# Directive No. SBB/43/2007

ASSET CLASSIFICATION AND PROVISIONING
(4th REPLACEMENT)

Issuing Authority

These directives are 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 15(1) and 36 of the Licensing and Supervision of Banking Business Proclamation No. 84/1994.

Short Title

These Directives may be cited as “Asset classification and Provisioning” Directives No. SBB/43/2007.

3. Purpose of Directive

The purpose of these directives is to provide uniform guidelines to banks to assure that:

Loans or advances are regularly reviewed and classified in a manner consistent with regulatory standards;

Loans or advances which are not performing in accordance with contractual repayment terms are recognized and reported as past due in a manner consistent with regulatory standards;

Accrued but uncollected interest on loans or advances is accounted for in accordance with international accounting and regulatory standards; and

Timely and adequate provisions are made to the Provisions for Loan Losses Account in order to accurately reflect the risk inherent in lending activities and to ensure that disclosed capital and earnings performance are accurately reflected.

4. Definitions

“Capitalized Interest” means any accrued and uncollected interest that has been added to the principal amount of loans or advances at a payment date or maturity; it also includes uncollected interest that is rolled-over into new loans or advances.

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

"Cash-substitutes" include:

A security issued by the Federal Government of Ethiopia;

An unconditional obligation or guaranty issued in writing by the Federal Government of Ethiopia;

Comment: should be deleted

An unconditional obligation or guaranty issued in writing by a foreign bank with an A or above rating by Standard and Poor's Corporation and/or by Moody's Investor Services in their latest rating;

Export credit guarantee issued in writing by an institution or agency authorized by Federal Government of Ethiopia; and

Other liquid and readily marketable securities approved in writing by the National Bank of Ethiopia and which are held in the vaults of the lending bank.

4.4 "Current" as used in reference to "current written," or similar uses, means information or documentation having an issuance date not more than 12 (twelve) calendar months old.

4.5 "In Process of Collection" means that the collection of loans or advances is proceeding in due course in a timely manner through enforcement of judgments against the borrower that is reasonably assured to result in full repayment of the loan or advance (principal plus accrued interest) within 360 (three-hundred-sixty) days from the date the loan or advance first became past due.

"Loans" 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 transaction in which the bank is the lessor, and an overdraft facility to be funded by the bank on behalf of a person. The term does not include accrued but uncollected interest or discounted interest.

4.7 "Net Recoverable Value" means the most probable value of a loan or an advance which will be realized from the sale of collateral securing the loan or advance in a competitive and open market. For purposes of these directives, the most probable value of a loan or an advance recoverable from the sale of collateral securing the loan or advance shall be the outstanding principal balance of the loan or advance multiplied by the "average recovery rate" of a bank for loans or advances secured by collateral, provided that such average recovery rate shall not be 15 (fifteen) percentage points greater than "industry average recovery rate". If a bank has no information on aggregate net cash receipts or total net market value of acquired properties to compute its own average recovery rate, it shall use industry average recovery rate to determine the most probable value of a loan or an advance.

4.7.1 The term " average recovery rate" means aggregate net cash receipts from sale of collateral plus total net market value of acquired properties, divided by the aggregate outstanding principal balance of the loans or advances backed by the collateral sold or otherwise acquired by a bank calculated over the period of 18 consecutive months preceding the date of computing minimum provision requirement as laid down in these directives. In case a loan or an advance is secured by more than one collateral, such loan or advance and the collateral securing it shall be excluded from computation of average recovery rate unless all properties backing the loan or advance are sold or otherwise acquired by the bank.

"Aggregate net cash receipts" means net cash collection (after deduction of any expenses associated with the sale of the collateral which may have been necessary to place the collateral in a saleable condition), over 18 consecutive months preceding the date of calculating minimum provision requirement, of a bank from the sale of collateral which have been seized or foreclosed by the bank in satisfaction of loans or advances previously granted.

The term "total net market value of acquired properties" as used in these directives shall mean the average of ask or reserve price of acquired properties and the highest offer bid amount registered at the last auction in the market that preceded the acquisition by a bank for properties which previously were offered by borrowers as collateral against loans or advances. The highest offer bid amount for auctioned property in absence of a bidder at the last auction shall be zero.

"Ask or reserve price" shall mean minimum price at which the lending bank is willing to sell foreclosed assets.

The term " industry average recovery rate" means aggregate net cash receipts plus total net market value of acquired properties, divided by the aggregate outstanding principal balance of the loans or advances backed by the collateral at the time the collateral was seized, foreclosed, repossessed or otherwise acquired by all banks operating in Ethiopia calculated over the period of 18 consecutive months preceding the date of determining minimum provision requirement. In case a loan or an advance is secured by more than one collateral, such loan or advance and the collateral backing it shall be excluded from computation of industry average recovery rate unless all properties held as collateral against the loan or advance are sold or otherwise acquired by banks. The National Bank of Ethiopia shall compute such industry average recovery rate every calendar quarter and distribute to all banks operating in Ethiopia.

In determining the average recovery rate as set out under 4.7.1 herein above, the net market value of acquired property and/or the net cash receipt from the sale of collateral shall not exceed 100% of each outstanding non-performing loan backed by the collateral and used in the calculation of the average recovery rate.

"Non-accrual Status" means that a loan or advance has been placed on a cash basis for financial reporting purposes. Interest on such loans or advances accrued on the

books of the bank, or for which a specific reserve (such as a suspended interest account) has been established by the bank to offset the full amount of interest being accrued, shall not be taken into income unless as otherwise provided in these directives.

“Non-performing” means loans or advances whose credit quality has deteriorated such that full collection of principal and/or interest in accordance with the contractual repayment terms of the loan or advance is in question.

For purposes of these directives, loans or advances with pre-established repayment programs are non-performing when principal and/or interest is due and uncollected for 90 (ninety) consecutive days or more beyond the scheduled payment date or maturity.

For purposes of these directives, overdrafts and loans or advances that do not have a pre-established repayment program shall be non-performing when:

The debt remains outstanding for 90 (ninety) consecutive days or more beyond the scheduled payment date or maturity;

The debt exceeds the borrower’s approved limit for 90 (ninety) consecutive days or more;

Interest is due and uncollected for 90 (ninety) consecutive days or more; or

For overdrafts, (i) the account has been inactive for 90 (ninety) consecutive days or (ii) deposits are insufficient to cover the interest capitalized during 90 (ninety) consecutive days or (iii) the account fails to show the following debit balance at least once over 360 days preceding the date of loan review:

20% of approved limit or less latest by June 30, 2008;
5% or less effective from June 30, 2009.

4.9.3 For purposes of these directives, the entire principal balance of loans or advances outstanding exhibiting the characteristics described under 4.9.1 and 4.9.2 shall be considered as non-performing.

“Overdraft” means a deposit account on the books of the bank with a debit balance.

“Person” shall mean any judicial and natural person.

“Provisions for Loan Losses Account” means a balance sheet valuation account established through charges to provision expense in the income statement in respect of possible losses in the loans or advances portfolio.

“Renegotiated Loans or Advances” means loans or advances, which have been refinanced, rescheduled, rolled-over, or otherwise modified at favorable terms and conditions for the borrower because of weaknesses in the borrower’s financial condition and/or ability to repay.

“Short or medium term loans” means loans or advances with original repayment or maturity period of 5 (five) years or less.

“Suspended Interest Account” means an account where previously accrued but uncollected interest on loans or advances required to be placed on non-accrual status is reserved out of the income of the bank.

“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.

“Well-Secured” means that a loan or advance is secured by cash collateral or cash-substitutes sufficient to repay the full debt (principal plus accrued interest); for purposes of these directives, sufficiency shall include proper legal documentation evidencing the bank’s claim on the collateral.

## 5. Responsibility for Loan Review and Specific Requirements

The board of directors of each bank is responsible for establishing a loan review system which:

5.1.1 recognizes accurately and timely problem of deteriorating loans or advances.

5.1.2 assures the adequacy of the Provisions for Loan Losses Account.

5.1.3 assures that accrued but uncollected interest reflected on the books of the bank are in accordance with the requirements laid out in these directives.

5.1.4 ensures that overdraft facilities are properly used by borrowers only for the purpose specified in the loan contract they entered with the bank, and in case such loans are diverted from the intended purpose enables to take timely, prompt and appropriate correction actions.

The board of directors of each bank shall assure that a review is made of the quality of the bank’s loans or advances portfolio on a regular basis, but no less than once each calendar quarter. At the end of each calendar quarter, or more frequently if warranted, the board of directors shall require the executive officer(s) of the bank to take appropriate measures in response to the findings of the loan review function to:

Accurately reflect earnings by assuring that all loans or advances categorized as non-performing in accordance with the requirements laid out in these directives are placed on non-accrual status and accrued but uncollected interest has been reversed out of the bank’s income;

Assure that the Provisions for Loan Losses Account is adequate to absorb potential losses in accordance with the requirements laid out in these directives; and

Correct problems, either in individual loans or advances, loan underwriting practices, compliance with prudent lending standards and the board-approved lending policy, or other credit administration weaknesses as may be identified by the loan review function, within a specified time frame.

The board of directors of each bank shall maintain adequate records supporting its evaluation of potential losses in the loans or advances portfolio and the entries made to reflect earnings and the adequacy of the Provisions for Loan Losses Account; such records shall be made available to examining personnel of the National Bank of Ethiopia upon request.

The loan review function shall assure on an on-going basis, at a minimum, that:

Lending activities are in compliance with prudent written lending standards as approved and adopted by the board of directors;

The borrowers are using overdraft facilities for the purpose they negotiated with the bank; and incase of diversion from the intended purpose that timely measures are taken to correct the problem.

The board of directors is adequately informed of the risks and potential loss exposure in outstanding loans or advances;

Problem or deteriorating loans or advances are properly and timely identified, classified, and placed on non-accrual status in accordance with the requirements laid out in these directives;

Appropriate provisions are made to the Provisions for Loan Losses Account for loans or advances classified in accordance with the requirements laid out in these directives; and

Uncollectible non-performing loans or advances are written off as appropriate.

The loan review function shall regularly and on an ongoing basis review all loans or advances which exceed 5% (five percent) of a bank's total capital to a single borrower, calculated in accordance with the Single Borrower Loan Limit, all loans or advances required to be placed on non-accrual status in accordance with the requirements laid out in these directives, and a sampling of the remaining loans or advances portfolio to determine that:

loans or advances reflected as performing on the books of the bank are in fact performing pursuant to the requirements and definitions laid out in these directives, and

overdraft facilities are used by borrowers for the intended purpose.

5.6 The loan review function shall be performed by the board of directors of each bank or a group of individuals to be designated by the board of directors, who are knowledgeable in credit analysis methodologies and who are not involved in the lending activities of the bank. In the latter case, the group shall on a regular basis, but not less than once each calendar quarter, report its findings directly to the board of directors in writing.

6. Placement of Loans or Advances on Non-accrual Status

All non-performing loans shall be placed on non-accrual status, unless the loans or advances are (i) well-secured and (ii) in process of collection.

Accrued but uncollected interest being carried on the books for loans or advances which are required to be placed on non-accrual status in accordance with the requirements laid out in these directives shall be eliminated by the end of the calendar quarter in which the loans or advances are required to be placed on non-accrual status, but in no event later than the fiscal year-end date of the bank, whichever is sooner.

A non-performing loan or advance placed on non-accrual status may be restored to accrual status only when:

None of the outstanding principal and/or interest is past due; and

For renegotiated loans or advances, where all past due interest is paid by the borrower in cash at the time of renegotiation and the loan or advance is not classified as substandard in accordance with 7.1.6. of these directives.

Banks shall report to the National Bank of Ethiopia on a quarterly basis loans or advances which exceed 5% (five percent) of the bank's capital that have been restored from non-accrual to accrual status.

If a bank has multiple loans outstanding to a single borrower as calculated in accordance with the Single Borrower Loan Limit, and one loan or advance meets the criteria for non-accrual status, then the bank shall prepare a current written evaluation of the borrower's creditworthiness evidencing that repayment prospects for the other loans or advances are reasonably assured; should such written creditworthiness evaluation suggest that repayment prospects for the other loans or advances are in question or otherwise uncertain, then all such loans or advances to the borrower shall be placed on non-accrual status regardless of any requirements laid out in these directives.

## 7. Classification of Loans or Advances

For purposes of these directives, banks shall classify all loans and advances, whether such loans or advances have pre-established repayment programs or not, into the following five classification categories using the criteria described below:

### 7.1.1 Pass

Loans or advances in this category are fully protected by the current financial and paying capacity of the borrower and are not subject to criticism. In general, any loan or advance, or portion thereof, which is fully secured, both as to principal and interest, by cash or cash-substitutes, shall be classified under this category regardless of past due status or other adverse credit factors.

Special Mention

The following loans and advance at a minimum shall be classified special mention:

loans or advances with pre-established repayment programs past due 30 (thirty) days or more, but less than 90 (ninety) days;

overdrafts and loans or advances that do not have a pre-established repayment program, if :

The debt remains outstanding for 30 (thirty) consecutive days or more beyond the scheduled payment date or maturity, but less than 90 (ninety) days; or

The debt exceeds the borrower's approved limit for 30 (thirty) consecutive days or more, but less than 90 (ninety) days; or

Interest is due and uncollected for 30 (thirty) consecutive days or more; but less than 90 (ninety) days ; or

For overdrafts, the account has been inactive for 30 (thirty) consecutive days or more, but less than 90 (ninety) days or the account fails to show the following debit balance at least once over 360 days preceding the date of loan review:

ten to nineteen percent of the approved limit latest by June 30, 2008;

one to four percent of the approved limit effective from June 30, 2009.

Substandard

The following non-performing loans and advances at a minimum shall be classified substandard:

loans or advances with pre-established repayment programs past due 90 (ninety) days or more, but less than 180 (one-hundred-eighty) days;

overdrafts and loans or advances that do not have a pre-established repayment program, if:

The debt remains outstanding for 90 (ninety) consecutive days or more beyond the scheduled payment date or maturity, but less than 180 (one-hundred-eighty) days; or

The debt exceeds the borrower's approved limit for 90 (ninety) consecutive days or more, but less than 180 (one-hundred-eighty) days; or

Interest is due and uncollected for 90 (ninety) days or more, but less than 180 (one-hundred-eighty) days; or

For overdrafts, the account has been inactive for 90 (ninety) consecutive days or more, but less than 180 (one-hundred-eighty) days; or the account fails to show the following debit balance at least once over 360 days preceding the date of loan review:

twenty to thirty-nine percent of the approved limit latest by June 30, 2008;

five to nineteen percent of the approved limit effective from June 30, 2009.

Doubtful

The following non-performing loans and advances at a minimum shall be classified doubtful:

loans or advances with pre-established repayment programs: past due 180 (one-hundred-eighty) days or more, but less than 360 (three-hundred-sixty) days;

overdrafts and loans or advances that do not have a pre-established repayment program, if :

the debt remains outstanding for 180 (one-hundred-eighty) consecutive days or more beyond the scheduled payment date or maturity, but less than 360 (three-hundred-sixty) days; or

the debt exceeds the borrower's approved limit for 180 (one-hundred-eighty) consecutive days or more, but less than 360 (three-hundred-sixty) days; or

interest is due and uncollected for 180 (one-hundred-eighty) days or more, but less than 360 (three-hundred-sixty) days; or

for overdrafts, the account has been inactive for 180 (one-hundred-eighty) consecutive days or more, but less than 360 (three-hundred-sixty) days; or the account fails to show the following debit balance at least once over 360 days preceding the date of loan review:

forty to sixty-nine percent of the approved limit latest by June 30, 2008;

twenty to forty-nine percent of the approved limit effective from June 30, 2009.

Loss

The following non-performing loans and advances at a minimum shall be classified loss:

None performing loans or advances with pre-established repayment programs past due 360 (three-hundred-sixty) days or more;

overdrafts and loans or advances that do not have a pre-established repayment program, if :

The debt remains outstanding for 360 (three-hundred-sixty) consecutive days or more beyond the scheduled payment date or maturity; or

The debt exceeds the borrower's approved limit for 360 (three-hundred-sixty) days or more; or

Interest is due and uncollected for 360 (three-hundred-sixty) days or more; or

For overdrafts, the account has been inactive for 360 (three-hundred-sixty) consecutive days or more, or the account fails to show the following debit balance at least once over 360 days preceding the date of loan review:

seventy percent and above of the approved limit latest by June 30, 2008;

fifty percent and above of the approved limit effective from June 30, 2009.

Without prejudice to the classification criteria used for the Sub-Standard category set out under 7.1.3 herein above, the following non-performing loans and advances shall be categorized as substandard:

Renegotiated term loans unless equivalent of all past due interest is paid by the borrower in cash at the time of renegotiation and the following payments are made by the borrower on a consistent and timely basis in accordance with the restructured terms of the loan or advance:

in the case of term loans with monthly or quarterly installment repayments, at least 3 (three) consecutive repayments;

in the case of loans with semi-annual installment repayments, at least 2 (two) consecutive repayments;

in the case of loans with annual installment repayments, at least one repayment;

b) Renegotiated non-performing overdraft facilities unless equivalent of all past due interest is paid by the borrower in cash at the time of renegotiation and the account shows at a minimum:

a nil balance at least once; or
a turnover rate of once the approved limit.

Renegotiated non-performing merchandize loans unless physical inventory of the merchandize taken by the bank at the time of renegotiation shows that the outstanding principal loan and interest thereof are fully covered and the safety margin determined following the inventory is at least not lower than the margin stated in the loan contract entered into by the bank and the borrower at the time of initial extension of the loan.

If a bank has multiple loans outstanding to a single borrower as calculated in accordance with the Single Borrower Loan Limit, and one loan or advance meets the criteria for non performing, then the bank shall prepare a current written evaluation of the borrower's creditworthiness evidencing that repayment prospects for the other loans or advances are reasonably assured; should such written creditworthiness evaluation suggest that repayment prospects for the other loans or advances are in question or otherwise uncertain, then all such loans or advances to the borrower shall at a minimum be classified substandard regardless of any requirements laid out in these directives.

A bank shall not reschedule, restructure or renegotiate short or medium term loan to a borrower for more than three iterations. Before rescheduling, restructuring or renegotiating a short or a medium term loan, a bank shall collect in cash full amount of interest in arrears thereof and the following principal amounts:

a minimum of 25% of outstanding principal balance in case of rescheduling, restructuring or renegotiating for the second time.

a minimum of 50% of outstanding principal balance in case of rescheduling, restructuring or renegotiating for the third time.

7.2 Notwithstanding the classification criteria laid out under 7.1 herein above, loans or advances may be subject to more severe classification by examiners of the National Bank of Ethiopia if the actual condition of the loan or advance warrants such classification. Conditions that warrant more severe classification may include, but are not limited to: (i) significant departure from the primary source of repayment; (ii) repayment terms which are too liberal or inconsistent with the purpose and nature of the loan or advance and/or collateral held; (iii) delinquencies which have been technically cured by modifying the repayment terms, refinancing or renewing the loan or advance, or advancing additional funds for the purpose of meeting repayment requirements on an existing loan or advance.

8. Provisioning Requirements for Loans or Advances

All banks shall maintain a Provisions for Loan Losses Account which shall be created by charges to provision expense in the income statement and shall be maintained at a level adequate to absorb potential losses in the loans or advances portfolio. In determining the adequacy of the Provisions for Loan Losses Account, provisions may be attributed to individual loans or advances or groups of loans or advances.

The Provisions for Loan Losses Account shall always have a credit balance. Additions to or reductions of the Provisions for Loan Losses Account shall be made only through charges to provisions in the income statement at least every calendar quarter.

Banks shall maintain the following minimum provision percentages against the outstanding principal amount of each loan or advance classified in accordance with the criteria for the classification of loans or advances as laid out under article 7 herein above:

| Classification Category | Minimum Provision |
|---|---|
| “Pass” | 1% |
| “Special Mention” | 3% |
| “Substandard” | 20% |
| “Doubtful” | 50% |
| “Loss” | 100% |

Where reliable information, such as (i) historical loan loss experience, (ii) current economic conditions, (iii) delinquency trends, (iv) ineffectiveness of lending policies and/or collection procedures, or (v) lack of timeliness
and accuracy in the loan review function, suggests that losses are likely to be more than the above minimum provision percentages, banks may be required to maintain larger provisions.

The minimum provision requirements for each classification category here in above shall be applied against the total outstanding principal balance, not against the amount of past due payments, for each loan or advance, or portion thereof, classified regardless of whether the loan or advance is analyzed and provided for individually or as part of a group.

Before applying the minimum provision percentages laid out under 8.3.3, 8.3.4 and 8.3.5 herein above, banks may deduct from the outstanding non-performing loans or advances:

any accrued but uncollected interest held in a suspended interest account (by debiting this account); and

in the case of loans secured by physical collateral net recoverable value, or estimated collateral value backing the non performing loan; whichever is lower.

8.7 Not withstanding deductions stipulated under 8.6 herein above, minimum provision percentage maintained by a bank for each loan or advance classified as 'non performing' shall not be less than 3 percent of the outstanding loan or advance.

9. Portfolio Composition and Review of Financial Statements of Borrowers

The share of overdraft loans (excluding those secured by cash collateral) in total loans or advances portfolio of a bank shall not exceed at any time:

30 percent by June 30, 2008;
25 percent starting from June 30, 2009.

**Comment:** Newly inserted

Banks shall review financial statements for the latest financial year of a borrower, who has been in business for a year or above, audited by external auditors before granting loans or advances of:

Birr 10 million or above starting from June 30, 2008;
Birr 5 million or above starting from June 30, 2009.

10. Examiner Review

Each bank shall maintain adequate records in support of its evaluation of potential loss exposure in the loans or advances portfolio and of the entries made to ensure an adequate Provisions for Loan Losses Account which shall be made available to examining personnel of the National Bank of Ethiopia upon request to assess the reasonableness of the bank's loss estimation procedures, the reliability of the

information on which estimates are based, and the adequacy of the Provisions for Loan Losses Account.

Should examining personnel in applying the requirements of these directives and after discussions with the executive officer(s) of the bank find the Provisions for Loan Losses Account to be inadequate by more than 10% (ten percent) when compared to the findings of an on-site examination, the board of directors shall within 30 (thirty) days of such notice by the National Bank of Ethiopia of any deficiency in the Provisions for Loan Losses Account require the executive officer(s) to record the appropriate entries to increase the balance of the Provisions for Loan Losses Account to a level which is within 10% (ten percent) of the estimated amount of the Provisions for Loan Losses Account determined by examining personnel of the National Bank of Ethiopia.

In the event of material disagreements between examining personnel of the National Bank of Ethiopia and the executive officer(s) of the bank regarding the appropriateness of additional provisions needed to the Provisions for Loan Losses Account, the board of directors may appeal to the National Bank of Ethiopia. Notwithstanding this appeal, it is incumbent on the executive officer(s) of the bank to attend all loan discussions and meetings during on-site inspections in order to be fully apprised of examiner concerns with respect to all classified loans or advances.

11. Other Provisioning Requirements

Provision for depreciation of fixed assets shall be made out of the annual income of a bank in accordance with the law.

Operating and accumulated losses shall be provided for from the annual net profit until such losses are fully covered.

The value of any assets lodged or pledged to secure a liability, as indicated under Article 15(1)(d) of Proclamation No. 84/1994, shall be fully provided for upon the lodging or pledging of any asset.

Preliminary expenses representing expenses relating to organization or extension or the purchase of business or good will and including share-underwriting commission shall be fully provided for within 5 (five) years.

Any uncollectible claims, other than loans or advances, shall be classified and provided for in the same manner and method laid down in these directives for term loans with monthly repayment program or otherwise written off as other operating expense of the bank as they are identified.

12. Interpretation of the Directives

All loans or advances held by a bank must be accounted for and categorized in accordance with the requirements laid out in these directives. No interpretation of these directives shall be permitted unless confirmed in writing by the National Bank of Ethiopia. In recording a loan or advance not covered in principle by the requirements laid out in these directives, a bank shall make a written request to the

National Bank of Ethiopia to confirm the proper application of the requirements laid out in these directives.

13. Reporting

Banks shall submit to the Banking Supervision Department of the National Bank of Ethiopia a quarterly report on loan classification and provisioning in accordance with the table attached with these directives, which shall be part of the Directive.

14. Repeal

Directive No. SBB/32/2002 is hereby repealed and replaced by these directives.

15. Effective Date

These directives shall enter into force as of the 1st day of January 2008.

# Average Recovery Rate (ARR) Computation
## For the Quarter Ended ----------

Name of the Bank_____
Reporting Date: _____

**Table A: Collateralized Properties Foreclosed and Sold During the Last 18 Consecutive Months**
**(In millions of Birr)**

| No. | Name of Borrower | Type of the property | Date Sold | Outstanding Principal Balance* | Sale Value | Expenses Related to Disposal | Net Realized Value |
|---|---|---|---|---|---|---|---|
| | | | | A | B | C | D=B-C |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| Total | | | | | | | |

**Table B: Collateralized Properties Acquired During the Last 18 Consecutive Months**
**(In millions of Birr)**

| No. | Name of Borrower | Type of the property | Date Acquired | Outstanding Principal Balance* | Ask / Reserve Price | Highest Offered Bid Amount | Average Market Value | Expenses related to acquisition | Net Market Value |
|---|---|---|---|---|---|---|---|---|---|
| | | | | A | B | C | D=(B+C)/2 | E | F=D-E |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |
| Total | | | | | | | | | |

* Backed by the collateral (property)

Average Recovery Rate (ARR) = $\frac{\text{(Total Net Realized Value + Total Net Market Value)}}{\text{(Aggregate Outstanding Principal Balance in Table A + Table B)}} \times 100 =$ _____%

ARR = shall not be 15 percentage points greater than industry average to be provided by the NBE.

Prepared by: _____ Approved by: _____

Signature: _____ Signature: _____

Form - SD4.2/SBB/43

# Loan Classification and Provisioning
## For the Quarter Ended--------
**(In Millions of Birr)**

Name of the Bank: _____

Reporting Date: _____

| Loan classification | Amount | Deductible Collateral | | | Net loans and advances | Provisioning rate | Required provisions | Accumulated Provisions held in the previous period | Excess/shortfall in provisions |
|---|---|---|---|---|---|---|---|---|---|
| | | Cash/Cash substitute | Net Recoverable Value | Total | | | | | |
| | A | B | C | D=B+C | E=A-D | F | G=ExF | H | I=H-G |
| 1. Pass(sub-total) | | | | 0 | | | | | |
| 1.1 Term loans | | | | 0 | | | | | |
| 1.2 Overdrafts | | | | 0 | | | | | |
| 1.3 Merchandize | | | | 0 | | | | | |
| 1.4 Others | | | | 0 | | | | | |
| 2. Special Mention (sub-total) | | | | 0 | | | | | |
| 2.1 Term loans | | | | 0 | | | | | |
| 2.2 Overdrafts | | | | 0 | | | | | |
| 2.3 Merchandize | | | | 0 | | | | | |
| 2.4 Others | | | | 0 | | | | | |
| 3. Substandard (sub-total) | | | | 0 | | | | | |
| 3.1 Renegotiated | | | | | | | | | |
| 3.1.1 Term loans | | | | | | | | | |
| 3.1.2 Overdrafts | | | | | | | | | |
| 3.1.3 Merchandize | | | | | | | | | |
| 3.1.4 Others | | | | | | | | | |
| 3.2 Not Renegotiated | | | | | | | | | |
| 3.2.1 Term loans | | | | | | | | | |
| 3.2.2 Overdrafts | | | | | | | | | |
| 3.2.3 Merchandize | | | | | | | | | |
| 3.2.4 Others | | | | | | | | | |
| 4. Doubtful (sub-total) | | | | | | | | | |
| 4.1 Term loans | | | | | | | | | |
| 4.2 Overdrafts | | | | | | | | | |
| 4.3 Merchandize | | | | | | | | | |
| 4.4 Others | | | | | | | | | |
| 5. Loss Loans (sub-total) | | | | | | | | | |
| 5.1 Term loans | | | | | | | | | |
| 5.2 Overdrafts | | | | | | | | | |
| 5.3 Merchandize | | | | | | | | | |
| 5.4 Others | | | | | | | | | |
| 6. Total (1+2+...+5) | | | | | | | | | |
| 7. Total Non-performing (3+4+5) | | | | | | | | | |
| 8. NPLs/ Total loans Ratio (7/6) | | | | | | | | | |

* Net Recoverable Value (NRV) = ARR x physical collateral (provided that the product is not greater than 97% of the outstanding balance)
ARR = shall not be 15 percentage points greater than industry average to be provided by the NBE.

Prepared by: _____

Signature: _____

Approved by: _____

Signature: _____