

## Directive No. SBB/39/2006

### LICENSING AND SUPERVISION OF BANKING BUSINESS

Amendment for New Bank Licensing and Approval of Directors and CEO

#### Issuing Authority

These directives are issued by the National Bank of Ethiopia pursuant to the authority vested in it by article 41 of the Monetary and Banking Proclamation No. 83/1994 and by article 36 of the Licensing and Supervision of Banking Business Proclamation No. 84/1994.

#### Definitions

In these Directives:

"The Bank" shall mean National Bank of Ethiopia.

"Business continuity plan" shall mean the process by which banks ensure the resumption of operations, including services to customers, interrupted as a consequence of adverse events such as natural disasters, technological failures, human error, or terrorism.

"Financial Institution" shall mean insurance companies, banks, microfinance institutions and such other institutions as determined by the Bank.

"Related Party of a bank" shall mean, on the one hand, a shareholder, a director or a principal officer of that bank and/or the spouse or relation in the first degree of consanguinity or affinity of such shareholder, director or principal officer; and on the other, a partnership, a private limited company, a share company, a joint venture, or any other business in which the shareholder, director or principal officer of the bank and/or the spouse or relation in the first degree of consanguinity or affinity of such shareholder, director or principal officer has a business interest as shareholder, director, principal officer, owner or partner. For the purpose of these Directives, a person holding five percent or more of paid up capital of a bank, a partnership, a private limited company, a share company, a joint venture, or any other business shall be considered as a related party.

#### Information Required From Applicants For License

In addition to information required under article 5 of Proclamation Number 84/1994, applicants for new banking business license shall submit to the Bank the following:

Evidence for paid up capital which includes certificate of deposit in a blocked subscription account maintained with a commercial bank for this purpose and evidence for valuation of contribution in kind;

Names, addresses and occupation (including dates and addresses of employment covering the latest ten years) of the founders;

A feasibility study of the future operations and development of the business for a minimum period of three years from the date of the commencement of operation, including:

Proposed organizational chart of the bank, and brief description of the functions of the main organizational units;

A schedule of all preliminary expenses including costs of organization, share-selling and brokerage and commission;

Projections of balance sheet, cash flow statement and profit and loss accounts, with the following breakdowns where applicable:

deposit mobilization and interest payable stating separately the proposed major sources and types of deposits;

loans and advances to be made and interest receivable, stating intended lending by sector;

investments to be made and earnings thereof;

operating expenses including rents, salaries, employee benefits, directors' remuneration;

liquid and reserve assets;

capital structure;

provision for bad and doubtful debts;

fixed assets, including business premises;

other income, including commissions, fees/charges; and

net operating profit/loss.

Interest rate sensitivity analysis of the projections submitted or other similar analyses of the extent to which the forecasts will change when interest rates vary (the assumptions underlying the projections and the sensitivity analysis should be stated);

Statistical and other data which may have been collected in respect of the area in which the applicant intends to operate including population of the area, business located in the area, etc. and existing banking facilities;

Disclosure of the identity of shareholders who have acquired five or more percent of the capital stock, indicating their names, nationality, number and value of shares held;

Authenticated ownership certificate and/or lease agreement for items listed under Section 11.1 of Banking Business License Application Form attached with these Directives;

Descriptions of actual purchases made or proposed purchases of goods and services, or lease of real estate by the bank from related parties;

Curriculum vitae of the proposed chief executive officer and directors including their age, marital status, education, employment history for the past ten years, their experience in business and financial affairs, their involvement in civic, social and charitable activities including any leadership position held;

Completed "Propriety" questionnaire attached with these directives as annex I for directors and nominated chief executive officer;

Duly completed application form and enclosures thereto as prescribed by the Bank;

#### Selection Criteria and Appointment of Chief Executive Officer

Board of directors of a bank shall appoint a chief executive officer who demonstrates his/her competence and ability to understand the technical requirements of banking business, inherent risks and management processes required to conduct banking operations effectively, with due regard to the interests of all stakeholders.

In determining competence, and capability of the chief executive officer, the board of directors shall take into account all relevant considerations, at a minimum including, but not limited to:

whether the person has a sound knowledge of the business and responsibilities he will be called upon to shoulder;

whether the person has demonstrated, through his qualifications and experience, the capacity to successfully undertake the responsibilities of the position, including the establishment of effective internal control and risk management regime;

whether the person has ever been:

fined, suspended, removed, or his/her professional license revoked by a professional, trade or regulatory body because of incompetence, fraud, negligence, or violation of laws, rules, regulations and professional code of conduct; or

fined, demoted, dismissed or requested to resign from any position or office for incompetence or mismanagement by his/her employer; and whether the person has ever been diagnosed as being mentally ill or unstable.

Chief executive officer of a bank shall hold a minimum of first degree or equivalent from a recognized higher institution of learning.

Chief executive officer shall have a minimum of 10 years experience in banking, of which, at a minimum, five years shall be in senior managerial position.

Board of directors of a bank shall appoint a person with high honesty, integrity, reputation and diligence as chief executive officer for the bank.

In determining a person's honesty, integrity, reputation and diligence, the board of directors shall consider all appropriate factors (but not limited to) indicated in Annex I of these directives.

Chief executive officer of a bank shall be at least 30 years old.

Chief executive officer of a bank shall preferably be married or responsible to a family.

Appointment of chief executive officer for a bank (be it for new or existing bank) by board of directors shall be subject to approval by the Bank.

To obtain approval, the bank shall file with the Bank written request along with relevant documents showing that the board has taken into account all relevant considerations set in these directives.

The Bank shall give written response for the request to approve a chief executive officer submitted under Article 4.10 herein above within one month from the date of receipt of such request.

## Appointment of Board of Directors and Selection Criteria

### Selection Criteria

#### Education

At least seventy five percent of a bank's board members shall hold a minimum of first degree or equivalent from recognized higher learning institution; and the remaining board members should, at a minimum complete general secondary school.

#### Employment

Members of Board of Directors shall have adequate managerial experience, preferably in banking business, and/or should take adequate training in banking business management after holding a seat on the board.

#### Propriety

A board member shall be a person with honesty, integrity, diligence and reputation to the satisfaction of the Bank.

In determining propriety, the Bank shall take into account all the information (but not limited to) given in Annex I of these directives.

#### Prohibition

A board member of a bank shall not, at the same time, serve as a board member of any other financial institution;

Chairperson of board of directors of a bank shall not be chief executive officer of the same bank.

#### Rotation

A director shall not serve on a board of a bank for more than six consecutive years; however, he/she may be re-elected after a lapse of six years. Notwithstanding provisions of article 5.1.5(i) herein above, if the shareholders of a bank wish to maintain continuity in the board and re-elect some of the existing board members, they may re-elect such board members for only one more term. The number of board members so re-elected shall, however, be limited to a maximum of one-third (1/3) of the outgoing board members.

#### Financial Soundness

A director shall not sit on the board of a bank if he /she or a business entity in which he/she served or is serving as director or chief executive officer:

has filed for bankruptcy, been adjudged bankrupt, had assets sequestrated, or been involved in court proceedings relating to any default on credit (bank or otherwise) repayments or tax payment;

carries non-performing loans as defined in the Bank's relevant directives from any bank;

#### Age

A member of the board of a bank shall be at least 30 years old.

#### Appointment

5.3.1 Appointment of members of board of directors for a bank (be it for a new or existing bank) shall be subject to approval by the Bank.

5.3.2 Banks shall submit to the Bank written request for such approval along with completed PROPRIETY TEST QUESTIONNAIRE (which is annexed with these directives) and other relevant documents necessary to process the approval.

5.3.3 The Bank shall give written response for the request to approve appointment of board members submitted under article 5.3.2 herein above within one month from the date of receipt of such request.

## 6. Fees

6.1 A company applying to undertake banking business shall pay investigation fee of Birr750 (Birr seven hundred and fifty only) that is to be paid at the time of lodging an application.

6.2. A company licensed to undertake banking business shall pay license fee of Birr5,550 (Birr five thousand five hundred fifty only).

6.3. A bank shall renew its banking business license every year between July 1 and September 30 and pay annual license renewal fee of Birr5,550 (Birr five thousand five hundred fifty only).

## 7. Application Submission

All application documents for banking business license duly completed shall be submitted to the Banking Supervision Department, National Bank of Ethiopia, Addis Ababa.

## Financial Year

For the purpose of reporting to the Bank, financial year for all banks operating in Ethiopia shall be from July 1 of the current year to June 30 of the following year.

## Commencement of Operation

A licensed bank shall fulfill the following before it commences operation:

9.1 Put in place comprehensive risk management policies and operating manuals including, but not limited to:

- 9.1.1 Credit,
- 9.1.2 Recruitment and manpower development,
- 9.1.3 Investment,
- 9.1.4 Domestic and foreign banking,
- 9.1.5 Liquidity management,

- 9.1.6 Audit and inspection,
- 9.1.7 Management information systems,
- 9.1.8 Planning and budgeting,
- 9.1.9 Accounting; and
- 9.1.10 Business continuity Plan

9.2 Hire, train and place adequate and appropriate staff;

9.3 Ensure that the banking hall and staff operating area are suitable for the type of business to be undertaken in the premises housing the bank including but not limited to:

Proper ventilation and circulation of fresh air,

9.3.2 Suitable and clean sanitary service,

9.3.3 Sufficient and suitable lighting,

9.3.4 Display of working hours and copy of the bank's license in a visible area of the bank;

Cashier's till which is restricted to authorized persons;

9.4 Have a strong room with a minimum carrying capacity of 224 cubic meters.

9.5 Cash loading and unloading area shall be suitable and protected from public view and access.

Place fire extinguishers at appropriate places,

Have insurance policy for the following at a minimum:

9.7.1 Fire and other perils,

9.7.2 Burglary and theft,

9.7.3 Fidelity,

9.7.4 Cash and valuables in premises and in transit,

Outer doors of the building housing the bank shall be of heavy duty metal;

All windows and glass walls of the building housing the bank shall be reinforced with metal grills;

## 10. Transition Period for Existing Banks

The provisions of these directives shall apply on banks operating in Ethiopia prior to the effective date of these directives starting from 1st of July 2007.

## 11. Repeal

Directives No. SBB/1/1994 are hereby repealed and replaced by these Directives.

12 Effective Date

These Directives shall enter into force as of 1st day of May 2006.

Strictly Confidential

ANNEX I

NATIONAL BANK OF ETHIOPIA  
PROPRIETY TEST QUESTIONAIRE

(To be completed by elected board member and nominated chief executive officer of a bank)

Please give yes or no answers for the following questions; if your answer is "yes" please give further explanation on separate paper.

Position: Board member/Chief Executive Officer (underline the applicable position)

Full Name

.....

Name of Bank: .....

Have you been convicted of any criminal offence, particularly an offence relating to dishonesty, fraud, financial crime or other criminal acts or been involved in any acts of misfeasance or serious misconduct?

Have you been the subject of any proceedings of a disciplinary or criminal nature, or have you been notified of any impending proceedings or of any investigation, which might lead to such proceedings?

Has any business in which you have equity capital participation of five percent and above or in which you served as a director or as chief executive officer been fined, suspended or disciplined in other way or investigated or criticized by a government regulator or professional body?

Have you been associated, in ownership or management capacity,



with a company, partnership or other business association that has been refused registration, authorization, membership or a license to conduct trade, business or profession, or has had that registration, authorization, membership or license revoked, withdrawn or terminated?

Have you, as a result of the removal of the license, registration or other authority mentioned under "d" above been refused the right to carry on trade, business or profession requiring a license, registration or other authorization?

Have you been a director, chief executive officer, or otherwise involved in the management of a business that has gone into receivership, insolvency, or liquidation?

Have you been dismissed, asked to resign or resigned from employment or from a position because of questions or doubts about your honesty and integrity?

Have you ever been disqualified, under any law or regulation, from acting as a director or serving in a managerial capacity?

I certify that the information given above is complete and accurate to the best of my knowledge.

Signature \_\_\_\_\_

Date \_\_\_\_\_