

***GUIDELINES
FOR
FINANCE COMPANIES***

***OTHER FINANCIAL INSTITUTIONS DEPARTMENT
CENTRAL BANK OF NIGERIA
LAGOS***

SEPTEMBER, 2002

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REVISED GUIDELINES FOR FINANCE COMPANIES - 2002

1. INTRODUCTION

These Revised Guidelines are issued by the Central Bank of Nigeria [CBN] in exercise of the powers conferred on it by the provisions of Section 28 of the CBN Act 24 of 1991 [as amended] and in pursuance of the provisions of Sections 56-61 of the Banks and Other Financial Institutions Act [BOFIA] 25, of 1991 [as amended]. The Revised Guidelines are to regulate the establishment, operations and other activities of Finance Companies.

A finance company, unless otherwise stated, means a person or company licensed to carry on finance company business. Finance Company Business means the business of providing financial services for consumers and to industrial, commercial, or agricultural enterprises. Such services include:

1. Funds management;
2. Equipment leasing;
3. Hire-purchase;
4. Debts factoring and securitisation;
5. Project financing or consultancy;
6. Debt administration;
7. LPO financing;
8. Project financing;
9. Export financing;
10. Financial consultancy; and
11. Issuing of vouchers, coupons, credit cards and token stamps and such other businesses as the CBN may, from time to time, designate.

Every company desiring to be licensed as a finance company shall be a stand alone basis and thus be strictly limited to solely engaging in finance company business as defined above.

2. APPLICATION FOR LICENCE

Any person seeking a licence for a finance company business in Nigeria shall apply in writing to the Governor of the Central Bank of Nigeria. Such application shall be accompanied with the following:

1. A non-refundable application fee of N10,000.00 [ten thousand Naira only] in bank draft, payable to the Central Bank of Nigeria.
2. Deposit of the minimum capital of N20 million (Twenty million naira only) in bank draft made payable to the CBN. The capital thus deposited together with the accrued interest will be released to the promoters on the grant of the final licence.
3. Satisfactory, verifiable and acceptable evidence of payment by the proposed shareholders of the minimum capital of N20 million.
4. A copy of detailed feasibility report disclosing information that will include:
 - i. The objectives and aims of the proposed finance company.
 - ii. The need for the services of the finance company.
 - iii. The special services that the finance company intends to provide.
 - iv. The branch expansion programme [if any] within the first five years.
 - v. The proposed training programme for staff and management succession.
 - vi. A five-year financial projection for the operation of the finance company, indicating its expected growth and profitability.
 - vii. Details of the assumptions upon which the financial projection has been made.
 - viii. The organizational structure of the finance company, setting out in detail, the functions and responsibilities of the top management team.
 - ix. The composition of the Board of Directors and the curriculum vitae of each member including other directorships held [if any].
 - x. The conclusions based on the assumptions made in the feasibility report.
5. A copy of the draft Memorandum and Articles of Association.
6. A letter of intent to subscribe to the finance company, signed by each subscriber.
7. A copy of the list of proposed shareholders in tabular form, showing their business and residential addresses [not post office addresses] and the names and addresses of their bankers.

8. Names and curriculum vitae (CV) of the proposed members of the Board of directors. The Cvs must be personally signed and dated. The documents/items under paragraph (d) above.
9. No proposed finance company shall incorporate/register its name with the Corporate Affairs Commission until a written approval has been communicated to the promoters by the CBN, a copy of which shall be presented to the Corporate Affairs Commission.
10. In considering an application for a licence, the Bank shall require to be satisfied as to the following;
 1. The Minimum paid-up capital of N20 million is acceptable and the source is verifiable, satisfactory and acceptable.
 2. The quality of the management of the proposed company. The promoters would be required to submit the names and curriculum vita (cv) of the proposed top management team. The CVs must be personally signed and dated.
 3. The earnings prospect of the company.
 4. The objects of the company as disclosed in its Memorandum and Articles of Association which should agree with the services listed in the provisions of Section 1 of these Revised Guidelines.
11. Thereafter, the Governor may grant a licence to a finance company.
12. The Bank may at any time vary or revoke any conditions of a licence or impose additional conditions.
13. Where a licence is granted subject to conditions, the finance company shall comply with those conditions to the satisfaction of the CBN within such period as the CBN may deem appropriate in the circumstances. Any finance company that fails to comply with such conditions shall be guilty of an offence under BOFIA 1991 [as amended].

3. FINANCIAL REQUIREMENTS

The financial requirements, which may be varied whenever the CBN considers them necessary, are as follows:

	x
1. Minimum paid-up capital	- 20,000,000.00
2. Non-refundable Application fee	- 10,000.00
3. Non-refundable Licensing fee	- 50,000.00

- | | | | |
|----|---|---|-----------|
| 4. | Non-refundable Annual Licensing Renewal fee
(Payable on the first working day of each calender year) | - | 20,000.00 |
| 5. | Change of Name fee | - | 10,000.00 |

4. DIRECTORS

1. The maximum number of directors on the Board of a finance company shall be seven while the minimum shall be three. To qualify for the position of a director in a finance company, it is hereby required that the person(s) must not be current employees or directors of banks or other financial institutions, except the finance company is promoted by the banks or other financial institutions and are representing the interest of such institutions. In circumstances however, where current directors or employees of banks or Other financial institutions are proposed for the position of Director, the consent of their employers must be given in writing to the CBN.
2. The appointment of new directors must be preceeded by CBN=s approval.

5. MANAGEMENT REQUIREMENTS

The following minimum qualifications and experience are mandatory for officers who may occupy the key/top management positions in the finance company.

1. Managing Director/Chief Executive - a recognized university degree or professional qualification with at least 7 years post-qualification experience in relevant fields.
2. Departmental Head - a recognized university degree or professional qualification with at least 5 years post-qualification experience in relevant fields.
3. Support staff - shall be qualified and be of proven ability.
4. A person with any other qualifications or experience that may be considered adequate by the CBN can hold any of positions [i], [ii] and [iii] within the organization.

6. CONDITIONS PRECEDENT TO THE COMMENCEMENT OF OPERATIONS

1. The promoters of a finance company shall submit the following documents to the CBN before such finance company is permitted to commence operations:
 - a. A copy of the shareholders= register in which the equity interest of each shareholder is

properly reflected [together with the original for sighting].

- b. A copy of the share certificate issued to each shareholder.
- c. A certified true copy of Form C02 [Return of Allotments] filed with the Corporate Affairs Commission.
- d. A certified true copy of Form C07 [Particulars of Directors], and written confirmation that the Board of Directors approved by the CBN has been installed.
- e. A certified true copy of the Memorandum and Articles of Association filed with the Corporate Affairs Commission.
- f. The opening statement of affairs audited by an approved firm of accountants practising in Nigeria.
6. A certified true copy of the certificate of incorporation of the company [together with the original for sighting purposes only].
- g. A copy each of the letters of offer and acceptance of employment by management staff and a written confirmation that the Management team approved by the CBN has been put in place.
7. A letter of undertaking to comply with all the rules and regulations guiding the operations of finance companies.
8. Evidence of registration with the finance company=s association umbrella body.
2. The finance company shall inform the CBN of the location and address of its Head Office.
3. The finance company shall be informed in writing by the CBN that it may commence business after physical inspection of its premises.
4. The finance company shall inform the CBN in writing of the date of commencement of business.

7. SOURCES OF FUNDS

The sources of funds of a finance company shall consist of the following:

1. Shareholders= funds - paid-up capital and reserves.
2. Borrowings.

While a finance company may borrow funds, it shall not take or accept deposits [as defined in section 61 of BOFIA 25, 1991 [as amended]].

8. RENDITION OF RETURNS

In compliance with the provisions of section 58[2]b of BOFIA 25, 1991 [as amended] the following quarterly returns are to be submitted by every finance company:

1. Statement of Assets and Liabilities.
2. Schedule of Other Assets.
3. Schedules of Other Liabilities.
4. Profit and Loss account.
5. Schedule of Investments.
6. Schedule of balances held with banks.
7. Returns on Borrowings from other finance companies.
8. Returns on Borrowings from other financial institutions.
9. Returns on Borrowings from individuals and non-financial institutions.
10. Returns on credits to other finance companies.
11. Returns on credits to other financial institutions.
12. Returns on credits to individuals/non-financial institutions.
13. Returns on other credits.
14. Returns on credits to affiliates.
15. Returns on non-performing credits.
16. Returns on off balance sheet engagements.
17. Returns on non-performing other assets.
18. Other returns as may be specified by the CBN.

All quarterly returns must reach the Director of Other Financial Institutions, (OFID) Lagos not later than the 14th day of the month immediately following the end of the quarter. Bi-annual returns must also be sent to the Director, Other Financial Institutions Department (OFID), Lagos to reach him not later than the 14th day of the month following the end of the half year. The Managing Director/Chief Executive Officer and the

Chief Accountant [or its equivalent] of the Finance Company shall sign and attach to every return made to the CBN a declaration of authenticity of its contents.

9. PUBLICATION OF AUDITED ACCOUNTS

Every finance company shall submit its audited financial statements and the abridged version of the accounts to the Director of Other Financial Institutions for approval not later than four months after the end of the company=s financial year. The Domestic Report on the Accounts from the External Auditors should be forwarded to the Director, Other Financial Institutions Department (OFID) not later than three months after the end of the accounting year. After approval, the finance company shall publish the accounts in at least one national daily newspaper. Every published account shall disclose in detail the penalties paid as a result of the contravention of BOFIA 25, 1991 [as amended] and any policy guidelines in force during the year in question and the auditor=s report shall reflect such contraventions. Any company that fails to comply with any of the above requirements will be liable to a fine not exceeding ₦20,000.00 each day during which the offence continues.

10. PENALTIES FOR LATE OR FALSE/INACCURATE RETURNS OR OTHER INFORMATION

1. For lateness in submitting a return/furnishing any information required, the penalty, shall be a fine of ₦2,500.00 for each day during which such failure occurs. Persistent failure/refusal to render returns in the prescribed form may be a ground for the revocation of a finance company=s licence.
2. Where the Bank considers it necessary, it may appoint a firm of qualified accountants to prepare proper books of account or render accurate returns, as the case may be, for the finance company concerned and the cost of preparing the account or rendering the returns shall be borne by the finance company.
3. If any Director or Officer of a finance company fails to take all reasonable steps to ensure that proper books of accounts are kept with respect to all transactions by the company at its Head Office and/or at its branches, the CBN may impose on him a fine not exceeding ₦20,000.00. If any default in this respect is caused by the wilful act of any Director or Officer of the Finance Company, the

CBN may impose on him a fine not exceeding ₦100,000.00 or cause the removal of such Director or Officer in order to protect the integrity of the financial system. In addition, the Bank may impose on the Finance Company such other penalties as are deemed appropriate.

11. PRUDENTIAL REQUIREMENTS

1. Capital Funds Adequacy

The minimum Capital/Risk Weighted Assets Ratio for each Finance Company shall be 12.5%. Furthermore, a finance company is expected to maintain a ratio of not less than 1:10 between its capital funds and net credits. When any of the above ratios fall below the prescribed level, the Finance Company may not do any or all of the following until the required ratio is restored:

1. Grant credits and make investment.
2. Pay dividend to shareholders.
3. Borrow from the investing public.

In addition, the Finance Company may be required to submit within a specified period, a capital recapitalization plan acceptable to the CBN. Failure to comply with the above may constitute a ground for the revocation of the licence of the finance company or such other penalties as may be deemed appropriate. Finance Companies are enjoined to ensure that their shareholders' funds do not fall below the required minimum paid-up capital.

2. Maintenance of Capital Funds

Transfer to Statutory Reserve from profit after tax shall be at a minimum of 15% until the Reserve Fund equals the Paid-up Capital and a minimum of 10% thereafter. The CBN may vary from time to time the proportion of net profit transferable to Statutory Reserves. No accretion shall be made to the reserve fund until:

1. All preliminary and pre-operational expenses have been written off;
2. Adequate provision has been made for loan loss/assets deterioration;
3. All identifiable losses have been fully provided for.

iii. **Payment of Dividend:**

No Dividend shall be paid until after:

1. All accumulated losses have been fully absorbed and written off.
2. All preliminary and pre-operational expenses have been written off.
3. Capital Adequacy ratio has been met.
4. All matured obligations have been met.

iv. **Limit of lending to a Single Borrower**

The maximum loan by a finance company to any person or maximum investment in any venture by a finance company shall be 20% of the finance company's shareholders' funds unimpaired by losses.

Any contravention will attract a penalty of ₦100,000.00 on the finance company and a fine of ₦10,000.00 on the directors/managers who failed to comply.

5. **Borrowing Limits**

The minimum amount which a finance company can borrow from any one person or corporate organization is ₦50,000.00, subject to a total maximum limit for all outstanding borrowings which should not be more than 10 times the shareholders' funds unimpaired by losses. For contravention of this requirement, the Governor may impose penalties on the finance company as in [10][iii] above.

vi. **Provision for Classified Assets**

Each Finance Company shall review at least once every quarter its loans and advances and other investments and make appropriate provisions for loan losses or assets deterioration in accordance with the CBN Prudential Guidelines for Licensed Banks. Every Finance Company must send to the Other Financial Institutions Department every quarter a schedule of loans/investments showing the provisions made for losses or deterioration in the quality of the loans/investments.

vii. **Contingent Items**

The concept, use and treatment of Bankers Acceptances [BAs] and Commercial Papers [CPs] as specified in Circular BSD/PA/4/97 dated 12/8/97 to banks and discount houses shall apply to finance companies.

viii. **Limit of Investment in Fixed Assets**

The maximum amount which a finance company can invest in fixed assets is 50% of its shareholders' funds unimpaired by losses. Any contravention, will attract a penalty not exceeding ₦200,000.00 or suspension of any licence issued.

ix. **Revaluation of Fixed Assets**

Prior approval of the CBN must be obtained by any finance company before the recognition of the revaluation surplus on fixed assets in its books, taking into consideration the following:

1. The basis of the underlying fixed assets valuations must be stated, and the valuation made by qualified professional valuers whose identity and qualifications are stated.
2. The difference between the market and the historic values of the eligible fixed assets being revalued is to be discounted by 55%;
3. Revaluation of fixed assets is applicable only to assets. [own premises only].
4. The revaluation of Fixed Assets (owned premises only) is permissible within a minimum period of 5 years after the date of the purchase of the asset or the last revaluation.

12. REQUIREMENTS FOR INCREASE IN SHARE CAPITAL

All increases in share capital in any form must be approved by the CBN. Application in respect of this must be supported by the following:

1. Evidence of payment of stamp duty.
2. Board Resolution authorizing the increase.
3. Corporate Affairs Commission [CAC] registration of the increase.
4. Form C02 showing the additional capital.
5. Share certificate issued to shareholders.
6. Photocopy of share register showing the entries of allotment.
7. Evidence of payment for the new allotment of shares by the shareholders [photocopies of cheques lodged should be attached]. No cash payment is allowed.
8. Statements of accounts from banks reflecting the cheque lodged and cleared.
9. Vouchers showing evidence of internal transfer or payment for the right issues allotted.

10. Letters to shareholders conveying allotment of shares.
11. Any other information that may be required or stipulated by the CBN.

13. DISCLOSURE OF INTEREST BY DIRECTORS AND OFFICERS OF FINANCE COMPANIES

Every Director and officer of a finance company, who has any personal interest, whether directly or indirectly, in an advance, loan or credit facility or proposed advance, loan or credit facility from the finance company in which he is serving, shall promptly declare the nature of his interest to the Board of Directors of the finance company and the declaration shall be circulated to all the directors.

Every Director or officer of a finance company who holds any office or possesses any property whereby, whether directly or indirectly, duties or interests might be created in conflict with his duties or interest as a Director or Officer of the finance company, shall declare at a meeting of the Board of Directors of the finance company, the fact and the nature, character and extent of such interests. Any Director or Officer who contravenes either of these regulations shall be liable to a fine of ₦100,000.00 or removal from office.

14. OPENING/CLOSING OF BRANCHES OF FINANCE COMPANIES

Prior approval of the CBN is required for the opening and closing of branches. If in contravention, the finance company shall be made to pay a fine not exceeding ₦200,000.00 and the closing/reopening of the branch as the case may be and in addition, a fine of ₦10,000.00 for each day during which the offence continues.

15. DISPLAY OF LICENCE

A copy of a Finance Company's licence shall be displayed in a conspicuous position at its Head Office as well as in the branches. In contravention, the finance company shall be penalized in line with Section 60[i] of BOFIA as amended.

16. DISPLAY OF INTEREST RATES

Every Finance Company shall display on a daily basis in a conspicuous place at its Head Office and branches, its rates of interest.

Interest rates shall be quoted on annual basis and not per month. In contravention, the finance company shall be liable to a fine of ₦20,000.00 and ₦5,000.00 in addition for every day during which the offence continues or

such other penalties deemed appropriate.

17. INTERNAL CONTROLS

Every Finance Company shall have an Internal Audit which should ensure that the operations of the company conform with the law as well as to its internal rules and regulations. Every fraud or attempted fraud must be promptly reported to the Director of Other Financial Institutions Department. Also a quarterly report on Frauds and Forgeries affecting the company and any default in meeting any obligation to lenders or investors shall be submitted to the Director, Other Financial Institutions Department. Where no frauds/forgeries and defaults occurred during the quarter, a Nil return shall be forwarded. The report shall be made along with the quarterly returns on assets and liabilities. Failure to comply with this requirement will attract a fine of ₦25,000.00 per quarter.

18. APPOINTMENT OF CHIEF EXECUTIVE AND PRINCIPAL OFFICERS

The appointment or replacement of the Chief Executive Officer or any of the Principal Officers of any Finance Company must be cleared with the CBN before such appointments are made. Where the turnover of principal and senior officers is considered to be unduly high or where the reason for leaving by an officer suggests an attempt to cover up a fraud or other illegal activity, or punish the officer for attempting to prevent illegal activities, the CBN shall cause an investigation to be conducted into the matter and other affairs of the finance company as may be considered necessary. The report of such investigation or special examination shall determine the penalty to be imposed on the Finance Company concerned.

19. APPOINTMENT OF AUDITOR

Every finance company shall appoint an auditor to be approved by the Bank whose duties shall be to make to the shareholders a report on the annual financial statements of the company and every such report shall contain true and fair statements as to the matters and such other information as may be prescribed from time to time by the CBN.

20. SCHEMES OF ARRANGEMENT

No finance company shall enter into any A Scheme of Arrangement@ with its creditors/investors without

obtaining the prior approval of the CBN. Any finance company that is unable to meet its obligations to its creditors or investors must submit its proposals to restore liquidity or viability and for eventual settlement of its outstanding obligations to the Director of the Other Financial Institutions Department for consideration and approval. Failure to comply with this will attract a penalty of ₦2,500.00 for each day during which the contravention exists.

21. RESTRUCTURING AND REORGANIZATION OF FINANCE COMPANY

Except with the prior consent of the Governor, no finance company shall enter into an agreement or arrangement:

1. which results in a change in the control of the finance company;
2. for the sale, disposal or transfer of the whole or any part of the business of the finance company;
3. for the amalgamation or merger of the finance company with any other company.
4. for the reconstruction of the finance company;
5. to employ a management agent or to transfer its business to any such agent.

22. RENEWAL OF LICENCE

Every licence shall expire on 31st December of each year and shall, on application, be renewed within the first quarter of the subsequent year at a non-refundable fee of ₦20,000.00 or at such a fee as may be stipulated by the Bank from time to time, subject to its operations being satisfactory to the Bank. Failure to renew a licence would attract severe sanctions, including revocation.

23. PROHIBITIONS

No Finance Company shall:

1. Advertise for, solicit or, accept money on deposit;
2. Deal in foreign currency;
3. Give any credit facility or enter into any other transaction against the security of its own shares or the shares of its holding company;
4. Pay any dividend on its shares without CBN's prior approval in writing;

5. Engage in any business other than those for which it was licensed;
6. Remit either in whole or in part the debts owed to it by its directors/officers or waive interest thereon without the prior approval of the CBN, in writing.

24. CONDITIONS FOR REVOCATION OF LICENCE

The grounds for revoking a licence granted to a finance company may be any or all of the following:

1. Submission of false information/data during and/or after the processing of the application for licence.
2. Engaging in functions/activities outside the scope of its licence as specified in Section 1 of these Revised Guidelines.
3. Persistent failure to comply with request for information/data in the form required/specified by CBN.
4. Engaging in activities prejudicial to the Nigerian economy.
5. Failure to redeem matured obligations to customers.
6. Unauthorized shop closure.
7. Failure to comply with any directive issued by CBN.
8. Failure to renew operating licence within the stipulated period.
9. Any other act[s] which in the opinion of CBN constitute[s] a violation or a serious default.

25. GENERAL

The list of valid licences may be published by the CBN from time to time.

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