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NATIONAL BANK OF ETHIOPIA

LICENSING AND SUPERVISION OF BANKING BUSINESS
FOREIGN EXCHANGE EXPOSURE LIMITS OF BANKS
DIRECTIVE NO. SBB/96/2025

Whereas, regulating foreign exchange exposures maximize the banks' ability to conduct foreign exchange business in a sound and viable manner;

Whereas, it is found important to monitor banks' exposure to exchange rate risk and ensure that the risk of loss arising from foreign exchange rate fluctuations is within tolerable limit;

Whereas, it is important to allow banks' to manage their foreign exchange positions in a manner that flexibly address customer needs and ensure existence of a functioning foreign exchange market;

Whereas, it is important to enhance the availability of foreign exchange at competitive rates through setting maximum foreign exchange holding limit of banks';

Now, therefore, in accordance with Articles 6(12 and 19), 40(5/b), 50(1 and 5), 53(2) of the National Bank of Ethiopia Proclamation No. 1359/2025, and Articles 32(1/e) and 91(2) of the Banking Business Proclamation No. 1360/2025, the National Bank of Ethiopia has issued this Directive.

1. Short Title

This Directive may be cited as **"Foreign Exchange Exposure Limits of Banks Directive No. SBB/96/2025"**.





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2. Definition

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

- 2.1. **“Bank”** means private or state owned bank, a foreign bank subsidiary or a branch of foreign bank licensed by the National Bank to undertake banking business;
- 2.2. **“Exchange Rate Risk”** means the risk of loss a bank bears as a result of fluctuations in the exchange rate between currencies and occurs from transactions denominated in foreign currency or holding of foreign currency denominated assets or liabilities;
- 2.3. **“Foreign Currency”** means any currency other than Ethiopian legal tender, which is a legal tender in any country outside Ethiopia;
- 2.4. **“Foreign Currency Exposure”** means the domestic currency equivalent sum, currency by currency, of all foreign currency denominated assets and liabilities exposing the bank to exchange rate risk;
- 2.5. **“Foreign Exchange Business”** means any facility offered, business undertaken or transaction executed with any person involving a foreign currency inclusive of any account facility, credit extension, borrowing, issuance of guarantee, counter-guarantee, purchase or sale by means of cash, cheque, draft, transfer or any other instrument denominated in a foreign currency;
- 2.6. **“Forward Transaction”** means a transaction that is to be executed after more than two working days from the date the transaction is contracted or agreed in line with the relevant foreign exchange regulation of the National Bank;
- 2.7. **“Long Position in a Foreign Currency”** means the holding by the bank of a particular foreign currency for its own account in excess of all its contractual





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- spot, same day value and forward transaction commitments in that particular foreign currency;
- 2.8. **“Mid Exchange Rate”** means the average of the buying and selling exchange rate of a bank for a particular currency as of the close of business each day;
- 2.9. **“National Bank”** means the National Bank of Ethiopia;
- 2.10. **“Open Foreign Currency Position”** means a situation where assets denominated in foreign currencies do not equal liabilities denominated in the same currencies and vice versa;
- 2.11. **“Overall Net Open Position”** means the sum of all net on-balance and off-balance sheet assets or liabilities denominated in foreign currencies, where the bank bears any return or risk associated with exchange rate movement, expressed as a domestic currency equivalent amount using the shorthand method of measurement;
- 2.12. **“Same Day Transaction”** means a same day purchase or same day buy or same day sale transaction having same day value;
- 2.13. **“Same Day Value”** means the transaction to which it is referred is to be executed on the day it is contracted or agreed;
- 2.14. **“Short Foreign Currency Position”** means the holding by the bank of a particular foreign currency for its own account is less than all its contractual spot, same day value and forward transaction commitments in that particular foreign currency;
- 2.15. **“Shorthand Method”** means the procedure for measuring the foreign exchange risk exposure by adding all short positions on one side and all long positions on the other side and then taking the greater of the two totals as open position;





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- 2.16. **“Net Open Position in Single Currency”** means the net sum of all its assets and liabilities of a bank inclusive of all its spot, same day value and forward transactions and its off-balance sheet items in that foreign currency;
- 2.17. **“Spot Transaction”** means spot purchase or spot buy or spot sale transaction having a spot value;
- 2.18. **“Spot Value”** means the transaction to which it is referred is to be executed two working days from the date it is contracted or agreed;
- 2.19. **“Squaring a Foreign Currency Position”** means the buying from or selling of foreign exchange to any other participant in the interbank foreign exchange market in order to eliminate any positions above the limit set under Article 5 herein below;
- 2.20. **“Tier 1 Capital or Going-concern Capital”** means the capital of a bank, after regulatory adjustments, as defined from time to time in the National Bank Risk-Based Capital Adequacy Requirements for Banks Directive or any subsequent amendment thereto, against which losses can be written-off while the bank continues to operate; and
- 2.21. **“Value Date”** of a transaction means the date on which it is to be executed.

3. Scope of the Directive

This Directive shall apply to any bank engaged in foreign exchange business.





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4. General Principles

4.1 A bank, for the purpose of computing open position, shall include all on and off balance sheet foreign currency denominated assets or liabilities, only where such items expose the bank to exchange rate risk. Thus, a bank shall include all on and off balance sheet foreign currency denominated assets or liabilities in the open position computation when:

4.1.1 the foreign exchange position subjects the bank to the assumption of exchange rate risk due to fluctuations in the exchange rate as defined in this Directives; and

4.1.2 there is no agreement entered with a customer relieving the bank from assuming exchange rate risk.

4.2 Notwithstanding sub-article 4.1 of this Article, if a bank has foreign exchange exposure, either on- or off- balance sheet items, where an explicit written agreement entered with a customer relieves the bank from assuming any exchange rate risk, such exposure shall not be included in the open position computation.

4.3 A bank shall compute its foreign exchange risk exposure and comply with the overall prudential limit.

4.4 A bank shall assess its overall foreign exchange risk exposure, where applicable, on a consolidated basis as set out in this Directive.

5. Limit on Foreign Exchange Open Position

5.1 The overall foreign exchange risk exposure at the close of each business day shall not exceed +/-18% of the bank's Tier 1 capital (going-concern capital).





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- 5.2 The foreign exchange risk exposure in any single currency, irrespective of short or long position, shall be, supported with policy framework, be determined by the individual bank provided the bank remains within the overall foreign exchange risk exposure limit of +/- 18% of its Tier 1 capital (going-concern capital).
- 5.3 A bank shall monitor its intra-day foreign exchange risk exposures on a continuous basis. The intra-day foreign exchange risk exposures on the overall and single currency exposure shall be maintained within prudent limits as per the requirement of this Directive and as established by the bank's Board of Directors, respectively.
- 5.4 The overall foreign exchange risk exposure of each bank shall be assessed on a consolidated basis, including its forex bureaus and its subsidiaries, if any or where the bank belongs to a bank group. In computing the overall foreign exchange risk exposure, all on and off-balance sheet assets and liabilities denominated in foreign currency shall be taken into account, provided that the bank is exposed to exchange rate risk.

6. Computation of Foreign Exchange Risk Exposure

6.1 Computation of Single Currency Foreign Exchange Risk Exposure

- 6.1.1 The measurement of a bank's foreign exchange risk exposure in a single currency shall also determine if the bank has a long or short open position in that particular currency.
- 6.1.2 The open position stated under sub-article 6.1.1 of this Article shall be the sum of the net spot position and the net forward position, where these net positions shall be computed in the following manner:





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- a) **Net spot position:** The net spot position is the difference between foreign currency assets and liabilities in a particular currency, in which such position appears directly on the balance sheet. This computation shall also include all accrued income and expenses thereon.
- b) **Net forward position:** The net forward position represents all amounts to be received less all amounts to be paid in the future in a particular currency as a result of foreign exchange transactions, which have already taken place. These transactions are recorded as off-balance sheet items and shall include:
- i) spot transactions, which are not yet settled;
 - ii) forward foreign exchange transactions;
 - iii) documentary credits such as letter of credit, guarantees and similar commitments denominated in foreign currencies, which are certain to be called upon and are likely to be irrevocable; and
 - iv) all amounts of currency futures and swaps to be received less all amounts to be paid in the future as a result of transactions in currency futures, and also the principal on currency swaps, shall be measured and included in the net forward position.

6.2 Computation of Overall Foreign Exchange Risk Exposure

A computation of overall foreign exchange risk exposure involves measurement of risks inherent in a bank's mix of long and short positions in





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different currencies and shall be computed using the shorthand method in the following manner:

- 6.2.1 calculate the net open position in each currency as set out in sub-article 6.1 of this Article and categorize them either as net long or short open positions;
- 6.2.2 net open positions in each foreign currency as determined and categorized under sub-article 6.2.1 of this Article shall be converted into the Birr equivalents by using the exchange rate at the close of business each day referred in Article 7 herein below;
- 6.2.3 the Birr equivalents of net open positions in each foreign currency obtained under sub-article 6.2.2 shall be added to arrive at the total long and the total short position;
- 6.2.4 the greater of the total long or the total short position determined under sub-article 6.2.3 of this Article shall be divided by the bank's total Tier 1 capital (going-concern capital) to determine the ratio; and
- 6.2.5 the ratio determined in line with sub-article 6.2.4 of this Article shall be compared with the limit on overall open foreign currency position laid down under Article 5 of this Directive.

7. Exchange Rate to be Applied for Computation of Foreign Exchange Risk Exposure

A bank shall convert each reported foreign currency into Birr equivalents using its own prevailing mid exchange rate at the close of business each day.





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8. Correction of Excess Foreign Exchange Risk Exposures

- 8.1 A bank shall take every reasonable action to immediately correct any and all foreign exchange risk exposures exceeding the limit set forth in this Directive.
- 8.2 Any excess foreign exchange risk exposure shall be squared in the following business day without delay.
- 8.3 A bank's failure to correct any foreign exchange risk exposure above the maximum prudential limit by the closure of business on the following day shall be subjected to administrative sanctions as set out under Article 12 of this Directive.

9. Reporting and Maintenance of Supporting Documents

- 9.1 A bank shall submit to the National Bank a daily report, showing the amounts of foreign currency positions as of the close of business each day, on the next business day before 12 p.m. noon. This report shall be submitted in accordance with the reporting template attached herewith, which shall be a part hereof.
- 9.2 Notwithstanding the provision stated under sub-article 9.1 of this Article, the open position report for each Friday shall be reported to the National Bank on Saturday and the report for each Saturday shall be reported in the next business day.
- 9.3 A bank shall maintain records which are sufficient to determine at all times its single currency and overall foreign exchange risk exposures.
- 9.4 Notwithstanding sub-article 9.3 of this Article, a bank shall also maintain a daily record showing close of business foreign exchange risk exposures, both single and overall currency, and a reconciliation of opening to closing positions.





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10. Internal Control and Management Information System

- 10.1 A bank shall put in place adequate internal control function including board and management oversight that ensures prudent management of exchange rate risk and compliance with open position prudential limits as specified in this Directive.
- 10.2 The internal audit function shall review and conduct periodic audit on the overall foreign exchange risk exposure and open position determination of the bank and shall report to the board at least on quarterly basis.
- 10.3 A bank shall automate and put in place a comprehensive management information system that supports the overall foreign exchange risk exposure management of the bank including computation of open position, compliance to prudential limits and reporting requirement as specified in this Directive.

11. Application of the Directive for Development Finance Institutions

While the provisions of this Directive remain applicable, the National Bank may exceptionally determine enforcement of the requirement for squaring of excess foreign exchange risk exposure of Development Finance Institutions including Development Bank of Ethiopia in consideration of its foreign exchange inflows sourced from Government and Development Partners for implementation of specific programs.

12. Administrative Sanctions

- 12.1 A bank that breaches Article 5 of this Directive and fails to rectify its excess position by the close of the next business day shall incur a financial fine calculated at an annual interest rate of ten (10) percent on the un-rectified





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excess amount.

- 12.2 A bank that fails with the reporting obligations under Article 9 of this Directive shall be liable to a daily fine of Birr 10,000 for each day of delay.
- 12.3 Financial fines imposed under sub-articles 12.1 and 12.2 of this Article shall be automatically debited from the bank's account maintained with the National Bank on the following business day.
- 12.4 Notwithstanding sub-articles 12.1 and 12.2 of this Article, a bank that is found to have engaged in incorrect computation of net open position, misreporting, or manipulation of data through under/over stating or omission of foreign currency assets and/or liabilities shall be liable to a fine of Birr 50,000 for each identified misdeed.
- 12.5 In addition to financial fines under sub-article 12.1, 12.2 and 12.4 of this Article, the National Bank may, following formal warnings and corrective orders, consider and impose any or all of the following sanctions for repeated non-compliance with this Directive:
- 12.5.1 prohibition from engaging in any further foreign exchange activities;
 - 12.5.2 prohibition from declaring or paying dividends;
 - 12.5.3 prohibition from opening new branches;
 - 12.5.4 prohibition from initiating or expanding services or activities;
 - 12.5.5 suspension of access to the National Bank's standing facilities;
 - 12.5.6 suspension of lending, investment and credit operations;
 - 12.5.7 prohibition from acquiring additional fixed assets; and
 - 12.5.8 prohibition from accepting new deposit liabilities.
- 12.6 Without prejudice to the preceding sub-articles of this Article, continued non-compliance with this Directive by a bank that results in or threatens





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unsafe or unsound banking conditions may subject the bank to additional administrative measures as provided under the National Bank of Ethiopia Proclamation No. 1359/2025 and Banking Business Proclamation No. 1360/2025.

13. Repeal

Limitation on Open Foreign Currency Position of Banks Directive No. SBB/27/2001 is hereby repealed and replaced by this Directive.

14. Effective Date

This Directive shall enter into force as of the 10th day of November 2025.


Eyob Tekalign (PHD)
Governor





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ANNEX

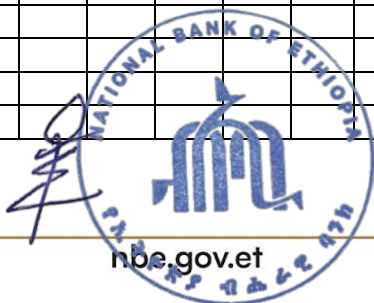
Daily Foreign Currency Exposure Reports

Name of Bank: _____

At the Close of Business Day: _____

(In Thousand)

S/No	Particulars	Single Currency Exposure																	Others in Single Currency			Overall Exposure
		USD	EUR	CHF	GBP	JPY	DJF	KES	INR	DKK	SEK	SAR	CAD	AED	AUD	CNY	NOK	KWD				
1	Foreign Currency Assets																					
1.1	On-balance Sheet Items (Sum of 1.1.1 to 1.1.6)																					
1.1.1	Currency on hand																					
1.1.2	Due from banks																					
1.1.3	Cheques and items in transit																					
1.1.4	Loans & advances																					
1.1.5	Accrued interest receivable																					
1.1.6	Other assets																					
1.2	Off-balance sheet Items (Sum of 1.2.1 to 1.2.4)																					
1.2.1	Undelivered spot purchase																					
1.2.2	Forward purchase																					
1.2.3	Option, Swaps, Derivatives																					
1.2.4	Other assets																					
	Total Foreign Currency Assets (Sum of 1.1 & 1.2)																					
2	Foreign Currency Liabilities																					
2.1	On-balance Sheet Items (Sum of 2.1.1 to 2.1.5)																					
2.1.1	Due to banks abroad																					
2.1.2	Foreign currency deposits																					
2.1.3	Borrowings																					
2.1.4	Accrued interest payable																					
2.1.5	Other liabilities																					





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S/No	Particulars	Single Currency Exposure																	Others in Single Currency			Overall Exposure
		USD	EUR	CHF	GBP	JPY	DJF	KES	INR	DKK	SEK	SAR	CAD	AED	AUD	CNY	NOK	KWD				
2.2	Off-balance Sheet Items (Sum of 2.2.1 to 2.2.6)																					
2.2.1	Undelivered spot sales																					
2.2.2	Forward sales																					
2.2.3	Option, Swaps, Derivatives																					
2.2.4	Letter of credit																					
2.2.5	Guarantees																					
2.2.6	Other liabilities																					
	Total Foreign Currency Liabilities (Sum of 2.1 & 2.2)																					
3	Foreign Exchange Position in Single Currency																					
3.1	Net long position (where assets less liabilities is +)																					
3.2	Net short position (where assets less liabilities is -)																					
4	Mid exchange rate																					
5	Net long position in Birr (3.1*4)																					
6	Net short position in Birr (3.2*4)																					
7	Net open position (Greater of 5 or 6)																					
7.1	Net Open Position Ratio (7/8.4*100)																					
8	Overall Foreign Exchange Position																					
8.1	Total Long Position (Sum of row 5)																					
8.2	Total Short Position (Sum of row 6)																					
8.3	Overall Open Position (Greater of 8.1 or 8.2)																					
8.4	Tier 1 Capital																					
8.5	Overall Open Position Limit (18%*8.4)																					
8.6	Net Open Position Ratio (8.3/8.4*100)																					

*Note that items such inward bills/documents collection, outward bills/documents purchased or collection and other items of similar nature that expose the bank to exchange rate risk shall be included in the NOP computation.

Prepared by: _____
(Name and signature)



Approved by: _____
(Name and signature)