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FINANCIAL SECTOR SUPERVISION

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MESSAGE FROM THE GOVERNOR

It is with great pleasure I am presenting the 25th Annual Financial Sector Supervision Report, which provides information to the public regarding performance and developments in the financial sector for the year ended on 31st December 2021. The report also covers major activities carried out by the Bank in execution of its mandate with respect to the financial sector as well as regulatory changes that happened during the year.

The global economy experienced uneven recovery from the negative effects of the COVID-19 pandemic. The recovery of economic activities was mainly observed in the emerging and developing economies. Tanzania experienced a satisfactory economic growth of 5.9 percent compared to 4.8 percent in 2020. The growth was supported by public and private investment, global economy recovery, as well as supportive monetary policy and regulatory measures.

The banking sector remained sound and stable with adequate capital and liquidity levels despite the slowdown of global economic conditions. In response to COVID-19 pandemic, the Bank continued to implement accommodative policy measures to support economic activities and ensure resilience of the sector and ability to support recovery of industries and businesses. The measures included reduction of the Statutory Minimum Reserves (SMR); relaxation of agent banking eligibility criteria; limitation of interest rate paid on mobile money trust accounts; introduction of special loan amounting to TZS 1.0 trillion to banks and financial institutions for on-lending to private sector as agricultural loans; and reduction of risk weight on loans. The measures aimed at ensuring availability of adequate liquidity in the banking sector, promoting lending to the private sector and safeguarding the stability of the financial sector.

The performance of the financial sector is expected to improve as the global economy rebounds. The Bank remains committed to working in collaboration with all key stakeholders and executing its mandate of formulating and implementing monetary policy geared towards achieving low and stable inflation conducive for sustainable economic growth, and enhancing supervision of banks and financial institutions that foster the stability, safety and soundness of the financial system and protect the consumers of financial services.

The Bank will continue to monitor risks posed by domestic and global economic shocks and strengthen regulatory and supervisory interventions to ensure the sector remains sound, stable and supportive to macroeconomic and financial stability.

It is my hope that stakeholders will find this report informative and useful.

Prof. Florens D.A.M Luoga

Governor - Bank of Tanzania

EXECUTIVE SUMMARY

The financial sector in Tanzania is composed of banking, microfinance, insurance, capital markets and social security sub-sectors. The banking sub-sector accounts for more than 70 percent of assets of the financial sector. The Bank of Tanzania (the Bank) is statutorily mandated to license, regulate and supervise banks, microfinance service providers, mortgage finance institutions, financial leasing companies, bureaux de change, credit reference bureaux and representative offices of foreign banks. In addition, the Bank is vested with powers to regulate and supervise financial matters of social security schemes.

During the period under review, the banking sub-sector remained sound and stable in terms of capital adequacy, liquidity, asset quality and profitability. Core and total capital adequacy ratios were 19.5 percent and 20.2 percent compared to 17.2 percent and 18.1 percent recorded in the preceding year, respectively. The increase in capital adequacy ratios was partly attributed to retention of profit and injection of additional capital. The ratios were above the minimum regulatory requirements of 10 percent and 12 percent for core and total capital, respectively. Asset quality improved as reflected by a decline in level of non-performing loans (NPLs) ratio to 8.5 percent from 9.4 percent recorded in 2020. The improvement in asset quality was due to improved credit risk management practices by banks and financial institutions as well as measures instituted by the Bank.

The ratio of liquid assets to demand liabilities was 29.4 percent compared to 30.7 percent recorded in 2020, above the minimum regulatory requirement of 20 percent, the decline in liquidity ratio was attributed to portfolio shift to more profitable investments. Profitability improved as depicted by increase in return on assets (ROA) and return on equity (ROE) to 2.8 percent and 11.5 percent from 1.9 percent and 7.6 percent recorded in preceding year, respectively. The increase in profitability was driven by increase in interest income consistent with growth in loan portfolio, increase in non-interest income and improvement in operational efficiency. The ratio of net open position to core capital decreased to 7.8 percent from 9.0 percent reported in the preceding year, implying a moderate decrease in banks' exposure to foreign exchange risk.

Total assets increased by 13.4 percent to TZS 39,346.3 billion, mainly financed by an increase in deposits, borrowings and retained earnings. Deposits increased by 15.1 percent to TZS 28,499.1 billion mainly attributed to deposit mobilization strategies by banks. Total deposits accounted for 86.0 percent of total liabilities. In addition, borrowings and retained earnings increased by 8.0 percent and 12.2 percent to TZS 3,007.6 billion and TZS 2,059.7 billion, respectively. Further, loans, advances and overdrafts increased by 11.0 percent to TZS 20,822.6 billion and accounted for 52.9 percent of total assets. The observed growth was attributed to favourable macroeconomic environment, the Bank's sustained accommodative monetary policy and regulatory measures taken to support private sector's credit growth.

The sector's outreach continued to expand through branch network, agent banking, digital and other delivery channels. Number of branches increased to 990 from 969, while the number of agents and number of deposit transactions increased by 21.1 percent to 48,923 and 44.9 percent to 50,942,662, respectively. Deposits through agents increased by 56.1 percent to TZS 36,179.4 billion. The growth implies that this service delivery channel has become a more effective means of mobilizing savings and increasing access to and usage of banking services.

During the year, the Bank approved transfer of assets and liabilities of China Commercial Bank (T) Limited to NMB Bank Plc. China Commercial Bank (T) Limited was placed under the statutory administration in 2020 due to failure to meet minimum capital requirements. The transfer aimed at protecting the interest of depositors and other creditors as well as maintaining stability of the banking sector.

The credit reference system continued to improve as depicted by increase in both the number of banks and non-bank credit providers that shared information in the system and credit inquiries. The improvement contributed to growth of credit to private sector. The Bank continued to sensitize banks and financial institutions on the importance of sharing accurate credit information and usage of credit reference bureau services to reduce information asymmetry in credit underwriting processes and eventually reduce the level of NPLs.

Banks and bureaux de change continued to offer the services of buying and selling foreign currencies during the period. As at the end of 2021, there were four bureaux de change with 40 branches across the country. The Bank continued to strengthen supervision of bureaux de change services providers to enhance compliance with legal and regulatory requirements.

The Bank in collaboration with delegated authorities continued to discharge its licensing, regulatory and supervisory roles for microfinance service providers in line with the Microfinance Act, 2018. In 2021, the Bank issued 597 licenses to non-deposit taking microfinance service providers (Tier 2) whereas Tanzania Cooperative Development Commission (TCDC) licensed 580 SACCOS and Local Government Authorities (LGAs) registered 24,123 Community Microfinance Groups.

The Bank participated in regional and international fora to facilitate harmonization, enhance cooperation and keep abreast with developments in the region and global regulatory environment. The Bank also participated in supervisory colleges to enhance understanding of the risks facing cross-border banking groups to facilitate effective supervision.

The Bank implemented measures to cushion the banking sector from the negative effects associated with the COVID-19 pandemic. The measures enabled the sector to maintain adequate capital and sufficient liquidity levels to meet maturing obligations and fund assets growth. Further, asset quality continued to improve as reflected by a decrease in non-performing loans ratio.

Assessment of the financial system stability indicated that, the financial sector was resilient to internal and external shocks with capital and liquidity levels remaining above minimum regulatory requirements. The Bank continued to monitor risks from the financial sector and put in place appropriate mitigation measures to sustain the stability of the sector.

The Bank shall continue to implement necessary policies, regulatory and supervisory measures as well as collaborating with other stakeholders to ensure the financial sector remain safe, sound and stable to support the national economy.

CHAPTER ONE

OVERVIEW OF THE FINANCIAL SECTOR

Tanzania's financial sector is composed of banking, social security schemes, insurance, capital markets, and microfinance sub-sectors. The banking sub-sector accounts for more than 70 percent of the financial sector. Bank of Tanzania is mandated to license, regulate and supervise banking and non-banking financial institutions. Banking institutions include commercial banks, development finance banks, community banks and microfinance banks, while non-banking financial institutions include microfinance service providers, mortgage finance institutions, financial leasing companies, bureaux de change, credit reference bureaux and representative offices of foreign banks. Further, the Bank is vested with powers and responsibilities to regulate and supervise financial matters of social security schemes. During the period, the Bank continued to execute its licensing, regulatory and supervisory role. This included monitoring activities of supervised institutions to ensure that they remain within the requirements of the regulatory framework, essentially enforcing compliance with laws, regulations and guidelines.

1.1 Banking Institutions

The regulatory and supervisory powers of the Bank are provided under the Bank of Tanzania Act 2006, the Banking and Financial Institutions Act, 2006, the Foreign Exchange Act, 1992 and National Payment Systems Act, 2015. Banking institutions are categorized into commercial banks, development banks, microfinance banks and community banks (Table 1.1).

Table 1.1: Categories of Banking Institutions

Category	2021	2020	2019	2018	2017
Commercial banks	34	35	38	40	38
Development banks	2	2	2	2	2
Microfinance banks	5	4	5	5	5
Community banks	5	5	6	6	11
Financial institutions[1]	0	0	0	0	3
Total	46	46	51	53	59

Source: *Bank of Tanzania*

Analysis of banks' market share indicated that, ten largest banks dominated the market in 2021 and accounted for 76.0 percent of total assets, 73.4 percent of total loans and 78.3 percent of total deposits (Table 1.2).

[1] Following the issuance of new regulations, there was no Financial Institutions category from 2018.

Table 1.2: Market Share for Ten Largest Banks

Market share	Asset		Loans		Deposits		Capital	
	Dec-20	Dec-19	Dec-20	Dec-19	Dec-20	Dec-19	Dec-20	Dec-19
10 Largest Banks	74.0	72.2	73.7	72.9	75.4	74.5	69.8	59.0
Other Banks[2]	26.0	27.8	26.3	27.1	24.6	25.5	30.2	41.0

***Source**: Bank of Tanzania*

The dominance was mainly due to large customer base and wide branch network. Meanwhile, locally owned banks continued to hold more assets compared to foreign owned banks (Table 1.3).

Table 1.3: Market Share of Local and Foreign Banking Institutions

Market share	Asset		Loans		Deposits		Capital	
	Dec-21	Dec-20	Dec-21	Dec-20	Dec-21	Dec-20	Dec-21	Dec-20
Local banking institutions	60.9	59.1	65.4	63.9	60.5	59.6	59.8	59.2
Foreign banking institutions	39.1	40.9	34.6	36.1	39.5	40.4	40.2	40.8

***Source**: Bank of Tanzania*

1.1.1 Commercial Banks

These are banks licensed to offer fully-fledged banking services without geographical restrictions. In 2021, there were 34 commercial banks with 899 branches. In terms of ownership, 11 and 23 banks were locally and foreign owned, respectively. Total assets of commercial banks accounted for 96.4 percent of total assets of banking institutions, whereby locally and foreign owned commercial banks accounted for 59.9 percent and 40.1 percent, respectively. Distribution channels of commercial banks included branches, ATMs, mobile banking, internet banking and foreign exchange automated teller (FX ATM) machines. In addition, one commercial bank had one digital branch which enables customers to perform self-banking services such as depositing and withdrawing cash, making online transactions, depositing cheques and other banking services.

1.1.2 Development Banks

These are banks licensed to mobilize long-term funds to finance medium and long-term development projects. In 2021, there were two development banks, which are state-owned with 8 branches. The total assets of development banks accounts for 2.5 percent of total assets of banking institutions.

[2] These are 36 banks which ranked below top 10 banks in terms of assets.

1.1.3 Microfinance Banks

These are banks licensed to undertake banking business mainly with individuals, groups and micro, and small enterprises in the rural or urban areas. In 2021, there were 5 microfinance banks with 73 branches across the country, out of which two were locally owned and three were foreign owned. Total assets of microfinance banks accounted for 0.6 percent of total assets of banking institutions, locally and foreign owned commercial banks accounted for 42.0 percent and 58.0 percent, respectively.

1.1.4 Community Banks

These are banks licensed to provide banking services in a defined geographical area. As at the end of 2021, there were five locally owned community banks with 10 branches. Total assets of community banks accounted for 0.5 percent of total assets of banking institutions.

1.1.5 Distribution Channels

Banking services are offered through various delivery channels which include branches, agent banking and digital banking services. The increase in usage of these channels has been enhancing financial inclusion. Branch network is highly dominated by large banks and concentrated in urban centers which accounted for 52.1 percent of total branches (Appendix VII). Agent banking business continued to grow in number of agents, number of transactions and value of deposit and withdrawal transactions (Table 1.4). Agent banking business is dominated by large banks and concentrated in urban centers which accounted for 58.7 percent of total operating bank agents (Appendix IV).

Table 1.4: Agent Banking Transactions

	Cash Deposits			Cash Withdrawals	
	Number of Agents	Number of Transactions	Value in TZS Billion	Number of Transactions	Value in TZS Billion
2021	48,923.0	50,942,662.0	36,179.4	30,706,146.0	10,779.6
2020	40,410.0	35,158,035.9	23,174.4	23,622,966.0	8,659.8
Growth (Percent)	21.1	44.9	56.1	30.0	24.5

Source: *Bank of Tanzania*

Further, digital banking services grew steadily in terms of value and number of transactions, attributed to convenience and accessibility (Table 1.5). The growth was partly on account of the Bank's policy measures to encourage the use of digital financial services such as mobile banking, point of sale and internet banking.

Table 1.5: Trends in Digital Banking Service

Category	2021	2020	2019	2018	2017
Number of Machines					
Automated Teller Machines (ATMs)	2048	2058	2070	2,144	2,158
Point of Sales (POS)	58,025	47,576	34,502	24,386	14,300
Total	**60,073**	**49,634**	**36,572**	**26,530**	**16,458**
Growth (Percent)	**21.0**	**35.7**	**37.9**	**61.2**	**4.8**
Number of transactions					
Internet Banking	8,370,396	6,128,134	4,725,518	4,113,196	3,439,865
Mobile (SMS) Banking	71,454,334	59,234,494	55,745,503	45,680,623	51,947,772
Automated Teller Machines (ATMs)	78,720,182	65,385,357	72,858,358	73,212,484	66,089,912
Point of Sale (POS)	146,153,917	102,434,642	86,495,030	10,375,247	4,228,133
Total	**304,698,829**	**233,182,627**	**219,824,409**	**133,381,550**	**125,705,682**
Growth (Percent)	**30.7**	**6.1**	**64.8**	**6.1**	**-20.2**
Value of transactions (TZS Billion)					
Internet Banking	100,065.3	64,866.9	50,060.7	54,674.8	50,764.5
Mobile (SMS) Banking	24,973.3	15,227.4	9,475.4	2,997.6	2,759.6
Automated Teller Machines (ATMs)	17,234.9	11,237.3	10,452.7	9,767.6	9,724.5
Point of Sales (POS)	57,676.6	35,109.8	29,128.5	14,528.9	7,609.5
Total	**199,950.2**	**126,441.3**	**99,117.2**	**81,968.9**	**70,858.2**
Growth (Percent)	**58.1**	**27.6**	**20.9**	**15.7**	**19.6**

Source: Bank of Tanzania

1.2 Non-Banking Financial Institutions

Non-banking financial institutions are designated financial institutions that provide specialized financial services to sectors or groups. Bank of Tanzania continued to regulate and supervise non-banking financial institutions as provided in the Banking and Financial Institutions Act, 2006, Microfinance Act, 2018 and Social Security (Regulatory Authority) Act, 2008 as amended by Act No. 6 of 2019. The non-banking financial institutions include social security schemes, microfinance service providers, mortgage finance institutions, financial leasing companies, bureaux de change, credit reference bureaux and representative offices of foreign banks.

1.2.1 Social Security Schemes

These are public or private schemes established for the purpose of providing economical security and form of benefits which include health care and cash benefits paid to a member or dependants of the member at the time of need. There were four mandatory social security schemes, namely, Public Service Social Security Fund (PSSSF), National Social Security Fund (NSSF), National Health Insurance Fund (NHIF) and Workers Compensation Fund (WCF). PSSSF and NSSF are mandatory pension funds which serve public and private sectors, respectively. NHIF provides health insurance services while WCF provides workers' compensation benefits. In addition, there were 13 supplementary schemes serving public and private sectors.

1.2.2 Microfinance Service Providers

These are entities or persons registered or licensed to undertake microfinance business. There were four tiers of microfinance service Providers which include Tier 1 (deposit taking microfinance service institutions); Tier 2 (non-deposit taking microfinance service providers including individual money lenders); Tier 3 (SACCOS); and Tier 4 (community microfinance groups). To enhance its regulatory and supervisory mandate, the Bank delegated its functions and powers to Tanzania Cooperative Development Commission (TCDC) and local government authorities (LGAs) for Tier 3 and 4, respectively.

1.2.3 Mortgage Finance Institutions

These are specialized institutions licensed to provide retail and wholesale mortgage loans. There are two mortgage institutions, namely, Tanzania Mortgage Refinancing Company (TMRC) with core activity of pre-financing and re-financing mortgage loans to banks and financial institutions; while First Housing Finance (Tanzania) Limited provides retail mortgage loans.

1.2.4 Financial Leasing Companies

These are non-deposit taking entities licensed to carry out financial leasing operations. Financial leasing companies provide finance for purchase of property without a need to provide collateral and large upfront cash deposits. There were four financial leasing companies with 10 branches.

1.2.5 Bureaux de Change

These are companies licensed to carry out the business of buying and selling foreign currencies and money remittance operations. There were four Bureaux de Change with 40 branches and 34 commercial banks offering bureau de change services to the public. Bureau de change branches were located in Dar es Salaam and Coast Zone (23), Northern Zone (7), Central & Southern Zone (3), Western & Lake Zone (4) and Zanzibar (3). Further, bureau de change services were offered through nine FX ATM machines located in Dar es Salaam, Zanzibar, Arusha and Kilimanjaro.

1.2.6 Credit Reference Bureaux

These are companies licensed for collection and sale of credit performance information for individuals and companies. There were two companies mandated to collect information from banks and financial institutions through credit reference databank maintained at the Bank. Credit reference bureaux provide credit reports to lenders to enhance credit underwriting process and establishing the credit worthiness of prospective borrowers to reduce non-performing loans and ultimately enhance stability of the financial sector.

1.2.7 Representative Offices of Foreign Banks

These are offices licensed to conduct business operations on behalf of parent and affiliated entities. The offices undertake marketing or liaison roles and are responsible for collecting information, conducting market research, providing information on business opportunities available in Tanzania to parent banks. In addition, the offices provide information to customers in Tanzania, about financial products and services offered by parent banks. There were two representative offices of foreign banks namely, Export-Import Bank of Korea and Bank of China Limited.

CHAPTER TWO

PERFORMANCE OF THE FINANCIAL SECTOR

Performance of the financial sector entails the analysis of banking sub-sector and non-banking financial institutions in terms of total assets, deposits, capital and liabilities. In addition, the performance of the banking sector involves analysis of Financial Soundness Indicators (FSI), Stress testing and Financial System Stability Index (FSSI). On the other side, performance of pension funds involved analysis of total assets, members' contributions, investment income and return on investments.

2.1 Banking Sector

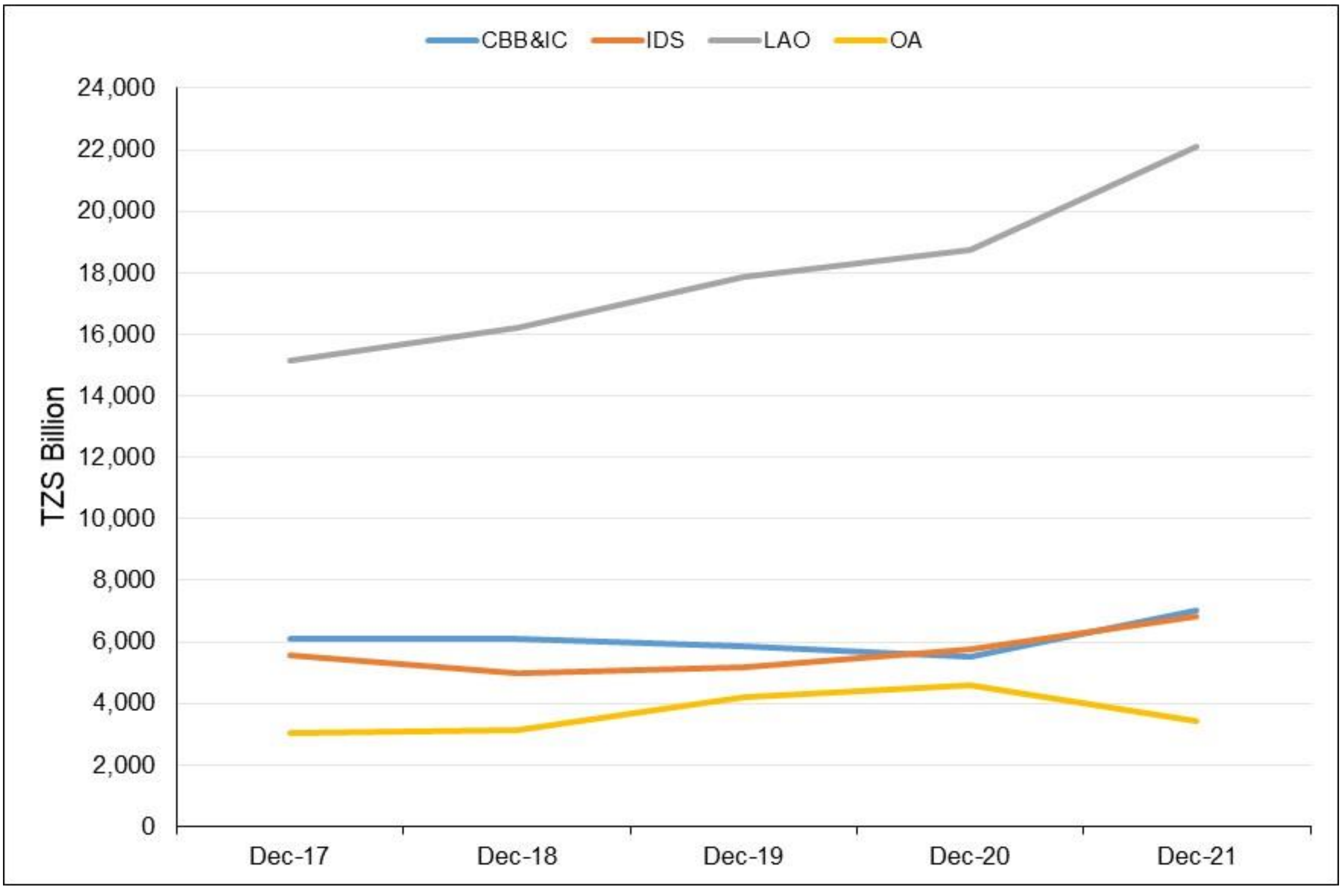
The banking sector remained profitable, adequately capitalized, with sufficient level of liquidity and improved asset quality, attributable to recovery of businesses from the negative effects of COVID-19 pandemic. The sector remained resilient to internal and external shocks and continued to grow in terms of deposits and assets, supported by favorable macroeconomic environment, regulatory and supervisory measures.

2.1.1 Assets Structure

The major components of the sector's assets were loans, advances and overdrafts which accounted for 56.2 percent; cash, balances with Bank of Tanzania, balances with other banks and items for clearing (17.8 percent); and Investment in debt securities (17.4 percent), while the remaining assets accounted for 8.6 percent of total assets.

Total assets grew by 13.4 percent to TZS 39,346.3 billion compared to TZS 34,689.5 billion recorded in the preceding year, mainly financed by an increase in deposits, borrowings and retained earnings. Loans, advances and overdrafts grew by 11.0 percent to TZS 20,822.6 billion compared to TZS 18,765.1 billion reported in the corresponding period in 2020. The growth was attributed to favorable macroeconomic environment, the Bank's accommodative monetary policy and regulatory measures taken to support private sector's credit growth (Figure 2.1).

Figure 2.1: Trend of Major Components of Assets



***Source**: Bank of Tanzania*

Note: CBB&IC- Cash, Balance with other banks and Items for Clearing; IDS - Investment in debt securities; LAO - Loans, advances and overdrafts and OA – Other assets.

Earning assets[3] increased by 13.1 percent to TZS 31,981.1 billion compared to TZS 28,362.5 billion recorded in 2020. The ratio of earning assets to total assets slightly decreased to 81.3 percent compared to 81.8 percent recorded in 2020. Despite the decrease, the ratio indicates that the significant part of the sector's assets continued to be channeled to productive sectors of the economy (Table 2.1).

Table 2.1: Earning Assets Trend

Item	Dec-21	Dec-20	Dec-19	Dec-18	Dec-17
Total Earning Assets (TZS Billion)	31,981.1	28,362.5	26,435.0	24,179.1	23,506.1
Total Assets (TZS Billion)	39,346.3	34,689.5	33,161.8	30,383.0	29,804.9
Total Earning Assets to Total Assets (Percent)	81.3	81.8	79.7	79.6	78.9

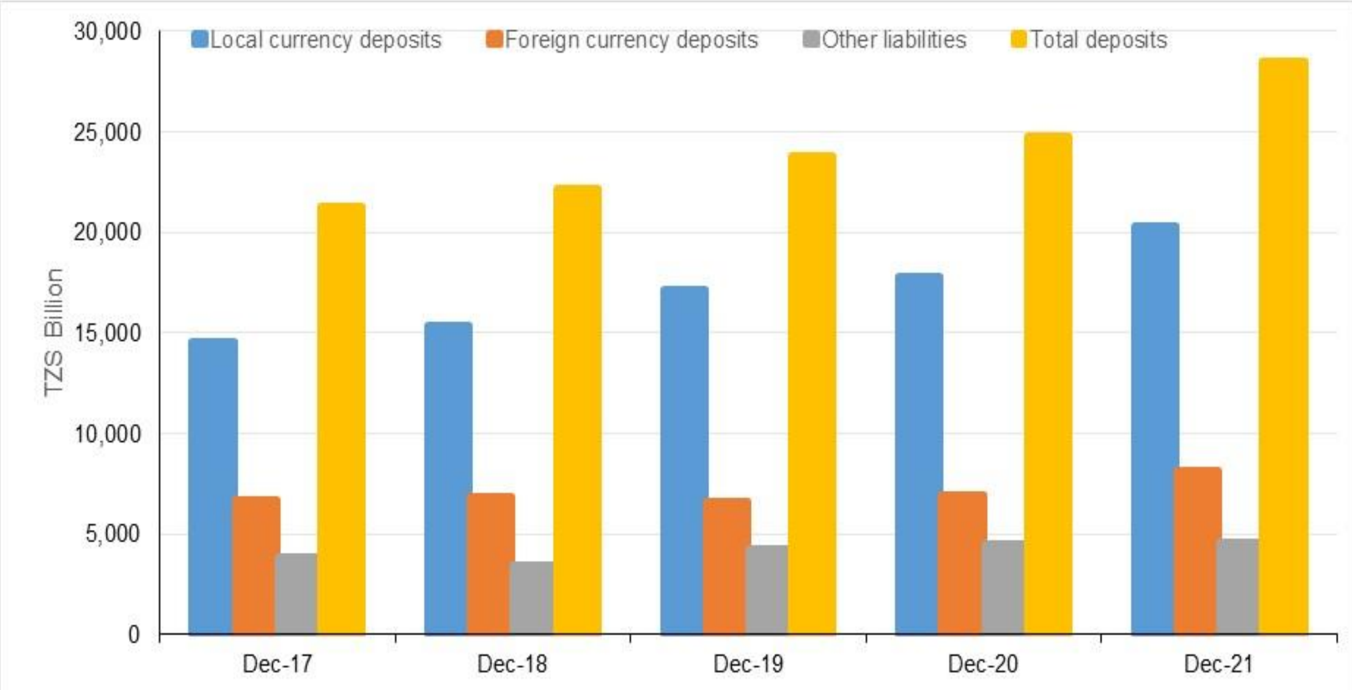
***Source:** Bank of Tanzania*

[3] Earning assets comprised of loans, advances and overdrafts (52.9 percent); investments in debt securities (17.4 percent); interbank loans (4.5 percent), balances with other banks and financial institutions (6.1 percent) and equity investments (0.4 percent) of the total earning assets.

2.1.2 Liability Structure

Total liabilities of the sector increased by 13.3 percent to TZS 33,145.5 billion compared to TZS 29,267.3 billion recorded in the preceding year. The increase in liabilities was attributed to increase in deposits and borrowings. Total Deposits[4] increased by 15.1 percent to TZS 28,499.1 billion from TZS 24,765.9 billion whereas, local and foreign currency deposits increased by 14.3 percent and 16.9 percent to TZS 20,326.4 billion and TZS 8,172.7 billion, respectively. The increase was partly associated with enhanced deposit mobilization strategies by banks whereby deposits accounted for 86.0 percent of total liabilities. In addition, borrowings increased by 8.0 percent to TZS 3,007.6 billion from TZS 2,784.2 billion (Figure 2.2).

Figure 2.2: Liabilities Composition and Trend



***Source**: Bank of Tanzania.*

2.1.3 Capital Structure

Total capital of the sector composed of share capital (38.7 percent), retained earnings (33.2 percent), share premium (10.6 percent) and other capital items (17.5 percent) as indicated in Table 2.2. Total capital increased by 14.4 percent to TZS 6,200.9 billion compared to TZS 5,422.2 billion recorded in 2020, mainly on account of an increase in profitability by 67.5 percent to TZS 666.4 billion recorded during the period. In addition, retained earnings increased by 12.2 percent to TZS 2,059.7 billion from TZS 1,836.4 billion. The increase in capital signifies enhanced resilience of the sector to withstand shocks that may emanate from both internal and external environments.

[4] Total Deposits include deposit liabilities other than banks, special deposit accounts and deposits from banks and financial institutions.

Table 2.2: Capital Structure and Trend

Capital items	Dec-21	Dec-20	Dec-19	Dec-18	Dec-17
Share capital (Billions of TZS)	2,400.0	2,108.9	2,171.9	2,097.6	1,919.5
Share capital to total capital (%)	38.7	38.9	43.2	45.1	41.3
Share capital (% Growth)	13.8	(2.9)	3.5	9.3	12.2
Retained Earnings	2,059.7	1,836.4	1,536.9	1,432.7	1,345.0
Retained Earnings to total capital (%)	33.2	33.9	30.6	30.8	28.9
Retained Earnings (% Growth)	12.2	19.5	7.3	6.5	26.1
Share Premium (Billions of TZS)	658.2	635.0	638.5	608.1	606.2
Share Premium to total capital (%)	10.6	11.7	12.7	13.1	13.0
Share Premium (% Growth)	3.6	(0.5)	5.0	0.3	1.5
Other capital Items (Billions of TZS)	1,083.0	841.8	679.2	513.9	780.0
Other capital items to total capital (%)	17.5	15.5	13.5	11.0	16.8
Other capital Items (% Growth)	28.7	23.9	32.2	(34.1)	(15.4)
Total capital (Billions of TZS)	6,200.9	5,422.2	5,026.4	4,652.3	4,650.6
Total capital (% Growth)	14.4	7.9	8.0	0.0	8.5

***Source**: Bank of Tanzania.*

2.1.4 Off-Balance Sheet Items

Off-balance sheet items comprised of guarantees and indemnities (51.4 percent), undrawn balances of loans and overdrafts (17.2 percent), letters of credit (25.1 percent), bills for collections (5.2 percent) and others (1.1 percent). Off-balance sheet items increased by 40.4 percent to TZS 9,546.0 billion compared to TZS 6,799.4 billion recorded in 2020 (Table 2.3). The increase was attributed to global economic recovery from adverse effects of COVID-19 pandemic. The off-balance sheet items were 24.3 percent of the total assets compared to 19.6 percent recorded in the preceding year.

Table 2.3: Off-Balance Sheet Items

Items	Share in Dec 2021 (Percent)	Dec-21	Dec-20	Dec-19	Dec-18	Dec-17
Guarantees and indemnities	51.4	4907.7	3827.3	3981.0	2829.2	1856.3
Undrawn balances	17.2	1642.2	1380.7	1560.1	1715.2	1274.2
Letters of Credit	25.1	2393.8	1083.9	1354.5	1262.7	1271.8
Bills for Collection	5.2	493.5	402.9	358.2	273.9	169.6
Others	1.1	108.9	104.6	153.9	87.2	244.0
Total	**100.0**	**9546.0**	**6799.4**	**7394.1**	**6167.3**	**4815.9**
Growth (Percent)		40.4	-8.0	19.9	28.1	5.0

***Source**: Bank of Tanzania*

2.1.5 Financial Soundness Indicators

Financial Soundness Indicators (FSIs) provide insight of the financial health and soundness of banks and financial institutions in terms of capital adequacy, asset quality, earnings, liquidity and sensitivity to market risk. Overall, performance of the banking sector remained satisfactory as reflected by Financial Soundness Indicators (Appendix VI).

2.1.5.1 Capital Adequacy

The sector remained adequately capitalized as evidenced by core and total capital adequacy ratios which were 19.5 percent and 20.2 percent compared to 17.2 percent and 18.1 percent reported in 2020, respectively. Both ratios were above the minimum regulatory requirements of 10 percent and 12 percent for core and total capital, respectively. The increase in capital adequacy ratios was partly attributed to retention of profit by banks and injection of additional capital by shareholders.

2.1.5.2 Asset Quality

Asset quality improved as evidenced by a decrease in non-performing loan ratio to 8.5 percent compared with 9.4 percent recorded in the preceding year, though the ratio remained above the desired benchmark of not more than 5.0 percent. The improvement in asset quality was attributed to the improved credit risk management practices by banks and financial institutions and measures instituted by the Bank. The measures included evaluation of the banks' implementation status on NPLs reduction strategies. Further, the Bank continues to take actions to ensure banks and financial institutions strengthen credit risk management practices, enhance staff integrity, and implement remedial measures to contain non-performing loans.

Loan portfolio was diversified in various sub-sectors of the economy. Personal loans accounted for 37.1 percent of total loans, followed by trade (16.5 percent); manufacturing (9.5 percent); building, construction and real estate (7.6 percent); and agriculture (7.1 percent). The remaining sectors accounted for 22.3 percent of loan portfolio.

2.1.5.3 Earnings

The sector remained profitable as depicted by increase in profitability by 67.5 percent to TZS 666.4 billion from TZS 397.9 billion reported in 2020. Return on Assets (ROA) and Return on Equity (ROE) increased to 2.8 percent and 11.5 percent from 1.9 percent and 7.6 percent recorded in 2020, respectively. The increase in profitability was driven by increase in interest income consistent with growth in loan portfolio, increase in non-interest income and improvement in operational efficiency. Non-interest expenses to total income ratio decreased to 49.8 percent from 53.8 percent reported in 2020 as a result of decrease in non-interest expenses (Figure 2.3).

Figure 2.3: Earnings Trend

Source: *Bank of Tanzania*

2.1.5.4 Liquidity

The banking sector continued to maintain adequate liquidity sufficient to meet maturing obligations and fund growth in assets. The ratio of liquid assets to demand liabilities was 29.4 percent compared to 30.7 percent reported in 2020, above the minimum regulatory requirement of 20 percent. The decline in liquidity ratio was attributed to portfolio shift to more profitable investments including loans, advances and overdrafts; and investments in debt securities. The ratio of gross loans to total deposits decreased to 81.8 percent in December 2021 from 86.8 percent reported in December 2020 indicating that deposits remained the main source of funding.

2.1.5.5 Sensitivity to Market Risk

The ratio of net open position to total capital decreased to 7.8 percent from 9.0 percent reported in the preceding year, implying a moderate decrease in banks'exposure to foreign exchange risk. The ratio of foreign currency denominated assets to total assets and foreign currency denominated liabilities to total liabilities were 35.5 percent and 29.7 percent compared to 35.7 percent and 30.2 percent in 2020, respectively. The decrease in the ratio was partly associated with decrease in foreign currency denominated assets mainly from decrease in foreign currency cash and placements abroad.

2.1.6 Financial System Stability

Financial stability is the situation where the financial system is capable of allocating resources efficiently between activities across time; assessing and managing financial risks and absorbing internal and external shocks. The financial system is considered stable when it continues to support economic growth in the midst of domestic and external vulnerabilities. The Bank identifies potential risks emanating from real sector and financial sector using various surveillance tools with a view of ensuring stability of the financial system including the use of Stress Testing approach and Financial System Stability Index (FSSI).

2.1.6.1 Banking Sector Stress Testing

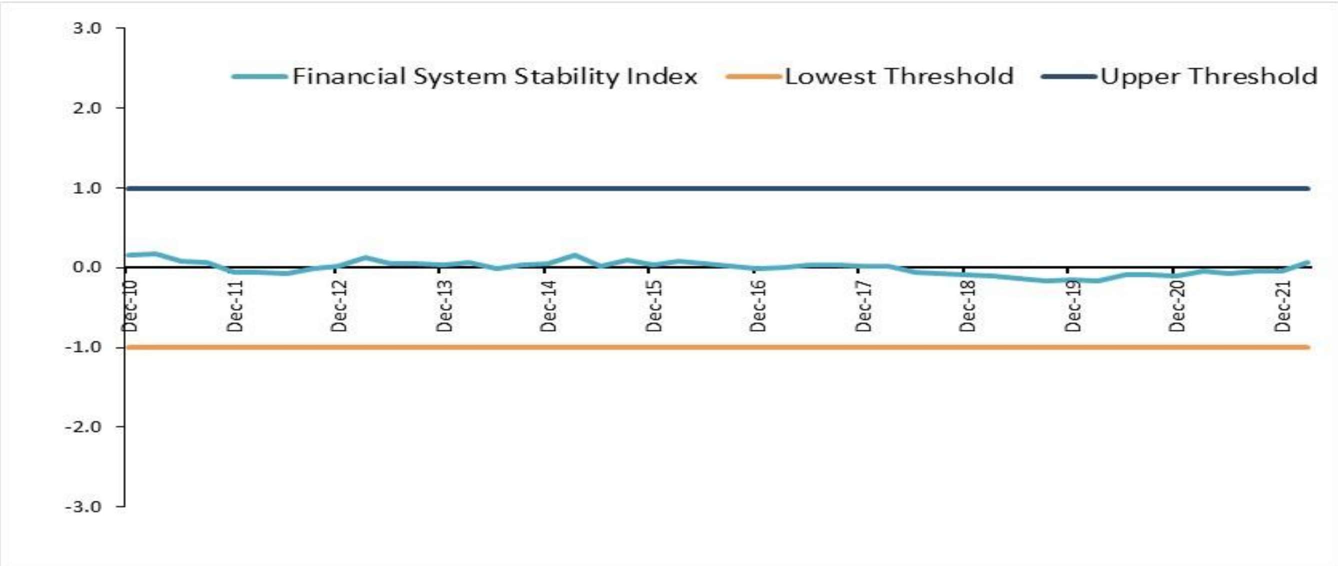
The banking sector's resilience against four risk factors, namely; credit, interest rate, exchange rate and liquidity, was conducted using stress testing by considering baseline, adverse and multifactor scenarios. In adverse scenario, post shock results indicated that banks and financial institutions remained adequately capitalized, reflecting the resilience of the banking sector to all potential shocks considered in the scenario. In multifactor scenario, the results indicated capital adequacy ratio improved and remained above thresholds recommended by the Basel Committee on Banking Supervision of 6 percent and 8 percent for core and total capital, respectively. Liquidity risk stress testing results indicated liquidity position of banks remained above the regulatory threshold of 20 percent. Generally, stress testing results based on the baseline, adverse and multifactor scenarios indicated resilience of the banking sector.

2.1.6.2 Financial System Stability Index

The Bank uses Financial System Stability Index (FSSI) as an early warning indicator in assessing the resilience of the financial sector to internal and external shocks. The resilience of the banking sector which is the major component of financial system is assessed using Financial Soundness Indicators (capital, asset quality, earnings and liquidity) and Financial Vulnerability Indicators (lending rates, deposit rates, Interbank Cash Market rates, Treasury Bills rate, exchange rate, oil prices and inflation).

The assessment of financial vulnerability and financial soundness indicators showed that, the financial sector was stable as FSSI evolved within the acceptable thresholds of ±1 (Figure 2.4). This was partly attributed to increase in return on assets and capital adequacy ratios; and decrease in non-performing loans ratio, lending rates and exchange rates.

Figure 2.4: Financial System Stability Index



Source: *Bank of Tanzania*

The results of stress testing and FSSI indicated that the financial sector remained resilient supported by prudent monetary policy measures and regulations issued by the Bank. The Bank will continue to monitor shocks to the financial sector and put in place appropriate measures to strengthen the ability of the sector to withstand shocks.

2.2 Non-banking Financial Institutions

Performance of non-banking financial institutions was satisfactory supported by the growth of assets and investments of social security schemes, increased number of microfinance service providers (MSPs), and increased profitability of financial leasing companies and mortgage finance institutions as detailed below;

2.2.1 Social Security Schemes

Performance of social security schemes improved as depicted by increase in total assets, members' contribution and investment income. Assets increased by 21.1 percent to TZS 15,661.3 billion from TZS 12,931.9 billion recorded in 2020. Contributions from members increased by 6.4 percent to TZS 3,169.8 billion from TZS 2,980.6 billion reported in 2020. Income from investments increased by 16.1 percent to TZS 1,083.4 billion from TZS 933.2 billion reported in 2020, due to change of investment avenues to more profitable investments.

2.2.2 Microfinance Service Providers

Performance of the microfinance business continued to improve as supported by increase in number of microfinance service providers (MSPs), total loans disbursed, number of beneficiaries and increased outreach to unbanked population. During the period, the number of licensed Tier 2 MSPs increased to 692 from 95, amount of total loans disbursed was TZS 620.6 billion and MSPs located in all regions across the country. In addition, the number of Tier 3 MSPs (SACCOS) increased to 580 and Tier 4 MSPs (Community Microfinance Groups) increased to 24,123 (Appendix V).

The Bank has taken measures to resolve challenges emanating from unfair practices by MSPs. The measures included conducting public awareness programs, capacity building to MSPs, customer complaints resolutions, enforcing reducing balance interest rate computation method, refund to borrowers over deducted loan amounts by MSPs with a view to ensure compliance with the Microfinance Act and its regulations.

2.2.3 Mortgage Finance Institutions

Performance of the mortgage finance institutions business continued to improve as supported by increase in capital, total assets, loan portfolio and profitability.

Total capital of mortgage finance institutions increased by 5.9 percent to TZS 51,345.0 million compared with TZS 48,476.9 million recorded in 2020, attributed to increase in profitability. The mortgage finance institutions met capital adequacy requirements as provided in respective regulations.

Total assets of mortgage finance institutions increased by 5.6 percent to TZS 219,400.8 million from TZS 207,800.7 million recorded in 2020. The increase was attributed to increase in investment in government securities by 22.4 percent to TZS 64,146.3 million from TZS 52,420.9 million and growth of mortgage loan portfolio by 4.2 percent to TZS 147,760.5 million from TZS 141,865.1 million. The major sources of funding for mortgage finance institutions were borrowings (59.4 percent), corporate bonds (16.0 percent) and shareholders' funds (23.4 percent).

Loan portfolio of mortgage finance institutions increased by 3.8 percent to TZS 148,066.6 million compared to TZS 142,695.2 million recorded in the preceding year. The increase was mainly caused by recovery of businesses from the negative effects of COVID-19 pandemic. Non-performing loans for mortgage finance accounted for 0.2 percent, which was within the tolerable rate of not more than 5 percent.

Audited profit after tax of mortgage finance institutions increased to TZS 1,823.7 million compared to TZS 1,538.3 million recorded in the preceding year. The increase in profitability was attributed to increase in interest income by 2.1 percent to TZS 21,775.3 million compared to TZS 21,338.1 million recorded in 2020.

2.2.4 Financial Leasing Companies

Total assets of financial leasing companies increased by 0.8 percent to TZS 104,107.0 million from TZS 103,236.2 million recorded in the preceding year. The increase was mainly attributed to increase equity and borrowing. The assets comprised of finance leases (31.1 percent), operating leases (46.2 percent), cash and cash equivalents (6.5 percent) and other assets (16.3 percent). The main sources of funding were borrowings and shareholders' equity which accounted for 56.0 percent and 34.7 percent of the total funding, respectively.

Finance lease assets portfolio decreased by 10.3 percent to TZS 32,326.2 million compared to TZS 36,054.1 million recorded in the preceding year. The decrease was mainly caused by financial leasing companies' preference on operating lease investment. Profitability decreased by 29.5 percent to TZS 6,251.6 million from TZS 8,867.0 million recorded in 2020 due to unfavorable business activities partly on account of the negative effects of the COVID-19 pandemic.

2.2.5 Bureaux de Change

Bureau de Change activities increased in terms of purchases and sales transactions. Total foreign currency purchased in the retail market amounted to USD 6,898.1 million compared to USD 5,906.0 million while foreign currency sold amounted to USD 8,762.7 million compared to USD 6,254.0 million reported in the preceding year. The increase in purchases of foreign currency was mainly attributed to improved business activities following recovery from COVID-19 pandemic.

2.2.6 Credit Reference Bureaux

The use of credit reference bureaux services continued to improve as evidenced by the increase in number of credit inquiries by 22.9 percent to 2,306,088 from 1,877,102 reported in preceding year. Likewise, number of credit reports sold increased by 39.8 percent to 923,057 from 660,207 reported in the preceding year. The Bank continued to sensitize banks and other credit providers on the usefulness of credit information sharing to increase efficiency of the credit market, reduce NPLs and ultimately enhance stability of the financial sector.

2.3 Impact of COVID-19 Pandemic to Financial Sector

The banking sector performance was recovering amid the negative effects associated with the COVID-19 pandemic. Further, the Bank continued to implement accommodative policy measures to support economic activities and ensure resilience of the sector and ability to support recovery of industries and businesses. The measures included reduction of the Statutory Minimum Reserves (SMR); relaxation of agent banking eligibility criteria; limitation of interest rate paid on mobile money trust accounts; introduction of special loan amounting to TZS 1.0 trillion to banks and financial institutions for on-lending to private sector as agricultural loans; and reduction of risk weight on loans. The measures led the sector to sustain adequate capital and sufficient liquidity levels to meet maturing obligations and fund assets growth. Further, asset quality continued to improve as reflected by a decrease in non-performing loans ratio coupled with continued monitoring of performance of restructured loans.

CHAPTER THREE

MAJOR ACTIVITIES AND OTHER DEVELOPMENTS

The Bank continued to execute its role of licensing, regulating and supervising banks and financial institutions including, financial leasing companies, credit reference bureaux, mortgage finance institutions, bureaux de change and microfinance service providers. In addition, the Bank regulates and supervises representative offices of foreign banks and financial matters of the social security schemes.

3.1 Licensing

The Bank issued licenses and approved acquisition to enhance compliance, efficiency and performance of financial sector. The Bank approved the following: -

(a) Transfer of all assets and liabilities of China Commercial Bank Limited to NMB Bank Plc effective from 4th March 2021. The decision was made as a resolution option to protect the interest of depositors and other creditors as well as maintain stability of the banking sector;

(b) Change of banking license of AccessBank Tanzania Limited from Commercial Bank to Microfinance Bank effective from 1st March 2021;

(c) Licensing of Fast Forex Bureau Limited effective from 24th September 2021;

(d) Licensing of PASS Leasing Company Limited effective from 1st March 2021; and

(e) Licensing of 597 non-deposit taking microfinance service providers (Tier 2), TCDC licensed 580 SACCOS and LGAs registered 24,123 Community Microfinance Groups.

3.2 Supervisory Activities

In executing its supervisory mandate, the Bank uses various approaches to supervise banks and financial institutions which include off-site surveillance and on-site examinations.

3.2.1 Off-site Surveillance

The Bank continued to conduct off-site surveillance through analyzing periodic regulatory returns and other publicly available information with the view to determine financial performance and conditions of banks and financial institutions. In addition, the Bank was able to assess and enforce compliance with banking laws and regulations by banking institutions.

3.2.2 On-site Examinations

The Bank continued to conduct full-scope and targeted on-site examinations of banks and financial institutions under the risk-based supervision framework and took prompt corrective actions to address anomalies identified during the examinations. Further, the Bank in collaboration with the Prime Minister's Office - Labour, Youth, Employment and Persons with Disabilities (PMO-LYED) conducted on-site examination of social security schemes and reviewed operations and investments of supplementary schemes to facilitate effective supervision.

3.3 Regulatory Activities

The Bank issued regulations, guidelines and circulars to banks and financial institutions to ensure stability of the financial sector. The issued regulations, guidelines and circulars were as follows:

3.3.1 Regulations

(a) The Banking and Financial Institutions (Development Finance) Regulations, 2021 were issued with the objective of incorporating, among others, the requirements for licensing, minimum capital, net open position and restructuring or rescheduling of project financing loans to enhance operational efficiency and facilitate effective supervision of development finance institutions; and

(b) The Banking and Financial Institutions (Corporate Governance) Regulations, 2021 were issued to promote and maintain public confidence in banks and financial institutions, establish standards for corporate governance processes and structures, and provide guidance to directors for proper discharge of their fiduciary responsibilities.

3.3.2 Guidelines

(a) The Social Security Schemes Investment Guidelines 2021 were issued to provide new requirements for the diversification of investment portfolio, prices and arrangement for the purchase or disposal of scheme’s assets, investment in loans and oversight role of the Board of Trustees on managing schemes’ assets and making investment decisions to facilitate effective supervision of financial matters of social security schemes;

(b) Outsourcing Guidelines for Banks and Financial Institutions 2021 were issued to provide framework which guides banks and financial institutions in all outsourcing arrangements to ensure that due diligence and risk related to material outsourcing arrangements are observed and ensure that outsourced service providers and their related interests are conducted at arm's length; and

(c) Business Continuity Management Guidelines for Banks and Financial Institutions 2021 were issued to guide banks and financial institutions to develop effective Business Continuity Plan (BCP) to make adequate preparations to address possible business interruption scenarios.

3.3.3 Circulars

(a) Circular on measures to promote credit to the private sector, lower interest rates and hastening recovery of the economy. This Circular provides guidance on implementation of measures such as reduction of Statutory Minimum Reserve (SMR) requirements for banks and financial institutions which granted agricultural loans at interest rate not exceeding 10 percent, relaxation of agent banking eligibility criteria, limitation of interest rate paid on mobile money trust accounts and introduction of a special loan amounting to TZS 1.0 trillion to banks and financial institutions for on-lending to private sector as “agricultural loans”;

(b) Circular on change of reporting frequency of regulatory returns to ensure effective implementation of monetary and financial policy decisions, and maintain effective supervision of banks and financial institutions;

(c) Circular on resolution of customer disputes relating to credit referencing operations to maintain the credibility of the country's credit reference system and enhance efficiency of the credit market and financial stability;

(d) Circular on strengthening cyber security controls, implementation of appropriate monitoring and investigative systems as well as responding timely to customers' notification alerts to combat phishing fraudulent activities;

(e) Circular on submission of daily reports on developments in the financial sector including performance of key variables following the COVID-19 pandemic to effectively monitor the impact and developments thereon to enable devising appropriate measures to mitigate the impact of the pandemic;

(f) Circular requiring banks and financial institutions to maintain a cost to income ratio (CIR) of not more than 55 percent and non-performing loans ratio of not more than the acceptable limit of 5 percent to ensure the banking sector continues to operate in a safe, sound and stable manner;

(g) Circular on reporting of staff involved in gross misconduct and fraud to ensure banks and financial institutions in Tanzania are manned with staff of high integrity; and

(h) Circular requiring Non-Deposit Taking MSPs to submit regulatory returns through Electronic Data Interchange (EDI) system to enhance effective offsite supervision.

3.4 Capacity Building

The Bank continued to build capacity to internal and external stakeholders in areas related to financial sector supervision to enhance capacity of regulated institutions. These included;

(a) Internal capacity building to staff to strengthen supervisory and regulatory capabilities. The programs included training on Bancassurance Guidelines; Microfinance (Non-Deposit Taking Microfinance Service Providers) Regulations; Anti-Money Laundering and Combat of Financing of Terrorism; Intermediate Banking Supervision and implementation of Basel II and III; and

(b) Capacity building programs to external stakeholders to raise awareness on compliance with laws and regulations governing banks and financial institutions. The programs included: training on usefulness of credit reference system; submission of regulatory returns for MSPs and financial leasing companies, training to bank's board of directors and management, and parliamentary committees' members regarding implementation of Microfinance Act 2018 and its Regulations. Further, public awareness programs were conducted through media, exhibitions and workshops.

3.5 Other Activities

The Bank continued to implement various activities to enhance efficiency of its supervisory and regulatory functions. These included:

(a) Development of Real-Time Data Collection, Analytics and Visualization System to enhance off-site surveillance for accessing, collecting, analyzing, and reporting of banks and financial institutions data timely; Financial Services Registry (FSR) aimed at identifying availability of financial services access points across the country and improvement of access and usage of financial services; MSPs supervisory system and automation of submission of returns;

(b) Implementation of Basel II & III to ensure capital allocation reflects level of risks, separating operational risk from credit risk and quantifying economic and regulatory capital more closely to reduce the scope for regulatory arbitrage;

(c) Preparation of Emergency Liquidity Assistance (ELA) framework to determine solvent banks with temporary liquidity challenges;

(d) Implementation of Domestic Systemically Important Banks (DSIBs) framework to determine banks whose distress or failure have the potential to cause considerable disruption to the domestic financial system and the wider economy;

(e) Initiative to develop Stress Testing Guidelines to guide banks and financial institutions in conducting stress testing, using stress test results and preparing mitigation plans; and

(f) Development of regulatory and supervisory framework for Islamic Banking in collaboration with other stakeholders.

CHAPTER FOUR

DOMESTIC, REGIONAL AND INTERNATIONAL COOPERATION

The Government of Tanzania is a member of regional and international bodies including East African Community (EAC), Southern African Development Community (SADC), African Union (AU) and United Nations (UN). The Bank participates in domestic, regional and international fora to strengthen cooperation, and foster economic integration and development. Detailed information for domestic, regional and international cooperation are provided below;

4.1 Domestic Cooperation

The Bank organized meetings with domestic stakeholders to discuss issues related to financial sector development with the objective of ensuring stability and integrity of the financial system. Also, the Bank is a member of Tanzania Financial Stability Forum (TFSF) and collaborates with domestic associations such as Tanzania Bankers Association (TBA), Tanzania Association of Microfinance Institutions (TAMFI) and Tanzania Social Security Association (TSSA).

4.2 Regional Cooperation

The Bank is a member of Monetary Affairs Committee (MAC) under the EAC; the Association of African Central Banks (AACB) under the AU; the Committee of Central Bank Governors (CCBG) under the SADC; the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG); East African Pension Supervisors Association (EAPSA); and The Community of African Banking Supervisors (CABS).

The Bank participated in regional fora relevant to its regulatory and supervisory mandate. The fora aimed at sharing information and experiences on regulatory and supervisory practices, hence broadening exposure to new developments in the financial sector.

4.2.1. Monetary Affairs Committee

The Monetary Affairs Committee (MAC) of the East African Community (EAC) is composed of Governors of Central Banks of the six EAC Partner States, which are Tanzania, Kenya, Uganda, Rwanda, Burundi and South Sudan. The main function of MAC is to coordinate efforts made by EAC Central Banks towards greater regional financial integration, stability and harmonization of financial sector policies. The emphasis is on areas related to financial stability, including banks supervision, financial crisis resolution and management as well as improving financial sector surveillance tools to ensure domestic and regional financial system stability. In addition, MAC aims at expediting the formation of the East African Monetary Union (EAMU) as a precursor to a political federation. As a member of MAC, the Bank participated in five meetings in 2021 to deliberate various issues related to financial sector.

4.2.2. Committee of Central Bank Governors

The Committee of Central Bank Governors (CCBG), specifically Banking Supervision Subcommittee met to deliberate various issues relating to the financial sector. The CCBG is responsible for promoting the development of financial institutions and markets through cooperation and consensus on financial, investment, foreign exchange policies and financial stability matters. The subcommittee held two meetings in 2021 to review progress on implementation of strategic area pertaining to maintain financial stability in the SADC region.

4.2.3. The Eastern and Southern Africa Anti- Money Laundering Group

The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) is among the eight regional Financial Action Task Force (FATF) bodies that form part of the FATF global network. The purpose of ESAAMLG is to combat money laundering and counter financing of terrorism by implementing the FATF recommendations. This includes, coordinating with other international organizations concerned with combating money laundering, studying emerging regional typologies, developing institutional and human resource capacities and coordinating technical assistance. In 2021, the Bank participated in two meetings of the ESAAMLG Task Force to discuss and deliberate on countries' AML/CFT mutual evaluation reports.

4.3 International Cooperation

The Bank participated in international fora related to supervision, financial stability and financial inclusion matters which were organized by the Alliance for Financial Inclusion (AFI Africa). Also, the Bank obtained technical assistance from the IMF through East Africa Technical Assistance Centre.

4.3.1. Alliance for Financial Inclusion

The Alliance for Financial Inclusion (AFI) is a policy leadership alliance owned and led by member central banks and financial regulatory institutions with a common objective of advancing financial inclusion at the country, regional and international level. At regional level, African Financial Inclusion Policy Initiative (AfPI) was formed to support and develop financial inclusion policies, regulatory frameworks and other policy guidelines in Africa. In 2021, the Bank in collaboration with AFI co-hosted a meeting to discuss initiatives among others, innovative regulatory approaches to address challenges faced by women, youth and Micro Small Medium Enterprises (MSMEs) from accessing financial services.

4.3.2. IMF's East Africa Technical Assistance Centre

East AFRITAC is a collaborative venture between the International Monetary Fund (IMF), the recipient countries, bilateral and multilateral development partners. It aims at enhancing capacity building by providing technical assistance and training to member countries including Tanzania. The Bank benefited from technical assistance related to regulatory and supervision of the banking sector.

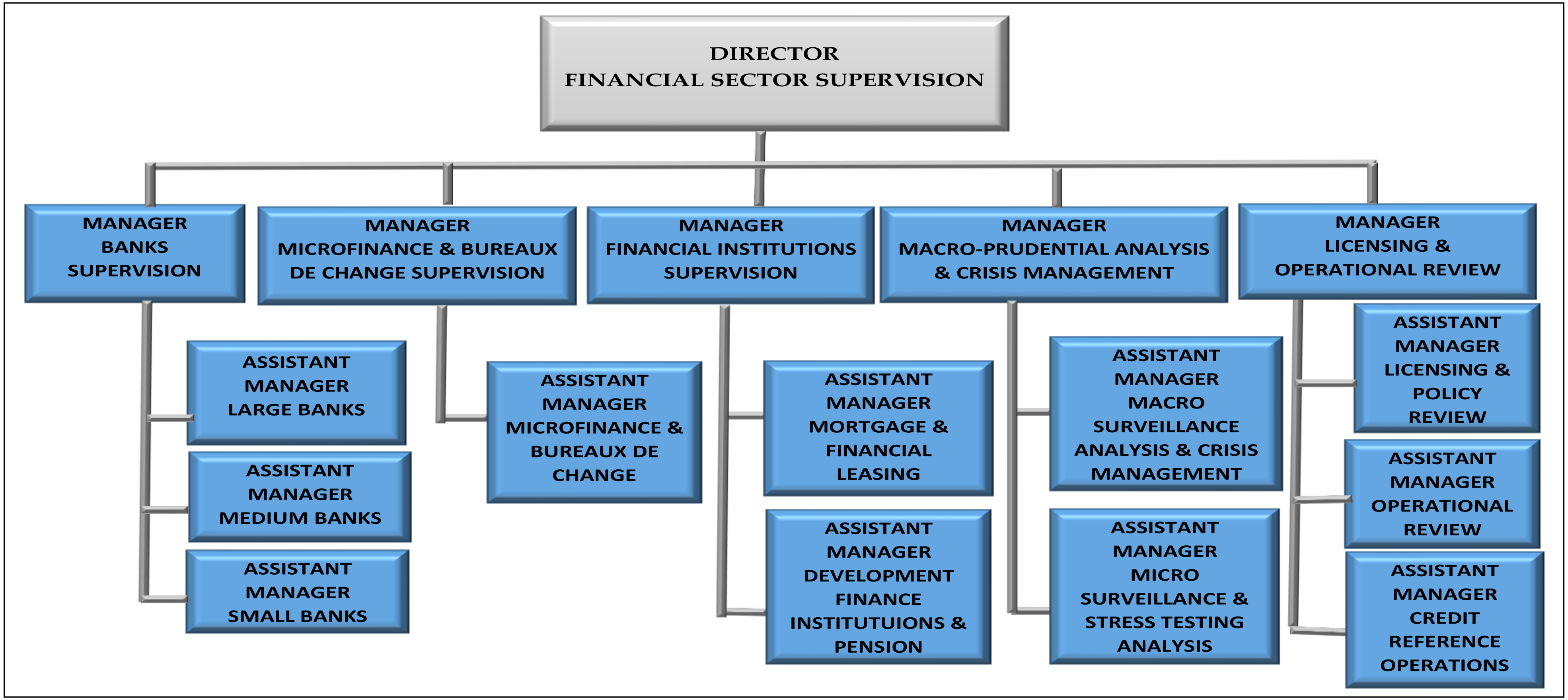
4.4 Supervisory Colleges

Expansion of banks' cross-border activities necessitates cooperation and information sharing among supervisors to ensure effective supervision. This is achieved in part through supervisory colleges, which are meetings organized by groups of supervisors aimed at enhancing consolidated supervision of banking groups. Supervisory colleges entail sharing of group risk assessment, financial condition and major issues of supervisory concerns to ensure effective supervision of banks by home and host supervisors. Further, in order to enhance off-site and on-site supervision among bank supervisors, the Bank has entered into Memorandum of Understanding (MoU) with central banks in EAC region, Comoro, India, Malawi, Morocco, Nigeria, South Africa and Zimbabwe.

In 2021, the Bank participated in Supervisory Colleges organized by the Prudential Authority of South Africa for Standard Bank Group, the parent bank of Stanbic Bank Tanzania Limited; BMCE Bank Group, the parent bank of Bank of Africa Tanzania Limited, organized by Bank Al-Maghrib of Morocco; United Bank for Africa (Tanzania) Ltd organized by the Central Bank of Nigeria; KCB Bank, I&M Bank, and Equity Bank Groups, organized by the Central Bank of Kenya and Ecobank Tanzania Limited organized by Central Bank of West African States (BCEAO). Participation in supervisory colleges continues to enhance the Bank's understanding of the risks facing cross-border banking groups for effective supervision.

APPENDICES

Appendix I: Directorate of Financial Sector Supervision Organization Structure



Source: *Bank of Tanzania*

Appendix II: Consolidated Balance Sheet of the Banking Sector (TZS Millions)

S/N	Particulars	2021	2020	2019	2018	2017
1	Cash	1,391,533	1,581,724	1,378,915	1,213,859	1,183,743
2	Balance with Bank of Tanzania	3,177,945	2,075,666	2,599,961	2,788,791	3,147,277
3	Balance with other banks and financial institutions	2,386,537	1,841,065	1,846,043	2,035,188	1,701,700
4	Cheques and items for clearing	49,353	33,057	58,162	53,955	46,527
5	Investments in debt securities	6,827,098	5,773,960	5,165,125	4,964,661	5,548,492
6	Interbank loans receivables	1,781,006	1,758,442	1,285,199	792,990	904,810
7	Loans, advance and overdraft(net)	20,822,561	18,765,130	17,884,030	16,195,698	15,160,390
8	Commercial and other bills purchased or discounted	35,302	30,711	66,235	26,813	22,882
9	Customers liabilities for acceptance	124,194	146,204	87,144	71,292	55,490
10	Equity investments	163,904	193,206	188,325	163,776	167,797
11	Claims on the treasury	40,884	0	0	0	0
12	Bank premises, furniture and equipment	985,890	1,006,477	970,337	822,282	784,446
13	Other property and assets owned	60,316	63,063	61,970	55,914	56,401
14	Inter-branch float items	370	903	496	132	6,462
15	Other assets	1,499,420	1,419,872	1,569,861	1,197,656	1,018,516
16	**Total assets**	**39,346,313**	**34,689,478**	**33,161,803**	**30,383,007**	**29,804,935**
17	Deposit liabilities other than banks	27,011,641	23,049,817	21,745,154	20,487,222	20,038,215
18	Special deposit account	673,511	866,383	1,106,926	644,288	322,523
19	Deposit from Banks and Financial Institution	813,919	849,744	966,028	1,095,504	921,773
20	Bankers Cheques and Draft Issued	9,769	10,875	12,862	23,927	39,856
21	Payments orders/transfers payable	13,270	15,047	9,341	4,145	8,099
22	Borrowings	3,007,623	2,784,195	2,439,154	2,146,697	2,574,798
23	Subordinated debts	190,892	239,285	363,589	373,243	286,493
24	Accrued Taxes and Other Expenses Not Paid	477,996	476,792	448,739	394,317	419,280
25	Unearned Income and Other Deferred Credits	134,405	124,394	129,810	72,928	94,016
26	Outstanding Acceptance & Executed By or for Account of the Ban	70,650	74,560	51,033	71,292	22,067
27	Inter-branch float items	2,404	1,031	4,553	979	8,345
28	Other liabilities	739,366	775,191	858,226	416,178	418,822
29	**Total liabilities**	**33,145,445**	**29,267,314**	**28,135,415**	**25,730,721**	**25,154,287**
30	**Total capital**	**6,200,867**	**5,422,165**	**5,026,388**	**4,652,285**	**4,650,647**
31	Paid up-share capital	2,399,952	2,108,923	2,171,871	2,097,641	1,919,529
32	Other capital accounts	3,800,916	3,313,242	2,854,517	2,554,645	2,731,118
33	**Total Liabilities and Capital**	**39,346,313**	**34,689,478**	**33,161,803**	**30,383,007**	**29,804,935**

***Source**: Bank of Tanzania*

Appendix III: Consolidated Income Statement of the Banking Sector (TZS Millions)

S/N	Particulars	2021	2020	2019	2018	2017
1	Interest income	3,281,462	3,022,885	2,937,303	2,897,232	3,001,142
2	Interest expenses	766,236	754,996	726,065	768,564	941,658
3	Net interest income	2,515,226	2,267,889	2,211,238	2,128,668	2,059,484
4	Bad debts written off	45,447	76,886	42,331	58,527	65,909
5	Provision for bad and doubtful debts	397,092	395,400	345,151	531,644	528,931
6	Non-interest income	1,100,113	1,010,801	950,954	910,631	926,051
7	Non-interest expenses	2,215,273	2,191,784	2,223,319	2,165,218	2,075,411
8	**Operating income**	957,527	614,620	551,391	283,890	296,280
9	Non-core credits/charges	62,161	48,291	38,150	29,036	34,627
10	Extraordinary credits and charges	847	0	0	-142	0
11	**Net income/ (loss) before income tax**	1,020,535	662,911	589,541	312,785	330,908
12	Income tax provision	354,102	271,031	253,211	191,990	121,987
13	**Net income / (loss) after income tax**	666,434	397,922	344,842	133,897	208,921

Source: *Bank of Tanzania*

Appendix IV: Geographical Distribution of Bank Agents

S/N	Geograph Area	Growth in 2021 (Percent)	2021	2020	2019	2018	2017
1	Arusha	11.3	3,944	3,542	2,358	1,390	768
2	Coast	17.6	1078	917	668	494	274
3	Dar es Salaam	25.9	16,059	12,753	9,358	5,968	3,167
4	Dodoma	21.2	2,676	2,208	1,558	951	629
5	Geita	27.1	657	517	285	175	97
6	Iringa	14.8	1217	1060	705	533	309
7	Kagera	9.6	1041	950	636	452	269
8	Katavi	50.0	204	136	95	97	56
9	Kigoma	30.4	627	481	286	198	100
10	Kilimanjaro	17.8	1,881	1,597	1,198	746	407
11	Lindi	28.4	629	490	312	228	133
12	Manyara	15.5	560	485	333	310	196
13	Mara	11.8	935	836	538	407	235
14	Mbeya	23.1	2,559	2,079	1,585	1,165	827
15	Morogoro	18.4	2,151	1,816	1,344	927	547
16	Mtwara	25.3	985	786	474	382	206
17	Mwanza	12.8	3,471	3,078	2,189	1,347	757
18	Njombe	24.7	1001	803	604	411	249
19	Rukwa	-57.2	180	421	285	213	153
20	Ruvuma	-23.4	485	633	394	326	192
21	Shinyanga	-13.5	888	1026	686	443	259
22	Simiyu	257.7	1202	336	212	131	88
23	Singida	-18.7	409	503	359	272	136
24	Songwe	43.1	584	408	258	181	0
25	Tabora	-32.7	583	866	535	330	186
26	Tanga	2.9	968	941	584	425	208
27	Pemba	980.0	1080	100	65	29	35
28	Unguja	35.4	869	642	454	296	182
	Total		**48,923**	**40,410**	**28,358**	**18,827**	**10,665**

***Source**: Bank of Tanzania*

Appendix V: Geographical location of Microfinance Service Providers

S/N	Region	Tier II	Tier III	Tier IV
1	Arusha	43	75	827
2	Dar es Salaam	222	173	1,092
3	Dodoma	36	26	678
4	Geita	9	4	1,148
5	Iringa	16	26	630
6	Kagera	12	24	439
7	Katavi	3	2	219
8	Kigoma	9	3	812
9	Kilimanjaro	9	40	1,278
10	Lindi	7	3	1,376
11	Manyara	12	16	266
12	Mara	28	12	1,650
13	Mbeya	41	44	1,260
14	Morogoro	36	26	1,524
15	Mtwara	18	3	1,023
16	Mwanza	65	19	1,325
17	Njombe	15	16	1,264
18	Pwani	21	14	1,909
19	Rukwa	4	5	357
20	Ruvuma	9	11	1,628
21	Shinyanga	19	10	213
22	Simiyu	6	2	757
23	Singida	12	5	1,085
24	Songwe	19	3	121
25	Tabora	12	1	491
26	Tanga	9	17	751
	Total branches	**692**	**580**	**24,123**

Source*: Bank of Tanzania*

Appendix VI: Financial Soundness Indicators (Percentage)

	Dec-21	Dec-20	Dec-19	Dec-18	Dec-17
Capital adequacy					
Core capital to TRWA+OBSE	19.5	17.2	17.0	16.2	18.4
Core capital to total deposit	17.5	17.5	17.2	16.2	16.5
Total capital to TRWA+OBSE	20.2	18.1	18.1	18.1	20.4
Total capital to total assets	13.1	13.1	13.1	13.3	13.1
Foreign exchange liabilities to total liabilities	29.7	30.2	30.3	33.7	35.2
Liquid assets to demand liabilities	29.4	30.7	32.1	35.2	40.3
Liquid assets to total assets	25.5	24.6	26.9	28.8	32.7
Liquid assets to customer deposits liabilities	37.1	37.0	41.0	42.7	48.6
Total loans to customer deposits	81.8	86.8	88.2	85.1	81.1
Earnings and profitability					
Net interest margin to total income	56.6	55.6	56.3	55.5	52.0
Non-interest expenses to total income	49.8	53.8	56.6	56.4	52.4
Return on assets (ROA)	2.8	1.9	1.9	1.0	1.2
Return on equity (ROE)	11.5	7.6	7.1	2.9	4.7
Personnel expenses to non-interest expenses	51.9	50.0	48.2	45.3	44.6
Asset quality					
Gross non-performing Loans to gross Loans	8.5	9.4	9.6	10.5	11.9
Large exposure to total capital	89.6	106.1	171.4	142.8	131.4
NPLs net of provisions to total capital	31.4	36.6	37.7	41.6	23.3
Net loans and advances to total assets	52.9	54.1	53.9	53.3	50.9
Sectoral distribution loans					
Agriculture, fishing, hunting and forestry	7.3	8.7	9.6	7.2	7.3
Building , construction and real estate	7.6	9.0	10.9	8.1	10.1
Education, health and other services	6.1	5.9	5.6	8.4	13.6
Electricity, gas and water	2.3	3.0	3.0	4.1	3.7
Financial intermediaries	1.2	1.1	1.0	1.0	1.8
Leasing	0.0	0.0	0.0	0.1	0.1
Manufacturing	9.5	9.3	9.9	11.8	10.7
Mining	2.2	2.2	2.2	2.2	1.7
Personal loans	37.1	33.9	29.0	29.5	20.3
Tourism, hotel and restaurants	3.5	4.0	3.0	4.0	4.5
Trade	16.5	15.2	16.2	18.5	20.2
Transport & communication	4.7	5.7	5.1	5.2	5.9
Warehousing and storage	0.2	0.1	0.1	0.1	0.1
Sensitivity to market risk					
FX currency denominated assets to total assets	35.5	35.7	27.3	30.0	29.9
FX currency denominated liabilities to total liabilities	29.7	30.2	30.3	33.7	35.2
Gain or loss on forex operations to total Income	4.9	5.4	5.9	5.5	5.6
Interest income to total income	73.8	74.1	74.8	75.5	75.8
Net open positions in FX to total capital	7.8	9.0	8.8	6.2	2.1

Source: *Bank of Tanzania*

Appendix VII: Geographical Distribution of Branches and ATMs

S/N	Geographical Area	Number of Branches					ATMs				
		2021	2020	2019	2018	2017	2021	2020	2019	2018	2017
1	Arusha	68	65	68	61	54	128	149	141	146	142
2	Coast	19	17	14	11	11	52	50	40	41	41
3	Dar es Salaam	282	284	290	286	275	683	694	758	811	829
4	Dodoma	46	41	41	39	32	113	99	93	90	87
5	Geita	20	20	19	14	11	28	26	22	22	22
6	Iringa	23	21	20	18	17	37	50	47	48	46
7	Kagera	29	28	27	25	20	54	57	53	53	52
8	Katavi	6	4	4	3	2	7	7	7	5	6
9	Kigoma	15	14	13	13	10	23	29	27	27	25
10	Kilimanjaro	49	48	46	40	39	102	85	83	88	102
11	Lindi	15	13	13	10	10	25	23	25	26	24
12	Manyara	22	22	19	20	15	32	30	31	38	37
13	Mara	23	22	24	21	20	43	46	46	48	46
14	Mbeya	40	45	46	36	39	91	90	90	93	91
15	Morogoro	43	42	40	36	34	95	94	94	91	86
16	Mtwara	24	21	21	18	23	35	37	42	43	40
17	Mwanza	71	67	67	65	57	128	128	123	125	121
18	Njombe	17	18	17	14	13	24	23	24	25	24
19	Rukwa	9	8	8	7	8	15	15	13	16	16
20	Ruvuma	15	17	18	15	14	36	36	33	35	34
21	Shinyanga	29	30	28	25	23	45	49	46	49	52
22	Simiyu	10	10	7	6	4	12	10	9	8	9
23	Singida	17	17	15	13	11	28	30	27	26	26
24	Songwe	14	13	13	15	11	22	20	18	18	18
25	Tabora	21	21	21	18	16	44	40	41	45	43
26	Tanga	28	29	27	27	24	57	58	54	56	68
27	Pemba	9	9	8	4	3	11	10	11	9	9
28	Unguja	26	23	23	18	19	78	73	72	62	62
	Total	**990**	**969**	**957**	**878**	**815**	**2,048**	**2,058**	**2,070**	**2,144**	**2,158**

***Source**: Bank of Tanzania*

Appendix VIII: Directory of Supervised Institutions

Commercial Banks	S/N	Commercial Banks
Absa Bank (Tanzania) Limited	20	Habib African Bank Limited
African Banking Corporation (Tanzania) Limited	21	I & M Bank (Tanzania) Limited
Akiba Commercial Bank Plc.	22	International Commercial Bank (Tanzania) Limited
Amana Bank Limited	23	KCB Bank (Tanzania) Limited
Azania Bank Limited	24	Letshego Bank (T) Limited
Bank of Africa (Tanzania) Limited	25	Mkombozi Commercial Bank Plc.
Bank of Baroda (Tanzania) Limited	26	Mwalimu Commercial Bank Plc.
Bank of India (Tanzania) Limited	27	National Bank of Commerce Limited
Canara Bank (Tanzania) Limited	28	National Microfinance Bank Plc.
China Dasheng Bank Limited	29	NCBA Bank Tanzania Limited
Citibank (Tanzania) Limited	30	Peoples' Bank of Zanzibar Limited
CRDB Bank Plc.	31	Stanbic Bank (Tanzania) Limited
DCB Commercial Bank Plc.	32	Standard Chartered Bank (Tanzania) Limited
Diamond Trust Bank (Tanzania) Limited	33	Tanzania Commercial Bank Plc
Ecobank (Tanzania) Limited	34	United Bank for Africa (Tanzania) Limited
Equity Bank (Tanzania) Limited		
Exim Bank (Tanzania) Limited		
First National Bank (Tanzania) Limited		
Guaranty Trust Bank (Tanzania) Limited		
Community Banks		**Microfinance Banks**
Kilimanjaro Cooperative Bank Limited	1	Access Microfinance Bank(Tanzania) Limited
Maendeleo Bank Plc.	2	Finca Microfinance Bank Limited
MUCOBA Bank Plc.	3	Mwanga Hakika Microfinance Bank Limited
Tandahimba Community Bank Limited	4	Vision Fund Tanzania Microfinance Bank Limited
Uchumi Commercial Bank Limited	5	Yetu Microfinance Bank Plc
Development Banks		**Credit Reference Bureaus**
Tanzania Agricultural Development Bank Limited	1	Credit Info Tanzania Limited
TIB Development Bank Limited	2	Dun & Bradstreet Credit Bureau Tanzania Limited
Representative Offices		**Financial Leasing Companies**
The Export-Import Bank of Korea Limited	1	Alios Finance Tanzania Limited
Bank of China Limited	2	Equity for Tanzania Limited (EFTA)
	3	Pass Leasing Company Limited
	4	Salute Finance Limited
Mortgage Finance Companies		**Bureau De Change**
Tanzania Mortgage Refinance Company	1	Posta Bureau De Change
First Housing Finance (Tanzania) Limited	2	Kadoo Bureau De Change
	3	Unimoni Bureau De Change
	4	Fast Forex Bureau De Change
Mandatory Social Security Schemes		**Supplementary Social Security Schemes**
Public Service Social Security Fund (PSSSF)	1	MSD Wekeza (PSSSF)
National Health Insurance Fund (NHIF)	2	TANAPA Group Endowment Fund (PSSSF)
National Social Security Fund (NSSF)	3	Voluntary Savings Retirement scheme(VSRS)
Workers Compensation Fund (WCF)	4	ELCT Retirement Scheme
	5	Tumaini Pension Fund
	6	PUMA Energy Provident Fund
	7	BOT Staff Benefits Fund
	8	Tanzania Portland Cement Company LTD Staff Pension Scheme
	9	National Information Sector Scheme (NISS)
	10	LAPF DC Scheme
	11	Deposit Administration Scheme (DAS)
	12	PSSF Supplementary Scheme
	13	TAZARA Pension Scheme

***Source**: Bank of Tanzania*

Appendix IX: List of Audit Firms Registered to Audit Banks and Financial Institutions

S/N	Name of Audit Firm	S/N	Name of Audit Firm
1	Auditax International	11	Innovex Auditors
2	Baker Tilly Dgp & Co	12	KPMG
3	Basil & Alred	13	Mhasibu Consultants
4	BDO East Africa	14	Nexia Sj Tanzania
5	Claritas International	15	Pricewaterhousecoopers
6	Cooperative Audit and Supervision Corporation (COASCO)	16	PKF Associates Tanzania
7	Deloitte & Touche	17	RSM Ashvir
8	Ernest & Young	18	Trion & Compnany
9	Globe Accountancy Services	19	Tanna Sreekumar & Company
10	HLB Mekonsult	20	Mazars Tanzania

Source: *Bank of Tanzania*

Appendix X: Calendar of Major Events

SN	Major Events in 2021 Calendar Year	Date
1	Bank of Tanzania issued a Circular No. FA.130/170/01/5 requiring banks and financial institutions to maintain a cost to income ratio (CIR) of not more than 55 percent and non-performing loans ratio of not more than the acceptable limit of 5 percent as well as restricting payment of dividend and bonuses for non-compliance.	22nd January 2021
2	Bank of Tanzania issued a Circular No. FA.179/535/01/47 on change of reporting frequency of regulatory returns	24th February 2021
3	Bank of Tanzania approved a change of banking license for AccessBank Tanzania Limited from commercial bank to microfinance bank category. The bank changed its name to Access Microfinance Bank Limited and was issued with a new banking license number MFB 0007 .	1st March 2021
4	Bank of Tanzania issued a license number FLC 004 to PASS Leasing Company Limited to carry out financial leasing business effective from 1st March 2021.	1st March 2021
5	Bank of Tanzania issued Business Continuity Management Guidelines for Banks and Financial Institutions, 2021 that dis-applied Business Continuity Management Guidelines for Banks and Financial Institutions, 2009 effective from 21st June 2021.	21st June 2021
6	Bank of Tanzania issued revised Outsourcing Guidelines for Banks and Financial Institutions, 2021 that dis-applied the Outsourcing Guidelines for Banks and Financial Institutions, 2008 effective from 21st June 2021.	21st June 2021
7	Bank of Tanzania issued the revised Social Security Schemes Investment Guidelines, 2021 that dis-applied the Social Security Schemes Investment Guidelines, 2015 with effect from 21st June 2021.	21st June 2021
8	Bank of Tanzania issued a Circular No. FA.42/53/01/22 on measures to promote credit to the private sector, lower interest rates and hastening recovery of the economy.	27th August 2021
9	Bank of Tanzania issued a license number BCL No. 0580-00 to Fast Forex Bureau Limited to carry on business of buying and selling of Foreign Exchange and Money Remittance Operations effective from 24th September 2021.	24th September 2021
10	Bank of Tanzania issued a Circular No. FB.377/433/01/81 requiring Non-Deposit Taking Microfinance Service providers (Tier 2) to submit regulatory returns to the Bank through Electronic Data Interchange (EDI) system w.e.f 15th January 2022.	28th October 2021
11	The *Banking and Financial Institutions (Development Finance) Regulations, 2021 were published* in the Government Notice No. 766 dated 29th October 2021.	29th October 2021
12	The *Banking and Financial Institutions (Corporate Governance) Regulations, 2021 were published* in the Government Notice No. 767 dated 29th October 2021.	29th October 2021

Source: *Bank of Tanzania*