GUIDANCE NOTE ON COMPUTATION OF NET STABLE FUNDING RATIO FOR BANKS AND FINANCIAL INSTITUTIONS, 2023

BANK OF TANZANIA

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1.1. Overview

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.

Unless otherwise specified, the NSFR definitions mirror those in the *Guidance Note on Computation of Liquidity Coverage Ratio for Banks and Financial Institutions*. All references to LCR definitions in the NSFR refer to the definitions in the *Guidance on Computation of Liquidity Coverage Ratio for Banks and Financial Institutions*.

1.2: Definitions

1.2.1 In this Guidance, unless the context otherwise requires:

Available stable funding or “ASF”: the portion of capital and liabilities held by a bank that is expected to be reliable over one year;

Banks within the same cooperative network: a group of legally autonomous banks with a statutory framework of cooperation with common strategic focus and brand where specific functions are performed by central institutions or specialized service providers;

Carrying value: the amount at which a liability or equity instrument is recorded before the application of any regulatory deductions, filters or other adjustments;

Committed facilities: explicit contractual agreements or obligations to extend funds at a future date to retail or wholesale counterparties and only include contractually irrevocable or conditionally revocable agreements to extend funds in the future;

Encumbered assets: assets that are pledged to secure, collateralize or credit-enhance any transaction. Encumbered assets include but are not limited to assets backing securities or covered bonds and assets pledged in securities financing transactions or collateral swaps. **Unencumbered assets:** assets that are free of legal, regulatory, contractual or other restrictions on the ability of the bank to liquidate, sell, transfer, or assign the asset;

High Quality Liquid Assets (HQLA): the assets that satisfy the requirements of *Guidance on Computation of Liquidity Coverage Ratio for Banks and Financial Institutions*;

Operational deposits: deposit that is functionally necessary to provide the operational services such as trust, clearing or custody, settlement, asset management and cash management services. Deposits are provided pursuant to a legally binding agreement, the termination of which is subject to a minimum 30 calendar day notice period or significant switching costs to be borne by the customer;

Rehypothecation: re-pledging the practice of spending a borrowed security that is ostensibly assigned as collateral in a lending arrangement;

Required stable funding or "RSF" is the minimum amount of stable funding a bank or financial institution is required to hold and is a function of the liquidity characteristics and residual maturities of the various assets held by a bank or financial institution, including its off-balance sheet ("OBS") exposures;

Retail funding: deposits placed with a bank by individuals or natural persons and small businesses;

Stable deposits: the amount of the retail deposits that are fully insured by an effective deposit guarantee scheme or by a public guarantee that provides equivalent protection and where: the depositors have other established relationships with the bank that make deposit withdrawal highly unlikely; or the deposits are in transactional accounts (eg accounts where salaries are automatically deposited);

Trade date: the date when an order to purchase, sell or otherwise acquire a security is performed. The trade date can apply to the purchase, sale or transfer of bonds, equities, foreign exchange instruments, commodities, futures or any other tradable instrument;

Wholesale funding: liabilities and general obligations that are raised from legal persons (ie legal entities-including sole proprietorships and partnerships, non-financial corporates and sovereigns, central banks, multilateral development banks, and Public Sector Entities). Includes secured (transactions backed by High Quality Liquid Assets or with the bank's domestic sovereign, Public Sector Entities or central bank) and unsecured funding that is callable within the LCR's horizon of 30 days or that has its earliest possible contractual maturity date situated within this horizon (such as maturing term deposits and unsecured debt securities) as well as funding with an undetermined maturity. Wholesale funding that is callable by the funds provider subject to a contractually defined and binding notice period surpassing the 30-day horizon is not included.

3. Computation of NSFR

3.1 Minimum ratio for NSFR

3.1.1 The computation of NSFR shall be based on the following formula.

$$\frac{\text{Available amount of stable funding}}{\text{Required amount of stable funding}} \geq 100\%$$

3.1.2 Banks must calculate their NSFR using two components:

a) Available stable funding-ASF is determined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year.

b) The amount of stable funding required ("Required stable funding"-RSF) of a specific bank or financial institution is a function of the liquidity characteristics and residual maturities of the various assets held by the bank as well as those of its off-balance sheet (OBS) exposures.

3.2 Criteria and Assumption of ASF

3.2.1 A bank or financial institution is required to measure the amount of available stable funding (ASF) based on the broad characteristics of the relative stability of the bank or financial institution's funding sources, including the contractual maturity of its liabilities and the differences in the propensity of different types of funding providers to withdraw their funding.

3.2.1 A bank or financial institution shall consider the following criteria in determining the appropriate amounts of the stable liabilities:

a) Funding tenor – The NSFR is generally calibrated such that longer-term liabilities are assumed to be more stable than short-term liabilities.

b) Funding type and counterparty – The NSFR is calibrated under the assumption that short-term (maturing in less than one year) deposits provided by retail customers and funding provided by small business customers are behaviorally more stable than wholesale funding of the same maturity from other counterparties.

3.3 Criteria and Assumption of RSF

3.3.1 A bank or financial institution is required to measure the amount of required stable funding based on the broad characteristics of the liquidity risk profile of the bank or financial institution's assets and OBS exposures.

3.3.1 A bank or financial institution shall consider the following criteria in determining the appropriate amounts of required stable funding for various assets:

a) Resilient credit creation – The NSFR requires stable funding for some proportion of lending to the real economy in order to ensure the continuity of this type of intermediation.

b) Bank or financial institution behaviour – The NSFR is calibrated under the assumption that a bank or financial institution may seek to roll over a significant proportion of maturing loans to preserve customer relationships.

c) Asset tenor – The NSFR assumes that some short-dated assets (maturing in less than one year) require a smaller proportion of stable funding because a bank or financial institution would be able to allow some proportion of those assets to mature instead of rolling them over.

d) Asset quality and liquidity value – The NSFR assumes that unencumbered, high-quality assets that can be securitized or traded, and thus can be readily used as collateral to secure additional funding or sold in the market, do not need to be wholly financed with stable funding.

3.4 Calculation of ASF

3.4.1 A bank or financial institution shall calculate the amount of required stable funding by first assigning the carrying value of the bank or financial institution's assets to the categories listed in the following paragraphs.

3.4.1 The carrying amount of each liability and capital item is assigned to the relevant category, then multiplied by each ASF factor shown in the table below, and the total ASF is the sum of the weighted amounts. The carrying value represents the amount of a liability or equity instrument before application of any regulatory deductions, filters or other adjustments.

Components of ASF category	ASF factor
Liabilities and capital instruments	
(i) Total regulatory capital (CET1, Additional T1 and T2), before the application of capital deductions, excluding Tier 2 instruments with residual maturity of less than one year.	100%
(ii) the total amount of borrowings and liabilities (including term deposits) with effective residual maturities of one year or more (Cash flows falling below the one-year horizon but arising from liabilities with a final maturity greater than one year do not qualify for the 100% ASF factor).	100%
Liabilities by retail and small businesses with residual maturity of less than one year	
(i) Stable, non-maturity (demand) deposits and term deposits with residual maturity of less than one year provided by retail and small business customers.	95%
(ii) Less stable, non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers.	90%
Liabilities for corporates, sovereign, banks and financial institutions with residual maturity of less than one year.	
(i) Funding with residual maturity of less than one year provided by non-financial corporate customers.	50%
(ii) Funding with residual maturity of less than one year from sovereigns, Public Sector Entities (PSEs) and Multilateral Development Banks.	50%
(iii) Other funding with residual maturity between six months and less than one year not included in the above categories, including funding provided by the Bank, banks and financial institutions.	50%

Components of ASF category	**ASF factor**
Other liabilities	
(i) Deferred tax liabilities (if the effective maturity of the liability greater than one year).	100%
(ii) Minority Interest (if it is perpetual or the effective maturity of the liability is greater than or equal to one year) - for consolidated reporting only.	100%
(iii) Minority Interest with residual maturity between six months and less than one year.	50%
(iv) All other liabilities and equity not included in the above categories, including liabilities without a stated maturity (with a specific treatment for deferred tax liabilities and minority interests).	0%
(v) Other liabilities without a stated maturity. This category may include short positions and open maturity positions. Two exceptions can be recognized for liabilities without a stated maturity: • first, deferred tax liabilities, which shall be treated according to the nearest possible date on which such liabilities could be realized; and • second, minority interest, which shall be treated according to the term of the instrument, usually in perpetuity. For such liabilities would be assigned either a 100% ASF factor if the effective maturity is one year or greater, or 50%, if the effective maturity is between six months and less than one year;	0%
(vi) Derivative liabilities net of derivative assets if derivative liabilities are greater than derivative assets.	0%
(vii) NSFR derivative liabilities (derivative liabilities less total collateral posted as variation margin on derivative liabilities).	0%
(viii) “Trade date” payables arising from purchases of financial instruments, foreign currencies and commodities.	0%

3.5 Calculation of RSF

3.5.1 A bank or financial institution shall include the following in its calculation of RSF. The amount of required stable funding is calculated by first assigning the carrying value to the bank or financial institution’s assets categories below.

3.5.2 The amount assigned to each asset category is then multiplied by each RSF factor shown in the table below, and the total RSF is the sum of the weighted amounts.

a) On-balance sheet exposures

Components of RSF category		RSF factor
(i)	Cash	0%
(ii)	Balances with Bank of Tanzania (All balances including Statutory Minimum Reserve).	0%
(iii)	Claims on Bank of Tanzania with residual maturities of less than six months.	0%
(iv)	Receivables arising from sales of financial instruments and foreign currencies that (i) are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction, or (ii) have failed to, but are still expected to, settle.	0%
(v)	Unencumbered HQLA excluding cash and balance with the Bank of Tanzania.	5%
(vi)	Unencumbered loans to banks and financial institutions with residual maturities of less than six months, where the loan is secured against HQLA (Level 1), and where the bank or financial institution has the ability to freely rehypothecate the received collateral for the life of the loan.	10%
(vii)	All other unencumbered loans to banks and financial institutions with residual maturities of less than six months not included in the above categories.	15%
(viii)	HQLA encumbered for a period of six months or more and less than one year.	50%
(ix)	Loans to Bank of Tanzania, banks and financial institutions with residual maturities between six months and less than one year.	50%
(x)	Deposits held at other banks and financial institutions for operational purposes.	50%
(xi)	All other assets not included in the above categories with residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns and PSEs.	50%
(xii)	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%
(xiii)	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%
(xiv)	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%

Components of RSF category	RSF factor
(xv) 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%
(xvi) 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%
(xvii) Physical traded commodities, including gold.	85%
(xviii) All assets that are encumbered for a period of one year or more.	100%
(xix) derivative assets net of derivative liabilities if derivative assets are greater than derivative liabilities.	100%
(xx) 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%

b) Off balance sheet

3.5.3 A bank or financial institution shall apply the RSF factor to the currently undrawn portion of the following OBS exposure categories in order to ensure that it hold stable funding for the portion of OBS exposures that may be expected to require funding within a one-year horizon.

Components of RSF category	RSF factor
(i) Irrevocable and conditionally revocable credit and liquidity facilities to any client.	5%
(ii) Unconditionally revocable credit and liquidity facilities.	5%
(iii) Trade finance-related obligations (including guarantees and letters of credit).	1%
(iv) Guarantees and letters of credit unrelated to trade finance obligations.	1%
(v) Other non-contractual obligations: • potential requests for debt repurchases of the bank of financial institution’s own debt or that of related conduits, securities investment vehicles and other such financing facilities. • structured products where customers anticipate ready marketability, such as adjustable rate notes and variable rate demand notes (VRDNs). • managed funds that are marketed with the objective of maintaining a stable value.	1%
All other off balance-sheet obligations not included in the above categories.	5%

4. Frequency of calculation and reporting

BOT FORM 16-1 Schedule 17(vii): Net Stable Funding Ratio (NSFR) should be:

(i) submitted on monthly basis, within seven days following the end of the reference month; and

(ii) submitted through Electronic Data Interchange (EDI).