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NATIONAL BANK OF ETHIOPIA
ADDIS ABABA

LICENSING AND SUPERVISION OF BANKING BUSINESS

Limitations on Investment of Banks (as Amended)

Directives No.SBB/60/2015

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 these directives.

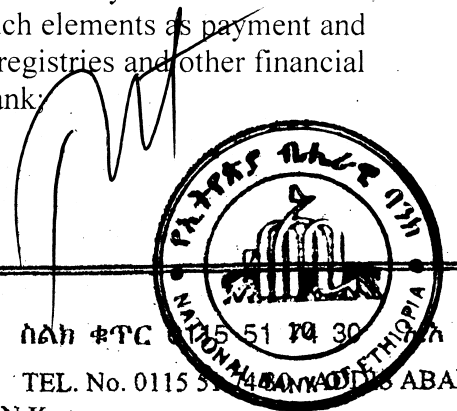
1. Short Title

These Directives may be cited as "Limitation on Investment of Banks (as Amended) Directives No. SBB/60/2015".

2. Definitions

For the purpose of these Directives:

- 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;



- 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.

3. Scope of the Directives

These Directives 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 Directives 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.
- 4.4 Notwithstanding sub-article 4.3 hereinabove, a bank may:
- i. engage in interest free banking services in line with the National Bank Directives 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 Directives 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 directives.

- 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 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.
- 4.8 No bank shall deal in securities. However, a bank may provide securities brokerage services to its customers acting as their agent;
- 4.9 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 these directives.
- 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,

6. Exception to Limitations

Prudential limits and restrictions of these directives 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 notwithstanding articles 4.4(iii), 4.6 and 4.7 of these directives, investments made prior to the effective date of these directives; 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/12/1996 is hereby repealed and replaced by these Directives.

8. Effective Date

These Directives shall enter into force as of the 1st day of October 2015.


TEKLEWOLD ATNAFU
GOVERNOR



