

**Licensing and Supervision of Banking Business
Requirements for Persons with Significant Influence in a Bank
Directives No. SBB/79/2021
(2nd Replacement)**

Whereas, ensuring sound practices, stability and long-term institutional success in financial system in general and the banking sector in particular is crucial.

Whereas, public confidence in the financial system depends, among other things, on whether financial institutions including banks are owned, directed and managed by persons who are fit and proper;

Whereas, it is necessary to enhance effectiveness and soundness of governance of banks;

Whereas, there is a need to ensure that the National Bank of Ethiopia exercises its responsibilities to assess whether banks are soundly and prudently managed and directed;

Now, therefore, in accordance with articles 4(1g&h), 14(4a) and 65 (2) of Banking Business Proclamation No.592/2008 as amended by Proclamation No. 1159/2019, the National Bank of Ethiopia hereby issues these Directives.

1. Short Title

These Directives may be cited as “Requirements for Persons with Significant Influence in a Bank Directives No. SBB/79/2021 (2nd Replacement)”.

2. Definitions

For the purpose of these Directives, unless the context provides otherwise:

- 2.1 “**bankrupt**” is a person who has been declared bankrupt by the court of law;
- 2.2 “**chief executive officer**” means a person by whatever title that person may be referred to, who is primarily responsible for the day-to-day management of the affairs of a bank;
- 2.3 “**director**” means any member of the board of directors of a bank by whatever title he/she may be referred to;
- 2.4 “**financial institution**” means an insurance company, a bank, a micro-finance institution, a capital goods finance company, a reinsurer, a micro insurance provider, a



postal saving, a money transfer institution, a digital financial service provider or such other similar institution as determined by the National Bank;

- 2.5 **“fit and proper criteria”** are criteria used to assess and determine whether persons with significant influence possess the integrity, financial soundness and competence and capacity to fulfill the responsibilities of their positions;
- 2.6 **“influential shareholder”** means a person who holds directly or indirectly two percent or more of the total subscribed capital of a bank;
- 2.7 **“managerial position”** means a position of at least a team leader, a division head or equivalent;
- 2.8 **“National Bank”** means the National Bank of Ethiopia;
- 2.9 **“one term”** means a period not exceeding three (3) years;
- 2.10 **“person”** means any natural or juridical person;
- 2.11 **“persons with significant influence”** are influential shareholders, directors, chief executive officer and senior executive officers of a bank;
- 2.12 **“senior executive officer”** means any officer of a bank who is deputy to the chief executive officer or is directly reporting to the board of directors;
- 2.13 **“technically insolvent person”** is a person whose liabilities are greater than assets or whose significant part of assets have been foreclosed by a financial institution or sequestrated by court order.

3. Scope of Application

The provisions of these Directives shall be applicable to all banks operating in Ethiopia.

4. General

- 4.1 Persons with significant influence shall meet all respective requirements and considerations set in these Directives.
- 4.2 Appointment of directors, chief executive officer, senior executive officers, chief internal auditor, and chief risk and/or compliance officer shall be subject to approval by the National Bank.
- 4.3 In appointing chief executive officer and senior executive officers, board of directors shall ensure that such persons fulfill requirement set in these Directives.
- 4.4 Any shareholding that makes a person influential shareholder shall be approved by the National Bank.





5. Fit and Proper Criteria

5.1 Knowledge, Experience and Age

With respect to knowledge experience and age, directors, a chief executive officer and senior executive officers shall fulfill at a minimum, the following.

5.1.1 Board of Directors

- i) A director shall hold a minimum of first degree or equivalent from recognized higher learning institution.
- ii) A board may preferably comprise of directors who as a group provide a mixture of core competencies such as banking, finance, accounting, management, economics, legal, business administration, auditing, information technology, and investment management.
- iii) The board shall comprise of female directors provided that eligible candidates are available among the shareholders.
- iv) A director shall have adequate experience in business management, preferably in banking business, and/or shall take training in financial analysis, corporate governance, applicable laws, regulation, directives, risk management, and internal control after holding a seat on the board.
- v) A director shall be at least 30 years old.

5.1.2 Chief Executive Officer

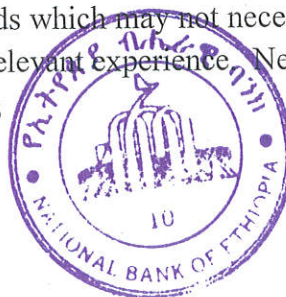
A chief executive officer shall:

- i. hold a minimum of first degree from recognized higher learning institution; and
- ii. have a minimum of 12 years' experience in banking, of which, at least 5 years shall be as senior executive officer.

5.1.3 Senior Executive Officers

(a) A senior executive officer, if deputy to the chief executive officer, shall:

- i. hold a minimum of first degree from recognized higher learning institution; and
- ii. have a minimum of 10 years' experience in banking, of which, at a minimum **4 years** shall be experience as department manager or equivalent. However, if the position is on Information Technology (IT) or related fields, experience in IT related fields which may not necessarily be banking related shall also be considered as relevant experience. Nevertheless, such person



shall take a minimum of 5 days training on core banking business functions including credit, saving, international banking and other core functions once he/she assumes the position of senior executive officer and certificate of training shall be filed to the National Bank accordingly.

- (b) A senior executive officer, if directly reporting to the board of directors (mainly chief internal auditor and chief risk &/or compliance officer), shall:
- i. hold a minimum of first degree from recognized higher learning institution; and
 - ii. have a minimum of 8 years' experience in banking, of which, at a minimum **3 years** shall be in managerial position.

5.2 Integrity

Persons with significant influence shall be honest, reputable and diligent. In determining integrity of persons with significant influence, all relevant factors shall be considered, including but not limited to:

- 5.2.1 whether the person has a record or evidence of previous conduct and activities where he/she/it has been convicted for a criminal offense under any law designed to protect members of the public from dishonesty or fraud whether in Ethiopia or elsewhere;
- 5.2.2 whether the person has a record of withholding information from public authorities, submission of incorrect financial or other statements, prior refusal of regulatory/supervisory approval and failure to comply with requirements of regulatory/supervisory body, other corrective actions or interventions by public authority; and
- 5.2.3 in case of chief executive officer and senior executive officers, whether the person has a record of disciplinary measures or any dispute with previous employers, or compliance with a code of conduct which has led to the imposition of a penalty under employment law or any other disciplinary measures imposed by trade or professional associations.

5.3 Financial Soundness

Persons with significant influence shall be financially sound. In determining financial soundness of persons with significant influence, all relevant factors shall be considered, including but not limited to:



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- 5.3.1 whether he/she or the legal person in which he/she is a director or chief executive officer or senior executive officer or owner has instituted bankruptcy proceedings or declared bankrupt, whether in Ethiopia or elsewhere, or his/her or the company's assets have been sequestered because of bankruptcy or been foreclosed by a bank because of failure to repay a loan;
- 5.3.2 whether he/she or the legal person in which he/she is a director or chief executive officer or senior executive officer or owner has been convicted of default on repayments of bank or other credits or tax payment;
- 5.3.3 whether he/she or the legal person in which he/she is a director or chief executive officer or senior executive officer or owner carries non-performing loans, as defined by directives of the National Bank, from any financial institution;
- 5.3.4 whether the person's purchase of shares in a financial institution has been funded or to be funded by another person who is actually bankrupted or technically insolvent because of irresponsible or reckless management, fraud or illegal business practice;
- 5.3.5 whether the person's minimum net worth at the time of acquisition of shares is at least greater than shares acquired or to be acquired from a financial institution; and
- 5.3.6 whether a person's account has been closed and not reinstated by any bank, in line with relevant directives of the National Bank, because of drawing checks without sufficient funds.

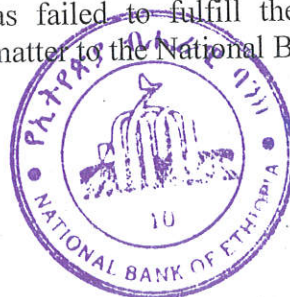
6. Ongoing Fitness and Propriety Test, and Action by the National Bank

The National Bank may conduct fitness and propriety test on persons with significant influence of a bank on an ongoing basis. Where such a test indicates that a person with significant influence has failed to fulfill the fitness and propriety test as set out in these Directives, the National Bank may:

- 6.1 suspend voting rights of influential shareholder; and
- 6.2 suspend and/or remove a director, chief executive officer or senior executive officer.

7. Subsequent Notification Requirements

- 7.1 Persons with significant influence are required to immediately notify the National Bank any events that might change their assessment as fit and proper.
- 7.2 If board of directors, chief executive officer, senior executive officers or external auditors of a bank, during the course of performing their duties, have reasonable doubt that a person with significant influence has failed to fulfill the criteria in these Directives, they shall immediately report the matter to the National Bank.



Handwritten signature or initials.

8. Documents to be Submitted on Application

8.1 Written request shall be submitted to the National Bank along with the following documents in order to conduct fitness and propriety test.

8.1.1 For directors, chief executive officer and senior executive officers;

- i) an updated and signed curriculum vitae (including name, nationality, birth date, education, recent photograph, employment history, experience in business and financial affairs, involvement in civic, social and charitable activities including any leadership position held) accompanied with authenticated copies of documents signifying education qualification and work experience;
- ii) copy of organizational structure approved by board of directors;
- iii) copies of identification card and /or passport; and
- iv) copy of signed appointment minutes of the board of directors.

8.1.2 For all persons with significant influence:

- i) completed and signed fitness and propriety test questionnaire which is part hereof;
- ii) copy of tax identification number;
- iii) certificate of good conduct from relevant government organ; and
- iv) any other document that the National Bank deems necessary.

8.2 Where the director is juridical person, both the company and the person representing the company shall be fit and proper.

8.3 In case of corporate directors and influential shareholders, the following documents shall be submitted:

8.3.1 copy of the company's registered memorandum and articles of association;

8.3.2 copies of audited statements of the legal entity concerned, for three consecutive years (immediately preceding its application) or for each year it has been in operation, if less than three years; and

8.3.3 any other documents the National Bank deems necessary.

9. Rotation

9.1 A person may not serve either on his own behalf or representing any other shareholder as agent, or by whatsoever means, as director of a bank for more than six consecutive years starting from the date he/she was appointed by ordinary general meeting of shareholders; however, he/she may be re-elected after a lapse of six consecutive years.





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- 9.2 Notwithstanding provisions of sub-article 9.1 hereinabove, if the ordinary general meeting of shareholders of a bank wishes to maintain continuity in the board and re-elect some of the existing board members, it may re-elect such directors for only one more term. The number of board members so re-elected shall, however, be limited to a maximum of one-third of the board seats of the bank.
- 9.3 A bank shall notify the National Bank, in writing, any transfer or removal of senior executive officers directly reporting to the board of directors from his/her current position within 30 calendar days before such decision is implemented, clearly stating the reason for such decision.

10. Period of Limitation for Acting Officers

- 10.1 Appointment of a chief executive officer of a bank on acting basis on a vacant post shall be approved by the National Bank.
- 10.2 A person shall not assume chief executive officer, or senior executive officer position on acting basis for more than six months.
- 10.3 Appointment of a senior executive officer by a bank on acting basis on a vacant post shall be reported to the National Bank within three (3) working days of such appointment.
- 10.4 Any experience relevant to the provision of sub-article 10.2 hereinabove exceeding six months shall not be counted as managerial experience.


11. Repeal

Directives No.SBB/70/2019 are hereby repealed and replaced by these Directives.

12. Effective Date

These Directives shall enter into force as of June 15, 2021.




Yirager Dessie (PhD)
Governor



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ANNEX 1: GENERAL INFORMATION (Influential shareholder, director, chief executive officer, or senior executive officer - Underline).

NB: In case the space provided is inadequate, use additional paper.

1. Name of bank _____
2. Personal Information
 - a) Full Name: _____
 - b) Date of Birth: _____
 - c) Place of Birth: _____
 - d) Nationality: _____
 - e) Identification Card Number and Date of Issue: _____
 - f) Passport Number and Date of Issue: _____
 - g) Tax Payer Identification Number: _____
 - h) Address: City: _____ Sub-City: _____
 Zone: _____ Woreda: _____ Kebele _____
 House No.: _____ Postal Address: _____ Telephone No: _____ Fax: _____
 Email: _____
 - i) Educational Qualification: _____

j) Summary of Work Experience:

No.	Organization	Position	Duration	Number of years

k) Name(s) of your bankers for the last 5 years

3. Please list financial institutions in which you currently (as of completing these form) own shares in the following table.

Name of the financial institution	Subscribed Shares owned		Remarks
	In number	Share in the financial institution's total subscribed capital (%)	





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4. Description of your past and current business activities in Ethiopia and abroad (if applicable)

a) Current shareholding or ownership in non-financial institutions/companies

Company name	Date of incorporation	Amount of shareholding	% of shareholding (in total shares of the company)	Remark

b) Past shareholding or ownership in a company (shares you owned in the past but had been relinquished) including financial institutions

Company name	Date of incorporation	Amount of shareholding	% of shareholding (in total shares of the company)	Reason for termination of shareholding	Remark

c) Borrowings (directly or indirectly)

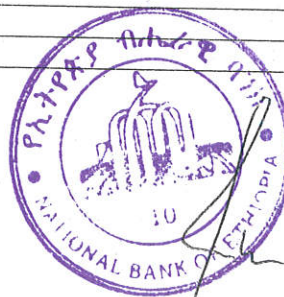
Name of borrower*	Name of lending institution	Type of facility	Amount borrowed	Date of approval	Security offered (type)	Value of security	Current outstanding balance	Status of the loan (Pass, s. mention, doubtful ...)	Remark

*Including all companies 10% or more owned by the applicant, the applicant's spouse and children less than 18 year.

5. If legal person (only for influential shareholders in a bank), please complete the following table for the recent three financial years (Please also attach audited financial statements)

Year	Assets	Liabilities	Net worth	Remarks

6. If you are new shareholder to the bank or existing shareholder planning to increase your shareholding above what you currently own, please provide details of the actual source(s) of funds that you, as a shareholder, would like to invest or use in the acquisition of the shares in the bank.





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ANNEX 2: PROPRIETY TEST QUESTIONNAIRE

Please give yes or no answers for the following questions and if your answer is "yes" please give particulars.

Full Name: _____

(Influential shareholder, director, chief executive officer, senior executive officer, chief internal auditor, or chief risk and/or compliance officer -Underline)

Name of bank: _____

- | | <u>Yes</u> | <u>No</u> |
|--|--------------------------|--------------------------|
| 1. Have you or the legal person in which you were a director, chief executive officer, senior executive officer, or owner been charged or convicted of any criminal offence, particularly an offence relating to dishonesty or fraud, under any law whether in Ethiopia or elsewhere?
If yes, give particulars _____ | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Have you or the legal person in which you were a director, chief executive officer, senior executive officer, or owner ever been imposed with corrective actions or interventions by public authority due to withholding information or submission of incorrect financial or other statements?
If yes, give particulars _____ | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Have you or the legal person in which you were a director, chief executive officer, senior executive officer, or owner been refused approval by any regulatory/supervisory body or failed to comply with requirements of regulatory/supervisory body?
If yes, give particulars _____ | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Have you ever been in dispute with previous employers concerning fulfillment of position or compliance with a code of conduct which has led to the imposition of penalty under employment law or ever been dismissed or requested to resign from any office of employment or disciplinary measures imposed by trade or professions?
If yes, give particulars _____ | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Have you been refused, whether in Ethiopia or elsewhere, the right to carry on any trade, business or profession for which a specific license, registration or other authority is required?
If yes, give particulars _____ | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Have you or the legal person in which you were a director, chief executive officer, senior executive officer, or owner been declared bankrupt whether in Ethiopia or elsewhere or have its assets been sequestered because of bankruptcy or foreclosed by a bank due to failure to repay a loan?
If yes, give particulars _____ | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Have you or the legal person in which you were a director, chief executive officer, senior executive officer, or owner been convicted of default on repayments of bank or other credits or tax payment?
If yes, give particulars _____ | <input type="checkbox"/> | <input type="checkbox"/> |





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8. Have you or the legal person in which you were a director or chief executive officer, senior executive officer, or owner been carrying non-performing loans or account been closed and not reinstated by any bank in line with relevant directives of the National Bank?
If yes, give particulars _____
9. Has your purchase of shares in a financial institution been funded or to be funded by another person or legal entity who is actually bankrupted or technically insolvent because of irresponsible or reckless management, fraud or illegal business practice?
If yes, give particulars _____
10. Has your minimum net worth at the time of acquisition of shares at least greater than the shares acquired or to be acquired from a financial institution?
If yes, give particulars _____
11. Are you currently a member of board of directors or chief executive officer in any of the financial institutions?
If yes, give particulars _____

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Declaration

I am aware that under sub-article 6(b) of Article 58 of Banking Business Proclamation No. 592/2008, it is an offense to provide false or misleading statement.

I certify that the information and/or statements given above are complete and accurate to the best of my knowledge, and that there are no other facts relevant to this application of which the National Bank should be aware. I also undertake to inform the National Bank of any changes material to the application.

Name _____

Signature _____

Date _____



[Handwritten signature]