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NATIONAL BANK OF ETHIOPIA

ADDIS ABABA

TELEGRAPHIC ADDRESS

NATIONBANK

TELLEX 21020

CODES USED

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ADDIS ABABA

LICENSING AND SUPERVISION OF BANKING BUSINESS

Directives No. SBB/53/2012

Credit Exposures to Single and Related Counterparties

1. Issuing Authority

These Directives are issued by the National Bank of Ethiopia pursuant to the authorities vested in it by Article 22 of the Banking Business Proclamation No. 592/2008.

2. Purpose of the Directives

The main purpose of these Directives is to ensure that commercial banks have sufficiently diversified their credit risks so as to minimize losses because of failure of single or related counterparty to repay loans.

3. Definitions

- 3.1 "Cash Collateral" means credit balances on accounts in the books of the lending commercial bank over which customers have given the lending bank a formal letter of cession and which the bank at its discretion has transferred from the customer's account(s) to a specific or general cash collateral account(s) or blocked.



3.2 “Cash-substitutes” shall mean:

- 3.2.1 A security issued by the Federal Government of Ethiopia;
- 3.2.2 An unconditional obligation or guaranty issued in writing by the Federal Government of Ethiopia or a domestic financial institution, where the beneficiary commercial bank maintains a current written and well-documented evaluation evidencing that the financial institution is financially sound and capable of honoring the guaranty on demand with respect to repayment of both principal and interest, or a specific amount, and the lending commercial bank has not been advised of any determination by the guarantor to deny payment under the terms of the obligation or guarantee; and
- 3.2.3 An unconditional obligation or guaranty issued in writing by a foreign bank with an “A” or above rating by Standard and Poor’s Corporation, Moody’s Investor Services, or any other international rating company acceptable to the National Bank in their latest rating.

3.3 “Loans” or “Advances” means any financial assets of a commercial bank arising from a direct or indirect advance (i.e. unplanned overdrafts, participation in loan syndication, the purchase of loans from another lender, etc.) or commitment to advance funds by a commercial bank to a person that are conditioned on the obligation of the person to repay the funds, either on a specified date or dates or on demand, usually with interest. The term includes a contractual obligation of a commercial bank to advance funds to or on behalf of a person, claim evidenced by a lease financing transaction in which the commercial bank is the lessor, overdraft facility to be funded by the commercial bank on behalf of a person, revocable or irrevocable documentary letters of credit, standby letters of credit, and guarantees or sureties issued on behalf of a borrower.

3.4 “Commercial” means a bank licensed by the National Bank which is engaged mainly in deposit mobilization, short term commercial lending and international banking. The term excludes institutions established mainly to engage in medium and long term project financing, *with* the purpose of promoting development in the industrial, agricultural, construction, services, commercial or other economic sectors.

3.5 “Majority-owned Subsidiary” means a subsidiary controlled by a business entity holding over 50% of its capital.

3.6 “Person” means any legal or natural person.



3.7 "Related Party" to a commercial bank means,

On the one hand,

a shareholder, a director, a chief executive officer, or a senior officer of that commercial bank and/or the spouse or relation in the first degree of consanguinity or affinity of such shareholder, director, chief executive officer, or senior officer; and

On the other,

a partnership, a common enterprise, a private limited company, a share company, a joint venture, a corporation, or any other business in which the shareholder, director, chief executive officer, or senior officer of the commercial bank and/or the spouse or relation in the first degree of consanguinity or affinity of such shareholder, director, chief executive officer, or senior officer has a business interest as shareholder, director, chief executive officer, or senior officer, owner or partner.

3.8 "The National Bank" means the National Bank of Ethiopia.

3.9 "Total Capital" means the paid up capital, legal reserve and any other unencumbered reserve acceptable to the National Bank held by a commercial bank.

4. Scope of Application

These Directives shall be applicable to credit exposures of all commercial banks licensed by the National Bank.

5. Combination of Loans

For the purpose of these Directives, a loan or advance or extension of any credit to one or more borrowers in each of the categories listed below shall be combined and subject to the limit to one borrower:

5.1 A corporation, a share company, a public enterprise or any business entity and its majority-owned subsidiaries;

5.2 One or more private limited companies and

- a. individuals who fully own such companies and/or spouses or relations in the first degree of consanguinity or affinity of such individuals,
- b. individuals who are majority-owners of such companies and/or spouses or relations in the first degree of consanguinity or affinity of such individuals, and
- c. businesses which have a majority ownership in such companies;



- 5.3 A partnership or joint venture and its individual general partners or participants in the joint venture;
- 5.4 A partnership or joint venture and its limited liability partners or participants in the joint venture;
- 5.5 A common enterprise and the participants therein who borrow for that enterprise.

6 Limitations on Loans and Advances

- 6.1 The aggregate sum of loans or advances extended or permitted to be outstanding directly or indirectly by a commercial bank to any one person, who is not related to the commercial bank, shall at no time exceed 25% (twenty five percent) of the total capital of the commercial bank.
- 6.2 The aggregate sum of loans or advances extended or permitted to be outstanding directly or indirectly to one related party at any one time shall not exceed 15% (fifteen percent) of the total capital of the commercial bank.
- 6.3 The aggregate sum of loans extended or permitted to be outstanding directly or indirectly to all related parties at any one time shall not exceed 35% (thirty five percent) of the total capital of the commercial bank.
- 6.4 Commercial banks shall not extend loans to related parties on preferential terms with respect to conditions, interest rates and repayment periods other than the terms and conditions normally applied to other borrowers.
- 6.5 The National Bank, on grounds it may think sufficient, may prohibit a commercial bank from extending any loan or advance to any person.

7. Exclusions

For the purpose of these Directives, the following types of loans or advances shall not be subject to the credit limit prescribed under article 6 hereinabove:

- 7.1 loans fully secured by cash collateral; and
- 7.2 loans fully secured by cash substitutes.

8. Threshold for Treatment of Shareholders as Related Party

As regards shareholders, only those shareholders of a commercial bank with holdings of 2% (two percent) or more of a commercial bank's subscribed capital shall be treated as related party and shall be subject to the provisions of these Directives



9. Responsibility for Identifying Related Parties

Identification of related parties shall be the responsibility of each individual commercial bank.

10. Reporting Requirement

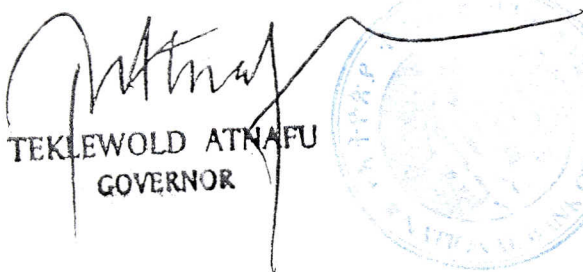
Reports showing month-end exposures to every single borrower that exceed 10% of total capital of a commercial bank and all related parties shall be submitted to the Bank Supervision Directorate of the National Bank within twenty days after the end of the period for which the data are reported. The report shall be submitted in accordance with the tables attached herewith which shall be part hereof.

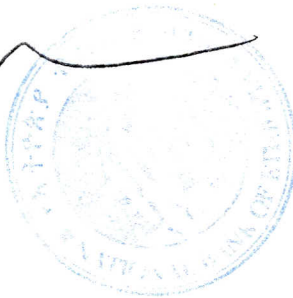
11. Repeal

Directives numbers SBB/29/2002 and SBB/30/2002 are hereby repealed and replaced by these directives.

12. Effective Date

These Directives shall enter into force as of 23rd day of January 2012.


TEKLEWOLD ATNAFU
GOVERNOR



Annex 1

**Monthly Return on Loans to Related Parties¹
List of All Related Borrowers
(in millions of Birr)**

Name of Bank: _____

Reporting month: _____

Borrower	Types of Loan/facility ²	Approved Loan Limit		Collateral		Outstanding Balance	Status (Classification) ³
		Amount	Percent of Capital	Type	Estimated/Face Value		

¹ Defined in line with Article 3.7 of NBE Directive No. SBB/53/2012

² Include all facilities extended to the borrower, be it on or off balance-sheet (i.e. overdrafts, term, loans, mechanize loans, L/C facilities, guarantees, etc.) and whether secured or clean

³ Classified in line with provisions of article 7 of NBE Directive No. SBB/43/2008

Prepared by: _____
(name and signature)

Telephone: _____

Approved by: _____

(name and signature)

Telephone: _____



Annex 2

Monthly Return on Credit Concentration
List of Borrowers that Exceed
Ten Percent of the Bank's Capital
(in millions of Birr)

Name of Bank: _____

Reporting month: _____

Borrower	Types of Loan/facility ¹	Approved Loan Limit		Collateral		Outstanding Balance	Status (Classification) ²
		Amount	Percent of Capital	Type	Estimated/Face Value		

¹ Include all facilities extended to the borrower, be it on or off balance-sheet (i.e. overdrafts, term, loans, mechanize loans, L/C facilities, guarantees, etc.) and whether secured or clean

² Classified in line with provisions of article 7 of NBE Directive No. SBB/43/2008

Prepared by: _____
 (name and signature)
 Telephone: _____

Approved by: _____
 (name and signature)
 Telephone: _____

