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NATIONAL BANK OF ETHIOPIA
ADDIS ABABA

LICENSING AND SUPERVISION OF
THE BUSINESS OF CAPITAL GOODS FINANCE COMPANIES

Limit on Capital Goods Finance Exposure to a Single Lessee
Directives No. CGFB/09/2019
(3rd replacement)

Whereas, there is a need to ensure that capital goods finance companies have sufficiently diversified their lease default risks by limiting their capital goods finance exposures to single lessees;

Whereas, it is important to align the capital goods finance exposure limit of companies to a single lessee with the type of market segment that they intend to serve;

Whereas, setting limit on capital goods finance exposure tied with the total capital allows a company to extend capital goods finance amount proportionate to its level of capital base;

Whereas, it has become important to encourage the participation of private investors in the capital goods finance sector by allowing same to establish a capital goods finance company targeting different market segments with varied single lessee exposure limits,

Now, therefore, in accordance with the powers vested in it under article 18 (4) of Capital Goods Leasing Business Proclamation No. 103/1998 as amended by article 6 of the Capital Goods Leasing Business (Amendment) Proclamation No.807/2013, the National Bank has issued these directives.

1. Short Title

These directives may be cited as “Limit on Capital Goods Finance Exposure to a Single Lessee Directives No. CGFB/09/2019”.

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2. Definitions

For the purpose of these directives, unless the context requires otherwise:

- 2.1 “**company**” means a capital goods finance company licensed by the National Bank;
- 2.2 “**capital goods finance**” includes financial lease and hire-purchase;
- 2.3 “**capital goods finance exposure**” means the degree to which a company’s net investment in capital goods finance is exposed to the risk of loss in the event of single lessee’s default;
- 2.4 “**Lessee**” means a person who, under a lease agreement, obtains capital goods from a lessor and has the right to use the capital good, against payment of rent for an agreed period of time;
- 2.5 “**National Bank**” refers to the National Bank of Ethiopia;
- 2.6 “**Total Capital**” means the sum of paid-up capital, retained earnings, donated equity, legal reserve and permanent free reserves acceptable to the National Bank held by a capital goods finance company.

3. Scope of Application

The provisions of these directives shall be applicable to all capital goods finance companies licensed by the National Bank.

4. Responsibilities for Managing Capital Goods Finance Concentration Risk

4.1 The board of directors of a company shall:

- 4.1.1 establish, assess and approve the capital goods finance concentration risk policy. This shall include the principles and objectives governing the extent to which they are willing to accept capital goods finance concentration risk; the policy shall set out prudent rules and internal limits for granting capital goods finance to a single lessee, which shall not exceed the regulatory limits stipulated herein;
- 4.1.2 review at least once in a year the capital goods finance concentration risk policy and related techniques, and information systems;



- 4.1.3 ensure through audit and inspection, adherence to the capital goods finance concentration risk policy; and
- 4.1.4 review all significant exposures to capital goods finance concentration risk at least on quarterly basis.
- 4.2 A company shall develop and implement information systems, procedures and techniques that accurately and continually identify, measure and monitor capital goods finance concentration risk in its capital goods finance portfolio.
- 4.3 A company shall at least once in a year conduct stress tests of its major capital goods finance concentration risks and review the results of those tests to identify and respond to potential changes in market conditions that could inversely impact the company's performance. The results of the stress test shall be made available to the National Bank for examination.

5. Regulatory Limits

- 5.1 The capital goods finance exposure of a company shall be within the following limits:
 - 5.1.1 The aggregate sum of capital goods finance granted to and outstanding at any one time to any single lessee shall not exceed 2.5 % (two and half percent) of the total capital of the company.
- 5.2 Notwithstanding the provision stated above, the capital goods finance exposure of a company intending to serve lessees having relatively higher capital goods finance requirement through meeting the Birr 400,000,000 (Birr four hundred million) minimum paid-up capital requirement shall be within the following limits:
 - 5.2.1 The aggregate sum of capital goods finance granted to and outstanding at any one time to any single Small and Medium Enterprise (SME) shall not exceed 15% (fifteen percent) of the total capital of the company.
 - 5.2.2 The aggregate sum of capital goods finance granted to and outstanding at any one time to a large business that doesn't constitute a Small and Medium Enterprise (SME) shall not exceed 25% (twenty five percent) of the total capital of the company.
 - 5.2.3 The provision stated under article 5.2 and sub articles 5.2.1 and 5.2.2 herein above shall not be applicable to a company partly or wholly owned by a regional government and/or city administration of the Federal Democratic Republic of Ethiopia.

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5.3 In the event of a company's existing exposure towards any single lessee exceeding the regulatory limits as a result of any extraneous factors such as merger and acquisition leading to a change in the composition of shareholding structure of same, the company shall:

5.3.1 not grant any additional new facilities to a single lessee until its existing exposures comply with the regulatory limits set in these directives; and

5.3.2 comply to the regulatory limits set in these directives within a period of two years.

5.4 To safeguard themselves against breach of the above requirements, the companies may include suitable provisions in the capital goods finance agreement to:

5.4.1 make it incumbent on their lessees to inform the company in advance of any potential development that could result in a change in the shareholding structure of the lessees; and

5.4.2 reserve the right to impose necessary conditions to enable the company to be in compliance with the requirements of the directives.

6. Repeal

Limit on Capital Goods Finance Exposure to a Single Lessee Directives No. CGFB/08/2017 is hereby repealed and replaced by these directives.

7. Effective date

These directives shall enter into force as of the 6th day of February 2019.


Yinager Dessie (PhD)
Governor

