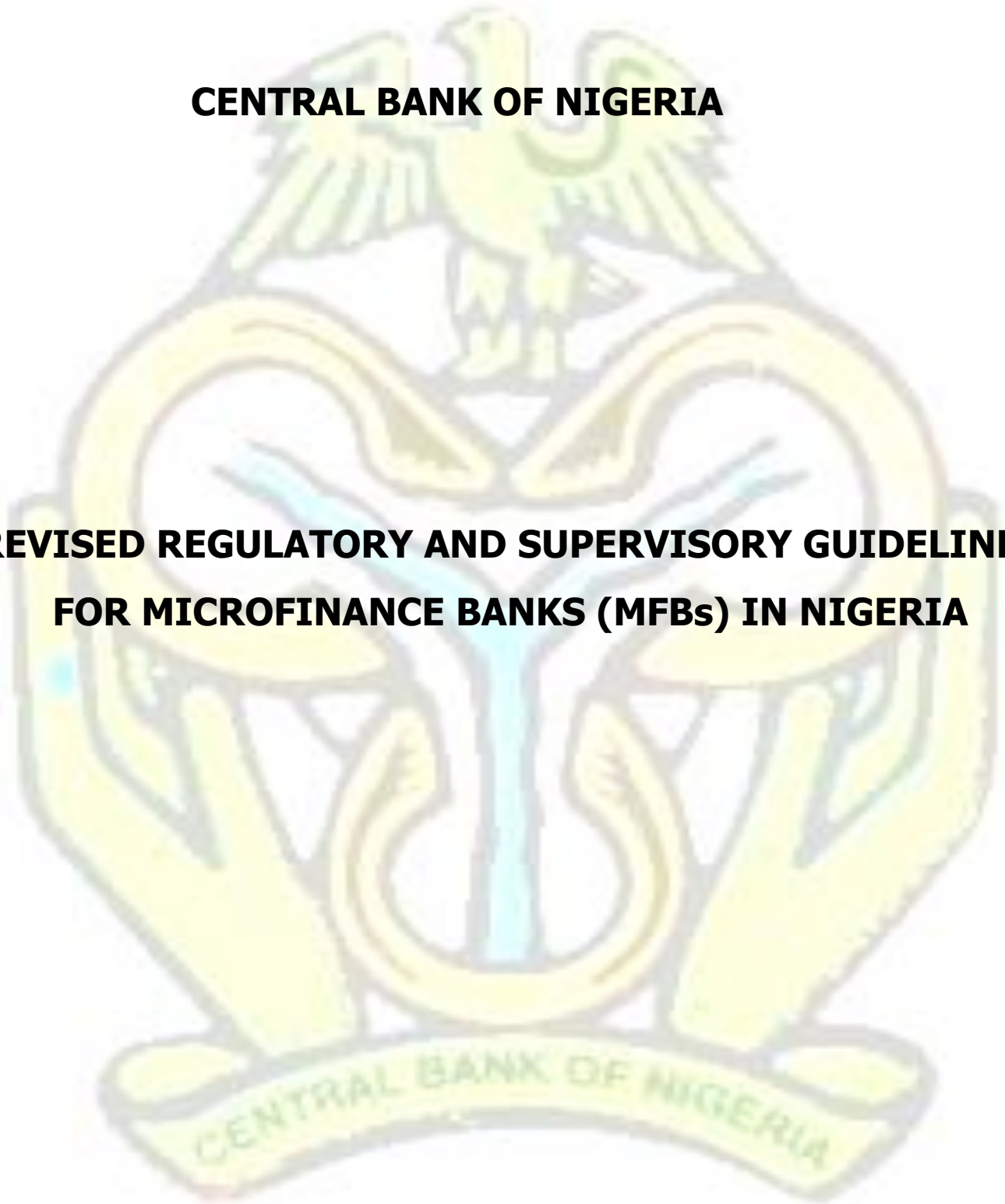


CENTRAL BANK OF NIGERIA

REVISED REGULATORY AND SUPERVISORY GUIDELINES FOR MICROFINANCE BANKS (MFBs) IN NIGERIA



DRAFT: 18th December 2012

Revised Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria

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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
CBs	Community Banks
CBN	Central Bank of Nigeria
CIBN	Chartered Institute of Bankers of Nigeria
CRR	Cash Reserve Requirement
CV	Curriculum Vitae
DMB	Deposit Money Bank
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principles
KYC	Know Your Customer
LGA	Local Government Area
MFB	Microfinance Bank
MFI	Microfinance Institutions
MIS	Management Information System
NAICOM	National Insurance Commission
NDIC	Nigeria Deposit Insurance Corporation
NGO	Non-Governmental Organization
OFISD	Other Financial Institutions Supervision Department
PAR	Portfolio-at-Risk
RBS	Risk Based Supervision
SEC	Securities and Exchange Commission
SIID	Special Insured Institutions Department

1.0 INTRODUCTION

The potential of microfinance in poverty reduction, economic growth and development coupled with the emergence of fast growing Microfinance Institutions (MFIs), has effectively put the issue of microfinance on the political agenda of most developing countries. Consequently, the supervisory authorities have taken active measures to ensure an efficient and effective microfinance delivery through the development of an appropriate regulatory and supervisory framework, based on the peculiar features and associated risks.

The challenge that supervisors face is how to accommodate or reasonably encourage microfinance within a framework of generally accepted norms and prudential standards. In general, the Guidelines that adequately address the features and risks of microfinance would effectively support the orderly development and sustainability of the institutions to enable them achieve microfinance objectives of financial inclusion and poverty alleviation.

The implementation of the Microfinance Policy over the past six (6) years and the experience gained, underscore the need for the review of the existing Regulatory and Supervisory Guidelines. This second edition addresses current realities and developments in the sub-sector. This document is, therefore, aimed at promoting innovative, rapid and balanced growth of the industry, leveraging on global best practice in microfinance banking.

These Guidelines recognize the distinctiveness of micro clients, ownership structure of the institutions, their credit methodology, and the central position of savings/deposits in the intermediation process. It also adopts measures to ensure the soundness and safety of the institutions, and the protection of depositors, especially low-income clients. Also, it defines institution types, loan documentation, portfolio classification, loan loss provision and write-offs, amongst others, and provides the basis for the establishment, operations, regulation and supervision of microfinance banks, and institutions.

1.1 Power to Regulate

These Supervisory and Regulatory Guidelines are issued by the Central Bank of Nigeria (hereinafter referred to as the "CBN" or the "Bank") in exercise of the powers conferred on it by the provisions of Section 33 subsection (1)(b) of the CBN Act 7 of 2007 and in pursuance of the provisions of Sections 61-63 of the Banks and Other Financial Institutions Act (BOFIA) 25 of 1991 (as amended).

1.2 Terms and Definitions

For the purpose of clarity, the following terms and definitions shall be used in the applicable sections of these Guidelines.

1.2.1 Microfinance Bank

A microfinance bank (MFB), unless otherwise stated, shall be construed to mean any company licensed by the CBN to carry on the business of providing financial services such as savings and deposits, loans, domestic fund transfers, other financial and non-financial services to microfinance clients.

1.2.2 Microfinance Bank Target Client

A microfinance bank target client shall include the economically active low-income earners, low income households, the un-banked and under-served people, in particular, vulnerable groups such as women, physically challenged, youths, micro-entrepreneurs, informal sector operators, subsistence farmers in urban and rural areas.

1.2.3 Microenterprise

A microenterprise is a business that operates with very small start-up capital. The management is often built around the sole owner or micro-entrepreneur. It provides employment for few people mainly the immediate family members and does not often require formal registration to start.

The management and accounting requirements are very simple and flexible. Generally, most micro-entrepreneurs work informally, without business licences or formal records of their activities. The scope of economic activities of micro-enterprises typically includes primary production and crafts, value added processing, distributive trades and diverse services.

1.2.4 Microfinance Loan

A microfinance loan is granted to the operators of micro-enterprises, such as peasant farmers, artisans, fishermen, youths, women, senior citizens and non-salaried workers in the formal and informal sectors. The loans are usually unsecured, but typically granted on the basis of the applicant's character and the combined cash flow of the business and household.

The tenure of microfinance loans is usually within 180 days (6 months). Tenures longer than six (6) months would be treated as special cases. In the case of agriculture, or projects with longer

gestation period, however, a maximum tenure of twelve (12) months is permissible and in housing microfinance, a longer tenure of twenty-four (24) months is permissible.

In line with best practice, the maximum principal amount shall not exceed N500,000, or one (1) per cent of the shareholders fund unimpaired by losses and/or as may be reviewed from time to time by the CBN.

Microfinance loans may also require joint and several guarantees of one or more persons. The repayment may be on a daily, weekly, bi-monthly, monthly basis or in accordance with amortization schedule in the loan contract.

1.2.5 Related Party

A related party is an individual or group of individuals that is related in some ways to any of the Directors and Management staff of an MFB. This could include a family member, relative, shareholder, related company or proxy or associates.

2.0 PERMISSIBLE AND PROHIBITED ACTIVITIES

2.1 Permissible Activities

An MFB shall be allowed to engage in the provision of the following services to its clients:

- a. Acceptance of various types of deposits including savings, time, target and demand from individuals, groups and associations; except public sector deposits;
- b. Provision of credit to its customers, including formal and informal self-help groups, individuals and associations;
- c. Promotion and monitoring of loan usage among its customers by providing ancillary capacity building in areas such as record keeping and small business management;
- d. Issuance of redeemable debentures to interested parties to raise funds from members of the public with the prior approval of the CBN;
- e. Collection of money or proceeds of banking instruments on behalf of its customers including clearing of cheques through correspondent banks;
- f. Act as agent for the provision of mobile banking and micro insurance services to its clients.
- g. Provision of payment services such as salary, gratuity, pension for employees of the various tiers of government;
- h. Provision of loan disbursement services for the delivery of the credit programme of government, agencies, groups and individual for poverty alleviation on non-recourse basis;
- i. Provision of ancillary banking services to its customers such as domestic remittance of funds and safe custody;
- j. Maintenance and operation of various types of account with other banks in Nigeria;
- k. Investment of its surplus funds in suitable instruments including placing such funds with correspondent banks and in Treasury Bills;
- l. Pay and receive interests as may be agreed upon between the MFB and its clients in accordance with existing guidelines;
- m. Operation of micro leasing facilities, microfinance related hire purchase and arrangement of consortium lending as well as supervision of credit schemes to ensure access of microfinance customers to inputs for their economic activities;
- n. Receiving of refinancing or other funds from CBN and other sources, private or public, on terms mutually acceptable to both the provider of the funds and the recipient MFBs;
- o. Provision of microfinance related guarantees for its customers to enable them have better access to credit and other resources;

- p. Buying, selling and supplying industrial and agricultural inputs, livestock, machinery and industrial raw materials to low-income persons on credit and to act as agent for any association for the sale of such goods or livestock;
- q. Investment in shares or equity of a body corporate, the objective of which is to provide microfinance services to low-income persons;
- r. Investment in cottage industries and income generating projects for low-income persons as may be prescribed by the CBN;
- s. Provision of services and facilities to customers to hedge various risks relating to microfinance activities;
- t. Provision of professional advice to low-income persons regarding investments in small businesses; rendering managerial, marketing, technical and administrative advice to customers and assisting them in obtaining services in such fields;
- u. Mobilize and provide financial and technical assistance and training to microenterprises;
- v. Provision of loans to microfinance clients for home improvement, housing microfinance and consumer credits; and
- w. Performance of non-banking functions that relate to microfinance business development services such as co-operatives and group formation activities, rural industrialization and other support services needed by micro enterprises.

2.2 Prohibited Activities

No MFB shall undertake any business other than those permitted as stated in the preceding paragraph or such activities as may be prescribed from time to time by the CBN. Specifically, no MFB shall engage in the provision of the following financial services:

- a. Acceptance of public sector (government) deposits except for the permissible activities (g) and (h) in sub-Section 2.1 of these Guidelines;
- b. Foreign exchange transactions;
- c. International commercial papers;
- d. International corporate finance;
- e. International electronic funds transfer;
- f. Clearing house activities;

- g. Collection of third party cheques and other instruments for the purpose of clearing through correspondent banks.
- h. Dealing in land for speculative purposes;
- i. Dealing in real estate except for its use as office accommodation;
- j. Provision of any facility for speculative purposes;
- k. Leasing, renting, and sale/purchase of any kind with its directors, officers, employees or persons who either individually or in concert with their family members and beneficiaries own five per cent (5%) or more of the equity of the MFB, without the prior approval in writing of the CBN; and
- l. Financing of any illegal/prohibited activities such as gambling, drug-trafficking, and firearms.

No MFB shall undertake any business or activity other than those permitted as stated above or as may be prescribed by the Central Bank of Nigeria from time to time. Any contravention of this regulation constitutes a ground for the revocation of the MFB's licence.

3.0 OWNERSHIP AND LICENSING REQUIREMENTS

3.1 Ownership Requirements

1. A microfinance bank may be established by individuals, group of individuals, community development associations, private corporate entities and foreign investors.
2. No individual, group of individuals, their proxies or corporate entities and/or their subsidiaries shall own controlling interest in more than one MFB, except as approved by the CBN.

A bank holding company that intends to set up any category of MFBs as subsidiaries shall be required to meet the prescribed capital and other requirements stipulated in these Guidelines.

3.2 Licensing Requirements

There shall be three (3) categories of MFBs:

Category 1: Unit Microfinance Bank

A Unit Microfinance Bank is authorized to operate in one location. It shall be required to have a minimum paid-up capital of N20 million (twenty million Naira) and is prohibited from having branches and/or cash centres.

Category 2: State Microfinance Bank

A State Microfinance Bank is authorized to operate in one State or the Federal Capital Territory (FCT). It shall be required to have a minimum paid-up capital of N100 million (one hundred million Naira) and is allowed to open branches within the same State or the FCT, subject to prior written approval of the CBN for each new branch or cash centre.

Category 3: National Microfinance Bank

A National Microfinance Bank is authorized to operate in more than one State including the FCT. It shall be required to have a minimum paid-up capital of N2 billion (two billion Naira), and is allowed to open branches in all States of the Federation and the FCT, subject to prior written approval of the CBN for each new branch or cash centre.

3.2.1 Transformation Path

- a. A Unit MFB that intends to transform to a State MFB shall be required to surrender its licence and obtain a State MFB licence, subject to fulfilling stipulated requirements. A State MFB that intends to transform to a National MFB must have at least five (5) branches which are spread across the Local Government Areas in the State of its original operation. This is to ensure that the MFB has gained the experience necessary to manage a National MFB. It shall also be required to surrender its State MFB license and fulfill other stipulated requirements for a National MFB licence.
- b. No new promoter(s) shall be allowed to apply directly for a National MFB licence, that is, a National MFB shall emerge through organic growth from a State MFB.

The prescribed minimum capital requirement for each Category of MFB may be reviewed from time to time by the Central Bank of Nigeria.

3.3 Licensing Documentation Requirements

1. Promoter(s) seeking a licence for MFB business in Nigeria shall apply in writing to the Governor of the Central Bank of Nigeria. The application shall indicate which of the three (3) categories of licences is being applied for.
2. Such application shall be accompanied with the following:
 - a. Non-refundable application fee of N50,000, N100,000 and N250,000 for Unit, State and National MFBs respectively in bank drafts or e-payment, in favour of the Central Bank of Nigeria;
 - b. The deposit of the minimum capital requirement for the relevant category of MFB, which shall be made through e-payment into the MFB Share Capital Deposit Escrow Account with the CBN. The capital thus deposited together with the accrued interest shall be released to the promoters after the grant of a licence;
 - c. Satisfactory, verifiable and acceptable evidence of payment by the proposed shareholders of the minimum capital requirement for the category of licence being applied for; including personal statement that capital does not originate from bank credit, any form of credit, questionable sources and any activity that relates to money laundering or any illicit activity;

- d. Certificate of capital importation issued by an authorized dealer [banks] in the case of foreign capital;
 - e. A copy of detailed feasibility report disclosing relevant information that shall include:
 - i. The objectives and aims of the proposed MFB;
 - ii. The justification for the establishment of the MFB;
 - iii. The services that the MFB intends to provide;
 - iv. The branch expansion programme (if any) within the first five years in the case of State and National MFBs;
 - v. The proposed training programme for staff and management succession plan;
 - vi. A five-year financial projection for the operation of the MFB, 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 MFB, 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 (CV) of each member including other directorships held (if any);
 - x. Proposed social performance management framework indicating the social values to the clients over a five (5) year period;
 - xi. Appropriate management information systems, internal controls, enterprise risk management framework and procedures including manuals of operations; and
 - xii. The conclusions based on the assumptions made in the feasibility report.
 - f. A copy of the draft Memorandum and Articles of Association;
3. A letter of intent to subscribe to and payment for the shares of the proposed MFB, signed by each subscriber;

4. A list of promoters/proposed shareholders in tabular form, showing their business and residential addresses (not post office addresses) and the names and addresses of their bankers;
5. Names, CVs and copies of credentials of the proposed members of the Board of Directors. The CVs must be personally signed and dated; No proposed MFB under this policy shall incorporate/register its name with the Corporate Affairs Commission (CAC) until a written approval-in principle (AIP) has been communicated to the promoters by the CBN, a copy of which shall be presented to the CAC.
6. In considering an application for a licence, the CBN shall satisfy itself that:
 - a. The promoters and the proposed Management team are approved persons to invest in/manage the financial services industry in Nigeria by regulatory standards;
 - b. The promoters have submitted the names, curriculum vitae and credentials of the top management team of the proposed MFB;
 - c. The minimum paid-up capital/shareholders' funds of the relevant category being applied for is acceptable and the source is verifiable and found satisfactory to the CBN;
 - d. The quality of the management of the proposed MFB is sound;
 - e. The earnings prospect of the company is realizable; and
 - f. The objects of the company as disclosed in its Memorandum and Articles of Association agree with the permissible activities listed in the provisions of Section 2.1 of these Guidelines.
7. The CBN shall before the issuance of an Approval-in-Principle (AIP) arrange an appraisal interview for the promoters of the proposed MFB. The date and time for the interview shall be communicated to the promoters in writing.
8. If satisfied, the Governor may grant a licence to the MFB and where the grant of licence is declined, the promoter shall be communicated in writing and their capital deposit refunded.
9. The CBN may at any time vary or revoke any conditions of a licence or impose additional conditions.

10. Where a licence is granted subject to some conditions, the MFB shall comply with those conditions to the satisfaction of the CBN within such period, as the CBN may deem appropriate in the circumstances. Any MFB that fails to comply with such conditions shall be guilty of an offence under Section 60 of BOFIA, 1991 (as amended).
11. Every licensed MFB shall be required to add "Microfinance Bank" after its name which shall be registered with the Corporate Affairs Commission in compliance with the Companies and Allied Matters Act (CAMA). The font size of all characters in its full name, which shall appear on all banking instruments, signage and sign boards, shall be the same. Failure to comply with this requirement at its Head Office and branches shall attract a penalty of N100,000, N150,000 and N250,000 for Unit MFB, State MFB and National MFB, respectively per office/branch where non-compliance is observed and a warning letter to ensure immediate compliance shall be served.

3.4 Application and Licensing Fees

The application and licensing fees, which may be varied at the instance of the CBN, shall be as follows:

	Unit MFB	State MFB	National MFB
Non-refundable Application fee	N50,000	N100,000	N250,000
Non-refundable Licensing fee	N100,000	N250,000	N1,000,000
Change of Name fee	N20,000	N50,000	N100,000

An MFB wishing to convert its licence status shall be required to pay the applicable non-refundable application and licensing fee.

3.5 Conditions for Grant of Approval-In-Principle

The Central Bank of Nigeria, on receipt of an application, which is complete in all respects, shall process the application and if satisfied with the overall quality of the proposal, grant Approval-in-Principle for establishing the MFB within three (3) months of receipt of the application. An Approval-in-Principle does not confer a permission to commence operation before the grant of a final licence.

3.6 Conditions for Final Licence and Commencement of Business

An MFB with Approval-in-Principle shall be granted a final operating licence and may commence business after satisfying and complying with the conditions stated below:

- a. The promoters of the MFB have submitted the following documents to the CBN:
 - i. A copy of the shareholders' register in which the equity interest of each shareholder is properly reflected;
 - ii. A copy of the share certificate issued to each shareholder;
 - iii. Certified true copy of Form CAC 2 (Return of Allotments) filed with the CAC;
 - iv. Certified true copy of Form CAC 7 (Particulars of Directors), and a written confirmation that the Board of Directors approved by the CBN has been installed;
 - v. Certified true copy of the Memorandum and Articles of Association approved by the CBN and filed with the CAC;
 - vi. The opening statement of affairs audited by an approved firm of accountants practicing in Nigeria;
 - vii. Certified true copy of the certificate of incorporation of the company (together with the original for sighting purposes only);
 - viii. A copy each of the letters of offer and acceptance of employment by top management staff and a written confirmation that the Management team approved by the CBN has been put in place; and

- ix. A letter of undertaking to comply with all the rules and regulations guiding the operations of MFBs.
- b. The MFB shall inform the CBN of the location and address of its Head Office in Nigeria (certified true copy of Form CAC 3) and shall confirm that all infrastructures for take-off are in place. In addition, the MFB shall show evidence that appropriate management information system, internal controls, enterprise-wide risk management (ERM), and procedures including manuals of operations have been put in place.
- c. The MFB shall be informed in writing by the CBN that it may commence business after satisfactory physical inspection of its premises.
- d. The MFB shall inform the CBN in writing of the date of commencement of business.

3.7 Insurance Coverage

3.7.1 Compliance with Deposit Insurance Scheme

In accordance with Section 15(1) of the Nigeria Deposit Insurance Corporation (NDIC) Act 2006, every licensed MFB shall be required to insure its deposit liabilities with the Corporation.

3.7.2 Compliance with Staff Fidelity Insurance

An insured MFB shall have fidelity insurance coverage up to such level as may be prescribed from time to time by the NDIC (Section 33 of the NDIC Act 2006).

3.8 Membership of National Association of Microfinance Banks

Every MFB shall be required to be a financial member of the National Association of Microfinance Banks (NAMB), that is, all MFBs are required to pay their annual subscription to NAMB not later than 31st January of every year.

4.0 BOARD AND MANAGEMENT

4.1 BASIC REQUIREMENTS

4.1.1 Directors

- a. The maximum number of Directors on the Board of a Unit MFB shall be seven (7), while the minimum shall be five (5). For a State or National MFB, however, the maximum number of Directors (Executive Directors inclusive) shall be at the discretion of the CBN. To qualify for the position of a Director in an MFB, it is required that the nominee must not be a current employee of a bank or other financial institution, except where the MFB is promoted by the bank or other financial institution and the proposed Director is representing the interest of such an institution.

In the circumstance, where a current employee of a bank or other financial institution is proposed for the position of director, the consent of the employer must be given in writing to the CBN. The requirement that no person shall serve as a Director in more than two (2) institutions in all sub-sectors under the regulatory purview of the CBN shall be complied with in all cases, that is, a person can be a Director in an MFB and another institution in a different sub-sector.

- b. At least two (2) members of the Board of Directors other than the Executive Management shall be required to have banking or related financial industry experience.
- c. The appointment of Directors and management staff shall be approved by the CBN.
- d. Where applicable, the Executive Directors of an MFB 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 (including the Managing Director) shall not exceed a total of 10 years while a non-executive director shall not serve for periods exceeding 12 years in total. Any executive director who has served two 5-year terms may also serve as Managing Director, if so appointed, for the maximum of two 5-year terms (a combined maximum of 20years).

No Executive Director, other than the Managing Director, shall be appointed by a Unit MFB.
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4.1.2 Management

The following minimum qualifications and experiences are mandatory for officers who would occupy key/top management positions in an MFB:

- a. Managing Director/Executive Director:
 - i. A minimum of first degree or its equivalent in any discipline (additional qualification or degree in any finance or business related discipline may be an advantage).
 - ii. Minimum of eight (8) years post-qualification experience out of which, at least, five (5) must be in the financial services industry and at least, three (3) at the senior management level.
 - iii. Evidence that the candidate possesses proven skills and competences in practical microfinance banking and has undergone the Microfinance Certification Programme and obtained a Certificate in Microfinance Banking issued by the Chartered Institute of Bankers of Nigeria (CIBN).

- b. Departmental Head:
 - i. A minimum of first degree or its equivalent in any discipline (additional qualification or degree in any finance or business related discipline may be an advantage).
 - ii. A minimum of five (5) years post-qualification experience out of which, at least four (4) must have been in the financial services industry and at least, two (2) at the senior management level.
 - iii. Evidence that the candidate possesses proven skills and competences in practical microfinance banking and has undergone the Microfinance Certification Programme and obtained a Certificate in Microfinance Banking issued by the Chartered Institute of Bankers of Nigeria (CIBN).

Any other qualifications or experience that may be deemed adequate by the CBN for the positions (a) or (b) above.

An MFB shall be required to carry out status enquiry on any recruited or appointed management staff with the previous employer. Any MFB that fails to obtain prior approval of the CBN for the appointment of its Directors and top management staff within two (2) weeks

of the date of such appointment shall be liable to a penalty of N200,000 for each Director or top management staff appointed without approval.

4.2 Certification

In recognition of the peculiarities of microfinance services and the special skills required to manage an MFB, it is required that the top management possesses requisite certification in microfinance management from the Chartered Institute of Bankers of Nigeria (CIBN).

Top management staff shall therefore be required to submit evidence of the certification not later than three (3) years after assumption of office. Failure to comply with the above condition shall be a ground for the removal of the affected officer.

5.0 FUNDING, ACCOUNTING AND RELATED MATTERS

5.1 Sources of Funds

The sources of funds of an MFB could consist of the following:

- a. Shareholders' funds – (paid-up share capital and reserves);
- b. Deposits/Savings of customers;
- c. Debenture/Qualifying medium to long term loans;
- d. Grants/Donations from individuals, organizations, various tiers of government, and commercial funding from international sources with prior CBN's approval of the draft Memorandum of Understanding (MOU);
- e. Fees and commissions; and
- f. Interest income.

5.2 Books of Account

- a. The Board of Directors of an MFB shall ensure that the institution keeps proper books of account with respect to all transactions at the principal administrative office and in all its branches in English Language only.
- b. For the purpose of sub-section (a) of this section, proper books of account shall contain all information necessary to explain all transactions and give a true and fair view of the state of affairs of the MFB and be presented in compliance with the Nigerian Generally Accepted Accounting Principles (GAAP) and accounting standards issued by the Financial Reporting Council (FRC). Every MFB must also comply with the transition roadmap for the adoption of the International Financial Reporting Standards (IFRS).
- c. Where the books of account are not properly kept, in the opinion of the CBN, the Bank shall apply the provision of section 24(5) of BOFIA, 1991 (as amended).
- d. If any person being a Director, Manager or Officer of an MFB fails to take all reasonable steps to secure compliance with any of the provisions of this section, he or she shall be appropriately sanctioned in line with the provisions of these Guidelines.

5.3 Rendition of Returns

In compliance with the provisions of section 58(2)b of BOFIA, 1991 (as amended) the following monthly returns shall be submitted by all MFBs:

- a. Statement of Assets and Liabilities.
- b. Profit and Loss account.
- c. Schedule of Loans and Investments on sector basis (number and value)
- d. Schedule of liabilities (deposits) on maturity basis (number and value)
- e. Interest rate structure
- f. Schedule of balances held with banks and other financial institutions.
- g. Returns on:
 - i. Borrowings from other MFBs, other financial institutions, individuals and non-financial institutions;
 - ii. Credits to other MFBs, other financial institutions, individuals/non-financial institutions, shareholders, and affiliates;
 - iii. Credits to Directors, Management Staff and related parties;
 - iv. Non-performing credits;
 - v. Off balance sheet engagements;
 - vi. Non-performing other assets; and
 - vii. Other items as may be specified by the CBN.

All monthly returns must reach the Directors of Financial Policy and Regulation Department (FPRD) of the CBN and Special Insured Institutions Department (SIID) of the Nigeria Deposit Insurance Corporation (NDIC) not later than 14 days after the end of each month. The Managing Director/Chief Executive Officer and the Chief Accountant [or equivalent] of the MFB shall sign and attest to the authenticity of the contents of the returns. The frequency of the returns may be reviewed from time to time by the CBN.

Deposit Money Banks currently engaging in microfinance services either as an activity or product shall be required to submit the returns on their microfinance activities separately to the Directors of FPRD of CBN and SIID of the NDIC in accordance with the provisions of these Guidelines.

6.0 COMPLIANCE WITH MONEY LAUNDERING (PROHIBITION) ACT 2011, TERRORISM (PREVENTION) ACT 2011 AND KNOW YOUR CUSTOMER (KYC) CIRCULARS

Every MFB shall be required to comply with the Money Laundering (Prohibition) Act 2011, Terrorism (Prevention) Act 2011, the principles and procedures of Know Your Customer (KYC) and relevant circulars as issued by the CBN from time to time. Also, an MFB shall have a Compliance Officer designate for this purpose, who shall not be below the grade of a Management staff.

7.0 PUBLICATION OF AUDITED FINANCIAL STATEMENTS

7.1 Procedures and Publication

Every MFB shall submit its audited financial statements and the abridged version of the accounts to the Director, Other Financial Institutions Supervision Department (OFISD) 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 shall be forwarded to the Director, OFISD not later than three months after the end of the accounting year. After approval by the Central Bank of Nigeria, the MFB shall be required to display the abridged version of the audited financial statements in a conspicuous place at its Head Office and all its branches.

Any MFB that fails to comply with the above requirements shall be liable to a fine of N5,000 for each day during which the offence continues and instant display of the abridged audited accounts.

Every approved audited account shall disclose in detail, the penalties paid as a result of the contravention of BOFIA, 1991 [as amended], Circulars or Policy Guidelines in force during the year in question and the auditor's report shall reflect such contraventions.

No MFB shall hold its Annual General Meeting (AGM) without prior approval of its Annual Audited Account by the CBN. Contravention of this requirement shall attract a penalty of N250,000, N500,000 and N1,000,000 for a Unit MFB, State MFB and National MFB respectively. In addition, the Chairman and the Managing Director/CEO of the MFB shall be suspended from office for a period of three (3) months.

7.2 Penalties for Late/False/Inaccurate Accounts, Returns and Other False/Inaccurate Information.

- a. For lateness in submitting its audited annual accounts, returns or any other information as may be required by the CBN, the penalty shall be a fine of N5,000 for each day during which such infraction occurs. Subsequent failure/refusal to render returns in the prescribed format shall be a ground for the revocation of an MFB's licence. For submitting any false/inaccurate information to the CBN, the penalty shall be a fine of N250,000 and a warning letter to the Managing Director of the MFB. Subsequent rendition of false or inaccurate returns/information shall lead to the removal of the Managing Director.

Persistent failure to render returns for a continuous period of six (6) months in a calendar year shall be a ground for revocation of an MFB's licence.

- b. 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 MFB concerned. The cost of preparing the accounts or rendering the returns shall be borne by the MFB.
- c. If any Director or Officer of an MFB 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 shall impose a fine of not less than N100,000 on the bank. In addition, a warning letter shall be served on the Managing Director of the affected bank. If any default in this respect is caused by the willful act of any Director or Officer of the MFB, such Director or Officer shall be removed from office and blacklisted in order to protect the integrity of the financial system. In addition, the Bank may impose on the MFB such other penalties as are deemed appropriate.
- d. Where it is established that a Director or an Officer of an MFB provides false information to a third party, such Director or Officer shall be removed from office and blacklisted.

8.0 PRUDENTIAL REQUIREMENTS

8.1 General Prudential Requirements

Every MFB shall comply with the following requirements:

8.1.1 Compulsory Investment in Treasury Bills

An MFB shall be required to maintain not less than 5% of its deposit liabilities in Treasury Bills (TBs), which may be obtained directly from the CBN. Non-compliance shall attract a fine of 1% of the amount not invested. Investment in Treasury Bills by any MFB shall, however, not exceed 10% of its deposit liabilities at any point in time.

8.1.2 Liquidity Ratio

The operation of an MFB requires the maintenance of high level of liquid assets to meet frequent requests for funds from clients and for field operations. Every MFB shall be required to maintain a minimum ratio of twenty percent (20%) of its deposit liabilities in liquid assets, including the investment in Treasury Bills.

8.1.3 Capital Funds Adequacy

- a. The capital adequacy ratio of an MFB shall be measured as a percentage of the shareholders' funds unimpaired by losses to its risk weighted assets. The minimum Capital Adequacy Ratio (Capital/Risk Weighted Assets Ratio) for MFBs shall be 10 per cent. Furthermore, every MFB is expected to maintain a ratio of not more than 1:10 for its shareholders fund unimpaired by losses to the net credits.
- b. An MFB shall at all times maintain the minimum capital adequacy ratio as may be prescribed by the CBN from time to time.
- c. The CBN may require an MFB to maintain additional capital as it considers appropriate in respect of specific concentration of risks or market risks or connected lending.
- d. When any of the above ratios (as in 8.1.1, 8.1.2 and 8.1.3) do not meet the prescribed benchmarks, the MFB shall be prohibited from any or all of the following until the required ratio is restored:
 - i. Granting credits and undertaking further investment;

- ii. Payment of dividend to shareholders;
- iii. Borrowing from the investing public; and
- iv. Opening branch(es)/cash centre(s).

In addition, the MFB shall be required to submit, within a specified period, a recapitalization plan acceptable to the CBN and NDIC. Failure to comply with the above shall constitute grounds for the revocation of the operating licence of the MFB or such other penalties as may be deemed appropriate. Every MFB is enjoined to ensure that their shareholders' funds unimpaired by losses do NOT fall below the prescribed minimum capital requirement, notwithstanding meeting the capital adequacy benchmark.

8.1.4 Limit of Investment in Fixed Assets

The maximum amount, which an MFB can invest in fixed assets, is 20% of its shareholders' funds unimpaired by losses. This ratio must be maintained at all times.

Any contravention shall attract a penalty of 1% of the excess investment in fixed assets and prohibition of further investment in fixed assets until the requirement is achieved.

8.1.5 Revaluation of Fixed Assets

Prior approval of the CBN must be obtained by an MFB before the recognition of the revaluation surplus on fixed assets in its books, taking into consideration that:

- a. The basis of the underlying fixed assets valuations is stated and the valuation made by qualified professional valuer whose identity and qualifications are indicated in the valuation report;
- b. The difference between the market and the carrying values of the eligible fixed assets being revalued is to be discounted by 55 per cent;
- c. The revaluation of fixed assets is applicable to own premises only; and
- d. The revaluation of fixed assets is permissible only after a minimum period of 5 years after the date of the purchase of the asset or the last revaluation date.

8.1.6 Fixed Assets/Long-term Investments and Branch Expansion

No MFB shall be allowed to finance any of the following other than from the shareholders' funds unimpaired by losses:

- a. Acquisition of fixed assets;
- b. Equity investments in permissible activities and investments in long-term debentures subject to CBN's approval in writing; and
- c. Branch expansion.

In consideration of a request for the approval of any or a combination of the above, reference shall be made to the aggregate value of the existing investment(s) and the current request(s) against the shareholders' funds' unimpaired by losses.

8.1.7 Maintenance of Capital Funds

- a. The impact of delinquent risk assets, which may result in capital erosion, calls for stringent maintenance of capital funds. Every MFB shall therefore maintain a Reserve Fund into which it shall transfer from its profit after tax for each year (before dividend), subject to the following provisions:
 - i. Where the amount of the MFB's reserve fund is less than 50 per cent of its paid-up capital, an amount which shall not be less than 50 per cent of the MFB's net profit for the year;
 - ii. Where the amount of the MFB's reserve fund is 50 per cent or more, but less than 100 per cent of its paid-up capital, an amount which shall not be less than 25 per cent of the MFB's net profit for the year; or
 - iii. Where the amount of the MFB's reserve fund is equal to 100 per cent or more of its paid up capital, an amount equal to 12.5 per cent of the MFB's net profit for the year.
- b. An MFB shall not appropriate any sum or sums from its reserve fund unless prior approval in writing is obtained from the CBN.
- c. The CBN may however, from time to time, vary the proportion of net profit transferable to Statutory Reserves. No accretion shall be made to the reserve fund until:

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

8.1.8 Restrictions on Declaration of Dividend

- a. An MFB shall not declare or pay a dividend on its shares until it has,
 - i. Completely written-off all its preliminary and pre-operational expenses;
 - ii. Made the required provisions for non-performing loans and other erosions in asset values;
 - iii. Satisfied the minimum Capital Adequacy Ratio requirement; and
 - iv. Met all matured obligations.
- b. Where the payment of dividend would result in withdrawal of any part of the free reserves due to inadequacy of the profit for the year or where the statutory report of the auditors on the Annual Accounts of the bank is not satisfactory, the MFB may declare any dividend on its shares, only after obtaining the prior approval of the CBN.
- c. Where an MFB declares or pays any dividend in contravention of this provision, the Directors and the Chief Executive Officer of the MFB shall be liable to a penalty of ten (10) per cent of the gross dividend paid and such other sanctions as may be deemed appropriate by the CBN.

8.1.9 Limit of Lending to a Single Borrower and Related Party

- a. The maximum loan by an MFB to any individual borrower, Director or related borrowers shall not exceed 1 percent, and in the case of group borrowers, a maximum of five (5) per cent of the MFB's shareholders' fund unimpaired by losses or as may be prescribed by the CBN from time to time.
- b. In addition, aggregate insider-related lending at any time shall not exceed five (5) per cent of its shareholders' funds unimpaired by losses. For this purpose, loans under a staff scheme shall not apply, but shall be in accordance with the staff conditions of service.

Any contravention will attract a penalty of N250,000.00 on the MFB and a letter of warning to the Managing Director. Subsequent defaults will be a ground for the removal from office of the affected Officer(s).

8.1.10 Loan Portfolio Composition

The value of the loan portfolio of an MFB shall, at all times, be a minimum of 80 per cent for micro loans and a maximum of twenty (20) per cent for small and medium enterprises (SMEs).

8.1.11 Maximum Equity Investment Holding Ratio

The aggregate value of the equity participation of an MFB in all permissible enterprises shall NOT exceed 7.5 per cent of its shareholders funds unimpaired by losses.

8.1.12 Provision for Classified Assets

- a. Provision for performing and non-performing risk assets and other assets shall be as stated hereunder.

Days at Risk (No. of days missed payment)	Description	Provisioning Requirement or Allowance for Probable Loss (%)
0	Performing	1
1 – 30 days	Pass and Watch	5
31 – 60 days	Substandard	20
61 – 90 days	Doubtful	50
91 or more days and for restructured loans	Lost	100

- b. All MFBs shall be required to review their loans and advances and other assets at least once every thirty days, and make appropriate provisions.
- c. As part of its monthly returns, every MFB shall send a schedule of loans/investments, showing the provisions made for losses or deterioration in the quality of its risk assets to the Director, OFISD and Director, SIID of the NDIC.

8.1.13 Contingent Items

- a. The following shall be construed as contingent items in the books of an MFB:
 - i. Guarantees and indemnities ;
 - ii. On-lending funds with recourse; and
 - iii. Any other items as may be specified by the CBN from time to time.
- b. An MFB's investments in Bankers Acceptances (BAs) and Commercial Papers (CPs) shall be treated as part of its loan portfolio.

8.2 Special Prudential Standards

The following traditional banking regulations shall be adjusted from time to time at the discretion of the CBN to accommodate the peculiarities of microfinance.

8.2.1 Unsecured Lending Limits:

Any unsecured advances or loans or credit facilities of an aggregate amount to an individual in excess of fifty thousand naira [N50,000] is not permitted. For the purpose of applying this regulation to microfinance loans of MFBs, group guarantees or third party guarantees of an individual acceptable to the MFB shall qualify as collateral.

8.2.2 Loan Documentation Requirement:

Given the nature of microfinance loan sizes and customers, collateral registration, financial statements of borrowers or evidence that those businesses are formally registered shall not be required.

8.2.3 Restriction of Co-signers as Borrowers:

The restriction prohibiting a commercial bank from lending to someone who has co-signed or otherwise guaranteed a loan from the same bank shall not apply to group lendings of an MFB.

8.2.4 Cash Reserve Requirements:

The mandatory cash reserve requirements (CRR) for Deposit Money Banks shall not apply to an MFB, rather an MFB shall be required to have compulsory investment of five per cent (5%) of its

total deposit liabilities in treasury bills which shall qualify as specified liquid asset in computation of its liquidity ratio.

8.3 Portfolio- At- Risk [PAR]

- a. PAR is the outstanding principal amount of all loans that have at least one installment past due for one or more days. The amount includes the unpaid principal balance but excludes the accrued interest. Under PAR, loans are considered past due if payment has fallen due and remained unpaid.

Loan repayments shall apply first to any interest due, and then to any installment of principal that is due but unpaid, beginning with the earliest installment. The number of days of lateness is based on the due date of the earliest loan installment that has not been fully paid.

- b. Limit: It shall be required that PAR shall not exceed 5 per cent at any given time for an MFB.
- c. Past Due Microfinance Loans: This is any loan which repayment is past due for at least one day in accordance with the agreed repayment term in the loan contract. Such loans whether restructured or refinanced shall attract appropriate provision for loan loss. The past due microfinance loans shall remain in the account of the MFB until it is fully repaid or written off.
- d. Accrual of Interest Earned: No accrual of interest to the income statement shall be allowed after the microfinance loan has become past due. Interest accrued shall not be recognized as income after the microfinance loan had become past due, rather it should be transferred to the interest-in-suspense account. All interests already accrued and/or booked shall be reversed from income and the accrued interest transferred to interest-in-suspense account. This provision is for the purpose of passing entries in the books of the MFB, without prejudice to the right of the bank to collect the interest due to it from its clients.
- e. Restructured Microfinance Loans: These represent microfinance loans that have been renegotiated or modified to either lengthen or postpone the original scheduled installment payments, or substantially alter the original terms of the loans. Restructured loans, which shall include refinanced loans [i.e. loans disbursed to enable repayment or part repayment of prior loans that was past due], shall be treated as non-performing and the interest

thereon shall be transferred to the interest-in-suspense account. No microfinance loan shall be restructured more than two (2) times.

- f. Writing off of Microfinance Loans as Bad Debts: Microfinance loans that have been fully provided for except director-related facilities may be written off in accordance with the MFBs' policy and communicated to the CBN. Director-related facilities shall require prior approval of the CBN before such can be written off as bad debts.

8.3 Implementation of Recommendations in Examination Report

The Board and management of licensed microfinance banks shall ensure the implementation of all recommendations contained in the CBN/NDIC Examination Reports. Failure to do so shall attract a penalty of N100,000 for each recommendation not fully implemented. Persistent non-implementation of the recommendations contained in the Examination Reports shall be considered a ground for the removal of the affected Board member(s) and management staff from office.

9.0 ASSESSMENT OF SOUNDNESS

In response to the changing financial landscape, a more risk based approach to the supervision of MFBs would be adopted. For this purpose, a robust, dynamic and proactive Risk Based Supervision (RBS) Framework had been developed to provide an effective process to assess the safety and soundness of all microfinance banks operating in Nigeria. This is to be achieved by evaluating the MFB's risk profile, financial condition, risk management practices and compliance with applicable laws and regulations.

Inherent risk is intrinsic to all business activities and arises from exposure to, and uncertainty from, potential future events. Inherent risk would therefore be evaluated by considering the degree of probability and the potential size of an adverse impact on an institution's capital or earnings. The effectiveness of the risk management control functions put in place by the MFB shall form the basis for moderating the level of aggregate inherent risk associated with any particular activity.

The framework considers risks on a consolidated basis and groups them into the following categories for assessment purposes:

- credit risk
- market risk
- operational risk
- liquidity risk
- legal and regulatory risk
- strategic risk
- insurance risk (for MFBs involved in micro insurance business).

The existence and level of each inherent risk in the identified significant activities shall be assessed as **low, moderate, above average** or **high**. Supervisory efforts will therefore be focused on materially high risk activities but not to the total exclusion of other activities.

The Composite Risk Rating or final rating shall be the outcome of the Overall Net Risk moderated by Capital and Earnings. Accordingly, the assessment will include a review of the quality, quantity, and availability of externally and internally generated capital. In reviewing an MFB's ability to generate capital internally, profitability shall be considered on both consolidated and unconsolidated basis.

10.0 REQUIREMENTS FOR INCREASE IN SHARE CAPITAL

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

- a. Board resolution authorizing the increase;
- b. Evidence of payment of stamp duty;
- c. Corporate Affairs Commission (CAC) registration of the increase;
- d. Form CAC 2 showing the allotment of the additional capital;
- e. Share certificates issued to shareholders;
- f. Photocopy of the share register showing the entries of allotment,
- g. Evidence of payment for the new allotment of shares by the shareholders [photocopies of cheques lodged should be attached]. No cash payment shall be allowed for any significant acquisition i.e. up to 5% of the shares in an MFB.
- h. Statements of accounts from banks reflecting the cheques lodged and cleared;
- i. Vouchers showing evidence of internal transfer or payment for the rights issues allotted;
- j. Copies of letters to shareholders conveying allotment of shares; and
- k. Any other information that may be required or stipulated by the CBN.

11.0 DISCLOSURE OF INTEREST BY DIRECTORS AND OFFICERS OF MFBs.

- a. Every Director and Officer of an MFB, who has any personal interest, whether directly or indirectly, in an advance, loan or credit facility or proposed advance, loan or credit facility, or vendor services from an MFB in which he/she is serving, shall promptly declare the nature of his/her interest in writing to the Board of Directors of the MFB and the declaration shall be discussed at the Board meeting.
- b. Every Director or Officer of an MFB who holds any office or possesses any property, whether directly or indirectly, which might create conflict with his duties or interest as a Director or Officer of the MFB, shall declare at a meeting of the Board of Directors of the MFB, the fact, nature, character and extent of such interests. Any Director or Officer who contravenes either of these regulations shall be liable to a fine of N500,000 or removal from office.

12.0 DISCLOSURE OF REQUIRED INFORMATION TO CREDIT REFERENCE BUREAUX

- a. An MFB shall be required to supply information on all its credit clients to licensed Credit Bureau from time to time. In addition, every MFB shall provide:
 - i. Details of non-performing loans or credit accommodations classified as doubtful or lost in its portfolio, where the amount owed is not in dispute, the customer has not made any satisfactory proposals for repayment following formal demand, and the customer has been given at least twenty-eight (28) days notice of the intention to disclose that information to the Credit Reference Bureau;
 - ii. Information on its customers involved in financial malpractices, including the issuance of dud cheques.
 - iii. No information other than that referred to in the above sub-sections (i) and (ii) shall be divulged by any institution to the Credit Reference Bureau without customers' consent.
- b. Nothing in this section shall prevent MFBs and Credit Reference Bureaux from disclosing the information referred to in paragraphs (i) and (ii) above provided the information is disclosed in good faith and/or in the normal course of business.
- c. Any customer of an MFB has a right to know his credit status has been forwarded to the Credit Reference Bureau.

13.0 OPERATIONAL REQUIRMENTS AND CONTROLS

13.1 Opening/Relocation and Closing of Branches/Cash Centres

- a. Unit MFBs are prohibited from opening branches or cash centres. A State or National MFB shall obtain approval from the CBN, in writing, to open new branches or cash centres.
- b. An MFB that contravenes the provisions of paragraph (a) of this section shall be liable to pay penalties of N250,000 per branch for a Unit MFB, N500,000 per branch for a State MFB and N1,000,000 per branch for a National MFB. In addition, such unapproved branch office or cash centre should be closed within a period of thirty (30) days.
- c. Any MFB that relocates its Head Office, branch or cash centre without prior approval of the CBN in writing shall be liable to pay a penalty of N500,000, irrespective of the category of MFB.
- d. Failure to close an unapproved branch office or cash centre in line with the provisions of these Guidelines shall attract a fine of N5,000.00 for each day of default, irrespective of the category of MFB.

13.2 Change of Name

Every MFB shall be required to obtain CBN's approval before effecting a change of name as contained in its operational licence. Any MFB that fails to obtain prior approval of the CBN for change of name shall be liable to a penalty of N500,000, irrespective of the category of the MFB.

13.3 Display of Licence

A copy of an MFB's licence shall be displayed in a conspicuous position at its Head Office as well as in all branches and cash centres, if any. Any MFB that contravenes this provision shall be liable to pay a fine of N100,000 for each location without the display of the licence.

13.4 Display of Interest Rates and Fees

Every MFB shall display on a daily basis and in a conspicuous place at its Head Offices, branches and cash centres, its interest rates and fees. Interest rates and fees shall be quoted on an annual basis. In contravention, an MFB shall be liable to pay a penalty of N50,000, after which N5,000 shall be payable for each day during which the offence continues.

13.5 Internal Controls

- a. Every MFB shall have an Internal Audit Unit, which shall ensure that the operations of the company conform to the laws, as well as to its internal rules and regulations. The Internal Auditor shall forward his report directly to the Board Audit Committee to strengthen corporate governance in the MFB.
- b. Every MFB must include a statement on the effectiveness of the internal control signed off by at least two members of its Board of Directors as part of its audited financial statements. Also, a declaration on the risks inherent in the business of the MFB and the controls put in place to mitigate the identified risks shall be part of the directors' reports.
- c. Every fraud or attempted fraud must be reported along with the statement of assets and liabilities within one month of its occurrence to the Director of OFISD and Director of SIID. Where no frauds/forges and defaults occurred during the month, a nil return shall be made. Where it is established that an officer of an MFB has been involved in fraud or unethical behavior at any time in the course of his/her career, the officer shall be removed from office by the MFB and blacklisted by the CBN.
- d. Every MFB shall develop, implement and submit evidence of implementation of an internal control framework. The internal control framework adopted by the MFB should be developed in line with the Committee of Sponsoring Organizations (COSO) of the Treadway Commission 2004 and should comprise the following areas of internal control;
 - control environment,
 - risk assessment,
 - control activities,
 - information and communication, and
 - monitoring.

Failure to comply with any of the above provisions shall attract a fine of N100,000.

14.0 APPOINTMENT OF CHIEF EXECUTIVE/ PRINCIPAL OFFICERS AND EXTERNAL AUDITOR

14.1 Appointment of Chief Executive and Principal Officers

The appointment or replacement of the Chief Executive Officer or any of the Principal Officers of any MFB shall be approved by the CBN. An application for the approval of the appointment shall be forwarded to the CBN within two (2) weeks of appointment.

Any contravention of this provision shall attract a penalty of N100,000, N250,000 and N500,000 for Unit MFB, State MFB and National MFB respectively and the nullification of the appointment.

14.2 Appointment and Responsibilities of External Auditors

14.2.1 Every MFB shall appoint an approved external auditor, whose primary duty shall be to prepare a report for the shareholders on the annual financial statements of the company and every such report shall contain an opinion on the true and fair view of the financial statements and such other information as may be prescribed from time to time by the CBN.

The approved auditor shall satisfy the following requirements:

- a. A member of a recognized professional accountancy body in Nigeria;
- b. Currently in professional practice as accountant and auditor in Nigeria;
- c. No person or auditing firm shall be appointed as the auditor of an MFB if:
 - i. He/she has interest in that MFB other than as a depositor;
 - ii. He/she is a Director, Officer or agent of such institution;
 - iii. It is a firm in which a Director of the MFB has interest as partner or Director;
 - iv. It is a firm in which a Director of the MFB is the spouse of a partner or Director; and
 - v. He/she is indebted to the MFB.

- d. Any auditor who is subsequently affected by Section 14.2.1(c) above shall immediately cease to continue as the auditor of the MFB.
- e. If any MFB fails to appoint or fill a vacancy for an approved auditor, the CBN shall appoint a suitable person for that purpose and shall fix the remuneration to be paid by the MFB to such auditor.
- f. The appointment of an approved auditor shall not be determined without a prior written approval of the CBN.

14.2.2 The responsibilities of an approved external auditor shall include the following amongst others:

- a. To immediately report to the CBN formally if he/she is satisfied that:
 - i. there has been a contravention of BOFIA, 1991 [as amended] or that an offence under any other law, guidelines, circulars, etc. has been committed by the MFB or any of its Officers; or
 - ii. losses have been sustained by the MFB which had substantially reduced its capital funds; or
 - iii. any irregularity which jeopardizes the interest of depositors or creditors of the MFB has occurred, or
 - iv. the firm is unable to confirm that the claims of the depositors or creditors are covered by the assets of the MFB.
- b. To forward to the CBN two (2) copies of the domestic report on the activities of the MFB not later than three (3) months after the end of the financial year of such MFB.
- c. To have access, at all times, to the books, accounts and vouchers of the MFB and be entitled to require from Directors, Managers and Officers of the MFB all information and explanation considered necessary for the performance of the audit.

- d. No Audit Firm shall serve the same institution as External Auditor for a continuous period exceeding ten (10) years, in order to enhance transparency in reporting.

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 liable to a fine of N50,000 and/or the determination of his/her status as an approved auditor to all financial institutions under the supervisory purview of the CBN.

15.0 SCHEME OF ARRANGEMENT

No MFB shall enter into any "Scheme of Arrangement" with its creditors/investors without obtaining the prior approval of the CBN. Any MFB that is unable to meet its obligations to its depositors, creditors or investors shall submit its proposals to restore liquidity or viability and for eventual settlement of its outstanding obligations to the Director of OFISD for consideration and approval. Notification of the scheme shall also be made to the Director of SIID by the MFB. Failure to comply with this provision will attract a penalty of N100,000, N200,000 and N300,000 for Unit, State and National MFBs respectively.

16.0 RESTRUCTURING AND RE-ORGANIZATION

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

- a. Which will result in a change in the control of the MFB;
- b. For the sale, disposal or transfer of the whole or any part of the business of the MFB;
- c. For the amalgamation or merger of the MFB with any other company;
- d. For the restructuring of the MFB; and
- e. To employ a managing agent or to transfer its business to any such agent.

17.0 PARTICIPATION OF EXISTING FINANCIAL INSTITUTIONS IN MICROFINANCE ACTIVITIES

Any financial institution under the purview of the Central Bank of Nigeria that intends to transform into a microfinance bank shall apply to the Bank and ensure that the licensing requirements for an MFB are met.

17.1 Deposit Money Banks (DMBs):

- a. A Deposit Money Bank (DMB) wishing to engage in microfinance services could continue to do so through a designated department/unit and/or offer microfinance as a financial product. The department/unit shall be headed by a staff of not less than a Deputy General Manager or its equivalent and must meet the certification condition specified in paragraph 4.2 of these Guidelines.
- b. A Financial Holding Company which has a DMB as a subsidiary may also invest in or own an MFB. Due to the peculiarity of microfinance practice and the nature of its assets, the microfinance subsidiary of such a Holding Company shall be required to have the following:
 - i. Qualified and experienced Management team that have completed the Mandatory Certification Programme;
 - ii. Internal Control, Procedure, and Manuals of Operations specifically designed for microfinance;
 - iii. Management Information System [MIS] and loan tracking mechanism;
 - iv. Dedicated unit at branch level that is equipped for deposit mobilization and credit monitoring;
 - v. Reporting format and policy for income recognition for MFBs i.e. loan loss provision;
 - vi. Any other condition that the CBN may specify from time to time.
- c. Any DMB that provides microfinance services as an activity or product shall be required to submit separate returns of its microfinance portfolio aside from its other lending activities as stipulated in these Guidelines.

17.2 Non-Governmental Organization Microfinance Institutions (NGO-MFIs)

The Guidelines recognize the existence of credit-only, membership-based microfinance institutions, which are not required to come under the regulatory and supervisory purview of the CBN but are, however, supervised by the appropriate Ministry. Such institutions shall engage in the provision of microcredit to their targeted population but shall not mobilize deposits from the general public. Registered NGO-MFIs shall be required to forward periodic returns on its activities to the CBN primarily for statistical purposes.

An NGO-MFI, however, wishing to obtain an operating licence as a microfinance banks shall be required to meet the stipulated provisions in the Regulatory and Supervisory Guidelines for MFBs in Nigeria. A transforming NGO-MFI shall be required to provide an Institutional Assessment by a rating agency that specializes in rating microfinance service providers and a Certified Statement of Affairs by a firm of Chartered Accountants acceptable to the CBN. The institutional assessment shall include the NGO financial position, governance structure, human resources, risk management policy, control procedures, accounting as well as management information systems. The institution shall also be required to submit separate monthly returns of its microfinance portfolio, aside from its other lending activities.

The application for transformation to MFB shall be supported by:

- i. Board resolution approving the transformation and stating the objectives;
- ii. Detailed feasibility report including a business plan specifying what the MFB plans to achieve in the next five years;
- iii. CVs and copies of credentials of the proposed Board of the MFB and commitment letters to serve as Board member as well as the subscribed capital, if any;
- iv. Draft Memorandum and Articles of Association;
- v. Proposed name of the MFB;
- vi. Details of assets & liabilities to transfer to the MFB - the transfer shall be admissible at the value assessed/determined by the audit/consulting team during institutional assessment phase; and
- vii. Payment of application fee for an MFB licence as specified in these Guidelines.

In consideration of meeting the minimum capital requirement/shareholders' funds, an existing institution shall be exempted from depositing the paid-up capital requirement (as the case may be) with the Central Bank of Nigeria. Its capital shall, however, be subject to verification by the CBN for confirmation.

18.0 COLLABORATION TO REGULATE DEPOSIT/SAVINGS MOBILIZING INSTITUTIONS

- a. To prevent regulatory arbitrage in the sub-sector, the CBN shall collaborate with other relevant agencies of the government to monitor the activities of financial cooperatives and NGOs that have significant operations due to their micro savings/deposit taking activities from their members. Any of these Institutions that attains a total assets of N20,000,000 (twenty million Naira only) and or total membership/clients of two thousand (2,000) shall be encouraged to transform to the relevant category of MFB, subject to the licensing requirements.
- b. Collaboration between the CBN, NDIC, SEC, NAICOM, CAC, National Association of Microfinance Banks (NAMB), Association of Non-Bank Microfinance Institutions in Nigeria (ANMFIN), and other relevant government agencies shall be promoted to reduce arbitrage in the practice of microfinance.

19.0 CONDITIONS FOR REVOCATION OF LICENCE

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

- a. Submission of false information/data during and/or after the processing of the application for licence;
- b. The use of proxies or disguised names to obtain a licence to operate as an MFB;
- c. Engaging in functions/activities outside the permissible scope of its licence as specified in Section 2.2 of these guidelines;
- d. Persistent failure to comply with request for information/data in the form required/specified by the CBN;
- e. Engaging in activities prejudicial to the Nigerian economy;
- f. Failure to redeem matured obligations to customers;
- g. Failure to render statutory monthly returns for a continuous period of 6 months or for a cumulative period of 6 months in a financial year.
- h. Unauthorized shop closure;
- i. Failure to comply with any directive issued by the CBN;
- j. Engaging in prohibited activities as listed in these Guidelines;
- k. Technical insolvency i.e. where an MFB's assets are insufficient to cover its liabilities.
- l. Such other conditions applicable to banks and other financial institutions which constitute a ground for revocation of licence under the Banks and other Financial Institutions Act (BOFIA) 1991(as amended); and
- m. Any other act(s) which in the opinion of the CBN constitute(s) a violation or a serious default.

20.0 EXIT CONDITIONS

The condition for exit of a licensed MFB shall be as prescribed by the relevant sections of the Banks and Other Financial Institutions Act (BOFIA), 1991 (as amended) as applicable to deposit taking financial institutions and the Companies and Allied Matters Act (CAMA) 1990

21.0 GENERAL

The list of licensed MFBs shall be published by the CBN from time to time.

22.0 RECOMMENDED MINIMUM OPERATIONAL TEMPLATE FOR MICROFINANCE BANKS IN NIGERIA

MEASURES	ITEM	RECOMMENDED STANDARD FOR MFBs
CAPITAL	Capital Adequacy ratio	10% minimum (S.8.1.3a of the Revised Guidelines.)
	Adjusted capital to Net credits ratio	1:10 maximum (S.8.1.3a of the Revised Guidelines.)
	Maintenance of capital funds	S.8.1.7 of the Revised Guidelines.
	Maximum investments in fixed Assets	20% of Shareholders' Funds unimpaired by losses (SHF) S.8.1.4 of the Revised Guidelines.
	Maximum Equity Investment Holding ratio	≤ 7.5% of SHF (S.8.1.11 of the Revised Guidelines.)
ASSET	Maximum amount per micro loan	N500,000.00 or 1% of SHF (S.1.2.4 of the Revised Guidelines.)
	Micro loans as a percentage of total loans	80% (S.8.1.10 of the Revised Guidelines.)
	Portfolio at Risk (PAR)	≤ 5% (S.8.3 of the Revised Guidelines.)
	Net Loan portfolio as a percentage of total assets	60% minimum
	Growth in outreach	>20% annually
	Maximum aggregate insider related lending	≤ 5% of SHF (S.8.1.9b of the Revised Guidelines.)
	Single obligor limit (Individual lending)	≤ 1% of SHF (S.8.1.9a of the Revised Guidelines.)
	Single obligor limit (Group lending including cooperatives and corporate bodies)	≤ 5% of SHF (S.8.1.9a of the Revised Guidelines.)
	Savings as a percentage of total deposits	60% minimum
	Percentage loans to deposits	80%
	Loan portfolio profitability (Group Lending)	> 10%
	Loan Officer Productivity / Case Load (No. of active clients per Loan Officer)	250 – 300
	Provision for classified accounts	S.8.1.2 of the Revised Guidelines
	Adequacy of loan loss provisioning	100%
	Risk Management Framework (RMF)	RMF should be in place and operational.
MANAGEMENT (Corporate Governance, Management, and Credit Administration)	Frequency of board meetings (minimum)	At least once per quarter
	Minimum Board Committees	Audit; Credit and Risk Management; and Finance & General purpose
	Minimum number of Unit Heads	Operations; Credit & Marketing; Finance & Admin.; and Internal Audit
	Minimum management committees	Finance & Admin.; Credit; and Assets & Liabilities
	No. of Loan Officer per branch	To be determined by the number of clients
	No. of members (clients) per group	Not less than 5 and not more than 30.
	Loan purpose and repayment cash flow	Must be clearly stated and from verifiable income source(s)

	Lending methodology	<ul style="list-style-type: none"> Group solidarity model is more cost effective and highly recommended. Individual loan but group responsibility. Repeat loan increment, say N10,000 – N20,000, should be based on past repayment records. Cash collateral/contractual savings – not less than 10% of principal amount of loan and refundable.
	Lending / outreach to women	<ul style="list-style-type: none"> Encourage formation of and linkage with women groups. Annual incremental loans to women as a proportion of the bank's portfolio and client outreach.
	Micro loan tenure	6 months. For agriculture or projects with longer gestation a maximum tenure of 12 months is permissible. In housing microfinance, a maximum tenure of 24 months is permissible (S.1.2.4 of the Revised Guidelines.)
	Follow up and collection of loan	7 days after disbursement, weekly collection
	First loan disbursement	Minimum of 4 weeks after enrolment as a client or member of solidarity group.
	First repayment installment starts	15 days after loan disbursement
	Loan repayment frequency	Weekly, except agricultural loans
	No. of installment to complete loan repayment	Should depend on the duration of loan
	Group member's mandatory savings	Minimum of N100.00 per week
	Mandatory loan	Optional
	Service charge (interest rate per annum)	Market determined but transparent.
EARNINGS	Operational Self-sufficiency (OSS) – a measure of total operating income to total costs (operating costs + loan loss provision + financing cost), that is OSS = $\frac{\text{Operating Income}}{\text{operating costs} + \text{loan loss provision} + \text{financing cost}} \times 100$	> 100%
	Financial Self-sufficiency (FSS) - a measure of a MFB's adjusted operating income to adjusted direct and indirect costs (i.e. operating costs + loan loss provision + financing cost), that is FSS = $\frac{\text{Adjusted Operating Income}}{\text{Adjusted (operating costs} + \text{loan loss provision} + \text{financing cost)}} \times 100$ NB: Operating income and expenses are adjusted for inflation and low interest or concessional loans.	> 120%
	Financial Sustainability	<ul style="list-style-type: none"> Operate at full-cost recovery basis. Maintain lean operational costs in order to record positive ROA and ROE.
	Average percentage of interest income to gross income	80%

	Average percentage of non-interest income to gross income	20%
	Operating Expenses to Total Assets	≤15%
	Staff Costs to Total Assets	≤10%
	Administrative Expenses to Total Assets	≤5%
	Total Expenses to Total Assets	≤30%
LIQUIDITY	Liquidity Ratio	20% (S.8.1.2 of the Revised Guidelines.)
	Maximum investment in placements	15% of total deposit liabilities.
	Minimum investment in Treasury Bills	Minimum of 5% and Maximum of 10% (S.8.1.1 of the Revised Guidelines.)
SOCIAL PERFORMANCE MEASUREMENT	Mission and Vision	Should be clear and focused on the poor, women, or vulnerable groups.
	Transparent and responsible pricing	Prices, terms and conditions of financial products (including interest charges and all fees) should be clear, transparent, and adequately disclosed in a form understandable and affordable to the clients.
	Avoidance of over-indebtedness	Reasonable steps should be taken to ensure that credit will be extended only if the borrowers have demonstrated adequate ability to repay and loans will not put borrowers at significant risk of over-indebtedness.
	Disclosure of required information to Credit Reference Bureaux (CRBs)	Information on all credit clients should be supplied to licensed CRBs from time to time (S.12 of the Revised Guidelines.)
BUSINESS PLAN	Strategic Plan and Annual Budgeting	<ul style="list-style-type: none"> Adherence to Board's approved strategic plan. Board's approval of annual budget.
	Funding / Financial Strategy	Clear financial strategy evidenced by a diversified funding base.
OTHER PARAMETERS	Office accommodation	Simple and cost effective
	Own office building	<ul style="list-style-type: none"> Prior CBN's approval strictly required for construction. At no time should depositors' funds be used for this purpose.
	Branch expansion (including meeting points, customer service point, cash centres and branches) – for State and National MFBs only	<ul style="list-style-type: none"> Simple, standardized, and cost effective branch structure. Prior CBN's approval strictly required. At no time should depositors' funds be used for this purpose.
	Decision making hierarchy	Guided by authorization limits as approved by the Board of Directors.
	Manning level	Lean middle and top management
	Management Information System (MIS)	<ul style="list-style-type: none"> Simple, robust with relevant modules, and e-FASS/FINA compliant. Cost included in the prescribed 20% for fixed assets.
	Staff Training	<ul style="list-style-type: none"> On-the-job at zero cost. Low cost staff training budget as a function of

		<p>net profit.</p> <ul style="list-style-type: none"> • Microfinance Certification Programme (MCP) is compulsory for top management, that is, the Managing Director and Departmental Heads, and highly recommended for other staff.
	Credit administration	<ul style="list-style-type: none"> • Regular review and monitoring of loans and advances by loan at least once every thirty days (S.8.1.12b of the Revised Guidelines.). • Monitoring activities should be supported with periodic field visits (Places of business) to the clients.
	Key operational objective	Wide outreach at low operational unit costs and group solidarity model.

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