

Licensing and Supervision of Banking Business
Minimum Capital Requirement for Banks
(Amended) Directive No. 778/2021

WHEREAS, it has become necessary to raise the minimum paid-up capital required for banks and further improve financial resilience and soundness of banks and the banking system;

WHEREAS, existence of strong, capable and well capitalized banks is necessary for further mobilization of resources and meeting the financing needs of the growing national economy;

WHEREAS, it has become necessary to raise the minimum capital required to establish a new bank so that the newly established bank can operate and compete successfully with existing/new banks;

NOW, THEREFORE, in accordance with Articles 18(1) and 65 (2) of Banking Business Proclamation No. 592/2008 as amended by Proclamation No. 1159/2019, the National Bank has issued this Directive.

1. Short Title

This Directive may be cited as “**Minimum Capital Requirement for Banks (Amended) Directive N o . 778/2021**”

2. Definitions

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

- 2.1. “**existing bank**” refers to a bank licensed by the National Bank before the effective date of this Directive;

2.2. “**a bank under formation**” means a banking share company under formation which fulfills all of the following as of the effective date of this Directive:

- a) its capital has been fully subscribed,
- b) collected in cash from its founding shareholders a minimum capital of Birr 500 million (Birr five hundred million) and deposited in an existing bank (s) in the name and to the account of the bank under formation,
- c) as per the commercial code and relevant laws of the country held its subscribers meeting, elected board of directors and approved memorandum and articles of associations, and
- d) submitted final application for banking business to the National Bank.

2.3. “**a bank in the process of share subscription**” means a banking share company that is in the process of selling shares to the public as per the approval obtained from the National Bank and has not conducted its subscribers meeting as of the effective date of this Directive.

2.4. “**National Bank**” refers to the National Bank of Ethiopia

3. Scope of Application

This Directive shall be applicable to existing banks, banks under formation, banks in the process of share subscription and microfinance institutions that desire to be relicensed as a bank.

4. Minimum Paid-up Capital

The minimum paid-up capital required to obtain a banking business license shall be **Birr 5 Billion (Five Billion Birr)**, which shall be fully paid in cash and deposited in a bank (s) in the name and to the account of the bank under formation.

5. Transitory Provision

Notwithstanding the provision of article 4 of this Directive:

5.1 An existing bank whose paid-up capital is below **Birr 5 billion (Five Billion Birr)** shall raise its paid-up capital to the said amount by June 30, 2026; such bank is required to submit action plan for capital increase to the National Bank within 30 days after the effective date of this Directive.

- 5.2 A bank under formation is required to comply with article 4 of this Directive within 7 (seven) years after commencement of banking operation and shall submit its action plan towards this end.
- 5.3 A bank in the process of share subscription (including a bank to be formed through combining shares of different banks in the process of share subscription), which succeeds to collect **Birr 500 million (Five Hundred Million Birr)** from founding shareholders, hold subscribers meeting and submit final application to the National Bank within a maximum of 6 months (six months) after the effective date of this Directive shall be permitted to get banking business license with a minimum of **Birr 500 million (Five Hundred Million Birr)** paid-up capital. However, such bank shall be required to comply with article 4 of this Directive within 7 (seven) years after commencement of banking operation and shall submit its action plan towards this end.
- 5.4 A microfinance institution which is able to apply for a banking business license within a maximum of 6 months (six months) after the effective date of this Directive by fulfilling the requirements stated under article 4 of “Requirements for Relicensing a Microfinance Institution as a Bank Directive No. SBB/74/2020” shall be allowed to be relicensed as a bank with a minimum of **Birr 500 million (Five Hundred Million Birr)** paid-up capital. However, such bank shall be required to comply with article 4 of this Directive within 7 (seven) years after commencement of banking operation and shall submit its action plan towards this end.
- 5.5 Meanwhile, notwithstanding the transitory provisions provided in this article, all licensed banks shall at a minimum maintain capital to risk weighted assets ratio of **8%** at all times.

6. Sanctions

- 6.1 If a licensed bank fails to comply with the minimum paid up capital requirement of **Birr 5 Billion (Five Billion Birr)** as specified under article 4 of this Directive, the National Bank may:
- 6.1.1 put the bank under receivership and appoint a receiver in line with relevant provisions of Banking Business Proclamation No. 592/2008 (as amended by Proclamation no. 1159/2019);

6.1.2 require the appointed receiver to dissolve the bank through merger with another bank; and/or

6.1.3 take any other measures that it considers fit.

6.2 Notwithstanding the provisions stated under article 6.1 hereinabove, a licensed bank upon the event of seeing difficulty in meeting the minimum paid-up capital as required in this Directive may undertake voluntary merger or acquisition transactions with another bank before the elapse of the stated period under sub-article 5.1, 5.2, 5.3 and 5.4 of this Directive. However, such transactions shall be made after securing consent and approval from the National Bank.

7. Repeal

Minimum Capital Requirement for Banks Directive Number SBB/50/2011 is hereby repealed and replaced by this Directive.

8. Effective Date

This Directive shall enter into force as of the **12^t day of April 2021.**

