REQUIREMENTS FOR RELICENSING A MICROFINANCE INSTITUTION AS A BANK DIRECTIVE NO. RBB/--/2026 (1ST REPLACEMENT)

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NATIONAL BANK OF ETHIOPIA

PREAMBLE

WHEREAS, it is necessary to ensure that a microfinance institution relicensed as a bank has the financial, governance, managerial and operational capacity to conduct banking business in a safe and sound manner;

WHEREAS, the relicensing of a microfinance institution as a bank should promote sustainable financial inclusion and ensure the continued provision of microfinance services, particularly to rural communities and micro and small-scale enterprises;

WHEREAS, it is necessary to establish requirements governing the relicensing of microfinance institutions as banks and the continued provision and supervision of microfinance services by such banks;

Now, therefore, in line with powers vested in it by sub-articles 13(2) and 91(2) of Banking Business Proclamation No. 1360/2025 and articles 21(1) and (2), and 27(2) of Micro-financing Business Proclamation No. 626/2009 as amended by Microfinance Business (amendment) Proclamation No. 1164/2019, the National Bank of Ethiopia has issued this Directive.

1. Short Title

This Directive may be cited as the "Requirements for Relicensing a Microfinance Institution as a Bank Directive No. RBB/.... /2026 (1st Replacement)."

2. Definitions

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

2.1. **"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.

2.2. **"CAMEL rating"** means a rating of a microfinance institution's capital adequacy, asset quality, management competence, earnings and liquidity, on a scale of 1 to 5, with 5 being the highest rating and 1 being the lowest.

2.3. **"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 microfinance institution.

2.4. **"compulsory saving"** means mandatory deposits made for the purpose of enabling the individuals or groups making the savings to qualify to receive loans from a bank relicensed from a microfinance institution and to serve as collateral against the loans so obtained.

2.5. **"microfinance institution"** means a company licensed to engage in micro-financing business in rural or urban areas and other activities specified under sub-article 3(2) of Microfinance Business Proclamation No. 626/2009 as amended by Proclamation No. 1164/2019.

2.6. **"micro and small enterprise"** means an individual or an enterprise engaged in manufacturing, service or agricultural activities, classified as follows:

(a) **Microenterprise:** an individual or an enterprise employing not more than 10 (ten) persons and having total assets not exceeding USD 11,764 for manufacturing and service activities or USD 7,843 for agricultural activities, or the equivalent amount in Ethiopian Birr calculated at the prevailing exchange rate; and

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(b) **Small enterprise:** an individual or an enterprise employing more than 10 (ten) but not more than 50 (fifty) persons and having total assets exceeding USD 11,764 but not exceeding USD 196,000 for manufacturing activities, or exceeding USD 7,843 but not exceeding USD 98,000 for service and agricultural activities, or the equivalent amounts in Ethiopian Birr calculated at the prevailing exchange rate.

2.7. **"microfinance service"** means a financial service provided by a bank relicensed from a microfinance institution to a micro or small enterprise, provided that the aggregate outstanding balance of loans and advances granted to the borrower and its connected borrowers or related enterprises, as determined in accordance with the applicable Directives of the National Bank, does not exceed Birr 30,000,000 (thirty million Birr) at any given time.

2.8. **"National Bank"** means the National Bank of Ethiopia.

2.9. **"regional government"** includes bureaus municipality and other offices organized under a regional government or Addis Ababa or Dire Dawa City Administration, excluding state owned enterprises.

2.10. **"senior executive officer"** means a person, by whatever title that person may be referred to, who is deputy to the chief executive officer or holds equivalent position to the deputy chief executive officer of a microfinance institution.

2.11. **"person"** means any natural or juridical person.

2.12. Any expression in the masculine gender includes feminine.

3. Scope of the Directive

This Directive shall apply to a microfinance institution applying to the National Bank for relicensing as a bank and a bank relicensed from a microfinance institution pursuant to this Directive.

4. Eligibility and Requirements for Relicensing

4.1. A microfinance institution applying for relicensing as a bank shall submit to the National Bank the signed minutes of its general meeting of shareholders, together with the attendance sheet and the proposed amended memorandum of association, evidencing the shareholders' approval of the institution's relicensing as a bank.

4.2. A microfinance institution applying for relicensing as a bank shall submit its latest audited financial statements, not more than one year old, and an external auditor's confirmation of its eligible paid-up capital, together with any additional information required by the National Bank, to demonstrate compliance with the minimum paid-up capital requirement applicable to banks as at the date of application.

4.3. A regional government shall not hold more than 70% (seventy percent) of the shares in a microfinance institution relicensed as a bank.

4.4. Notwithstanding Sub-Article 4.3 of this Article, the shareholding limits prescribed under Directive No. SBB/94/2025, as amended, shall apply, as applicable, to privately owned and non-governmental organization-backed microfinance institutions applying for relicensing as banks.

4.5. A microfinance institution applying for relicensing as a bank shall have a composite CAMEL rating of at least 3 (three), based on the most recent on-site examination report issued by the National Bank within the twelve months preceding the date of application.

5. Requirement for Continued Provision of Microfinance Services

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5.1. A microfinance institution applying for relicensing as a bank shall demonstrate, through its mission statement, internal bylaws and business model, that the provision of microfinance services will remain one of its core business activities, and shall ensure that the necessary resources and systems are in place for this purpose.

5.2. A bank relicensed from a microfinance institution shall establish and maintain an appropriate organizational function responsible for the provision and management of microfinance services as one of its lines of business.

5.3. A bank relicensed from a microfinance institution shall maintain the continuity of existing microfinance services and ensure their continued provision following relicensing, and the microfinance institution applying for relicensing shall submit to the National Bank a written commitment to this effect.

6. **Special Regulatory and Operational Arrangements**

6.1. A bank relicensed from a microfinance institution shall open "Payment and Settlement" and "Issue" accounts with the National Bank before commencing banking operations.

6.2. Except for appointment as head of the international banking wing, experience gained as a chief executive officer or senior executive officer of a microfinance institution may be considered equivalent to banking experience when assessing the fitness and propriety of such person for appointment as a chief executive officer or senior executive officer of the same or another bank relicensed from a microfinance institution.

6.3. A sub-branch of a bank relicensed from a microfinance institution may process loans and advances.

6.4. A branch or sub-branch of a microfinance institution relicensed as a bank, located in a rural area, may continue providing only microfinance services without being required to comply with the branch infrastructure requirements prescribed under the relevant Directives of the National Bank, until the infrastructure in the area where it operates reasonably supports compliance with the standards applicable to a bank branch.

6.5. A bank relicensed from a microfinance institution may establish a new branch in an underserved rural area for the purpose of providing microfinance services without being required to comply with the branch infrastructure requirements applicable to bank branches, subject to compliance with the branch-opening requirements applicable to microfinance branches under the relevant Directives of the National Bank.

6.6. A branch or sub-branch referred to under Sub-Articles 6.4 and 6.5 of this Article shall provide only microfinance services, as permitted under applicable laws, and shall be designated as a microfinance branch of the bank. Such designation shall be clearly displayed on its signage board and other relevant identification materials.

6.7. Notwithstanding the provisions of Directive No. FIS/04/2021, as amended, a bank relicensed from a microfinance institution may open deposit accounts for its microfinance customers residing in rural areas who are unable to fulfil the comprehensive customer-profile requirements stated under Article 5.1 and Annex I of the said Directive, subject to verification of the customer's identity, confirmation of residence through a supporting letter issued by the relevant government body, and compliance with such additional customer due diligence requirements as the National Bank may prescribe.

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6.8. Notwithstanding the provisions of the Reserve Requirements (9th Replacement) Directive No. SBB/97/2025, as amended, compulsory savings maintained by a bank relicensed from a microfinance institution shall be excluded from the reserve base for the purpose of calculating the reserve requirement, to the extent that such savings are directly associated with a microfinance loan actually disbursed by the bank and remaining outstanding.

6.9. A bank relicensed from a microfinance institution shall maintain separate records of compulsory savings excluded from the reserve base, identifying the corresponding borrower and loan, the amount of compulsory savings maintained, the applicable compulsory savings requirement and the outstanding loan balance, and shall make such records and supporting documents available to the National Bank upon request.

6.10. Where a microfinance loan associated with compulsory savings referred to under Sub-Article 6.9 of this Article is fully repaid, the compulsory savings shall no longer be excluded from the reserve base starting from the reserve calculation period immediately following repayment.

7. **Applicability of Banking Regulations and Transitional Arrangements**

7.1. A microfinance institution applying for relicensing as a bank shall comply with the applicable requirements of the Requirements for Licensing and Renewal of Banking Business and Representative Office Directive No. SBB/94/2025, as amended, except for those requirements expressly exempted under this Article.

7.2. Notwithstanding Sub-Article 7.1 of this Article, the following requirements shall not apply to a microfinance institution applying for relicensing as a bank:

7.2.1. Sub-Articles 6.1.1 (signed minutes of the first meeting of promoters), 6.1.2 (promoters' pre-application meeting with the National Bank), 6.1.3(b) (initial business plan for the bank under formation); 6.1.5 (request to open a blocked subscription account, during the pre-application phase); and

7.2.2. Sub-Article 6.3.11 (establishment cost audit report approved by the subscribers' meeting, during the application phase).

7.3. Except as otherwise expressly provided under this Directive, all applicable laws, governing banking business shall apply to a bank relicensed from a microfinance institution.

7.4. A bank relicensed from a microfinance institution shall comply with the applicable Directives of the National Bank within 24 (twenty-four) months from the date of relicensing, except for requirements relating to minimum liquidity, non-performing loans (NPLs) and capital adequacy ratio, which shall apply from the date of relicensing.

7.5. A bank relicensed from a microfinance institution shall submit to the National Bank, within 15 (fifteen) days from the date of relicensing, a comprehensive action plan for complying with the requirements referred to under Sub-Article 7.3 of this Article.

7.6. Notwithstanding the transitional period provided under this Article, the bank shall commence submission of prudential returns from the date of relicensing and shall comply with reporting and other requirements as the National Bank may specify for immediate implementation.

8. Reporting and Maintenance of Supporting Documents

8.1. A bank relicensed from a microfinance institution shall maintain adequate records and supporting documents to identify and verify the microfinance services

provided, the compulsory savings maintained, and the corresponding loans and amounts excluded from the reserve base, and shall make such records and documents available to the National Bank upon request.

8.2. A bank relicensed from a microfinance institution shall submit to the National Bank quarterly reports on the microfinance services provided to its customers, using the reporting template annexed to this Directive, through the Bank Supervision Application system maintained by the National Bank.

9. Administrative Measures and Penalty

9.1. Where a bank relicensed from a microfinance institution fails to properly carry on its microfinance business in accordance with this Directive, the National Bank may require the bank to take corrective measures within a specified period and may impose appropriate supervisory or enforcement measures, including suspension of any of its banking services or revocation of its banking business license, in accordance with applicable laws.

9.2. A bank relicensed from a microfinance institution that fails to comply with the reporting obligations under Article 8 of this Directive shall be subject to the penalties prescribed under the relevant Directives of the National Bank.

9.3. Where a bank relicensed from a microfinance institution intentionally overstates the amount of compulsory savings eligible for exclusion from the reserve base or otherwise misreports such savings to avoid maintaining the required reserves, the bank shall be subject to the financial penalty prescribed under the Reserve Requirements (9th Replacement) Directive No. SBB/97/2025, as amended, calculated on the reserve deficit resulting from such misreporting. In addition, the National Bank may withdraw the preferential reserve treatment granted to the bank

in respect of compulsory savings and impose other appropriate administrative or supervisory measures.

10. Repeal

Requirements for Relicensing a Microfinance Institution as a Bank Directive No. SBB/74/2020 is hereby repealed and replaced by this Directive.

11. Effective Date

This Directive shall enter into force as of the ....th day of .... 2026.

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ANNEX

QUARTERLY REPORT ON MICROFINANCE SERVICES

Name of Bank: _____

Reporting Period: _____

Reporting Date: _____

No	Descriptions	Amount/Number**
1	**Total Deposits* (Sum of 1.1,1.2, 1.3 and 1.4)**	
1.1	Demand Deposits	
1.2	Saving Deposits	
1.3	Time Deposits	
1.4	Compulsory Deposits	
2	**Total Number of Depositors (Sum of 2.1, 2.2, 2.3 and 2.4)**	
2.1	Number of Depositors on demand deposits	
2.2	Number of Depositors on saving deposits	
2.3	Number of Depositors on time deposits	
2.4	Number of Depositors on compulsory deposits	
3	**Total Number of Deposits Accounts (Sum of 3.1, 3.2 and 3.3)**	
3.1	Number Deposit Accounts on demand deposits	
3.2	Number Deposit Accounts on saving deposits	
3.3	Number Deposit Accounts on time deposits	
4.	Total outstanding Loans & Advances	
5	**Total outstanding Loans & Advances by sector (Sum of 5.1, 5.2, 5.3, 5.4 & 5.5) *** **	
5.1	Individuals	
5.2	Services sector	
5.3	Agricultural sector	
5.4	Manufacturing sector	
5.5	Other sectors (shall be specified)	
5.	Total Number of Borrowers	
6.	Total Number of Borrower's Accounts	
7.	Total non-performing Loans & Advances	
8.	No. of branches providing microfinance services and not upgraded to bank branches	

Note:

* Deposits collected from individual and micro & small-scale enterprises

** Number of depositors and deposit accounts; number of borrowers and borrower's accounts; and number of branches providing microfinance services and not upgraded to bank branches shall be reported in number.

*** Living areas (location) of the borrowers whether it is rural and urban shall be separately specified.

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