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**NATIONAL BANK OF ETHIOPIA**  
ADDIS ABABA

**LICENSING and SUPERVISION OF THE BUSINESS OF**  
**MICROFINANCING INSTITUTIONS**

**Limit on Loans, Repayment Period and Provisioning Requirement**

**Directives No. MFI/28/2016**

**(4<sup>th</sup> replacement)**

**WHEREAS**, it is necessary to ensure that microfinance institutions recognize their non-performing loans in a manner that is consistent with the risk profile of their clients and that timely actions are taken to deal with such loans;

**WHEREAS**, it has been found necessary to enable microfinance institutions to meet the credit needs of their clients in a flexible manner;

**WHEREAS**, it is important that microfinance institutions properly reflect the financial impact of non-performing loans in their financial statements;

**WHEREAS**, promoting transparency is crucial for the microfinance sector in particular and the financial sector in general.

Now, therefore, pursuant to the authority vested in it under article 14 (2 (a)) and article 27(2) of Microfinance Business Proclamation No. 626/2009, the National Bank of Ethiopia has issued these directives.





## PART ONE

### GENERAL

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

These directives may be cited as Limit on Loans, Repayment Period and Provisioning Requirement Directives No. MFI/28/2016.

#### 2. **Scope of Application**

The provisions of these directives shall be applicable on all microfinance institutions.

#### 3. **Definitions**

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

- 3.1 "Housing loan" means a loan that is advanced by a microfinance institution to a person for the purpose of either buying or constructing a house;
- 3.2 "National Bank" refers to the National Bank of Ethiopia;
- 3.3 "Non-performing loans" means outstanding credit facilities that are past due for more than 90 days beyond the agreed- upon repayment period;
- 3.4 "Rescheduled loan" means a loan whose repayment period has been changed or extended;
- 3.5 "Restructured loan" means a loan, which has been refinanced, rescheduled or otherwise modified due to weaknesses in the borrower's financial position or ability to repay;
- 3.6 "Total capital" shall mean the sum of paid up capital, donated capital, retained earnings and any other free reserves of a microfinance institution.





## Part II

### Limit on Loans, Repayment Period and Provisioning Requirement

#### 4. Lending Methodology

In line with Article 16 of Micro-financing Business Proclamation no. 626/2009, a microfinance institution may extend loans to groups and individuals. Loans may be made without collateral, secured by collateral or secured by group or individual guarantees as appropriate and at the discretion of the institution.

#### 5. Prudence in Lending

All microfinance institutions shall establish appropriate system for ensuring the quality of their loan portfolio. To this end, microfinance institutions shall advance loans after carrying out proper analysis of relevant and appropriate information of clients and in accordance with strategies, policies and procedures as approved by respective Board of Directors.

#### 6. Loan Limits and Repayment Periods

6.1 Total loans extended by a microfinance institution to any single borrower shall at no time exceed 1% (one percent) of the total capital of the microfinance institution.

6.2 Total loans extended by a microfinance institution to a group of borrowers on the basis of group guarantee shall at no time exceed 4% (four percent) of the total capital of the microfinance institution.

6.3 The maximum repayment period of a loan extended by a microfinance institution shall be:

- i. 15 years for housing loan and;
- ii. 5 years for all other loans and advances.





## 7. Conditions to Categorize a Loan as Non-performing

A loan shall be categorized as a non-performing loan when principal and/or interest due in line with the contractual agreement is unpaid for more than ninety days. For the purpose of these directives, the entire outstanding loan (and not the installments that have not been repaid) shall be classified as non-performing.

## 8. Loan Classification and Minimum Provisioning Requirement

### 8.1 Classification of Loans

Non-performing loans and advances of a microfinance institution shall be classified into the following three categories based on the number of days the loan is past due:

<u>Category</u>	<u>Number of Days Past Due</u>
a) Substandard	- 91 - 180 days
b) Doubtful	- 181 - 365 days
c) Loss	- Over 365 days

### 8.2 Provisioning

8.2.1 Non-performing loans of a microfinance institution shall be subject to the following minimum provisioning requirements:

<u>Category</u>	<u>Minimum Provision</u>
a) Substandard	- 25 % of the entire outstanding loan
b) Doubtful	- 50 % of the entire outstanding loan
c) Loss	- 100% of the entire outstanding loan

8.2.2 Notwithstanding the classification criteria used for the “substandard” category set out under article 8.1 here in above, restructured non-performing loans shall be categorized, at a minimum, as “substandard”:





- a) Unless equivalent of at least all past due interest is paid by the borrower in cash at the time of restructuring of the loan and,
- b) Unless 3 (three) consecutive repayments are made by the borrower on consistent and timely manner in accordance with the restructured terms of the loan.

8.2.3 Notwithstanding the provision stated above, a restructured lump sum loan in which both principal and interest is paid at once and where there is no periodic installment of either principal and/or interest shall be categorized at a minimum as “substandard”.

8.2.4 Microfinance institutions may deduct from the outstanding loan any cash deposit balances or Federal Government securities held as collateral against the loan before computing the required minimum provisions in line with article 8.2.1 herein above.

8.2.5 A microfinance institution shall categorize all its non-performing loans into the classification categories set out under article 8.1 and set aside provisions set out under article 8.2.1 on a quarterly basis and send the report to the National Bank within four weeks from the end of the quarter. The Board of Directors of each microfinance institution shall review and approve on a quarterly basis the loan classifications and the amounts of provision set aside by the management of the microfinance institution.

8.2.6 The outstanding balance shall consist of the principal and all other charges, fees and other amounts which have been capitalized to the outstanding balance.





## 9. Conditions to Restructure Loans

9.1 A microfinance institution shall assess the financial position of the borrower and ensure that the borrower has repayment capacity to repay the loan under the new condition.

9.2 A microfinance institution shall follow the classification criteria set for restructured loans as specified under article 8.2.2 and article 8.2.3 of these directives.

## 10. Income Recognition

Interest income on loans classified as non-performing shall not be recognized in the Income or Profit or Loss Statement of a microfinance institution as income unless collected in cash.

## 11. Reporting Requirement

Every microfinance institution shall quarterly report its loan classification and provisioning within four weeks from the end of each quarter to the National Bank in the manner as shown in the format attached with these directives.

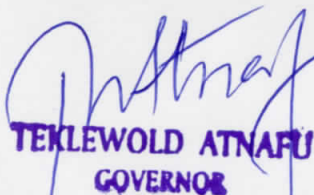
## PART III MISCELLANEOUS

### 12. Repeal

Directives No. MFI/18/06 is hereby repealed and replaced by these directives.

### 13. Effective date

**These directives shall be effective as of the 12<sup>th</sup> day of December 2016.**

  
TEKLEWOLD ATNAFU  
GOVERNOR





### Aging and Provisioning Report

Period Ending:

(In Birr)

No.	Description	Number of Loans in Arrears (a)	Outstanding Loan (b)	Acceptable Collateral (cash deposit or fed. govt. securities) (c)	Outstanding Balance Net of Collateral (b - c) = d	Provisioning Rate as per NBE Directive (e)	Required Provision (d x e) = f	Provision Rate of the MFI (g)	Actual Provision (h)	Excess reserve (h-f)
1.	Performing Loans									
2.	Non-Performing Loans:									
2.1	Substandard (91 - 180 days past due)									
2.2	Doubtful (181 -365 days past due)									
2.3	Loss (more than 365 days past due)									
3.	Total Non-Performing Loans (2.1+2.2+2.3)									
4.	Total Loans (1+2)									
5.	Non-Performing Loans Ratio (3/4)									

Total amount of loans written off in this quarter \_\_\_\_\_

Aggregate value of loans written off to date \_\_\_\_\_

Total value of principal recovered in this period (on loans previously written off) \_\_\_\_\_

Aggregate value of loans recovered to date \_\_\_\_\_

Name of the Officer \_\_\_\_\_

Designation: \_\_\_\_\_

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

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

