

APPLICATION FOR AN INTERNATIONAL BANK LICENCE

This note sets out the information that an applicant for a licence to operate as international bank is required to submit to the Reserve Bank in support of its application. The note should be read in conjunction with the requirements of the **International Banking Act**.

Specifically, Section 20 of the Act requires that licensees must occupy a physical presence in Vanuatu. The Reserve Bank must be satisfied that:

- (a) the premises are located at a fixed address in Vanuatu; and
- (b) the licensee will carry on international banking business under its licence from those premises; and
- (c) the licensee will maintain at those premises operating records including financial statements relating to the international banking business conducted under its licence; and
- (d) the employee or employees of the licensee will operate full time from those premises; and
- (e) those premises adequately symbolize the physical presence of the licensee in Vanuatu.

All persons seeking approval to become directors, shareholders, managers, officers or controllers of an institution that is licensed or applying to be licensed under the International Banking Act are required, except when exempted by the Governor of the Reserve Bank of Vanuatu, to complete a questionnaire. The questionnaire is to be completed by individuals or a body corporate, as appropriate, and will form part of the basis used by the Reserve Bank in assessing whether a person/body corporate is “fit & proper”.

LOCALLY INCORPORATED BANKS

1. Ownership, Board and Management

- name of proposed bank;
- a brief history of the applicant and an outline of any existing operations;) and key senior management;
- proposed initial capital (authorised, paid-up, classes of shares, etc) and capital ratios;
- names of substantial shareholders (direct and ultimate) and their respective shareholdings;
- board structure, including names of directors, their qualifications, principal business associations and detailed curriculum vitae;

- outline of organisational framework, including names and descriptions of the responsibilities of senior management along with their qualifications and curriculum vitae; and
- evidence of the capacity of substantial shareholders to provide additional capital, if necessary, during the initial years of the proposed bank's operations. Substantial shareholders (including foreign bank parents) should provide a written undertaking to provide any additional capital, if required, and that their involvement in the bank will be more than temporary.

2. Structure of Business

- outline of proposed activities and scale of operations including details of any specialised services proposed and of any relevant expertise;
- outline of the potential economic benefits to be brought to Vanuatu by the proposed bank;
- details of borrowing and lending activities to be undertaken;
- details of proposed off-balance sheet activities;
- location of head office;
- other intended means of "distribution";
- estimate of total staff complement envisaged; and
- proposed date for commencement of operations.

3. Prudential Management

- a written undertaking by the applicant that it will adhere to the prudential requirements of the Reserve Bank and will consult with and be guided by the Reserve Bank on prudential matters and in respect of new business initiatives. This undertaking should include a commitment to provide the Reserve Bank with any information which it may require for its prudential supervision of the bank (and its consolidated group);
- in the case of a subsidiary of a foreign bank, an acknowledgment by the applicant that the Reserve Bank may discuss the applicant's conduct and status with its parent and its parent's supervisor(s);
- details of the management systems and procedures to be used to control and monitor risks, including:

- credit policies, including policy on loans to shareholders, directors and associated interests and in respect of exposures to individual clients and groups of related clients;
 - policy on monitoring asset quality, loan grading and providing for doubtful debts;
 - liquidity management, including funding and maturity mismatching;
 - procedures for controlling risk, particularly market risk, in trading activities, including derivatives; and
 - control of operational risk.
- details of information and accounting systems and "back-up" facilities;
 - evidence that, from the commencement of operations, information and other systems will be capable of producing all required statutory and prudential returns in an accurate and timely fashion; and
 - evidence that arrangements have been established for the prospective bank's external auditors to report to the Reserve Bank as required.

4. Subsidiaries

- details of existing or proposed subsidiaries and associates; the nature and scale of their business; and their proposed business relationship with the proposed bank; and

5. Financial Projections

- detailed balance sheet and earnings projections (including assumptions) for the proposed bank's first three years of operations; and
- separate projections for the proposed bank and for the bank and its subsidiaries on a consolidated basis, including key financial and prudential ratios (e.g. capital ratios, liquidity ratios, etc).

6. Other

- certificate of incorporation of the corporate vehicle to hold the banking authority;
- certified copies of Memorandum and Articles of Association;
- external auditor's certificates verifying the level of capital and capital ratios of the applicant; and

- foreign bank parents should also provide:
 - an outline of supervisory arrangements which it is subject to in its country of origin;
 - a statement from its home supervisor that: the foreign bank is of good financial standing and has the supervisor's consent to apply for a banking authority for a locally incorporated subsidiary in Vanuatu; it supervises the parent bank and its subsidiaries on a consolidated basis in accordance with the principles contained in the Basel Concordat; and that it is willing, in terms of the Concordat, to co-operate in the supervision of the subsidiary;
 - an undertaking to keep the Reserve Bank informed of any significant developments adversely affecting its financial soundness and/or reputation globally, and to provide promptly to the Reserve Bank copies of its published financial accounts and any significant media releases (with translations where appropriate);
 - a brief history and an outline of its operations, substantial shareholders (direct and ultimate), directors (including principal business associations);
 - balance sheet, profit and loss and off-balance sheet data for the last three years (plus any available current year data), including information on impaired loans and Basle risk based capital ratios;
 - an undertaking to co-operate in the supervision of its subsidiary, including the provision of information required by the Reserve Bank to assure itself of the prudential standing of the proposed banking subsidiary; and
 - an outline of proposed reporting lines from the banking subsidiary to the parent.

BRANCHES OF FOREIGN BANKS

1. Ownership and Management

- name of applicant;
- a brief history of the bank and an outline of its operations, names of substantial shareholders (direct and ultimate) and their respective shareholdings, directors (including principal business associations) and senior management;
- information necessary to demonstrate the applicant's financial standing. This should include balance sheet, profit and loss and off-balance sheet data for the bank itself, and where applicable for its holding company, for the last three years (plus any available current year data) and information on impaired loans and Basle risk based capital ratios;
- outline of organizational framework, including names and descriptions of the responsibilities of senior management of the branch, along with their qualifications and curriculums vitae;
- outline of reporting lines from the branch to head office and curriculum vitae for the personnel involved.

2. Structure of Business

- outline of proposed activities and scale of operations including details of any specialized services proposed and of any relevant expertise;
- outline of the potential economic benefits to be brought to Vanuatu by the proposed branch;
- an indication as to whether the foreign bank intends to establish (or maintain) a locally incorporated banking subsidiary (and/or any non-banking subsidiaries) in Vanuatu and the strategy under which these entities would operate, including details of any proposals to transfer assets or to share support services;
- details of borrowing and lending activities to be undertaken;
- details of proposed off-balance sheet activities;
- location of principal Vanuatu office;
- estimate of total staff complement envisaged; and
- proposed date for commencement of operations.

3. Prudential Management

- an undertaking that the branch will adhere to the prudential requirements of the Reserve Bank and will consult with and be guided by the Reserve Bank on prudential matters and in respect of new business initiatives. This undertaking should include a commitment to provide the Reserve Bank with any information which it may require for its prudential supervision of the branch;
- an acknowledgement that the Reserve Bank may discuss the conduct of the branch with its head office and with the bank's home supervisor(s);
- details of the management systems and procedures the branch proposes to adopt to control and monitor risks, including:
 - credit policies (including policies in relation to exposures to individual clients and groups of related clients);
 - policy on monitoring asset quality and providing for doubtful debts;
 - liquidity management, including funding, maturity mismatching;
 - procedures for controlling risk, particularly market risk, in trading activities, including derivatives;
 - control of operational risk; and
 - arrangements for reporting to head office;
- details of information and accounting systems and "back-up" facilities to be used by the proposed branch;
- evidence that, from the commencement of operations, information and other systems will be capable of producing all required statutory and prudential returns in an accurate and timely fashion;
- evidence that arrangements have been established for the prospective bank's external auditors to report to the Reserve Bank as required.

4. Associates

- details of any existing or proposed non-banking subsidiaries and associates of the proposed branch in Vanuatu; the nature and scale of their business; and their proposed relationship with the branch.
- an indication of whether it is intended to transfer business from any banking or non-bank subsidiaries or associates into the proposed branch;
- an undertaking by the applicant to keep the Reserve Bank apprised of developments in non-banking subsidiaries in Vanuatu.

5. Financial Projections

- detailed balance sheet and earnings projections (including assumptions) for the first three years of operations, including key financial and prudential ratios (as relevant).

6. Other

- a copy of the certificate of incorporation of the applicant and its authorization to conduct banking business in its home country;
- an outline of the supervisory arrangements to which the foreign bank is subject to in its home country;
- a statement from the applicant's home supervisor:
 - consenting to the application to establish a branch in Vanuatu;
 - confirming that the applicant is recognized as a bank under the laws of its home country;
 - confirming that the applicant is of good financial standing; and
 - agreeing to co-operate in terms of the Basle Concordat in the supervision of the branch.
- An undertaking by the applicant to keep the Reserve Bank informed of any significant developments adversely affecting its financial soundness and/or reputation globally and to provide promptly to the Reserve Bank copies of its published financial accounts and significant media releases (with translations where appropriate).