RISK BASED CAPITAL ADEQUACY REQUIREMENTS FOR BANKS

DIRECTIVE NO. SBB/95/2025

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NATIONAL BANK OF ETHIOPIA

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LIST OF ACRONYMS

AT1	Additional Tier 1
BI	Business Indicator
BIC	Business Indicator Component
CAR	Capital Adequacy Ratio
CCF	Credit Conversion Factor
CEM	Current Exposure Method
CET1	Common Equity Tier 1
CRM	Credit Risk Mitigation
DTA	Deferred Tax Assets
DTL	Deferred Tax Liabilities
ECAI	External Credit Assessment Institution
ERG	External Rating Grade
FRA	Forward Rate Agreements
FX	Foreign Exchange
IFRS	International Financial Reporting Standards
ILM	Internal Loss Multiplier
LTV	Loan to Value
MDB	Multilateral Development Bank
OTC	Over the Counter
RW	Risk Weight
RWA	Risk Weighted Assets
SFTs	Securities Financing Transactions
SOE	State/Federal Government-owned Enterprise
SOFR	Secured Overnight Financing Rate
REPO	Repurchase Agreement

PREAMBLE

WHEREAS, ensuring that banks and other financial entities in a bank group maintain a level of capital, which is adequate to protect them against the current and future risk of loss is critical to the proper functioning of banks, the financial sector and the economy as a whole;

WHEREAS, maintaining capital adequacy in line with internationally accepted standards and best practices by banks and bank groups promotes and maintains public confidence in the banking sector;

WHEREAS, corporate governance of banks and bank groups should establish risk management strategy, procedures and systems that lead to balanced risk-taking practices within the bank and bank group that take into account the quality and quantity of the capital base;

WHEREAS, it is important to ensure a gradual transition to the new capital framework through a mixed approach that integrates Basel II and III frameworks;

WHEREAS, the National Bank of Ethiopia is legally mandated to ensure that banks' risk-taking practices and risk management systems are adequately backed by high quality capital;

NOW, THEREFORE, in accordance with Articles 21 (1, 2 and 3); 32 (1)(e); 85 and 91 (2) of the Banking Business Proclamation No. 1360/2025, the National Bank of Ethiopia has issued this Directive.

PART ONE: GENERAL PROVISIONS

1. Short Title

This Directive may be cited as "**Risk Based Capital Adequacy Requirement for Banks Directive No. SBB/ 95 /2025**".

2. Definitions

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

2.1. **"Affiliated Entity to a Bank"** means a company that controls, is controlled by, or is under common control with the bank. Control of a company is ownership with a power to vote 10 percent or more of a voting share of the company;

2.2. **"Bank"** means a private or state-owned bank, a foreign bank subsidiary or a branch of a foreign bank licensed by the National Bank to undertake banking business;

2.3. **"Banking Book"** consists of all on-balance and off-balance sheet items not included in the trading book. Financial instruments classified in the banking book are not actively traded by the bank but are meant to be held in the books of the bank until maturity;

2.4. **"Bank Group"** means both domestic and foreign bank and all its subsidiaries, branches and holding company that is an active bank, wherever located, that the National Bank determines to be taken into account for the purpose of this Directive;

2.5. **"Cash Items in Process of Collection"** means financial items that are being processed for payment but the transactions have not yet been fully completed at the end of reporting day;

2.6. **"Commitment"** means any contractual arrangement that has been offered by the bank and accepted by the client to extend credit, purchase assets or issue credit substitutes, as well as contractual arrangement accepted by the bank. It includes any such arrangement that can be unconditionally cancelled by the bank at any time without prior notice to the obligor. It also includes any such arrangement that can be cancelled by the bank if the obligor fails to meet conditions set out in the facility documentation, including conditions that must be met by the obligor prior to any initial or subsequent drawdown under the arrangement;

2.7. **"Commodities Finance"** means short-term lending to finance reserves, inventories, or receivables of exchange-traded commodities such as crude oil, metals, or crops, where the loan shall be repaid from the proceeds of the sale of the commodity and the borrower has no independent capacity to repay the loan;

2.8. **"Commodity"** means a physical product, which is or can be traded on a secondary market, for example, agricultural products, minerals including oil and precious metals except gold;

2.9. **"Corresponding Deduction Approach"** refers to when a bank holds capital instruments in another financial institution, it must deduct the value of these holdings from the same tier of capital in which the held instrument would qualify if it were issued by the bank itself;

2.10. **"Counterparty Credit Risk"** means the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default;

2.11. **"Covered Bonds"** are bonds issued by a bank or mortgage institution that are subject by law to special public supervision designed to protect bond holders. Proceeds deriving from the issue of these bonds must be invested in conformity with the law in assets which, during the whole period of the validity of the bonds, are capable of covering claims attached to the bonds and which, in the event of the failure of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest;

2.12. **"Credit Conversion Factors"** means percentages that are multiplied by off-balance sheet items so as to convert these into credit exposure equivalents;

2.13. **"Credit Risk"** means the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with the agreed terms;

2.14. **"Current Exposure Method"** is a simplified treatment offered through Basel II that shall be applied to determine the credit equivalent amount of the over-the-counter derivatives;

2.15. **"Defaulted Exposure"** as applicable to a commercial bank shall mean as defined under the National Bank Directive No. SBB/90/2024 or any subsequent amendment thereto; on the other hand, for a development finance institution, it shall be as defined under the relevant National Bank Directive issued for development finance institutions;

2.16. **"Eligible Capital"** means the sum of Tier 1 capital and Tier 2 capital;

2.17. **"Financial Institution"** means a bank, an insurance company, a reinsurer, a micro finance institution, a micro insurance company, payment instrument issuer, payment system operator, a capital goods finance company, a money transfer institution, a postal money transfer institution or such other similar institution as determined and/or licensed by the National Bank;

2.18. **"Financial Instrument"** means any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity and includes primary financial instruments (cash instruments) and derivative financial instruments;

2.19. **"General Market Risk"** means the risk of a loss arising from adverse changes in market prices, for example, a change in interest rates or official policy;

2.20. **"General Provision"** means to prudential provisions or loan-loss reserves held against future, presently unidentified losses, that are freely available to meet losses which subsequently materialize;

2.21. **"Going-concern Capital"** means capital against which losses can be written-off while the bank continues to operate;

2.22. **"Gone-concern Capital"** means capital that would not absorb losses until such time as a bank is wound up, or the capital is otherwise written off or converted to common shares;

2.23. **"Gross Loss"** means a loss before recoveries (of funds or inflows of economic benefits) of any type are received from a third party;

2.24. **"Holding Company"** refers to a company that owns or controls banks, financial institutions and other financial entities within a bank group, which may or may not be an operating/banking entity;

2.25. **"Horizontal Disallowance"** means a calculation designed to capture the imperfect correlation of interest rates along the yield curve, applicable to securities in different time bands;

2.26. **"Indirect Holding of Capital Instrument"** as is used in holding of capital instrument arises when a bank invests in an unconsolidated intermediate entity that has an exposure to the capital of an unconsolidated bank, financial or insurance entity and, thus, gains an exposure to the capital of that financial institution;

2.27. **"Instrument"** means financial instruments, foreign exchange and commodities;

2.28. **"Intangible Asset"** means as defined under IFRS and shall include, but not limited to, copyright, patents, intellectual property and capitalized information technology software;

2.29. **"Long Position"** means the holder of the position owns a security, on the expectation that the security will increase in value, and will profit if the price of the security goes up. It is the more conventional practice of investing;

2.30. **"Market Off-balance Sheet Exposure"** means over-the-counter derivatives contracts and securities finance transactions, such as securities lending, repurchase (repos) agreements and reverse repos that are held in the banking and trading books;

2.31. **"Market Risk"** means the risk of losses in on and off-balance sheet positions arising from adverse movements in market prices;

2.32. "**National Bank**" means the National Bank of Ethiopia;

2.33. **"Net Loss"** means the loss after taking into account the impact of recoveries;

2.34. **"Net Positions"** means the gross long positions net of short positions in a given asset, such as security, foreign exchange currency, commodity, among other. This includes netting positions in physical instruments and derivatives over the same underlying exposure;

2.35. **"Non-market Off-balance Sheet Exposure"** means direct credit substitutes, trade and performance related contingent items and other commitments;

2.36. **"Note Issuance Facilities and Revolving Underwriting Facilities"** are arrangements where a borrower may drawdown funds up to a prescribed limit over a pre-defined period by making repeated note issues to the market, and where the issues prove unable to be placed in the market, the unplaced amount is to be taken up or funds made available by the bank committed as the underwriter of the facility;

2.37. **"Notional Value"** means the notional value of a derivative instrument is equal to the number of units underlying the instrument multiplied by the current market value of each unit of the underlying asset;

2.38. **"Object Finance"** means the method of funding the acquisition of equipment such as ships, aircraft, satellites, railcars, and fleets, where the repayment of the loan is dependent on the cash flows generated by the specific assets that have been financed and pledged or assigned to the lender;

2.39. **"Operational Risk"** means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements;

2.40. **"Other Financial Entities"** means security firms and companies that are engaged in issuing credit cards, portfolio management, investment advisory, custodial and safekeeping services and other similar activities that are ancillary to banking business excluding insurance companies;

2.41. **"Over-the-Counter Derivative"** means special financial deals made directly between two parties, without using a regular marketplace or middlemen. The special aspect about them is that they do not have fixed rules; instead, the two parties can decide the rules themselves;

2.42. **"Pricing model"** means a model that is used to determine the value of an instrument (mark-to-market or mark-to-model) as a function of pricing parameters or to determine the change in the value of an instrument as a function of risk factors;

2.43. **"Project finance"** means the method of funding in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the loan. This type of financing is usually for large, complex and expensive installations such as power plants, chemical processing plants, mines, transportation infrastructure, environment, media, and telecoms. Project finance may take the form of financing the construction of a new capital installation, or refinancing of an existing installation, with or without improvements;

2.44. **"Prudentially Regulated Financial Entity"** means a legal entity supervised by a regulator that imposes prudential requirements consistent with international norms or a legal entity, such as parent company or subsidiary included in a consolidated group where any substantial legal entity in the consolidated group is supervised by a regulator that imposes prudential requirements consistent with international norms. These include, but are not limited to, prudentially regulated broker/dealers, thrifts and futures commission merchants, and qualifying central counterparties;

2.45. **"Risk Weighted Asset for Credit Risk"** means a bank's on-balance sheet asset or off-balance-sheet exposures, multiplied by its corresponding risk weight;

2.46. **"Risk Weights"** means percentages that are multiplied to an asset value to convert it into a risk-weighted asset;

2.47. **"Sale and Repurchase Agreement"** means an arrangement where a bank sells an instrument and commits to repurchase the instrument for an agreed price on demand, or after a stated time, or in the event of a contingency. A repo or a reverse repo may be treated as collateralized transactions. The repo is an irrevocable commitment and an off-balance sheet exposure;

2.48. **"Securities Financing Transaction"** means a transaction such as a repurchase agreement (Repos), a reverse repurchase agreement (reverse Repos), security lending and borrowing, and margin lending transaction, where the value of the transaction depends on market valuations and the transaction is often subject to margin agreement;

2.49. **"Short Position"** means investing in such a way that the investor will profit if the value of the asset falls. This is the opposite of a more conventional "long position", where the investor will profit if the value of the asset rises;

2.50. **"Specific Provisions"** means provisions held for defaulted exposures;

2.51. **"Specific Risk"** as used in market risk means the risk that the price of a given instrument will move out of line with similar instruments, principally due to factors related to its issuer;

2.52. **"Synthetic Holding of Capital Instrument"** arises when a bank invests in an instrument where the value of the instrument is directly linked to the value of the capital of an unconsolidated bank, financial or insurance entity;

2.53. **"Subsidiary"** means as defined under the Commercial Code, and controlled by a parent bank, registered under the laws of, and having its head office in Ethiopia;

2.54. **"Total Risk-Weighted Assets"** means the capital requirements for market risk and operational risk, multiplied by 9.1, which is the reciprocal of the minimum capital ratio of 11%, and adding the resulting figures to the sum of risk-weighted assets for credit risk;

2.55. **"Trading Book"** means positions or portfolio of financial instruments and commodities held by a bank either with trading intent or in order to hedge other elements of the trading book; and meets the purposes listed under sub-articles 16.1 and 16.2 of this Directive;

2.56. **"Trading Desk"** means a group of traders or trading accounts that implements a well-defined business strategy operating within a clear risk management structure;

2.57. **"Trigger Event"** means the earlier of the occurrence of the trigger point; and

2.57.1. a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; and the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority; and

2.57.2. is determined by the jurisdiction in which the capital is being given recognition for regulatory purposes.

2.58. **"Trigger point"** means a situation where a bank's CET1 ratio reaches at 5.125%; and

2.59. **"Vertical Disallowance"** means a calculation designed to capture the basis risk which is the risk that the relationship between changes in prices of similar instruments, even in the same time zone, is not stable over time.

3. Scope of Application

3.1. This Directive shall be applicable to banks, licensed by the National Bank and operating in Ethiopia, at individual entity level (standalone basis) and at a consolidated basis if the bank belongs to a bank group.

3.2. A bank licensed by the National Bank and operating in Ethiopia shall consolidate all financial entities, excluding insurance companies, within its bank group that are conducting financial activities and shall ensure that individual financial entities within its bank group and the whole bank group, on a consolidated basis, are adequately capitalized in line with this Directive.

4. Duties and Responsibilities of Board of Directors of a Bank

4.1. The board of directors of a bank shall be primarily responsible for ensuring compliance with this Directive and maintaining the bank's capital adequacy ratio at or above the minimum regulatory requirements at all times. To this end, the board shall have a periodic [1-3 year] capital management strategy.

4.2. The capital management strategy shall, at minimum, establish and explain:

4.2.1. the duties and responsibilities of functional units;

4.2.2. policies and operational procedures to be adapted; and

4.2.3. system and automations required in continually measuring the regulatory capital and the risk weighted assets for credit risk, market risk and operational risk of the bank.

4.3. The capital management strategy shall be submitted to the National Bank for its review and follow up of the bank's implementation of the strategy ensuring it meets the minimum regulatory capital requirements and other provisions of this Directive including the computation of risk weighted assets.

PART TWO: CAPITAL DEFINITION

Components of regulatory capital, elements within each component of capital, regulatory adjustments and the limits/minima provided are as per the definitions of regulatory capital provided under Basel III.

5. Components of Capital

Total regulatory capital shall consist of the following three components of tiers of capital, net of all regulatory adjustments as provided in Article 11 of this Directive:

5.1. Tier 1 Capital (going-concern capital), shall comprise:
  5.1.1. Common Equity Tier 1 (CET1) capital; and
  5.1.2. Additional Tier 1 (AT1) capital.
5.2. Tier 2 capital (gone-concern capital).

6. Minimum Capital Adequacy Requirement

6.1. A bank shall, at all times, maintain the following minimum capital adequacy ratio for each component of tier of capital and the total regulatory capital:
  6.1.1. CET1 ratio: seven percent (7 %) of risk-weighted assets;
  6.1.2. Tier 1 capital ratio: nine percent (9%) of risk-weighted assets; and
  6.1.3. Total capital (Tier 1 Capital plus Tier 2 Capital) ratio: eleven percent (11%) of risk-weighted assets.
6.2. The calculation for regulatory capital requirement and the risk-weighted assets shall be as provided in this Directive.
6.3. The RWA for market risk and operational risk shall be obtained by multiplying the required capital computed in line with Part Four and Part Five of this Directive by 9.1, which is the reciprocal of the required minimum capital ratio of 11%, being 1/11%, and shall be added to the RWA for credit risk computed in line with Part Three of this Directive.
6.4. The formula for the minimum capital adequacy ratios applied to each tier of capital and the total regulatory capital shall be as follows:

$$\boldsymbol{CET1\ ratio} = \frac{CETI\ Capital}{Credit\ Risk\ RWA + Market\ Risk\ RWA + Operational\ Risk\ RWA}$$

$$\boldsymbol{Tier1\ capital\ ratio} = \frac{CET1\ Capital\ + ATI\ Capital}{Credit\ Risk\ RWA + Market\ Risk\ RWA + Operational\ Risk\ RWA}$$

$$\boldsymbol{Total\ capital\ ratio} = \frac{Tier\ 1\ Capital\ + Tier\ 2\ Capital}{Credit\ Risk\ RWA + Market\ Risk\ RWA + Operational\ Risk\ RWA}$$

6.5. If a bank has complied with the minimum CET1 and Tier 1 capital ratios, then the excess Tier 1 capital may be admitted for compliance with the minimum capital adequacy ratio of 11%.

7. Common Equity Tier 1 Capital

7.1. Common Equity Tier 1 capital shall consist of the sum of the following elements:

7.1.1. **Common shares issued by a bank** that meet the criteria for classification as common shares for regulatory purposes as stated under sub-article 7.2 of this Article, or the equivalent for non-joint stock companies, such as paid-up capital;

7.1.2. **Stock surplus (share premium)** resulting from the issue of common share included in CET1 capital;

7.1.3. **Legal/Statutory reserve** as prescribed in the National Bank Directive No. SBB/4/95 or any subsequent amendment thereto;

7.1.4. **Retained earnings** after deducting any interim or final dividends which have been declared by the reporting bank or bank group, on any class of shares and any interim losses incurred since the end of the last financial reporting period;

7.1.5. **Common shares issued by consolidated subsidiaries** of a bank and held by third parties, which is minority interest that meet the criteria for inclusion in CET1 capital;

7.1.6. **Accumulated other comprehensive income and other disclosed and unencumbered reserves** separately disclosed as per IFRS may be included only up to 50% of the revaluation reserve, for property and equipment,

subject to a go-ahead by the National Bank to ascertain the independence of the source of the revaluation, the reasonableness of the revaluation amount and if the revaluation reserves have been either excessive in total or in frequency;

7.1.7. **Bonds issued by the Federal Government of Ethiopia** to recapitalize a bank;

7.1.8. **Donated capital**, subject to prior approval by the National Bank; and

7.1.9. **Regulatory adjustments** applied in the calculation of CET1 in line with Article 11 of this Directive.

7.2. A common share shall qualify as a CET1 capital if it meets, at a minimum, all the following criteria:

7.2.1. Represents the most subordinated claim in liquidation of a bank.

7.2.2. The investor is entitled to a claim on the residual assets that is proportional with its share of issued capital, after all senior claims have been repaid in liquidation, that is, has an unlimited and variable claim, not a fixed or capped claim.

7.2.3. The principal is perpetual and never repaid outside of liquidation, except for discretionary repurchases or other means of effectively reducing capital in a discretionary manner that is allowable under Ethiopian law.

7.2.4. The bank does nothing to create an expectation at issuance, that the instrument will be bought back, redeemed or cancelled nor do the statutory or contractual terms provide any feature which might give rise to such an expectation.

7.2.5. Distributions are paid out of distributable items, including retained earnings. The level of distributions is not in any way tied or linked to the amount paid in at issuance and is not subject to a contractual cap, except to the extent that a bank is unable to pay distributions that exceed the level of distributable items.

7.2.6. There are no circumstances under which the distributions are obligatory. Non-payment is, therefore, not an event of default.

7.2.7. Distributions are paid only after all legal and contractual obligations have been met and payments on more senior capital instruments have been made. This means that there are no preferential distributions, including in respect of other elements classified as the highest quality issued capital.

7.2.8. It is the issued capital that takes the first and proportionately greatest share of any losses as they occur. Within the highest quality capital, each instrument absorbs losses on a going concern basis proportionately and pari passu with all the others.

7.2.9. The paid-in amount is recognized as equity capital, that is, not recognized as a liability, for determining balance sheet insolvency.

7.2.10. The paid-in amount is classified as equity under the relevant international accounting standards.

7.2.11. It is directly issued and paid-in and the bank cannot directly or indirectly have funded the purchase of the instrument.

7.2.12. The paid-in amount is neither secured nor covered by a guarantee of the issuer or affiliated entity or subject to any other arrangement that legally or economically enhances the seniority of the claim.

7.2.13. It is only issued with the approval of the owners of the issuing bank, either given directly by the owners or, if permitted by applicable law, given by the board of directors or by other persons duly authorized by the owners or other relevant regulatory Authority.

7.2.14. It is clearly and separately disclosed on the bank's balance sheet.

8. Additional Tier 1 Capital

8.1. Additional Tier 1 capital shall consist of the sum of the following elements:

8.1.1. **Instruments issued by a bank** that meet the criteria for inclusion in AT1 capital as stated under sub-article 8.2 of this Article, and are not included in CET1;

8.1.2. **Stock surplus (share premium)** resulting from the issue of instruments included in AT1 capital;

8.1.3. **Instruments issued by consolidated subsidiaries of a bank** and held by third parties that meet the criteria for inclusion in AT1 capital and are not included in CET1; and

8.1.4. **Regulatory adjustments** applied in the calculation of AT1 capital in line with Article 11 of this Directive.

8.2. An instrument shall qualify as AT1 capital instrument if it meets, at a minimum, all the following criteria:

8.2.1. Issued and paid-in.

8.2.2. Subordinated to depositors, general creditors and subordinated debt of the bank. In the case of an issue by a holding company, the instrument must be subordinated to all general creditors.

8.2.3. Is neither secured nor covered by a guarantee of the issuer or affiliated entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank creditors.

8.2.4. Is perpetual, that is there is no maturity date and there are no step-ups or other incentives to redeem.

8.2.5. May be callable at the initiative of the issuer only after a minimum of five (5) years, under the condition that a bank:

a) receives prior approval from the National Bank;

b) shall not do anything which creates an expectation that the call will be exercised;

c) does not exercise a call unless it replaces the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank; or demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised; and

d) the use of tax event and regulatory event calls are permitted within the first five (5) years of a capital instrument, but the National Bank will only permit the bank to exercise such a call if in the National Bank's view, the bank was not in a position to anticipate the event at issuance.

8.2.6. Any repayment of principal, including through repurchase or redemption, shall be with prior approval of the National Bank and a bank shall not assume or create market expectations that supervisory approval will be given.

8.2.7. Dividend/coupon discretion:

a) the bank shall have full discretion at all times to cancel distributions/payments;

b) cancellation of discretionary payments shall not be an event of default;

c) the bank shall have full access to cancelled payments to meet obligations as they fall due; and

d) cancellation of distributions/payments shall not impose restrictions on the bank except in relation to distributions to common stockholders.

8.2.8. Dividends/coupons shall be paid out of distributable items.

8.2.9. The instrument shall not have a credit-sensitive dividend feature, that is, a dividend/coupon which is reset periodically based in whole or in part on the bank's credit standing.

8.2.10. The instrument shall not contribute to liabilities exceeding assets if such a balance sheet test forms part of national insolvency law.

8.2.11. Instruments classified as liabilities for accounting purposes shall have a principal loss-absorption mechanism. This must generate CET1 under the relevant accounting standards and the instrument will only receive recognition in AT1 up to the minimum level of CET1 generated by the loss-absorption mechanism. The mechanism shall operate through either:

a) conversion to common shares at the trigger point of 5.125% CET1; or

b) a write-down, which allocates losses to the instrument at the trigger point of 5.125% CET1. The write-down shall have the following effects:

i) reduce the claim of the instrument in liquidation;

ii) reduce the amount repaid when a call is exercised; and

iii) partially or fully reduce coupon/dividend payments on the instrument.

8.2.12. The aggregate amount to be written down/converted for all instruments classified as liabilities for accounting purposes on breaching the trigger point shall be at least the amount needed to immediately return the bank's CET1 ratio to the trigger point or, if this is not possible, the full principal value of the instruments.

8.2.13. Neither the bank nor an affiliated entity over which the bank exercises control or significant influence can have purchased the instrument, nor can the bank directly or indirectly fund the instrument or the purchase of the instrument.

8.2.14. The instrument shall not have any features that hinder recapitalization, such as provisions that require the issuer to compensate investors if a new instrument is issued at a lower price during a specified time frame.

8.2.15. If the instrument is not issued out of an operating entity or the holding company in the consolidated group such as Special Purpose Vehicle, proceeds shall be immediately available without limitation to a single operating entity or the holding company in the consolidated group in a form which meets or exceeds all of the other criteria for inclusion in AT1 capital.

8.2.16. The terms and conditions of the instrument shall have a provision that requires, at the instruction of the National Bank, to be able to either write-off or convert the instrument into common equity upon the occurrence of a trigger event. Any compensation paid to instrument holders as a result of such a write-off shall be paid immediately in the form of common stock, or its equivalent in the case of non-joint stock companies, of either the issuing bank or the parent company of the consolidated group, including any successor in resolution, and shall be paid prior to any public sector injection of capital. And, the issuing bank shall maintain, at all times, all prior authorization necessary to immediately issue the relevant number of shares specified in the instrument's terms and conditions should the trigger event occur.

8.3. Stock surplus (share premium), that is not eligible for inclusion in CET1, shall only be included in AT1 capital if the shares giving rise to the stock surplus are permitted to be included in AT1 capital.

9. Tier 2 Capital

9.1. Tier 2 capital shall consist of the sum of the following elements:

9.1.1. **Instruments issued by a bank** that meet the criteria for inclusion in Tier 2 capital as stated under sub-article 9.2 of this Article and are not included in Tier 1 capital;

9.1.2. **Stock surplus (share premium)** resulting from the issue of instruments included in Tier 2 capital;

9.1.3. **Instruments issued by consolidated subsidiaries** of a bank and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital;

9.1.4. **Certain loan loss provisions such as prudential general provisions/general loan-loss reserve** up to a maximum of 1.25 percentage points of credit risk weighted assets calculated in line with the provisions of this Directive; and

9.1.5. **Regulatory adjustments** applied in the calculation of Tier 2 capital in line with Article 11 of this Directive.

9.2. An instrument shall qualify as a Tier 2 capital instrument if it meets, at a minimum, all the following criteria:

9.2.1. Issued and paid-in.

9.2.2. Subordinated to depositors and general creditors of the bank. In the case of an issue by a holding company, the instrument shall be subordinated to all general creditors.

9.2.3. Is neither secured nor covered by a guarantee of the issuer or affiliated entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis depositors and general creditors of the bank.

9.2.4. The instrument shall have a minimum original maturity of at least five (5) years of which recognition in regulatory capital in the remaining five (5) years before maturity shall be amortized on a straight-line basis, and there are no step-ups or other incentives to redeem.

9.2.5. The instrument may be callable at the initiative of the issuer only after a minimum of five (5) years, subject to the following requirements:

a) to exercise a call option a bank must receive approval from the National Bank;

b) a bank shall not do anything that creates an expectation that the call will be exercised; and

c) a bank shall not exercise a call unless it replaces the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank; or the bank demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised.

9.2.6. The investor shall have no rights to accelerate the repayment of future scheduled payments that is coupon or principal, except in bankruptcy and liquidation.

9.2.7. The instrument shall not have a credit-sensitive dividend feature that is a dividend/coupon that is reset periodically based in whole or in part on the bank's credit standing.

9.2.8. Neither the bank nor an affiliated entity over which the bank exercises control or significant influence can have purchased the instrument nor can the bank directly or indirectly have funded the purchase of the instrument.

9.2.9. If the instrument is not issued out of an operating entity or the holding company in the consolidated group such as Special Purpose Vehicle, proceeds shall be immediately available without limitation to an operating entity or the holding company in the consolidated group in a form which meets or exceeds all of the other criteria for inclusion in Tier 2 capital.

9.2.10. The terms and conditions of the instrument shall have a provision that requires, at the instruction of the National Bank, to be able to either write-off or convert the instrument into common equity upon the occurrence of a trigger event. Any compensation paid to instrument holders as a result of such a write-off shall be paid immediately in the form of common stock, or its equivalent in the case of non-joint stock companies, of either the issuing bank or the parent company of the consolidated group, including any successor in resolution, and shall be paid prior to any public sector injection of capital.

9.3. Stock surplus (share premium), that is not eligible for inclusion in Tier 1 capital, shall only be permitted to be included in Tier 2 capital if the shares giving rise to the stock surplus are permitted to be included in Tier 2 capital.

9.4. Provisions or loan-loss reserves held against future, presently unidentified losses, shall qualify for inclusion within Tier 2 up to the limit provided under sub-article 9.1.4 of this Directive while provisions ascribed to identified deterioration of particular assets or known liabilities shall be excluded.

10. Minority Interest and Other Capital Issued out of Consolidated Subsidiaries Held by Third Parties

10.1. Minority interests (non-controlling interest) arising from fully consolidated subsidiary (whether wholly or partly owned) of a bank may only be recognized as eligible regulatory capital for a given tier of regulatory capital where:

10.1.1. the subsidiary that issues instruments with minority interests is a bank or a prudentially regulated financial institution or other financial entity;

10.1.2. the instruments satisfy the criteria for the tier of regulatory capital to which it is to be included, that is, CET1, AT1 or Tier 2; and

10.1.3. the minority interest shall not be funded, either directly or indirectly, by the parent bank.

10.2. The contribution to regulatory capital from minority interests includes all minority interests except for the surplus capital attributable to minority shareholders that is above the minimum capital requirements for the subsidiary.

10.3. Any CET1, AT1 or Tier 2 capital instrument issued by a consolidated subsidiary of a bank to minority shareholders may be included as that same tier of capital only if the instruments would, if issued by the bank, meet all the criteria for classification as that tier of capital.

10.4. The amount of capital recognized as AT1 or Tier 2 capital shall exclude amounts recognized in any higher tier of capital, that is, CET1 if AT1 instrument, and/or both of CET1 and AT1 if Tier 2 instrument.

10.5. The contribution of minority interest in a subsidiary that satisfies sub-article 10.1 of this Article is determined separately for each given tier of capital that has instruments issued to minority interests, that is, CET1, Tier 1/AT1 or Tier 2/ Total Capital as:

10.5.1. Total minority interest less the surplus capital (in each of CET1, AT1 or Tier 2) attributable to minority shareholders.

10.5.2. Surplus capital is the available capital for that tier (in each of CET1, Tier 1 or Total Capital) less the lower of:

a) the minimum capital requirement of the subsidiary plus the capital conservation buffer, that is applicable on the subsidiary under its supervisory jurisdiction, as a percent of RWA for each component of capital (tiers); and

b) the portion of the consolidated minimum capital requirements, for either CET1, Tier 1 or Total Capital, plus capital conservation buffer that is applicable on the subsidiary under its supervisory jurisdiction.

10.6. The Amount of the surplus capital for either CET1, Tier 1 or Total Capital, attributable to the minority shareholders is the surplus capital as a proportion of the minority shareholders' holding in that tier of capital.

11. Regulatory Adjustments

11.1. A bank shall make regulatory adjustments to determine total regulatory capital at standalone/solo or consolidated level, as the case may be.

11.2. Regulatory adjustments shall be made from CET1 except investments in capital instruments that are treated as per a corresponding deduction approach in that it applies to the same tier of capital the investment would qualify if it was capital issued by the bank.

11.3. Assets deducted from regulatory capital shall not be included in RWA.

11.4. In case a bank is required to make a deduction from a particular tier of capital and it doesn't have enough of that tier of capital to satisfy the deduction, the shortfall shall be deducted from the next higher tier of capital.

11.5. Notwithstanding the provisions provided from sub-article 11.1-11.4 of this Article, a bank shall make the following regulatory adjustments:

11.5.1. Goodwill and Other Intangibles

A bank shall deduct the following, net of any associated deferred tax liabilities, which would be extinguished if the intangible assets become impaired or derecognized under applicable accounting standards:

a) goodwill net of adjustments to profit or loss reflecting any changes from 'impairment' of goodwill; and
b) other intangible assets, net of adjustments to profit or loss reflecting amortization and impairment.

11.5.2. Deferred Tax Assets

a) Deferred tax assets that rely on the future profitability of the bank shall be deducted in the calculation of CET1 capital. DTA may be netted with associated deferred tax liabilities only if the DTAs and DTLs relate to taxes levied by the same taxation authority and offsetting is permitted by the relevant taxation authority, irrespective of timing differences.

b) All other such assets, for example, those relating to operating losses, such as the carry forward of unused tax losses, or unused tax credits, shall be deducted in full, net of deferred tax liabilities as described under sub-article 11.6.1 of this Article. The DTL to be netted against DTAs shall exclude amounts that have been netted against the deduction of goodwill, intangibles and defined benefit pension assets.

c) DTAs arising from any other source shall be deducted from CET1 capital as a prudent measure. An over-installment of tax, or current year tax losses carried back to prior years may give rise to a claim or receivable from the government or local tax authority. Such amounts are generally classified as current tax assets for accounting purposes. The recovery of such a claim or receivable shall not rely on the future profitability of a bank and shall be assigned the relevant sovereign risk weighting.

11.5.3. Cash Flow Hedge Reserve

The amount of the cash flow hedge reserve that relates to the hedging of items that are not fair valued on the balance sheet, including projected cash flows, shall be derecognized in the calculation of CET1 capital. In this regard, positive amounts shall be deducted and negative amounts shall be added back.

11.5.4. Cumulative Gains and Losses Due to Changes in Own Credit Risk on Fair Valued Financial Liabilities

a) All unrealized gains and losses that have resulted from changes in the fair value of liabilities that are due to changes in the bank's own credit risk shall be derecognized in the calculation of CET1 capital.

b) In addition, all accounting valuation adjustments on derivative liabilities that are due to changes in the bank's own credit risk shall be derecognized in the calculation of CET1 capital. The offsetting between valuation adjustments that are due to changes in the bank's own credit risk and those arising from its counterparties' credit risk shall not be allowed.

11.5.5. Defined Benefit Pension Fund Assets and Liabilities

a) For each defined benefit pension fund that is an asset on the balance sheet of a bank, the asset shall be deducted in the calculation of CET1 capital, net of any associated deferred tax liability, which would be

extinguished if the asset becomes impaired or derecognized under IFRS. The amount of defined benefit pension fund liabilities, as included on the balance sheet, shall not be used to increase CET1 capital through derecognizing these liabilities.

b) A bank shall seek a prior written approval of the National Bank before the assets in the fund, to which the bank has unrestricted and unfettered access, can be used to offset the deduction.

c) For the purpose of sub-article 11.5.5 (b) of this sub-article, such offsetting assets shall be risk-weighted as if they were owned directly by the bank.

11.5.6. Investment in Own Shares

a) All of a bank's investments in its own common shares, including treasury stock, whether held directly or indirectly, shall be deducted in the calculation of CET1, unless already derecognized under IFRS. In addition, any own shares which the bank could be contractually obliged to purchase shall be deducted from CET1. The adjustment shall apply to exposures in both the banking book and trading book. Similarly, a bank's investment in its own AT1 or Tier 2 capital shall be deducted from the same tier of capital.

b) Gross long positions may be deducted net of short positions in the same underlying exposure only if the short positions involve no counterparty risk.

c) A bank shall look through holdings of index securities to deduct exposures to own shares. However, gross long positions in own shares resulting from holdings of index securities may be netted against short position in own shares resulting from short positions in the same underlying index. In such cases the short positions may involve counterparty risk, which will be subject to the relevant counterparty credit risk charge.

d) Subject to National Bank's approval, a bank may use a conservative estimate of investments in its own shares where the exposure results from holdings of index securities and the bank finds it operationally burdensome to look through and monitor its exact exposure. However, the methodology for the estimate shall demonstrate that the actual exposure will never be higher than the estimated exposure, and the

estimation should be updated at least annually to reflect the best estimates of the exposure. The full value shall be deducted in instances where this requirement cannot be met.

11.5.7. Reciprocal Cross Holdings in the Capital of Banking, Financial Institutions and Other Financial Entities

Reciprocal cross holdings of capital that are designed to artificially inflate the capital position of a bank shall be deducted in full. A bank shall apply a "corresponding deduction approach" to such investments in the capital of other banks, other financial institutions and other financial entities.

11.5.8. Investments in the Capital of Banking, Financial Institutions and Other Financial Entities that are Outside the Scope of Regulatory Consolidation

a) The following regulatory adjustments apply to investments in the capital of banking, financial institutions and other financial entities that are outside the scope of regulatory consolidation. These investments shall be deducted from regulatory capital and shall include:
   i. direct, indirect and synthetic holdings of capital instruments. A bank, for instance, shall look through holdings of index securities to determine its underlying holdings of capital;
   ii. holdings in both the banking book and trading book. Capital includes common stock and all other types of cash and synthetic capital instruments such as subordinated debt;
   iii. for the capital instruments, the net long position, which means the gross long position net of short positions in the same underlying exposure where the maturity of the short position either matches the maturity of the long position or has a residual maturity of at least one year;
   iv. underwriting positions in capital instruments, held for more than five (5) working days; and
   v. consideration of whether the capital instrument of the entity in which the bank has invested meets the criteria for CET1, AT1, or Tier 2 capital of the bank, and if it does not meet, it shall be considered as common shares for the purposes of this regulatory adjustment.

b) With the prior written approval of the National Bank and subject to conditions that the National Bank may specify, including the period of

exclusion, a bank may exclude certain investments where these have been made in the context of resolving or providing financial assistance to reorganize a distressed institution.

11.5.9. Other Adjustments

A bank shall make any other adjustments as may be required by the National Bank.

PART THREE: CAPITAL REQUIREMENT FOR CREDIT RISK

12. General Principles

12.1. The minimum regulatory capital requirement for credit risk exposures in the banking book shall be risk-weighted in accordance with the individual risk categories stipulated under sub-article 12.8 of this Directive.

12.2. A bank shall apply the prescribed risk weight to both on-balance sheet and off-balance sheet exposures.

12.3. Risk weights in the Basel II/III standardized approach shall be based on the risk rating assigned by ECAIs deemed eligible by the National Bank.

12.4. A bank shall ensure that the ECAI satisfies the criteria of objectivity, independence, international access and transparency, disclosure, resources and credibility as outlined in the Basel framework.

12.5. A bank shall apply External Rating Grades issued by Standard and Poor's (S&P), Moody's Investors Service (Moody's) or Fitch Ratings (Fitch). Other than these ECAIs, a bank shall require approval of the National Bank. The equivalence of major ECAIs is mapped to external rating grades in table 1 herein below:

Table 1 - Recognized ECAIs ERG

ERG	S&P	Moody's	Fitch
1	A-1 / AAA to AA-	P-1 / Aaa to Aa3	F-1 / AAA to AA-
2	A-2 / A+ to A-	P-2 / A1 to A3	F-2 / A+ to A-
3	A-3 / BBB+ to BBB-	P-3 / Baa1 to Baa3	F-3 / BBB+ to BBB-
4	Below A-3 / BB+ to B-	Below P-3 / Ba1 to B3	Below F-3 / BB+ to B-
5	N/A / below B-	N/A / below B3	N/A / below B-

12.6. A bank shall apply the higher risk weight if there are two assessments made by ECAIs, which map into different risk weights. However, if there are three or more assessments with different risk weights, a bank shall refer the assessments corresponding to the two lowest risk weights and shall apply the higher of those two risk weights.

12.7. A bank shall perform the following due diligence requirements:

12.7.1. to ensure that it has an adequate understanding, at origination and thereafter on a regular basis, at least annually, of the risk profile and characteristics of its counterparties;

12.7.2. to ensure that the external ratings appropriately and conservatively reflect the creditworthiness of the counterparties. If the due diligence analysis reflects higher risk characteristics than that implied by the external rating bucket of the exposure, that is AAA to AA—; A+ to A—, the bank shall assign a risk weight at least one bucket higher than the "base" risk weight determined by the external rating. However, due diligence analysis shall never result in the application of a lower risk weight than that determined by the external rating;

12.7.3. to assess the risk of the exposure for risk management purposes and ensure the risk weight applied is appropriate and prudent;

12.7.4. to sophisticate its due diligence in line with the size and complexity of its activities and be able to access information about its counterparties on a regular basis;

12.7.5. for exposures to entities belonging to consolidated groups, due diligence shall be performed, to the extent possible, at the solo entity level to which there is a credit exposure. In evaluating the repayment capacity of the solo entity, a bank may take into account the support of the group and the potential for it to be adversely impacted by problems in the group;

12.7.6. to put in place effective internal policies, processes, systems and controls to ensure that the appropriate risk weights are assigned to counterparties; and

12.7.7. to be able to demonstrate to the National Bank that its due diligence analysis is appropriate.

12.8. A bank shall manage and measure capital requirement for credit risk in the following three parts:

12.8.1. on-balance sheet exposures;

12.8.2. off-balance sheet exposures; and

12.8.3. credit risk mitigation.

13. On-Balance Sheet Credit Exposures

13.1. A bank's total risk-weighted on-balance sheet credit exposure equals the sum of the risk-weighted amount of each on-balance sheet asset it holds.

13.2. A bank shall classify its portfolio, including exposures under interest-free finance, according to the following asset classes, for risk weighting purposes:

13.2.1. Cash and similar items;
13.2.2. Exposures to Sovereign;
13.2.3. Exposures to State/Federal Government-Owned Enterprises
13.2.4. Exposures to Multilateral Development Banks;
13.2.5. Claims on Banks;
13.2.6. Exposure to Covered Bonds;
13.2.7. Exposures to Securities Firms and Other Financial Institutions;
13.2.8. Exposures to Corporates;
13.2.9. Retail Exposures;
13.2.10. Real estate exposures;
13.2.11. Defaulted exposures; and
13.2.12. Other exposures.

13.3. Each class of asset stated under sub-article 13.2 of this Article shall be mutually exclusive and each asset shall be reported in only one asset class.

13.4. **Cash and Similar Items**

13.4.1. Cash in a bank's own vaults shall be risk weighted at 0%.
13.4.2. Gold bullions, held in a bank's own vaults or on an allocated basis to the extent backed by bullion liabilities, shall be risk weighted at 0%.
13.4.3. Cash items in the process of collection shall be risk weighted at 20%.

13.5. **Exposures to Sovereigns**

13.5.1. Exposures to the Federal Government of Ethiopia or the National Bank, denominated and funded in Ethiopian Birr shall be risk weighted at 0%.
13.5.2. Claims which are fully guaranteed by the Federal Government of Ethiopia and denominated and funded in Ethiopian Birr shall be risk weighted at 0%. The guarantee shall be explicit, unconditional, legally enforceable and irrevocable.
13.5.3. Claims on foreign sovereigns may be assigned a preferential risk weight applied by the foreign jurisdiction where the exposure is funded and denominated in the currency of that jurisdiction.
13.5.4. Claims on the Ethiopian Regional Governments and Chartered City Administrations, denominated and funded in Ethiopian Birr shall be risk weighted at 20%.

13.5.5. Exposures to the Federal Government of Ethiopia, the National Bank, Regional Governments or Chartered City Administration denominated and funded in foreign currency shall be risk weighted based on the country risk scores assigned by ECAI as stipulated herein below:

ERG	1	2	3	4	5	Unrated
Risk Weight	0%	20%	50%	100%	150%	100%

13.5.6. Claims on the Bank for International Settlements, the International Monetary Fund, the European Central Bank and the European Community shall be risk weighted at 0%.

13.6. **Exposures to State/Federal Government-Owned Enterprises**

13.6.1. Exposures to state-owned enterprises (SOEs) denominated and funded in Ethiopian Birr shall be assigned a risk weight that is one category less favorable than the sovereign risk weight, i.e. 20%. These SOEs must have a revenue raising powers; otherwise, exposure to these entities shall be treated in same manner as claims on banks.

13.6.2. Exposure to SOEs denominated and funded in foreign currency shall be risk weighted based on the country risk scores assigned by the ECAI as provided under sub-article 13.5.5 of this Directive.

13.7. **Exposures to Multilateral Development Banks**

13.7.1. A 0% risk weight shall be applied to claims on highly rated Multilateral Development Banks (MDBs) that fulfill the following criteria.

a) very high-quality long-term issuer ratings, that is a majority of MDB's external assessments must be AAA;
b) shareholder structure is comprised of a significant proportion of sovereigns with long-term issuer credit assessments of AA- or better, or the majority of the MDB's fund-raising are in the form of paid-in equity/capital and there is little or no leverage;
c) strong shareholder support demonstrated by the amount of paid-in capital contributed by the shareholders; the amount of further capital the MDBs have the right to call, if required, to repay their liabilities and continued capital contributions and new pledges from sovereign shareholders;

d) adequate level of capital and liquidity, where a case-by-case approach is necessary in order to assess whether each MDB's capital and liquidity are adequate;

e) strict statutory lending requirements and conservative financial policies, which shall include, among other, conditions a structured approval process, internal creditworthiness and risk concentration limits that is per country, sector, and individual exposure and credit category; large exposures approval by the board or its committee, fixed repayment schedules; and

f) effective monitoring of use of proceeds, status review process, and rigorous assessment of risk and provisioning to loan loss reserve.

13.7.2. MDBs currently eligible for a 0% risk weight are the World Bank Group comprising the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Development Association (IDA), the Asian Development Bank (ADB), the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IADB), the European Investment Bank (EIB), the European Investment Fund (EIF), the Nordic Investment Bank (NIB), the Caribbean Development Bank (CDB), the Islamic Development Bank (IDB), the Council of Europe Development Bank (CEDB), the International Finance Facility for Immunization (IFFIm), and the Asian Infrastructure Investment Bank (AIIB).

13.7.3. Exposures to all other MDBs shall be based on external credit assessments as set out under option for claims on banks but without the possibility of using the preferential treatment for short-term claims.

13.8. **Claims on Banks**

13.8.1. No claim on an unrated bank, except for self-liquidating letters of credit, shall receive a risk weight lower than that applied to claims on the Federal Government of Ethiopia.

13.8.2. Claim on banks with a maturity of more than three (3) months shall be risk weighted based on the external credit assessment of the bank or the credit rating of instruments issued by the bank as follows:

ERG	1	2	3	4	5	Unrated
RW long term	20%	50%	50%	100%	150%	50%

13.8.3. Claims on banks funded and denominated in foreign currency, with an original maturity of three (3) months or less will be treated as a short-term claim, and shall be risk weighted based on the credit rating of the bank as follows:

ERG	1	2	3	4	5	Unrated
RW short term	20%	20%	20%	50%	150%	20%

13.8.4. Short-term claims on banks that are funded and denominated in the Ethiopian Birr shall be risk weighted at 20%.

13.8.5. The preferential treatment for short-term claims will be available to both rated and unrated banks, but not to banks risk weighted at 150%.

13.8.6. Short-term claims which are rolled over [that is where the effective maturity is longer than three (3) months] or restructured shall not be risk weighted as a short-term claim.

13.9. **Exposures to Covered Bonds**

13.9.1. To be eligible for the risk weight set out below, the underlying assets/the cover pool of covered bonds shall meet the reporting requirements and shall include any of the following:

a) claims on, or guaranteed by, Federal Government of Ethiopia, the National Bank, state owned enterprises or multi-development banks;
b) claims secured by residential real estate that meet the criteria with a loan to value (LTV) ratio of 80% or lower;
c) claims secured by commercial real estate that meet the criteria with an LTV of 60% or lower; or
d) claims on, or guaranteed by banks that qualify for a 30% or lower risk weight. However, such assets cannot exceed 15% of covered bond issuances.

13.9.2. Reporting requirement for the exposures in the form of covered bonds are eligible for the treatment set out under sub-article 13.9.1. of this

Article, provided that the bank investing in the covered bonds can demonstrate to the National Bank that:

a) it receives portfolio information at least on:
   i) the value of the cover pool and outstanding covered bonds;
   ii) the geographical distribution and type of cover assets, loan size, interest rate and currency risks;
   iii) the maturity structure of cover assets and covered bonds; and
   iv) the percentage of loans more than ninety (90) days past due.
b) the issuer makes the information referred to in point available to the bank at least semi-annually.

13.9.3. The nominal value of the pool of assets assigned to the covered bond instrument(s) by its issuer should exceed its nominal outstanding value by at least 10%. In addition to the listed primary assets, collateral may include substitution assets including cash or short-term liquid and secure assets held in substitution of the primary assets to top up the cover pool for management purposes, as well as derivatives entered into for the purposes of hedging the risks arising in the covered bond program.

13.9.4. Covered bonds that meet the criteria stipulated under sub-articles 13.9.1 to 13.9.3 of this Article shall be risk-weighted based on the issue-specific rating or the issuer's risk weight.

13.9.5. For covered bonds with issue-specific ratings, the risk weight shall be determined as follows:

Issue-specific rating for rated covered bond exposures (ERG)	1	2	3	4	5
Base Risk Weight	10%	20%	20%	50%	100%

13.9.6. For unrated covered bonds, the risk weight shall be inferred from the issuer's risk weight as follows;

RW of the Issuing Bank	20%	50%	100%	150%
Base Risk Weight	10%	25%	50%	100%

13.10. **Exposures to Securities Firms and Other Financial Institutions (excluding Insurance Companies)**

Exposures to securities firms and other financial institutions shall be treated as claims on banks provided that these firms are subject to prudential standards

and a level of supervision equivalent to those applied to banks, including capital and liquidity requirements.

13.11. Exposures to Corporates

Exposures to corporates shall include loans, bonds, receivables, and others, to incorporated entities, associations, partnerships, proprietorships, trust funds and other entities with similar characteristics, except those which qualify for one of the other exposure classes. The corporate exposure class also includes exposures to insurance companies, Regional Government or Chartered City Administration Owned Enterprises and other financial corporates that do not meet the definitions of exposures to banks, or securities firms and other financial institutions. The corporate exposure class shall not include exposures to individuals. The corporate exposure shall be categorized and treated as general corporate exposures and specialized lending exposures.

13.11.1. General Corporate Exposures

a) For general corporate exposures, a bank shall be required to assign "base" risk weight as follows, with the exception of unrated exposures to corporate small and medium entities:

External rating of counterparty (ERG)	**1**	**2**	**3**	**4**	**5**	**Unrated**
Base RW	20%	50%	75%	100%	150%	100% (85% if it is a corporate SME)

b) Unrated exposures to corporate small and medium size enterprises with recent annual sales, on consolidated basis, of less than Birr 90 million, shall be risk weighted at 85%. For exposures above Birr 10 million, recent audited financial statement shall be used to determine the annual sales.

13.11.2. Specialized Lending to Corporate Exposures

a) A corporate exposure shall be treated as a specialized lending exposure if such lending possesses some or all of the following characteristics, either in legal form or economic substance:

i) the exposure is not related to real estate and is within the definitions of object finance, project finance or commodities finance;

ii) the exposure is typically to an entity such as a special purpose vehicle, that was created specifically to finance and/or operate physical assets;

iii) the borrowing entity has few or no other material assets or activities, and, therefore, little or no independent capacity to repay the obligation, apart from the income that it receives from the asset(s) being financed. The primary source of repayment of the obligation is the income generated by the asset(s), rather than the independent capacity of the borrowing entity; and

iv) the terms of the obligation give the lender a substantial degree of control over the asset(s) and the income that it generates.

b) A bank shall assign to its specialized-lending corporate exposures risk weights determined by the issue-specific external ratings, if these are available, according to general corporate exposures. Issuer ratings shall not be used. For specialized lending exposures for which an issue-specific external rating is not available, the following risk weights shall be applied:

i) Object and commodities finance exposures shall be risk-weighted at 100%.

ii) Project finance exposures shall be risk-weighted at 130% during the pre-operational phase and 100% during the operational phase. For this purpose, operational phase is the phase in which the entity that was specifically created to finance the project has a positive net cash flow that is sufficient to cover any remaining contractual obligation; and declining long-term debt.

c) Project finance exposures in the operational phase, which are deemed to be high quality shall be risk weighted at 80%. A high-quality project finance exposure refers to an exposure to a project

finance entity that is able to meet its financial commitments in a timely manner and its ability to do so is assessed to be robust against adverse changes in the economic cycle and business conditions. The following conditions shall also be met:

i) the project finance entity is restricted from acting to the detriment of the creditors, for example, by not being able to issue additional debt without the consent of existing creditors;
ii) the project finance entity has sufficient reserve funds or other financial arrangements to cover the contingency funding and working capital requirements of the project;
iii) the revenues availability-based or subject to a rate-of-return regulation or take-or-pay contract;
iv) the project finance entity's revenue depends on one main counterparty and this main counterparty shall be a central government, public sector enterprise or a corporate entity with a risk weight of 80% or lower;
v) the contractual provisions governing the exposure to the project finance entity provide for a high degree of protection for creditors in case of a default of the project finance entity;
vi) the main counterparty or other counterparties which similarly comply with the eligibility criteria for the main counterparty will protect the creditors from the losses resulting from a termination of the project;
vii) all assets and contracts necessary to operate the project have been pledged to the creditors to the extent permitted by applicable law; and
viii) creditors may assume control of the project finance entity in case of its default.

13.12. **Retail Exposures**

13.12.1. Retail exposures shall comprise exposures to an individual person or persons, or to regulatory retail small and medium enterprises, which are enterprises with recent annual sales on consolidated basis of less than Birr 20 million. However, it shall not include retail exposures secured by and financed for real estate. For exposures above Birr 10

million, recent audited financial statement shall be used to determine the annual sales.

13.12.2. Retail exposures that meet all of the criteria listed below shall be classified as "regulatory retail" exposures and risk-weighted at 75%. However, defaulted retail exposures are to be excluded from the overall regulatory retail portfolio when assessing the granularity criterion.

a) ***Product criterion:*** the exposure shall be in the form of revolving credits and lines of credit, including credit cards, charge cards and overdrafts, as well as personal term loans and leases and small business facilities. Mortgage loans, derivatives and other securities, such as bonds and equities, whether listed or not, are specifically excluded from this category.

b) ***Low value of individual exposures:*** the maximum aggregated exposure to one counterparty cannot exceed an absolute threshold of Birr 10 million; and

c) ***Granularity criterion:*** no aggregated exposure to one counterparty shall exceed 0.2% of the overall regulatory retail portfolio.

13.12.3. Other retail exposures to an individual person or persons that do not meet all of the criteria shall be risk-weighted at 100%. Exposures to small and medium enterprise that do not qualify for the "regulatory portfolio" shall be treated as corporate SMEs exposures, unless secured by and financed for real estate.

13.13. Real Estate Exposures

13.13.1. Lending fully secured by and financed for the purchase or construction of mortgages on residential property that is or shall be occupied by the borrower, or that is rented, shall be risk weighted at 35%.

13.13.2. In applying the 35% risk weight under sub-article 13.13.1 of this Article, the lower risk weight shall be applied restrictively for residential purposes in accordance with strict prudential criteria, such as the existence of substantial margin of additional security over the amount of the loan based on strict valuation rules.

13.13.3. The National Bank may evaluate appropriateness of risk weight applied to these exposures based on the default experiences for these types of exposures in the country and may require banks to increase the risk weight as appropriate.

13.13.4. A risk weight of 100% shall be applied to claims secured by and financed for the purchase or construction of commercial real estate, which shall be an office and/or multi-purpose commercial premises and/or multi-tenanted commercial premises.

13.14. **Defaulted Exposures**

13.14.1. Defaulted exposures shall be risk weighted net of specific provisions and partial write-offs.

13.14.2. For retail exposures, the definition of default shall be applied at the level of a particular credit obligation, rather than at the level of the borrower. As such, default by a borrower on one obligation does not require a bank to treat all other obligations to the bank group as defaulted.

13.14.3. With the exception of exposures that are secured by and financed for residential real estate, all other defaulted exposure shall be risk-weighted net of specific provisions and partial write-offs as follows:

a) 150% risk weight when specific provisions are less than 20% of the outstanding amount of the loan; and
b) 100% risk weight when specific provisions are equal or greater than 20% of the outstanding amount of the loan.

13.14.4. Defaulted exposures that are secured by and financed for residential real estate shall be risk-weighted at 100%.

13.14.5. Guarantees or financial collateral which are eligible according to the credit risk mitigation framework might be taken into account in the calculation of the exposure. For the purpose of defining the secured or guaranteed portion of the defaulted exposure, eligible collateral and guarantees shall be the same as for credit risk mitigation purposes.

13.15. **Other Exposures**

All other on-balance sheet assets including, but not limited to, fixed assets, equity investments and others not categorized in the aforementioned exposures, shall be risk weighted at 100%.

14. Off-Balance Sheet Credit Exposure

14.1. The credit exposure to off-balance sheet items shall comprise of market and non-market transactions.

14.2. The risk weighted amount of an off-balance sheet transaction shall be calculated by converting the notional amount of the transaction using a credit conversion factor (CCF) into on-balance sheet credit equivalent amount (CEA) and multiplying the CEA by the risk weight applicable to the counterparty or type of exposure. In the case of commitments, the committed but undrawn amount of the exposure shall be multiplied by the CCF.

14.3. **Non-Market Off-Balance Sheet Transactions:**

14.3.1. Non-market related off-balance sheet transactions are classified as commitments, direct credit substitutes, lending of securities or assets sales with recourse.

14.3.2. Off-balance sheet items shall be assigned CCFs as specified in the table below:

Table 2 — CCF for Off-balance sheet items

Off-Balance Sheet Exposure		CCF
(i)	Commitments that are unconditionally cancellable at any time by the bank without prior notice, or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness. The National Bank may apply a higher CCF to certain commitments as appropriate.	**10%**
(ii)	Credit Conversion Factor applies to both the issuing and confirming banks of short-term self-liquidating trade letters of credit arising from the movement of goods (e.g. documentary credits collateralized by the underlying shipment).	**20%**
(iii)	Commitments, regardless of the maturity of the underlying facility, unless they qualify for a lower CCF	**40%**
(iv) *(v)*	Certain transaction-related contingent items including performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions. Note issuance facilities and revolving underwriting facilities regardless of the maturity of the underlying facility.	**50%**
(vi) *(vii)*	Direct credit substitutes, e.g. general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances). Sale and repurchase agreements and asset sales with recourse where the credit risk remains with the bank: these items are to be weighted according to the type	**100%**

	of asset and not according to the type of counterparty with whom the transaction has been entered into.	
(viii)	The lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions (i.e. repurchase/reverse repurchase and securities lending/securities borrowing transactions). The risk-weighting treatment for counterparty credit risk shall be applied in addition to the credit risk charge on the securities or posted collateral, where the credit risk of the securities lent or posted as collateral remains with the bank. This does not apply to posted collateral related to derivative transactions that is treated in accordance with the counterparty credit risk standards.	
(ix)	Forward asset purchases, forward deposits and partly paid shares and securities which represent commitments with certain drawdown and shall be weighted according to the type of asset and not according to the type of counterparty with whom the transaction has been entered into.	
(x)	Off-balance sheet items that are credit substitutes not explicitly included in any other category.	

14.3.4. Where there is an undertaking to provide a commitment on an off-balance sheet item, the lower of the two applicable CCFs shall be applied. For example, if a bank has a commitment to open short-term self-liquidating trade letters of credit arising from the movement of goods, a 20% CCF shall be applied, instead of a 40% CCF; and if a bank has an unconditionally cancellable commitment to issue direct credit substitutes, a 10% CCF shall be applied, instead of a 100% CCF.

14.4. Market Off-balance Sheet Transactions

14.4.1. The counterparty credit risk shall apply in respect of Securities Financing Transactions and Over-the-Counter derivatives.

14.4.2. In order to determine the risk-weighted assets for OTC derivatives and securities financing transactions, a bank shall calculate the credit equivalent amount of any off-balance sheet item, then assign weights according to the category of counterparty, including risk weight in respect of exposures backed by eligible guarantees and collateral.

14.4.3. ***Determination of risk weighted assets for market related off-balance sheet transactions (OTC Derivatives):***

a) Counterparty risk weightings for over-the-counter derivative transactions shall not be subject to any specific ceiling.

b) A bank shall get prior authorization from the National Bank to engage in over-the-counter derivatives including forward contracts on foreign exchange and interest rates, foreign exchange swaps, currency swaps or interest rates swaps.

c) Typical OTC derivative transactions shall comprise of the following:

i) **Interest rate contracts**: these include single currency interest rate swaps, basis swaps, forward rate agreements, interest rate futures, interest rate options purchased and any other instruments of a similar nature;

ii) **Foreign exchange contracts or gold**: these include cross currency swaps including cross currency interest rate swaps, forward foreign exchange contracts, currency futures, currency options purchased, hedge contracts and any other instruments of a similar nature;

iii) **Equity contracts**: these include swaps, forwards, purchased options and similar derivative contracts based on individual equities or equity indices;

iv) **Precious metal contracts, other than gold**: these include swaps, forwards, purchased options and similar derivative contracts based on precious metals such as silver and platinum;

v) **Other commodity contracts, other than precious metals**: these include swaps, forwards, purchased options and similar derivative contracts based on energy contracts, agricultural contracts and any other non-precious metal commodity contracts; and

vi) **Other market-related contracts**: these include any contracts covering other items giving rise to credit risk.

d) The credit equivalent amount of an off-balance sheet market-related transaction, whether held in the banking or trading book, shall be determined using the current exposure method, which is also known as mark-to-market method.

e) A bank shall calculate the current replacement cost by marking contracts to market, thus capturing the current exposure without any need for estimation, and then adding a factor (the "add-on") to reflect the potential future exposure over the remaining life of the contract.

f) The credit equivalent amount of these instruments under this current exposure method shall be the sum of the current exposure, which is the total replacement cost, obtained by “marking to market”, all of its contracts with positive value, and potential future credit exposure, which is derived by applying the CCF, according to the residual maturity, to the notional principal amount or face value of the contracts as specified below.

Table 3: CCF for OTC Derivative Transactions

Residual Maturity	Interest Rates	FX and Gold	Equities	Precious Metals except Gold	Other commodities
One year or less	0.0%	1.0%	6.0%	7.0%	10.0%
Over one year to five years	0.5%	5.0%	8.0%	7.0%	12.0%
Over five years	1.5%	7.5%	10.0%	8.0%	15.0%

Notes:

(i) For contracts with multiple exchanges of principal (like swaps), the factors shall be multiplied by the number of remaining payments in the contract.

(ii) For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity shall be set equal to the time until the next reset date.

(iii) In the case of interest rate contracts with remaining maturities of more than one year that meet the above criteria, the add-on factor shall be subject to a floor of 0.5%.

(iv) Other derivative contracts not covered by any of the columns of this matrix shall be treated as "other commodities".

(v) No potential future credit exposure shall be calculated for single currency floating/ floating interest rate swaps; the credit exposure on these contracts shall be evaluated solely based on their mark-to-market value.

14.4.4. *Computation of the credit equivalent amount of securities financing transactions*

The credit equivalent amount of securities financing transactions that expose a bank to counterparty credit risk shall be calculated as follows:

$$E^* = max\{0; 1.15 \cdot E - (0.85 - H_{FX}) \cdot C\}$$

Where:

E* = credit equivalent (after risk mitigation);

E = current value of the exposure;

C = the current value of the collateral received; and

H_{FX} = 8% when collateral and exposures are denominated in different currencies, otherwise 0.

15. Credit Risk Mitigation

15.1. The techniques and requirements on credit risk mitigation, stated under sub-article 15.2 and 15.3 of this Article, shall be applicable to banking book exposures that are risk-weighted under the standardized approach. A bank shall not be allowed to use credit derivatives even for the purposes of credit risk mitigation.

15.2. A bank shall use and comply with the following credit risk mitigation techniques:

15.2.1. Collateralization is where a bank has a credit exposure or a potential credit exposure; and that credit exposure or potential credit exposure is hedged in whole or in part by collateral posted by a counterparty or by a third party on behalf of the counterparty. Where a bank takes eligible financial collateral, the simple approach to reduce the regulatory capital requirements shall be allowed.

15.2.2. Guarantees by a third party: a bank shall substitute the risk weight of the counterparty with the risk weight of the guarantor.

15.3. Credit risk mitigation techniques stated under sub-article 15.2 of this Article, shall meet the following general and legal requirements.

15.3.1. General Requirements for Credit Risk Mitigation Techniques

a) No transaction, in which credit risk mitigation techniques are used, shall receive a higher capital requirement than an otherwise identical transaction where such techniques are not used.

b) The effects of credit risk mitigation shall not be double-counted. Therefore, no additional supervisory recognition of credit risk mitigation for regulatory capital purposes shall be granted on exposures for which the risk weight already reflects that credit risk mitigation.

c) While the use of credit risk mitigation techniques reduces or transfers credit risk, it may simultaneously increase other risks, that is, residual risks. Residual risks include legal, operational, liquidity and market risks and a bank shall employ robust procedures and processes to control these risks. Where these risks are not adequately controlled, the National Bank may impose additional capital charges or take other supervisory actions.

d) In order for credit risk mitigation techniques to provide protection, the credit quality of the counterparty must not have a material positive correlation with the employed credit risk mitigation technique or with the resulting residual risks. For example, securities issued by the counterparty provide little protection as collateral and are thus ineligible.

e) In cases where a bank has multiple credit risk mitigation techniques covering a single exposure, for instance a bank has both collateral and a guarantee partially covering an exposure, the bank shall subdivide the exposure into portions covered by each type of credit risk mitigation technique, for instance a portion covered by collateral or portion covered by guarantee, and the risk-weighted assets of each portion shall be calculated separately. When credit protection provided by a single protection provider has differing maturities, it shall be subdivided into separate protection as well.

15.3.2. Legal Requirement

For a bank to obtain capital relief for any use of credit risk mitigation techniques, all documentation used in collateralized transactions and third-party guarantees must be binding on all parties and legally enforceable in all relevant jurisdictions. A bank shall conduct sufficient legal review to verify this and have a well-founded legal basis to reach this conclusion, and undertake such further review as necessary to ensure continuing enforceability.

15.4. Collateralized Transactions

15.4.1. Before capital relief is granted in respect of any form of collateral, the following standards shall be met:

a) The legal mechanism by which collateral is pledged or transferred shall be such that the bank has the right to liquidate or take legal possession of it, in a timely manner, in the event of default, insolvency or bankruptcy of the counterparty and, where applicable, of the custodian holding the collateral. Additionally, a bank shall take all steps necessary to fulfill those requirements under the law applicable to the bank's interest in the collateral for obtaining and maintaining an enforceable security interest.

b) A bank shall have clear and robust procedures for the timely liquidation of collateral to ensure that any legal conditions required for declaring the default of the counterparty and liquidating the collateral are observed, and that collateral can be liquidated promptly.

c) Where the collateral is held by a custodian, a bank shall take reasonable steps to ensure that the custodian segregates the collateral from its own assets.

15.4.2. Under the simple approach, the risk weight of the counterparty is replaced by the risk weight of the collateral instrument collateralizing or partially collateralizing the exposure. A collateral to be recognized in the simple approach shall be:

a) pledged for at least the life of the exposure; and
b) marked to market and revalued with a minimum frequency of six (6) months.

15.4.3. Those portions of exposures collateralized by the market value of eligible collateral shall receive the risk weight applicable to the collateral instrument. The risk weight on the collateralized portion shall be subject to a floor of 20% except under the conditions specified under sub-article 15.4.5 of this Article. The remainder of the exposure shall be assigned the risk weight appropriate to the counterparty.

15.4.4. The following collateral instruments shall be eligible for recognition under the simple approach:

a) Cash, as well as certificates of deposit or comparable instruments issued by the lending bank, on deposit with the bank that is incurring the counterparty exposure.
b) Gold.
c) Debt securities rated by a recognized ECAI where these are either:
    i) at least BB— when issued by sovereigns or State Owned Enterprises that are treated as sovereigns by the National Bank; or
    ii) at least BBB— when issued by other entities, including banks and other prudentially regulated financial institutions; or
    iii) at least A-3/P-3 for short-term debt instruments.
d) Debt securities not rated by a recognized ECAI where these are:
    i) issued by a bank;
    ii) listed on a recognized exchange;
    iii) classified as senior debt;

iv) all rated issues of the same seniority by the issuing bank are rated at least BBB— or A-3/P-3 by a recognized ECAI;

v) the bank holding the securities as collateral has no information to suggest that the issue justifies a rating below BBB— or A-3/P-3, as applicable; and

vi) the National Bank is confident that the market liquidity of the security is adequate.

e) Equities, including convertible bonds that are included in a main index.

15.4.5. A 20% floor for the risk weight on a collateralized transaction shall not apply, and a 0% risk weight may be applied, where the exposure and the collateral are denominated in the same currency, and either (a) the collateral is cash on deposit with the bank that bears the counterparty exposure; or (b) the collateral is in the form of sovereign/State Owned Enterprise securities eligible for a 0% risk weight, and its market value has been discounted by 20%.

15.5. **Third-party Guarantees**

15.5.1. A bank shall substitute the risk weight of the counterparty with the risk weight of the guarantor if the operational requirements outlined below are met:

a) it represents a direct claim on the protection provider/guarantor;

b) it is explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and incontrovertible;

c) other than non-payment by a protection purchaser of money due in respect of the credit protection contract it is irrevocable; there is no clause in the contract that would allow the protection provider unilaterally to cancel the credit cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure;

d) it shall be unconditional; and

e) there shall be no clause in the protection contract outside the direct control of the bank that could prevent the protection provider/guarantor from being obliged to pay out in a timely

manner in the event that the underlying counterparty fails to make the payment(s) due.

15.5.2. In addition to the legal certainty requirements under sub-article 15.3.2 of this Article, in order to recognize a guarantee, the following requirements shall be satisfied:

a) On the qualifying default/non-payment of the counterparty, the bank may in a timely manner pursue the guarantor for any amounts outstanding under the documentation governing the transaction. The guarantor may make one lump-sum payment of all amounts under such documentation to the bank, or the guarantor may assume the future payment obligations of the counterparty covered by the guarantee. The bank shall have the right to receive any such payments from the guarantor without first having to take legal action in order to pursue the counterparty for payment.

b) The guarantee shall be an explicitly documented obligation assumed by the guarantor.

c) Notwithstanding the statement under sub-article 15.5.3 of this Article, the guarantee covers all types of payments that the underlying counterparty is expected to make under the documentation governing the transaction, for example, notional amount, margin payments, etc. The guarantee shall cover payment of principal, interests and any other uncovered payments.

15.5.3. ***Range of eligible guarantors (counter-guarantors)/protection providers***

Credit protection given by sovereign entities, Regional Government/Chartered City Administrations, MDBs, state-owned enterprises, banks, securities firms and other prudentially regulated financial institutions, with a lower risk weight than the counterparty, shall be recognized.

15.5.4. Risk-weight treatment when credit protection is provided by third parties shall be as follows.

a) ***General risk-weight treatment:*** the protected portion is assigned the risk weight of the protection provider. The uncovered portion of the exposure shall be assigned the risk weight of the underlying counterparty. Materiality thresholds on payments below which the protection provider is exempt from payment in the event of loss are equivalent to retained first-loss positions. The portion of the exposure that is below a materiality threshold shall be deducted from CET1 or assigned a RW of 909.0% by the bank.

b) ***Proportional cover:*** where losses are shared pari passu on a pro-rata basis between the bank and the guarantor, capital relief is afforded on a proportional basis, that is the protected portion of the exposure receives the treatment applicable to eligible guarantees/credit derivatives, with National Bank's approval, with the remainder treated as unsecured.

c) ***Currency mismatches:*** where the credit protection is denominated in a currency different from that in which the exposure is denominated, that is, there is a currency mismatch, the amount of the exposure deemed to be protected (G_A) shall be reduced by the application of a haircut (H_{FX}), by using the following formula:

$G_A = G * (1-H_{FX})$

where:

G = nominal amount of the credit protection

H_{FX} = haircut appropriate for currency mismatch between the credit protection and underlying obligation and shall be calculated as H_{FX} = 8%.

d) The standard supervisory haircut of 8% shall be applied where the exposure and collateral are denominated in different currencies based on a ten (10)-business day holding period, assuming daily marking to market.

15.5.5. ***Sovereign Guarantees and Counter-Guarantees***

A bank shall extend the preferential treatment risk weight, described under sub-article 13.5 of this Directive, to portions of exposures guaranteed by the Federal Government of Ethiopia or the National Bank, where the guarantee is denominated in the domestic currency

and the exposure is funded in that currency. An exposure may be covered by a guarantee that is indirectly counter-guaranteed by a sovereign. Such an exposure may be treated as covered by a sovereign guarantee provided that:

a) the sovereign counter-guarantee covers all credit risk elements of the exposure;
b) both the original guarantee and the counter-guarantee meet all operational requirements for guarantees, except that the counter-guarantee need not be direct and explicit to the original exposure; and
c) the National Bank is satisfied that the cover is robust and that no historical evidence suggests that the coverage of the counter-guarantee is less than effectively equivalent to that of a direct sovereign guarantee.

PART FOUR: CAPITAL REQUIREMENT FOR MARKET RISK

Capital requirements for Market Risk shall be calculated according to Basel III simplified standardized approach.

16. Boundary between the Banking Book and Trading Book

16.1. Any instrument a bank holds for one or more of the following purposes, including instruments held by interest-free bank as applicable, when it is first recognized on its books, shall be designated as a trading book instrument:

16.1.1. short-term resale;

16.1.2. profiting from short-term price movements;

16.1.3. locking in arbitrage profits; or

16.1.4. hedging risks that arise from instruments meeting sub-articles 16.1.1, 16.1.2, or 16.1.3 of this Article.

16.2. Any of the following instruments being held for at least one of the purposes listed below are trading book instruments:

16.2.1. instruments held as accounting trading assets or liabilities, of which under IFRS these instruments would be designated as held for trading, be held within a trading business model and fair valued through the profit and loss account;

16.2.2. instruments resulting from market-making activities;

16.2.3. equity investments in a fund excluding those assigned to the banking book;

16.2.4. listed equities; and

16.2.5. trading-related repo-style transaction.

16.3. All trading items shall be managed in such a way that the capital requirements are being met on a continuous basis, including at the close of each business day.

16.4. Any instrument which is not held for any of the purposes listed under sub-articles 16.1 and 16.2 of this Article, at inception, shall be assigned to the banking book. This shall include most of a bank's holdings, including investments held at amortized cost or fair value through other comprehensive income, unlisted equities, corporate loans, mortgage loans and retail and small or medium-sized enterprise credit.

16.5. For the purposes of calculating capital requirement for market risk , a bank shall have clearly defined policies, procedures and documented practices for determining which instruments to include in or to exclude from the trading book,

ensuring compliance with the criteria set, and taking into account the bank's risk management capabilities and practices.

16.6. A bank's internal control functions shall conduct an ongoing evaluation of instruments both in and out of the trading book to assess whether its instruments are being properly designated initially as trading or non-trading instruments in the context of the bank's trading activities. Compliance with the policies and procedures shall be fully documented and subject to periodic, at least annually, internal audit and the results shall be available for supervisory review.

16.7. A bank, without the approval of the National Bank, shall not reclassify an instrument between the trading book and the banking book, after initial designation.

16.8. Notwithstanding sub-article 16.7 of this Article, the National Bank may allow switching of instruments due to extraordinary circumstances such as a change in accounting standards, closure of trading desk and termination of business activity to a particular instrument, among others.

16.9. Switching instruments for regulatory arbitrage is strictly prohibited. A capital benefit as a result of switching shall not be allowed in any case or circumstances.

17. Application of Market Risk

17.1. The risk components subject to market risk capital requirements shall include, but are not limited to:

17.1.1. interest rate risk, and equity risk, for trading book instruments; and

17.1.2. foreign exchange risk and commodities risk for both, the trading and banking book instruments.

17.2. Notwithstanding sub-article 17.1 of this article, the National Bank may require a bank to include capital requirement for default risk in the trading book based on size and materiality of the bank's exposure to such risk.

17.3. All transactions, including forward sales and purchases, shall be included in the calculation of capital requirements as of the date on which they were entered into.

17.4. Any FX or commodity positions held in the banking book shall be included in the market risk capital requirement as set out in sub-article 17.1 of this Article. For regulatory capital calculation purposes, these positions shall be treated as if they were held on notional trading desks within the trading book.

17.5. A bank shall manage its market risk in such a way that the capital requirements are being met on a continuous basis, including at the close of each business day.

17.6. A bank shall establish/maintain a strict risk management system in advance to prevent window dressing.

17.7. A bank shall not, in its capital requirement for market risk determination, include capital instruments that are deducted from its capital or risk weighted at 909%.

18. Trading Desks

18.1. For the purpose of market risk capital determination, trading desk shall be defined by the bank, be subject to National Bank approval and have the following key attributes:

18.1.1. a TD for the purposes of the regulatory capital charge is an unambiguously defined group of traders or trading accounts; have one head trader that shall have direct oversight of the group of traders or trading accounts; each trader or each trading account in the trading desk be clearly defined specialty (or specialties); each trading account only be assigned to a single trading desk; and have a clearly defined risk scope consistent with its pre-established objectives. The scope shall include specification of the desk's overall risk class and permitted risk factors;

18.1.2. a TD shall have a well-defined and documented business strategy, including an annual budget and regular management information reports, including revenue, costs and risk-weighted assets. There shall be a clear description of the rational of the strategy for the TD, its primary activities and trading/hedging strategies; and

18.1.3. a TD shall have a clear risk management structure. The bank shall identify key groups and personnel responsible for overseeing the risk-taking activities at the TD. The TD shall clearly define trading limits based on its business strategy and these limits shall be reviewed at least annually by senior management at the bank; the TD shall produce, at least weekly, appropriate risk management reports, including profit and loss reports and internal and regulatory risk measure reports.

18.2. A bank, for all TDs, shall prepare, evaluate, and make available the following reports for the National Bank's examination:

18.2.1. inventory ageing reports;

18.2.2. daily limit reports including exposures, limit breaches, and follow-up action;

18.2.3. reports on intraday limits and respective utilization and breaches for a bank with active intraday trading; and

18.2.4. reports on the assessment of market liquidity.

19. Prudent Valuation Practices

Prudent valuation processes for positions that are accounted at fair value, whether they are in the trading book or in the banking book, shall at a minimum include the following:

19.1. A bank shall establish and maintain adequate systems and controls sufficient to give management the confidence that its valuation estimates are prudent and reliable. Such systems shall include documented policies and procedures for the process of valuation, and clear and independent, that is, independent of front office, reporting lines for the department accountable for the valuation process.

19.2. A bank shall, as much as possible, conduct marking-to-market at least through daily valuation of positions at readily available close out prices sourced independently including exchange prices, screen prices, or quotes from independent reputable brokers.

19.3. A bank shall use mark-to-model approach only when marking-to-market is not possible, but this shall be demonstrated to be prudent. Marking-to-model is defined as any valuation, which has to be benchmarked, extrapolated or otherwise calculated from a market input. When applying marking-to-model, an extra degree of conservatism shall be exercised. The National Bank shall consider the following in assessing whether a mark-to-model valuation is prudent:

19.3.1. Senior management is aware of the elements of the trading book which are subject to mark-to-model and should understand the materiality of the uncertainty this creates in the reporting of the risk/performance of the business.

19.3.2. Market inputs are sourced, to the extent possible, in line with market prices. The appropriateness of the market inputs for the particular position being valued shall be reviewed regularly.

19.3.3. Where available, generally accepted valuation methodologies for particular products are used to the extent possible.

19.3.4. Where the model is developed by the bank itself, it is based on appropriate assumptions, which have been assessed and challenged by suitably qualified parties independent of the development process. The model shall be developed, tested and approved independently of the

front office. This includes validation of the mathematics, assumptions and software implementation.

19.3.5. Formal change control procedures are implemented, and a secure copy of the model shall be maintained and periodically used to verify valuations.

19.3.6. Risk management is aware of weaknesses in the models used and how best to reflect those in the valuation output.

19.3.7. The model is subject to periodic review to determine the accuracy of its performance, such as assessing continued appropriateness of the assumptions, analysis of profit and loss versus risk factors, comparison of actual close out values to model outputs.

19.3.8. Valuation adjustments are made as appropriate, for example, to cover the uncertainty of the model valuation.

19.4. Independent price verification is the process by which market prices or model inputs are regularly verified for accuracy. While daily marking-to-market may be performed by dealers, verification of market prices or model inputs shall be performed by a unit independent of the dealing room, at least monthly or, depending on the nature of the market/trading activity, more frequently. It need not be performed as frequently as daily mark-to-market, since the objective i.e., independent, marking of positions, should reveal any error or bias in pricing, which should result in the elimination of inaccurate daily marks.

19.5. As part of the procedures for marking-to-market, a bank shall establish and maintain procedures for considering valuation adjustments. The following valuation adjustments or reserves shall be formally considered: unearned credit spreads, close-out costs, operational risks, early termination, investing and funding costs, future administrative costs and, where appropriate, model risk.

19.6. A bank shall establish and maintain procedures for judging the necessity of and calculating an adjustment to the current valuation of less liquid positions for regulatory capital purposes. This adjustment may be in addition to any changes to the value of the position required for financial reporting purposes and shall be designed to reflect the illiquidity of the position. A bank shall take an adjustment to the current valuation of these positions, and review its continued appropriateness on an on-going basis. Reduced liquidity may have arisen from market events. Additionally, close-out prices for concentrated positions and/or stale positions shall be considered in establishing the adjustment.

20. Calculation of Market Risk Capital Charge

The capital requirement arising from the simplified standardized approach shall be the simple sum of the recalibrated capital requirements arising from each of the four risk classes — namely interest rate risk, equity risk, FX risk and commodity risk as detailed in the formula below:

Capital requirement for market risk = $1.30*CR_{IRR} + 3.50*CR_{EQ} + 1.20*CR_{FX} + 1.90*CR_{COMM}$

where:

CR_{IRR} = Capital requirement for interest rate risk
CR_{EQ} = Capital requirement for equities
CR_{FX} = Capital requirement for foreign exchange risk
CR_{COMM}= Capital requirement for commodities risk

21. Interest Rate Risk

21.1. A bank shall measure the risk of holding or taking positions in debt securities and other interest rate related instruments in the trading book. The instruments covered include all fixed-rate and floating-rate debt securities and instruments that behave like them.

21.2. The minimum capital requirement shall be expressed in terms of two separately calculated amounts, one applying to the "specific risk" of each security, whether it is a short or a long position, and the other to the interest rate risk in the portfolio, which is "general market risk", where long and short positions in different securities or instruments can be offset.

21.2.1. Specific Risk

a) The capital charge for specific risk shall be designed to protect against an adverse movement in the price of an individual security owing to factors related to the individual issuer.

b) In measuring the risk, offsetting shall be restricted to matched positions in the identical issue, including positions in derivatives. Even if the issuer is the same, offsetting shall not be permitted between different issues since differences in coupon rates, liquidity, call features, etc. mean that prices may diverge in the short run.

c) The government category shall include all forms of government paper including bonds, treasury bills and other short-term instruments, including Federal Government of Ethiopia and National Bank exposures subject to a 0% credit RW, and Regional Governments

and/or Chartered City Administration exposures weighted at 20%, in both cases when denominated and funded in Ethiopian Birr.

d) The National Bank reserves the right to apply a specific risk capital requirement to securities issued by certain foreign governments, especially to securities denominated in a currency other than that of the issuing government.

Table 4: Specific Risk Charges for Issuer Risk

The specific risk capital requirements for "government" and "other" categories shall be as follows:

Categories		**External credit assessment**	**Specific risk capital charge**
Government	Federal government	-	0.0%
	Regional government	-	20%
Qualifying			0.25% (residual term to final maturity 6 months or less)
			1.00% (residual term to final maturity greater than 6 months and up to and including 24 months)
			1.60% (residual term to final maturity exceeding 24 months)
Other		BB+ to BB-	8.00%
		Below BB-	12.00%
		Unrated	8.00%

e) The "qualifying" category includes securities issued by SOEs and MDBs, plus other securities that are:
   i) rated investment grade, including rating of Baa or higher by Moody's and BBB or higher by Standard and Poor's, by at least two ECAIs specified by the National Bank; or
   ii) rated investment grade by one rating agency and not less than investment grade by any other ECAI specified by the National Bank, subject to supervisory oversight; or
   iii) subject to approval by the National Bank, unrated, but deemed to be of comparable investment quality by the reporting bank, and the issuer has securities listed on a recognized stock exchange.

21.2.2. General Market Risk

a) The capital requirements for general market risk shall be designed to capture the risk of loss arising from changes in market interest rates.
b) The "maturity method" shall be applied, whereby positions are allocated across a maturity ladder and the capital charge is then calculated as a sum of the following components:
   i) the net short or long position in the whole trading book;
   ii) vertical disallowance: a small proportion of the matched positions in each time-band; and
   iii) horizontal disallowance: a larger proportion of the matched positions across different time-bands.
c) Separate maturity ladders shall be used for each currency and capital charges shall be calculated for each currency separately and then summed with no offsetting between positions of opposite sign.
d) In the case of those currencies in which the value and volume of business is insignificant (< 5.0% of the total FX assets or liabilities), separate maturity ladders for each currency are not required. Rather, the bank may construct a single maturity ladder and slot, within each appropriate time-band, the net long or short position for each currency. However, these individual net positions shall be summed within each time-band, irrespective of whether they are long or short positions, to produce a gross position figure for the time-band.

e) Under the maturity method, long or short positions in debt securities and other sources of interest rate exposures including derivative instruments, shall be slotted into a maturity ladder comprising 13-time bands (or 15- time bands in the case of low coupon instruments) as follows:

i) fixed rate instruments shall be allocated according to the residual term to maturity;

ii) floating-rate instruments according to the residual term to the next repricing date; and

iii) opposite positions of the same amount in the same issues, but not different issues by the same issuer, whether actual or notional, can be omitted from the interest rate maturity framework.

Table 5 - Maturity Method - Time Bands and Risk Weights

Coupon 3% or more	Coupon less than 3%	Risk Weight
1 month or less	1 month or less	0.00%
1 to 3 months	1 to 3 months	0.20%
3 to 6 months	3 to 6 months	0.40%
6 to 12 months	6 to 12 months	0.70%
1 to 2 years	1.0 to 1.9 years	1.25%
2 to 3 years	1.9 to 2.8 years	1.75%
3 to 4 years	2.8 to 3.6 years	2.25%
4 to 5 years	3.6 to 4.3 years	2.75%
5 to 7 years	4.3 to 5.7 years	3.25%
7 to 10 years	5.7 to 7.3 years	3.75%
10 to 15 years	7.3 to 9.3 years	4.50%
15 to 20 years	9.3 to 10.6 years	5.25%
over 20 years	10.6 to 12 years	6.00%
	12 to 20 years	8.00%
	over 20 years	12.50%

f) For calculating the general risk capital charge using the maturity method, the following steps shall be applied:

Step 1

i) The first step in the calculation is to weight the positions in each time-band by a factor designed to reflect the price sensitivity of those positions to assumed changes in interest rates. The weights for each time-band shall be as set out in the above table. Zero-

coupon bonds and deep-discount bonds, which are defined as bonds with a coupon of less than 3%, shall be slotted according to the time-bands set out in the second column of the above table.

ii) For a bank that does not hold short positions whether interest rate derivatives the capital charge for general market risk shall be the direct sum of these weighted positions and no further calculations shall be required. Instead, a bank holding short and/or derivative positions shall be required to perform the following next steps involving the calculation of a vertical and a horizontal disallowance.

Step 2

iii) offset the weighted longs and shorts in each time-band, resulting in a single short or long position for each band. Since, however, each band would include different instruments and different maturities, a 10% capital charge to reflect basis risk and gap risk shall be levied on the smaller of the offsetting positions, be it long or short (vertical disallowance)[1]. The result of this calculation is to produce two sets of weighted positions, the net long or short positions in each time-band and the vertical disallowances, which have no sign.

Step 3

iv) A bank shall be allowed to conduct two rounds of "horizontal offsetting", first within the net positions in each of three zones, and subsequently between the net positions in the three different zones. The horizontal disallowance shall be computed when a bank has offsetting (opposite) long and short positions in the adjacent time buckets. Horizontal disallowance arises due to unequal changes in yield curve for different time buckets at the same time period. The offsetting shall be subject to a scale of disallowances expressed as a fraction of the matched positions (as

[1] **Illustration**: If within a band the weighted longs amount to USD 10.0 million and the weighted shorts amount to USD 9.0 million, the so-called 'vertical disallowance' is 10.0% of USD 9 million , that is, USD 900,000 or USD 0.9 million.

specified in Table 6 herein below). The weighted long and short positions in each of three zones may be offset, subject to the matched portion attracting a disallowance factor that is part of the capital requirement. The residual net position in each zone may be carried over and offset against opposite positions in other zones, subject to a second set of disallowance factors.

Table 6 - Horizontal Disallowances

Zones	Time-Band	Within the zone	Between adjacent zones	Between zones 1 & 3
Zone 1	0 - 1 month 1 - 3 months 3 - 6 months 6 - 12 months	40%	40% 40%	100%
Zone 2	1 - 2 years 2 - 3 years 3 - 4 years 4 - 5 years	30%		
Zone 3	5 - 7 years 7 - 10 years 10 - 15 years 15 - 20 years over 20 years	30%		

v) The offsetting shall be subject to a scale of disallowances expressed as a fraction of the matched positions, as set out in Table 6 herein above. The weighted long and short positions in each of three zones may be offset, subject to the matched portion attracting a disallowance factor that is part of the capital charge. The residual net position in each zone may be carried over and offset against opposite positions in other zones, subject to a second set of disallowance factors. The total capital charge for general market risk shall be obtained by adding the charges obtained through the first, second and third step.

21.2.3. Interest Rate Derivatives

a) The measurement system shall include all interest-rate derivatives and off-balance sheet instruments in the trading book which react to changes in interest rates including forward rate agreements, other forward contracts, bond futures, interest rate and cross-currency swaps and forward FX positions.

b) The derivatives shall be converted into positions in the relevant underlying and become subject to specific and general market risk charges as described under sub-articles 21.2.1 and 21.2.2 of this Article. In order to calculate the standard formula described before, the amounts reported shall be the market value of the principal amount of the underlying or of the notional underlying resulting from a prudent valuation.

c) Interest rate futures and forward contracts, including FRAs, shall be treated as a combination of a long and a short position in a notional government security. The maturity of a future or an FRA shall be the period until delivery or exercise of the contract, plus — where applicable — the life of the underlying instrument. For example, a long position in a June three-month interest rate future, taken in April, is to be reported as a long position in a government security with a five-month maturity and a short position in a government security with a two-month maturity.

d) Swaps shall be treated as two notional positions in government securities with relevant maturities. For example, an interest rate swap under which a bank is receiving floating rate interest and paying fixed shall be treated as a long position in a floating rate instrument of maturity equivalent to the period until the next interest fixing and a short position in a fixed-rate instrument of maturity equivalent to the residual life of the swap.

e) A bank may exclude from the interest rate maturity framework altogether, for both specific and general market risk, long and short positions, both actual and notional, in identical instruments with exactly the same issuer, coupon, currency and maturity. A matched position in a future or forward and its corresponding underlying may also be

fully offset and thus excluded from the calculation. In addition, opposite positions in the same category of instruments can in certain circumstances be regarded as matched and allowed to offset fully. To qualify for this treatment, the positions shall relate to the same underlying instruments, be of the same nominal value and be denominated in the same currency.

f) Interest rate and currency swaps, forward rate agreements, forward FX contracts and interest rate futures shall not be subject to a specific risk charge. This exemption also applies to futures on an interest rate index such as Secured Overnight Financing Rate. However, in the case of futures contracts where the underlying is a debt security, or an index representing a basket of debt securities, a specific risk charge shall apply according to the credit risk of the issuer.

g) General market risk applies to positions in all derivative products in the same manner as for cash positions, subject only to an exemption for fully or very closely matched positions in identical instruments. The various categories of instruments shall be slotted into the maturity ladder and treated according to the rules identified earlier.

Table 7 - Summary of Treatment of Interest Rate Derivatives

Instrument	Specific risk charge	General market risk charge
Exchanged-traded future		
Government debt security	Yes	Yes, as two positions
Corporate debt security	Yes	Yes, as two positions
Index on interest rates (e.g.SOFR)	No	Yes, as two positions
Over-the-counter (OTC) forward		
Government debt security	Yes	Yes, as two positions
Corporate debt security	Yes	Yes, as two positions
Index on interest rates (e.g. SOFR)	No	Yes, as two positions
FRAs, swaps	No	Yes, as two positions
Forward FX	No	Yes, as one position in each currency
Options		
Government debt security	Yes	Carve out together with the associated hedging positions: simplified approach;
Corporate debt security	Yes	
Index on interest rates	No	
FRAs, swaps	No	

22. Equity Risk

22.1. The minimum capital requirement for equity risk shall cover the risk of holding or taking positions in equities and all other instruments that exhibit market behavior similar to equities. Long and short positions in the same issuer may be reported on a net basis.

22.2. Equity risk capital requirements shall apply to positions and exposures on the following instruments:

22.2.1. common stock/shares, whether voting or non-voting;

22.2.2. convertible securities that behave like equities; and

22.2.3. commitments to buy or sell equity securities.

22.3. The minimum capital standard for equities shall be expressed in terms of two separately calculated capital requirements for the specific risk of holding a long or short position in an individual equity and for the general market risk of holding a long or short position in the market as a whole.

22.4. Specific risk is the bank's gross equity positions, which is the sum of all long equity positions and of all short equity positions in absolute value; and general market risk is the difference between the sum of the longs and the sum of the shorts, giving the overall net position in an equity market. The long or short position in the market shall be calculated on a market-by-market basis, that is a separate calculation has to be carried out for each national market in which the bank holds equities.

22.5. The capital requirement for specific risk and for general market risk shall each be 11%.

22.6. In terms of equity derivatives, except for options, which are dealt with separately, equity derivatives and off-balance sheet positions that are affected by changes in equity prices shall be included in the measurement system. This includes futures and swaps on both individual equities and on stock indices. The derivatives are to be converted into positions in the relevant underlying. In order to calculate the standard formula for specific and general market risk, positions in derivatives shall be converted into notional equity positions. Matched positions in each identical equity or stock index in each market may be fully offset, resulting in a single net short or long position to which the specific and general market risk charges shall apply.

22.7. Besides general market risk, a further capital requirement of 2% shall be applied to the net long or short position in an index contract comprising a diversified

portfolio of equities. This capital requirement is intended to cover factors such as execution risk.

Table 8 - Summary of Treatment of Equity Derivatives

Instrument	Specific risk	General market risk
Exchanged-traded or OTC future		
Individual equity	Yes	Yes, as underlying
Index	2%	Yes, as underlying
Options		
Individual equity	Yes	Carve out together with the associated hedging positions: simplified approach
Index	2%	

23. Foreign Exchange Risk

23.1. Capital requirement for foreign exchange risk covers the risk of holding, or taking positions in, foreign currencies, including gold. The risk of foreign currency arises from foreign currency transactions and services, foreign exchange trading, investments denominated in foreign currencies and investments in foreign subsidiaries and is caused by:

23.1.1. currency mismatches between a bank's assets and liabilities, both on-balance sheet and off- balance sheet, inclusive of capital; and

23.1.2. currency cash flow mismatches.

23.2. The capital charge for foreign exchange risk shall be applied to the entire business, both banking book and trading book.

23.3. Steps needed to calculate the capital requirement for foreign exchange risk shall be:

23.3.1. measurement of the exposure in a single currency position; and

23.3.2. measurement of the overall foreign exchange risks inherent in a bank's mix of long and short positions in different currencies.

23.4. Notwithstanding the provisions provided in the relevant National Bank Directive , a bank's net open position in each currency shall be calculated by summing:

23.4.1. Net spot position, which means all asset items less all liability items, including accrued interest, denominated in the currency in question;

23.4.2. Net forward position, which means all amounts to be received less all amounts to be paid under forward FX transactions, including currency futures and the principal on currency swaps not included in the spot position;

23.4.3. Guarantees, and similar instruments, that are certain to be called and are likely to be irrecoverable;

23.4.4. Net future income /expenses not yet accrued but already fully hedged; and

23.4.5. Depending on particular accounting conventions in different countries, any other item representing a profit or loss in foreign currencies.

23.5. Interest accrued, which is earned but not yet received, shall be included as a position, as well as accrued expenses.

23.6. Unearned but expected future interest and anticipated expenses may be excluded unless the amounts are certain and a bank has taken the opportunity to hedge them. If a bank includes future income/expenses it shall do so on a consistent basis, and not be permitted to select only those expected future flows which reduce its position.

23.7. Forward currency and gold positions shall be valued at current spot market exchange rates. The use of forward rate shall not be permitted.

23.8. A bank shall calculate the minimum capital by using the "shorthand method", whereby the nominal amount (or net present value) of the net position in each foreign currency and in gold is converted at mid exchange rate by close of business day into the reporting currency.

23.9. The capital charge for foreign exchange risk shall be 11% of the overall net open position which is measured by aggregating:

23.9.1. The sum of the net short positions or the sum of the net long positions, both in absolute value, whichever is the greater; plus; and

23.9.2. The net position, whether short or long, in gold, regardless of sign.

24. Commodity Risk

24.1. A bank shall determine its minimum capital charge for commodity risk based on the risk of holding or taking positions in commodities, including precious metals, but excluding gold which is treated as a foreign currency.

24.2. The risks associated with commodities include:

24.2.1. for spot or physical trading, the directional risk arising from a change in the spot price;

24.2.2. for a bank using portfolio strategies involving forward and derivative contracts, it is exposed to a variety of additional risks, which may well be larger than the risk of a change in spot prices, and these include:

a) basis risk, which is the risk that the relationship between the prices of similar commodities alters through time;
b) interest rate risk, which is the risk of a change in the cost of carry for forward positions and options; and
c) forward gap risk, which is the risk that the forward price may change for reasons other than a change in interest rates.

24.3. A bank shall measure its commodity risk using a simplified approach as detailed below.

24.3.1. a bank shall express each commodity position (spot plus forward) in terms of the standard unit of measurement such as barrels, kilos, grams or other;

24.3.2. a bank shall convert the net position in each commodity at current spot rates into the national currency; and

24.3.3. a bank shall include, in this measurement, all commodity derivatives and off-balance sheet positions that are affected by changes in commodity prices.

24.4. The capital charge for directional commodity risk is equal to the sum of the following two items:

24.4.1. 15% of the net position, long or short, in absolute value, in each commodity; and

24.4.2. an additional capital charge equivalent to 3% of a bank's gross positions, long plus short, in each commodity to protect the bank against additional risks.

24.5. In valuing the gross positions in commodity derivatives for this purpose, a bank shall use the current spot price.

24.6. Simplified treatment for options:

A bank shall be allowed solely to purchase a limited amount of options. Under the simplified approach for options, the positions for the options and the associated underlying, cash or forward, are carved-out and subject to separately calculated capital requirements that incorporate both general market risk and specific risk. The risk numbers generated shall then be added to the capital requirements for the relevant category, that is interest rate related instruments, equities, FX and commodities.



Table 9 - Simplified approach: capital requirements

Position	Treatment
Long cash and long put or short cash and long call	The capital requirement will be the market value of the underlying security multiplied by the sum of specific and general market risk charges for the underlying less the amount the option is in the money (if any) bounded at zero
Long call or long put	The capital requirement will be the lesser of: (i) the market value of the underlying security multiplied by the sum of specific and general market risk charges for the underlying and (ii) the market value of the option

PART FIVE: CAPITAL REQUIREMENT FOR OPERATIONAL RISK

25. Calculation of Capital Requirement for Operational Risk

Capital requirement for operational risk shall be calculated according to the Standardized Approach under Basel III. The standardized approach methodology is based on **Business Indicator, Business Indicator Component and Internal Loss Multiplier components.**

25.1. The Business Indicator (BI)

25.1.1. A bank shall calculate the BI, which is a financial statement-based proxy for operational risk, as a sum of Interest, Leases & Dividend Component (**ILDC**), Services Component (**SC**), and Financial Component (**FC**), i.e. **BI = ILDC + SC + FC**.

a) **Interest, Lease and Dividend Component (ILDC)** reflects the operational risk associated with interest, leases and dividends, as defined in Table 10. A bank shall calculate the ILDC by the following formula, where the bar above the formula indicates that components are calculated as the average over the last three years: t, t-1 and t-2. A bank that has been in operation for less than three years may calculate the average values of components based on its available data. The absolute value of the net items such as interest income minus interest expense shall be calculated first year by year. Only after this year-by-year calculation should the average of the three years be calculated. The absolute value of net profit and loss is used instead of the actual value. In the case of interest-free banking business, ILDC calculation shall include:

i. income from financing and leasing, in place of interest income and lease income, respectively;
ii. profit payable or shared in place of interest expense; and
iii. income/profit earning assets in place of interest-earning assets.

$$ILDC = Min\left[\overline{Abs(Interest\ Income - Interest\ Expense)}; 2.25\% \ x\ \overline{Interest\ Earning\ Assets}\right] + \overline{Dividend\ Income}$$

Table 10 - Definition of Interest, Leases and Dividend Component

Items	Description	Typical sub-items
Interest income	Interest income from all financial assets and other interest income, including interest income from financial and operating leases and profits from leased assets.	• Interest income from loans and advances, assets available for sale, assets held to maturity, trading assets, financial leases and operation leases • Interest income from hedge accounting derivatives • Other interest income • Profits from leased assets
Interest expense	Interest expenses from all financial liabilities and other interest expenses, including interest expense from financial and operating leases, losses, depreciation and impairment of operating leased assets.	• Interest expenses from deposits, debt securities issued, financial leases, and operating leases • Interest expenses from hedge accounting derivatives • Other interest expenses • Losses from leased assets • Depreciation and impairment of operating leased assets
Interest-earning assets (balance sheet item)	Total gross outstanding loans & advances, interest bearing securities (including government bonds), interest-bearing placement with other banks and lease assets measured at the end of each financial year	
Dividend income	Dividend income from investments in stocks and funds not consolidated in the bank's financial statements, including dividend income from non-consolidated subsidiaries, associates and joint ventures.	

b) **Service Component (SC)** captures the operational risk arising from a bank's service activities, as defined in Table 11, and shall be calculated based on the following formula, where the bar above the formula indicates that components are calculated as the average over the last three years: t, t-1 and t-2. A bank that has been in operation for less than three years may calculate the average values of components based on its available data. Similar to a conventional bank, an interest-free bank shall also calculate the service component based on its operating income, operating expenses, fee income/service charge and commission.

$$SC = Max(\overline{Other\ Operating\ Income}; \overline{Other\ Operating\ Expense}) + Max(\overline{Fee\ Income}; \overline{Fee\ Expense})$$

Table 11 - Definition of Service Component

Items	Description	Typical Sub-Items
Other Operating Income	Income from ordinary banking operations not included in other BI items but of similar nature (income from operating leases should be excluded)	• Rental income from investment properties • Gains from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (IFRS 5.37) • Profit on sale of property and equipment • Others
Other Operating Expense	Expenses and losses from ordinary banking operations not included in other BI items but of similar nature and from operational loss events (expenses from operating leases should be excluded)	• Losses from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (IFRS 5.37) • Losses incurred as a consequence of operational loss events (e.g. fines, penalties, settlements, replacement cost of damaged assets), which have not been provisioned/reserved for in previous years • Expenses related to establishing provisions/ reserves for operational loss events • Others
Fee and Commission Income	Income received from providing advice and services. Includes income received by the bank as an outsourcer of financial services.	Fee and commission income from: • securities (issuance, origination, reception, transmission, execution of orders on behalf of customers) • clearing and settlement; asset management; safe box rental; custody; fiduciary transactions; payment services; loan commitments and guarantees given; and foreign transactions • transaction and retail service • others
Fee and Commission Expense	Expenses paid for receiving advice and services. Includes outsourcing fees paid by the bank for receiving of financial services, but not outsourcing fees paid for the supply of non-financial services (e.g. logistical, IT, human resources)	Fee and commission expenses from: • Clearing and settlement; Custody; Loan commitments and guarantees received; and Foreign transactions • others

c) **Financial Component (FC)** captures the operational risk associated with the bank's trading book and banking book, as defined in Table 12, and shall be calculated based on the following equation, where the bar above the formula indicates that components are calculated as the average over the last three years: t, t-1 and t-2 and the absolute value of net profit

and loss is used instead of the actual value. A bank that has been in operation for less than three years may calculate the average values of components based on its available data. Similar to a conventional bank, an interest-free bank shall calculate the profit or loss on trading book and banking book in a Shariah-compliant manner.

$$FC = Abs(\overline{Net\ Profit\ \&\ Loss\ Trading\ Book}) + Abs(\overline{Net\ Profit\ \&\ Loss\ Banking\ Book})$$

Table 12 - Definition of Financial Component

Items	Description
Net Profit (Loss) on the Trading Book	• Net profit/loss on trading assets and trading liabilities (derivatives, debt securities, equity securities, loans and advances, short positions, other assets and liabilities) • Net profit/loss from hedge accounting • Net profit/loss from exchange differences
Net Profit (Loss) on the Banking Book	• Net profit/loss on financial assets and liabilities measured at fair value through profit and loss • Realized gains/losses on financial assets and liabilities not measured at fair value through profit and loss (loans and advances, assets available for sale, assets held to maturity, financial liabilities measured at amortized cost) • Net profit/loss from hedge accounting • Net profit/loss from exchange differences

25.1.2. A bank shall not consider the following profit and loss items while computing the Business Indicator:

a) Income and expenses from insurance or reinsurance businesses;
b) Premiums paid and reimbursements/payments received from insurance or reinsurance policies purchased;
c) Administrative expenses, including staff expenses, management fees, outsourcing fees paid for receiving of non-financial services, such as logistical, IT and human resources; and other administrative expenses, such as IT, utilities, telephone, travel, office supplies and postage;
d) Recovery of administrative expenses including recovery of payments on behalf of customers, such as taxes debited to customers;

e) Expenses of premises and fixed assets, except when these result from operational loss events;
f) Depreciation/amortization of tangible and intangible assets, except depreciation related to operating lease assets, which should be included in financial and operating lease expenses;
g) Provisions/reversal of provisions such as provisions on pensions, commitments and guarantees given, except for provisions related to operational loss events;
h) Expenses due to share capital repayable on demand;
i) Impairment/reversal of impairment, such as impairment on financial assets, non-financial assets, investments in subsidiaries, joint ventures and associates;
j) Changes in goodwill recognized in profit or loss; and
k) Corporate income tax, which is tax based on profits including current tax and deferred.

25.2. **The Business Indicator Component (BIC)**

A bank shall calculate BIC by multiplying BI by the marginal coefficients (αi), where the marginal coefficient shall increase with the size of the BI as shown in Table 13. For a bank in the first bucket with a BI less than or equal to Birr 3.5 billion, the BIC is equal to BI x 12%. The marginal increase in the BIC resulting from a one-unit increase in the BI is 12% in bucket 1, 15% in bucket 2 and 18% in bucket 3.

Illustration: If BI = Birr 120 billion, the BIC = (3.5 billion x 12%) + (106 billion-3.5 billion) x 15% + (120 billion-106 billion) x 18% = Birr 18.32 billion.

Table 13 - BI Ranges and Marginal Coefficients

Bucket	BI Range (In Millions of Birr)	BI Marginal Coefficients (αi)
1	≤3,500	12%
2	3,500 < BI ≤106,000	15%
3	> 106,000	18%

25.3. **The Internal Loss Multiplier (ILM)**

25.3.1. The ILM is a risk-sensitive component that captures a bank's internal operational losses. While the BIC is effectively the baseline operational risk capital requirement, the ILM serves as a scaling factor that adjusts the baseline capital depending on the operational loss experience of the bank.

25.3.2. A bank shall compute ILM by the following formula, where the Loss Component (LC) should correspond to 15 times the average annual operational risk losses incurred over the preceding 10 years.

$$ILM = ln\left(exp(1) - 1 + \left(\frac{LC}{BIC}\right)^{0.8}\right)$$

25.3.3. Calculation of the ILM is required only for a bank in the second and third BI buckets, that is, a bank with a BI of over Birr 3.5 billion. For a bank in the first BI bucket, the ILM is assumed to equal 1. For a bank that is within the BI range for bucket 1, internal loss data shall not affect the capital calculation, and operational risk capital shall be equal to 12% x BI.

25.3.4. The calculation of average losses in the LC shall be based on ten (10) years of high-quality annual loss data.

25.3.5. A bank that does not have 10 years of high-quality loss data may use a minimum of five years of data to calculate LC.

25.3.6. A bank that does not have five (5) years of high-quality loss data shall calculate the capital requirement based solely on the BI Component. However, such a bank shall capture high quality operational loss data starting from the effective date of this Directive.

25.4. A bank shall calculate the minimum operational risk capital requirement by multiplying the BIC by the ILM, that is, ORC = BIC x ILM

26. Operational Loss Data Identification, Collection and Treatment

26.1. A bank shall report annual loss data for each of the ten years in the ILM calculation to the National Bank. Moreover, loss data is required to be reported on both a gross basis and after recoveries and loss exclusions, on a quarterly basis.

26.2. Proper identification, collection and treatment of internal loss data are essential prerequisites to capital calculation under standardized approach. A bank shall apply the following general criteria to use the loss component (LC):

26.2.1. Internal loss data are most relevant when clearly linked to a bank's current business activities, technological processes and risk management procedures. Therefore, a bank shall have documented procedures and processes for the identification, collection and treatment of internal loss data. Such procedures and processes shall be subject to validation before the use of the loss data within the operational risk capital requirement measurement methodology, and to regular independent reviews by internal and/or external audit functions.

26.2.2. For risk management purposes, and to assist in supervisory validation and/or review, the National Bank may request a bank to map its historical internal loss data into the relevant loss event-type categories as defined in Table 14 and to provide this data to the National Bank upon request. The bank shall document criteria for allocating losses to the specified event types.

Table 14 - Detailed Loss Event Type Classification

Event-Type Category (Level 1)	**Definition**	**Event-Type Categories (Level 2)**	**Activity Examples (Level 3)**
Internal Fraud	Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy.	Unauthorized Activity	• Transactions not reported (intentional) • Transaction type unauthorized (w/monetary loss) • Mismarking of position (intentional)
		Theft and Fraud	• Fraud / credit fraud / worthless deposits • Theft / extortion / embezzlement / robbery • Misappropriation of assets • Malicious destruction of assets • Forgery • Check kiting • Smuggling • Account take-over / impersonation / etc. • Tax non-compliance / evasion (willful) • Bribes / kickbacks • Insider trading (not on firm's account)
External Fraud	Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party.	Theft and Fraud	• Theft/Robbery • Forgery • Check kiting
		Systems Security	• Hacking damage or cyber attack • Theft of information (w/monetary loss)

Event-Type Category (Level 1)	Definition	Event-Type Categories (Level 2)	Activity Examples (Level 3)
Employee Practices and Workplace Safety	Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity / discrimination events.	Employee Relations	• Compensation, benefit, termination issues • Organized labor activity
		Safe Environment	• General liability (slip and fall, etc.) • Employee health & safety rules events • Workers' compensation
		Diversity and Discrimination	All discrimination types
Clients, Products & Business Practices	Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product.	Suitability, Disclosure, and Fiduciary	• Fiduciary breaches / guideline violations • Suitability / disclosure issues (KYC, etc.) • Retail customer disclosure violations • Breach of privacy • Aggressive sales • Account churning • Misuse of confidential information • Lender liability
		Improper Business or Market Practices	• Antitrust • Improper trade / market practices • Market manipulation • Insider trading (on firm's account) • Unlicensed activity • Money laundering
		Product Flaws	• Product defects (unauthorized, etc.) • Model errors
		Selection, Sponsorship, and Exposure	• Failure to investigate client per guidelines • Exceeding client exposure limits
		Advisory Activity	• Disputes over performance of advisory activities
Damage to Physical Assets	Losses arising from loss or damage to physical assets from natural disasters or other events.	Disasters and Other Events	• Natural disaster losses • Human losses from external sources (terrorism, vandalism)
Business disruption and system failures	Losses arising from disruption of business or system failures.	Systems	• Hardware • Software • Telecommunications • Utility outage / disruptions
Execution, Delivery & Process Management	Losses from failed transaction processing or process management, from relations with trade	Transaction Capture, Execution, and Maintenance	• Miscommunication • Data entry, maintenance or loading error • Missed deadline or responsibility • Model / system mis-operation

Event-Type Category (Level 1)	Definition	Event-Type Categories (Level 2)	Activity Examples (Level 3)
	counterparties and vendors.		• Accounting error / entity attribution error • Other task mis-performance • Delivery failure • Collateral management failure • Reference Data Maintenance
		Monitoring and Reporting	Failed mandatory reporting obligation Inaccurate external report (loss incurred)
		Customer Intake and Documentation	• Client permissions / disclaimers missing • Legal documents missing / incomplete
		Customer/Client Account Management	• Unapproved access given to accounts • Incorrect client records (loss incurred) • Negligent loss or damage of client assets
		Trade Counterparties	• Non-client counterparty mis-performance • Miscellaneous non-client counterparty disputes
		Vendors and Suppliers	• Outsourcing • Vendor disputes

26.2.3. A bank's internal loss data shall be comprehensive and capture all material activities and exposures from all appropriate sub-systems and geographic locations. The minimum threshold for including a loss event in the data collection for the purpose of calculation of average annual losses shall be Birr 20,000.

26.2.4. Aside from information on gross loss amounts, the bank shall collect information about the reference dates of operational risk events, including the date when the event happened or first began ("date of occurrence"), where available; the date on which the bank became aware of the event ("date of discovery"); and the date (or dates) when a loss event results in a loss, reserve or provision against a loss being recognized in the bank's profit and loss accounts ("date of accounting"). In addition, the bank shall collect information on recoveries of gross loss amounts as well as descriptive information about the drivers or causes of the loss event. The level of detail

of any descriptive information shall be commensurate with the size of the gross loss amount.

26.2.5. Operational loss events related to credit risk and that are accounted for in credit risk RWA shall not be included in the loss data set. Operational loss events that relate to credit risk, but are not accounted for in credit risk RWA shall be included in the loss data set.

26.2.6. Operational risk losses related to market risk are treated as operational risk for the purposes of calculating minimum regulatory capital under this Directive and shall, therefore, be subject to the standardized approach for operational risk.

26.2.7. A bank shall have processes to independently review the comprehensiveness and accuracy of loss data.

26.3. A bank shall also apply the following specific criteria on loss data identification, collection and treatment:

26.3.1. Building an acceptable loss data set from the available internal data requires that the bank develop policies and procedures to address several features, including gross loss definition, reference date and grouped losses.

26.3.2. A bank shall identify the gross loss amounts, non-insurance recoveries, and insurance recoveries for all operational loss events. A bank shall use losses net of recoveries, including insurance recoveries, in the loss dataset. However, recoveries can be used to reduce losses only after the bank receives payment. Receivables do not count as recoveries. Verification of payments received to net losses shall be provided to the National Bank upon request.

26.3.3. The following items shall be included in the gross loss computation of the loss data set:

a) Direct charges, including impairments and settlements, to the bank's profit and loss accounts and write-downs due to the operational risk event;

b) Costs incurred as a consequence of the event including external expenses with a direct link to the operational risk event, such as legal expenses directly related to the event and fees paid to advisors, attorneys or suppliers, and costs of repair or replacement, incurred to restore the position that was prevailing before the operational risk event;

c) Provisions or reserves accounted for in the profit and loss against the potential operational loss impact;
d) Losses stemming from operational risk events with a definitive financial impact, which are temporarily booked in transitory and/or suspense accounts and are not yet reflected in the profit and loss ("pending losses"); and
e) Negative economic impacts booked in a financial accounting period, due to operational risk events impacting the cash flows or financial statements of previous financial accounting periods (timing losses"). Material "timing losses" shall be included in the loss data set when they are due to operational risk events that span more than one (1) financial accounting period and give rise to legal risk.

26.3.4. The following items shall be excluded from the gross loss computation of the loss data set:
a) costs of general maintenance contracts on property, plant or equipment;
b) internal or external expenditures to enhance the business after the operational risk losses: upgrades, improvements, risk assessment initiatives and enhancements; and
c) insurance premiums.

26.3.5. A bank shall use the date of accounting for building the loss data set. The bank shall use a date no later than the date of accounting for including losses related to legal events in the loss data set. For legal loss events, the date of accounting is the date when a legal reserve is established for the probable estimated loss in the profit and loss.

26.3.6. Losses caused by a common operational risk event or by related operational risk events over time, but posted to the accounts over several years, shall be allocated to the corresponding years of the loss database, in line with their accounting treatment.

PART SIX: MISCELLANEOUS PROVISIONS

27. Reporting Requirements

A bank shall submit to the National Bank, on a quarterly basis, the following reports within thirty (30) days from end of each quarter:

27.1. **Quantitative** - Quarterly Capital Adequacy Report, calculated as prescribed under Part Two to Five of this Directive , and submitted in the form of electronic copy of an excel template, which shall be part of this Directive ; and

27.2. **Qualitative** - Quarterly report supporting/describing the quantitative report specified under sub-article 27.1 of this Article for:

27.2.1. Capital Definition

a) description of all regulatory adjustments deducted from CET1, AT1 and Tier 2;

b) specimen/sample of the capital instruments; and

c) the bank's remedial action plan if minimum capital adequacy ratios are not complied with or marginally complied with.

27.2.2. Credit Risk

a) explanation of reasons behind significant changes, from previous quarter, in the bank's credit risk weighted assets; and

b) expected major changes to be introduced, in the next quarter, in policy, strategy, or business model, with respect to credit.

27.2.3. Market Risk

a) explanation of reasons behind significant changes, from previous quarter, in the bank's capital charge for market risk, specifying the main source of market risk, namely, interest rate, foreign exchange, equity or commodity; and

b) expected major changes to be introduced, in the next quarter, in policy, strategy, or business model, with respect to sources of market risk and management of both existing and new sources of market risk.

27.2.4. Operational Risk

a) explanation of reasons behind significant changes, from previous quarter, in the bank's capital charge for operational risk; and

b) expected major changes to be introduced, in the next quarter, in policy, strategy, or business model, with respect to sources of operational risk and management of both existing and new sources of operational risk.

27.3. Notwithstanding sub-articles 27.1 and 27.2 of this Article, if a specific report item is not applicable during the quarter, it shall be disclosed so in the quarterly submission of the bank.

27.4. The National Bank, through writing, may request a bank for submission of other reports related to this Directive from time to time.

28. Repeal

The National Bank Directive No. SBB/9/95 - Computation of Risk Weighted Asset and Article 5.5 of Directive No. SBB/78/2021- Minimum Capital Requirement shall be repealed and replaced by this Directive at the end of the transition period provided under sub-article 30.2 of this Directive.

29. Administrative Sanctions

Starting from the end of the transition period stipulated under Article 30 of this Directive, a bank that:

29.1. is not in compliance with the provisions of Articles 6 of this Directive shall incur a financial fine of Birr 450, 000 and the National Bank may take additional administrative measures as provided under the National Bank of Ethiopia Proclamation No. 1359/2025, Banking Business Proclamation No. 1360/2025 and other relevant Directives.

29.2. is found to wrongly and against the requirements of this Directive define regulatory capital and/or computes required capital for credit, market and operational risk shall incur financial fine of Birr 100,000;

29.3. delays in submitting the reports stipulated in Article 27 of this Directive shall be penalized Birr 50,000; and

29.4. is not in compliance with any other articles of this Directive shall be penalized Birr 10,000.

30. Transition Period

30.1. A bank shall submit quarterly reports stated under Article 27 of this Directive beginning from the quarter that ends March 31, 2026.

30.2. A bank shall comply with all provisions of this Directive including the prudential minimum capital requirement starting from December 31, 2026.

30.3. Notwithstanding Article 28 of this Directive, the National Bank may extend through writing the period of application of Directive No SBB/9/95 and Article 5.5 of Directive No. SBB/78/2021 based on its assessment on the level of implementation of this Directive.

31. Effective Date

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

Eyob Tekalign (PHD)
Governor

ANNEXES

Annex 1: Capital Composition and Regulatory Adjustments

Name of Bank _____

Reporting Quarter _____

Amount in Millions of Birr

1	Common Equity Tier 1 (CET1) Capital: Instruments and Reserves	Amount
1.1	Common Shares/stock issued by the bank that meet the criteria for inclusion in CET1	
1.2	Stock Surplus (Share Premiums arising from item 1.1 above)	
1.3	Legal / Statutory reserve	
1.4	Retained earnings	
1.5	Common shares issued by consolidated subsidiaries of the bank (Minority Interest)	
1.6	Accumulated other comprehensive income and other disclosed and unencumbered reserves (only up to 50% of the revaluation reserve for property and equipment)	
1.7	Bonds issued by the Federal Government of Ethiopia to recapitalize a bank	
1.8	Donated capital (approved by the National Bank)	
1.9	**CET1 Capital Before Deductions = Sum of 1.1 to 1.8**	
2	**Deductions from CET 1 (Regulatory Adjustments)**	
2.1	Goodwill and other intangible assets	
2.2	Deferred tax assets	
2.3	Cash flow hedge reserve (that relates to the hedging of financial instruments that are not fair valued on the balance sheet)	
2.4	Cumulative gains and losses due to changes in own credit risk on fair valued financial liabilities	
2.5	Defined benefit pension fund assets (and liabilities)	
2.6	Investments in own shares (Treasury stock CET1 capital instruments)	
2.7	Reciprocal cross holdings in CET1 capital of Banking, Financial Institutions & Other Financial Entities	

2.8	Investments in the Capital of Banking, Financial Institutions & Other Financial Entities that are Outside the Scope of Regulatory Consolidation	
2.9	Regulatory adjustments applied to CET1 due to insufficient AT1 and/or Tier 2 capital to cover deductions	
2.10	Any other adjustments on CET1 required by the National Bank	
2.11	**Total Deductions from CET1 = Sum of 2.1 to 2.10**	
3	**CET 1 Capital after Deductions = Difference of 1.9 & 2.11**	
4	**Additional Tier 1 (AT1) Capital: Instruments**	
4.1	Instruments issued by the bank that meet the criteria for inclusion in AT1 capital	
4.2	Stock surplus (share premium) resulting from the issue of instruments included in AT1 capital	
4.3	AT1 Instruments issued by consolidated subsidiaries of the bank and held by third parties (Minority Interest)	
4.4	**Additional Tier 1 Before Deductions = Sum of 4.1 to 4.3**	
5	**Deductions from Additional Tier 1 (Regulatory Adjustments):**	
5.1	Investment in own AT1 instruments	
5.2	Reciprocal cross holdings in AT1 Capital of Banking, Financial Institutions & Other Financial Entities	
5.3	Investments in AT1 Capital of Banking, Financial Institutions & other Financial Entities that are Outside the Scope of Regulatory Consolidation	
5.4	Regulatory adjustments applied to AT1 due to insufficient Tier 2 capital to cover deductions	
5.5	Any other adjustments on AT1 required by the National Bank	
5.6	**Total Deductions from AT1 = Sum of 5.1 to 5.5**	
6	**Additional Tier 1 After Deductions = Difference of 4.4 & 5.6**	
7	**TOTAL TIER 1 CAPITAL AFTER DEDUCTIONS = Sum of 3 & 6**	
8	**Tier 2 Capital: Instruments and Provisions**	
8.1	Instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital	
8.2	Stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital	

8.3	Tier 2 Instruments issued by consolidated subsidiaries of the bank and held by third parties (Minority Interest)	
8.4	Certain loan loss provisions such as general provisions/general loan-loss reserve (up to 1.25 percentage point of Credit Risk RWA)	
8.5	Other reserves (as approved by the National Bank)	
8.6	**Tier 2 Capital Before Deductions = Sum of 8.1** to **8.5**	
9	**Deductions from Tier 2 (Regulatory Adjustments):**	
9.1	Investments in own Tier 2 capital instruments	
9.2	Reciprocal cross holdings in Tier 2 Capital of Banking, Financial institutions & Other Financial Entities	
9.3	Investments in Tier 2 Capital of Banking, Financial institutions & Other Financial Entities that are Outside the Scope of Regulatory Consolidation	
9.4	Any other adjustments on Tier 2 required by the National Bank	
9.5	**Total Deductions from Tier 2 = Sum of 9.**1 to **9.4**	
10	**Tier 2 Capital After Deductions = Difference of 8.6 & 9.5**	
11	**TOTAL ELIGIBLE CAPITAL BASE = Sum of 7 & 10**	

Annex 2: Capital Requirement for Credit Risk

Name of Bank _____

Reporting Quarter _____

Amount in Millions of Birr

2.1 On-Balance Sheet Risk Weighted Assets

No.	On Balance Sheet Items	Total Exposure	Credit Risk Grade (A)	Exposure without Credit Risk Mitigation (CRM) (B)	Exposures with CRM coverage (C)	Risk Weight (D)	Risk Weighted Assets E=(B+C) * D/100
1	**Cash Items (=1.1+1.2+1.3)**						
1.1	Cash on Hand (Local and Foreign Currency)					0	
1.2	Gold Bullion - In Vault					0	
1.3	Cash items in the process of collection					20	
2	**Exposures to Sovereigns (=2.1+2.2+2.3+2.4)**						
2.1	Deposit at NBE, T-Bills, bonds issued by FDRE Gov. and other exposures FDRE Gov. & NBE denominated & funded in Birr					0	
2.2	Claims on Regional Governments and Chartered City Administration, denominated and funded in Birr					20	
2.3	Claims on or exposure to BIS, ECB, EC and IMF					0	
2.4	Other Sovereign exposures (FDRE, NBE, Regional Governments and Chartered City Administrations)						

No.	On Balance Sheet Items	Total Exposure	Credit Risk Grade (A)	Exposure without Credit Risk Mitigation (CRM) (B)	Exposures with CRM coverage (C)	Risk Weight (D)	Risk Weighted Assets E=(B+C) * D/100
	denominated and funded in FCY (=2.4.1+2.4.2+2.4.3+2.4.4+2.4.5+2.4.6)						
2.4.1	Credit Risk Assessment of Ethiopia		AAA to AA-			0	
2.4.2			A+ to A-			20	
2.4.3			BBB+ to BBB-			50	
2.4.4			BB+ to B-			100	
2.4.5			Below B-			150	
2.4.6			Unrated			100	
3	**Exposures to State Owned Enterprises (=3.1+3.2)**						
3.1	Exposures to State-Owned Enterprises (SOEs) denominated and funded in Birr					20	
3.2	Exposures to State-Owned Enterprises (SOEs) denominated and funded in FCY (=3.2.1+3.2.2+3.2.3+3.2.4+3.2.5+3.2.6)						
3.2.1	Credit Risk Assessment of Ethiopia		AAA to AA-			0	
3.2.2			A+ to A-			20	
3.2.3			BBB+ to BBB-			50	
3.2.4			BB+ to B-			100	
3.2.5			Below B-			150	
3.2.6			Unrated			100	
4	**Exposures to Multilateral Development Banks (=4.1+4.2)**						

No.	On Balance Sheet Items	Total Exposure	Credit Risk Grade (A)	Exposure without Credit Risk Mitigation (CRM) (B)	Exposures with CRM coverage (C)	Risk Weight (D)	Risk Weighted Assets E=(B+C) * D/100
4.1	Exposure to MDBs eligible for 0 percent risk weight.					0	
4.2	**Other MDBs (=4.2.1+4.2.2+4.2.3+4.2.4+4.2.5+4.2.6)**						
4.2.1	RW of MDBs		AAA to AA-			20	
4.2.2			A+ to A-			50	
4.2.3			BBB+ to BBB-			50	
4.2.4			BB+ to B-			100	
4.2.5			Below B-			150	
4.2.6			Unrated			50	
5	**Exposures to Banks, Securities firms and other financial institutions (=5.1+5.2+5.3)**						
5.1	**Exposures with original maturity of more than three months (=5.1.1+5.1.2+5.1.3+5.1.4+5.1.5+5.1.6)**						
5.1.1	Credit assessment of Bank, Securities firms and other financial institutions		AAA to AA-			20	
5.1.2			A+ to A-			50	
5.1.3			BBB+ to BBB-			50	
5.1.4			BB+ to B-			100	
5.1.5			Below B-			150	
5.1.6			Unrated			50	
5.2	**Exposures with original maturity of three months or less (=5.2.1+5.2.2+5.2.3+5.2.4+5.2.5+5.2.6)**						

No.	On Balance Sheet Items	Total Exposure	Credit Risk Grade (A)	Exposure without Credit Risk Mitigation (CRM) (B)	Exposures with CRM coverage (C)	Risk Weight (D)	Risk Weighted Assets E=(B+C) * D/100
5.2.1	Credit assessment of Bank, Securities firms and other financial institutions		AAA to AA-			20	
5.2.2			A+ to A-			20	
5.2.3			BBB+ to BBB-			20	
5.2.4			BB+ to B-			50	
5.2.5			Below B-			150	
5.2.6			Unrated			20	
5.3	**Exposures with original maturity of three months or less denominated and funded in Birr**					20	
6	**Exposures to Covered Bonds (=6.1+6.2)**						
6.1	**Covered bonds that meet criteria to be risk-weighted based on the issue-specific rating or the issuer's RW (=6.1.1+6.1.2+6.1.3+6.1.4+6.1.5)**						
6.1.1	Credit Assessment of the issue-specific or the issuer's		AAA to AA-			10	
6.1.2			A+ to A-			20	
6.1.3			BBB+ to BBB-			20	
6.1.4			BB+ to B-			50	
6.1.5			Below B-			100	
6.2	**For unrated covered bonds (=6.2.1+6.2.2+6.2.3+6.2.4)**						
6.2.1	Based on the RW of the Issuing bank		20%			10	
6.2.2			50%			25	

No.	On Balance Sheet Items	Total Exposure	Credit Risk Grade (A)	Exposure without Credit Risk Mitigation (CRM) (B)	Exposures with CRM coverage (C)	Risk Weight (D)	Risk Weighted Assets E=(B+C) * D/100
6.2.3			100%			50	
6.2.4			150%			100	
7	**Exposures to Corporates (=7.1+7.2)**						
7.1	**Exposure to General Corporates (=7.1.1+7.1.2+7.1.3+7.1.4+7.1.5+7.1.6+7.1.7)**						
7.1.1	External credit rating of corporate		AAA to AA-			20	
7.1.2			A+ to A-			50	
7.1.3			BBB+ to BB-			75	
7.1.4			BB+ to B-			100	
7.1.5			Below BB-			150	
7.1.6			Unrated			100	
7.1.7	Exposure to Corporate SMEs		Unrated			85	
7.2	**Specialized lending**						
7.2.1	Project finance pre-operational phase					130	
7.2.2	Project finance operational phase					100	
7.2.3	Project finance operational phase (high quality)					80	
7.2.4	Object finance and commodity finance					100	
8	**Retail Exposures (individuals or small business) (=8.1+8.2)**						
8.1	**Exposures that meet the criteria for inclusion in the Regulatory Retail Portfolio (=8.1.1+8.1.2+8.1.3)**						

No.	On Balance Sheet Items	Total Exposure	Credit Risk Grade (A)	Exposure without Credit Risk Mitigation (CRM) (B)	Exposures with CRM coverage (C)	Risk Weight (D)	Risk Weighted Assets E=(B+C) * D/100
8.1.1	Revolving credits & lines of credit (including credit cards and overdrafts)					75	
8..1.2	Personal term loans and leases					75	
8.1.3	Small business facilities and commitments					75	
8.2	**Other Retail exposures that do not meet criteria for Inclusion Regulatory Retail Portfolio**					100	
9	**Real estate exposures (performing) (=9.1+9.2)**						
9.1	Exposure to Residential Real estate occupied by the owner or rented not past due					35	
9.2	Exposure to Commercial real estates					100	
10	**Defaulted Exposure (=10.1+10.2+10.3)**						
10.1	Unsecured portion, where specific provisions => 20%					100	
10.2	Unsecured portion, where specific provisions < 20%					150	
10.3	Residential real estate exposures					100	
11	**Other exposures (=11.1+11.2+11.3)**						
11.1	Fixed Assets					100	
11.2	Investment that are not deducted from Capital					100	
11.3	Others					100	
12	**Total On Balance Sheet Credit Risk RWA (= Sum of 1 up to 11)**						
13	**Total On Balance Sheet Credit Risk Capital (=12*11%)**						

2.2. Off-Balance Sheet Risk Weighted Assets

No.	Off-balance sheet items (non-market)	Total off-balance sheet exposure (Face Value)	RW of the counterparty (A)	Exposures Without CRM		Exposure with CRM Coverage		RWA F=(C+E) *A/100
				Off-bal. sheet Exposure before CCF (B)	Credit Equivalent Exposure C=B*CCF	CRM Exposure Coverage (D)	Credit Equivalent Exposure with CRM E=D*CCF	
1	Commitments that are unconditionally cancellable at any time by the bank without prior notice, or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness (e.g. loan commitment) shall be applied CCF of 10% (=Sum of 1.1 up to 1.10)							-
1.1			0					
1.2			20					
1.3			35					
1.4			50					
1.5			75					
1.6			80					
1.7			85					
1.8			100					
1.9			130					
1.10			150					
2	Applies to both the issuing and confirming banks of short-term self-liquidating trade letters of credit arising from the movement of goods (e.g. documentary credits collateralized by the underlying shipment, letter of credit, except standby letter of credit) shall be applied CCF of 20% (=Sum of 2.1 up to 2.10)							-
2.1			0					
2.2			20					

No.	Off-balance sheet items (non-market)	Total off-balance sheet exposure (Face Value)	RW of the counterparty (A)	Exposures Without CRM		Exposure with CRM Coverage		RWA F=(C+E) *A/100
				Off-bal. sheet Exposure before CCF (B)	Credit Equivalent Exposure C=B*CCF	CRM Exposure Coverage (D)	Credit Equivalent Exposure with CRM E=D*CCF	
2.3			35					
2.4			50					
2.5			75					
2.6			80					
2.7			85					
2.8			100					
2.9			130					
2.10			150					
3	**Commitments, regardless of the maturity of the underlying facility, unless they qualify for a lower CCF, shall be applied CCF of 40% (=Sum of 3.1 up to 3.10)**							
3.1			0					
3.2			20					
3.3			35					
3.4			50					
3.5			75					
3.6			80					
3.7			85					
3.8			100					
3.9			130					
3.10			150					
4	**Certain transaction-related contingent items including performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions, shall be applied CCF of 50%. (=Sum of 4.1 up to 4.10)**							-

No.	Off-balance sheet items (non-market)	Total off-balance sheet exposure (Face Value)	RW of the counterparty (A)	Exposures Without CRM		Exposure with CRM Coverage		RWA F=(C+E) *A/100
				Off-bal. sheet Exposure before CCF (B)	Credit Equivalent Exposure C=B*CCF	CRM Exposure Coverage (D)	Credit Equivalent Exposure with CRM E=D*CCF	
4.1			0					
4.2			20					
4.3			35					
4.4			50					
4.5			75					
4.6			80					
4.7			85					
7.8			100					
4.9			130					
4.10			150					
5.	Note issuance facilities (NIFs) and revolving underwriting facilities (RUFs) regardless of the maturity of the underlying facility, shall be applied CCF of 50 %. (=Sum of 5.1 up to 5.10).							
5.1			0					
5.2			20					
5.3			35					
5.4			50					
5.5			75					
5.6			80					
5.7			85					
5.8			100					
5.9			130					
5.10			150					

No.	Off-balance sheet items (non-market)	Total off-balance sheet exposure (Face Value)	RW of the counterparty (A)	Exposures Without CRM		Exposure with CRM Coverage		RWA F=(C+E) *A/100
				Off-bal. sheet Exposure before CCF (B)	Credit Equivalent Exposure C=B*CCF	CRM Exposure Coverage (D)	Credit Equivalent Exposure with CRM E=D*CCF	
6.	**Direct credit substitutes, e.g. general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances), shall be applied CCF of 100% (=Sum of 6.1 up to 6.10).**							-
6.1			0					
6.2			20					
6.3			35					
6.4			50					
6.5			75					
6.6			80					
6.7			85					
6.8			100					
6.9			130					
6.10			150					
7	**Sale and repurchase agreements and asset sales with recourse where the credit risk remains with the bank, shall be applied CCF of 100% (=Sum of 7.1 up to 7.10)**							
7.1			0					
7.2			20					
7.3			35					
7.4			50					
7.5			75					
7.6			80					
7.7			85					

No.	Off-balance sheet items (non-market)	Total off-balance sheet exposure (Face Value)	RW of the counterparty (A)	Exposures Without CRM		Exposure with CRM Coverage		RWA F=(C+E) *A/100
				Off-bal. sheet Exposure before CCF (B)	Credit Equivalent Exposure C=B*CCF	CRM Exposure Coverage (D)	Credit Equivalent Exposure with CRM E=D*CCF	
7.8			100					
7.9			130					
7.10			150					
8	**Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions (i.e. repurchase/reverse repurchase and securities lending/securities borrowing transactions), shall be applied CCF of 100% (=Sum of 8.1 up to 8.10)**							
8.1			0					
8.2			20					
8.3			35					
8.4			50					
8.5			75					
8.6			80					
8.7			85					
8.8			100					
8.9			130					
8.10			150					
9	**Forward asset purchases, forward deposits and partly paid shares and securities which represent commitments with certain drawdown and shall be weighted according to the type of asset and not accordingly to the type of counterparty with whom the transaction has been entered into, shall be applied CCF of 100% (=Sum of 9.1 up to 9.10).**							
9.1			0					
9.2			20					
9.3			35					

No.	Off-balance sheet items (non-market)	Total off-balance sheet exposure (Face Value)	RW of the counterparty (A)	Exposures Without CRM		Exposure with CRM Coverage		RWA F=(C+E) *A/100
				Off-bal. sheet Exposure before CCF (B)	Credit Equivalent Exposure C=B*CCF	CRM Exposure Coverage (D)	Credit Equivalent Exposure with CRM E=D*CCF	
9.4			50					
9.5			75					
9.6			80					
9.7			85					
9.8			100					
9.9			130					
9.10			150					
10	**Off-balance sheet items that are credit substitutes not explicitly included in any other category, shall be applied CCF of 100% (=Sum of 10.1 up to 10.10).**							
10.1			0					
10.2			20					
10.3			35					
10.4			50					
10.5			75					
10.6			80					
10.7			85					
10.8			100					
10.9			130					
10.10			150					
11	**Total Off-Balance Sheet (Non-Derivatives and SFT) Credit RWA (=Sum of 1 up to 10)**							
12	**Total Off-Balance Sheet (Non-Market) Credit Risk CAPITAL (=11*11%)**							

2.4. Risk Weighted Assets for OTC - Derivatives

Off-balance sheet items (Derivatives)		Add-On (A)	Exposures without CRM			Exposures with CRM			RW of Counterparty or Guarantee (H)	RWA I=(D+G)*H
			Replacement cost of contracts (B)	Notional Principal amounts (C)	Credit equivalent exposure D=B+(C*A/100)	Replacement cost of contracts (E)	Notional Principal amounts (F)	Credit equivalent exposure pre-CRM G=E+(F*A/100)		
1	**Interest Rate Related Contracts (=1.1+1.2+1.3)**									
1.1	Residual maturity 1 year or less	0								
1.2	Residual maturity > 1 year to 5 years	0.50								
1.3	Residual maturity > 5 years	1.50								
2	**Foreign Exchange & Gold Contracts (=2.1+2.2+2.3)**									
2.1	Residual maturity 1 year or less	1								
2.2	Residual maturity > 1 year to 5 years	5								
2.3	Residual maturity > 5 years	7.50								
3	**Equity Contracts (=3.1+3.2+3.3)**									
3.1	Residual maturity 1 year or less	6								
3.2	Residual maturity > 1 year to 5 years	8								
3.3	Residual maturity > 5 years	10								
4	**Precious Metal Contracts (Other Than Gold) (=4.1+4.2+4.3)**									
4.1	Residual maturity 1 year or less	7								
4.2	Residual maturity > 1 year to 5 years	7								
4.3	Residual maturity > 5 years	8								

Off-balance sheet items (Derivatives)		Add-On (A)	Exposures without CRM			Exposures with CRM			RW of Counterparty or Guarantee (H)	RWA I=(D+G)*H
			Replacement cost of contracts (B)	Notional Principal amounts (C)	Credit equivalent exposure D=B+(C*A/100)	Replacement cost of contracts (E)	Notional Principal amounts (F)	Credit equivalent exposure pre-CRM G=E+(F*A/100)		
5	**Other Commodities Contracts (Other Than Precious Metals) (=5.1+5.2+5.3)**									
5.1	Residual maturity 1 year or less	10								
5.2	Residual maturity > 1 year to 5 years	12								
5.3	Residual maturity > 5 years	15								
6	**Other Market Related Contracts (=6.1+6.2+6.3)**									
6.1	Residual maturity 1 year or less	10								
6.2	Residual maturity > 1 year to 5 years	12								
6.3	Residual maturity > 5 years	15								
7	**Total Off Balance Sheet OTC Derivatives Credit Risk Weighted Assets (= Sum of 1 up to 6)**									
8	**Total Required Capital For Off-balance sheet (Derivative) assets (=7*11%)**									

2.6. Risk Weighted Assets for Security Financing Transactions (SFT)

SFT	E = Current value of exposure (A)	C = Collateral (B)	H_{FX} = 0.08, if C and E in different currencies, else 0 (C)	RW of the counterparty (D)	RWA E=Max {0; 1.15*A —(0.85 - C)*B}*D
SFT 1					
SFT 2					
SFT 3					
SFT 4					
SFT 5					
SFT 6					
SFT 7					
SFT 8					
SFT 9					
SFT 10					
SFT 11					
SFT ...					
1	**Total Off Balance Sheet SFT Credit Risk RWA (Sum SFT 1 up to SFT 11...)**				
2	**Total Off Balance Sheet SFT Credit Risk Capital (=1*11%)**				

2.7. Total Risk Weighted Assets for Credit Risk and Capital Requirement

A	**Total Risk Weighted Assets for Credit Risk (=B+C)**	
B	**TOTAL On-balance Sheet Credit Risk RWA**	
C	**TOTAL Off-balance Sheet Credit Risk RWA (=C.1+C.2+C.3)**	
C.1	Total Off-balance Sheet (Non-Derivatives and SFT)	
C.2	Total Off-balance Sheet OTC Derivatives Credit RWA	
C.3	Total Off-balance Sheet SFT Credit Risk RWA	
D	**Total Capital For Credit Risk (=E+F)**	
E	**Total On-balance Sheet Credit Risk Capital (=B*11%)**	
F	**Total Off-balance Sheet Credit Risk Capital (=C*11%)**	

ANNEX 3 - Capital Requirement for Market Risk

Name of Bank _____

Reporting Quarter _____

Amount in Millions of Birr

Annex 3.1: Interest Rate Risk

3.1.1. (A) - Interest Rate Risk: Specific Risk

Capital Charge for Securities Denominated in Birr

Type of Exposure		External Credit Assessment	Residual Term to Final Maturity	Net Position (A)	Specific Risk Capital Charge (B)	Capital Required (C=A*B)
Government	Federal Government	.			0	
	Regional Government/ Chartered City Administrations	.			20.0%	
Qualifying Securities			6 months or less		0.25%	
			6 months to 2 years		1.00%	
			Exceeding 2 years		1.60%	
Other		BB+ to BB-			8.00%	
		Below BB-			12.00%	
		Other unrated			8.00%	
Row A: Total Required Capital for Specific Interest Rate Risk (Sum of Column C)						

3.1.1. (B) - Interest Rate Risk: Specific Risk

Capital Charge for Securities Denominated in Foreign Currency

Amount in Millions of Birr

Type of Exposure	External Credit Assessment	Residual Term to Final Maturity	Net Position (A)	Specific Risk Capital Charge (B)	Capital Required (C=A*B)
Government	AAA to AA->			0.00%	
	A+ to BBB->	6 months or less		0.25%	
		6 months to 2 years		1.00%	
		Exceeding 2 years		1.60%	
	BB+ to B-			8.00%	
	Below B-			12.00%	
	Unrated			8.00%	
Qualifying Securities		6 months or less		0.25%	
		6 months to 2 years		1.00%	
		Exceeding 2 years		1.60%	
Other	BB+ to BB-			8.00%	
	Below BB-			12.00%	
	Other unrated			8.00%	
Row B: Total Required Capital for Specific Interest Rate Risk (Sum of Column C)					

3.1.1-C: Total Required Capital for Specific Interest Rate Risk for All Currencies	Amount Millions of Birr
Total Required Capital for Specific Interest Rate Risk (in Birr and Other Currencies) – Sum of 3.1.1 A, Row A and 3.1.1 B, Row B	

3.1.2: Interest Rate Risk: General Risk

3.1.2-A Required Capital for General IRR in Birr								Offsetting rounds							
Zone	Time Band		Positions		Risk weight	Weighted positions		Within time band		Within zone		Between adjacent zones		Between not adjacent zones	
	Coupon 3% or more	Coupon less than 3%	Long	Short		Long	Short	Matched	Unmatched	Matched	Unmatched	Matched	Unmatched	Matched	Unmatched
Zone 1 (in months)	0- 1	0- 1			0.00%							Zone 1 and Zone 2		Zone 1 and Zone 3	
	1-3	1-3			0.20%										
	3-6	3-6			0.40%										
	6-12	6-12			0.70%										
Zone 2 (in years)	1-2	1-1.9			1.25%										
	2-3	1.9-2.8			1.75%										
	3-4s	2.8-3.6			2.25%										
Zone 3 (in years)	4-5	3.6-4.3			2.75%							Zone 2 and Zone 3			
	5-7	4.3-5.7			3.25%										
	7-10	5.7-7.3			3.75%										
	10-15	7.3-9.3			4.50%										
	15-20	9.3-10.6			5.25%										
	> 20	10.6-12			6.00%										
		12-20			8.00%										
		> 20			12.50%										
Row A: Required Capital for General Interest Rate Risk in Birr															

Note: Amounts in the shaded part of the table shall be computed as provided in Part IV, Article 21 of this Directive and electronic reporting template provided by the National Bank for the purpose of submitting quarterly reports through the online platform.

3.1.2-B: Required Capital for General IRR in Other Currencies (A bank shall use this template to separately report each major currency exposures, as needed — the templates are included in the excel version)								**Offsetting rounds**							
Zone	**Time Band**		**Positions**		**Risk weight**	**Weighted positions**		**Within time band**		**Within zone**		**Between adjacent zones**		**Between not adjacent zones**	
	Coupon 3% or more	Coupon less than 3%	**Long**	**Short**		**Long**	**Short**	**Matched**	**Unmatched**	**Matched**	**Unmatched**	**Matched**	**Unmatched**	**Matched**	**Unmatched**
Zone 1 (in months)	0- 1	0- 1			0.00%							Zone 1 and Zone 2		Zone 1 and Zone 3	
	1-3	1-3			0.20%										
	3-6	3-6			0.40%										
	6-12	6-12			0.70%										
Zone 2 (in years)	1-2	1-1.9			1.25%										
	2-3	1.9-2.8			1.75%										
	3-4s	2.8-3.6			2.25%										
Zone 3 (in years)	4-5	3.6-4.3			2.75%							Zone 2 and Zone 3			
	5-7	4.3-5.7			3.25%										
	7-10	5.7-7.3			3.75%										
	10-15	7.3-9.3			4.50%										
	15-20	9.3-10.6			5.25%										
	> 20	10.6-12			6.00%										
		12-20			8.00%										
		> 20			12.50%										
Row B: Required Capital for General Interest Rate Risk in Other Currencies															

Note: Amounts in the shaded part of the table shall be computed as provided in Part IV, Article 21 of this Directive and electronic reporting template provided by the National Bank for the purpose of submitting quarterly reports through the online platform.

3.1.2-C: Total Required Capital for General Interest Rate Risk for All Currencies	Amount Millions of Birr
Total Required Capital for General Interest Rate Risk (in Birr and Other Currencies)= Sum of 3.1.2 A Row A and 3.1.2 B Row B	

3.1.3: Total Required Capital for Interest Rate Risk	Amount Millions of Birr
Total Required Capital for Interest Rate Risk= Sum of 3.1.1-C and 3.1.2-C	

Annex 3.2: Capital Requirement for Market Commodity Risk

In Millions of Birr						
	A	B	C=A+B	D=A-B	E=15% * D	F=3% * C
Commodity Instruments	Gross Long	Gross Short	Gross Open Position	Positive Net Open Position	15% of Net Open Position	3% of Gross Open Position
Total Commodity Instruments						
1. Capital Required Against Directional Risks (Sum of E)						

2. Capital Required Against Basis, Interest Rate & Forward Gap Risks (Sum of F)	
3.Total Capital Requirement Against Commodity Position Risk (Sum of Row 1 + Row 2)	
Commodity Position Risk Equivalent Assets (Total Capital Requirement (Row 3) * 9.1)	
Note: Each commodity position shall be expressed in terms of the standard unit of measurement (e.g., barrels, kilos, grams, etc.) and the net position converted at current spot rates into the domestic currency.	

Annex 3.3: Capital Requirement for Market Foreign Exchange Risk

No.	Particulars	Single Currency Exposure				
		USD	Euro	GBP	Others	Gold
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					

No.	Particulars	Single Currency Exposure				
		USD	Euro	GBP	Others	Gold
2.1.5	Other liabilities					
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)					
8	**Overall Foreign Exchange Position**					
8.1	Total Long Position (Sum of row 5)					
8.2	Total Short Position (Sum of row 6)					
9	Greater of Absolute Value of 8.1 or 8.2					

No.	Particulars	Single Currency Exposure				
		USD	Euro	GBP	Others	Gold
10	Gold- Absolute Value of Open Position					
11	Net Global Open Position (Rows 9 + 10)					
12	Total Capital Charge for FX Risk (Row 11 * 11%)					
13	TOTAL RWA for FX = Row 12 * 9.1					

Annex 3.4: Capital Requirement for Market: Equity Risk

						In Millions of Birr
	A	B	C= A + B	D= A - B	E= 11% * C	F=11% * D
Equity Instruments	Gross Long	Gross Short	Gross Open Position	Net Open Position	11% of Gross Open Position	11% of Net Open Position
Total Equity Instruments						
1. Capital Required Against Specific Risks (Sum of Column E)						
2. Capital Required Against General Risks (Sum of Column F)						
3. Total Capital Requirement Against Equity Position Risk (Sum of Rows 1 + Rows 2)						
Equity Position Risk Equivalent Assets (Total Capital Requirement (Row 3) * 9.1)						

Annex 4: Minimum Capital Requirement for Operational Risk

Name of Bank _____

Reporting Quarter _____

Amount in Millions of Birr

Annex 4.1: Calculation of Business Indicator (BI)

A) Balance Sheet Information

No.	Item	Year t	t-1	t-2
1	Placement with other banks			
2	Interest bearing investments*			
3	Due from SOEs			
4	Due from banks			
5	Due from Corporate			
6	Due from retail loans			
7	Due from residential mortgages			
8	Due from commercial mortgages			
9	Due to past due Exposures			
10	Lease assets measured at the end of each financial year			
11	**Interest earning assets (Sum of 1 to 10)**			

* Includes T-bills, bonds and other interest bearing securities

B) Profit and Loss Statement Information

No.	Item	Year t	t-1	t-2
	Interest, Leases and Dividend Component (ILDC)			
12	Interest income from loans and advances			
13	Interest income from assets available for sale			
14	Interest income from assets held to maturity			
15	Interest income from trading assets			
16	Interests from financial and operational leases			
17	Interest income from hedge accounting derivatives			
18	Other interest income			
19	Profits from leased assets			
20	Total Interest income (Sum of 12 to 19)			
21	Interest expenses from deposits			
22	Interest expenses from debt securities issued			
23	Interest expenses from financial and operating leases			
24	Interest expenses from hedge accounting derivatives			
25	Other interest expenses			
26	Losses from leased assets			
27	Depreciation and impairment of operating leased assets			
28	Total Interest expense (Sum of 21 to 27)			
29	Interest earning assets (Take corresponding values of item under S/N 11)			

No.	Item	Year		
		t	t-1	t-2
	Interest, Leases and Dividend Component (ILDC)			
30	Dividend income**			
31	**Services Component (SC)**			
32	Bank retail services and transaction fees			
33	Fees income from safe box rentals			
34	Commission and fees income from foreign exchange transactions			
35	Commission and fees income from clearing and settlements			
36	Commission and fees income from asset management			
37	Commission and fees income from custody services			
38	Commissions and fees from security issuance			
39	Fees income from loan commitments and guarantees given			
40	Other fees and commissions incomes			
41	Total fee and commission income (Sum of 32 to 40)			
42	Commission and fees expense from foreign exchange transactions			
43	Commission and fees expense from clearing and settlements			
44	Commission and fees expense from custody services			
45	Fees expense from loan commitments and guarantees received			
46	Other fees and commissions expenses			
47	Total fee and commission expense (Sum of 42 to 46)			
48	Profit on sale of property and equipment			
49	Rental income from investment properties			
50	Gains from non-current assets and disposal groups ***			
51	Other operating income not referred above			
52	Total other operating income from ordinary banking operations (Sum of 48 to 51)			
53	Losses incurred as a consequence of operational loss events not provisioned ****			
54	Losses from non-current assets and disposal groups ***			
55	Expenses related to establishing provisions / reserves for operational loss events			
56	Other operating expense not referred above			
57	Total other operating expense from ordinary banking operations (Sum of 53 to 56)			
58	**Financial Component (SC)**			
59	Net profit/loss on trading assets and trading liabilities *****			
60	Net profit/loss from hedge accounting			
61	Net profit/loss from exchange differences			
62	Net profit (loss) on the trading book (Sum of 59 to 61)			
63	Realized gains/losses on financial assets and liabilities measured at FVTPL			
64	Realized gains/losses on financial assets and liabilities not measured at FVTPL******			
65	Net profit/loss from hedge accounting			
66	Net profit/loss from exchange differences			
67	Net profit (loss) on the banking book (Sum of 63 to 66)			

** Dividend income from investments in stocks and funds not consolidated in the bank's financial statements, including dividend income from non-consolidated subsidiaries, associates and joint ventures.

*** Refers to gains and losses from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (IFRS 5.37) typically for non-recurring items.

**** E.g. fines, penalties, settlements, replacement cost of damaged assets.

***** E.g. derivatives, debt securities, equity securities, loans and advances, short positions, other assets and liabilities.

******e.g. loans and advances, assets available for sale, assets held to maturity, financial liabilities measured at amortized cost.

N.B In case of interest-free banking, ILDC calculation shall include:

a. *Income from financing and leasing, in of interest income and lease income, respectively;*
b. *Profit payable or shared, in place of interest expense; and*
c. *Income/profit earning assets, in place of interest earning assets*

The Business Indicator (BI) Calculation

i) $$ILDC = Min\left[\overline{Abs(Interest\ Income - Interest\ Expense)}; 2.25\% \ x\ \overline{Interest\ Earning\ Assets}\right] + \overline{Dividend\ Income}$$

ii) $$SC = Max\left(\overline{Other\ Operating\ Income}; \overline{Other\ Operating\ Expense}\right) + Max\left(\overline{Fee\ Income}; \overline{Fee\ Expense}\right)$$

iii) $$FC = Abs\left(\overline{Net\ Profit\ \&\ Loss\ Trading\ Book}\right) + Abs\left(\overline{Net\ Profit\ \&\ Loss\ Banking\ Book}\right)$$

BI = ILDC + SC + FC

Annex 4.2: Calculation of Business Indicator Component (BIC)

Bucket	BI Range (In Millions of Birr)	Marginal Coefficient (αi)	BIC Value/Amount
1	BI < 3,500	12%	
2	3,500 < BI < 106,000	15%	
3	>106,000	18%	
Total			

N.B BIC value shall be calculated as follows.

i. If BI < Birr 3.5 billion, BIC= BI*12%;
ii. If BI falls between Birr 3.5 billion and Birr 106 billion, i.e. Birr 3.5 billion < BI ≤ Birr 106 billion, BIC = (Birr 3.5 billion *12%) + (Birr 106 Billion - Birr 3.5 billion)*15%;
iii. If BI > Birr 106 billion, BIC = (Birr 3.5 billion *12%) + (Birr 106 Billion - Birr 3.5 billion)*15% + (BI- Birr 106 billion)*18%.

Annex 4.3: Calculation of the Internal Loss Multiplier (ILM)

A) Loss Event Data

Amount in Millions of Birr

No.	Type of Loss Event	Loss Event During the Quarter			Cumulative Loss Data		
		Gross Loss	Recoveries	Net Loss	Gross Loss	Recoveries	Net Loss (LC)
1	Internal Fraud						
2	External Fraud						
3	Employee Practice and workplace safety						
4	Clients, Products & Business Practices						
5	Damage to physical assets						
6	Business Disruption and system failures						
7	Execution, delivery & process management						
8	Others						
	Total						-

B) $ILM = ln\left(exp(1) - 1 + \left(\frac{LC}{BIC}\right)^{0.8}\right)$

Thus, the minimum operational risk capital (ORC) requirement shall be calculated as follows.

i. **Operational Risk Capital Requirement (ORCR) = BIC * ILM**
ii. Risk Weighted Asset for Operational Risk= **ORCR* 9.1**
iii. If ILM is not applicable, Risk Weighted Asset for Operational Risk= BIC* 9.1

ANNEX 5 - Minimum Capital Adequacy Requirement

Name of Bank _____

Reporting Quarter _____

Amount in Millions of Birr

No.	Capital Base	Capital	
1.	**Total Eligible Capital (= 1.1 + 1.2)**		
1.1	Total Tier 1 Capital (=1.1.1+1.1.2)		
1.1.1	Common Equity Tier 1 Capital*		
1.1.2	Additional Tier 1 Capital*		
1.2	Total Tier 2 Capital*		
2.	**CREDIT RISK**	**Capital**	**RWA**
2.1	***Total Required Capital and RWA for Credit Risk (= 2.1.1+2.1.2)***		
2.1.1	On balance Credit Risk**		
2.1.2	Off balance Credit Risk**		
3.	**OPERATIONAL RISK**	**Capital**	**RWA**
3.1	Total Required Capital and RWA for Operational Risk***		
4.	**MARKET RISK**	**Capital**	**RWA**
4.1	**Total Required Capital and RWA for Market Risk (=4.1.1+4.1.2+4.1.3+4.1.4)**		
4.1.1	**Interest Rate Risk (SF = 1.30) (=4.1.1.1+4.1.1.2)**		
4.1.1.1	*Specific IR Risk****		
4.1.1.2	*General IR Risk****		
4.1.2	**Equity Position Risk (SF = 3.50) (=4.1.2.1+4.1.2.2)**		
4.1.2.1	*Specific Equity Risk****		
4.1.2.2	*General Equity Risk****		
4.1.3	**Foreign Exchange Risks (SF = 1.20)**		
4.1.4	**Commodities Risks (SF = 1.90) (=4.1.4.1+4.1.4.2)**		
4.1.4.1	*Directional Commodity Risk****		
4.1.4.2	*Other Commodity Risks****		
5.	**Total Risk Weighted Assets (=2.1+3.1+4.1)**		
6.	**Total Eligible Capital to Risk-Weighted Asset Ratio =(1/5)*100**		
7.	**Common Equity Tier 1 To Risk Weighted Assets =(1.1.1/5)*100**		
8.	**Tier 1 Capital To Risk Weighted Assets =(1.1/5)*100**		

Note:

* *capital/amount as calculated in line with Annex 1.*
** *capital and RWA for Credit Risk as calculated in line with Annex 2.*
*** *capital and RWA for Operational Risk as calculated in line with Annex 4.*
**** *capital and RWA for Market Risk as calculated in line with Annex 3.*