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TANZANIA

Ref. No. FA.178/461/01/02

19th February, 2018

TO: ALL BANKS AND FINANCIAL INSTITUTIONS

RE: MEASURES TO INCREASE CREDIT TO PRIVATE SECTOR AND CONTAIN NON-PERFORMING LOANS.

This has reference to the meeting between the Governor, Bank of Tanzania and the Tanzania Bankers Association Governing Council held on 9th March 2017, which among others, discussed and deliberated on the captioned subject.

As you are aware, the banking sector has experienced a general slow-down in credit growth and increasing non-performing loans (NPLs). This situation is not healthy, not only for the banking sector but also for the economy of the country as a whole. To contain the situation, banks and financial institutions are directed to develop and implement specific strategies aimed at improving credit-granting process and reversing NPL trends. Further, every bank or financial institution is required to ensure that no new NPLs are generated by failure to follow robust credit granting and management process.

Alongside the specific strategies that a bank or financial institution will develop and implement, the Bank of Tanzania has considered and granted some regulatory measures and reliefs intended to provide more space for banks and financial institutions to advance more credits to various sectors of the economy, while at the same time prudently managing risks emanating from lending activities

The guidelines for preparation of the captioned strategies; and measures and reliefs that the Bank has provided are detailed in the Annex hereto attached.

Notwithstanding the aforementioned, every bank or financial institution is strictly required to comply with conditions provided in each category of the relief, failure of which stiff regulatory penalties and sanctions shall be imposed.

In addition, every bank or financial institution shall report on quarterly basis, progress in reducing NPLs and increasing good quality credit to the economy. Details of the report format will be made available to you in the due course.

Sincerely,



Bernard Yohana KIBESSE
Feb 19 2018 6:53 PM

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Dr. Bernard Y. Kibesse
Deputy Governor
Financial Stability and Deepening

c.c: Executive Secretary,
Tanzania Bankers Association
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DAR ES SALAAM

**ANNEXURE TO BOT CIRCULAR NUMBER FA.178/461/01/02 DATED 19TH FEBRUARY
2018 ON MEASURES TO INCREASE CREDIT TO PRIVATE SECTOR AND CONTAIN
NON-PERFORMING LOANS**

1. Development of Strategy to contain Non-Performing Loans;

- (i) Every bank or financial institution is required to develop a non-performing Loans strategy that at minimum include the following:-
- (a) Strategic objectives for reducing NPLs ratio to acceptable level of not more than 5% over realistic but sufficiently ambitious time-bound horizons;
- (b) Establish a permanent recovery function with roles and responsibilities clearly defined;
- (c) Clear segregation of duties in the credit department to ensure that credit processing, sanctioning, monitoring, credit administration, recovery and enforcement are performed by independent units;
- (d) Put a clear guidance for outsourcing of collection specialist;
- (e) Ensure top management involvement for high risk cases and strategic decisions in recovery;
- (f) Define the modalities for NPLs Monitoring, workout activities and reporting.
- Management reporting to top management, committees and Board;
 - Operational Performance reporting;
 - Regulatory Reporting to the Bank of Tanzania; and
 - Define the contents of NPLs reports and frequency of reporting.
- (g) Establish internal strategic options and their combinations that can be applied to reduce NPLs both in the short and long-term basis;
- (h) Established recovery targets both in the short- and long-term basis at bank wide level and branches;
- (i) Establish Key Performance Indicators for Recovery function in the bank;

- (j) Establish NPL policies including Arrears Management Policy; Debt Recovery Policy; NPLs Classification and Provisioning Policy; Syndicated and Multi-Banked Distressed NPLs Policy; Collateral Management, Valuation and Reporting Policy; and Early Warning Policy;
- (k) Every bank or financial institutions is required to re-assess its operational capabilities in terms of credit processes, tools, data quality, system, staff, credit risk decision making, internal policies and other relevant areas whether they are adequate to ensure that lending activities and recovery are performed in a systematic manner. Upon completion of such assessment, bank or financial institution should endeavor to address the identified gaps in the credit process;
- (l) In addition, banks and financial institutions are reminded to ensure registration, submission and usage of credit reference system and improve credit assessment of borrowers by considering changes in both micro and macroeconomic factors during loan analysis; and
- (m) Every bank or financial institution is required to submit to the Bank of Tanzania within two months progress on development and implementation of strategy on non-performing loans. The Bank of Tanzania shall impose regulatory sanctions for banks and financial institutions that will not develop NPLs Strategy within the time limit specified.

2. Restructuring of credit accommodation

Regulation 7(5) of the Banking and Financial Institutions (Management of Risk Assets) Regulations, 2014 states: a non-performing credit accommodation shall not be restructured more than twice.

The Bank of Tanzania has waived compliance with regulation 7(5) of the *Banking and Financial Institutions (Management of Risk Assets) Regulations, 2014*; by allowing banks to restructure credit accommodation up to four times.

Banks and financial institutions that will consider restructuring credit accommodation under this relief shall be required to:-

- (a) Demonstrate that financed borrowers have good track repayment records but lack sufficient working capital to support operations of their businesses;

- (b) Ensure the measure is applied to borrowers whose businesses have been affected by changes in economic variables or business related events rather than borrowers' characters or overexposures;
- (c) Maintain a list of credit accommodations restructured more than twice for inspection once needed; and
- (d) This relief is granted for a tenure of three years up to **31st December 2020**.

3. Waiver of Interest and Charges

Regulation 7(2) of the *Banking and Financial Institutions (Management of Risk Assets) Regulations, 2014* states that any matured or expired performing overdraft facility may be extended, renewed or rolled over and remain in the same classification provided there are no ever-greening or hard core elements and all interest and charges due have been paid.

The Bank of Tanzania has waived compliance with regulation 7(2) of the *Banking and Financial Institutions (Management of Risk Assets) Regulations, 2014* by allowing banks and financial institutions to roll-over, renew or extend overdraft facilities that have no hardcore elements without considering the amount of interest and charges outstanding. Through this measure, banks and financial institutions are now allowed to capitalize accrued outstanding interest and charges. Every bank or financial institution is required to observe each of the following conditions:

- (a) This measure shall apply to borrowers to whom the bank or financial institution has itself approved to convert their overdraft facilities into term loans and start paying through predefined repayment schedules;
- (b) The bank or financial institution is able to demonstrate for every credit accommodation that the financial difficulties experienced by the borrower are of temporary nature and after a defined period, the borrower will be able to service the loan based on the revised repayment terms;
- (c) An assessment has been made and that no other alternative but capitalization of interest and charges is the only option available;
- (d) Bank or financial institution shall not exercise this measure to the same customer more than once;

- (e) Without regard to the permission to capitalize interest and charges, banks and financial institutions are allowed to establish their own percentages of arrears to be capitalized as compared to the principal and interest repayment;
- (f) Banks and financial institutions shall be required to maintain records of credit facilities converted into term loans indicating amount of capitalized interest and charges, including the reasons for the restructure;
- (g) The measure shall not apply to credit accommodation under which there is a litigation with a competent court regarding recovery from collateral or written-off loans; and
- (h) This relief is granted for a tenure of three years up to **31st December 2020**.

4. Upgrading of Credit Accommodation

Regulation 7(4) of the Banking and Financial Institutions (Management of Risk Assets) Regulations 2014 states that: a restructured non-performing credit accommodation shall not be upgraded into a better classification category unless the borrower: (a) in case of overdraft facilities has satisfactorily performed for a minimum of two consecutive quarters; and (b) in case of term loans, has timely paid four consecutive installments.

The Bank of Tanzania has waived compliance with *regulations 7(4)(b) of the Banking and Financial Institutions (Management of Risk Assets) Regulations, 2014*, by allowing banks and financial institutions to upgrade term loans once the borrower paid two consecutive loan instalments.

This relief is granted for a tenure of three years up to **31st December 2020**.

5. Write-off Credit Accommodation

Circular No. FA.56/470/01/VOLI/50 dated 10th April 2015 with title "Charge Off Credit Accommodations as per the Banking and Financial Institutions (Management of Risk Assets) Regulations, 2008 versus International Financial Reporting Standards (IFRS), allowed banks to write-off credit accommodation that remained in the loss category for more than twelve consecutive quarters.

The Bank of Tanzania has withdrawn the Circular and now banks and financial institutions are required to comply with *regulation 9 of the Banking and Financial Institutions (Management of Risk Assets) Regulations, 2014*. Therefore,

banks and financial institution are required to assess their non-performing loans in loss category and write-off credit accommodations that have remained in loss category for more than four consecutive quarters as of 31st December 2017 and going forward full compliance is expected.