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NATIONAL BANK OF ETHIOPIA
ADDIS ABABA

LICENSING AND SUPERVISION OF
THE BUSINESS OF CAPITAL GOODS FINANCE COMPANIES

Limit on Capital Goods Finance Exposure to a Single Lessee
Directives No. CGFB/05/2016

Whereas, there is a need to minimize dependence of capital goods finance companies' exposure to a single lessee;

Whereas, it is important to ensure that capital goods finance companies have sufficiently diversified their lease default risks by limiting their capital goods finance exposures to single lessees;

Now, therefore, in accordance with the powers vested in it under Article 18 (4) of Capital Goods Leasing Business (Amendment) Proclamation No. 807/2013, the National Bank of Ethiopia has issued these directives.

1. Short Title

These directives may be cited as "Limit on Capital Goods Finance Exposure to a Single Lessee Directives No. CGFB/05/2016".

2. Definitions

For the purpose of these directives, unless the context requires otherwise:

2.1 **"company"** means a capital goods finance company licensed by the National Bank of Ethiopia;

2.2 **"capital goods finance"** includes financial lease and hire-purchase;

2.3 **"capital goods finance exposure"** means the degree to which a company's net investment in capital goods finance is exposed to the risk of loss in the event of the single lessee's default;

2.4 **"National Bank"** refers to the National Bank of Ethiopia;

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3. Scope of Application

The provisions of these directives shall be applicable to all capital goods finance companies licensed by the National Bank and exclude banks.

4. Responsibilities for Managing Capital Goods Finance Concentration Risk

4.1 The board of directors of a company shall:

4.1.1 establish, assess and approve the capital goods finance concentration risk policy. This shall include the principles and objectives governing the extent to which they are willing to accept capital goods finance concentration risk; the policy shall set out prudent rules and internal limits for granting capital goods finance to a single lessee, which shall not exceed the regulatory limits stipulated herein;

4.1.2 review at least once in a year the capital goods finance concentration risk policy and related techniques, and information systems;

4.1.3 ensure through audit and inspection, adherence to the capital goods finance concentration risk policy; and

4.1.4 review all significant exposures to capital goods finance concentration risk at least on quarterly basis.

4.2 A company shall develop and implement information systems, procedures and techniques that accurately and continually identify, measure and monitor capital goods finance concentration risk in its capital goods finance portfolio.

4.3 A company shall at least once in a year conduct stress tests of its major capital goods finance concentration risks and review the results of those tests to identify and respond to potential changes in market conditions that could inversely impact the company's performance. The results of the stress test shall be made available to the National Bank for examination.

5. Regulatory Limits

5.1 The capital goods finance exposure of a company shall be within the following limits:

5.1.1 The aggregate sum of capital goods finance granted to and outstanding at any one time to any single lessee shall not exceed Birr 1,000,000 (Birr one million).

5.2 In the event of a company's existing exposure towards any single lessee exceeding the regulatory limits as a result of any extraneous factors such as merger and acquisition leading to a change in the composition of shareholding structure of same, the company shall:

5.2.1 not grant any additional new facilities to a single lessee until its existing exposures comply with the regulatory limits set in these directives; and

5.2.2 comply to the regulatory limits set in these directives within a period of two years.

5.3 To safeguard themselves against breach of the above requirements, the companies may include suitable provisions in the capital goods finance agreement to:

5.3.1 make it incumbent on their lessees to inform the company in advance of any potential development that could result in a change in the shareholding structure of the lessees; and

5.3.2 reserve the right to impose necessary conditions to enable the company to be in compliance with the requirements of the directives.

6. Transitional Provision

6.1 Any company, which is non-compliant with the requirements of these directives, shall within three months of the coming into effect of these directives, submit a plan showing the manner in which it shall achieve compliance. The plan to be submitted by the company should, among other things, comprise the following:

6.1.1 reduction in the capital goods finance exposures that have been extended, by way of normal repayments or specific accelerated repayments; and

6.1.2 the time frame within which it proposes to become fully compliant with these directives.

6.2 The plan shall be approved by the National Bank.

7. Effective date

These directives shall enter into force as of 1st day of April 2016.

TEKLEWOLD ATNAFU
GOVERNOR