



## CENTRAL BANK OF NIGERIA

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### **CIRCULAR TO BANKS, OTHER FINANCIAL INSTITUTIONS AND STAKEHOLDERS IN THE FINANCIAL SERVICES INDUSTRY**

#### **EXPOSURE DRAFT OF GUIDELINES FOR REGULATION AND SUPERVISION OF CREDIT GUARANTEE COMPANIES IN NIGERIA**

In furtherance of efforts to improve access to lending for micro, small and medium scale enterprises (MSMEs), the CBN has developed the draft Guidelines for licensing and regulation of Credit Guarantee Companies (CGCs) in Nigeria.

The guidelines, which would provide a regulatory basis for the operations of credit guarantee companies in Nigeria, seeks to ultimately reduce credit risk, stimulate lower interest rates on loans and complement other initiatives of regulatory authorities aimed at stimulating lending to MSMEs.

An exposure draft of the guidelines is hereby issued for comments and observations. The document may be accessed from the CBN's website, [www.cbn.gov.ng](http://www.cbn.gov.ng).

We would be pleased to receive comments addressed to the Director, Financial Policy and Regulation Department within three (3) weeks from the date of this circular. Soft copies of your comments may also be forwarded to [PolicyandRegulationDivision@cbn.gov.ng](mailto:PolicyandRegulationDivision@cbn.gov.ng).

A handwritten signature in blue ink, appearing to read 'I. S. Tukur', with a large flourish extending to the right.

**I. S. TUKUR**

**For: DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT**

**CENTRAL BANK OF NIGERIA**



**GUIDELINES FOR REGULATION  
AND SUPERVISION OF CREDIT  
GUARANTEE COMPANIES IN  
NIGERIA**

**AUGUST 2021**

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EXPOSURE DRAFT

## **1.0 INTRODUCTION**

Micro, Small and Medium Enterprises (MSMEs) face difficulties accessing credit from the formal sector in developing countries. Credit markets for MSMEs in Nigeria are characterized by market imperfections, collateral constraints, information asymmetry, low profit margins, among others. These factors have limited access to credit due to the perceived high risk of MSMEs and where credit is granted, it is often on comparatively unfavorable terms.

Credit guarantee schemes have been widely considered as one of the means of addressing the challenge of limited access to credit by MSMEs. This consideration stems from the attractive features of a guarantee as collateral, which include safety, liquidity and freedom from the problems associated with tangible collateral, such as obsolescence, depreciation, verification, perfection and foreclosure.

Credit Guarantee Companies (CGCs) are expected to provide third-party credit risk mitigation to lenders through the absorption of a portion of the lender's losses on the loans made to Nigeria-based MSMEs in case of default. A guarantee issued by a CGC represents a legal commitment to discharge the liability of a borrower in the case of default.

In recognition of the role of guarantee schemes in facilitating lending, the Central Bank of Nigeria (CBN) in exercise of powers conferred on it by Section 2(d) of the CBN Act 2007 and Section 56(2) of the Banks and Other Financial Institutions Act (BOFIA) 2020, hereby issues the following Guidelines to provide for the regulation and supervision of Credit Guarantee Companies (CGCs) in Nigeria.

### **1.1 DEFINITION OF CREDIT GUARANTEE COMPANY**

A CGC is an institution licensed by the CBN with the primary objective of providing guarantees to banks and other lending financial institutions against the risk of default by obligors.

The parties to a guarantee are:

- i. The lender to whom the guarantee is given;
- ii. The guarantor that provides the guarantee (i.e. the CGC); and
- iii. The borrower on whose behalf the guarantee is given.

### **1.2 SCOPE**

1.2.1 The Guidelines stipulate the minimum standards for the operations of CGCs that provide credit guarantees to Participating Financial Institutions (PFIs).

1.2.2 The provisions of these guidelines shall apply to CGCs licensed by the CBN. PFIs shall comply with the provisions of this Guidelines as it relates to their activities.

- 1.2.3 PFIs may apply for and obtain a guarantee from any CGC licensed by the CBN, for any loan granted to MSMEs.
- 1.2.4 MSMEs may apply and obtain a guarantee from any CGC licensed by the CBN, in order to facilitate the process of MSMEs obtaining loans from PFIs at better terms.

### **1.3 OBJECTIVES OF THE CREDIT GUARANTEE SCHEME**

The objectives of the CG Scheme shall include the following:

- a. Improve access to credit for MSMEs;
- b. Reduce credit risk in lending by providing guarantees to PFIs;
- c. Stimulate lower interest rates on loans;
- d. Promote flexible collateral requirements by PFIs;
- e. Encourage new business formation, development and expansion;
- f. Accelerate economic growth and decrease unemployment;
- g. Foster sustainable and inclusive growth; and
- h. Improve risk management in the financial system.

### **1.4 POWERS AND DUTIES OF THE CBN**

In line with the relevant provisions of BOFIA 2020 and the CBN Act, the CBN shall:

- a. Grant and revoke licences;
- b. Determine minimum capital requirements;
- c. Approve the appointment of board members and senior management staff (Assistant General Manager or its equivalent and above);
- d. Remove board members and senior management staff (Assistant General Manager or its equivalent and above);
- e. Exercise regulatory and supervisory functions, which include:
  - i. Determining capital adequacy ratio, minimum liquidity ratio and other prudential requirements;
  - ii. Prescribing minimum criteria upon which guarantees may be extended;
  - iii. Prescribing permissible activities;
  - iv. Prescribing eligible assets or portfolios of assets and the appropriate valuation model or methodology;
  - v. Examining the books and affairs of a CGC; and
  - vi. Imposing sanctions for infractions.
- f. Approve the appointment of External Auditors;
- g. Issue 'No Objection' to annual audited financial statements of CGCs before presentation at the Annual General Meeting (AGM) and subsequent publication;
- h. Approve change(s) in the CGC's organizational structure before its implementation; and

- i. Exercise any other powers in line with the BOFIA 2020, the CBN Act or any other applicable law.

## **2.0 PERMISSIBLE ACTIVITIES**

A CGC may carry out the following:

- i. Provide guarantee for risk assets;
- ii. Render advisory services for financial and business development;
- iii. Invest surplus funds in government securities;
- iv. Partake in other investments as may be approved by the CBN;
- v. Provide technical assistance to lenders and borrowers on credit and business development;
- vi. Maintain and operate various types of accounts with banks in Nigeria;
- vii. Engage in recovery of the guaranteed sum from defaulting borrowers post claims payment; and
- viii. Other activities as may be prescribed by the CBN from time to time.

## **2.1 NON-PERMISSIBLE ACTIVITIES**

A CGC shall not carry out the following:

- i. Provision of guarantee to entities outside Nigeria;
- ii. Acceptance of demand, savings and time deposits or any other deposits;
- iii. Provision of credit to customers;
- iv. Management of pension funds or schemes;
- v. Foreign exchange, commodity and equity trading;
- vi. All forms of trading in derivatives and swaps;
- vii. Collection of third-party cheques and other instruments for clearing through correspondent banks;
- viii. Purchase, sale, dispose, acquire or lease any real estate for whatever purpose without prior written approval of the CBN;
- ix. Lease, rental, sale or purchase of assets with related parties and/or significant shareholders of the CGC without the prior written approval of the CBN; and
- x. Any other activity **NOT** expressly permitted by the CBN.

## **3.0 LICENSING PROCEDURE AND REQUIREMENTS**

The promoters of a CGC shall be required to submit a formal application for the grant of a CGC licence addressed to the Governor of the CBN.

The application for CGC licence shall be processed in two stages, namely: Approval-in-Principle (AIP) and final licence.



### **3.1 REQUIREMENTS FOR APPROVAL-IN-PRINCIPLE (AIP)**

- A. Any promoter(s) seeking a licence to operate a CGC in Nigeria shall apply in writing to the Governor of the CBN, and submit the following documents with the application:
- i. A non-refundable application fee of ₦100,000 (One Hundred Thousand Naira) only, or such other amount as the CBN may specify, in bank draft payable to the CBN;
  - ii. Evidence of deposit of the specified minimum paid-up capital requirement of ₦10,000,000,000.00 (Ten Billion Naira only) or any other amount that may be prescribed by the CBN into a designated account with the CBN. Promoters should note that in compliance with the BOFIA 2020, the investment of share capital deposit shall be subject to availability of investment instruments. Upon the grant of license or otherwise, the CBN shall refund the sum deposited to the promoters, together with the investment income, if any, after deducting administrative expenses and tax on the income.
  - iii. Evidence of capital contribution made by each shareholder;
  - iv. Evidence of name reservation with the Corporate Affairs Commission (CAC);
  - v. Detailed business plan or feasibility report which shall, at a minimum, include:
    - a. Objectives of the CGC;
    - b. Services to be rendered by the CGC;
    - c. Justification for the application;
    - d. Proposed ownership structure in a tabular form, indicating the names of proposed shareholders, their professions/businesses and percentage shareholdings;
    - e. Detailed biodata/resumes of the proposed shareholders and directors;
    - f. Source(s) of funding of the proposed equity contribution for each shareholder. Where the source of funding of the equity contribution is a loan, such shall be a long-term facility of at least 7-year tenor and shall not be taken from the Nigerian banking system;
    - g. Board and board committee charters stating the roles and responsibilities of the board and sub-committees;
    - h. Criteria for selecting board members;
    - i. Board composition and detailed resumes of proposed directors. The total number of directors shall be between five (5) and seven (7) including at least One (1) independent director;
    - j. Completed Fitness and Propriety Questionnaire executed by the proposed shareholders, directors and top management in line with the provisions of Section 4.0 of the CBN's Revised Assessment Criteria for Approved Person's



- Regime for Financial Institutions, and sworn declaration of net worth executed by the proposed directors and significant shareholders;
- k. National Identity Number (NIN), Bank Verification Number (BVN) and Tax Clearance Certificate (TCC) of each proposed director and significant shareholders and valid means of identification;
  - l. Organizational structure, showing functional units, responsibilities, reporting relationships and grade of heads of departments/units;
  - m. List of proposed top management staff (AGM and above) and positions to be held;
  - n. Technical Services Agreement (where applicable); and
  - o. Five-year financial projection of the proposed CGC indicating expected growth, profitability and the underlying assumptions;
- vi. For corporate investors, promoters shall forward the following additional documents:
- a. Certificate of Incorporation and certified true copies of other incorporation documents;
  - b. Board resolution supporting the company's decision to invest in the equity shares of the proposed CGC;
  - c. Names and addresses (business and residential) of owners, directors and their related companies, if any; and
  - d. Audited financial statements and reports of the company and TCC for the immediate past 3 years.
- vii. Draft copy of the company's Memorandum and Articles of Association (MEMART). At a minimum, the MEMART shall contain the following information:
- a. Proposed name of the CGC;
  - b. Object clause(s);
  - c. Subscribers to the MEMART;
  - d. Procedure for amendment;
  - e. Procedure for share transfer/disposal; and
  - f. Appointment of directors.
- viii. Shareholders' agreement providing for disposal/transfer of shares as well as authorization, amendments, waivers, reimbursement of expenses;
- ix. Statement of intent to invest in the company by each investor;
- x. Detailed Manuals and Policies, particularly:
- a. Manual of Operations which;
    - i. Guarantees products that the CGC shall offer, including the terms and conditions for assigning such guarantees and actuarial standards used to manage risk inherent in the products;
    - ii. Specifies the underwriting criteria to be applied in evaluating applications for guarantees;

- iii. Specifies the standards and criteria for issuing the guarantee, the portability of the guarantee and method of payment for securing the guarantee;
  - iv. States the standards and criteria for pricing of the CGC's products;
  - v. Conforms to the provisions of the Guide to Charges by Banks and Other Financial Institutions in Nigeria; and
  - vi. Contains a Whistle blowing policy;
- b. Financial Management Policy that highlights the CGC's policies and procedures, and systems 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;
    - iv. Financial record keeping and reporting; and
    - v. Auditing and periodic testing of internal controls.
  - c. Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) Policy;
  - d. Enterprise Risk Management (ERM) Framework; and
  - e. Code of Ethics and Business Conduct that specifies the acceptable standards of conduct for the CGC's employees, officers and directors. This should also provide guidance on conflicts of interest, self-dealing and any other types of impropriety. Every director and officer of the CGC shall be required to sign the Code of Ethics and Business Conduct.
- B. Following the receipt of an application with complete and satisfactory documentation, the CBN shall verify the capital contributions of the promoters of the CGC.
- C. Where the CBN is satisfied with the capital contribution of the promoters, it shall issue an Approval-in-Principle (AIP) to the promoters of the CGC.
- D. In all cases, the CBN shall communicate its decision to the promoters within 90 days of receipt of the application.
- E. The proposed CGC shall not incorporate or register its name with the Corporate Affairs Commission (CAC) until an AIP has been obtained from the CBN, a copy of which shall be presented to the CAC for the registration.

### **3.2 REQUIREMENTS FOR GRANTING OF FINAL LICENSE**

Not later than six (6) months after obtaining the AIP, the promoters of a proposed CGC shall submit an application for the grant of a final licence to the CBN. The application shall be accompanied with the following:

- i. Non-refundable licensing fee of ₦1,000,000.00 (One Million Naira) only, or such amount as may be prescribed by the CBN, in bank draft payable to the CBN;
- ii. Certified True Copy (CTC) of Certificate of Incorporation of the CGC;
- iii. CTC of MEMART;
- iv. CTC of Form CAC 1.1(application for registration of company);
- v. Evidence of payment of Stamp Duties;
- vi. Evidence of location of Head Office (rented or owned) for the takeoff of the business;
- vii. Schedule of changes, if any, in the Board and Shareholding after the grant of AIP;
- viii. Evidence of ability to meet technical requirements and provision of modern infrastructural facilities such as office equipment, computers, telecommunications, to perform the CGC's operations and meet CBN and other regulatory requirements;
- ix. Copies of letters of offer and acceptance of employment in respect of the management team;
- x. Detailed resumes of top management staff stating qualification (including photocopies of academic and professional credentials), experience, and records of accomplishments, their BVN, TCC for the last three years and valid means of identification;
- xi. Completed Fitness and Propriety Questionnaire; and sworn declaration of net worth executed by top management staff;
- xii. Internal Control Policy;
- xiii. Business Continuity Plan;
- xiv. Comprehensive plan on the commencement of the CGC's operations with milestones and timelines for roll-out of key payment channels; and
- xv. Board and staff training program.

### **3.3 CONDUCT OF PRE-LICENSING INSPECTION**

As a requirement for the grant of final licence, the CBN shall conduct an inspection of the premises and facilities of the proposed CGC to, amongst others:

- a. Check the physical structure of the office building and infrastructure provided for take-off of the CGC;
- b. Sight the original copies of the documents submitted in support of the application for license;
- c. Meet with the Board and Management team whose resumes had earlier been submitted to the CBN; and
- d. Verify the capital contributions of the promoters.

### **3.4 REQUIREMENTS FOR COMMENCEMENT OF OPERATIONS**

The CGC shall, through a letter, inform the CBN of its readiness to commence operations and such information shall be accompanied by one copy of each of the following:

- i. Shareholders' Register;

- ii. Share certificate issued to each investor;
- iii. Opening statement of affairs signed by at least two directors and auditors;
- iv. Enterprise Risk Management Framework (ERMF);
- v. Internal control policy;
- vi. Minutes of pre-commencement board meeting; and
- vii. Evidence of integration of the CGC's infrastructure with the National Payments System.

### **3.5 POST-COMMENCEMENT REQUIREMENTS**

A CGC shall:

- i. Comply with the requirements incidental to the authorization to perform its operations as stipulated by the CBN from time to time;
- ii. Comply with all guidelines and regulations issued by the CBN;
- iii. Maintain an adequate accounting system and keep records that capture information which reflect the financial condition of the CGC;
- iv. Maintain an unimpaired minimum regulatory capital at all times; and
- v. Notify CBN upon commencement of operations.

### **3.6 FINANCIAL REQUIREMENTS**

The financial conditions which may be varied as the CBN considers necessary are as follows:

- i. Minimum share capital: ₦10,000,000,000;
- ii. Non-refundable application fee: ₦100,000;
- iii. Non-refundable licensing fee: ₦1,000,000; and
- iv. Change of name fee: ₦50,000.

## **4.0 CORPORATE GOVERNANCE REQUIREMENTS**

### **4.1 RESPONSIBILITIES OF THE BOARD**

4.1.1 The Board shall be accountable and responsible for the performance and affairs of the CGC. Specifically, and in line with the provisions of the Companies and Allied Matters Act (CAMA) 1990 (as amended), directors owe the CGC a duty of care and loyalty to act in the interest of the CGC's shareholders and other stakeholders.

4.1.2 Members of the Board are jointly and severally liable for the activities of the CGC.

4.1.3 The Board shall define and document the CGC's strategic goals, approve its long and short-term business strategies and monitor their implementation by management.

- 4.1.4 The Board shall ensure that its human, material and financial resources are effectively deployed towards the attainment of set goals of the CGC.
- 4.1.5 The Board shall appoint the Managing Director/Chief Executive Officer (MD/CEO) as well as top management staff and establish a framework for delegation of authority in the CGC, which shall comply with extant regulations issued by the CBN from time to time.
- 4.1.6 The Board shall establish and monitor agreed performance targets for the management.
- 4.1.7 The Board shall set limits of authority, specifying the threshold for large transactions which it must pre-approve.
- 4.1.8 The Board shall ensure that a succession plan is in place for the MD/CEO, executive directors and management staff of the CGC.
- 4.1.9 The Board shall consider, approve and monitor the implementation of the CGC's budget, including setting expenditure limits for management and Board Committees.
- 4.1.10 The Board shall establish and approve limits of authority for credit guarantees of the CGC.
- 4.1.11 The Board shall establish and approve limits of authority for settlement of claims by the CGC
- 4.1.12 The Board shall ensure strict adherence to the Code of Conduct for Directors of Banks and Other Financial Institutions in Nigeria.
- 4.1.13 The Board shall ensure sound risk management practices are observed by the CGC.

## **4.2 COMPOSITION AND SIZE OF THE BOARD**

- 4.2.1 The minimum and maximum number of directors on the boards of CGCs shall be five (5) and seven (7) respectively.
- 4.2.2 At least one (1) member of the Board, other than the executive directors, shall be required to have banking or related financial industry experience.
- 4.2.3 The Board shall consist of executive and non-executive directors. The number of non-executive directors shall be more than that of executive directors.
- 4.2.4 The Board of a CGC shall consist of a minimum of one (1) independent non-executive directors.

### **4.3 SEPARATION OF POWERS**

- 4.3.1 The positions of the Board Chairman and the MD/CEO shall be separate. No one person shall combine the two positions in any CGC at the same time. No executive Vice Chairman shall be allowed in the Board structure.
- 4.3.2 Where the CGC is a member of a holding company, not more than two family members shall be allowed to serve on the boards of the CGC and the holding company. The expression 'family' includes director's, spouse, parents, children, siblings, cousins, uncles, aunts, nephews, nieces and in-laws.
- 4.3.3 No two members of a family shall occupy the positions of Chairman and MD/CEO or executive director of the CGC.

### **4.4 APPOINTMENT AND TENURE**

- 4.4.1 Members of the board of directors shall be appointed by the shareholders and approved by the CBN.
- 4.4.2 To qualify for the position of a non-executive director, the nominee shall not be an employee of a bank or other financial institution.
- 4.4.3 The procedure for appointment to the Board shall be formal, transparent and documented in the Board Charter.
- 4.4.4 The appointment to the Board of CGCs shall be in line with extant regulations issued by the CBN from time to time.
- 4.4.5 The track record of appointees shall be an additional eligibility requirement. Such records shall cover both integrity and past performance, in accordance with extant CBN guidelines.
- 4.4.6 Non-executive directors of CGCs shall serve for a maximum of three (3) terms of four (4) years each.
- 4.4.7 The tenure of the MD/CEO of the CGC shall be in accordance with the terms of engagement, subject to a maximum period of ten (10) years. Such tenure can be broken down into periods not exceeding five (5) years at a time. Any person who has served as MD/CEO for the maximum tenure of ten years shall not qualify for appointment in any capacity in the same CGC until after a period of three (3) years from the expiration of his tenure as MD/CEO.
- 4.4.8 Where the CGC is a member of a Group or is owned by another financial institution, a director in the CGC may be allowed to serve on the Boards of the CGC and its holding company at the same time, provided the aggregate number of directors from

the subsidiaries and associates at any point in time shall not exceed 30 per cent of the membership of the BODs of the holding company.

- 4.4.9 To enhance effectiveness, all directors shall have access to corporate information under conditions of confidentiality; undergo training and continuing education and have access to independent professional advice.

#### **4.5 BOARD COMMITTEES**

- 4.5.1 The Board shall at the minimum, establish the following Committees:

- a. Guarantee Appraisal Committee
- b. Risk Management Committee;
- c. Audit Committee; and
- d. Board Governance and Nominations Committee.

The requirement for a Board Audit Committee is without prejudice to the requirements of CAMA 1990 (as amended) on the Statutory Audit Committee which is not a Board Committee.

Each CGC shall have a Chief Risk Officer and Chief Internal Auditor who shall report directly to the Committee(s) responsible for Risk Management and Audit function(s) respectively.

- 4.5.2 Where there is a Remuneration Committee in addition to the four Committees prescribed in Section 4.5.1, the membership shall comprise non-executive directors only. Where the Remuneration and Governance & Nominations Committees are combined, its membership shall be drawn only from non-executive directors.

- 4.5.3 The Remuneration Committee shall determine the remuneration of the executive directors and management.

- 4.5.4 The Board and its Committees shall have a charter to be approved by the CBN. The charter shall be reviewed every three (3) years or as may be determined by the CBN from time to time.

- 4.5.5 The Chairman of the Board shall not be a member of any Board Committee.

- 4.5.6 All Board Committees shall be headed by non-executive directors.

- 4.5.7 The Board Audit Committee shall have unrestricted access to the financial records of the CGC including external auditors' reports.

- 4.5.8 The MD/CEO and other executive directors shall not be members of the Board Audit Committee.



4.5.9 The Board shall not replace members of the Board Audit Committee and external auditors at the same time.

#### **4.6 BOARD AND BOARD COMMITTEE MEETINGS**

4.6.1 To effectively perform its oversight functions and monitor management's performance, the Board and each of the Board Committees shall meet at least once every quarter.

4.6.2 Minutes of meetings of the Board and Board Committees shall be properly written in English language, adopted and signed off by the Board or Committee Chairman (as the case may be) and Secretary, pasted in the minutes book and domiciled at the CGC's Head Office.

4.6.3 Every Director shall attend all meetings of the Board and Board Committees in which he is a member. To qualify for re-election, a Director must have attended at least two-thirds of all Board and Board Committee meetings in each financial year.

4.6.4 Board and Board Committee meetings shall be deemed to be duly constituted where two-thirds of members are present, provided that a majority of directors at the meeting are non-executive directors.

4.6.5 The Board shall disclose, in the Corporate Governance section of the Annual Report, the total number of Board and Board Committee meetings held in the financial year and attendance by each director.

#### **4.7 REMUNERATION**

4.7.1 CGCs shall align executive and Board remuneration with the long-term interests of their institutions and their shareholders.

4.7.2 Levels of remuneration should not be excessive but sufficient to attract, retain and motivate executive officers, management and members of staff of the CGC.

4.7.3 Where remuneration is linked to performance, it shall be designed in such a way as to prevent excessive risk taking.

4.7.4 A CGC shall have a remuneration policy put in place by the board of directors, which shall be disclosed to the shareholders in the annual report.

4.7.5 The MD/CEO and other executive directors shall not receive sitting allowances and Directors' fees.

- 4.7.6 Non-Executive Directors' remuneration shall be limited to directors' fees, sitting allowances for Board and Board Committee meetings and reimbursable travel and hotel expenses. Non-Executive Directors shall not receive salaries and benefits, whether in cash or in kind, other than these.
- 4.7.7 Where share options are adopted as part of executive remuneration or compensation, the Board shall ensure that the stock options are not priced at a discount except with the prior authorization of the relevant regulatory agencies.
- 4.7.8 Share options shall be tied to performance and subject to the approval of shareholders at AGMs.
- 4.7.9 Share options shall not be exercisable until one year after the expiration of the tenure of the director.
- 4.7.10 CGCs shall disclose in their annual reports, details of the shares held by directors and their related parties.

#### **4.8 BOARD APPRAISAL**

- 4.8.1 There shall be annual Board and Directors' appraisal covering all aspects of the Board's structure, composition, responsibilities, processes, relationships and performance or as may be prescribed by the CBN.
- 4.8.2 The annual Board appraisal shall be conducted by an independent consultant, who shall prepare a report upon conclusion of the appraisal detailing the consultant's assessment of the structure, composition, responsibilities and performance of the board, including the status of any training(s) and capacity building organised for the board within the year.
- 4.8.3 The Board appraisal report shall be presented to shareholders at the AGM and a copy forwarded to the CBN by the independent consultant, not later than March 31 of the following year.

#### **4.9. MINIMUM QUALIFICATIONS FOR EXECUTIVE DIRECTORS**

- 4.9.1 The following minimum qualifications and experience are mandatory for persons who may occupy the positions of MD/CEO or executive directors of the Board:
- a. A recognized university degree or its equivalent in any discipline, or a professional qualification in banking, finance or other related fields with at least 15 years post qualification experience in banking or related industry of which the person should have held a top management position; and
  - b. Other qualifications or experience that may be considered adequate by the CBN.

4.9.2 The appointment of the CGC's Chief Executive Officer shall be subject to the written approval of the CBN.

## **5.0 SOURCES OF FUNDS**

The sources of funds for CGCs shall consist of one or more of the following as may be approved by the CBN:

- a. Paid-up share capital;
- b. General reserves;
- c. Long-term loans from international organizations and sponsors;
- d. Funds from development partners;
- e. Loans from governmental bodies;
- f. Preference shares;
- g. Bonds;
- h. Long-term borrowings from individuals and corporates (excluding PFIs);
- i. Grants and donations from sources approved by the CBN; and
- j. Any other source as may be approved by the CBN from time to time.

## **6.0 REGULATORY RETURNS**

### **6.1 PERIODIC RETURNS (MONTHLY)**

6.1.1 In compliance with the provisions of BOFIA 2020, the following monthly returns are to be submitted by every CGC:

- a. Statement of Financial Position;
- b. Schedule of Other Assets;
- c. Schedule of Other Liabilities;
- d. Statement of Profit or Loss;
- e. Returns on guarantees granted;
- f. Returns on crystalized and settled guarantees;
- g. Schedule of Investments;
- h. Schedule of balances held with banks;
- i. Returns on Borrowings;
- j. Returns on Insider-related interests;
- k. Returns on Fraud and Forgeries; and
- l. Other returns as may be specified by the CBN.

6.1.2 All monthly returns must reach the Director, Other Financial Institutions Supervision Department (OFISD) not later than the 14<sup>th</sup> day after the end of the reporting month.

6.1.3 The MD/CEO and the Chief Compliance Officer [or equivalent] of the CGC shall sign and attach to every return made to the CBN, a declaration of authenticity of its contents.

6.1.4 Any CGC which fails to comply with any of the requirements of this section, in respect of each such failure, is guilty of an infraction and liable to a penalty not exceeding ₦5,000 for each day during which the infraction continues.

6.1.5 Persistent refusal to submit returns in the prescribed form shall be a ground for revocation of licence in line with the provisions of BOFIA 2020.

## **6.2 FINANCIAL STATEMENTS AND AUDIT**

6.2.1 A CGC shall submit its audited financial statements and the abridged version to the Director, Other Financial Institutions Supervision Department, for consideration before publication, not later than 4 months after the end of its financial year. The report shall be prepared in accordance with the International Financial Reporting Standards (IFRS).

- a. Subject to the prior approval in writing of the CBN, a CGC shall not later than 4 months after the end of its financial year:
  - i. Publish its audited financial statements on its website and in a national daily newspaper printed and circulating in Nigeria; and
  - ii. Display the abridged financial statement in a conspicuous position in each of its offices and branches in Nigeria.
- b. Every published financial statement of a CGC shall disclose in detail, penalties paid as a result of contravention of the provisions of BOFIA 2020, policies, circulars and guidelines in force during the financial year in question and the auditor's report shall reflect such contravention(s).
- c. A copy of the newspaper in which the audited financial statements is published shall be forwarded to the Director, Other Financial Institutions Supervision Department, CBN.
- d. No CGC shall hold its AGM without prior written approval by the CBN for the publication of its annual audited financial statements.

6.2.2 The External Auditors shall forward to the CBN, a copy of the domestic report (management letter) on the CGC's activities, not later than 3 months after the end of its financial year.

6.2.3 A CGC shall, as part of its audited financial statements, include a statement on the effectiveness of the internal control signed off by the Board Chairman, MD/CEO and Chief Financial Officer (CFO).

6.2.4 Every annual audited financial statement of the CGC shall contain 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.

## **7.0 FEES, CHARGES AND COMMISSION**

Fees, charges and commission by a CGC shall follow the Guide to Charges by Banks and Other Financial Institutions, 2017, or any other directive as may be specified by the CBN from time to time.

## **8.0 RISK MANAGEMENT POLICY (INCLUDING MANAGEMENT OF CREDIT GUARANTEE RISK)**

All CGCs shall be required to develop and document an Enterprise Risk Management Policy (ERMP) which shall be approved by the board of directors. The ERMP shall cover all the risks to which a CGC may be exposed, including:

- i. Guarantee Risk;
- ii. Concentration Risk;
- iii. Liquidity Risk;
- iv. Operational Risk;
- v. Legal/ Regulatory Risk; and
- vi. Market Risk.

The ERMP shall be reviewed at least every three years.

### **8.1 Credit Guarantee Concentration Risk**

CGCs shall put in place effective internal policies, systems and controls to identify, measure, monitor, and control their credit guarantee risk concentrations. The policies shall be approved by the BODs and shall cover the different forms of credit guarantee risk concentrations to which a CGC may be exposed. Such concentrations include:

- i. Significant credit guarantee exposures to an individual borrower or group of related borrowers;
- ii. Credit guarantee exposures to borrowers in the same economic sector or geographic region; and
- iii. Credit guarantee exposures to borrowers whose financial performance is dependent on the same activity or commodity.

A CGC's framework for managing credit guarantee risk concentrations shall be clearly documented. Risk limits shall be defined in relation to a CGC's capital, total assets or, where adequate measures exist, its overall risk level.

### **8.2 Internal Controls**

A CGC shall have an Internal Audit Unit which shall ensure that the operations of the company conform with the law as well as to its internal rules and regulations.

CGCs shall implement appropriate controls to ensure strict confidentiality of customer data and information.

## **9.0 PRUDENTIAL REQUIREMENTS**

- 9.1 Guarantee Coverage: The Guarantee may cover up to a maximum of 75% of the default amount.
- 9.2 After the crystallized guarantee has been settled, the PFI and the CGC shall be required to take all necessary steps to recover the outstanding sum, and the CGC shall be reimbursed to the extent of the recovered sum.
- 9.3 The cumulative guarantee liabilities of a CGC shall not exceed ten (10) times of its shareholders' fund unimpaired by losses.

## **10.0 CAPITAL ADEQUACY REQUIREMENTS**

### **10.1 CAPITAL ADEQUACY RATIO**

- 10.1.1 The CGC shall commence operations with, and maintain at all times, a minimum paid-up capital of Ten Billion Naira (₦10,000,000,000.00), or such amount as may be prescribed by the CBN from time to time.
- 10.1.2 The capital adequacy ratio of a CGC shall be measured as the percentage of its shareholders' funds unimpaired by losses to its total risk weighted assets. The minimum Capital Adequacy Ratio (Qualifying Capital/Total Risk Weighted Assets) for CGCs shall be 10 per cent or as may be prescribed by the CBN from time to time.
- 10.1.3 Capital measurement approach for CGCs shall be as prescribed by the CBN from time to time.
- 10.1.4 A CGC shall, at all times, maintain the minimum capital adequacy ratio.
- 10.1.5 The CBN may require a CGC to maintain additional capital as the CBN considers appropriate in respect of other specific risks.
- 10.1.6 Where a CGC fails to meet the minimum Capital Adequacy Ratio, the CGC shall be prohibited from any or all of the following until the required ratio is restored:
- i. Undertaking further investment;
  - ii. Payment of dividend to shareholders;
  - iii. Opening additional branch(es); and
  - iv. Any other action as may be determined by the CBN.

10.1.7 In addition, the CGC shall be required to submit, within a specified period, a recapitalization plan acceptable to the CBN. Failure to comply with the above shall constitute grounds for the revocation of the operating licence of the CGC or such other penalties as may be deemed appropriate.

## **10.2 RESTRICTION ON DIVIDEND**

10.2.1 A CGC shall not declare or pay dividends until all its preliminary and pre-operational expenses have been written off, adequate provisions made for all losses and it has met the minimum prudential requirements as specified by the CBN from time to time.

10.2.2 CGCs shall submit its Board approved dividend policy to the CBN before the payment of dividend shall be permitted. No CGC shall be allowed to pay dividends out of reserves. No CGC shall pay dividend on its shares until adequate provisions have been made to the satisfaction of the CBN for actual and contingent losses on risk assets, liabilities, off balance sheet commitments and such unearned incomes as are derivable therefrom.

## **10.3 ASSET IMPAIRMENT**

All CGCs shall comply with IFRS requirements in stating their assets and liabilities.

## **11.0 SUPERVISION**

The supervision of CGC shall be in line with relevant sections of BOFIA 2020.

The CBN shall conduct yearly, or as the need arises, the examination of the activities of licensed CGCs.

The CBN shall have unrestricted access to the database and records of all licensed CGCs.

## **11.1 APPOINTMENT OF EXTERNAL AUDITORS**

11.1.1 A CGC shall appoint an external auditor subject to the approval of the CBN.

11.1.2 The duties of the external auditor shall include the issuance of a report to the shareholders on the financial statements of the CGC and such report shall contain statements as to the matters and such other information that may be prescribed from time to time by the CBN.

11.1.3 The report of the external auditor shall be read together with the report of the directors at the annual general meeting of the shareholders of the CGC.



- 11.1.4 The auditor of the CGC shall be subject to tenure rules and limits as stipulated by the CBN.
- 11.1.5 The external auditor shall satisfy the following requirements:
- a. Membership of a recognized professional accountancy body in Nigeria;
  - b. Resident in Nigeria;
  - c. Carrying on in Nigeria a professional practice as an accountant and/or auditor.
- 11.1.6 No person shall be appointed as the external auditor of the CGC if the person:
- i. has any interest whatsoever, in that institution
  - ii. is a director, officer or agent of such institution
  - iii. firm is one in which a director of the CGC has any interest as partner or director.
- 11.1.7 Any auditor who, after appointment, is subsequently affected by Section 11.1.6 (i-iii) shall immediately cease to continue as an auditor of the CGC.
- 11.1.8 If an external auditor in the course of his duties as an auditor of a CGC is satisfied that:
- i. There has been a contravention of the BOFIA 2020 or that an offence under any other law, guidelines, circulars, etc. has been committed by the CGC or any of its officers; or
  - ii. Losses have been incurred by the CGC which substantially reduce its capital funds; or
  - iii. Any irregularity which jeopardizes the interest of creditors of the CGC or any other irregularity has occurred; or
  - iv. He is unable to confirm that the claims of creditors are covered by the assets of the CGC,
- he shall immediately report the matter to the CBN.
- 11.1.9 The external auditor shall have the right of access at all times to all books, accounts and vouchers of the CGC and shall be entitled to require from the directors, managers and officers of the CGC all information and explanations that he considers necessary for the performance of his audit.
- 11.1.10 If the CGC fails to appoint or fill a vacancy for an external auditor, the CBN shall appoint a suitable person for that purpose and shall fix the remuneration to be paid by the CGC to such auditor.
- 11.1.11 The appointment of an external auditor shall not be determined without a prior written approval of the CBN.

- 11.1.12 Any external 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 sanction as may be determined by the CBN.
- 11.1.13 In addition to their statutory responsibilities, the external auditor shall be required to:
- i. Render reports to the CBN on CGC's risk management practices, internal controls and level of compliance with regulatory directives and with policies and internal control procedures put in place by the Board to manage and mitigate the CGC's risks.
  - ii. Review the work of the Internal Auditor on various aspects of the governance and operations of the CGC.
  - iii. Carry out any other responsibility determined by the CBN from time to time.
- 11.1.14 External auditors of CGCs shall not provide client services that shall amount to or result in conflict of interest, including the following:
- i. Book-keeping or other services related to the accounting records or financial statements of the audit client;
  - ii. Appraisal or valuation services, fairness opinion or contribution-in-kind reports;
  - iii. Actuarial services;
  - iv. Internal audit outsourcing services;
  - v. Management or human resource functions including broker or dealer, and legal or expert services.
- 11.1.15 The tenure of the External Auditors in a given CGC shall be for a maximum period of ten (10) cumulative years after which the audit firm shall not be reappointed in the CGC until after a period of another ten (10) consecutive years.
- 11.1.16 An audit firm shall not provide audit services to a CGC if one of the CGC's top officials (Directors, Chief Finance Officer, Chief Internal Auditor, etc.) was employed by the firm and worked on the CGC's audit during the immediate past two (2) years.

## **11.2 BRANCH EXPANSION, RELOCATION AND CLOSURE**

- 11.2.1 No CGC shall open, relocate or close a branch without the prior written approval of the CBN.
- 11.2.2 Every application for the opening of a new branch shall be accompanied with the following documents:
- i. A copy of Board resolution in support of the proposed branch
  - ii. A detailed feasibility report on the proposed branch showing the:
    - a. Rationale for the proposed branch;
    - b. Initial capital outlay for the proposed branch;

- c. Projected income and expenditures for a 3-year period;
- d. Proposed organisational structure of the proposed branch;
- e. Staffing requirements; and
- f. Assumption for the financial projection in the report.

11.2.3 A CGC seeking approval to open a new branch must have a track record of good financial performance, regularity in the rendition of all required returns, compliance with laws, rules and regulations.

11.2.4 Every application for the closure of a branch shall be accompanied with the following:

- i. A copy of the Board's resolution authorizing the closure;
- ii. Reasons for the closure with relevant evidence;

### **11.3 CHANGES IN OWNERSHIP STRUCTURE**

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

- a. Which results in a change in the control or ownership of the CGC;
- b. For sale, disposal or transfer of the whole or any part of the business of the CGC;
- c. For the amalgamation or merger of the CGC with any other person;
- d. For the reconstruction of the CGC; and
- e. To employ a management agent or to transfer its business to any such agent.

Prior approval of the CBN shall be obtained for any shareholding of 5.0 per cent and above in a CGC.

### **11.4 CONSUMER PROTECTION**

The principles outlined in the Consumer Protection Framework and other relevant guidelines issued by the CBN shall apply to CGCs.

### **12.0 COMPLIANCE WITH REGULATIONS**

12.1 CGCs shall comply with relevant provisions of circulars issued by the CBN on disclosure requirements for financial institutions and other disclosure requirements contained in CAMA 1990 (as amended) and BOFIA 2020 (as amended), and disclosure requirements issued by other relevant regulatory authorities in Nigeria.

12.2. CGCs shall comply with relevant provisions of the Money Laundering (Prohibition) Act, 2011 (as amended), Terrorism Prevention Act, 2011 (as amended), CBN AML/CFT Regulations for Banks and Other Financial Institutions 2013, AML/CFT

Administrative Sanctions Regulation 2018, other extant regulations on “Know-Your-Customer” issued by the CBN.

### **13.0 ADMINISTRATIVE SANCTIONS**

- 13.1 The CBN shall impose one or more of the following sanctions where any of the provisions of this Guidelines is contravened:
- a. Monetary penalties on the CGC, its directors, officers or employees;
  - b. Prohibition from declaring or paying dividends;
  - c. Suspension of guarantee operations, capital expenditure, and/or debt issuance;
  - d. Suspension or removal from office of any director, officer or employee;
  - e. Disqualification of any director, officer or employee from holding any position or office in a CGC; and
  - f. Revocation of licence.
- 13.2 The CBN may also issue cease and desist orders on a CGC where the CBN is satisfied that the CGC is engaging in, has engaged in, or intends to engage in an unsafe and unsound practice in conducting its business, or in any conduct that violates any provision of this guidelines or any other applicable laws and CBN directives.

### **14.0 REVOCATION OF LICENSE**

- 14.1 The CBN reserves the right to revoke a CGC license where there is evidence of insolvency, misuse of the license, unauthorized cessation of business for any continuous period of six (6) months or any period aggregating six (6) months during a continuous period of twelve (12) months, or breach of the CGC Guidelines.

### **15.0 GLOSSARY**

In this Guidelines, the following terms shall have the meanings ascribed to them thus:

**Consumer** refers to any person or any entity that uses, has used or is a potential user of financial products or services of a FI.

**Crystalized Guarantee** is a guarantee that has materialized or become due for payment by the CGC, owing to failure of the borrower to fulfill the contractual terms of the underlying obligation.

**Independent Director** is a member of the Board who has no direct material relationship with the CGC or any of its officers, major shareholders, subsidiaries and affiliates.

**Micro, Small and Medium Enterprises (MSMEs)** are defined in the National Policy on Micro, Small and Medium Enterprises developed by the Small and Medium Enterprises

Development Agency of Nigeria (SMEDAN) based on employment and asset status (excluding land and buildings), as follows:

<b>SIZE CATEGORY</b>	<b>EMPLOYMENT</b>	<b>ASSETS (N MILLION) (excluding land and buildings)</b>
Micro enterprises	Less than 10	Less than 5
Small enterprises	10-49	5 to less than 50
Medium enterprises	50-199	50 to less than 500

**Participating Financial Institutions** comprise banks and other financial institutions that have been licensed by the Central Bank of Nigeria to grant loans.

**Significant Shareholder** is a shareholder with five per cent or more of the equity shares in the CGC

**Target Market** shall include a specific class(es) of business to which a CGC extends its guarantees.

EXPOSURE DRAFT