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**NATIONAL BANK OF ETHIOPIA**  
**ADDIS ABABA**

TELEGRAPHIC ADDRESS  
N A T I O N B A N K  
TELEX 21020  
CODES USED  
PETERSON 3<sup>rd</sup> & 4<sup>th</sup> ED.  
BENTLEY'S 2<sup>nd</sup> PHRASE  
A. B. C. 6<sup>th</sup> EDITION.

PLEASE ADDRESS ANY REPLY TO  
P. O. Box 5550  
ADDIS ABABA

**LICENSING AND SUPERVISION OF BANKING BUSINESS**  
**Limitations on Investment of Banks (2<sup>nd</sup> Replacement)**  
**Directive No. SBB/65/2017**

**Whereas**, investment related activities of banks require sound and prudent practices to effectively manage risks;

**Whereas**, diversification of business activities and setting limits for investments are essential tools for risk management;

**Whereas**, there is a need to ensure that banks focus on their core business which is debt financing managed at arm's length;

**Now, therefore**, in line with powers vested in it by articles 22(1) and 59(2) of Banking Business Proclamation No. 592/2008, the National Bank of Ethiopia has issued this Directive.

**1. Short Title**

This Directive may be cited as "Limitation on Investment of Banks (2<sup>nd</sup> Replacement) Directive No. SBB/65/2017".

**2. Definitions**

For the purpose of this Directive:

- 2.1 **"bank"** refers to a company licensed by the National Bank to undertake banking business or a bank owned by the Government;
- 2.2 **"banking business"** means the business of receiving or accepting money or its equivalent on deposit and lending out this money in order to earn a profit; transfer funds; the buying and selling of gold and silver bullion and foreign exchange; discounting and negotiation of promissory notes, drafts, bills of exchange and other evidence of debt; and any other activity recognized as customary banking business as stipulated in article 2(2) of Banking Business Proclamation No. 592/2008;
- 2.3 **"dealing in securities"** refers to the business of buying and selling equity and debt securities for own account, whether through a broker or otherwise, so as to make profit from the trading;
- 2.4 **"financial infrastructure"** refers to a set of institutions or systems that enable effective operation of financial intermediaries including such elements as payment and settlement systems, credit information bureaus, collateral registries and other financial services systems as may be determined by the National Bank;

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- 2.5** “**insurance business**” refers to an undertaking by an insurer to indemnify another person, in exchange for consideration called premium, against damage, destruction, loss or liability in respect of a certain risk or peril to which the object of the insurance may be exposed or to pay a sum of money or other thing of value depending on the happening of a certain event;
- 2.6** “**insurer**” means a person that issues or agrees to issue an insurance policy or undertakes, or agrees to undertake the obligations of an insurance policy;
- 2.7** “**interest free banking business**” refers to banking business in which mobilizing or advancing funds is undertaken in a manner consistent with Islamic finance principles and mode of operation that avoids receiving or paying interest;
- 2.8** “**National Bank**” means the National Bank of Ethiopia;
- 2.9** “**net worth**” means the difference between total assets and total liabilities of a bank;
- 2.10** “**real estate acquisition and development**” refers to the business of buying or developing property consisting of houses or other buildings, or leasing land and developing it, to sell and generate revenue or profit;
- 2.11** “**restricted investment account**” means an account in which restrictions are placed by the account holder on where, how and for what purpose the funds placed in the account can be invested;
- 2.12** “**person**” means natural or juridical person.

**3. Scope of the Directive**

This Directive shall be applicable to all banks operating in Ethiopia.

**4. Limits on Investment and Financing of Banks**

- 4.1** No bank shall directly engage in insurance business. However, a bank may hold equity shares not exceeding 5% of an insurer’s subscribed capital in a single insurance company.
- 4.2** A bank that currently holds equity shares in excess of the limits stated under sub-article 4.1 hereinabove shall reduce such holdings to the stated limits or below in line with article 3 of the National Bank Directive No. SIB/35/2013.
- 4.3** No bank shall engage directly in non-banking business or in businesses other than those indicated under sub-article 2.2 hereinabove.

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- 4.4** Notwithstanding sub-article 4.3 hereinabove, a bank may:
- i. engage in interest free banking services in line with the National Bank Directive No.SBB/51/2011;
  - ii. hold equity interest in financial infrastructure; or
  - iii. hold up to 10% equity shares in a single non-banking business other than insurance.
- 4.5** Where a bank engages in interest free banking business, the National Bank Directive on Credit Exposure to a Single and Related Counterparty No. SBB/53/2012 shall also apply to the bank mutatis mutandis by treating all asset exposures of such bank to interest free banking activities as loans and advances as defined in the above Directive.
- 4.6** A bank's aggregate equity investment in all non-bank businesses, including insurance companies, shall not exceed 10% of its net worth.
- 4.7** Notwithstanding sub-article 4.6 hereinabove, the National Bank may waive the investment limit where it deems necessary.
- 4.8** No bank shall invest more than 10% of its net worth in real estate acquisition and development, other than for own business premises, without prior approval of the National Bank.
- 4.9** No bank shall deal in securities. However, a bank may provide securities brokerage services to its customers acting as their agent;
- 4.10** A bank's equity participation in any financial institution other than an insurance company in line with sub-article 4.1 hereinabove shall be subject to prior authorization of the National Bank.

**5. Specific Requirements**

- 5.1** A bank shall report any equity investment, except investment in financial infrastructure and businesses in relation to interest free banking services, to the National Bank within 30 working days from the date of decision of the investment using the form annexed to this Directive.
- 5.2** A bank shall develop investment policies that at a minimum cover:
- a) allowable investments;
  - b) criteria for classifications;
  - c) portfolio diversifications/limitations;
  - d) structure and reporting procedures;
  - e) responsibilities of internal audit/control;
  - f) risk management, including stress testing;

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**6. Exception to Limitations**

Prudential limits and restrictions of this Directive shall not apply to:

- 6.1** interest free banking business funded by restricted investment account which shall take place in line with the interest of the holder of the fund in the account; or
- 6.2** investments made prior to the effective date of this Directive, notwithstanding articles 4.4(iii), 4.6 and 4.8 of this Directive; or
- 6.3** dealing with the National Bank or Federal Government Securities, or any other securities fully and unconditionally backed by Federal Government of Ethiopia, as long as the buying prices of such securities do not exceed their face value.

**7. Repeal**

Limitation on Investment of Banks Directive No. SBB/60/2015 is hereby repealed and replaced by this Directive.

**8. Effective Date**

This Directive shall enter into force as of the **6<sup>th</sup> day of June 2017**.

**Annex**

**Equity Investment Reporting Format**

Name of bank: \_\_\_\_\_

Date: \_\_\_\_\_

(In Millions of Birr)

No	Category/ Type of Investment*	Name of Entity/ Business Investment is Made	Nature of Entity/ Business	Investment Value	Investment as % of Net Worth of the Bank	Capital of the Investment Entity		% Share of Subscribed Capital/Equity Shares of the Investment Entity	Date of Investment	Description/ Reason for Investment
						Subscribed	Paid-up			
Total										

\* For example, real estate acquisition & development, insurance, etc.

Prepared by: \_\_\_\_\_

Approved by: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

