

# **LICENSING AND SUPERVISION OF BANKING BUSINESS**

## **LIQUIDITY REQUIREMENT**

### **(5<sup>TH</sup> Replacement)**

#### **Directives No. SBB/57/2014**

**WHEREAS**, it is necessary to maintain public trust and confidence by ensuring that banks have sufficient level of liquidity at all times;

**WHEREAS**, there is a need to maintain liquidity requirement consistent with reserve requirement of banks;

**WHEREAS**, it is essential to ensure that banks properly manage their liquidity;

**NOW, THEREFORE**, in line with powers vested in it by articles 20(1) and 59(2) of Banking Business Proclamation No. 592/2008, the National Bank of Ethiopia has issued these directives.

#### **1. Short Title**

These Directives may be cited as “Liquidity Requirement (5<sup>th</sup> Replacement) Directives No. SBB/57/2014”.

#### **2. Definitions**

For the purpose of these Directives:

**2.1 “Liquid assets”** include cash, deposits with the National Bank and other local and foreign banks having acceptance by the National Bank, other assets readily convertible into cash expressed and payable in Birr or foreign currency having acceptance by the National Bank, deposits held in Organization for Economic Cooperation and Development (OECD) member countries’ currencies and payable by banks of OECD member countries and in such other currencies as may be approved by the National Bank as well as securities issued by OECD member countries denominated in currencies of such countries and such other assets as the National Bank may from time to time declare to be liquid assets;

**2.2 “Current liabilities”** refers to the sum of demand (current) deposits, savings deposits and time deposits and similar liabilities with less than one-month maturity;

**2.3 “National Bank”** means the National Bank of Ethiopia;

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**National Bank of Ethiopia**

**3. Scope of Directives**

These Directives shall be applicable to all commercial banks (excluding Development Bank of Ethiopia) operating in Ethiopia.

**4. Specific Requirements**

**4.1** A commercial bank shall establish an Asset & Liability Management Committee (ALCO) to manage its assets, liabilities and off-balance sheet items so as to fully meet the bank's contractual commitments. A bank may use **Annex I** attached to these directives as terms of reference to its ALCO.

**4.2** A commercial bank shall develop liquidity management policies that at a minimum cover:

- a.** management information system;
- b.** stress tests/scenario analysis;
- c.** maturity gap analysis;
- d.** cash flow projections;
- e.** diversification of funding sources;
- f.** limits on net cumulative funding mismatch;
- g.** internal controls;
- h.** contingency planning; and
- i.** major currencies.

**4.3** Any licensed commercial bank shall maintain liquid assets of not less than fifteen percent (**15%**) of its net current liabilities.

**5. Prohibition**

While a commercial bank fails to meet the minimum regulatory liquidity requirement, it shall not grant any new or additional loan or credit accommodation to any person without prior written approval of the National Bank.

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**6. Reports**

- 6.1** All commercial banks shall submit to the Banking Supervision Directorate of the National Bank properly certified liquidity positions report of the week ended each **Wednesday** not later than **Tuesday** of the following week using the form prescribed in **Annex II**.
- 6.2** All commercial banks shall also provide data on maturity of their assets and liabilities, within 30 days after end of the quarter for which the data are reported, in the form and manner as shown in **Annex III** along with attached **Guidance for Slotting Maturities of Assets, Liabilities and Off-Balance Sheet Items**, which shall be part hereof.
- 6.3** The National Bank may verify the accuracy of reports under sub-articles 6.1 and 6.2 above and direct a bank to adjust them as a result of the examination; and may take appropriate and legal measures.

**7. Repeal**

Directives No. SBB/45/2012 are hereby repealed and replaced by these Directives.

**8. Effective Data**

These Directives shall enter into force as of the **1<sup>st</sup> day of October 2014**.

**ALCO's TERMS OF REFERENCE**

ALCO's terms of reference shall at least include:

1. recommending desired maturity profile and mix of incremental assets and liabilities;
2. recommending source and mix of liabilities between fixed versus floating rate funds, wholesale versus retail deposits, etc., or sale of assets, on basis of composition, characteristics and diversification of the bank's assets and funding sources
3. regularly reviewing the funding strategy in the light of any changes in the internal or external environments;
4. recommending the structure, responsibilities, and controls for managing liquidity risk and for overseeing the liquidity positions of all legal entities, branches, etc in which a bank is active, and outlining these elements clearly in the bank's liquidity policy;
5. ensuring operational independence of liquidity risk management function, with adequate support of skilled and experienced officers;
6. ensuring adequacy of cash flow projections and the assumptions used;
7. reviewing the stress test scenarios including the assumptions as well as the results of the stress tests and ensuring that a well documented contingency funding plan is in place which is reviewed periodically;
8. recommending the transfer pricing policy of the bank and making liquidity costs and benefits as an integral part of bank's strategic planning; and
9. regularly reporting to the board of directors and risk management committee on the liquidity risk profile of the bank.

**LIQUIDITY REPORT**

Name of bank: \_\_\_\_\_

For the week ending: \_\_\_\_\_

In millions of birr	Thu	Fri	Sat	Sun	Mon	Tue	Wed	Weekly average
<b>I. Required Liquid Assets</b>								
1. Net current liabilities								
2. 15% of net current liabilities								
<b>II. Liquid Assets Held</b>								
3. Cash-foreign & local currency								
4. Deposits with NBE								
5. Deposits with other local & foreign banks								
6. Treasury bills								
7. Net due from domestic banks*								
8. Net due from foreign banks*								
9. Total liquid assets (=sum 3 to 6 less 7 & 8)								
<b>III. Excess/deficit (2-10)</b>								

\* Refers to demand and call deposits held with other banks which should not be committed or earmarked in any way

Note: DBE is exempted from weekly liquidity report

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

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

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

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

**MATURITY OF ASSETS & LIABILITIES**

Name of bank-----

Quarter ending-----

Time bands		1 day	2-7 days	8-14 days	15 days to 1 month	1-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-maturity items	Total
<b>I. ASSETS</b>	Amount in Millions of birr											
<b>A. On balance sheet</b>												
1. Cash and balances with NBE												
2. Balances with banks & non-banks-local												
3. Balances with banks-abroad												
4. Net investments												
5. Net loans and advances												
6. Net fixed assets												
7. Other assets												
<b>B. Off balance sheet</b>												
8. Guarantee, letters of credit, others												
<b>C. TOTAL</b>												
<b>II. LIABILITIES</b>												
<b>A. On balance sheet</b>												
9. Deposits (demand, savings & time)												
10. Borrowings from NBE												
11. Borrowings from other banks-local												
12. Borrowings from other banks-abroad												
13. Other liabilities												
<b>B. Off balance sheet</b>												
14. Guarantee, letters of credit, others												
<b>C. TOTAL</b>												
<b>III. NET Mismatch (I.C LESS I.L.C)</b>												
<b>IV. Cumulative Mismatch</b>												

Prepared by: \_\_\_\_\_  
 Signature: \_\_\_\_\_  
 Date: \_\_\_\_\_

Approved by: \_\_\_\_\_  
 Signature: \_\_\_\_\_  
 Date: \_\_\_\_\_

**Guidance for Slotting Maturities of**  
**Assets, Liabilities & Off-Balance Sheet Items**

In general, the time band shall depend on the judgment of management/ALCO as to when they will be called or drawn down on the basis of terms and conditions of funding or loan instruments as well as on the basis of behavior of customers, assessed from their past history and current relationship with the bank. However, the specificities are presented hereunder.

**I. ASSETS**

**On-Balance Sheet**

**1. Cash and Balances with NBE**

- Cash and excess balance with NBE over cash reserve requirement (CRR) shall be shown in 1 day bucket.
- CRR with NBE shall be distributed among the various time bands corresponding to the period during which these will be available upon maturity of the underlying deposits. Banks shall indicate the manner in which the CRR has been distributed in the gap statement.

**2. Balances with banks & non-banks-local, &**

**3. Balances with banks-abroad**

- Current account: the amount representing minimum balance, if any, stipulated in the account opening agreement may be shown in the 1-3 years band. The remaining balance may be shown in the 1 day time band.
- Money at call and short notice, time deposits, and other placements shall be shown within the various time bands according to the date of maturity.

**4. Net investments**

- Securities shall be shown as per the date of maturity.
- Equity investments shall be classified as non-maturity items.

**5. Net loans and advances**

- Loans and advances to be shown as per the residual date of maturity.
- Non-performing loans shall be shown in the non-maturity bucket.

**6. Net fixed assets**

**7. Other assets**

- These shall be classified as non maturity assets.

**Off-Balance Sheet**

**8. Guarantee, letters of credit, others**

- Off- balance sheet obligations shall be included in the maturity analysis only if they are legally compulsory, or if there is good reason to believe that they will be used.

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**II. LIABILITIES**

**On-Balance Sheet**

**9. Deposits (current and savings accounts)**

- A bank may conduct an assessment of the savings and current deposits and estimate the behavior pattern on renewals, premature closures, etc on the basis of past data and empirical studies and show them in the appropriate time bands, i.e. behavioral time bands rather than residual time bands.
- The savings and current deposits shall be shown into volatile and core portion. The volatile portion may be placed in the 1 day time band.

**10. Borrowings from NBE**

**11. Borrowings from other banks-local**

**12. Borrowings from other banks-abroad**

**13. Other liabilities**

- Shall be shown as per the due date

**Off-Balance Sheet**

**14. Guarantee, letters of credit, others**

- Off- balance sheet obligations shall be included in the maturity analysis only if they are legally compulsory, or if there is good reason to believe that they will be used.