

**LICENSING AND SUPERVISION OF  
BANKING BUSINESS**

**Directive No. SBB/30/2002**

**Amendment of Limitation on Loans to Related Parties**

1. Issuing Authority

This Directive is issued by the National Bank of Ethiopia pursuant to the authority vested in it by Article 41 of the Monetary and Banking Proclamation No. 83/1994 and by

Articles 36 of the Licensing and Supervision of Banking Business Proclamation No.

84/1994.

2. Definition

2.1 “Affiliated Financial Institutions” shall mean a company:

2.1.1 In which a bank, directly, owns or controls 10% or more of the voting shares or controls in any manner the election of a majority of its directors or other persons exercising similar function;

2.1.2 Which owns or controls in any manner, directly or indirectly, 10% or more of the voting shares of a bank or controls in any manner the election of a majority of the directors, or persons exercising similar function of a bank;

2.1.3 In which 50% or more of the voting shares is held, or control is held directly or indirectly, through stock ownership or in any other manner, by the shareholders of a bank who own or control 50% or more of the voting shares of a bank; or

2.1.4 In which a majority of its directors, or other persons exercising similar functions, are directors of a bank.

The term “company” as used in this definition means a bank or insurance company and “indirect ownership or control” refers to ownership or control exercised

through ownership or control of entities that are shareholders in the same financial

institution or through similar arrangements.

2.2 “Cash collateral” means credit balances on accounts in the books of the lending bank over which the 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.

2.3 “Cash-substitutes” shall mean:

36

2.3.1 A security issued by the Federal Government of Ethiopia;

2.3.2 An unconditional obligation or guaranty issued in writing by the Federal Government of Ethiopia or a non-affiliated domestic financial institution, where the beneficiary bank maintains a current written and wee-documented evaluation evidencing that the non-affiliated financial institution is financially sound and capable of honoring the guaranty on demand with respect to repayment of the both principal and interest, or a specific amount, and the lending bank has not been advised of any determination by the guarantor to deny payment under the terms of the obligation or guarantee; and

2.3.3 An unconditional obligation or guaranty issued in writing by a foreign bank with an A or above rating by Standards and Poor’s Corporation and/or by Moody’s Investor Services in their latest rating.

2.4 “Loan” or “Advances” means any financial assets of a 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 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 bank to advance funds to or on behalf of a person, claim evidenced by a lease financing transactions in which the bank is the lessor, overdraft facility to be funded by the 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.

The term “person” as used in this definition and elsewhere referred in this Directive, includes individuals, groups of individuals, partnerships, common enterprises, share companies, joint ventures, private limited companies, public enterprises, corporate entities or other similar business groups and companies.

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

2.6 “Related Party” to a bank shall mean,

On the one hand,

A share holder, a director or a principal officer of that bank and/or the spouse or relation in the first degree of consanguinity or affinity of such share holder, director or principal 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 share

37

holder, director or principal officer of the bank and/or the spouse or relation in the first degree of consanguinity or affinity of such share holder, director or principal officer has a business interest as shareholder, director, owner or partner.

2.7 “Total capital” shall mean the paid up capital, legal reserve and any other unencumbered reserve acceptable to the National Bank of Ethiopia held by a bank.

### 3. Threshold for Treatment of Shareholders as Related Party

As regards shareholders, only those shareholders of a bank with holdings of 5% or

more of a bank’s subscribed capital shall be treated as related party and shall be subject to the provisions of this Directive.

### 4. Limitations

4.1 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.

4.2 The aggregate sum of loans extended or permitted to be outstanding directly or indirectly to one related party at any one time shall not exceed 15% of the total capital of the bank.

4.3 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% of the total capital of the bank.

#### 5. Exclusion

For the purpose of this Directive, the following types of loans or extensions of credit

shall not be subject to the credit limit prescribed under article 4 hereinabove:

- iii) Loans fully secured by cash collateral; and
- iv) Loans fully secured by cash substitutes.

#### 6 Responsibility of Identifying Related Parties

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

#### 7. Reporting Requirement

Reports showing month-end exposures to each related party shall be submitted to the

Supervision Department of the National Bank of Ethiopia within twenty days after the end of the period for which the data are reported. The report shall be submitted in

accordance with the table attached herewith which shall be a part thereof.

#### 8. Repeal

38

Directive No. SBB/17/96 is hereby repealed and replaced by this directive

#### 9. Effective Date

This Directive shall enter into force as of 13<sup>th</sup> day of May 2002

39

### **30 Monthly Return on Loans to Related Parties**

***List of All Related Borrowers***

***(in millions of Birr)***

***Name of Bank:*** \_\_\_\_\_

**Reporting month** \_\_\_\_\_

**Approved Loan Limit Collateral**

**Borrower**

**Type of**

**Loan/facility<sup>2</sup> Amount Percent of**

**Capital**

**Type<sup>3</sup> Estimated/Face**

**Value**

**Outstanding**

**Balance**

**Status**

**(classification)<sup>4</sup>**

1) Defined in line with Article 2.6 of NBE Directive No. Sbb/30/2002.

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

3) In case the collateral is financial guarantee bond, indicate whether it is issued by affiliated or non affiliated financial institution as defined in this directive.

4) Classified in line with provisions of article 6 of NBE Directive No. SBB/28/2002.

Prepared by: \_\_\_\_\_ Approved by: \_\_\_\_\_

(name and signature) (name and signature)

40

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