St. Mary's University
School of Graduate Studies

The Application of National Bank Principles on Anti-Money Laundering in the Ethiopian Private Commercial Bank: A Case Study at Bank of Abyssinia

By

Tiruaynet Alemayehu

ID: SGS/0088/2013B

Advisor: Misraku Molla

A thesis submitted to St. Mary's University School of Graduate Studies, in Partial Fulfillment of the Requirements for the Degree of Master of Business Administration

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Statement of Declaration

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university for academic credit.

Signature: ______________________ Date:__________________

Tiruaynet Alemayehu

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Approval from the Advisor’s

The undersigned certifies that, she has read and hereby recommends for acceptance by the St Mary’s University a thesis entitled: “***The Application of National Bank Principles on Anti-Money Laundering in the Ethiopian Private Commercial Bank: A Case Study at Bank of Abyssinia***”, in partial fulfillment of the requirements for the MBA of the St Mary’s University.

Misraku Molla (PhD)

Supervisor

December 2022

Board of Examiners Approval Sheet

St. Mary's University
School of Graduate Studies

I hereby certify that the thesis entitled: "The Application of National Bank Principles on Anti-Money Laundering in the Ethiopian private Commercial Bank: A Case Study at Bank of Abyssinia' and submitted in partial fulfillment of the requirements for the Degree of Master of Business Administration in Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Advisor: (PhD)______________________Signature ____________Date _________

School of Graduate studies ____________ signature ____________ Date _________

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Contents

LIST OF TABLE

LIST OF ACRONYMS

AML - Anti-Money Laundering

ATM- Automated Teller Machines

APG- Asia Pacific Group

BOA-Bank of Abyssinia

CDD- Customer due Diligence

CFT-Combating Financing of Terrorism

CTR- Control of Narcotic Substances Act

EDO- East District Offices

EU-European Union

FATF -Financial Action Task Force

ICRG-International Cooperation Review Group

KYC- Know Your Customer

ML -Money Laundering

NAB- National Accountability Bureau

NBE-National Bank of Ethiopia

WB -World Bank

ABSTRACT

This study aims to assess the application of national bank principles on Anti-Money Laundering in bank of Abyssinia. Purposive sampling technique was chosen to get the required sample size. Data gathered were analyzed based on 57responses and additional interviewee. Descriptive research design was employed along with qualitative research approach. The study uses percentage, frequency and means to analyzed the collected data. The result indicates that even though banks have compliance department who have relevant competence and authority to oversee the bank's Anti-Money Laundering or Combating Financing of Terrorism compliance program, banks did not communicate the Anti-Money Laundering policies, procedures and manuals. Bank of Abyssinia had internal audit function to assess anti- money laundering and sanctions and practices, but they do not have other independent third party to audit and assess money laundering. The absence of national identity (ID) card for customers, no renewed identity (ID) and the law concerning Know Your Customer(KYC) requirements and other preventive measures suffer difficulty and such gaps create a suitable ground for money launderers to exploit the banking system. The study recommends that banks strictly follows the national bank policy and to implement it their ongoing services and policies of bank to practices and apply it within the banks in order to have that bank of Abyssinia have build a strong Know Your Customer (KYC) department and maintain the effective of the compliance department to identify and trace money laundry and suspicious transaction.

Keywords: Anti-Money Laundering, Financing of Terrorism, National Bank Principles, Bank of Abyssinia

Chapter- One

1 Introduction

1.1 *Background of the study*

As of Dobrowolski and Sulkowski (2019) the money laundering process has a long history,however has develop and adapted to modern society, globalization, and digital transformation,causing main damage to citizens, companies, and states, appropriate a catalyst for illegal actions (terrorism, fraud, and corruption) that lead to decreasing integrity and transparency, and creating a extensive need of self-assurance in markets. The money laundering operation entail the unlawful act of hiding money from illicit activities and turning it into legitimate money (Le-Khac et al., 2016; Nazri et. al, 2019), thus changing the clandestine nature of money. Hetemi et. Al (2018) recognized that ML is the transforming process through which dirty, illegal money appears to be white and clean. According to the Financial Action Task Force (FATF, 2020), the money laundering fact entail money laundering by adapting illegal profits in order to hide the true origin of fraud, corruption, prostitution, illegal sale of weapons, and others, and the IMF and UNODC (2005) state that this procedure is carried out by an individual who dissimulates or cover the illegal origin of income in order to make the feeling that it is derived from legal sources.

Ethiopia is undertake a period of very rapid economic growth, which is expected to last for a number of years (Tuemay and James, 2012). Its monetary scheme, extended closed to external investment and controlled by the state, is gradually liberalizing, as are other elements of the economy. This development is raising possibility for corruption and money laundering linked to trafficking, commercial fraud, tax evasion, and other criminal conduct. As a result, Ethiopia is at here along with those countries of the majority concern to the global community on Anti-Money Laundering (AML) or Combating Financing of Terrorism(CFT) subject, as reflect by the ongoing concentration of the Financial Action Task Force(FATF), which continue to state concern about Ethiopia‘s AML/CFT preparations. This appears increasingly to presage potential actions by some FATF members recommending that financial institutions based in those countries cease business with Ethiopia. Any such act could rapidly and severely interrupt Ethiopian trade association and economic growth. Providentially, there are symbols that the senior Ethiopian leadership recognizes these hazards.

The present-day Bank of Abyssinia was established on February 15, 1996 (90years to the day after the first bank was established) with a subscribed capital of Birr 25 million, an authorized capital of Birr 50 million and a paid-up capital of Birr 25 million. The bank has since registered tremendous growth. For instance, as of June 2006, its total asset has reached Birr 3.0 billion, whereas its subscribed, authorized, and paid-up capital has gone up to Birr 265 million, 530 million and 265 million, respectively. The bank now boasts 741 branches and over 10916 employees and, most importantly, about over 150,000 customers-which is no mean feat, considering the fact that it is only ten years old.

According to policy by the Ministry of Peace (MoP, 2016), Ethiopia is committed in combatin ML/TF and has adopted a whole of government approach (compromising different ministries and sectors). And it states that from an assessment done in 2016 by National risk assessment the overall risk of ML/TF was medium and medium high. The high-level crime identified included: corruption, tax fraud, illegal Hawala, good smuggling, human trafficking etc.

This study aimed in exploring the application of National Bank Principles on AML in private commercial banks taking BOA as a case study. The studies mainly focus on the impact of Ant- Money Laundry (AML) principles on BOA operation. The remaining part of this chapter presents; 1) Problem statement, 2) Research Questions, 3) Research Objectives, 4) scope and limitations of the study, and others.

1.2 Statement of Problem

In Ethiopia, National Bank exercises control over the banking sector through issuance of directives pertaining formation and operation of a banking business. Most of the directives on operation aim at reducing risk of liquidity and solvency in the banking system. National Bank Ethiopia directives are issued as part of the central bank's conduct of monetary policy and some are issued to ensure that the sector plays adequate role in channeling funds to priority sectors of the economy. Banks are mainly concerned with accepting deposits for the purpose of lending or investment. In any country's economy, there are people and institutions with surplus funds which they do not require for their immediate use and wish to place these surplus funds in an institution both for security and also to gain some income by way of interest. This institution would then lend the money to the ultimate borrowers at an interest rate higher than what they pay to their depositors (Leouleseged&Teferi 2002).

Prior studies underline the principles issued by national bank (the regulatory authority of financial sector) would have both positive and adverse impact on the operation of commercial banks. The directives issued by national bank affect performance and liquidity of commercial banks (Yesuf, 2016).

Biniam (2011) reasoned that because of Ethiopia's economy is highly cash-based; there are some vulnerable institutions whose services are exploited by launderers. Banks are amongst these institutions, and they are frequently in the frontline in controlling against illicit money movements. The author argued that money laundering impairs the development of financial institutions because money laundering erodes financial institutions themselves and then would lead for corruption by criminal elements. The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG, 2021) follow up report confirmed that Ethiopia has been in an enhanced follow up process following the adoption of its mutual evaluation report in 2015.

However, as of the report the authorities could not show the list of entities/sectors from where compliance managers came and consequently it was not likely to determine whether that covered all or most of the reporting entities. Furthermore, the report confirmed that limitations are observed on the adoption and implementation of AML requirements as per the Financial Intelligence Center and Financial Action Task Force (FATF) requirements among commercial banks in Ethiopia. This initiated to further examine the effectiveness of banks in combating money laundering.

However, previous studies have many limitations to be filled. Firstly, almost all previous studies use secondary data and econometrics model to show the impact of NBE principles and Directives on commercial banks. Second, they concentrate on examining NBE directives on performance or liquidity. Third, they did not examine the impact of NBE principles on the operations of private commercial banks. Moreover, they focus on a single element as the sole factor or for creating impact. Thus, the present study fill the abovementioned gaps by using qualitative data from a specific banks and extend the subject by considering NBE directives such as compliance, AML, internal auditor and other requirements. This study try to investigate and asses the practices of employees of bank of Abyssinia have good culture in KYC and tracking Suspicions transaction by applying the National Bank Principles On Anti-Money Laundering and discharge their responsibility and duties.

1.3 *Research Questions*

In line with the above mentioned problems and research gaps, the following research questions were formulated and addressed.

1. Does the Bank of Abyssinia have a good culture of in practices principle of National bank related to KYC and AML?
2. To assess the employees are carrying out their roles and responsibilities in determine Suspicions transaction?
3. To assess BOA implement KYC and AML requirements set by NBE?
4. To assess BOA practice internal audit requirements related to detecting AML practices set by NBE?
5. Does BOA provide adequate training to employees on KYC and AML?
6. To examine the bank compliances department is discharging its roles

and responsibilities?

1.4 Objective of the Study

1.4.1 General objectives

The main objective of the study is to assess the application of National Bank Principles related to Anti-money laundering in Bank of Abyssinia.

1.4.2 Specific objectives

The study addressed the following specific objectives drawn from the general objective.

- To know whether the Bank of Abyssinia develops a good culture in practices principle of national bank.
- To investigate whether the compliance department is discharging its roles and responsibilities.
- To assess whether the employees working in activities related to AML and KYC satisfy qualification and training required and to further explore whether rights of these employees and managers are protected.
- To investigate whether the bank of Abyssinia is discharging their roles and responsibilities in identifying Suspicions transaction.
- To assess BOA implement KYC and AML requirements set by NBE.
- To evaluate BOA practice internal audit requirements related to detecting AML practices set by NBE.

1.5 Significance of the Study

The significance of this study, it gives a light for policy makers and regulatory bodies in assessing the legal frameworks and policy and procedures on national bank regulation and implementation of the services. It also helps other researchers who plan to make a future research on this subject in the future and people that require this specific data, will understand and cross examine the theories practices of National Bank Principles in Bank of Abyssinia ,and it will provide additional information's for bank managers and help them to review their strategies' that are currently being used .Although the recommendations would be directly applicable to the Bank of Abyssinia , the recommendations could also be indirectly applicable to other privet commercial banks in the country The general significance of this study over all is to provide help for decision makers in addressing the problems by broad directs.

1.6 Scope of the Study

The researcher believes that it's appropriate to conduct the study in large scale. However, the limited time and other resources do not allow doing so. Hence, the study confined only to BOA the conceptual scope of the study was therefore, limited to examine the extent to which the NBE principles are applied in this Bank of Abyssinia.

Although the Company provides various lines of services and operates throughout the country, the scope of this study is confined to the East District office(EDO), specifically the head office departments and 2 Branch offices; Bole Corporate Branch and Urael Branch all situated within the East district in Addis Ababa. Based on the homogeneity of each branches like contents of the jobs, Uniformity, job required, Number of staff, Service delivery and other issues the researcher as chosen the mentioned 2 branches to be representative. Because of the geographic constraints, those employees working in the outlying areas and outside Addis Ababa are not considered in this study.

1.7 Limitations of the Study

It is quite known that any study is not absolutely free from limitations. As a result, this study conducted with some sort of limitations. The researcher could face with many problems which, in fact, may affect the quality of the study. The following are among others:

- Getting relevant literature on money laundering in Ethiopia's banking sector.
- The hesitation of the banks to fill the questionnaire.
- East district selected branch staffs and compliance office staffs have been considered for this study and this research could not include the opinion of other officers in the banks.

1.8 Organization of the Paper

The second chapter contained review of related literature. Chapter three dealt with methodology of the study. Chapter four also focused on analysis and interpretation of the data collected through questionnaire and interview. Finally summary, conclusion and recommendation of the study is given in chapter five.

Chapter Two

2 Review of the Related Literature

This study examines the application of the National bank principle in Bank of Abyssinia as shaped by its practices of the principles vis-à-vis the factors that affect the latter. It is thus important to discuss the theories that form the foundation of these two major concepts to be utilized in this research.

2.1 Theoretical frame work

National bank principles is not new as a concept, although it is more pronounced these times due to the increased attention given by organizations and governments in both developing and developed nations especially in relation to fighting corruption.

Regulation is defined as the public administrative policing of private activities based on a set of rules that were developed in the public interest. Thus the process consists of intentional restrictions over a subject's choice courses of operations by an entity not directly involved in that activity. When the definition is applied to the financial system, it is termed financial regulation and refers to a process in which there is a monitoring of the financial institutions by a body that is directed by the government in an effort to achieve macroeconomic goals through monetary policies as well as other measures permissible by law. Thus regulations are concerned, they must be extensively considered and skillfully administered because in appropriate or ineffective regulatory measures results in catastrophic economic problems (Greenidge and Browne, 2000).

Accordingly, during the past two and half decades the focus was on attention to the application of the principles of national bank in banks as a result of the rapid developments in financial markets and the globalization of financial flows and technological progress, which led to the pressures of an increasing competition between banks and non-bank, also led to a rapid growth in the financial markets and a wide variety of financial instruments to banks, which increased the importance of risk measurement and management and control, which requires continuous innovation to business and ways of managing risk and change the laws and surveillance systems so as to maintain the integrity and strength of the banking system. Since banks differ from other institutions because the collapse of banks affect a wider circle of stakeholders resulting in a weak financial system itself which lead to adverse effects on the as a whole, placing a special responsibility to the members of the board of directors (Ibid, 2006).

2.1.1 Money laundering

Money laundering can be defined in a different ways. Most countries subscribe to the definition adopted by the United Nations Convention Against Llicit Traffic in Narcotic Drugs and Substances (1988) (Vienna Convention) and the United Nations Convention Against Transnational Organized Crime (2000). The conversion or transfer of property, knowing that such property is derived from any (drug trafficking) offense or offenses or from an act of contribution in such offense or offenses, for the reason of concealing or cover the illicit origin of the property or of assisting any person who is involved in the commission of such as offense or offenses to evade the legal consequences of his actions.

Money laundering (ML) has several definitions worldwide. As a working definition, money laundering activity refers to a process of transforming the proceeds of criminality into seemingly legitimate funds. The standard definition and concept of money laundering assumes essential criminal engagement related to organized crime activities, even the possible presence of professional launderers (Levy, 2003).

According to the UN Office on Drugs and Crime (UNTOC, 2000) (Palermo Convention),money laundering can be defined as the process of converting illegitimately obtained proceeds in to seemingly legitimately obtained proceeds by concealing or disguising the true nature and Source, location, and ownership of illicitly obtained proceed.

There are three stages in Money laundering: placement, layering, and integration. The first stage is Placement, which involves the deposit of funds in financial institutions or the conversion of cash into negotiable instruments. The second stage which is called Layering involves the wire transfer of funds through a series of accounts through the financial system in an attempt to hide the true origins of the funds. The final stage is Integration, the step in which mixing the ill-gotten proceeds into the economy as a legitimately acquired money (Chattan, 2009).

Money laundering and the financing of terrorism may be seen as distinct activities but laundering of criminal funds aims at giving a legal appearance to dirty money, whereas the laundering of terrorist funds aims at obscuring assets of a legal origin (such as public funding or so-called charities). This distinction is useless, however, since the objective of public policies is not to address the issue of the processing of illegal funds, but the funds themselves and the organizations behind them. In this regard, criminal assets and terrorist assets represent the same threats to financial systems and public institutions, and it is clear that the strategies designed to fight criminals when they channel their funds through financial systems may apply with the same success in combating terrorist financing cases (Thony, 2000).

According to Ethiopia AML report (2017) Ethiopia is highly committed to combating money laundering and terrorist financing (ML/TF) activities and associated predicate offenses. These crimes threaten the safety of the society, the integrity of financial system, and the stability of the economy. Ethiopia therefore adopts a whole of government approach to prevent ,detect, investigate, supervise, suppress, convict, Freeze, seize, confiscate, cooperate and take all necessary action against ML/TF and associated Predicate offenses (MOP).

2.1.2. Methods of Money Laundering

Structuring of Money

This method entails the division of large amounts of cash, which need to be laundered, into smaller amounts. Each divided amount is then transferred, through money orders, online transactions, cash deposits, etc., to foreign banks. The nontaxable sum, which can be legally traveled with, can also be taken to the foreign country by traveling legitimately. The scheme of dividing a sum of money into smaller portions and transferring the portions is also termed surfing. It generally includes the first stage of money laundering the placement of funds in foreign banks—either through online transfers, wire transfers, money ordering, or traveling as a group but pretending to be individuals, with each person having the maximum but different amount of cash to legally travel with (Business Crime Solutions, 2017).

Laundering through trade

Money laundering through trade happens when invoices are either undervalued or overvalued, depending upon the cash inflow/outflow or costs, respectively. Traders often accomplish this by providing fake invoices and accounts (Business Crime Solutions, 2017).

Smuggling

This method involves taking bulk cash to a foreign country by deceiving the airport or border authorities of the actual amount of money being displaced. This amount is then deposited into a bank of that foreign country, where the money laundering laws might be weaker or not strictly enforced. This is considered to be the most common method of money laundering (Business Crime Solutions, 2017).

2.2. Regulation and Supervision of Banks

Banking crises, rapid structural change, and the continuing globalization of banking have led national and multilateral policy makers to focus increased attention on the crucial role of banking supervision. This focus is reinforced by the fact that “one of the important [international] trends has been, and continues to be, a move away from regulation and towards supervision.” Policy discussions specifically focus on several issues that must be addressed in establishing and maintaining effective supervision, including who should supervise banks, i.e., the “structure” of bank supervision. Three issues for policy makers to address with respect to the structure of bank supervision are whether there should be a single bank supervisory authority, or multiple bank supervisors; whether the central bank should play a role in bank supervision; and whether the supervisor responsible for the banking industry should also have responsibility for other financial services, in particular the securities and insurance industries. How these issues are addressed is important because policies that fail to provide for an appropriate bank supervisory framework may undermine bank performance and even lead to full-scale banking crises (Barth, 2008).

The smooth and stable activities of the financial sector have become a basis for successful economic policy and global cooperation worldwide. The BCBS contributed three important papers on the issue of AML measures. These are: Core Principles for Effective Banking Supervision (1997), the Prevention of the Crime Use of the Banking System for the Purpose of Money –Laundering (1998), Core Principles Methodology (1999), and Customer Due Diligence for Banks (2001).

The focus of these papers were, significant principles which seek to ensure that banks are not used to conceal or legitimize the profits of crime; set standard for the evaluation of the adequacy of KYC requirements, suspicious transaction reporting, exchange of information with law enforcement agencies both local and international; significance of managing operational risk and improving internal controls and corporate governance were also incorporated (Basel, 2001).

Mitch et al. (2007) suggests banking crises are less likely to occur in countries implementing greater regulated disclosures and transparencies. Transparency-stability theory suggests that greater disclosure and greater transparency facilitates efficient resource allocation by reducing informational asymmetry. Assuming accounting information as a public good (Watts and Zimmerman, 1986) and central banks are funded by conscripted taxpayers and investors, and then central banks could reasonably produce extensive disclosures to satisfy the informational needs of the public. This notion flies in the face of transparency-fragility theory, which states that greater disclosure may indicate widespread problems in the banking system. Consequently,this situation could create negative externalities, such as runs on money and concerns regarding the financial systems vulnerability (Murithi, 2013).

Thus, Ethiopia has enacted the Anti-Money Laundering Law which is called “The Prevention and Suppression of Money Laundering and Financing of Terrorism (Proclamation No. 780/2013)”, Due diligence Directive No.01/2014 and established the Financial Intelligence Centre (FIC) as an authorized government body in fighting money laundering.

2.2.1. Internal arrangement of bank

Automated system of monitoring

The banks need to electronic data processing software and systems to help to provide for reports that summarize the transactions, customer wise for effective monitoring and ask for proper in house authorization to book such transaction.

According to Basel Committee on Banking Supervision (2006) when a new customer is non-resident, special attention should be exercised. Provision 23 of the Basel Committee CDD for banks reads: Banks should document and enforce policies of identification for customers and those acting on their behalf‘. The best documents for verifying are those most difficult to obtain illicitly and to counterfeit. Special attention should be exercised in the case of non-resident customers and in no case should a bank short-circuit identity procedures just because the new customer is unable to present himself for interview. The bank should always ask itself why the customer has chosen to open an account in a foreign jurisdiction.

Training

Customer dealing staff at the branches, Zonal/Regional offices, and at head offices must be aware of the present trends in money laundering. The Bank of Abyssinia should adopt such policies which protect them against this menace in dependent largely on the level of alertness of its front line customer dealing staff. If they can identify financial crime at their level, the bank could be saved from the machinations of money laundering. Therefore, staff training in implementing preventive measure should be given importance. When they open account any customer they should be accept account/truncations under the Bank of Abyssinia policy, and they follow the local law/regulation governing opening of accounts and their use. Bank of Abyssinia change the money laundering law and it compliance and regulatory requirement of money laundering prevention and deduction.

Record keeping

Complete record of inward and outward remittances, both business and non-business form the date of operating of the account must be maintained for the period specified by local law and or applicable banking regulations. The record must be maintained in a manner that it is secured against theft of destructions by elements, and its retrieval is easy.

Dormant accounts

The branch manager, or an office designated of the purpose, must validate transactions in dormant or inoperative accounts. Prior to permitting operations in such accounts, reasons for the accounts remaining dormant must be ascertained from the concerned customers, and procedure for permitting operation in dormant accounts stipulated by controlling office must be complied with.

Remittances

Remitting and receiving funds is the easiest route that money laundering adopt. Attention must therefore be paid to the origin and destination of all inward and outward remittance. Their periodic review is necessary to establish particular patterns that may indicate large sums coming in or going out. Source of funds and the identity of remitter beneficiary should be established to determine whether some customers are indulging in money laundering. Bank of Abyssinia must introduce measures to identify money laundering activates. Bank of Abyssinia should identity of the first bank that accepted the payment instruction from a non-bank, note this information on a data retrieval system, and retain it for referral purpose during the period in which the payment is processed by three or four intervening Bank of Abyssinia utile its payment to the beneficiary.

Cash transactions

More attention must be given to large and frequent transactions in customer accounts, whether deposits or withdrawals, in cash or through bearer instruments or travelers cheques. Accounts in which this type of activity progressively increases in volume should, preferably be closed.

2.2.2. Three measurement banks applying the National bank principles

- Know Your Customer
- Respondents banking
- Suspicions transaction

2.2.2.1. Know your Customer

The National Bank of Ethiopia (NBE) has introduced and applied Customer Due Diligence (CDD) standards across all banks and supervises the financial sectors compliance activities as required by the AML law and related legislation. The charities and societies proclamation number 621 and regulation number 168, both enacted in 2009, require charities and societies to register with central authority, expose their funding sources, submit profile of their officers, and audit their transaction as part of its ongoing AML/CFT efforts (Tuemay, 2013).

A sound Know Your Customer (KYC) policy is crucial for Bank of Abyssinia, not only to meet the legal requirements under the Money Laundering legislation, but also in terms of identifying business risk. To be effective a KYC policy must include proactive monitoring of customers' accounts. It is not sufficient to know your customer when he commences business with Bank of Abyssinia; bank have to maintain active monitoring of the relationship. Know your customer (KYC) policies are a bank of Abyssinia most effective weapon against being used for money laundering. Knowing the customer including depositors and other users of Bank of Abyssinia services, requiring appropriate identification, and being alters to transactions that seem out of character for the customer, or those that appear suspicious, can help prevent and often detect money laundering. A policy tailored to the Bank of Abyssinia customer's base, business niche and operation offers the following advantages:

The salient features on KYC

- Banks ensure the identity of the account holders; through this, Bank of Abyssinia get more appropriate information about the nature of the customer businesses. E.g. of the prospective customer.
- Bank of Abyssinia institution more aware the money laundering crimes, and should develop the policies and procedure to minimize the risk. Help detect suspicious activity in the timely manner.
- Promotes compliance with banking laws.
- Bank of Abyssinia should also undertake customer due diligence measures,
  include identifying and verifying of walk in customer conducting transaction
  above an appropriate limit to be prescribe by the State Bank of Ethiopian.
- Bank of Abyssinia shall maintain record of both domestic and international
  transaction in a systematic manner and these record keep in hand up to 5 year.
- Bank of Abyssinia needs KYC compliance unit full in hand, need to have effective monitoring and MIS and proper record of customer identification.

- Minimizes the risk that Bank of Abyssinia will be used for illicit activates.
- Reduces the risk of seizure and forfeiture of customer's loan collateral.
- Protects the Bank of Abyssinia reputation.

It is neither practical nor possible to make a list of all the criminal activities of being used as a guide of rejecting a customer, or to ensure with total certainty that transactions on behalf of the Bank of Abyssinia customers that could implicate the Bank of Abyssinia in money laundering, could be avoided.

In order to verify the legality of the entity the financial institution should collect the following information from the potential customer (WB, 2004).

1. Name and legal form of customer's organizations
2. Address;
3. Names of the directors;
4. Principal owners or beneficiaries;
5. Provisions regulating the power to bind the organization;
6. Agent(s) acting on behalf of the organization; and
7. Account number (if applicable).

KYC for the existing accounts

While the KYC guidelines will apply to all new customers account, same KYC policy would apply to the existing customer's account, for monitoring the risk. However, transactions in existing customers account would be continuously monitored for any unusual pattern in the operation of the customer's account. Based on materiality and risk the existing accounts of companies, firms, trusts, charities, religious organizations and other institutions are subjected to minimum KYC standards, which would establish the identity of the natural/legal person and those of the beneficial owners. Similarly, the Bank of Abyssinia will also ensure that term/recurring deposit accounts are subject to revised KYC procedures at the time of renewal of the deposits based on materiality and risk.

2.2.2.2. Correspondent banking

Bank of Abyssinia shall need to collect sufficient information about their correspondent banks, and understand fully its nature of business for protection of money laundering. Bank of Abyssinia must consider the role when they enter any relationship with other correspondent banks that as follow: When Bank of Abyssinia enter to any relationship with other correspondent bank they should follow “know your customer” (KYC) policy for the prevention of money laundering. Information about the correspondent banks management and its ownership, correspondent bank location, its nature of business and its policies and procedures that they used for prevention and detection of money laundering is also important.

Bank of Abyssinia need to know, whey correspondent bank open account, its purpose of account and how the third party use its services, and its country supervision and regulation must be known. Bank of Abyssinia established only relationship those correspondent foreign banks they use effective customer acceptance policy and know your customer policy and effect supervision authority. Bank of Abyssinia should refuse continuous relation those commercial banks they have no physical being present and should no affiliate with financial regulatory body.

When any correspondent banks used financial statement for shell banks for the purpose of establish relationship and Bank of Abyssinia refuse for this relationship. Bank of Abyssinia should focus their attention to such correspondent banks located in jurisdiction having poor KYC standards or have identified by financial action task force as being non cooperative in countering money laundering. Bank of Abyssinia should be specifically alter the risk that they received when correspondent account might be used directly third parties by paying their obligation on the own behalf. In such situation Bank of Abyssinia must be satisfy themselves that the correspondent bank has verified the identify of and performed on going diligence on the customer having direct access to accounts of the correspondent bank and that it is able to provide relevant customer identification data upon request to the correspondent bank.

2.2.2.3. Suspicious Transaction

Any transaction or group of transactions, especially that relate to money transfers, which doubts arise, with the registered person concerning their link to money laundering through their unusual size, repetition, nature, conditions and circumstances surrounding them, their unusual pattern that does not involve a clear economic objective or an obvious legal purpose, if the activities of the persons involved in the transactions do not conform with their normal activities, or if the domicile of such persons is situated in countries that do not adequately apply measures for prohibition and combating of money laundering.

Suspicious Transaction Reporting/report (STR) According to Financial Action Task Force (FATF, 2004) special attention should be paid to unusual patterns of transactions and complex and unusual large transactions. These transactions should be examined thoroughly and the findings should be recorded systematically. Financial institutions should record the following information for each and every transaction and keep the records for a minimum of five years following the termination of the account.

- Name of the customer and/or beneficiary;
- Address;
- Date and nature of the transaction;
- Type and amount of currency involved in the transaction;
- Type and identifying number of account; and
- Other relevant information typically recorded by the financial institution.

Suspicious transactions create a risk for Bank of Abyssinia ; Bank of Abyssinia pay special attention to the complex, unusually large transactions and remarkable patterns of transaction, which have no apparent economic or visible illicit purpose.

Some case Bank of Abyssinia have suspect that funds are the proceeds of criminal activity. It should repost to the high management within 5 days and conduct a proper investigation to the suspicious transactions through the compliance officers of the Bank of Abyssinia according to the policies and procedure that State Bank of Ethiopia Banking policy department has provide. Employees of the banks of Abyssinia are strictly prohibited to disclose the fact to the customer or any irrelevant quarter that a suspicious transaction or related information is being reported for investigation. In case of foreign branch of the banks and subsidiaries of the banks in foreign countries, undertaking commercial banking business the commercial private banks should ensure compliance with the regulations of State Bank of Ethiopia, or relevant regulation of the host country.

2.3. Protection of National bank principles for the bank

First money laundering law was established in 1997 under Asia Pacific Group (APG), this was an Australia based informal group. Its objective is to capture Implementation of FATF Recommendations in member states. Its aim is to highlight the negative implications and recommend measures for dealing with Money laundering. Pakistan has been a member of the APG since July 2000. There were no laws directly dealing with money laundering however, a draft bill was under consideration.

Although these laws do not exclusively deal with money laundering, they contain participation, which may be invoked for freezing, and forfeiture of assets acquired through narcotic and corruption related sources.

- Money laundering
- Control of Narcotic Substances Act, 1997 (CNSA)
- National Accountability Bureau Ordinance, 1999 (NAB),

Control of Narcotic Substances Act, 1997Section 67 of control of narcotic substances act (CNSA) 1997 requires banks and financial institutions to pay special attention to all unusual patterns of transactions having no apparent economic or lawful purposes. The Section 31 (d) empowers an investigating officer to ask for information from a bank or any financial institution.

There are many other provisions in the CNSA 1997 empowering the authorities to freeze assets, which they suspect to have been acquired through illicit dealings in narcotics and courts are there for forfeiture of such assets.

The National Accountability Bureau Ordinance, 1999In which Section 20, makes it obligatory upon the managers and directors of banks and financial institutions to inform the Chairman of the National Accountability Bureau immediately of any transaction, which they suspect to be unusual and involves huge sums of money and does not have an apparently genuine economic or lawful purpose.

Proposed Anti-MoneyLaunderingOrdinance2002, This law is in draft form and it is still under consideration by the government. The draft bill proposes various measures for combating the threat of money laundering, including the offence of money laundering predicate offences, punishment, establishment of a National Advisory Committee for combating money laundering, and the establishment of a Financial Intelligence Bureau, etc.

2.4. Non-Bank Financial Institutions

Banks/financial institution offers wide range of financial services and also hold a large financial market share. Their offered services are widely used to manage money laundering. However, non-businesses and non-financial sectors are becoming popular because of introducing ill gains in the regular financial channels. This is because laundering regulations are increasing and effective in the banking sector.

Money Exchanger

The money exchanger, exchanger offices an ever more significant money laundering threat, a major increase in the suspected and actual money laundering transactions involves these institutions. A wide range of currencies are offered , along with small consolidating denomination bank notes to larger ones, replacing techniques like traveler’s cheques, money orders, Euro cheques, personal cheques, etc. The criminal element continues to be attracted to launderer, because these are not heavily managed and regulated as other traditional financial institutions. In fact, in some cases, they are not regulated at all.

Non-financial businesses/professions

Due to increase in anti-laundering laws and regulations, various countries are highly relying on money laundering facilitators. A high number of cases involving accountants, financial advisors, lawyers, secretarial companies, notaries and others who services used to help-out in disposal of criminal profits. This way the launderer hopes to obtain the advantage of secrecy, through the solicitor client privilege. The making available of Bank of Abyssinia accounts and the provision of professional advice and services as to how and where to launder criminal money is likely to increase as counter measures become more effective. Beside the use of shell companies, there was also widespread use of real businesses, either to hide the illegal laundering of money or as part of the predicate offence, and the use of real businesses was more common in relation to fraud and other financial crime than for drug offences. The techniques used in these businesses included false invoicing, commingling of legal and illegal money, and the use of loan back arrangements and layers of transactions through offshore shell companies. Often the laundered money may then be invested in the company’s real estate or other businesses, though one country reported that there was a trend away from investing illegal proceeds in real estate, and into less visible investments such as financial businesses. Other techniques of money laundering remain quite prominent in the non-banking sector. Considerable illegal proceeds are still invested in the real estate. Other cited techniques are buying and cross border delivery of valuable metals like silver and gold; and the use of monetary methods like of warrants in metal market to transfer valuables.

2.5. Compliance risk and internal audit

2.5.1. Compliance risk

Compliance risk is a risk arsing as a result of not operating in accordance with laws and regulations. Since ethical values promote to perform the day to day activities as per the stated rules and regulation, it reduces compliance risks.

Major objectives and responsibility

- Drafting and regularly updating risk management strategies, policies, and procedures/guidelines; and coordinate the implementation of a Board-endorsed Risk Management Framework;
- Analysing critical developments in the banking sector and drawing management's attention on any issue deemed to be concern to the Bank
- Monitoring risk positions of the Bank against approved risk tolerance limits, on regular basis,
- Evaluate and monitor compliance of the Bank with legislative requirements
- Implementing sound anti-money laundering and countering financing of terrorism & proliferation policies and procedures, emanating from best practice (FATF's recommendations) and domestic regulations to mitigate AML/CFT risks that the Bank can be exposed to
- Coordinate and monitor AML/CFT Compliance by the Bank
- Introduce best practices to enhance risk management & compliance function of the Bank by customizing to prevailing situation in local Banking industry.

Risk Management Division is mainly responsible to:

- Assess overall risk level of the Bank regularly based on the board approved risk management program of the Bank that defines its risk appetite.
- Provide risk review report periodically to risk, compliance, and credit review board sub- committee and executive management thereby monitoring and controlling actual risk level in accordance with the predefined risk appetite of the Bank.
- Revise the risk management program to take into account current

developments such as economic reforms, revised regulatory limits as well as own strategy.

- Ensure all new business initiatives of the Bank are subjected to comprehensive risk assessment to ultimately balance the trade-off between performance and conformance.
- Enhance risk management culture of Bank particularly by working-on the awareness of first line of defence. (Operational units).
- Trace emerging/concerning risks based on global & local economic, political and technological developments and their implications on financial sector thereby supporting the board and management to take proactive actions.
- Incorporate new tasks and responsibilities (framework) to the function to meet international standard based on their importance/applicability to prevailing situation.

Compliance Management Division is mainly responsible to:

- Coordinate and monitor day to day compliance with applicable money laundering laws and regulations;
- Monitor transactions to detect any unusual or suspicious transactions;
- Prompt preparation and delivery of all relevant returns to the regulatory bodies in line with the FIC's Directives;
- Coordinating the training of employee in AML/CFT awareness, particularly on detection methods and reporting requirements; and
- Serve as liaison officer to the Centre and competent and regulatory authorities.

2.5.2. Internal Audit

The purpose of the Internal Audit Department is to provide an independent, objective assurance and consulting/advisory services designed to add value and improve the Bank's operations. It helps the Bank to accomplish its objectives by bringing a systematic, disciplined approach to evaluate risks and improve control and governance processes. Internal Audit Department assist the Bank's Management and Board of Directors (BOD) in achieving the objectives of the Bank by evaluating the effectiveness of controls and developing recommendations for the enhancement or improvement of the processes.

Formulate risk-based audit plan and get it approved by the Board Audit Committee; provide an independent, objective assurance and consulting/advisory services. Conduct special examinations and investigations requested by the BOD/BAC and Executive Managements; Implement the annual audit plan, including, as appropriate, any special tasks or projects requested by the Chief Executive Officer (CEO) of Bank and other Executive Management members; Keep the CEO and the BOD/BAC of Bank abreast of new trends and development in internal auditing practices Issue periodic reports on a timely basis to the CEO and the BOD/BAC, summarizing the requests of audit activities; Ensure adherence to the Directives of the Bank; and Ensure adherence to legal and regulatory requirements. The primary reporting (functional reporting) line of the Internal Audit Department is to the Board with a secondary reporting line (administrative reporting) to the Chief Executive (CEO) for administrative purposes. It has two main divisions or work units. Corporate and Branch Audit and IT Audit.

The Corporate and Branch Audit is mainly responsible for:

- Develop risk based annual audit plan (prepares and implements annual audit work plan and long term audit plan).
- Plan, organize, direct and controls the corporate and branch audit activities of the bank on the basis of auditor's magnitude of risk exposures.
- Review and approve each engagement objectives, scope and detailed audit program.
- Provide advice on internal control and participate in enhancing internal audit standards and practice within the bank.
- Ensure audit plan / each engagement has to be aligned to major risk areas.
- Ensure fast and reliable audit service

The IT Audit is mainly responsible for:

- Prepare the division annual plans and manage their execution
- Supervising audits and reviewing the work performed to insure the adequacy of audit scope, the adequacy of testing and accuracy of conclusions reached.
- Reviewing and approving detailed IT audit programs tailored to each audit area to assure that no specific test or activities necessary for the audit are overlooked.
- Review and determine compliance with laws, regulations, policies and procedures in the area being.

2.6. Loopholes in bank of Abyssinia policies, procedures, and system

There are different loopholes existing in the bank of Abyssinia police, procedures, it is possible for money launder to move their illegal funds anywhere in the world. These loopholes exist in opening of accounts for instance, when commercial banks open an account for the customer, they do not get proper introduction to their customer through credible and verifier able sources.

- Bank of Abyssinia accepts enough documents or unverifiable identification paper to the customer.

- Bank of Abyssinia not able to establish a proper system to check the suspicious transaction immediately by their customer.

- Bank of Abyssinia not gives the importance to monitoring the transactions of their customer accounts.

- Bank of Abyssinia absence of predict review of the customer account activity to check its compatibility with the profits or the customer business.

- Bank of Abyssinia not follows the compliance that helps us the commercial banks for deduction and prevention of money laundering.

2.7. Weak regulatory banks, moneychangers and challenge of implement the practices

2.7.1. Weak regulatory banks, money changers

Weak regulatory arrangement for the regulatory body provides the incentive to the bank of Abyssinia and the moneychanger to get benefit through the criminals' activities and expand their businesses. It is important that government bring together law enforcement agencies and regulatory body to monitor the Bank of Abyssinia restrict to play their role effectively in dealing with money laundering. Regulatory body enforce the bank of Abyssinia and the private sector the demand minimum requirements for the customer identification, transaction reporting and mandatory requirements for transaction recording keeping The national system must be much flexible, provide for responding to new money laundering compliance and detection technique in bank of Abyssinia. The system should flexible in quickly adjusting, modifying, refusing counter measure to plug the loopholes that may develop in the monitoring system over time as money launderers change their money laundering technology to defeat the counter measure.

2.7.2. Challenges of AML/CTF Implementation and Practices

African Development Bank (2007) revealed that implementing comprehensive AML/CFT policies in the context of developing countries offers some unique challenges. All countries face certain challenges in fully implementing the FATF 40+9 recommendations, but the capacity and resource constraints of low income countries make it particularly difficult for them to implement all the necessary measures simultaneously.

According to Yepes (2011), population size, the country's level of development, geographical factors, cultural links, political stability, IT infrastructure, compliance costs are the major challenges in implementing AML/CTF in financial services of a country. Other contextual challenges that might significantly influence the effectiveness of a country as well as its banks' AML/CFT measures include the maturity and sophistication of the regulatory and supervisory regime in the country; the level of corruption and the impact of measures to combat corruption; or the level of financial exclusion. Such factors may affect the ML/FT risks.

The emergence of new technologies such as cards and ATMs, commodity transactions, and electronic wire transfers led to new ways of ML crimes. This was noticed by Zagaris and MacDonald who came up with a long term plan in fighting against emerging ML. These methods demand strict KYC requirement, audit trials, regulation of non-bank business sectors, create awareness on complex, unique and huge transactions, monitoring of cash at the border, enhancing supervision of banks and other financial institutions, and building an effective international financial sub-regime (Zagaris and Maccdonald, 1992).On the other hand, Tuemay (2013) state that the AML/CFT initiatives in Ethiopia are faced with key limitations and challenges to their effective and efficient implementation, including a lack of a national AML/CFT policy or strategy; comprehensive legislation, regulatory frameworks, and detailed regulations; established formal and institutionalized national interagency cooperation.

2.8. Empirical Literature

In this section empirical studies that have been made regarding the impact of National Bank principles on aspects of Banks practices across countries is presented.

There is substantial heterogeneity of bank regulatory and supervisory policies across countries. And, although there has been some convergence over the last dozen years for some types of banking sector policies, bank regulatory and supervisory policies remain impressively diverse in 2011. This diversity in regulatory regimes provides enormous scope for research examining both the causes of these policy differences and the impacts of banking policies on the performance of banks, and the associated ramifications for the overall financial sector and real economy (Barth, Caprio, Levine 2013).

Georgios et al (2009) have studied “Bank supervision, regulation, and efficiency: Evidence from the European Union.” by taking for a sample of 22 EU countries, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, France, Germany, Hungary, Italy, Latvia, Lithuania, Luxembourg, Malta, Nether-lands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden and UK over 2000–2008.

Kalkidan (2020) made an assessment on the Anti-money Laundering Law in Ethiopia: Issues of Enforcement with Specific Reference to banks. The report argued that Banks are among the institutions which take the leading role in the combat against the crime of money laundering. They, however, remain highly vulnerable to an ever growing means and mechanisms of perpetration of the crime. This reality demands a continuous adoption of necessary measures. In what appears to be responding to this demand, Ethiopia has enacted several laws that impose obligation on banks to take preventive measures that can prevent the manipulation of the financial system towards the commission of laundering. This article examines whether banks (both private and public) in Ethiopia are implementing measures intended to prevent money laundering. Secondly, it examines the relationship and collaboration between banks and the regulatory organs (such as the Financial Intelligence Center and the National Bank of Ethiopia) in identifying and safeguarding against the schemes that allow the use of banks as intermediaries in the commission of money laundering.

The main studies on the determinants of bank performance in emerging countries were carried out in Colombia (Barajas et al., 1999), Brazil (Afanasieff et al., 2002), Malaysia (Guru et al.2002) and Tunisia (Ben Naceur and Goaied, 2001). Barajas et al. (1999) document significant effects of financial liberalization on bank interest margins in Colombia. Although the overall spread has not declined after financial reform, the relevance of the different factors behind the bank spreads were affected by such measures. Another change linked with the liberalization process was the increase of the coefficient of loan quality after the liberalization. Afanasieff et al. (2002) makes use of panel data techniques to uncover the main determinants of the bank interest spreads in Brazil. A two-step approach due to Ho and Saunders (1981) is used to measure the relative impact of the micro and macro factors. The results suggest that macroeconomic variables are the most relevant elements to explain bank interest spread in Brazil.

Excessive reporting or —crying wolf can water down the value of the data of reports. The initial formal analysis of ML practice is triggered by excessive reporting. Banks monitor transactions and report suspicious activity to government agencies. These agencies use the data to identify investigation targets, and banks are fined should they fail to report ML. However, to avoid fines, banks resort to reporting transactions that are less suspicious, which dilutes the information. The formal model builds on five main economic obstacles. The first obstacle is communication between the banks and governments. However, the problem lies in accuracy and not in the verification of information. The second obstacle is that the bank incentives to report are coarse. Banks are fined only for concealing potential ML information, but not failing to report transactions that are prosecuted later as ML. In the third obstacle, banks are always unsure of the true nature of transactions, which makes every transaction a potential case for ML. In the fourth obstacle, banks assume the dual task of having to oversee all transactions in order to report suspicious cases. The fifth obstacle pertains to bank information, i.e., signal on the transaction which is not verifiable ex-post because local information during judgment cannot be reproduced later. The model shows that harmful excessive reporting, known as —crying wolf (Takats,2007).

Abebe (2016) also assessed a study on the practices and challenges of Commercial Banks on Anti-Money Laundering and Counter Financing of Terrorism through selected sample 6 banks and discussion with the concerned official of the Financial Intelligence Center of Ethiopia. The findings of this study revealed that deficiency exists in the Anti-Money Laundering and Counter Financing of Terrorism implementation of commercial banks in areas such as suspicious transaction reporting, implementing know your customer and customer due diligence measures and violating confidentiality code in contrast to regulatory requirements. This research could not indicate as the measures are effective.

Mitch et al. (2007) suggests banking crises are less likely to occur in countries implementing greater regulated disclosures and transparencies. Transparency-stability theory suggests that greater disclosure and greater transparency facilitates efficient resource allocation by reducing informational asymmetry. Assuming accounting information as a public good (Watts and Zimmerman, 1986) and central banks are funded by conscripted taxpayers and investors, and then central banks could reasonably produce extensive disclosures to satisfy the informational needs of the public. This notion flies in the face of transparency-fragility theory, which states that greater disclosure may indicate widespread problems in the banking system. Consequently, this situation could create negative externalities, such as runs on money and concerns regarding the financial system s vulnerability (Murithi, 2013).

Biniam (2011) conducted on the research on Money Laundering and Countermeasures a Critical Analysis of Ethiopian Law with Specific Reference to the Banking Sector. A personal visit and observation was also employed to familiarize my work with the working condition of the issue. The researcher finding indicates that Ethiopia has made a remarkable progress in fighting money laundering activities; gaps however are still remaining and further efforts should be made to avoid the lacunae in the anti-money laundering laws of the country as recommended. The study concluded that Due to the clandestine nature of money laundering and the absence of consolidated data, it is impossible to extrapolate the amount of money laundered in Ethiopia; however, there are indications that money laundering is taking place in the country. Corruption, smuggling and contraband as well as tax evasion are the major threats to the country that badly need money laundering activities and banks have been wittingly or unwittingly participants in the process. The law concerning KYC requirements, CTR, STR and other preventive measures suffer lacunae and such gaps create a fertile ground for money launderers to exploit the banking system. The issue of payment systems in the banking sector and the emergency of contactless technologies necessitate emphasis on money laundering maters but no law in the country about payment system. Regulation, supervision and international cooperation are also other worthy points that have been discussed so far.

2.9. Research Gaps

In general, there are a large number of researches made in this area, especially in the African commercial banking industry. When it comes to the Ethiopian context, however, only a few studies have been made to see the impact of national bank principles on private commercial banks. Even if there are a few previous works, most of them are focused on National bank principle barriers and benefits, challenges and prospect, customer satisfaction and behavior towards banks.

As per the theoretical and empirical review of literatures there are different rules and principles which are imposed on banks activity and of course the principles which exist in one country is not similar with that of the others even though there are international principles in which all of the banks in every country should obey, each and every country have their own principles which is issued by the central bank for the purpose of controlling the economic activity of the countries. The variables which are used to see the impact of application National bank principles on the bank other than the control variables (bank specific and macroeconomic) is different from county to country. In Ethiopia there is few empirical study which is conducted in this area, therefore this study is conducted to fill this knowledge gap by examining the Impact of Application of National Bank Principles in the Ethiopian Bank of Abyssinia.

In addition to this most of the local have been performed focused on only on money laundry and political terrorism are not applied according to National bank principle is applied However, the current researcher is proposing the impact of applying the National bank principles on the bank of Abyssinia which could add a new knowledge because the of the strategy is generally expected to bring a change in the behavior of local financial ecosystem.

2.10. Conceptual Framework

Based on the theoretical and empirical literature review the following conceptual framework has
been formulated.

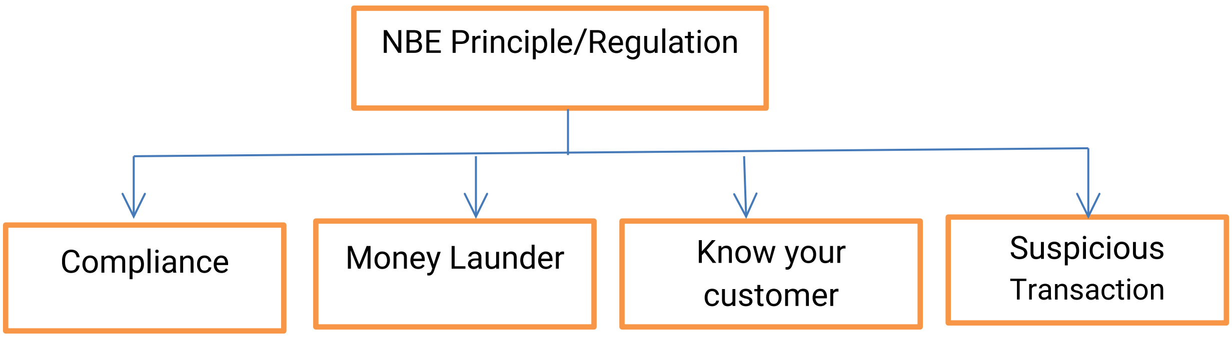

Fig 2.1: Conceptual framework (self developed)

In this study the conceptual framework tries to simplify the concepts in the study by presenting the key issues expected to be covered. Therefore, in this context, the requirements set by the National bank of Ethiopia , the role of bank of Abyssinia in implementing AML and their Practice of Anti-money Laundering preventive measures are Transaction Monitoring which are tracked by compliance department, Anti-money Laundering training to identify suspicious transaction and auditing and another measurement is Customer knowledge and diligence or know your customer by applying this measurement of the National bank principle the bank of Abyssinia can prevent the challenges anti-money laundering.

Chapter Three

3. Research Design and Methodology

This chapter presents methods that were used in carrying out the study. It presents the research design and the methodology that is used in procedures of data collection, the instruments used to gather the necessary data, the sampling procedure and finally method of data analysis and presentation, reliability and validity and ethical consideration.

3.2. Research Design and Approach

The Research Design details about sampling procedures, the data collecting tools, and analysis and how it's unfold and connect to each other. This means that the reader has clearly see Methods of collecting the desired data, Justification for these methods. The type of research that is employed for the purpose of this study is descriptive in nature, because, the researcher has no control or effect on the variables of the study. It's intended only to investigate the impact of National bank principles are implemented in the, in the case of Bank of Abyssinia.

Descriptive research design is helpful when a researcher wants to look into a phenomenon or a process in its natural contexts in order to get its overall picture instead of taking one or some of its aspects and manipulating it in a simulated or an artificial setting (Seiliger and Shohamy 1989).

Quantitative research approach was implemented to look the cause and effect, and testing of theories and hypothesis (Muijs, 2010). This research approach involves survey, content analysis, experimental studies and non-experimental studies. Survey is a research design in quantitative research. It is a method used by social scientists to empirically and scientifically study and provide information about people and social phenomena (Lavrakas, 2008). This means that the researcher's personal thoughts, subjective preferences and prejudices do not apply this type of research method. This study use qualitative research approach in order to assess the practices of BOA in implementing NBE principles and directives.

3.3. Sources of Data and Sampling Techniques

3.3.1. Source of data

Data is collected from the primary sources. The target populations of this study for the primary data are the employees of Urael and Bole-cooperate branches officers, Manager and director the Bank of Abyssinia.

3.3.2. Population and Sampling

Population is the entire aggregation/total of items from which samples can be drawn (Ilker, et al., 2016). Determining type and method of sampling mainly depends on the types of population that the study covers. There are more than eighteen private commercial Banks in Ethiopia. Although NBE equally works for all private commercial banks, the study focuses on the Bank of Abyssinia. The researcher believe that the level of complacence to NBE principles and directives vary across banks. Thus, assessing the practices of different banks in a study might be misleading as their level of compliance to NBE principles and directives significantly vary. Therefore, depending on convenience to the researcher, we select BOA, one of the leading and oldest private commercial banks in Ethiopia. The practices obtained from BOA might reflect the practices of other private banks, especially giant private banks.

Sample size

Sampling frame contains a list of contact people from where sample is drawing. Therefore in Addis Ababa city Bank of Abyssinia customer service officer's organizational structure has segmented in to the two branches and head office. Based on the company headquarter report as of December, 2021 it has 10,500 permanent employees the researcher has decided to select sample 67 staffs assumed to have best experience in handling money laundering As a result of the research choose the East Distinct because it cover ½ area of Addis Ababa for other district from bank of Abyssinia, form this district the research choose two special branch Ureal branch and Bole cooperate due to their customer base and seniority. And also from KYC officer, officers were selected based on their title position that works only work in KYC digital control and KYC customer offices.

No.	District	List of offices	Population size	Sample size
1	East District	Bole	30	30
2	East District	Urael	23	23
3	Compliance department	Head Offices	8	8
4	KYC offices	Head Office	16	16
Total			**67**	**67**

Source: portal page report of BOA

Finally, the kind of sampling techniques is used for the selection of the participants so as to conduct this research with comprehensive and purposive sampling for the questionnaire and interview respectively.

3.4. Data Collection Methods

According to Hollensen (2007) primary data can be defined as information that is collected first-hand, generated by original research tailor-made to answer specific current research questions. There are several methods of collecting primary data, particularly in surveys and descriptive researches. Important ones are: observation, interview, questionnaires, depth interviews, and content analysis (Kothari, 2004).

3.4.1. Questionnaire

Questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents. Questionnaires have advantages over some other types of surveys in that they are cheap, do not require as much effort from the respondent and often have standardized answers that make it simple to compile data.

The questionnaire were prepared first hand to better categorize the application of National Bank principles components and to better answer the hypothesis proposed, based on different kinds of literature. A five-point (1 - 5) Likert scale instrument (strongly agree to strongly disagree) was used as a measurement scale. The questionnaire is prepare in English language and translated to Amharic, only for customer satisfaction survey.

3.4.2. Interview

Interview is the other type of data collection instrument that was used in the study. This means of data collection instrument helps the researcher to get reliable information from the target population that how they feel and think about the problem. Interview according to Arikunto (2002) is a kind of dialogue which is done by an interviewer to get reliable information from an interviewee.

Consequently, the purpose of the interview is to substantiate the results obtained from the questionnaire thereby to get a greater depth of information. The interview questions were prepared in a semi structured type.The researcher adopted three steps in collecting the data for the study. First, relevant literature was review to get adequate information on the topic. Second, objectives and research questions were formulate to show the direction of the study. Third, the data gathering tools and piloted. After the questionnaire is distributed and collected, interview with the directors and manager of the bank was conducted. For this study the researcher prepared structured questionnaire and interview to collect primary source of data and to achieve all the specific objectives. According to Saunders et al. (2009) structured questionnaire was used to collect data from different employees to gather the information needed for the research by using a five point likert response scale. This study established that the responses were measured on five point likert scale with 1= Strongly Aagree; 2= Agree; 3= Neutral; 4= Disgree; and 5 = Strongly Disgree. The questionnaire has two parts; first part focuses mainly about the personal profiles of sample respondents such as age; gender, education status etc., whereas part two of the questionnaire deals with state of agreement by respondents on agreement state of different respondents on different practices of anti-money laundry (Transaction monitoring and reporting, AML Training for officers, Auditing, Know Your Customer and conducting Diligence and AML/CTF. Some previously arranged questionnaires were taken from different related sources.

3.5. Method of Data Analysis and Presentation

Once after the raw data is on hand, quantitative method of data analysis was used. Particularly with the quantitative data is collected via the questionnaire, a descriptive statistical analysis method and tabulate the data and present it in tables.

Information obtained from the open-ended questions is also analyzed to gather with the close-ended questions and used as supplementary data, to triangulate the responses gathered via the questionnaire in general. Moreover, to analyze the data obtained through interview qualitative method of data analysis was employed. Perhaps, the data gained through this method is used to back the information gathered via the main tool of the research, which is the questionnaire, and, hence no separate section is dedicated to it.

3.6. Reliability and Validity

3.6.1. Validity

Validity has been defined by Bolarinwa (2015) as the degree to which an instrument measures what it`s intended to measure. To strengthen the questionnaire's validity, the researcher engaged specialists in the field, particularly the supervisor, who assessed the content's relevance and assisted in the review and modification of the questionnaire.

3.6.2. Reliability

The consistency with which a method measures something and achieves the same result over time is referred to as reliability. According to Heale and Twycross (2015), reliability refers to the degree to which a research instrument consistently produces the same results. Cronbach's Alpha can be used to determine internal consistency. Pre-testing the questionnaire with five banks of Abyssinia staffs ensured its reliability. The information gathered aided in determining the need for any changes, ensuring that the research instrument measured what it was designed to assess and therefore enhancing the questionnaire's reliability.

3.7. Ethical Consideration

Confidentiality – the respondents was assured that they will not be confused and that their response will remain confidential. The information they provide is confidential and used for academic purpose only.

Organizational approval – A written letter that explains the research idea as well as a copy of the research is provided to study t site. The researcher has obtain approval prior to any research activity at the specified location is carried out.

Informed consent – Cover letters explain the purpose of the questionnaire and the right to accept or refuse to participate in the research activities that are given to the respondents of this study. As well as explaining the purpose of the study and for what purpose the study is conducted.

CHAPTER FOUR

4. DATA ANALYSIS, RESULTS AND INTERPRETATION

This chapter presents the SPSS 20 version data findings to determine The Impact of Application of National Bank Principles in the Ethiopian Bank Sector: A Case Study at Bank of Abyssinia. The descriptive statistics analysis was done and the findings were presented in form of figures and tables. The result of tests of assumptions; inferential analysis which is performed to examine relationship of variables, influence of independent variable over dependent variable was examined and hypothesis analysis was tested.

A total of 65 questionnaires were distributed out of which 57 (87.7%) were responded, while 8(12.3%) questionnaires were not returned from respondents. Therefore 57 questionnaires served as a source of data for analysis, findings presentation and drawing conclusions. The researcher also used interview method of data gathering technique to triangulate with the results of the data found from the questionnaire and to validate the reliability of the results eventually. When the data found from the questionnaire were analyzed, the data obtained from interview were also discussed and interpreted together with the result of the questionnaire.

4.2. Profile of Respondents

This section presents the respondents' personal profiles. Mainly, it presents the respondents educational qualifications, years of experience, and current professional position.

Table 4.1. Respondents Profile

	ITEM	FREQUENCY	PERCENT
Educational Qualification	Diploma	2	3.5
	Degree	38	66.7
	Masters and above	17	29.8
	Total	57	100
Current Professional Position	Officer	39	68.4
	Senior Officer	9	15.8
	Manager	7	12.3

	Director	2	3.5
	Total	57	100
Working Experience	Less than 2 years	13	22.8
	2-5 years	24	42.1
	6-10 years	11	19.3
	More than 10 years	9	15.8
	Total	57	100

Source: Survey result and SPSS output2022

From the data findings on respondents profile with regard to educational level of the respondents, the largest portions 38(66.7%) were university graduates with Bachelor's degree, 2 (3.5%) of them were College graduates with Diploma and the remaining 17(29.8%) of them were Second Degree or Master's Degree holders. This reveals that the majority of the employees of the banks are first degree holders.

In terms of work experience or service years 24(42.1%) of the respond served between 2 to 5 years, 13(22.8%) of the respondents served less than 2 years, 11(19.3%) of the respondents served more than 10 years and the rest 9(15.8%) of the respondents served for more than 10 Years. In general, majority of the respondents have 5 years and less experience in the bank. Whereas, as far as the current professional position of employees is concerned, 48(84.2%) of respondent of employees assumes a current position of Officer and Senior Officer. Only 9 (15.8%) of the respondents are currently in the Managerial position.

4.3. Results

4.2.1. National bank Principles, Compliance and Monitoring Practices

Table 4.2summarize BOA compliance monitoring practices, The study uses frequency, percentage, mean and standard deviation to analyzed the data obtained using questioner. Thus, the mean indicates to what extent the sample group on average agrees or disagrees with the different statements. Weighted averages were calculated for the Likert scales, from Strongly Agree=1 to Strongly Disagree=5.

Likert Scale	**Indicate**
Strongly Agree	1

Agree	2
Neutral	3
Disagree	4
Strongly Disagree	5

Description	**Responses**					**Mean**	**SD**
	1=SA	2=A	3=N	4=DIS.	5=SDIS		
The National Bank Principles being offered by your institution are adequate to cope with the ongoing services of the bank and periodically update and communicated to employees.	22 38%	24 42%	6 11%	5 9%	-	1.88	0.927
Is their Automated compliance system in the bank to detect and report suspicious transactions and monitoring the compliance risk exposure of the bank?	26 45.6%	21 36.8%	5 8.8%	4 7%	1 1.8%	1.82	0.984
Compliance department available in your institution keep a balance between employees contribution and the National bank principles and bank procedures.	10 17.5%	3 5.3%	6 10.5%	24 42.1%	14 24.6%	3.51	1.39
Your institution periodically evaluate the effectiveness their practice according with National Bank Principles.	23 40.4%	30 52.6%	3 5.2%	1 1.8%	-	1.68	0.659
Total Mean						2.2225	

Source:Survey result and SPSS output 2022

The result in (Table 4.2.) of Compliance monitoring and reporting measures shows that majority of them about 42% were agreed that the National Bank Principles being offered by your institution are adequate to cope with the ongoing services of the bank and periodically update and communicated to employees. The mean score 1.88

indicates that agreement between the respondents but with small standard deviation 0.927indicates that respondents were agree that BOA cope and update the National Bank Principles with their services. Thus, the bank conducts update the staff about the national bank principles. In the second, most of the respondents about 45.6% of them were strongly agree that the bank automated compliance system in the bank to detect and report suspicious transactions. The mean score 1.82 indicates that most of the respondents were agree with small standard deviation value 0.984. Thus, one can infer and conclude that banks record and kept safe their customer and transactions records. Therefore, banks of Abyssinia in Ethiopia did place the automated compliance system to detect and report suspicious transactions. In the third most of the respondents were 42.1% disagreed Compliance departments available in your institution keep a balance between employee's contribution and the National bank principles and bank procedures. The mean score 3.51with higher standard deviation value 1.39 indicates the average agreement between respondents. Thus bank has a compliance department but didn't a balance between employee's contribution and the National bank principles and bank procedures. The interview response also confirmed that law concerning record keeping in the banks should be revised to make it sufficient enough to prevent and detect money laundering activities in this respect. In the fourth most of the respondents about 52.6% of them were agree periodically evaluate the effectiveness their practice according with National Bank Principles. The mean score 1.68 indicates majority of the respondents were agreed that their institution periodically evaluate the effectiveness of their practice according with National Bank Principles. The standard deviation value 0.659 indicates one can infer that the bank periodically evaluate the effectiveness their practice according with National Bank Principles.

4.2.2. Practices of KYC

Table 4.3 Present the practices of BOA on NBE principles related to KYC.

Description	Responses					Mean	SD
	1=SA	2=A	3=N	4=DIS.	5=SDIS.		
Does the bank have a regulation in implemented and identify the customer.	25 43.9 %	14 24.6 %	-	10 17.5%	8 14%	2.33	1.36

Is your institution screened customers against international SDN sanctioned lists such as; UN before establishing business relationship and on an ongoing basis.	24 42.1 %	10 17.5 %	9 15.8 %	8 14%	6 10.5 %	2.33	1.15
Is your institution have a screening tool is in place to identify Politically Exposed Persons	3 5.3%	2 3.5%	3 5.3%	9 15.8%	40 70.2 %	4.42	1.1
Is AML awareness in media is good in the country.	2 3.5%	1 1.8%	-	10 17.5%	44 77.2 %	4.63	0.87 9
Absence of National ID card hinders effective KYC procedures.	22 38.6 %	7 12.3 %	18 31.6 %	6 10.5%	4 7%	2.35	1.28 9
Is there a department of KYC and that conducted and AML/CFT controls are assessed before establishing agreement with customer.	26 45.6 %	21 36.8 %	5 8.8%	4 7%	1 1.8%	1.82	0.98 4
Total Mean						2.98	

Source: Survey result and SPSS output 2022

The result in (Table 4.3.) above shows that in the first most of the respondents about 43.9% were strongly agreed that the bank have a regulation in implemented and identify the customer. The mean score 2.33 indicates that most of the respondents were agreed with high standard deviation value 1.36. Therefore, the bank has a regulation in implemented and identifies the customer. In the second majority of the respondents about 42.1% of them were strongly agreed that there is institution screened customers against international SDN sanctioned lists such as; UN before establishing business relationship and on an ongoing basis. The mean score 2.33 indicates that most of the respondents were agreed with high standard deviation value 1.15. The third majority of the respondents about 70.2% strongly disagree that the bank has a screening tool is in place to identify Politically Exposed Persons. The mean value 4.42 indicate that majority of the respondent were disagreed on the statement with the standard deviation 1.1. In the fourth majority of the respondents about 77.2% of them were disagreed that AML awareness in media is lower in the bank. The mean score 4.63 indicates that the similarity of the response with standard deviation 0.879.In the fifth most of them about 38.6% were strongly agreed that Absence of National ID card hinders effective KYC procedures. The mean score 2.35 shows that the respondents were strongly agreed with small standard deviation value 1.289.In the sixth majority of them about 45.6% were strongly agreed that there is a department of KYC that conducted and AML/CFT controls are assessed before establishing agreement with customer. The mean score 1.82 indicates that majority of the respondents were agreed on KYC procedure is conducted and AML/CFT controls are assessed before establishing business relationship with potential correspondent banks and money transfer agents. Therefore, banks capture originators and beneficiaries information during international wire transfer.

4.2.3. The practices of NBE principles Related to Auditors

Table 4.4.presents NBE principles related to auditors and its practices at BOA.

Description	Responses					Mean	SD
	1=SA	2=A	3=N	4=DIS.	5=SDIS.		
The Bank have an internal audit and other independent third party to audit to, a testing function that assesses AML, CTF and Sanctions policies and practices on a regular basis.	9 15.8 %	7 12.3 %	2 3.5%	16 28.1%	23 4.4%	3.65	1.5
Regular supervision is conducted on branches and subsidiaries to ensure the effective implementation of the compliance program.	4 7%	5 8.8%	12 21.1 %	12 21.1%	24 42.1 %	3.82	1.26
Risk Based Approach is adopted to assess the bank's exposure to money laundering and terrorist financing risks.	6 10.5 %	7 12.3 %	10 17.5 %	19 33.3%	15 26.3 %	2.4	1.4
Total Mean						3.29	

Source: Survey result and SPSS output 2022

Based on the table 4.4 the first most of the respondents about 28.1% of them were disagreed that the bank have an internal audit and other independent third party to audit to, a testing function that assesses AML, CTF and Sanctions policies and practices on a regular basis. The mean score 3.65 indicates that respondents were disagreed the bank have an internal audit and other independent third party to audit to, a testing function that assesses AML, CTF and Sanctions policies with high standard deviation value 1.5.Thus, banks in Ethiopia had internal audit function to assess anti-money laundering and sanctions and practices. The interviewee said that there are officials who investigate, follow-up and monitor cash transactions and money laundering activities. This finding indicates the banks have no other independent third party to audit and assess AML, CTF and sanctions policies and practices. In the second majority of the respondents about 42.1%of them were strongly disagreed that regular supervision is conducted on branches and subsidiaries to ensure the effective implementation of the compliance program. The mean score 3.82indicates that most of the respondents were disagreed with small standard deviation value 1.26. In the third majority of the respondents about 33.3% of Risk Based Approach is adopted to assess the bank's exposure to money laundering and terrorist financing risks. The mean score 2.4 indicates that agreement among the respondents with small 1.4. It was observed that Both Banks have a compliance policy manual. The manual tells out the Bank anti-money laundering policies and procedures to guide their operations in the fight against money-laundering and combating the financing of terrorism. There is a full-fledged Internal Audit department responsible for carrying out audit assignments on branches and Head office departments on a quarterly basis and render a report to the Board Audit Committee in the Bank. During their audit of the compliance departments, the Internal Audit departments are supposed to do an assessment of the compliance manual to ensure that it is up to date and meets the best standards of anti-money laundering.

4.2.4. NBE principles on Staff Training and Bank Practices

Table 4.5 presents NBE principles towards training on AML/CFT, KYC and the BOA actual practices,

Description	Responses					Mean	SD
	1=SA	2=A	3=N	4=DIS.	5=SDIS.		
A Compliance Officer provides employees with relevant competence and authority to oversee the bank's AML/CFT compliance program.	10 17.5 %	3 5.3%	6 10.5 %	24 42.1%	14 24.6 %	3.51	1.39
New AML/CFT related laws or changes to the existing policies or practices are timely communicated to concerned employees	8 14%	7 12.3 %	3 5.3%	21 36.8%	18 31.6 %	3.6	1.4
Regular training is provided to concerned employees on the various aspects of money laundering and KYC alongside methods of identification and reporting suspicious transaction and customers.	26 45.6 %	21 36.8 %	5 8.8%	4 7%	1 1.8%	1.82	0.984
Does the bank take steps to understand the normal and expected transactions of its customers based on its risk assessment of its customers and give awareness to its employees	4 7%	10 17.5 %	7 12.3 %	20 35.1%	17 28.1 %	3.6	1.26
Total Mean						3.2925	

Source: Survey result and SPSS output 2022

Based on the table 4.5 in the first most of the respondents about 42.1% of them were disagreed that a compliance officer is designated at a management level alongside appropriate employees with relevant competence and authority to oversee the bank's AML/CFT compliance program. The mean score 3.51 with high standard deviation value 1.39 indicates average agreement between the respondents. Thus, banks have compliance officers who have relevant competence and authority to oversee the bank's AML/CFT compliance program. In the second most of the respondent 36.8% disagreed New AML/CFT related laws or changes to the existing policies or practices are timely communicated to concerned employees. The mean score indicate that agreement between the respondents but with high small standard deviation value1.4In the third most of the respondents about 45.6% were strongly agreed that Regular training is provided to concerned employees on the various aspects of money laundering and KYC alongside methods of identification and reporting suspicious transaction and customers. The mean score 1.82 with small standard deviation value 0.984 indicates that respondents were agreed that regular training is provided to concerned employees on the various aspects of money laundering and terrorist financing alongside methods of identification and reporting suspicious transaction and customers. Therefore, from this finding one can infer that banks did give regular training for their compliance officers. In the fourth most of respondents which were about 35.1% disagree bank take steps to understand the normal and expected transactions of its customers based on its risk assessment of its customers and give awareness to its employees. The mean score 3.6 indicates that most of the respondents were agreed with small standard deviation value 1.26. The respondents mentioned that during AML training sessions, they encourage their staff to report suspicious transactions to their Departments. Bank policies however do not permit staff to deal with external parties on behalf of their Bank. As such, all regulatory enquiries that come in connection with money laundering go through the Risk and Compliance Management Department of each bank. According to them, all reports of violations in relation to money laundering obtained from staff are treated with utmost confidentiality, the rationale being to encourage staff to make such reports as required by the law without victimization. They stated that the monitoring is also meant to identify staff who issue insufficient fund cheques on their accounts, ascertain staff whose account activity is inconsistent with their salaries, and to identify fraudulent or suspicious movements of funds to and from their accounts. They however produced no such investigation report as they claimed there had been none so far. In addition to this, the compliance manual of Bank do not state the threshold limits that might be transacted by employees and make them subject to monitoring. It was observed that Bank have a training policy to hold an induction session for all newly recruited employees and the training program for AML is also incorporated. During their induction program, these new employees are given some training in money-laundering so that they serve as anti-money laundering officers in their various branches. Records were sighted to testify the adherence to these policies at Bank.

Chapter Five

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter deals with summary of major findings, conclusions and recommendations respectively. Hence, the major findings of the study were analyzed and discussed in chapter four give a way to draw a conclusion. Finally, possible recommendations for the major problems found from the study are forwarded on the basis of the findings of the study.

5.2. Summary

According to the discussion and analysis of the data presented in chapter four, the following findings were drawn.

With regard to applying the National bank principles, the finding revealed that:

- Most of the respondents agreed that bank practices periodic monitoring about the compliance risk; bank of Abyssinia assess on its customer base and their transactions; and record and kept safe of its customer and transactions records.
- Most of the respondents agreed that customers due diligence procedures are carried out on customers on an ongoing basis, KYC procedure is conducted and AML/CFT controls are assessed by the bank before establishing business relationship with potential correspondent banks and money transfer agents. There is a screening process on UN international sanctioned individuals before establishing business relationship.
- The bank have a formal “Compliance Department”, with a mission to ensure that employees understand and implement the bank’s internal procedures and play their part in discharging the bank’s National bank principles.

- The absence of national ID card for customers and also not have a renewed ID was the other challenge to know the customers, there is absence of technology to improve AML/CFT activities, there are not sufficient resources allocated to implement devised compliance program in bank, there is no awareness of anti-money laundry with media in Ethiopia.

The finding of the study also disclosed that BOA roles and responsibilities effectively. That:

- The bank doesn’t have step that has a set of performance indicators, which can be used to measure the bank’s progress and also the performance of the management.
- The Compliance Department ensures that the executive management implements strategic policies of the bank and prevent the activities and relationships that undermine the national bank principles, but didn’t keep a balance between employees contribution and the National bank principles and bank procedures.
- The bank has an on-going program and also have once in a month there is a branch meeting that is done among the staff called ” knowledge café” to raise employee awareness of National bank principle and issues and the role which every employee can play in strengthening good practices with in the bank.
- The Compliance Department monitors the practices of the bank and the values and standards of work with the national bank principle and report every week.
- The Compliance Department has understanding of the risks of the bank and ensures that management has to established strong systems to monitor those risks. But, the board failed to hold specific discussions on the risks and the adequacy of internal control procedures, compliance, and anti-money laundering policy in the bank, however.
- Concerning the extent to which the bank ensures the efficiency and effectiveness of the National bank principles applied, the study revealed that

there are still some limitation; The bank does not have formal orientation program for new employees and formal training sessions for existing employees, employees do not have sufficient information and time that enables them to give strategic guidance to the national bank principles in AML and KYC. On the other hand, the finding indicated that there are strong sides; majority of the Compliance Department are independent directors and managers have adequate knowledge of the bank and the National bank principles functions.

About protecting the rights of managers and other employees, the study represented that the bank is doing well in allowing managers and other employees effectively participate in exercising their rights and obey their duties.

Regarding the degree to what extent the Compliance Department are carrying out their roles and responsibilities, the research showed that it is to be encouraging. Majority of the respondents revealed their agreement that they carried out well.

With regard to the transparency and disclosure of material information, the finding represents that the practice is good although there is still a problem. The good practice is that:

- The bank's annual report includes a section explaining its risk exposures and its strategy for managing the risks,
- The bank has a policy in place to ensure the prompt disclosure of material, unforeseen events, or developments which could affect the bank's performances.
- The bank publishes an account of its business objectives and its organizational and governance structure, and On the other hand, the problem is that:
- The bank's annual report does not contain a report on the activities of each of the Compliance Department

5.3. Conclusion

National bank principles is not just a matter of prescribing particular banks structures and complying with a number of hard and fast rules. All concerned should then apply these flexibly and with common sense to the varying circumstances of individual companies. In this respect, the finding portrayed that there is a culture of good National bank principles practices throughout the bank.

Regarding the extent of the implementation of the roles and responsibilities of the Compliance Department, the finding of the study disclosed that the Compliance Department is effective in discharging its roles and responsibilities. The major roles and responsibilities of the board entails approving and monitoring the bank's strategy, setting performance indicators for management and the bank's progress, and ensuring the implementation of National bank principles. Employees also need to understand the risks which the bank is taking and review internal controls. The Compliance Department is responsibilities also extend to protecting employees' rights, and the wider community.

Similarly, the finding showed that the extent to which the Compliance Department is discharging their roles and responsibilities is to be encouraging. The law concerning KYC requirements and other preventive measures suffer difficulty and such gaps create a suitable ground for money launderers to exploit the banking system.

Concerning the extent to which the bank ensures the efficiency and effectiveness of the National bank and the board, the study revealed that there are still some limitation; The bank does not have formal orientation program for new board employees and formal training sessions for existing employees, board members do not have sufficient information and time that enables them to give strategic guidance to the bank. On the other hand, the finding indicated that there are strong sides; majority of the Compliance Department are independent directors and board members have adequate knowledge of the bank and the National bank principles functions.

About protecting the rights of managers and other employees, the study represented that the bank is doing well in allowing managers and other employees effectively participate in exercising their rights and obey their duties.

The finding also represented that the bank has a good practice of National bank principles and disclosure of material information though there is still a problem.

Generally speaking, the impact of the application of the National bank principles in the Bank of Abyssinia is encouraging even though it (the bank) has still a problem with regard to ensuring the apply it practices the Compliance Department and concerning with the good practice of National bank principles and disclosure of material information.

5.4. Recommendations

Based on the major findings of the study and the conclusions drawn, the researcher suggested the following recommendations.

Since banks are complex institutions, which are used to operating under strictly controlled conditions, it is difficult for a bank to organize such a coherent system of governance. Board members and Compliance Department need to be diligent and capable and their performance needs to be assessed. As a result, the following points are suggested as recommendations for the existing problem.

- The bank should have formal orientation program for new board employees and formal training sessions for existing employees. To be effective, directors need to have a good deal of knowledge about the company and the industry within which it operates.

- The bank orientation program should be available to enable new directors to gain an understanding of: the bank financial, strategic, and operational and risk management position, National bank principles practices, the rights, duties and responsibilities, KYC documentation and Money laundry.

- The bank should also develop a mechanism by which the Compliance Department strengthens their governance skills. Directors should have access to continuing education training their staff member of KYC, Money laundry and suspicious transaction and update enhance their skills and knowledge.

- The bank should carry out annual evaluation of itself, its auditors and third party auditors. Performance evaluation is a key ingredient in the management of a bank that contributes its effectiveness. The audit should be separate from the compliance department, in order to test and assure the adequacy of the overall compliance function. Banks also need to have other independent third party to audit and assess FCC, AML, CTF and sanctions policies and practices.

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ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES PROGRAM

MBA PROGRAM

Questionnaire

Dear Respondents

I am a prospective MBA Graduate student at St. Mary's University School of graduate studies, I am currently collecting data to include in my thesis. The purpose of this questionnaire is to collect primary data for conducting a study on the topic "The Impact of Application of National Bank Principles in the Ethiopian Commercial Bank Sector: A Case Study at Bank of Abyssinia. "As partial fulfillment to the completion of master of business administration at St. Mary's University. In this regard I kindly request you to provide reliable and accurate responses to the best of your abilities, so that the study can meet its intended purpose. I strongly assure you of the confidential treatment of your answers and thank you in advance for your cooperation. I would like to say your participation for this research success has vital role.

Instruction

Please respond to each item by putting a tick "√ "mark in the box & fill in the blank on the number which best reflects your own perception

Demographic Characteristics

1. Educational qualification

Diploma [ ] Degree [ ] Masters and above [ ]

2. Current professional position

Officer [ ] Senior-officer [ ] Manager [ ] Director [ ]

3. Working experience in Banks

Less than 2years [ ] 2-5 years [ ] 6-10 years [ ] More than 10 years [ ]

Instruction:

The statements below describe work situations that are considered as ideal for an organization in the sense that both employer and the employees will benefit from them. Your task is to rate each statement based on how you perceive it as true or applicable in Bank of Abyssinia, based on your own experience in your current job. The ratings are shown below, followed by an example. Please answer as truthfully as you can. Be assured that individual answers shall remain confidential. Thank you. Rating, Strongly Agree (SA) = 5, Agree (A) =4, Natural (N) =3, Disagree (D) =2, Strongly Disagree (SD) = 1

S. No	**National Bank Principles in Bank of Abyssinia**	**Agreement**				
		1	**2**	**3**	**4**	**5**
A	Compliance monitors					
1	The National Bank Principlesbeing offered by your institution are adequate to cope with the ongoing services of the bank and periodically update and communicated to employees.					
2	Is their Automated compliance system in the bank to detect and report suspicious transactions and monitoring the compliancerisk exposure of the bank					
3	Compliance department available in your institution keep a balance between employees contribution and the National bank principles and bank procedures					
4	Your institution periodically evaluate the effectiveness their practice according with National Bank Principles					

S. No	**National Bank Principles in Bank of Abyssinia**	**Agreement**				
		1	**2**	**3**	**4**	**5**
B	Know Your Customer					
1	Does the bank have a regulation in implemented and identify the customer.					

2	Is your institution screened customers against international SDN sanctioned lists such as; UN before establishing business relationship and on an ongoing basis.					
3	Is your institution have a screening tool is in place to identify Politically Exposed Persons					
4	Is AML awareness in media is good in the country.					
5	Absence of National ID card hinders effective KYC procedures.					
6	Is there a department of KYC that conducted and AML/CFT controls are assessed before establishing agreement with customer					
C	Auditors					
1	The Bank have an internal audit and other independent third party to audit to, a testing function that assesses AML, CTF and Sanctions policies and practices on a regular basis.					
2	Regular supervision is conducted on branches and subsidiaries to ensure the effective implementation of the compliance program.					
3	Risk Based Approach is adopted to assess the bank's exposure to money laundering and financing risks					

S. No	National Bank Principles in Bank of Abyssinia	Agreement				
		1	2	3	4	5
D	**Training**					
1	A Compliance Officer provides employees with relevant competence and authority to oversee the bank's AML/CFT compliance program.					
2	New AML/CFT related laws or changes to the existing policies or practices are timely communicated to concerned employees					
3	Regular training is provided to concerned employees on the various aspects of money laundering and KYC alongside methods of identification and reporting suspicious transaction and customers.					
4	Does the bank take steps to understand the normal and expected transactions of its customers based on its risk					

	assessment of its customers and give awareness to its employees					

1,.Please, specify the important benefits that are being offered by other organization that is not available in your institution in compliances and KYC.

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_____.

2,What do you think the solution to the problem will be?

____

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____

Interview Questions

1. Does your institution appoint training for anti-money laundering and KYC program?

2. In order to effectively solve the money laundering practices what effective measurement does your bank take?

3. In your opinion how do you explain the effective control of compliances department in your institution?