financial component (FC) = Abs (Net P&L Trading Book) + Abs (Net P&L Banking Book). In the formula, all the terms are calculated as the average over three years: T, T-1 and T-2.

Row 3a: This comprises (i) net profit/loss on trading assets and trading liabilities (derivatives, debt securities, equity securities, loans and advances, short positions, other assets and liabilities); (ii) net profit/loss from hedge accounting; and (iii) net profit/loss from exchange differences.

Row 3b: This comprises (i) net profit/loss on financial assets and liabilities measured at fair value through profit and loss; (ii) realised gains/losses on financial assets and liabilities not measured at fair value through profit and loss (loans and advances, assets available for sale, assets held to maturity, financial liabilities measured at amortised cost); (iii) net profit/loss from hedge accounting; and (iv) net profit/loss from exchange differences.

Row 4: The BI is the sum of the three components: ILDC, SC and FC.

Row 5: Given the high value of the BI ranges, all banks and financial institutions in Tanzania would be in bucket 1 and shall therefore apply marginal coefficient of 12%

Row 6: The BIC is calculated by multiplying the BI by marginal coefficient (α).

Table 12: Market risk

Qualitative disclosures

A bank or financial institution shall describe its risk management objectives and policies for market risk according to the framework as follows:

(a) Strategies and processes of the bank or financial institution, which must include an explanation and/or a description of:

- The bank or financial institution's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the bank's market risks, including policies for hedging risk and the strategies/processes for monitoring the continuing effectiveness of hedges.
- A general description of the trading desk structure.
- Policies for determining whether a position is designated as trading, including the definition of stale positions and the risk management policies for monitoring those positions. In addition, banks should describe cases where instruments are assigned to the trading or banking book contrary to the general presumptions of their instrument category and the market and gross fair value of such cases, as well as cases where instruments have been moved from one book to the other since the last reporting period, including the gross fair value of such cases and the reason for the move.
- The structure and organisation of the market risk management function, including a description of the market risk.

(b) Governance structure established to implement the strategies and processes of the bank or financial institution discussed in (a) above.

(c) The scope and nature of risk reporting and/or measurement systems.

Quantitative disclosures

	Capital charge in simplified standardized method
Interest rate risk	
Equity risk	
Foreign exchange risk	

Table 13: Interest rate risk in the banking book

Qualitative disclosures

- The nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement.

Quantitative disclosures

- The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).

Table 14: Leverage Ratio

The leverage ratio is defined as the capital measure divided by the exposure measure, expressed as a percentage.

The capital measure is Tier 1 capital as defined for the purposes of the Basel III risk-based capital framework and Capital Adequacy Regulations. In other words, the capital measure for the leverage ratio at a particular point in time is the applicable Tier 1 capital measure at that time.

The exposure measure includes both on-balance sheet exposures and off-balance sheet (OBS) items:

a) On-balance sheet exposures are generally included at their accounting value. Except where a different treatment is specified, no offset is allowed for physical or financial collateral held, guarantees in favour of the bank or financial institution or other credit risk mitigation techniques. Balance sheet assets that are deducted from Tier 1 capital may also be deducted from the exposure measure.

b) Off -balance sheet items arise from such transactions as credit and liquidity commitments, guarantees and standby letters of credit. The amount that is included in the exposure measure is determined by multiplying the notional amount of an OBS item by the relevant credit conversion factors prescribed by the Bank.

Liquidity Risk Management

Liquidity Coverage Ratio

Liquidity Coverage Ratio (LCR) is the ratio of high quality liquid assets to total net cash outflow over the next thirty calendar days period. The ratio is intended to enhance the resilience of banks and financial institutions to a short term liquidity stress.

The main objective of introducing LCR is to ensure that every bank and financial institution maintains an adequate stock of unencumbered High Quality Liquid Assets (HQLA) to meet its liquidity needs over a 30 calendar day period. At a minimum, the stock of unencumbered[2] HQLA should enable the bank to survive until Day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken by management and supervisors, or that the bank can be resolved in an orderly way. Furthermore, it gives the Central Bank additional time to take appropriate measures, should they be regarded as necessary.

The LCR should be no lower than 100 percent i.e. the stock of high-quality liquid assets should at least equal total net cash outflows over the next thirty calendar days. The amount of inflows that can be used to offset outflows has been capped in the denominator of the LCR. Thus a bank or financial institution must maintain a minimum stock of liquid assets equal to at least 25 percent of the outflows and ensure that banks and financial institutions cannot rely solely on anticipated inflows to meet their liquidity requirement.

[2] Unencumbered here means not pledged (either explicitly or implicitly) to secure or collateralize any transition

Table 15: Liquidity Coverage Ratio

	NAME OF THE INSTITUTION :			
	BANK CODE :			
	COMPUTATION OF LIQUIDITY COVERAGE RATIO (LCR) AS AT :			
	BOT FORM 16-1 Schedule 16: To be submitted Monthly.			
S/NO	**PARTICULARS**	**Outstanding Amount**	**Factor**	**Net Amount**
a	**b**	**c**	**d**	**e**
1	**Stock of High Quality Liquid Assets (HQLA)**			
2	Cash (notes and coins)	0	100%	0
3	Balances with Bank of Tanzania to the extent that these balances can be drawn down in times of stress[1]	0	100%	0
4	30 days	0	100%	
5	Interbank loans receivables	0	100%	
6	Government securities maturing within 1 year	0	95%	0
7	Government securities maturing after 1 year	0	80%	
8	**Total high quality liquid assets**	**0**		**0**
9	**Cash Outflows**	**0**		**0**
10	Demand deposits	0	15%	0
11	Savings deposits		15%	
12	Time deposits (maturing in 30 days)	0	100%	0
13	Deposits from banks and financial institutions (maturing in 30 days)	0	100%	0
14	Derivatives cash outflows (sum of all net cash outflows due within 30 days)	0	100%	0
15	All other contractual cash outflows (maturing in 30 days)	0	100%	0
16	Undrawn balances of loans and unexpired overdrafts	0	10%	0
17	Other contingent funding liabilities (such as guarantees and letters of credit)	0	5%	0
18	**Total cash outflows**	**0**		**0**
19	**Cash Inflows**	**0**		**0**
20	Loans and advances (maturing within 30 days)	0	50%	0
21	Due from banks and financial institutions (maturing in 30 days)	0	100%	0
22	All other contractual cash inflows (maturing in 30 days)	0	100%	0
23	Net derivatives cash inflows	0	100%	0
24	**Total cash inflows**	**0**		**0**
25	**Total net cash outflows = Total cash outflows minus the lower of total cash inflows and 75% of gross outflows**	**0**		**0**
26	**Liquidity Coverage Ratio =(Total high quality liquid assets)/(Total net cash outflows)**	**0**		**0**
	[1] Balances with Bank of Tanzania excluding SMR			

Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) is defined as the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF). The purpose of NSFR is to ensure that banks and financial institutions hold a minimum amount of stable funding based on the liquidity characteristics of their assets and off-balance sheet activities over a one-year horizon.

A sustainable funding structure is intended to reduce the likelihood of erosion of a bank or financial institution's liquidity position due to disruptions in a bank financial institution's regular sources of funding that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits over-reliance on short-term wholesale funding during times of abundant market liquidity and encourage better assessment of liquidity risk across all on-and off-balance sheet items and promotes funding stability.

Table 16: Net Stable Funding Ratio

	NAME OF THE INSTITUTION :			
	BANK CODE :			
	COMPUTATION OF NET STABLE FUNDING RATIO (NSFR) AS AT :			
	BOT FORM 16-1 Schedule 17: To be submitted Monthly.			
S/NO	**PARTICULARS**	**Carrying Amount**	**Factor**	**Weighted Amount**
a	**b**	**c**	**d**	**(e)= (b)*(c)**
A	**Available Stable Funding (ASF)**			
1	Common equity Tier 1		100%	0
2	Additional Tier 1		100%	0
3	Tier 2 Capital (excluding Tier 2 instruments with residual maturity of less than one year)		100%	0
4	Borrowings and liabilities with maturities of one year or more		100%	0
5	Other capital instruments and liabilities with effective residual maturity of one year or more		100%	0
6	Stable demand and/or term deposits from retail and small business customers with residual maturity of less than one year.		95%	0
7	Less stable demand and/or term deposits from retail and small business customers with residual maturity of less than one year.		90%	0
8	Funding with residual maturity of less than one year provided by non-financial corporate customers		50%	0
9	Operational Deposits		50%	0
10	Funding with residual maturity of less than one year from sovereigns, public sector entities (PSEs), and multilateral and national development banks		50%	0
11	Other funding maturing within a period of six months to one year and not included in the line items above, including funding provided by central banks and financial institutions, including banks within the same cooperative network		50%	0
12	Deferred tax liabilities (if the effective maturity of the liability greater than one year).		100%	0
13	Deferred tax liabilities maturing within a period of six months to one year.		50%	0
14	Deferred tax liabilities maturing within six months.		50%	0
15	Minority Interest – If perpetual or with effective maturity of greater than or equal to one year		100%	0
16	Minority Interest with residual maturity between six months and less than one year.		50%	0
17	Minority Interest with effective maturity of less than six months.		0%	0
18	All other liabilities and equity not included in the above categories, including liabilities without a stated maturity.		0%	0
19	NSFR derivative liabilities net of NSFR derivative assets if NSFR derivative liabilities are greater than NSFR derivative assets		0%	0
20	NSFR derivative liabilities (derivative liabilities less total collateral posted as variation margin on derivative liabilities).		0%	0
21	"Trade date" payables arising from purchases of financial instruments, foreign currencies		0%	0
B	**Total Available Stable Funding (ASF) [sum (1)-(21)]**			0
C	**Required Stable Funding (RSF)**			
	On-balance sheet			
22	Cash		0%	0
23	Balances with Bank of Tanzania (All balances including Statutory Minimum Reserve).		0%	0
24	Claims on Bank of Tanzania with residual maturities of less than six months.		0%	0
25	Receivables arising from sales of financial instruments and foreign currencies.		0%	0
26	Unencumbered HQLA excluding cash and balance with the Bank of Tanzania.		5%	0
27	Unencumbered loans to banks and financial institutions with residual maturities of less than six months, where the loan is secured against Level 1 assets, where a bank or financial institution has the ability to freely rehypothecate the received collateral		10%	0
28	All other unencumbered loans to banks and financial institutions with residual maturities of less than six months not included in the above categories.		15%	0
29	HQLA encumbered for a period of six months or more and less than one year.		50%	0
30	Loans to Bank of Tanzania, banks and financial institutions with residual maturities between six months and less than one year.		50%	0
31	Deposits held at other banks and financial institutions for operational purposes		50%	0
32	All other assets not included in the above categories with residual maturity of less than one year.		50%	0
33	Unencumbered residential mortgages with a residual maturity of one year or more and with a risk weight of less than or equal to 75%.		65%	0
34	Other unencumbered loans not included in the above categories, excluding loans to banks and financial institutions, with a residual maturity of one year or more and with a risk weight of less than or equal to 50%.		65%	0
35	Cash, securities or other assets posted as initial margin for derivative contracts and cash or other assets provided to contribute to the default fund of a Central Counter Party.		85%	0
36	Other unencumbered performing loans with risk weights greater than 50% and residual maturities of one year or more, excluding loans to banks and financial institutions.		85%	0
37	Unencumbered securities that are not in default and do not qualify as HQLA with a remaining maturity of one year or more and exchange-traded equities		85%	0
38	Physical traded commodities, including gold		85%	0
39	All other assets that are encumbered for a period of one year or more		100%	0
40	Derivative assets net of derivative liabilities if derivative assets are greater than derivative liabilities.		100%	0
41	All other assets not included in the above categories, including non-performing loans, loans to banks and financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities.		100%	0
	Off-balance sheet			
42	Irrevocable and conditionally revocable credit and liquidity facilities to any client		5%	0
43	Unconditionally revocable credit and liquidity facilities		5%	0
44	Trade finance-related obligations (including guarantees and letters of credit)		1%	0
45	Guarantees and letters of credit unrelated to trade finance obligations		1%	0
46	Other non-contractual obligations		1%	0
47	All other off balance-sheet obligations not included in the above categories.		5%	0
D	**Total Required Stable Funding (RSF) [sum (22)-(47)]**			**0**
E	**Net Stable Funding Ratio = (Total availble stable funding)/(Total required stable funding) [B/D]**			

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GOVERNOR
BANK OF TANZANIA