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NATIONAL BANK OF ETHIOPIA

LICENSING AND SUPERVISION OF BANKING BUSINESS LIMITATIONS ON INVESTMENT OF BANKS DIRECTIVE NO. SBB/92/2024 (DRAFT)

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 encourage investment in capital market service providers by banks and nurture the capital market in a manner that duly accounts bank's risk exposure and ring-fencing of the banking business from the capital market operation;

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

Now, therefore, in accordance with sub article 1 and 2 of article 22 and article 66(2) of the Banking Business Proclamation No. 592/2008 as amended by Proclamation No.1159/2019, the National Bank of Ethiopia has issued this Directive.

1 Short Title

This Directive may be cited as "Limitation on Investment of Banks Directive No. SBB/92/2024".

2 Definitions

For the purpose of this Directive:

- 2.1 **"Bank"** refers to a private or state owned entity licensed by the National Bank to undertake banking business.
- 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, interest free banking business;



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- and any other activity recognized as customary banking business as stipulated in article 2(2) of Banking Business Proclamation No. 592/2008 as amended by Proclamation No.1159/2019 and any amendment thereof.
- 2.3 **“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.
- 2.4 **“Capital Market Service Provider”** shall have the meaning provided under Capital Market Proclamation No. 1248/2021.
- 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 **“Total Capital”** shall include the paid up capital, legal reserve and any other unencumbered reserve held by a bank and acceptable to the National 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 **“Un-restricted Investment Account”** means an account in which no restrictions are placed by the account holder on where, how and for what purpose the funds placed in the account can be invested.
- 2.13 **“Person”** means natural or juridical person.



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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 A bank may

- 4.1.1 hold equity shares in a single insurance company not exceeding 5% of the subscribed capital of the insurance company;
- 4.1.2 acquire up to 100% equity shares in a capital market service provider, excluding credit rating agency, as per Capital Market Proclamation No. 1248/2021 and subject to prior approval of the National Bank;
- 4.1.3 hold equity interest in financial infrastructure; or
- 4.1.4 hold up to 10% equity shares in a single non-banking business other than insurance.

4.2 Notwithstanding the provision of sub article 4.1 of this article, no bank shall directly:

- 4.2.1 engage in insurance business;
- 4.2.2 be a capital market service provider as provided under Capital Market Proclamation No. 1248/2021;
- 4.2.3 engage in non-banking business or in businesses other than those indicated under sub-article 2.2 of this Directive; and
- 4.2.4 hold equity share in a credit rating agency.

4.3 A bank's aggregate equity investment in all non-bank businesses, including in insurance companies and capital market service providers, shall not exceed 15% of its total capital.

4.4 No bank shall invest more than 10% of its total capital in real estate acquisition and development, other than for own business premises, without prior approval of the National Bank.

4.5 Where a bank engages in interest free banking business, the National Bank Directive on Large Exposures to Counterparty or Group of Connected Counterparties Directive No. SBB/87/2024 shall also apply to the bank mutatis mutandis by treating all asset exposures of such bank to interest free banking activities as exposures as defined in the above Directive.



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- 4.6 A bank's equity participation in any financial institution other than an insurance company in line with sub-article 4.1.1 hereinabove shall be subject to prior authorization of the National Bank.
- 4.7 Notwithstanding sub-article 4.3 hereinabove, the National Bank may waive the investment limit for reasons it deems necessary.

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 (including, but not limited to musharakah contract and sukuk investments), 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:
- 5.2.1 allowable investments;
 - 5.2.2 criteria for classifications;
 - 5.2.3 portfolio diversifications/limitations;
 - 5.2.4 structure and reporting procedures;
 - 5.2.5 responsibilities of internal audit/control; and
 - 5.2.6 risk management, including stress testing.

6 Exception to Limitations

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

- 6.1 interest free banking business funded partly or fully by restricted investment account which shall take place in line with the interest of the holder of the fund in the account and/or unrestricted investment account;
- 6.2 investments made prior to the effective date of the repealed Directive No. SBB/65/2017, notwithstanding articles 4.1.4, 4.3 and 4.4 of this Directive;
- 6.3 investments made prior to transformation by a bank transformed from a microfinance institution, notwithstanding sub-article 4.1.4, 4.3 and 4.4 of this Directive; or



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6.4 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/65/2017 is hereby repealed and replaced by this Directive.

8 Effective Date

This Directive shall enter into force as of the ----day of July 2024.



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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 total capital 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: _____



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Total										

* Real estate acquisition & development, insurance, others

Prepared by: _____

Signature: _____

Date: _____

Approved by: _____

Signature: _____

Date: _____