

CENTRAL BANK OF NIGERIA

**REGULATORY AND SUPERVISORY
GUIDELINES**

FOR

**DEVELOPMENT FINANCE INSTITUTIONS
(DFIs)**

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LIST OF ACRONYMS

AIP	Approval-in-Principle
BOFIA	Banks and Other Financial Institutions Act
CAC	Corporate Affairs Commission
CAMA	Companies and Allied Matters Act
CBN	Central Bank of Nigeria
CIBN	Chartered Institute of Bankers of Nigeria
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DFI	Development Finance Institution
DMB	Deposit Money Bank
FGN	Federal Government of Nigeria
FRCN	Financial Reporting Council of Nigeria
GAAP	Generally Accepted Accounting Principles
IFI	International Financial Institutions
IFRS	International Financial Reporting Standards
MIS	Management Information System
NDIC	Nigeria Deposit Insurance Corporation
OFISD	Other Financial Institutions Supervision Department
PFI	Participating Financial Institutions
REITs	Real Estate Investment Trusts
RDFI	Retail Development Finance Institution
SEC	Securities and Exchange Commission
WDFI	Wholesale Development Finance Institution

PREFACE

In a bid to accelerate the pace of development of the Nigeria economy and realization of the key role of some critical sectors in the process, the Federal Government of Nigeria has over the years established development finance institutions (DFIs) to provide financial interventions in the identified sectors, targeting micro-, small- and medium-size enterprises (MSMEs), to complement the efforts of banks and other financial institutions (OFIs) in that regard. However, due to limited access to long-term and low-interest funds, in addition to other factors, the DFIs have recorded limited successes. Consequently, the Federal Government in collaboration with development partners and international financial institutions (IFIs) decided to sponsor the establishment of a Wholesale DFI (WDFI) to bridge the gap and to increase the availability and access to finance, in particular, for MSMEs. The benefits of WDFIs are documented and acknowledged in both developed and emerging markets.

In support of this initiative, the Central Bank of Nigeria (CBN) has decided to develop this Regulatory and Supervisory Guidelines to provide a level playing field for participants in the DFI subsector and to further direct private capital to participating financial institutions (PFIs). These Guidelines will provide framework for licensing, regulation, supervision and operations of both WDFI and Retail DFI (RDFI). Rather than compete directly with RDFI at the retail level, WDFI shall only provide wholesale financial products and facilitate technical assistance to eligible participating financial institutions (PFIs) throughout Nigeria.

As with all financial institutions regulated by the CBN, DFIs shall be subject to regulation and supervision by the CBN under the Banks and Other Financial Institutions Act, CAP B3, Laws of the Federation of Nigeria, 2004 (herein after referred to as “BOFIA”). These guidelines are designed to be consistent with CBN’s existing regulations for all licensed financial institutions and to ensure that DFIs operate in a safe and sound manner.

The guidelines are arranged in twelve sections, beginning with definition and objectives of DFIs, followed by powers and duties of the CBN with respect to the operations of DFIs. The third and fourth sections highlight the permissible and non-permissible activities, and the licensing procedure and requirements, respectively. The fifth section deals with corporate governance requirements, while section six focuses on sources of funds for DFIs. Section seven and eight provide for rendition of statutory returns and prudential requirements, respectively. Other regulatory approvals, examination reporting and off-site surveillance, and administrative sanctions and actions are covered under sections nine, ten and eleven, respectively. Section twelve itemizes the annexures to the guidelines.

1.0 **DEFINITION AND OBJECTIVES**

1.1 **DEFINITION**

Development Finance Institutions are specialised financial institutions established with specific mandate to develop and promote key sectors of the economy considered to be of strategic importance to the overall socio-economic development objectives of the country.

1.2 **OBJECTIVES**

The objectives of DFIs are:

- Fund MSMEs for economic development.
- Foster growth in sustainable businesses.
- Job creation.
- Reduce poverty and improve quality of lives.

2.0 POWERS AND DUTIES OF THE CENTRAL BANK OF NIGERIA WITH RESPECT TO DEVELOPMENT FINANCE INSTITUTIONS

In line with the relevant provisions of BOFIA and CBN Act, 2007, Cap Bx, Laws of the Federation of Nigeria (LFN) (hereinafter referred to as the CBN Act), the CBN shall exercise the following powers with respect to DFIs:

- (a) To license the DFIs.
- (b) To determine the DFIs minimum capital requirements.
- (c) To approve the appointment of Board and top management of DFIs.
- (c) To regulate and supervise the DFIs business operations, which include:
 - i. Determining capital adequacy, minimum liquidity and other prudential requirements
 - ii. Prescribing minimum criteria upon which credits may be extended.
 - iii. Prescribing permissible activities.
 - iv. Prescribing eligible assets or portfolio of eligible assets.
 - v. Conducting on-site and off-site supervision.
 - vi. Imposition of sanctions for infractions.

3.0 PERMISSIBLE AND NON PERMISSIBLE ACTIVITIES

3.1 PERMISSIBLE ACTIVITIES

DFIs may engage in any of the following activities:

- a. Provide finance and credit facilities to eligible borrowers
- b. Refinance MSMEs loans.
- c. Invest in government securities.
- d. Invest in any other securities as may be approved by the CBN from time to time
- e. Issue guarantee for loans.
- f. Issue bonds and notes to fund its operations.
- g. Provide technical assistance to borrowers (PFIs and MSMEs) on Credit and Business Development related activities.
- h. Other activities as may be prescribed by the CBN from time to time.

3.2 NON-PERMISSIBLE ACTIVITIES

DFIs shall NOT engage in the following activities:

- a. Granting retail loans or direct lending, if a WDFI.
- b. Acceptance of demand, savings and time deposits, or any type of deposits.
- c. Taking proprietary positions in real estate construction other than for its own business.
- d. Management of pension funds/schemes.
- e. Project management.
- f. All other activities NOT expressly permitted by the CBN.

4.0 LICENSING PROCEDURE AND REQUIREMENTS

The procedure and requirements for grant of licence to promoter(s) of a DFI shall be the same as specified for banks under BOFIA and any other regulations issued by the CBN.

4.1 REQUIREMENTS

Any promoter(s) seeking a licence to operate a DFI in Nigeria shall apply in writing to the Governor of the Central Bank of Nigeria. The application shall indicate the class of DFI (RDFI or WDFI) and be accompanied by the following documents:

- A. A non-refundable application fee of N100,000 [one hundred thousand Naira only] or any other amount as may be determined from time to time and payable to the CBN.
- B. Evidence of proposed name reservation with CAC
- C. A detailed feasibility report containing information that shall include:
 - i. The objectives and aims of the proposed DFI (including the vision & mission statement);
 - ii. The strategy for achieving the objectives and aims;
 - iii. The branch expansion program [if any] within the first 5 years;
 - iv. The proposed training programs for staff and management, as well as succession plan;
 - v. A five-year financial projection for the operation of the DFI, indicating expected growth and profitability;
 - vi. Details of the assumptions which form the basis of the financial projection;
 - vii. Enterprise-Wide Risk Management Framework;
 - viii. The organizational structure of the DFI indicating the functions and responsibilities of the top management;
 - ix. The composition of the Board of Directors and interests represented;
 - x. The conclusions based on the assumptions made in the feasibility report.
- D. A copy of the draft Memorandum and Articles of Association (MEMART);
- E. A list (in tabular form) showing the names of the promoters, amounts subscribed, their businesses and residential addresses and the names and addresses of their bankers, with evidence of payment and bank statement of account attached.
- F. Curriculum vitae of each promoter or their nominees, in the case of corporate investor(s);
- G. The business profile of corporate investor(s), if any;
- H. Evidence of payment of N5 billion for RDFI and N10 billion for WDFI to the CBN via NIBSS or any other acceptable payment channel, being minimum capital deposit which will be refunded with interest after the proposed institution obtains its final licence; and
- I. Draft detailed manual of operations namely:
 - a) **Credit Policy** that describes the eligibility requirements for its borrowers, the products to be offered by the DFI, including the policies, procedures, terms and conditions for issuing loans and guarantees, and sets forth the standards to be used by the DFI to manage its credit risk. The Credit Policy should, at a minimum:

- i. Specify that the DFI shall only engage in the extension of credit to borrowers.
 - ii. Specify procedures, organizational structure, and the criteria to be applied in evaluating applications for loans, credit lines and guarantees.
 - iii. Specify the levels of collateralization, valuation of collateral, and the discounts that are to be applied to any collateral values securing credit extensions.
 - iv. Specify the standards and criteria for, and timing of, periodic assessments of the creditworthiness of PFIs, obligors, or other counterparties, and for the establishment of credit limits.
 - v. Specify the fees to be charged for obtaining or pre-paying term loans, including any schedules or formulas pertaining to such fees.
 - vi. Discuss the standards and criteria for pricing DFI products, including any differential pricing of loans and guarantees.
- b). **Asset/Liability Management Policy (ALM Policy)** that highlights the DFI's permissible assets and liabilities, sets the standards for managing its interest rate risk and liquidity risk, and delineates the composition, duties, and operational procedures for the DFI's Asset/Liability Management Committee.
- c). **Financial Management Policy** that highlights the DFI's financial management policies and procedures, and system of internal controls. The Policy should include, at a minimum:
- i. Accounting policies and principles.
 - ii. Roles and responsibilities of the senior management officials responsible for financial management.
 - iii. Treasury operations, including cash management, vouchers, payroll and procurement.
 - iv. Financial record keeping and reporting.
 - v. Auditing and periodic testing of internal controls as it relates to financial management.
- d). **Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) policy.**
- e) **Code of Ethics and Business Conduct** that specifies high standards for honesty, integrity, and impartiality for the DFI's employees and directors and provides guidance on avoiding conflicts of interest, self-dealing, and other types of impropriety as specified by the CBN and other appropriate authorities. Every director and officer of the DFI shall be required to sign the Code of Ethics and Business Conduct. Among its provisions, the Code shall establish, for DFI officers, the maximum amounts of allowable borrowings from, and share-holding in all licensed financial institutions. The Code shall also require that:

- i. any contact related to the business of the DFI between an officer of the DFI and a member of a political body or an official of a Government institution should be reported to its Ethics Committee
- ii. DFI directors and officers shall disclose to the DFI's Ethics Committee, at least annually, any outstanding loans from, and share-holding in all licensed financial institutions, and
- iii. DFI officers inform the Ethics Committee, and receive its consent, before acquiring any shares in, or loans from licensed financial institutions.

Following the receipt of an application with complete and satisfactory documentation, the CBN shall appraise the application and communicate its decision to the applicant within 90 days. Where the CBN is satisfied with the application, it shall issue an approval-in-principle (AIP) to the applicant.

No proposed DFI shall incorporate/register its name with the Corporate Affairs Commission (CAC) until an AIP has been obtained from the CBN, in writing, a copy of which shall be presented to the CAC for registration;

4.2 REQUIREMENTS FOR GRANTING FINAL LICENCE

The promoters of a DFI shall submit the following documents to the CBN before such company is considered for the grant of a final licence and thereafter, permitted to commence operations.

- (i) Evidence of payment of a non-refundable licensing fee of N500,000.00 [five hundred thousand Naira only] for RDFI or N1,000,000.00 (one million Naira only) for WDFI, or any other amount as may be determined by the CBN.
- (ii) A copy of the shareholders' register in which the equity interest of each shareholder is properly reflected [together with the original for sighting].
- (iii) A copy of the share certificate issued to each shareholder.
- (iv) Certified true copies of Form CAC 2 (Statement of Share Capital and Return on Allotment), Form CAC 3 (Notice of Situation/Change of Registered Address) and Form CAC 7 (Particulars of Directors and changes therein).
- (v) An undertaking stating that:
 - a. the Board of Directors approved by the CBN has been inaugurated.
 - b. it shall not engage in capital reduction without the prior written approval of the CBN.
 - c. the quorum for its Board meetings shall be 2/3 of members.
 - d. it shall not change the Board composition, external auditor or engage a management staff without the prior written approval of the CBN.
 - e. the directors shall comply with the code of conduct for directors of OFIs in Nigeria.
- (vi) A certified true copy (CTC) of the Memorandum and Articles of Association filed with the Corporate Affairs Commission.

- (vii) A CTC of the certificate of incorporation of the company [together with the original for sighting purpose only].
- (viii) A list of the proposed management team, attaching the signed and dated curriculum vitae (CV) of each person with photocopies of acceptable means of identification such as driving licence, National identity cards, or international passports.
- (ix) The proposed firm of external auditors, attaching a profile of the firm and its partners.
- (x) An application for the refund of its capital deposit or the balance where it has received 20 per cent of the capital deposit post-AIP, giving its bank account details.
- (xi) Evidence of acquisition of a conducive office space and equipping of same, which shall be subject to the CBN's inspection prior to recommendation for final licence.

4.3 CONDITIONS PRECEDENT TO COMMENCEMENT OF OPERATIONS

4.3.1 Where a DFI has been granted a final licence, it shall submit the following documents prior to commencement of business:

- (i) A copy of the letters of offer and acceptance of employment by the top management staff and evidence that the management team approved by the CBN has been engaged.
- (ii) The opening statement of affairs audited by a firm of accountants, signed by accountants registered with the Financial Reporting Council of Nigeria (FRCN).
- (iii) A letter to the CBN, stating the proposed date for commencement of business.

4.3.2 The CBN may, at any time, vary or review any condition of a licence or impose additional conditions.

4.3.3 Where a licence is granted subject to conditions, the DFI shall comply with those conditions to the satisfaction of the CBN within such period as the CBN may deem appropriate in the circumstance. Any DFI that fails to comply with such conditions shall be guilty of an offence under BOFIA and may be considered grounds for revocation of licence.

4.4 FINANCIAL REQUIREMENTS

The financial requirements for a DFI are as follows:

Minimum capital (WDFI): -	N100,000,000,000.00
Minimum capital (RDFI): -	N5,000,000,000.00
Non-refundable application fee -	N100,000.00 for RDFI N250,000.00 for WDFI
Non-refundable licensing fee -	N500,000.00 for RDFI N1,000,000.00 for WDFI
Change of name fee -	N50,000.00

These requirements may be varied by the CBN from time to time as it deems necessary.

5.0 CORPORATE GOVERNANCE REQUIREMENTS

5.1.0 BOARD OF DIRECTORS

- 5.1.1 The ultimate responsibility for the management of a DFI shall be vested on its Board of Directors.
- 5.1.2 The number of directors on the Board of a DFI shall be a minimum of seven [7] and a maximum of fifteen [15]. The non-executive directors should be at least twice the number of the executive directors at any point in time.
- 5.1.3 The CBN shall approve the appointment of each director who shall meet the qualifications for directors of licensed banks as may be specified from time to time.
- 5.1.4 Executive directors of a DFI shall hold office for a fixed term of not more than 5 years and such term may be renewed only once, while non-executive directors shall serve for a fixed term of not more than 4 years and such term may be renewed only twice. For the avoidance of doubt, the maximum tenure of an executive director shall not exceed a total of 10 years while a non-executive director shall not serve for periods exceeding 12 years in total.
- 5.1.5 Any executive director who has served two 5-year terms may equally serve as Managing Director, if so appointed, for the maximum of two 5-year terms (a combined maximum of 20years).
- 5.1.6 Transmutation from executive to non-executive director shall not be allowed until after a period of 3 years following cessation of the executive appointment.
- 5.1.7 As provided in the CBN code of corporate governance from time to time.

5.2 MINIMUM QUALIFICATIONS FOR BOARD MEMBERS

- 5.2.1 The following minimum qualifications and experience are mandatory for persons who may occupy the positions of Managing Director/Chief Executive or executive members of the Board.
- i. A minimum of first degree or its equivalent in any discipline (additional qualification or degree in any business related discipline may be an advantage)
 - ii. A minimum of fifteen (15) years post qualification experience out of which, at least, ten (10) must be in management and leadership positions; and
 - iii. The bank must provide evidence that the candidates possess proven skills and competences
 - iv. Any person with any other qualifications or experience that may be considered adequate by the CBN can also hold any of the positions.
 - v. As provided in the Revised Approved Persons Regime from time to time.
- 5.2.2 The following minimum qualifications and experience are mandatory for persons who may occupy the positions of Non-Executive members of the Board.
- i. A first degree or its equivalent in any discipline.
 - ii. A minimum of 5 years post qualification experience.
 - iii. Proven skills and competencies in their fields.

- iv. Knowledge of the operations of the financial institution and relevant laws and regulations guiding the financial industry.
- v. Any person with any other qualifications or experience that may be considered adequate by the CBN can also hold the position;
- vi. Ability to make meaningful contributions to board deliberations; and
- vii. The appointment of any Non-Executive board member shall be subject to the written approval of CBN.

Non-Executive Directors shall, in addition, be required to:

- a. Undergo directors' training at the DFI's expense; aimed at acquiring or having the prerequisite knowledge of their responsibilities and duties;
- b. Have satisfactory status reports from the last place of work, court, CBN, NDIC, etc. Two of these must be from the last place of work in the last five (5) years, and
- c. Provide three reference letters from individuals of reputable standing in the country and from persons not below the rank of a Director.
- d. Complete the Approved Persons Regime questionnaire to be administered by CBN

Notwithstanding the requirements stated above, the CBN may at its discretion, consider and approve the appointments of candidates under special circumstances.

5.3 FUNCTIONS OF THE BOARD OF DIRECTORS

The Board of Directors shall:

- 5.3.1 ensure that the DFI establishes and maintains an effective internal control system in line with the COSO framework.
- 5.3.2 appoint annually, a firm approved by the CBN to be the DFI's auditor. The approved auditor shall meet the qualifications and have the duties, responsibilities, and authorities as specified in the BOFIA or by the CBN. No auditor shall serve continuously for a period of more than 10 years in a DFI. The same auditor shall not be re-engaged by the DFI until a period after 10 years from the date of last dis-engagement.
- 5.3.3 establish, document, and communicate an organizational structure for the DFI that clearly shows the lines of authority, provides for effective communication, and ensures that there are no gaps in the lines of authority.
- 5.3.4 review all delegations of authority to specific personnel or committees and require that such delegations state the extent of the authority and responsibilities delegated.
- 5.3.5 establish reporting requirements for senior management, including specifying the nature and frequency of the management reports it shall receive.
- 5.3.6 establish board committees to assist it in the discharge of its responsibilities, including an audit committee. The audit committee shall consist of at least three directors, at least one of whom shall have adequate accounting or related financial management experience. The Board of Directors shall specify the scope of the committees' powers and responsibilities, and their structures, processes and membership requirements.

5.4 DUTIES OF DIRECTORS

5.4.1 Directors shall have the duty to:

- a. act in good faith, in a manner they believe to be in the DFI's best interests, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.
- b. administer the DFI's affairs fairly and impartially and without discrimination in favour of, or against, any shareholder or borrower.
- c. direct the DFI's operations in conformity with the requirements set forth in these regulations and other such requirements and directives as the CBN may issue from time to time.
- d. review at least annually, and amend as appropriate, the following DFI's plans and policies: Business Plan, Capital Plan, Credit Policy, ALM Policy, Financial Management Policy, and the Code of Ethics and Business Conduct.
- e. prepare and submit to the CBN for consideration, the DFI's annual report, including its audited financial statements before publication.
- f. approve annual budgets, capital expenditure, financial projections, and proposed dividends.
- g. approve PFIs qualified to access funds.
- h. set standards and procedures for delivering technical assistance to PFIs and MSMEs as may be required.
- i. ensure compliance with the Approved Persons Regime requirement (Annexure IV).

5.5 MINIMUM QUALIFICATIONS FOR SENIOR MANAGEMENT

The following minimum qualifications and experience are mandatory for persons who may occupy senior management positions in a DFI.

- (i) A minimum of first degree or its equivalent in any discipline (additional qualification in any business related discipline may be an advantage);
- (ii) A minimum of 5 years post-qualification experience out of which, at least, 4 must have been in financial services industry and at least, 2 at the senior management level;
- (iii) Any person with any other qualifications or experience that may be considered adequate by the CBN can hold any of the positions within the institution.
- (iv) Every DFI shall be required to obtain a written approval of the CBN for its organizational structure and top management team.
- (v) As provided in the Revised Approved Persons Regime from time to time.

5.6 DUTIES OF SENIOR MANAGEMENT

The Board shall define the duties of senior management of DFIs to include but not limited to:

- a). carrying out the directives of the Board of Directors and for conducting the day-to-day operations of the DFI in a safe and sound manner, including the establishment,

implementation, and maintenance of the internal control system required by this guidelines.

- b). ensuring that the employees of the DFI fully understand and comply with all policies, procedures, and legal requirements applicable to their positions and responsibilities, including adherence to approved risk tolerances and mitigation strategies.
- c). ensuring that there is appropriate segregation of duties among employees and that those employees are not assigned to conflicting responsibilities.
- d). ensuring that employees receive necessary and appropriate information and training.
- e). developing and implementing operating procedures that translate the major business objectives, strategies, and policies established by the Board of Directors into effective operating standards.
- f). ensuring adherence to the lines of authority and responsibility established by the Board of Directors.
- g). overseeing the implementation and maintenance of management information and other operating systems.
- h). establishing and implementing an effective system to track internal control weaknesses and the action taken to correct them.
- i). monitoring and reporting periodically to the Board of Directors and audit committee, on the achievement of the DFI's business objectives and effectiveness of the internal control system.
- j). performing, at least annually, a risk assessment that identifies and evaluates all material risks, including both quantitative and qualitative risks that could adversely affect the achievement of the DFI's business and performance objectives and compliance requirements. The risk assessment report shall be reviewed promptly by the Board Risk Management Committee.
- k). developing and implementing a robust enterprise-wide risk management policy and framework.

6.0 SOURCES OF FUNDS

The sources of funds for a DFI shall consist of any one or more of the following:

- a) Paid-up share capital and reserves (Equity).
- b) Preference shares.
- c) Long term loans from International Financial Institutions (IFIs) subject to prior CBN approval of the draft Memorandum of Understanding (MOU).
- d) Debentures
- e) bonds.
- f) Loans from national and supra-national governments and other bodies.
- g) Funds from development partners.
- h) Gifts, grants and donations.

7.0 RENDITION OF STATUTORY RETURNS

7.1 PERIODIC RETURNS

7.1.1 In compliance with the provisions of Section 25 of BOFIA, a DFI shall submit periodic returns to the CBN in the prescribed format which shall include:

- a. Statements of financial position, statement of comprehensive income, capital compliance and leverage, statements of cash flow, investments, outstanding loans and advances, outstanding liabilities and other commitments, and shareholders' stock holdings.
- b. Annual audited financial statements produced in accordance with International Financial Reporting Standards (IFRS) including the auditor's management letter and a statement on the effectiveness of internal controls signed by DFI's Board of Directors for which a written consent of no objection shall be obtained from the CBN.

7.1.2 The periodic returns shall be submitted to the Director, Financial Policy and Regulations Department (FPRD), Director, Other Financial Institutions Supervision Department (OFISD) and any other Department as may be advised by the CBN.

7.2 DEADLINE FOR SUBMISSION OF RETURNS

A DFI shall submit the required returns to the CBN within the period specified as follows or any other time as may be specified by the CBN from time to time:

- a. Quarterly - Not later than fourteen [14] days after the end of each quarter.
- b. Annually – Not later than four [4] months after the end of its accounting year.

7.3 DOMESTIC REPORT & AUDIT OPINION ON GOING-CONCERN STATUS

7.3.1 In accordance with Section 29(8) of BOFIA, the approved auditor is to forward to the CBN, a copy of the domestic report [management letter] on a DFI's activities, not later than 3 months after the end of its financial year. The domestic report should contain a DFI's management responses to issues raised by the auditor.

7.3.2 Every audited financial statement of a DFI shall contain an opinion on the ability of such an institution to continue as a going concern into the foreseeable future as required by the International Auditing Guidelines No. 23 on Going Concern.

7.3.3 Every audited financial statements must bear the auditors' signature, seal, stamp, FRCN number and date.

7.3.4 Any auditor that fails to comply with the requirement of this section shall be blacklisted by the CBN.

7.4 PUBLICATION OF AUDITED ACCOUNTS

In accordance with the provisions of section 27(1) of BOFIA,

- a. A DFI shall submit its audited financial statements which should be consistent with IFRS and the abridged version to the Director of Other Financial Institutions Supervision Department for consideration before publication.
- b. A DFI shall, subject to a written letter of no objection by the CBN:

- i. Publish its audited financial statements in a daily newspaper printed in and circulating in Nigeria; and
 - ii. Exhibit its audited Financial Statements, which includes the Abridged Statement of Financial Position, Abridged Statement of Comprehensive Income and the Auditor's Report thereon, in a conspicuous position in each of its offices and branches in Nigeria.
- c. Every published financial statements of a DFI shall disclose in detail, penalties paid as a result of contravention of the provisions of BOFIA, policies, circulars and guidelines in force during the financial year in question and the auditor's report shall reflect such contravention(s).
 - d. A copy of the newspaper in which the audited financial statement is published shall be forwarded to the Director Other Financial Institutions Supervision Department, CBN.
 - e. The financial statements submitted for the CBN's consideration must be accompanied with the abridged version.

7.5 REPORT ON INTERNAL CONTROL

- a. Every DFI must, as part of its audited financial statements, include a statement on the effectiveness of the internal control signed off by the Board of Directors.
- b. The internal control framework adopted by a DFI should be developed in line with key components of the COSO Framework.
- c. Every DFI shall include in its annual financial report an assessment of the adequacy of its risk management policies, procedures and practices. The assessment shall cover operational, market, liquidity, credit and any other significant risks a DFI is exposed to.
- d. A DFI shall make a declaration on the risks faced by the entity and the controls implemented to mitigate the identified risks as part of its directors' report.

8.0 PRUDENTIAL REQUIREMENTS

8.1 CAPITAL ADEQUACY REQUIREMENTS

8.1.1 A DFI shall commence operations with, and maintain at all times, a minimum paid-up capital as may be prescribed by the CBN.

8.1.2 A DFI shall maintain at all times a minimum ratio of Tier I capital to total assets (Tier I leverage ratio) of not less than 5 percent.

8.1.3 Tier I, includes only permanent shareholders' equity (issued and fully paid ordinary shares/common stock and perpetual non-cumulative preference shares) and disclosed reserves (created or increased by appropriations of retained earnings and eligible other surpluses).

In the case of consolidated accounts, this also includes minority interests in the equity of subsidiaries which are not wholly owned. This basic definition of capital excludes revaluation reserves and cumulative preference shares.

8.1.4 A DFI shall maintain at all times a Capital Adequacy Ratio (CAR) of not less than 10 percent.

8.1.5 All asset risk weights used for this computation shall be as prescribed by the CBN for licensed banks.

8.1.6 Capital requirements for off-balance sheet exposures shall be computed in accordance with the CBN procedures applicable to licensed banks.

8.2 LIQUIDITY REQUIREMENTS

8.2.1 A DFI shall maintain at all times sufficient liquid assets to meet its maturing obligations in amounts that comply with a minimum liquidity ratio of 10% or as may be specified by the CBN.

8.2.2 A DFI shall adopt and implement sound and prudent liquidity management framework, which shall describe in detail its ALM Policy and be overseen by its Asset/Liability Management Committee.

8.2.3 DFI's liquidity management framework shall include:

- a) Techniques that effectively identify, measure and manage its liquidity risk.
- b) Periodic analyses of net funding requirements under alternative scenarios.
- c) Contingent liquidity planning.

8.3 CREDIT EXTENSION AND COLLATERAL POLICIES

8.3.1 CREDIT EXTENSION

8.3.1.1 A DFI shall only extend credit to PFIs that are in good standing and, at a minimum, meet the following eligibility requirements:

- (a) Hold a duly issued and valid CBN'S license.
- (b) Be compliant with all applicable laws and CBN regulations.

- (c) Exhibit, within the three most recent financial years, at least two consecutive years of profitable lending operations, with demonstrably effective risk management procedures and controls and acceptable levels of loan portfolio quality and performance, as prescribed in DFI's Credit Policy.
- (d) Be compliant with the minimum standards of financial consumer protection as prescribed in DFI's Credit Policy.
- (e) Be compliant with any other minimum eligibility standard as prescribed in DFI's Credit Policy.

8.3.1.2 A PFI shall be deemed **not** to be in good standing if that PFI:

- a. is delinquent on its payment obligations at any time, or
- b. receives other than an unqualified opinion¹ on its most recent audited financial statements, or
- c. is unprofitable for four consecutive quarters, or
- d. fails to meet its capital adequacy requirements as prescribed by the CBN, or
- e. is a borrower for which a DFI has received a written notice from the CBN expressing material concerns about the PFI's financial condition or business operations resulting from its most recent supervisory inspection.

8.3.1.4 A DFI's credit extensions shall be as prescribed in its Credit Policy.

8.3.1.5 A DFI's credit extensions, except for products that expressly allow for the sharing of credit risk, shall be secured according to the DFI's Collateral Policies, see section 9.3.2.

8.3.1.6 A DFI's credit guarantees shall only be applied to PFI-originated MSME loans as prescribed in its Business Plan and Credit Policy.

8.3.1.7 A DFI's loans and guarantees shall be extended on clearly disclosed, non-preferential terms and conditions and at prices that reflect the DFI's costs and credit risks.

8.3.1.8 A DFI shall not extend credit facility to any one borrower or group of related entities which exceeds 20 percent of its Tier I capital, as defined in these guidelines.

8.3.1.9A DFI shall not extend credit facility to any one PFI or group of related entities which exceeds 50 percent of the value of that PFI's shareholder's fund unimpaired by losses as determined by the CBN.

8.3.2 COLLATERALS POLICIES

8.3.2.1 A DFI's Credit Policy shall clearly state the conditions under which credit extensions, guarantees or other products are to be secured by PFI collateral, the types and amounts of any qualifying collateral, and the discounts, if any, that are to be applied in computing their lending values.

8.3.2.2 A DFI's Credit Policy shall clearly state the conditions under which PFI-originated eligible loans are to be collateralized to be eligible for DFI financing or refinancing, and the types and amounts of any such required collateral.

¹ An unqualified audit opinion is one stating that the financial statements present fairly, in all material respects, the financial position of the audited entity.

8.4 MANAGEMENT OF MARKET RISK

8.4.1 A DFI shall be required to match its long-term loans to borrowers with liabilities of similar characteristics and duration so as to maintain minimal risk exposure to fluctuations in market interest rates after allowing for the effect of any hedging instruments held by the DFI.

8.4.2 A DFI shall calculate and report to the CBN each quarter its average daily financial duration gap.

8.5 PERMISSIBLE INVESTMENTS AND RESTRICTIONS

8.5.1 The following assets shall be permissible investments by DFI:

- a. Debt obligations issued, insured, or guaranteed by the Federal Republic of Nigeria or any agency thereof.
- b. Demand deposits, term deposits, or certificates of deposit in licensed banks.
- c. Deposits and reserves held with the CBN.
- d. Other investments specifically permitted by the CBN.

8.5.2 At no time, except in the first two years of DFI's operation, shall permissible investments exceed 40 percent of DFI's total assets, unless otherwise stipulated by the CBN in considering the DFI's liquidity needs and its borrowers' demands for loanable funds.

8.5.3 At no time shall a DFI incur any foreign exchange, commodity, or equity risks, or use financial derivatives except as hedging instruments.

8.6 OTHER KNOWN LOSSES (OKL)

All assets for which the net realizable value has fallen below the historical cost shall have the difference in value recognized and charged to the income account as "other known losses".

8.7 MAINTENANCE OF STATUTORY RESERVES

Every DFI shall maintain a reserve fund and shall out of its net profit after taxation and before any dividend is declared, transfer to the statutory reserves as follows:

- a. Where the reserve fund is less than the paid-up share capital, a minimum of 30.0 per cent of the net profits; or
- b. Where the reserve fund is equal to or in excess of the paid-up share capital, a minimum of 15.0 per cent of net profit;
- c. No transfer to the reserve fund shall be made until all identifiable losses have been made good.

9.0 OTHER REGULATORY APPROVALS

9.1 APPOINTMENT AND DUTIES OF EXTERNAL AUDITORS

- a. Every DFI shall appoint an Audit Firm approved by the CBN as “the approved auditor”.
- b. No auditor shall serve continuously for a period of more than 10 years in a DFI. The same auditor shall not be re-engaged by the DFI until a period after 10 years from the date of last dis-engagement.
- c. The duties of the approved auditor shall include the issuance of a report to the shareholders on the financial statements of a DFI and such report shall contain statements as to the matters and such other information that may be prescribed from time to time by CBN.
- d. The report of the approved auditor shall be read together with the report of the directors at the Annual General Meeting (AGM) of the shareholders of a DFI.
- e. The approved auditor shall be an auditor who satisfies the following requirements:
 - i. Membership of a recognized professional accountancy body in Nigeria;
 - ii. Registered with the FRCN;
 - iii. Resident in Nigeria;
 - iv. Carrying on in Nigeria a professional practice as an accountant and/or auditor.
- f. No firm shall be appointed as the auditor of the DFI if any of the partners:
 - i. has any interest whatsoever, in the DFI
 - ii. is a director, officer or agent of the DFI or
 - iii. the firm is one in which a director of the DFI has an interest.
- g. Any auditor who, after appointment, is subsequently affected by section 9.1 f[i-iii] shall immediately cease to continue as an auditor of the DFI.
- h. If an approved auditor in the course of its duties as an auditor of a DFI is satisfied that:
 - i. There has been a contravention of the BOFIA or that an offence under any other law, guidelines, circulars, etc. has been committed by the DFI or any of its officers;
or
 - ii. Losses have been incurred by the DFI which substantially reduce its capital funds;
or
 - iii. Any irregularity which jeopardizes the interest of creditors of the DFI or any other irregularity has occurred; or
 - iv. It is unable to confirm that the claims of creditors are covered by the assets of the DFI.

The firm shall immediately report the matter to the CBN.
- i. The approved auditor shall also forward to the CBN, a copy of his domestic report on the activities of the DFI not later than three [3] months after the end of its financial year.
- j. The approved auditor shall have the right of access at all times to all books, accounts and vouchers of the DFI and shall be entitled to require from the directors, managers and officers of the DFI all information and explanations that he considers necessary for the performance of the audit.

- k. If the DFI fails to appoint or fill a vacancy for an auditor, the CBN shall appoint a suitable person for that position and shall fix the remuneration to be paid by the DFI to such auditor.
- l. The appointment of an approved auditor shall not be determined without prior written approval of the CBN.
- m. Any approved auditor who acts in contravention of the foregoing requirements or fails deliberately or negligently to comply with the requirements of this section shall be blacklisted in the industry and may be reported to the appropriate regulatory authority.

9.2 BRANCH EXPANSION, RELOCATION AND CLOSURE

- a. No DFI shall open, relocate or close a branch without the prior written approval of the CBN.
- b. An application for the opening of a new branch shall be accompanied with the following documents:
 - i. An extract of Board resolution in support of the proposed branch
 - ii. A detailed feasibility report on the proposed branch showing the:
 - Rationale for the proposed branch.
 - Initial capital outlay for the proposed branch.
 - Projected income and expenditures for a 3-year period.
 - Organisational structure of the proposed branch.
 - Staffing requirements.
 - Assumptions for the financial projection in the report.
- c. A DFI seeking approval for the opening of a new branch must have a track record of good financial performance, regularity in the rendition of returns, compliance with laws, rules and regulations.
- d. An application for the closure of a branch shall be accompanied with the following:
 - (i) An extract of the Board's resolution authorizing the closure.
 - (ii) Reasons for the closure with relevant evidence.
 - (iii) Arrangement put in place to settle the customers of the affected branch.

9.3 CHANGES IN THE OWNERSHIP STRUCTURE

Except with the prior written consent of the CBN, no DFI shall enter into an agreement or arrangement:

- a. which results in a change in the control or ownership of the DFI
- b. for sale, disposal or transfer of the whole or any part of the business of the DFI
- c. for the amalgamation or merger of the DFI with any other entity
- d. for the reconstruction of the DFI
- e. to employ a management agent or to transfer its business to any such agent.

10.0 EXAMINATION, REPORTING AND OFF-SITE SURVEILLANCE

10.1 EXAMINATION

10.1.1 The DFI shall be subject to the same procedures and protocols that the CBN uses in examining licensed banks.

10.1.2 The DFI shall make its books and records readily available for inspection and other supervisory purposes within a reasonable period of time upon request by the CBN.

10.2 REPORTING AND OFF-SITE SURVEILLANCE

10.2.1 Every DFI shall be subject to the CBN's off-site surveillance and shall make periodic reports in accordance with the forms, instructions and schedules specified by the CBN, including:

- (a) Periodic call reports, including statements of financial position, statement of comprehensive income and capital compliance and leverage.
- (b) Quarterly call reports, including statements of cash flow, capital, investments, outstanding loans and advances, outstanding liabilities and other commitments, and shareholders' stock holdings.
- (c) Annual audited financial statements produced in accordance with International Financial Reporting Standards (IFRS) and including the auditor's domestic report and a statement on the effectiveness of internal controls signed by the Board of Directors.
- (d) Annual projections of its business plan, statements of financial position, statement of comprehensive income and statement of cash flow.

10.2.2 The DFI shall submit its periodic reports as specified at the end of each reporting period.

10.2.3 The DFI shall submit its annual financial statements and financial projections not later than 4 months after the end of each accounting year.

11.0 ADMINISTRATIVE SANCTIONS AND ACTIONS

- 11.1 Without prejudice to the other penalties and actions prescribed by the BOFIA, the CBN may impose one or more of the following sanctions where any of the provisions of these guidelines are contravened:
- (a) Monetary penalties on the DFI, its directors, officers or employees found responsible for non-compliance in such amounts as may be determined by the CBN.
 - (b) Prohibition from declaring or paying dividends.
 - (c) Suspension of access to the credit facilities of the CBN.
 - (d) Suspension of lending and investment operations, capital expenditure, and/or debt issuance.
 - (e) Suspension or removal from office of the offending director, officer or employee.
 - (f) Disqualification from holding any position or office in any licensed bank, DFI or other financial institution in the Federal Republic of Nigeria.
 - (g) Revocation of licence.
- 11.2 The CBN may also issue a cease and desist order on the DFI, or on any director or officer, that the CBN believes is engaging in, has engaged in, or the CBN has probable cause to believe is about to engage in an unsafe and unsound practice in conducting the DFI's business, or in any conduct that violates any provision of these guidelines or any other applicable laws and CBN directives.
- 11.3 The attached are details of offences and their appropriate penalties, risk weight for assets, and questionnaire for major stakeholders, appointees to Board and Management positions as Annexure I, II & III, respectively.

12.0 ANNEXURES

12.1 ANNEXURE I

PENALTIES FOR VARIOUS OFFENCES

S/N	OFFENCES	PENALTIES
1	Operating without a valid licence	Outright closure of the institution and prosecution of its promoters.
2	Engaging in activities outside the approved business.	A fine of N100,000 for each day of the default with a maximum of N2,000,000. In addition, the institution should forfeit the estimated profit
3	Failure to obtain the approval of the CBN for the appointment of new Directors and top management staff	A fine of N100,000 payable, by the institution, for each of the Directors or top management staff so appointed. In addition, the appointee should cease to function in that position.
4	Late rendition of returns	A fine of N10,000 for each day of the default
5	Late submission of audited annual accounts.	A fine of N10,000 for each day during which the offence continues.
6	Failure to convene a special meeting of the Board of Directors for the presentation of an Examination Report within four weeks and failure to convey the reaction of the Directors to the CBN within two weeks of the presentation.	A fine of N200,000 for each week during which the offence continues.
7	Submission of false/Inaccurate information to regulators.	For the Institution, a fine of a minimum of N2,000,000 and a maximum of N5,000,000.. For individuals, a fine of N100,000. All the Officers involved should be sanctioned.
8	Failure to publish annual accounts.	A fine of N500,000 for non-publication and thereafter publish in a newspaper
9	Failure to disclose contraventions and penalties in the audited annual accounts.	A fine of N2,000,000 for non-disclosure and thereafter publish again, disclosing the contraventions.

10	Failure to maintain proper books of accounts and records.	A fine of N100,000 for each Director and N50,000 each for the officers involved
11	Failure to provide any information required by the CBN in the prescribed manner and as at when required.	In the case of the institution, a fine not more than N500,000. In the case of individuals, a fine not more than N50,000 in addition to other disciplinary action deemed necessary by the CBN.
12	Failure to report dismissed DFI staff on grounds of fraudulent acts to the CBN	A fine of N100,000 payable by the institution.
13	Failure to report fraud and forgeries to CBN.	A fine of N500,000 payable by the institution.
14	(a) Opening or relocation of branch without the approval of the CBN. (b) Closing of branch without the approval of the CBN.	A fine of N500,000 and the closure of such branch/cash centres. A fine of N500,000 and in addition the branch should be re-opened.
15	Revaluation of fixed assets without CBN approval.	Reversal to the previous value and issuance of a warning letter.
16	Change in ownership, take over or amalgamation without CBN approval.	A fine of not less than N2million and apply for regularization.
17	Contravention of the single obligor limit as prescribed in section 8.3.1.8 without CBN approval.	A fine of not less than N500,000 for the institution and N100,000 together with a warning letter for the approving officer.
18	Change of name without the approval of the CBN.	A fine of N500,000 and an application for regularization.
19	Non-display of operating licence and the interest rate in a conspicuous location in the Head-Office/Branches.	A fine of N100,000 and the immediate display of the licence/interest rate.
20	Failure to implement the recommendations contained in the	A fine of N5,000 for each day of the default and a warning letter to

	examination report	Management and Board.
21	Change of External Auditors without the approval of the CBN.	A fine of N500,000 and a warning letter to the Board. Apply for regularization.
22	Failure to report Director related credits to the CBN.	A fine of N500,000.00 and in addition, the appropriate officer should be sanctioned
23	Failure by Directors to complete the code of conduct forms.	A warning letter to the directors and execution of the code of conduct form
24	Non-compliance with the code of conduct by the Directors	Repeated non compliance after cautions will attract removal of the Director from Office
25	Holding AGM without approved accounts	A fine of N2,000,000.00 and warning letter to the MD/CEO

12.2 ANNEXURE II: RISK WEIGHTS FOR ASSETS

To compute its risk-based capital requirements, DFI's balance sheet assets and off-balance-sheet items shall be risk-weighted as shown below. Account definitions shall conform to International Financial Reporting Standard (IFRS). The value of the DFI's total risk-weighted assets shall be the summation of the products from multiplying the value of each asset, or group of assets, times its corresponding risk weighting factor.

1. Cash and demand deposits, including:

- Vault cash and balances at the Central Bank of Nigeria.

Risk weighting for these assets shall be 0 per cent.

2. Other liquid assets and investments, including:

- Term deposits or certificates of deposit maturing in less than 12 months in commercial banks licensed by the Central Bank of Nigeria.
- Marketable obligations of the Federal Government of Nigeria, or any agency thereof, maturing in 36 months or less.
- Any other investments qualifying as liquid assets under BOFIA and any relevant CBN guidelines and circulars.
- Demand deposits in commercial banks licensed by the Central Bank of Nigeria.

Risk weighting for these assets shall be 20 per cent.

3. Advances, purchased member mortgage assets and other defined investments:

- Advances.
- Purchased member mortgage assets.
- All other bank deposits maturing in five years or less.
- All other obligations of the Federal Government of Nigeria and any agency thereof maturing in seven years or less.
- All other deposits or investments that qualify as liquid assets under BOFIA, CBN guidelines and circulars.

Risk weighting for these assets shall be 50 per cent.

4. The risk weighting for all other assets and items shall be 100 per cent.

12.3 ANNEXURE III

CENTRAL BANK OF NIGERIA

QUESTIONNAIRE FOR MAJOR SHAREHOLDERS AND APPOINTEES TO BOARD AND MANAGEMENT POSITION IN BANKS AND OTHER FINANCIAL INSTITUTIONS IN NIGERIA

This questionnaire is designed to elicit information which would enable the CBN ascertain your propriety as a shareholder or member of the board/top management in the institution. You are, therefore, required to answer every question that relates to you honestly and where applicable, provide evidence to support your answer. Please note that the CBN would periodically request you to attend a performance review interview.

A. BIODATA

1. Name of Institution
2. Name of the appointee/major shareholder
3. Any relationship with the institution.....
4. Current employment
5. Occupation.....
6. Date of Birth.....
7. Place of Birth
8. Nationality (foreigners).....
9. Entry/resident permit (foreigners).....
10. Parental history.....
.....
.....

B. Competence and capability

1. Give details of educational institutions attended, academic and professional qualifications obtained with dates, in a resume format.
2. Give in a resume format, your:
 - b) Employment history
 - c) Type(s) of business(es)
 - d) Title(s) and duties attached to it
 - e) Date(s) of employment
 - f) Name(s) of employer(s), date(s) and place(s) of the employment(s)
 - g) Reason for leaving, position attained and two referees from former employer(s).

C. Honesty, integrity, and reputation

1. Have you at any time been charged or convicted of any offence (civil/criminal) or otherwise found liable by a tribunal whether in Nigeria or elsewhere? If so, please, give details of the charge and if convicted, the date(s) of conviction(s), particulars of the offence and the penalty(ies) imposed.

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2. Have you ever been required to give evidence in any trial or proceedings involving fraud, dishonesty or similar matters, whether in Nigeria or elsewhere other than as an expert witness? If yes, please give details.

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3. Has any suit ever been brought against you in your personal capacity or against anybody corporate, partnership, society or any other business undertaking to which you are connected as a shareholder, partner, director or manager? If yes, please give details of the circumstances and, if not pending, how it was resolved?

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4. Have you ever been denied membership of any professional body or entry to any profession or vocation whether in Nigeria or elsewhere? If yes, please give details:

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5. Have you ever been dismissed, requested or advised to resign or suspended from any office or employment whether in Nigeria or elsewhere? If yes, please give details:

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6. Has there been any civil action in court or petition by any body against you to any regulator in pursuance of personal debts or other obligations whether in Nigeria or elsewhere? If yes, please give details:

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7. Give the name(s) and address(es) of all your bankers, including the names and numbers of personal and business accounts maintained over the past six years:

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8. Have you any immediate relative who holds a top management position (AGM and above) or significant shares (5% and above) in the institution to which this questionnaire relates or with any entity affiliated to it? If so, please give details:

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9. Has any loan or credit facility (or part thereof) extended to you by any financial institution/lending agency been restructured, renegotiated, provisioned against or been a subject of write-off or forgiveness for reasons of non-payment by you? If so, please, provide full details of the debts, the circumstances surrounding the action and the current status:

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.....
10. Please list below and give details of all the societies, clubs, associations and groups (organized or unorganized) either in school or thereafter, which you are or have been a member:

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11. Have you ever been accused, convicted or been a subject of an investigation panel set up for the purpose of examination malpractice, unethical practices, money laundering or other moral misconduct? If yes, please, provide the details:

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12. Provide any other information (if any), that would be of relevance to the CBN in determining your suitability or otherwise, for the appointment/position:

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D. Financial soundness and /or solvency

You are please required to:

1. Forward to the CBN, a statement of your networth comprising assets at current values and total liabilities as at the date of appointment, which must be accompanied by a sworn affidavit.
2. Forward to the CBN, your bankers' declaration that you are not in any way indebted to them. If you are, the outstanding amount of the debts should be stated clearly indicating the performance status of the debt (whether performing or non-performing) and if it is adequately secured or not as well as the nature and type of security(ies) offered.
3. Submit to the CBN a report from at least, two Credit Bureaus registered in Nigeria in respect of you.
4. Submit to the CBN, a copy of your tax clearance certificate for the last three years.

5. Forward to the CBN any other information that could assist it in determining your financial stability.

D. Miscellaneous

1. Is any member of your family in any relationship with the institution to which this questionnaire relates? If so, please state the nature of relationship.

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2. Are you a serving Non-Executive Director? If yes, when were you first appointed?

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3. Please state the number of board meetings you have attended since your appointment in the following format:

Year	Number of meetings
.....
.....

4. What percentage of the financial institution's shares do you directly and/or indirectly own?

.....

5. Have you been employed by an audit firm that assigned you to work on this institution's financial statements during the last two years? If so, please state the name of the audit firm:

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.....

Declaration by the appointee

I.....hereby
declare that the answers to the above questions are true and that I am fully aware that any concealment, provision of false or misleading information aimed at influencing the approval of my appointment will constitute a breach of Section 60 of BOFIA, 1991, as amended.

I therefore, affirm that the information supplied above (including the attachment) are to the best of my knowledge, true and where any of it is discovered to be false, I shall be disqualified from the appointment being sought and subsequent appointments by any financial institution under the purview of the CBN.

Signature of Appointee/Significant Shareholder:

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Date

In the presence of (Managing Director of requesting institution):

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Date

**CENTRAL BANK OF NIGERIA
ABUJA.
MAY 2014.**