



## CENTRAL BANK OF SOMALIA

### Licensing and Supervision Department

*Qaybta Shati-siinta iyo Kormeerka*

#### Regulation on Bank Licensing, 2014

**CBS/BS/REG/01**

#### 1. INTRODUCTION

##### 1.1. Authority

This regulation is made by the Central Bank pursuant to its authority set forth in Sections 38(1) and 52(1) of the Central Bank of Somalia Law, 2011, and Section 34 (Supervisory Standards) of the Financial Institution Law, 2014 (“FIL”), for the purpose of implementing Sections 4 (Application for license), 5 (Evaluation of the application for a license), 6 (Grant or refusal of license), 7 (Validity and renewal of license), and 11 (Branches of foreign banks) of the FIL.

##### 1.2. Applicability

This regulation applies to all persons intending to engage in banking business in Somalia.

#### 2. DEFINITIONS

All terms used in this regulation have the same meaning as defined in *Chapter 1, Section 2, Interpretation*, of the Financial Institution Law, 2014. In addition, the following definitions apply.

- 2.1. **Applicant** – A person incorporated as a limited liability company under the Companies Act of Somalia or an overseas company registered under the Companies Act (including a foreign financial institution) who submits a banking license application to the Central Bank.
- 2.2. **FIL** – The Financial Institution Law, 2014.
- 2.3. **Foreign Supervisory Authority**- The relevant authority that supervises the banking business in the country where the head office of a foreign bank is located.
- 2.4. **Group** - A parent company and all of its subsidiaries and companies in which it holds, directly or indirectly, a significant interest.

**2.5. Significant Interest** – Directly or indirectly holding, individually or together with related persons or associates, five percent (5%) or more of the capital or voting rights of a bank.

**2.6 Significant Shareholder** – A person who directly or indirectly, individually or together with related persons or associates, holds five percent (5%) or more of the capital or voting rights of a bank.

### **3. BANK LICENSE APPLICATION**

**3.1.** A person who intends to engage in banking business in Somalia must first obtain a license issued by the Central Bank.

**3.2.** Companies incorporated as limited liability companies under the Companies Act of Somalia and foreign banks are eligible to apply for a license from the Central Bank.

**3.3.** An application for bank license shall be made in writing in the form prescribed by the Central Bank in a Schedule to this Regulation. The application must be accompanied by all required supporting information and documents, and the prescribed application fee.

**3.4.** The Central Bank may require any other information from the applicant, shareholders, significant shareholders, directors, officers and/or third parties that it deems necessary to complete its assessment of a bank license application.

### **4. ACTION BY THE CENTRAL BANK**

#### **4.1. Time Frame**

**4.1.1.** Within thirty (30) days of receipt of a bank license application, the Central Bank shall either inform the applicant that the application is deemed to be complete or specify the additional information required for the application to be deemed complete.

**4.1.2.** Within ninety (90) days of receipt of a complete bank license application, the Central Bank will either grant or refuse to grant a license to the applicant.

**4.1.3.** A notice that the Central Bank has refused to grant a bank license to an applicant shall state the reasons for the refusal.

#### **4.2. Decision Criteria**

The decision of the Central Bank whether to grant, or refuse to grant, a license shall be based on the following criteria:

- 4.2.1. There is no evidence that materially false or misleading application information or supporting documents were furnished to the Central Bank by any person in connection with the application.
- 4.2.2. The financial status and history of the applicant are satisfactory.
- 4.2.3. The ownership of the bank is transparent; all owners are identified; and the Central Bank is satisfied that significant shareholders are fit and proper.
- 4.2.4. The Central Bank is satisfied with the proposed management structure as well as the professional competence and integrity of the members of the board of directors and management, deeming them to be fit and proper persons and capable of the efficient, safe and sound running of the proposed banking business.
- 4.2.5. The capital structure and earnings prospects of the applicant are adequate.
- 4.2.6. The convenience and needs of the bank's area, and the public interest, will be served.
- 4.2.7. If the applicant is a foreign bank seeking to establish a branch in Somalia, then the Central Bank determines that the supervision exercised by the foreign supervisory authority is adequate and practiced on a consolidated basis.

## **5. REQUIREMENTS**

- 5.1. The applicant has twelve (12) months from the date that the Central Bank grants a license to commence banking business in Somalia.
- 5.2. For a period of three (3) years following commencement of banking business, the bank shall operate in material accordance with the business plan that was submitted with the bank license application and upon which the Central Bank relied when granting a license, and shall not engage in any business other than the activities specified in its license.

## **6. RENEWAL OF BANK LICENSE**

- 6.1. Every bank license shall expire each year on December 31.
- 6.2. A bank's application for license renewal shall be:
  - 6.2.1. Submitted to the Central bank no later than October 2 each year.
  - 6.2.2. Made in writing in the form prescribed by the Central Bank in a Schedule to this Regulation.

- 6.2.3.** Accompanied by all required supporting information and documents.
- 6.2.4.** Accompanied by the prescribed application fee.
- 6.3.** The Central Bank may require any other information from the bank that it deems necessary to complete its assessment of the application for renewal.
- 6.4.** The Central Bank will renew a bank license, with or without amendments or restrictions, when it is satisfied that the bank has complied with the FIL and regulations of the Central Bank and the annual license fee has been paid.
- 6.5.** Within 90 days, the Central Bank shall either renew the bank's license with or without amendments or restrictions, or notify the bank of its intent to revoke the bank's license.

## **7. EFFECTIVE DATE**

This Regulation shall become effective on January 26, 2015

## **SCHEDULES**

- 1. Application for Bank License
- 2. Business Plan
- 3. Affidavit of Probity

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**Schedule 1**  
***Bank License Application***

**FORM OF APPLICATION**

A Bank License Application should be submitted to the Central Bank only when complete information is available for all requirements of the application. Information should be printed on plain white sheets of paper in the same order requested. Supporting documents should accompany the bank license application in the same order requested. All information requested must be submitted. Do not leave any requirements unaddressed. If the response to any requirement is *no, none, not applicable, or not known*, then so state and provide an explanation. Submitting inaccurate or incomplete information will delay the processing of the application and may result in the application being put on hold or refused.

The application must be signed by the board of directors or a duly authorized executive officer of the applicant.

Submit the original application with supporting documents, in [English], two complete official copies, and the application fee to Director, Bank Supervision Department, Central Bank of Somalia.

Address inquiries concerning the preparation, submission, and status of an application to the Director, Bank Supervision Department, Central Bank of Somalia.

**CONTACT PERSON**

The applicant should designate one contact person to communicate on its behalf with the Central Bank regarding the pending application:

- Name
- Address
- Telephone number

**INFORMATION REQUIRED**

Following is a list of information to be submitted as part of the application. Prior to completing its assessment of an application the Central Bank may, by notice in writing, require additional information or documents.

## Legal Structure

1. Name of bank.
2. Type of business: commercial bank, mortgage bank, merchant bank, branch of foreign bank.
3. Location of the main office in Somalia.
4. Location of all other offices of the bank, including those planned during the first three years after licensing: branches, agencies, representative offices, mobile, etc.
5. Duly certified certificate of incorporation.
6. Notarized duly certified Memorandum and Articles of Association.
7. Duly certified resolution of the Board of Directors authorizing the submission of this bank license application.

## Capital Structure

8. Provide information on the capital structure of the bank. Show the proposed amount of paid-in capital including the amount previously paid-in or subscribed. Affirm that no capital will be contributed in-kind. Identify the type, number and par value of each class of shares proposed to be issued.

## Ownership Structure

9. Identify *all* shareholders of the bank with the following information:
  - Name – list all current and former names (including trade names) by which the shareholder has been known;
  - Nationality;
  - Address – postal and physical;
  - Shareholding – Number and type of shares to be held, number of shares to be held expressed as a percent of the total number of shares of the bank that are proposed to be outstanding; par value; purchase price per share; and total purchase price;
  - Affirm that the shares of the bank will be registered in the name of the identified shareholders; and
  - Provide a copy of any agreement(s) between the shareholders regarding the bank.

### **Significant (5%) shareholders -- *individual persons***

10. Name, address, nationality, country identification number, passport number and data date and place of birth.

11. Number and type of shares to be held in the bank, par value, price per share, total price, and resulting percentage ownership.
12. Personal balance sheet and statement of income for the two years preceding the date of the application.
13. Affidavit of probity – individual
14. Information on all memberships in companies, partnerships, professional or trade associations. List: name, address, type of entity, and description of activities.
15. Information on legal entities and other business concerns in which the applicant has an interest as a significant shareholder, partner, proprietor, director, officer, or guarantor. List: name, address, type of interest, amount and percentage of any shareholding, credit rating, balance sheet and income statement for the two years preceding the date of the application.

**Significant (5%) shareholders – *legal entities***

16. Name, address, country of incorporation, country identification number
17. Legal form; date of incorporation or formation.
18. Number and type of shares to be held in the bank, par value, price per share, total price, and resulting percentage ownership.
19. Signed financial statements (balance sheet and statement of income) for the two years immediately preceding the date of the application, audited if available.
20. List of significant shareholders, partners, directors and senior officers: Name, address, position with the applicant, amount and percentage of shareholding in the applicant, if any.
21. Credit rating assigned by an internationally recognized rating agency, if available.
22. If a significant shareholder is part of a corporate group, then provide a schematic presentation showing:
  - The ownership structure of the corporate group;
  - All other members of the group and the corporate, financial, and other linkages that exist between the members of the group;
  - The position of the bank in relation to the other members of the group; and
  - All interests held in and by each member of the group and the nature of business of each entity.
23. Most recent annual report.

24. Affidavit of probity – legal entity
25. Experience in the ownership, oversight or management of banks or other financial institutions located anywhere in the world.

**Significant shareholders -- *all***

26. List all persons (individuals or legal entities) who are *related persons* and/or *associates* of the significant shareholder as those terms are defined in the FIL.
27. Provide complete information on the source of funds to be used by each significant shareholder to purchase the shares of stock in the bank, including the specific amount of funds required by each significant shareholder and the specific source(s) of those funds.

Provide evidence of availability of capital such as copies of bank statements.

If assets will be sold, then identify the assets and provide complete information on the proposed sale, including copies of pertinent documents.

If funds will be borrowed, then provide complete information on the loan including identification of the lender(s), amount to be borrowed, amount of the loan as a percentage of the total purchase price, collateral to be pledged, and all terms of the transaction. Specifically identify how the loan will be repaid. If future dividends, salary, or any other funds or income from the bank are anticipated to be used to service the debt, then provide complete details. Affirm that the stock of the bank will not be used as collateral for any loan to purchase the stock.

**Significant shareholder – *foreign banks***

28. An official letter addressed to the Governor of the Central Bank of Somalia must be received directly from the home country supervisor affirming that:
  - The home country supervisor grants its written consent or takes “no objection” to the foreign bank establishing a branch in Somalia subject to the Central Bank granting a license.
  - The foreign bank (including its proposed branch in Somalia) is, and will be, subject to comprehensive supervision on a consolidated basis by its home country supervisor in accordance with the principles of the Basel Concordat.
  - The home country supervisor agrees to exchange supervisory information with the Central Bank including the foreign bank’s future reports of on-site examination, published financial statements, and information on significant developments which adversely affect the foreign bank’s financial soundness and/or world-wide reputation.



29. The most recent report of on-site examination of the foreign bank.
30. The most recent annual audit report, including audited balance sheet and profit and loss account and management letter, of the foreign bank.
31. An organization chart of the foreign bank showing lines of authority and reporting from the branch in Somalia to the parent foreign bank, and specifically identifying the officers within the foreign bank who are responsible for the sound operation and financial condition of the proposed branch in Somalia.
32. The board of directors of the foreign bank shall execute and submit to the Central Bank an undertaking to maintain within Somalia at all times and out of its own funds capital assigned to the branch in Somalia in the minimum amount prescribed.

### **Management Structure**

33. Provide the organization structure for the bank, in a schematic format.
34. Identify the members of the board of directors, audit committee, and two executive officers, and other senior officers. For each person submit the following information:
  - Name
  - Proposed position with the bank – director, audit committee member, executive officer, or senior officer
  - A detailed *curriculum vitae*
  - Affidavit of probity
  - Copies of existing or proposed employment contracts or other related agreements.
35. Identify all persons (individual or legal entity) who will be a *related person* or *associate* as those terms are defined in the FIL due to the bank's directors, audit committee members, executive officers, and senior officers.

### **Business Plan**

36. A business plan covering the first three years of operation of the proposed institution must be submitted in the format prescribed by the Central Bank in a Schedule to the Regulation on Bank Licensing.

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#### Schedule 2 ***Business Plan***

The business plan should cover the bank's first three years of operation after licensing and should consist of the following two parts: (1) a narrative; and (2) *pro forma* financial statements. The requirements for each part are set forth below.

#### 1. Narrative

##### *1.1. Introduction*

State the name and location of the bank including the location(s) of any branches or other offices. Describe and provide a diagram of the bank's corporate structure and include all entities within the structure (parents, subsidiaries, companies under common control, and other affiliates), if the bank will be part of a group. Briefly discuss how the organizing group (the founding shareholders/applicants) came together and the reasons for wanting to start a bank.

State the key strategic goals of the bank. Provide a basic statement on the nature and scale of the proposed banking activities, development plans for the business, and arrangements for the management of the business. Describe the geographical area(s) and clients to be served by the bank and the types of products and services to be offered. Describe and submit statistical and other data which may have been collected in respect of the area to be served including: (1) population of the area; (2) schemes of agriculture, business, industrial development, etc.; and (3) competing banking facilities.

##### *1.2. Feasibility Study*

Identify the markets to be served by the bank and specifically address how the needs and convenience of the community(ies) or sector(s) identified as the target market will be served. Describe the population of the area, schemes of agriculture, business, industrial development, etc., and existing banking facilities. Describe and *submit a copy* of the feasibility study that was performed and which formed the basis for the decision to apply for a license to commence banking business in Somalia.

Address any anticipated changes in the market, factors influencing such changes, and possible effects on the plan for the bank.

Describe how the bank intends to ensure that the interests of depositors, creditors, and the public interest will be served by the banking business proposed in the business plan.

### 1.3. Assumptions

List and discuss all assumptions used in the preparation of the business plan, financial projections, and sensitivity analysis such as economic conditions in Somalia, expectations of market changes, level of competition, growth forecasts, interest rates on earning assets and interest-bearing liabilities. Provide support for the business plan's financial projections for asset and liability growth, profitability, maintenance of adequate capital, capital ratios, liquidity, and dividends.

Explain the results of the interest rate sensitivity analysis of the projections submitted or other similar *analysis 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)*.

### 1.4. Corporate Governance

Describe the management-organizational structure. Address the board of directors, permanent committees (specifically including the audit committee), executive officers, senior officers, operational and administrative divisions and their sub-divisions and functions, lines of authority and reporting relationships.

List all members of the board of directors, the audit committee, and any other permanent committee of the board and show each person's name, position, term, authority, responsibilities, and proposed remuneration.

List all executive and senior officers and show each person's name, title, salary, incentive compensation, fees, benefits and other proposed remuneration.

Provide copies of all proposed agreements for management, technical services, software maintenance, and other services. If any agreement for lease or service is anticipated to be entered into with any *related person or associate*, then provide a written description of such transaction and include:

- Identification of the *related person or associate*
- Rates and terms;
- Comparative market data to evidence that the transaction will be on an arm's-length basis; and
- A justification as to why the transaction with a *related person or associate* is proposed in light of its inherent conflict of interest and how the interests of the bank, its depositors, and the public will be protected and will benefit from the proposed transaction versus a transaction with a person or entity who is not a *related person or associate*.

Describe the operating systems of the bank including:

- Corporate policies and procedures: Lending and credit administration policies, Human resource and development, investments, deposits, marketing, capital, liquidity, anti-money-laundering measures, and anti-terrorist financing);
- Accounting standards;
- Books of account and record-keeping;
- Planning and budgeting;

- Management information system including reporting to management, the board of directors, shareholders, and the Central Bank;
- Information technology;
- Internal controls; and
- Internal and external audit.

Confirm that information systems will be capable of producing all required returns to the Central Bank in an accurate and timely fashion.

Identify the independent external auditor who will be engaged for the annual audit of the bank.

Address staff projections, including recruitment and training.

#### *1.5. Business Activities*

Discuss the types and scale of deposit-taking and other banking business envisaged based upon the applicant's plans for the operation of the bank. This presentation should be supported by information which clearly shows the capability to undertake those activities in terms of board oversight, management, expertise, systems support, organization, and staff. Specifically address:

- Advances to be made and interest receivable, including plans for diversification;
- Investments to be made and earnings stating policy and categories of business to be financed;
- Deposit mobilization and interest payable stating separately the proposed major sources of deposits.
- Planned borrowing activity;
- Off-balance sheet activities;
- Operating expenses including rents, salaries, employee benefits, directors' remuneration;
- Liquid and cash reserve assets;
- Capital structure;
- Provision for bad and doubtful debts;
- Fixed assets, including business premises;
- Other income, including commissions, discounts, and other; and
- Net operating profit/loss.

#### *1.6. Needs of the Community*

Describe the results of the study to identify:

- The community that the bank intends to serve;
- The banking, credit, and/or other financial services needs of the community served;
- The role of the bank in meeting the identified needs of the community to be served; and
- The competition (existing and potential).

#### *1.7. Capital and Liquidity*

Describe plans for financing growth, internally and externally, over the first three years of operation. Describe all additional sources of capital, including shareholders, that are available should the need arise in the future. Describe plans to ensure that the bank maintains adequate liquidity throughout the period covered by the plan.

### 1.8. Risk Management

Describe the risk management processes: risk identification, measurement, monitoring, and control. Describe plans for controlling the following risks, and specifically address the changes proposed in the bank's operations by the applicant:

- Liquidity-, interest-rate-, and maturity-risk (asset and liability management);
- Credit risk;
- Operational risk;
- Market risk;
- All other risks to which the bank will be exposed when engaged in the business activities envisaged by the business plan.

With regard to credit risk, specifically address proposed changes to:

- Credit policies (which must include limitations on loans to *related persons* and *associates*);
- Plans to minimize concentration risk through diversification and limitations on exposures to individuals and groups of related borrowers; and
- Asset quality considerations such as underwriting, loan classification system, and provisioning for bad and doubtful loans.

### 1.9. Infrastructure and Internal Control

Provide information on the suitability of the premises. Address plans for future expansion, including branch offices. Describe any changes planned to the operations systems, including corporate policies and procedures, accounting standards, record-keeping, reporting (including to the board of directors, officers, shareholders, and the Central Bank), computerization (including hardware, software, and maintenance), risk measurement and controls, internal controls, and internal and external audit. Provide evidence that systems will be capable of producing all required reports to the Central Bank in an accurate and timely fashion.

Discuss all plans for any transactions with any *related person* or *associate*.

### 1.10. Business Plan Monitoring

Discuss the methods that the board of directors will use to regularly monitor the bank's performance under the business plan and management's adherence to the business plan.

## 2. Financial Projections

Based upon the preceding narrative section, submit a *pro forma* Balance Sheet and Income Statement (and any necessary supporting schedules) for each of the first three years after licensing.

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**Schedule 3-1**

***Affidavit of Probity for Individual Persons***

This affidavit of Probity is required to be executed by every person who is, or who applies to be, a significant shareholder, partner, director, executive officer, or senior officer of a bank, branch of a foreign bank, or money transfer business licensed in Somalia.

**Initials**

**Affirmation of Probity**

- \_\_\_\_\_ I have not been convicted of the offense of fraud, dishonesty or misfeasance.
- \_\_\_\_\_ I have never been convicted of a criminal offense nor am I the subject of unresolved criminal charges which are of direct relevance to fitness and properness.
- \_\_\_\_\_ I have not engaged in nor do I engage in criminal or fraudulent acts.
- \_\_\_\_\_ I have not engaged in nor do I engage in money laundering or the financing of terrorism.
- \_\_\_\_\_ I have not been adjudicated or declared bankrupt nor am I currently subject to bankruptcy proceedings nor am I a bankrupt who has recently been discharged.
- \_\_\_\_\_ I have no money judgments which have not been satisfied in full.
- \_\_\_\_\_ I have not been censured, disciplined or disqualified by any professional or regulatory body in relation to any trade, business or profession.
- \_\_\_\_\_ I have not been refused or restricted from the right to carry on any trade, business or profession for which a specific license, registration, or other authorization is required by law.
- \_\_\_\_\_ I have not been a significant shareholder, director or senior officer of a bank or other financial institution in Somalia or elsewhere that has been liquidated, or that is under liquidation, statutory management, or reorganization pursuant to the FIL, or similar legislation in another jurisdiction.
- \_\_\_\_\_ I have never made false or misleading statements, false or misleading entries, or false or

misleading omissions, or altered, abstracted, concealed or destroyed any book of record or any report, slip, document, or statement of business affairs, transactions, condition, assets or account of the bank, or in applications, statements, reports, and returns to the Central Bank or other regulatory body in Somalia or elsewhere.

\_\_\_\_\_ I have never obstructed an audit, examination, inspection, or other control of a bank, money transfer business or other business activity.

\_\_\_\_\_ I have not been a significant shareholder, director or senior officer of a bank or other financial institution in Somalia or elsewhere who has been suspended from office; ordered to sell or otherwise dispose of an ownership interest in a financial institution; or been the subject of a formal enforcement action, prompt corrective action, or remedial measures by the Central Bank pursuant to the FIL or similar action by a foreign supervisory authority.

\_\_\_\_\_ I have not been a significant shareholder, director or senior officer of a bank or other financial institution in Somalia or elsewhere who has caused a loss at a financial institution located anywhere in the world as a result of insolvency, bankruptcy, credit default, mismanagement, incompetence, recklessness, and/or criminal activity.

Signature:

Position with the bank:

Date:

Notarized witness:

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**Schedule 3-2**

***Affidavit of Probity for Legal Entities***

This affidavit of Probity is required to be executed by the board of directors or duly authorized executive officer of a legal entity that is, or applies to be, a significant shareholder of a bank or money transfer business licensed in Somalia.

**Initials**

**Affirmation of Probity**

The legal entity has not:

- \_\_\_\_\_ Conducted banking business or money transfer business without a valid license issued by the Central Bank.
- \_\_\_\_\_ Been convicted of the offense of fraud, dishonesty or misfeasance.
- \_\_\_\_\_ Engaged in criminal or fraudulent acts.
- \_\_\_\_\_ Engaged in money laundering or the financing of terrorism.
- \_\_\_\_\_ Been adjudicated or declared bankrupt; is not currently subject to bankruptcy proceedings; is not a recently discharged bankrupt.
- \_\_\_\_\_ Had money judgments which have not been satisfied in full.
- \_\_\_\_\_ Been censured, disciplined or disqualified by any professional or regulatory body in relation to any trade, business or profession.
- \_\_\_\_\_ Been refused or restricted from the right to carry on any trade, business or profession for which a specific license, registration, or other authorization is required by law.
- \_\_\_\_\_ Been a significant shareholder of a bank or other financial institution in Somalia or elsewhere that has been liquidated, or that is under liquidation, statutory management, or reorganization pursuant to the FIL, or similar legislation in another jurisdiction.



- \_\_\_\_\_ Made false or misleading statements, false or misleading entries, or false or misleading omissions, or altered, abstracted, concealed or destroyed any book of record or any report, slip, document, or statement of business affairs, transactions, condition, assets or account of the bank, or in applications, statements, reports, and returns to the Central Bank or other regulatory body in Somalia or elsewhere.
  
- \_\_\_\_\_ Obstructed an audit, examination, inspection, or other control of a bank, money transfer business or other business activity.
  
- \_\_\_\_\_ Been a significant shareholder of a bank or other financial institution in Somalia or elsewhere who has been ordered to sell or otherwise dispose of an ownership interest in a financial institution; or been the subject of a formal enforcement action, prompt corrective action, or remedial measures by the Central Bank pursuant to the FIL or similar action by a foreign supervisory authority.
  
- \_\_\_\_\_ Been a significant shareholder of a bank or other financial institution in Somalia or elsewhere who has caused a loss at a financial institution located anywhere in the world as a result of insolvency, bankruptcy, credit default, mismanagement, incompetence, recklessness, and/or criminal activity.

Signatures of members of the board of directors or a duly authorized executive officer:

Date:

Notarized witness: