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NATIONAL BANK OF ETHIOPIA
ADDIS ABABA

LICENSING AND SUPERVISION OF BANKING BUSINESS

(1st Replacement)

**Directive to License and Authorize Interest Free Banking Business
Number SBB/72/2019**

Whereas interest free banking business has to be promoted for greater financial inclusion;

Whereas interest free banking business needs to be carried out in a safe and sound manner;

Whereas regulatory framework related to interest free banking business should be reviewed in light of the current banking sector reform;

Now, therefore, in accordance with Article 22(2) of Banking Business Proclamation Number 592/2008, the National Bank of Ethiopia hereby issues this directive.

1. **Short Title**

This directive may be cited as “(1st Replacement) Directive to License and Authorize Interest Free Banking Business No. SBB/72/2019”.

2. **Definitions**

For the purpose of this directive, unless the context provides otherwise:

- 2.1 “**bank**” means a company licensed by the National Bank to undertake banking business or a bank owned by the Government;
- 2.2 “**interest free banking business**” refers to a banking business in which mobilization or advancing funds is undertaken in a manner consistent with Islamic law or Sharia principles;
- 2.3 “**interest free banking window**” refers to a unit within a conventional bank exclusively offering interest free banking services;
- 2.4 “**interest free bank**” means a bank licensed by the National Bank to fully engage in interest free banking business;
- 2.5 “**National Bank**” means the National Bank of Ethiopia; and
- 2.6 “**person**” refers to natural or juridical person.

3. **Scope**

Provisions of this directive shall apply to all banks in Ethiopia engaged in interest free banking business.

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4. Licensing and Authorizing Interest Free Banking Business

- 4.1 Persons who intend to establish an interest free bank shall apply to the National Bank for a license in line with Directive No. SBB/56/2013.
- 4.2 A bank shall obtain a written authorization from the National Bank to carry on interest free banking window.
- 4.3 A bank which wishes to obtain an authorization to carry on interest free banking window shall submit a duly completed application in the prescribed format together with documents specified below:
- a) a report on resource mobilization and use;
 - b) planned balance sheet structure for interest free banking window and the whole bank;
 - c) maximum share of planned interest free banking window in total consolidated balance sheet of the bank;
 - d) risk management framework for all interest free banking window products;
 - e) a statement on availability of adequate capacity and facilities to run interest free banking window;
 - f) accounting aspects, such as accounting policies to be followed and profit and loss sharing mechanisms;
 - g) evidence of financial strength as reflected in capital adequacy, asset quality, earnings capability, future earnings prospects, and current liquidity position and forecast for the next 12 months;
 - h) track records of adherence to prudential regulations, credit discipline, quality of customer services;
 - i) a statement on the convenience as well as the needs of the population of the area to be served by interest free banking window;
 - j) methods of segregating the funds of interest free banking window from all other business; and
 - k) such other information as may be required by the National Bank while processing the application.





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4.4 The National Bank shall evaluate the application for authorization of interest free banking window submitted by a bank in view of risk management, Banking Business Proclamation, applicable directives issued by the National Bank as well as other rules and regulations for authorization.

5. Prohibition

5.1 Banks shall not alter maximum share of interest free banking window in their consolidated balance sheet without prior approval of the National Bank.

5.2 Failure to comply with sub-article 5.1 of this Article may result in the closure of interest free banking window.

6. Maintenance of Accounts and Financial Statements by Interest Free Banking Window

A bank engaged in interest free banking window shall:

6.1 keep separate books of accounts in respect of operations of interest free banking window and ensure proper maintenance of records for all transactions for segregation of funds.

6.2 report its interest free banking window activities every month to the National Bank.

7. Compliance with Regulatory and Supervisory Requirements

7.1 In conducting interest free banking business, banks shall comply mutatis mutandis with all regulatory and supervisory requirements except National Bank's directive on interest rate.

7.2 Board of directors of a bank engaged in interest free banking business shall develop detail policies and procedures on Shariah oversight.

8. Repeal

“Directives to Authorize the Business of Interest Free Banking No. SBB/51/2011” are hereby repealed and replaced by this Directive.

9. Effective Date

This Directive shall enter into force as of the 18th day of June 2019.




Yinager Dessie (PhD) 3
Governor