Central Bank of Nigeria

Rule Book

(A Compendium of Policies and Regulations)

Volume IV

Volume Four

Foreword

Further to the preceding first, second and third volumes of the Central Bank of Nigeria (CBN) Rule Book, this fourth edition reflects our commitment to continue the production of the **Compendium of CBN Policies and Regulations.** This is with the aim to sustain the motivation to document and provide reference material for operators and stakeholders in the Nigerian financial markets and ease access to needed information for guidance. Thus, this edition covers a three-year period, beginning from 1st January 2019 to 31st December 2021.

It provides new and revised policies, rules, circulars, guidelines and regulations that were released during the period to guide the operations and compliance of banks and other financial institutions as well as the expectations of other stakeholders, both locally and internationally.

It is pertinent to note that within this period, 2019 – 2021, both the Nigerian and global economies were affected by the impact of the coronavirus, Covid-19, pandemic. The impact in 2020 was most severe, necessitating various measures by governments, including central banks across the world. The Central Bank of Nigeria was not left out in these efforts that spilled over into 2022.

It is, therefore, my honour and pleasure to introduce this fourth edition of the CBN Rule Book to the banking community and members of the general public. I also wish to assure that the Bank will continue to publish this periodically, building on the directives already released.

Godwin I. Emefiele, CON.

Governor,

Central Bank of Nigeria.

July, 2022.

Preface

This fourth edition of the CBN Rule Book smacks the commitment of the Bank's strategy to constantly communicate and inform operators and members of the general public. The objective is to sustain transparency and efficiency in the flow of information and avoidance of information asymmetry. Thus, the Economic Policy Directorate remains in the vanguard of maintaining the efforts to articulate appropriate ways of documenting CBN policy actions to enhance the activities of economic agents and promote financial markets efficiency.

The focus of the compendium remains the collation of financial markets-related policies and regulations. It, therefore, complements other publications relating to the economy and its performance. The compendium builds on the preceding editions: Volumes One, Two and Three, and covers the period 2019 to 2021, containing the CBN directives on financial policy and regulation, monetary policy, banking, other financial institutions' supervision, and trade and exchange.

It is our ardent expectation that this comprehensive compendium of policies would be of inestimable value to both the financial institutions and members of the public.

Dr. Kingsley Obiora

Deputy Governor, Economic Policy

July, 2022

Acknowledgements

It is my greatest pleasure, once again, to appreciate the Management of the Central Bank of Nigeria for enabling the production of this fourth edition of the CBN Rule Book, by providing the needed support to accomplish it. I would like to especially state the innovative stance of both the Governor, Central Bank of Nigeria, Mr. Godwin I. Emefiele, CON, and the Deputy Governor, Economic Policy Directorate, Dr. Kingsley Obiora, who have inspired the re-definition of policy formulation for the public good. This became more auspicious during the period of the Covid-19 pandemic that adversely impacted the Nigerian economy in 2020.

I would also like to appreciate my fellow Directors: Mr. Samuel C. Okojere of Banking Services; Mr. Haruna B. Mustafa of Banking Supervision; Mrs. Rashida J. Monguno, of Consumer Protection; Mr. Philip Y. Yusuf of Development Finance; Mr. Chibuzo A. Efobi of Financial Policy and Regulations; Mr. Hassan Mahmud of Monetary Policy; Mrs. Nkiru E. Asiegbu of Other Financial Institutions Supervision; Mr. Musa I. Jimoh of Payments System Management; and, Dr. Ozoemena S. Nnaji of Trade and Exchange, for their review and support.

The members of the Secretariat that have arranged this compendium have also excelled. In particular, Mr. Demenongu J. Yanfa, mni FCS, Deputy Director, who initiated and has efficiently led the Project to date, has been relentless in ensuring quality. Supported are Dr./Mrs. Pauline C. Obikaonu, Mr. Isyaku Garba, Ms. Amina M. Adamu, Mr. Nnamdi B. Anyene, Mrs. Joy A. Amadi, Mrs. Nkiruka J. Orji, Ms. Grace C. Ojije and Mrs. Mariam O. Shuaib. More so, I appreciate other members of staff from the stakeholder Departments of the Bank, who participated in the exercise.

Mrs. Angela A. Sere-Ejembi, P.hd

Director, Financial Markets Department

July, 2022.

TABLE OF CONTENT

VOLUME FOUR					
SECTION I: PUBLISHED RULES, REGULATIONS AND GUIDELINES					
SECTION II: PART A. BANKING AND PAYMENT SYSTEM CIRCULARS, POLICIES AND GUIDELINES					
S/N	**Reference No.**	**Title**	**Date issued**	**Remark**	**Pages**
1.	BKS/DIR/CIR/GEN/02/043	Re: Circular on the Revised Nigeria Cheque Standard (NCS) and Nigeria Cheque Printers Accreditation Scheme (NICPAS)	22-Jan-2021	Revised	2
2.	BKS/DIR/CIR/GEN/02/042	Re: Circular On The Revised Nigeria Cheque Standard (NCS) and Nigeria Cheque Printers Accreditation Scheme (NICPAS)	9-Dec-2020	Revised	3
3.	BKS/CRO/GEN/BNK/04/061	Compliance with The SWIFT Universal Payment Confirmations	9-Oct-2020	New	4
4.	BKS/DIR/GEN/CIR/07/017	ISO20022 Swift Updated Timelines for Migration	20-Jul-2020	New	5
5.	BKS/DIR/GEN/CIR/07/003	Re: Temporary Suspension of Cheque Clearing in the Nigerian Clearing System	27-Apr-2020	Revised	6
6.	BKS/DIR/GEN/CIR/07/002	Temporary Suspension of Cheque Clearing in the Nigerian Clearing System	30-Mar-2020	New	7
7.	BKS/DIR/CIR/GEN/02/044	Sanctions on Erring Banks and Cheque Printers / Personalizers for Infractions of the Revised Nigerian Cheque Standard (NCS) and Nigerian Cheque Printers Accreditation Scheme (NICPAS)	5-Nov-2019	New	8
8.	BKS/DIR/CIR/GEN/02/045	Implementation of the Nigeria Cheque Standard (NCS) and Nigeria Cheque Printers Accreditation Scheme (NICPAS) Version 2.0	10-Jun-2019	New	9
9.	BKS/DIR/CIR/GEN/02/041	RE: Circular on the Revised Nigerian Cheque Standard (NCS) and Nigerian Cheque Printers Accreditation Scheme (NICPAS)	28-Feb-2019	Revised	10
10.	BKS/DIR/GEN/CIR/06/001	Additional Data Fields for Industry Customer Account Database (ICAD) Submission to NIBSS PLC	31-Jan-2019	New	11

PART B. BANKING SUPERVISION CIRCULARS, POLICIES AND GUIDELINES					
S/N	**Reference No.**	**Title**	**Date issued**	**Remark**	**Page**
11.	BSD/DIR/PUB/14/063	BASEL III Implementation by Deposit Money Banks in Nigeria	2-Sept-2021	New	16
12.	BSD/DIR/PUB/14/063	Guidelines on Regulatory Capital	2-Sept-2021	New	18
13.	BSD/DIR/PUB/14/063	Guidelines on Leverage Ratio (LeR)	2-Sept-2021	New	52
14.	BSD/DIR/PUB/14/063	Guidelines on Liquidity Coverage Ratio (LCR)	2-Sept-2021	New	74
15.	BSD/DIR/PUB/14/063	Guidelines on Liquidity Monitoring Tools (LMT)	2-Sept-2021	New	114
16.	BSD/DIR/PUB/14/063	Guidelines on Large Exposures (LEX)	2-Sept-2021	New	132
17.	BSD/DIR/PUB/14/063	Guidelines on Liquidity Risk Management and Internal Liquidity Adequacy Assessment Process (ILAAP)	2-Sept-2021	New	151
18.	BSD/DIR/PUB/14/063	Revised Guidelines on Supervisory Review Process of Internal Capital Adequacy Assessment Process (SRP/ICAAP)	2-Sept-2021	Revised	176
19.	BSD/DIR/PUB/LAB/14/059	Publication of Names of Defaulters of the CBN Policy on Sale of FOREX for PTA/BTA	19-Aug-2021	New	199
20.	BSD/DIR/PUB/LAB/14/052	RE: Teller Points at Bank Branches for the Sale of FX to Retail Customers	28-Jul-2021	Revised	200
21.	BSD/DIR/PUB/LAB/014/001	Letter to All Deposit Money Banks, Non-Financial Financial Institutions and Other Financial Institutions	2-May-2021	New	201
22.	BSD/DlR/GEN/LAB/13/086	Introduction of Central Bank of Nigeria Special Bills	2-Dec-2020	New	202
23.	BSD/DIR/GEN/LAB/13/052	Re: Interest Rate on Savings Deposit	1-Sept-2020	Revised	203
24.	BSD/DIR/GEN/LAB/12/070	Re: Regulatory Measures to Improve Lending to The Real Sector of The Nigerian Economy	7-Jan-2020	Revised	204
25.	BSD/DIR/GEN/LAB/12/050	Re: Automation of AML/CFT Processes-Returns Data Rendition, Validation, Data Warehouse and Analysis	10-Oct-2019	Revised	205
26.	BSD/DIR/GEN/LAB/12/049	Re: Regulatory Measures to Improve Lending to the Real Sector of the Nigerian Economy	30-Sept-2019	Revised	206
27.	BSD/DIR/GEN/LAB/12/044	Guidelines on the Issuance and Treatment of Bankers Acceptances and Commercial Papers	11-Sept-2019	New	207
28.	BSD/DIR/GEN/LAB/12/054	New Offer Letter Clause for Credit Facilities	26-Aug-2019	New	223
29.	BSD/DIR/GEN/MDD/01/045	Regulatory Measures to Improve Lending to the Real Sector of the Nigerian Economy	4-Jul-2019	New	226
30.	BSD/DIR/GEN/LAB/12/011	Issuance of Final Guidelines on Islamic Financial Services Board Standards for	10-Apr-2019	New	227

		Nigerian Non-Interest Financial Institutions			
31.	BSD/DIR/GEN/LAB/12/011/1	Guidance Notes on the Calculation of Capital Requirement for Market Risk for Non-Interest Financial Institutions in Nigeria	10-Apr-2019	New	229
32.	BSD/DIR/GEN/LAB/12/011/2	Guidance Notes on Disclosure Requirements to Promote Transparency & Market Discipline for Non-Interest Financial Institutions in Nigeria	10-Apr-2019	New	244
33.	BSD/DIR/GEN/LAB/12/011/3	Guidance Notes on Regulatory Capital for Non-Interest Financial Institutions in Nigeria	10-Apr-2019	New	271
34.	BSD/DIR/GEN/LAB/12/011/4	Guidelines on the Practice of Smoothing the Profit Payout to Investment Account Holders for Non-Interest Financial Institutions in Nigeria	10-Apr-2019	New	288
35.	BSD/DIR/GEN/LAB/12/011/5	Guidance Notes on the Calculation of Capital Requirement for Credit Risk for Non-Interest Financial Institutions in Nigeria	10-Apr-2019	New	301
36.	BSD/DIR/GEN/LAB/12/011/6	Guidance Notes on Supervisory Review Process for Non-Interest Financial Institutions in Nigeria	10-Apr-2019	New	338
37.	BSD/DIR/GEN/LAB/12/011/7	Guidelines on the Management of Investment Account Holders for Non-Interest Financial Institutions in Nigeria	10-Apr-2019	New	360
38.	BSD/DIR/GEN/LAB/12/011/8	Guidance Notes on the Calculation of Capital Requirement for Operational Risk for Non-Interest Financial Institutions in Nigeria	10-Apr-2019	New	371
39.	BSD/DIR/GEN/LAB/12/004	Guidelines on Pillar 2 Risks and Stress Testing for Banks	21-Feb-2019	New	386
40.	BSD/DIR/GEN/LAB/12/004	Guideline on Stress Testing for the Nigerian Banks	21-Feb-2019	New	387
41.	BSD/DIR/GEN/LAB/12/004	Guidelines for the Management of Reputational Risk	21-Feb-2019	New	417
42.	BSD/DIR/GEN/LAB/12/004	Guidelines on the Management of Interest Rate Risk in the Banking Book (IRRBB)	21-Feb-2019	New	436
43.	BSD/DIR/GEN/LAB/12/004	Guidelines on Management of Credit Concentration Risk Under the Supervisory Review Process	21-Feb-2019	New	462

PART C. CURRENCY OPERATIONS CIRCULARS, POLICIES AND GUIDELINES					
S/N	**Reference No.**	**Title**	**Date issued**	**Remark**	**Page**
44.	COD/DIR/INT/CIR/001/002	The Rejection of Old/Lower Denomination of United States Dollar by DMBs/FOREX Dealers	20-Apr-2021	New	478
45.	COD/DIR/GEN/SIR/01/012	Approval for Stirling Trust Company Limited to Commence Cash-In-Transit Operations	3-Jul-2020	New	479
46.	COD/DIR/GEN/INM/13/132	Revised Guidelines for the Registration of Cash-in-Transit (CIT) and Currency Processing Companies (CPC)	28-Oct-2019	Revised	480
47.	COD/DIR/CON/CMF/14/005	Circular on the Guidelines for the Disbursement of Lower Denomination Banknotes for Microfinance Banks (MFBs)	20-Aug-2019	New	487

PART D. CONSUMER PROTECTION CIRCULARS, POLICIES AND GUIDELINES					
S/N	**Reference No.**	**Title**	**Date issued**	**Remark**	**Page**
48.	CPD/DIR/GEN/CIR/01/002	CBN Consumer Protection Regulations	22-Dec-2019	New	490

PART E. DEVELOPMENT FINANCE CIRCULARS, POLICIES AND GUIDELINES					
S/N	**Reference No.**	**Title**	**Date issued**	**Remark**	**Page**
49.	DFD/RAC/INT/RSP/02/095	Revised Anchor Borrowers' Programme Guidelines	5-Nov-21	Revised	526
50.	DFD/DIR/PUB/CIR/01/002	Guidelines for the Implementation of 100 for 100 Policy on Production and Productivity (100 for 100 PPP)	05-Nov-21	New	555
51.	CCD/GUI/01/20-10-2021	Guidelines for the Implementation of Tertiary Institutions Entrepreneurship Scheme (TIES)	20-Oct-2021	New	569
52.	DFD/ABP/GEN/PAADS/01/021	Private Sector-Led Accelerated Agriculture Development Scheme (P-AADS)	10-Nov-2020	New	588
53.		Framework for Financing of National Mass Metering Programme (NMMP)	19-Oct-2020	New	596
54.	DFD/SME/GEN/HSRDIS/01/020	Amended Health Sector Research and Development Intervention Scheme (HSRDIS) Guideline	29-Sep-2020	New	606

55.	DFD/DIR/GEN/ODB/09/095	Framework For Family Homes Financing Initiative	15-Sep-2020	New	616
56.	DFD/DIR/GEN/ODB/09/093	Solar Connection Facility Guidelines	14-Sep-2020	New	622
57.	DFD/DIR/GEN/ODB/09/086	Guidelines for National Gas Expansion Programme	01-Sep-2020	New	634
58.	DFD/SME/GEN/HSRDIS/01/012	Healthcare and Research Development Grant Guidelines	04-Aug-2020	New	645

PART F. FINANCIAL MARKETS CIRCULARS, POLICIES AND GUIDELINES					
S/N	**Reference No.**	**Title**	**Date Issued**	**Remark**	**Page**
59.	FMD/DIR/PUB/GUI/01/001	Guidelines for the Conduct of Repurchase Transactions under CBN Standing Facilities	16-Apr-2021	New	652
60.	FMD/DIR/CON/OGC/12/019	Guidelines on Accessing the CBN Standing Deposit Facility	10-Jul-2019	New	659

PART G. FINANCIAL POLICY AND REGULATION CIRCULARS, POLICIES AND GUIDELINES					
S/N	**Reference No.**	**Title**	**Date Issued**	**Remark**	**Page**
61.	FPR/DIR/PUB/CIR/001/023	Regulatory Guidelines on the eNAIRA	25-Oct-2021	New	661
62.	FPR/DIR/PUB/CIR/001/024	Guidelines on Disposal of Non-Permissible Income	13-Oct-2021	New	670
63.	FPRD/DIR/PUB/CIR/01/020	Cessation of Non-Permissible Activities by Microfinance Banks	19-Oct-2021	New	674
64.	FPR/LAD/INT/BDC/01/095	Circular for BDC Refunds	29-Jul-2021	New	675
65.	FPR/LAD/CON/BDC/006/100	Payment of Annual Licensing Renewal Fees	23-Jun-2021	New	676
66.	FPR/DIR/PUB/CIR/01/004	Guidelines for Shared Services Arrangements	26-May-2021	New	677
67.	FPRD/DIR/PUB/CIR/01/002	Circular to Other Financial Institutions (OFIs) on the Commencement of enrollment of All DFIs, MFBs, PMBs and FCs on the CRMS	9-Apr-2021	New	688
68.	FPR/DIR/PUB/CIR/01/001	Re: Regulatory Forbearance for the Restructuring of Credit Facilities of Other Financial Institutions Impacted by Covid-19	3-Mar-2021	New	689
69.	FPR/AML/CON/BOF/006/002	Letter to Banks, OFIs and PSPs: Acceptance of Machine Readable Convention Travel Document (MRCTD) and Refugee Identification Card as Means of Identification	10-Feb-2021	New	690
70.	FPR/PRD/INT/PAR/01/043	Circular on Issuance of the Framework for Regulatory Sandbox Operations	18-Jan-2021	New	691
71.	FPR/PRD/GEN/MRC/01/001	Regulatory And Supervisory Framework for The Operations of A Mortgage Refinance Company (MRC) -Approval To Refinance Non-Member Banks	21-Oct-2020	New	692
72.	FPR/DIR/GEN/CIR/07/063	Re: Status of Chief Compliance Officers	20-Oct-2020	New	693

73.	FPR/DIR/GEN/CIR/07/064	Advisory on Covid-19 Related Financial Crimes	19-Oct-2020		694
74.	FPR/DIR/GEN/CIR/07/061	Restoration of Fees on the National Collateral Registry (NCR) Platform.	04-Sep-2020	New	696
75.	FPR/DIR/GEN/CIR/07/060	Guidelines for Licensing and Regulation of Payment Service Banks in Nigeria	27-Aug-2020	Revised	698
76.	FPR/DIR/CIR/GEN/07/058	Circular to All Non-Interest Financial Institutions (NIFIs)	21-Jul-2020	New	723
77.	FPRD/DIR/GEN/CIR/07/056	Operational Guidelines on Global Standing Instruction (GSI) - Individuals	13-Jul-2020	New	822
78.	FPR/DIR/GEN/CIR/07/057	Circular on the expansion of the scope of regional banks in Nigeria	30-Jun-2020	New	833
79.	FPR/DIR/GEN/CIR/06/055	Regulatory Forbearance for The Restructuring of Credit Facilities of Other Financial Institutions Impacted by COVID-19	27-May-2020	New	834
80.	FPR/DIR/GEN/CIR/07/054	Review of Minimum Capital Requirements for Microfinance Banks in Nigeria	29-Apr-2020	Revised	835
81.	FPR/DIRGEN/CIR/07/051	Guidelines for the Operations of the N100 Billion Credit Support for the Healthcare Sector	25-Mar-2020	New	836
82.	FPRD/DIR/GEN/CIR/07/050	Guidelines for the Implementation of the N50 Billion Targeted Credit Facility	23-Mar-2020	New	847
83.	FPR/DIR/GEN/CIR/07/049	CBN Policy Measures in Response to COVID-19 Outbreak and Spillovers	16-Mar-2020	New	853
84.	FPR/DIR/GEN/CIR/07/042	Guide to Charges by Banks, Other Financial and Non-Bank Financial Institutions.	22-Dec-2019	New	856
85.	FPR/DIR/GEN/CIR/07/041	Regulation for the Operations of Mortgage Guarantee Companies (MGCs) in Nigeria.	25-Nov-2019	Revised	925
86.	FPR/DIR/GEN/CIR/07/040	Central Bank of Nigeria (Anti-Money Laundering and Combating the Financing of Terrorism in Banks and Other Financial Institutions in Nigeria) (Amendment) Regulations, 2019.	13-Nov-2019	New	964
87.	FPR/DIR/CIR/GEN/03/07/037	Suspicious Transaction Reporting on United Nations Security Council Resolutions on Proliferation Financing	20-Sep-2019	New	977
88.	FPR/PRD/GEN/PAR/04/050	Circular on Modalities for the Implementation of the Creative Industry Financing Initiative (CIFI)	04-Jul-2019	New	978
89.	FPR/DIR/GEN/CIR/07/030	Circular to all Banks on the Commencement of the Export Facilitation Initiative (EFI).	13-Jun-2019	New	988
90.	FPR/DIR/GEN/CIR/07/024	RE: Review of Minimum Capital Requirement for Microfinance Banks in Nigeria.	18-Mar-2019	Revised	994

PART A

BANKING SERVICES CIRCULARS, POLICIES AND GUIDELINES

BANKING SERVICES DEPARTMENT
Tel: +234 9 462 38400, +234 9 462 38445
Email: bksd@cbn.gov.ng
Website: www.cbn.gov.ng

CENTRAL BANK OF NIGERIA
Central Business District,
Cadastral Zone AO
P.M.B. 0187, Garki
Abuja

BKS/DIR/CIR/GEN/02/043

January 5, 2021

To: All Deposit Money Banks (DMBs), Accredited Cheque Printers/Personalisers and Nigeria Interbank Settlement System (NIBSS)

RE: CIRCULAR ON THE REVISED NIGERIA CHEQUE STANDARD (NCS) AND NIGERIA CHEQUE PRINTERS ACCREDITATION SCHEME (NICPAS)

Please refer to our circular dated 9th December 2020, referenced BKS/DIR/CIR/GEN/02/042 on the above subject.

It has come to our notice that some stakeholders interpret the circular differently from the intended purpose. Consequently, it has become imperative for the CBN to issue the following clarifications:

1. The parallel run, in which old and new cheques are allowed to co-exist, will end on 31st March 2021. Only new cheques will be allowed in the clearing system from 1st April 2021.

2. Full enforcement of the 2nd edition of the Nigeria Cheque Standard (NCS) and Nigeria Cheque Printers Accreditation Scheme (NICPAS) Version 2.0 will commence 1st April, 2021 and the NCS/NICPAS 2.0. Sanction grid will be fully operational on 1st April, 2021.

3. All deposit money banks are directed to actively enlighten their customers and ensure necessary provisions are put in place for a smooth migration to the New standard.

4. The extension of full implementation date from 1st January 2021 to April 1, 2021 is due to outbreak of the Covid-19 pandemic and the impact it had on the Nigeria Cheque Standard (NCS) and Nigeria Cheque Printers Accreditation Scheme (NICPAS) Version 2.0 Project.

Please, be guided accordingly.

....

Sam. C. Okojere
Director, Banking Services Department

BANKING SERVICES DEPARTMENT
Tel: +234 9 462 38400, +234 9 462 38445
Email: bksd@cbn.gov.ng
Website: www.cbn.gov.ng

CENTRAL BANK OF NIGERIA
Central Business District,
Cadastral Zone AO
P.M.B. 0187, Garki
Abuja

BKS/DIR/CIR/GEN/02/042

December 9, 2020

To: All Deposit Money Banks (DMBs), Accredited Cheque Printers/Personalisers and Nigeria Interbank Settlement System (NIBSS)

RE: CIRCULAR ON THE REVISED NIGERIA CHEQUE STANDARD (NCS) AND NIGERIA CHEQUE PRINTERS ACCREDITATION SCHEME (NICPAS)

Please refer to our circular dated 28th February 2019, referenced BKS/DIR/CIR/GEN/02/041 on the above subject.

Due to the outbreak of the Covid-19 pandemic and the impact it had on the Project, the Management of the Bank, after due consultations decided to adjust key implementation dates and activities communicated through the above stated circular as follows:.

1. The cut-off date for the parallel run, in which old and new cheques were allowed to co-exist, was extended from 31st August, 2020 to 31st December, 2020. Hence, only new cheques are allowed in the clearing system from 1st January, 2021.
2. Banks who are unable to fully migrate to the new standard are required to write to the Director, Banking Services Department to obtain a waiver for a maximum period of three (3) months, ending 31st March, 2021. Waivers will ONLY be granted if reasons for the inability to migrate are satisfactory after management consideration.
3. Full enforcement of the 2nd edition of the Nigeria Cheque Standard (NCS) and Nigeria Cheque Printers Accreditation Scheme (NICPAS) Version 2.0 will commence 1st April, 2021 and the NCS/NICPAS 2.0. Sanction grid will be fully operational on 1st April, 2021.
4. All deposit money banks are directed to actively enlighten their customers and ensure necessary provisions are put in place for a smooth migration to the new standard.

The changes to the implementation timeline were necessitated and specifically geared towards ensuring a smooth migration to the revised Nigeria Cheque Standard (NCS) and Nigeria Cheque Printers Accreditation Scheme (NICPAS) Version 2.0.

Please, be guided accordingly.

Sam. C. Okojere
Director, Banking Services Department

BANKING SERVICES DEPARTMENT
Tel: +234 9 462 38400, +234 9 462 38445
Email: bksd@cbn.gov.ng
Website: www.cbn.gov.ng

CENTRAL BANK OF NIGERIA
Central Business District,
Cadastral Zone AO
P.M.B. 0187, Garki
Abuja

BKS/CRO/GEN/BNK/04/061

23rd September 2020

CIRCULAR TO BANKS

COMPLIANCE WITH THE SWIFT UNIVERSAL PAYMENT CONFIRMATIONS

All banks operating in Nigeria are by this circular reminded of the need to ensure full compliance with SWIFT Universal Confirmations requirements. All SWIFT customers are required to provide confirmation on the outcome of all their incoming single customer payment (MT103) messages to SWIFT via Tracker, also known as Universal Confirmations.

The confirmation should get to SWIFT within two business days on whether the beneficiary's account has been credited, payment is rejected or pending. Please note that all financial institutions within the ecosystem will be measured on whether they confirm 80% of their weekly payments.

SWIFT offers different ways to provide the status update via automated or manual methods. The channels are:

- The Basic Tracker - manual
- API calls
- Automated MT199 confirmations
- Batch confirmation
- Full GPi
- ISO 20022 – Available from 2022

All banks are strongly advised to review and select the appropriate channel that suit their operations with a view to meeting the deadline of 22nd November 2020 set by SWIFT for compliance.

Thank you

Sam C. Okojere
Director,
Banking Services Department.

Please note that the information given herein shall be held in strict confidence and same shall not be disclosed to any third party without the prior written consent of the Central Bank of Nigeria

CIRCULAR TO ALL BANKS

BKS/DIR/GEN/CIR/07/017 July 17, 2020.

ISO20022 SWIFT UPDATED TIMELINES FOR MIGRATION

The ISO20022 Standard (International Organization for Standardization 20022) is an increasingly established global language for payments messaging, currently in use in cross-border payments in over 70 Countries.

In the years ahead, ISO20022 will be the defacto standard for high-value payment system in reserve currencies, supporting 80% of global volume and 87% of value of transactions worldwide.

ISO20022 will create a common language and model for payments data, improves significantly the quality of data across the payment's ecosystem, Richer, structured to build client confidence while improving compliance and efficiency.

In view of the above and the Covid19 Pandemic, SWIFT has set new timelines of November 2022 for the various activities leading to ISO20022 migration as follows:

I. In 2020, building of awareness about the change through the various resources SWIFT makes available and assessing the impacts in collaboration with vendors.
II. Throughout year 2020 and 2021, implement the defined solution for adopting the change, testing it internally and preparing for further testing on the "real" network.
III. Throughout 2020 and 2022 testing on the network with and without selected Correspondents and preparing for go-live.

Therefore, all the Financial Institutions in Nigeria are to comply with the above timelines.

The ISO20022 for FI to FI payments and reporting will be live on SWIFT as at end of November 2022. For the avoidance of doubt, after a 3-year period of coexistence, the Corresponding legacy SWIFT MT Messages will be decommissioned on the SWIFT platform by November 2025.

To this end, the Central Bank of Nigeria hereby directs all Financial Institutions in Nigeria to activate the process leading to migration to ISO20022 Standard, on or before the deadline of November 2022.

Please note for your compliance.

Yours faithfully,

Sam C. Okojere
Director, Banking Services Department

CENTRAL BANK OF NIGERIA
Central Business District
P.M.B. 0187,
Garki, Abuja.
+234 - 0946238445

BANKING SERVICES DEPARTMENT

April 27, 2020 **REF: BKS/DIR/GEN/CIR/07/003**

To: All Deposit Money Banks / Nigeria Inter-Bank Settlement System,

RE: TEMPORARY SUSPENSION OF CHEQUE CLEARING IN THE NIGERIAN CLEARING SYSTEM

Please refer to our circular dated March 30, 2020, referenced BKS/DIR/GEN/CIR/07/002 on the above subject.

In furtherance of its effort in the development of a safe and efficient payments system in Nigeria, the Bank in collaboration with relevant stakeholders has reviewed the need for cheque clearing to accommodate users of cheque as one of the payment instruments in Nigeria, despite the lockdown of some states and FCT.

In view of this development, the Bank hereby lift the temporary suspension of cheque clearing in Nigeria. Consequently, cheque instruments will be allowed to pass through the clearing system, with effect from April 28, 2020.

Deposit Money Banks are encouraged to advise their customers of this directives.

Please be guided accordingly.

27/4/20

Sam C. Okojere
Director, Banking Services Department

Classified as Confidential

CENTRAL BANK OF NIGERIA
Central Business District
P.M.B. 0187,
Garki, Abuja.
+234 - 0946238445

BANKING SERVICES DEPARTMENT

REF: BKS/DIR/GEN/CIR/07/002

March 30, 2020

To: All Deposit Money Banks (DMBs)/Nigeria InterBank Settlement System(NIBSS)

TEMPORARY SUSPENSION OF CHEQUE CLEARING IN THE NIGERIAN CLEARING SYSTEM

Please recall that the first index case of COVID-19 was recorded in Nigeria on 27th February, 2020 and since that date, there has been some level of increase in the number of confirmed cases in the country. The President, through a nationwide broadcast yesterday, announced a locked down in Lagos and Ogun States and the Federal Capital Territory for two weeks in the interim, starting from 11:00 p.m. of March 30, 2020 as a means of combating the spread of the virus and to ensure the safety of all Nigerians.

In view of these recent developments and in furtherance to the Bank's effort to ensure hitch-free clearing and settlement activities, the Central Bank of Nigeria hereby suspend, until further notice, the clearing of cheques instruments in the Nigerian Clearing System starting from March 31, 2020.

For the avoidance of doubt, no fresh cheque instrument will be allowed to pass through clearing system on March 31, 2020. Only returned cheque would be treated on the said date.

However, settlement activities for electronic instruments will continue to hold during this period of suspension.

Please be guided accordingly.

30/3/20

Sam C. Okojere

Director, Banking Services Department

Please note that the information given herein shall be held in strict confidence and same shall not be disclosed to any third party without the prior written consent of the Central Bank of Nigeria

BANKING SERVICES DEPARTMENT

CENTRAL BANK OF NIGERIA
Central Business District
P.M.B. 0187,
Garki, Abuja.
+234 - 0946238445

REF: BKS/DIR/CIR/GEN/02/044 November 5, 2019

To: All Deposit Money Banks (DMBs), Accredited Cheque Printers / Personalizers and Nigeria Inter-Bank Settlement System (NIBSS)

SANCTIONS ON ERRING BANKS AND CHEQUE PRINTERS / PERSONALIZERS FOR INFRACTIONS OF THE REVISED NIGERIAN CHEQUE STANDARD (NCS) AND NIGERIAN CHEQUE PRINTERS ACCREDITATION SCHEME (NICPAS)

Please recall that the Central Bank of Nigeria reviewed the Nigerian Cheque Standards (NCS) and Nigeria Cheque Printers Accreditation Scheme (NICPAS), to increase the efficiency and safety of the Nigerian Clearing System.

Section 1.5.2 of the revised NCS/NICPAS documents specified some acts by banks, cheque printers and cheque personalizers that are classified as infractions.

The Bank observed the need to specify appropriate sanctions on any erring institution which fails to comply with the provisions of the revised NCS/NICPAS documents, to instill discipline in the cheque clearing system.

In view of this, the Bank hereby stipulates the following as applicable sanctions for such infringements:

S/N	OFFENSE	RESPONSIBILITY	SANCTION/REMARK
1.	Failure/refusal to submit personalised cheque samples for testing and analysis (when applicable).	Accredited Personalizer	N1,000,000.00 fine
2.	Engagement of unaccredited Cheque Printer/Personaliser by DMBs	Deposit Money Banks	1. Withdrawal of cheques from circulation

Please note that the information given herein shall be held in strict confidence and same shall not be disclosed to any third party without the prior written consent of the Central Bank of Nigeria

BANKING SERVICES DEPARTMENT

CENTRAL BANK OF NIGERIA
Central Business District
P.M.B. 0187,
Garki, Abuja.
+234 - 0946238445

REF: BKS/DIR/CIR/GEN/02/045

June 10, 2019

To: All Deposit Money Banks (DMBs), Accredited Cheque Printers / Personalizers and Nigeria Inter-Bank Settlement System (NIBSS)

IMPLEMENTATION OF THE NIGERIA CHEQUE STANDARD (NCS) AND NIGERIA CHEQUE PRINTERS ACCREDITATION SCHEME (NICPAS) VERSION 2.0

In furtherance to the Bank's effort to ensure a seamless transition to the new Cheque Standard, it has become necessary to remind all Deposit Money Banks that cheques ordered after 31st August, 2019 must conform to the new Cheque Standard and that the parallel run for old and new cheques shall commence on 1st September, 2019.

The above is in line with the stipulations of the reviewed Nigeria Cheque Standards (NCS) and Nigeria Cheque Printers Accreditation Scheme (NICPAS) document, revised to increase the efficiency and security of the Nigerian Clearing System.

In order to avoid ambiguities, please note the above timelines, and ensure that your bank's cheque processing systems are ready for the full adoption of the new Cheque Standard by 1st September, 2020.

Please be guided accordingly.

CENTRAL BANK OF NIGERIA
Central Business District
P.M.B. 0187,
Garki, Abuja.
+234 - 0946238445

BANKING SERVICES DEPARTMENT

REF: BKS/DIR/CIR/GEN/02/041 February 28, 2019

To: All Deposit Money Banks (DMBs), Accredited Cheque Printers / Personalizers and Nigeria Inter-Bank Settlement System (NIBSS)

RE: CIRCULAR ON THE REVISED NIGERIAN CHEQUE STANDARD (NCS) AND NIGERIAN CHEQUE PRINTERS ACCREDITATION SCHEME (NICPAS)

Please recall that the Central Bank of Nigeria reviewed the Nigerian Cheque Standards (NCS) and Nigeria Cheque Printers Accreditation Scheme (NICPAS), to increase the efficiency and security of the Nigerian Clearing System. In this regard, the Bank issued a circular dated September 18, 2018 stipulating the implementation timelines, amongst other components of the revised NCS/NICPAS 2.0 document.

The Bank observed the need to give more time to the operators to meet the requirements of the new NCS/NICPAS 2.0, test the necessary changes and sensitize the relevant stakeholders. This is to ensure a hitch-free take-off of the revised Guidelines.

In view of this, it has become imperative for the Bank to amend the implementation timelines of the revised NCS/NICPAS 2.0 as follows:

- The implementation start date of the revised NCS/NICPAS 2.0 shall be April 1, 2019
- The new and the old cheques shall run concurrently for 17 months from the above mentioned implementation date, after which the old standard would be phased out.
- All cheques ordered after 1st September, 2019 must conform to the new standard
- By 1st September, 2020 only cheques that conform to the new standard shall be allowed in the automated cheque clearing system.
- Deposit Money Banks and Companies that wish to personalize cheques in line with the new standard must seek for and be accredited by the CBN.
- DMBs are required to engage their respective Service Providers to prepare their In-Clearing Application to support the processing of cheques designed in line with the new standard.

Consequently, all DMBs that wish to personalize their cheques should note that their MICR application would also need to be reviewed along this line, to ensure a seamless personalization, in accordance with the NCS/NICPAS 2.0.

Please be guided accordingly.

'Dipo Fatokun
Director, Banking Services Department

CENTRAL BANK OF NIGERIA
Central Business District
P.M.B. 0187,
Garki, Abuja.
+234 - 0946238445

BANKING SERVICES DEPARTMENT

REF: BKS/DIR/GEN/CIR/06/001 January 31, 2019

To: All Deposit Money Banks, Microfinance Banks and Others

CIRCULAR ON THE ADDITIONAL DATA FIELDS FOR INDUSTRY CUSTOMER ACCOUNT DATABASE (ICAD) SUBMISSION TO NIBSS PLC

Please recall that the Management of Central Bank of Nigeria (CBN) directed all the Deposit Money Banks (DMBs) to forward customers account details in a specified format to the Nigeria Inter-Bank Settlement System (NIBSS), with a view to maintaining an Industry Customer Account Database (ICAD). The initiative contributed immensely towards improving the efficiency and safety of electronic payments in Nigeria.

In view of the growing demand for more detailed information on bank accounts, for economic intelligence analysis, it has become necessary to expand the coverage of the required data on customers' accounts. Consequently, two new data fields, covering **Politically Exposed Person - PEP (Y/N) and Sector code** have been added to the existing fields on ICAD. Going forward, the below data are to be sent to ICAD.

1. SN
2. AccountName (Varchar 255)
3. AccountNumber (Varchar 255)
4. DateOfBirth (datetime)
5. DateOpened (datetime)
6. Email (Varchar 255)
7. FirstName (Varchar 255)
8. LastName (Varchar 255)
9. MiddleName (Varchar 255)
10. OldAccountNumber (Varchar 255)
11. PhoneNumber (Varchar 255)
12. PhoneNumber2 (Varchar 255)
13. RC (Varchar 255)
14. UniqueCustomerID (Varchar 255)
15. AccountDesignation (Integer)

16. AccountStatus (integer)
17. AccountType (Integer)
18. Currency (Integer)
19. BranchSortCode (Varchar 20)
20. BankCode (Varchar 20)
21. BVN (Char 11)
22. PEP (Y/N) (Char 1)
23. Sector code (Char 5)

You are hereby directed to include the additional two data (item 22 and 23) in your returns on ICAD, for new accounts and forward the updated account details of existing customers to NIBSS Plc, using your existing FTP/API connection with NIBSS Plc, on or before February 14, 2019. You are expected to ensure that the data submitted is complete and accurate.

Should you require further clarification, please do not hesitate to contact ofadairo@nibss-plc.com.ng or call 08026624929.

Attached is the sector classification, for your guidance.

Please ensure strict compliance.

'Dipo Fatokun
Director, Banking Services Department

SECTORAL CLASSIFICATION OF CREDIT BY DMBs

1	OIL AND GAS
2	MANUFACTURING
3	GOVERNMENTS
4	GENERAL
5	GENERAL COMMERCE
6	INFORMATION AND COMMUNICATION
7	REAL ESTATE ACTIVITIES
8	POWER AND ENERGY
9	FINANCE AND INSURANCE
10	CONSTRUCTION
11	AGRICULTURE, FORESTRY AND FISHING
12	TRANSPORTATION AND STORAGE
13	CAPITAL MARKET
14	PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES
15	PUBLIC UTILITIES
16	EDUCATION
17	HUMAN HEALTH AND SOCIAL WORK ACTIVITIES
18	ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES
19	WATER SUPPLY SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES
20	MINING AND QUARRYING
21	ARTS, ENTERTAINMENT AND RECREATION
22	ACTIVITIES OF EXTRATERRITORIAL ORGANIZATION AND BODIES

S/No.	SECTORAL CLASSIFICATION OF CREDIT BY DMBs	SECTOR CODES
1	OIL AND GAS	42400
2	MANUFACTURING	40300
3	GOVERNMENTS	41200
4	GENERAL	41000
5	GENERAL COMMERCE	40700
6	INFORMATION AND COMMUNICATION	41500
7	REAL ESTATE ACTIVITIES	40500
8	POWER AND ENERGY	42200
9	FINANCE AND INSURANCE	40900
10	CONSTRUCTION	41400
11	AGRICULTURE, FORESTRY AND FISHING	40100
12	TRANSPORTATION AND STORAGE	40800
13	CAPITAL MARKET	42300
14	PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	41600
15	EDUCATION	41800
16	HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	41900
17	ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	41700
18	WATER SUPPLY SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	41300
19	MINING AND QUARRYING	40200
20	ARTS, ENTERTAINMENT AND RECREATION	42000
21	ACTIVITIES OF EXTRATERRITORIAL ORGANIZATION & BODIES	42100

PART B

BANKING SUPERVISION CIRCULARS, POLICIES AND GUIDELINES

CENTRAL BANK OF NIGERIA

Banking Supervision Department
Central Business District
P.M.B. 0187 Garki, Abuja.

Tel: 09-462-36401 E-mail: bsd@cbn.gov.ng

September 2, 2021

BSD/DIR/PUB/LAB/14/063

LETTER TO ALL BANKS

BASEL III IMPLEMENTATION BY DEPOSIT MONEY BANKS IN NIGERIA

You will recall that the Central Bank of Nigeria (CBN) had completed the development of guidelines for Basel III implementation by banks in 2020. However, due to the outbreak of the COVID-19 pandemic, the implementation was suspended to minimize the regulatory compliance burden on the banks. Following the gradual global economic recovery, the CBN hereby releases the underlisted Basel III Guidelines/Reporting Templates for implementation:

S/N	Guidelines	Reporting Templates
1	Guidelines on Regulatory Capital	Reporting Template for Group Capital Adequacy (TR-GCAR)
		Reporting Template for Solo Capital Adequacy (TR-SCAR)
2	Guidelines on Leverage Ratio (LeR)	Reporting Templates for Leverage Ratio (TR-LeR)
3	Guidelines on Liquidity Coverage Ratio (LCR)	Reporting Templates for Liquidity Coverage Ratio (TR-LCR)
4	Guidelines on Liquidity Monitoring Tools (LMT)	Reporting Templates for Liquidity Monitoring Tools (TR-LMT)
5	Guidelines on Large Exposures (LEX)	Reporting Template for Large Exposures (TR-LEX)
6	Guidelines on Liquidity Risk Management and Internal Liquidity Adequacy Assessment Process (ILAAP)	NA

In addition, the Revised Guidelines on the Supervisory Review Process of Internal Capital Adequacy Assessment Process (SRP/ICAAP) are also issued herewith for adoption by banks.

The guidelines can be accessed at the CBN website: www.cbn.gov.ng .

The implementation of the Guidelines will commence with a parallel run effective from November 2021 for an initial period of six (6) months, which may be extended by another 3 months, subject to milestones achieved in the supervisory expectations.

All banks shall submit monthly returns not later than five (5) working days after the end of the preceding month, with effect from November 2021.

During the parallel run, the Basel III guidelines shall operate concurrently alongside the existing Basel II guidelines.

Subject to the successful conclusion of the parallel run, the Basel III Guidelines shall become fully effective.

Finally, all banks are to note that capital add-on will be introduced in a phased manner as part of the overall supervisory process of Pillar II assessment to enhance better risk management practices and better align their capital with their risk profiles.

Yours faithfully,

HARUNA B. MUSTAFA
DIRECTOR OF BANKING SUPERVISION

CENTRAL BANK OF NIGERIA

GUIDELINES ON REGULATORY CAPITAL

SEPTEMBER 2021

Table of Contents

1. INTRODUCTION ---------- 2

2. SCOPE OF APPLICATION AND REPORTING REQUIREMENTS ---------- 2

2.1 Capital Adequacy at Stand-Alone Level ---------- 3

2.3 Capital Adequacy at Group or Consolidated Level ---------- 3

3. MINIMUM CAPITAL REQUIREMENTS AND BUFFERS ---------- 4

3.1 Components of capital ---------- 4

3.2 Limits and Minimum Requirements ---------- 5

4. REQUIREMENTS FOR INCLUSION IN REGULATORY CAPITAL ---------- 6

4.1 Common Equity Tier 1 ---------- 6

4.2 Additional Tier 1 capital ---------- 8

4.3 Tier 2 capital ---------- 12

4.4 Minority interest and other capital issued out of consolidated subsidiaries ---------- 13

4.5 Regulatory Adjustments ---------- 14

5. TRANSITIONAL ARRANGEMENTS FOR ECL ACCOUNTING ---------- 18

6. BUFFERS ABOVE THE REGULATORY MINIMUM ---------- 18

6.1 Capital Conservation Buffer ---------- 19

6.2 Countercyclical Buffer ---------- 19

6.3 Higher Loss Absorbency for D-SIBs ---------- 20

6.4 Minimum Capital Adequacy and Buffer Levels ---------- 21

7. DETERMINATION OF MAXIMUM DISTRIBUTION PAYMENT IN NIGERIA --21

8. DISCLOSURE REQUIREMENTS ---------- 23

9. APPENDIX 1: REQUIREMENT AT SOLO AND CONSOLIDATED LEVEL----24

10. APPENDIX 2: MAXIMUM DIVIDEND PAY-OUT RATIO ---------- 25

1. Introduction

1. The Central Bank of Nigeria (CBN), as part of its efforts to enhance the resilience of Deposit Money Banks (DMBs) and the Nigerian Banking System, has developed this Revised Guideline on Regulatory Capital, which sets out the criteria that banks' capital instruments must meet to be eligible for regulatory purposes as per the Basel III standards.

2. This Guideline also sets out the supervisory requirements for banks operating in Nigeria in relation to: minimum regulatory capital, adjustments to the components of regulatory capital, transitional arrangements, disclosure requirements and the additional capital buffers above the minimum requirements.

3. The aim of this Guideline is to further strengthen the resilience of Nigerian banks by increasing the minimum requirement for high quality capital which can absorb losses on a going concern basis, and by requiring banks to build up additional capital buffers to cushion against future unexpected losses.

2. Scope of Application and Reporting Requirements

4. All banks are required by the CBN to maintain the minimum capital and capital buffer requirements as laid out in this Guideline at all times at both stand-alone (solo) and consolidated (group) levels. **Please see Appendix 1 for further details.**

5. All banks are required to submit electronic copy of their respective returns of capital adequacy position to the CBN using the prescribed reporting templates. The frequency of reporting shall be as follows:

   a) Monthly basis for the capital adequacy position on a stand-alone basis; and

   b) Quarterly basis for the capital adequacy position at the consolidated level (where applicable).

6. Notwithstanding the prescribed frequency of submission of returns of capital adequacy to the CBN specified in **Paragraph 5** above, the CBN may at any time require a bank to calculate and report its capital adequacy ratios for any financial period or as at any specified date on a: (i) stand-alone basis, (ii)consolidated basis in respect of the bank and all its subsidiaries; and/or, (ii) consolidated basis in respect of the bank and one or more specified subsidiaries or associates.

2.1 Capital Adequacy at Stand-Alone Level

7. Capital adequacy position of a bank on a stand-alone (solo) level measures its capital strength and risk profile. It takes into consideration a bank's global operations including its foreign subsidiaries and overseas branch operations, on a stand-alone basis.

8. In the assessment of capital adequacy at the stand-alone level, banks are required to incorporate all regulatory adjustments set out in this Guideline.

9. Investments in the capital instruments of subsidiaries, which are consolidated in the consolidated financial statements of the banking group, should be deducted from the corresponding capital instruments issued.

2.3 Capital Adequacy at Group or Consolidated Level

10. The capital adequacy at the consolidated ("Group[1]") level measures the capital strength and risk profile of a bank or HoldCo after consolidating the assets and liabilities of its subsidiaries, joint ventures, associates etc. excluding the entities or subsidiaries which are predominantly engaged in non-financial sector activities.

11. Investments in subsidiaries, joint ventures, associates etc shall be subject to the CBN's Regulation 1, 2 and 3.

12. The adopted consolidation technique should be consistent with the requirements of International Financial Reporting Standard (IFRS) and should take into consideration the necessary adjustments specified in this Guideline.

13. For the purpose of this Guideline, financial sector activities shall mean activities undertaken by institutions in one or more of the following businesses or activities, whether by itself or through any of its subsidiaries: (i) banking, (ii) securities business, (iii) insurance business, (iv) financial leasing, (v) portfolio management, (vi) investment advisory services, (vii) custodial services, (viii) central clearing services, and (ix) activities ancillary to banking

14. In computing capital adequacy ratio on a consolidated basis, a banking group or HoldCo group shall aggregate its consolidated group's risk weighted assets for credit risk, market risk, and operational risk. The calculation of the risk weighted assets shall be as per the requirements of the CBN Guidance Notes on Credit, Market and Operational Risk.

---

[1] There are two group structures under the focus of this Guidance Notes i.e. Banking Group and Holding Company Group (HoldCo Group)

15. All regulatory adjustments set out in this Guideline are required to be made to the consolidated CET1 capital of the banking group or HoldCo group.

16. Minority interest (i.e. non-controlling interest) and other capital issued out of consolidated subsidiaries held by third parties will be recognized in the consolidated regulatory capital of the group subject to certain conditions as stipulated in **Paragraph 48 to 52** of this Guideline.

17. Where a reporting entity determines that consolidation of a subsidiary is not feasible, the entity shall seek the approval of the CBN to:

   a) In the case of a subsidiary engaged in financial sector activities, deduct such investments from capital; and

   b) In the case of a non-financial subsidiary, apply a risk weight of 1,250%

18. All banking and financial holding companies (HoldCos) groups shall comply with the capital adequacy requirements specified in this Guideline (at the consolidated level).

3. Minimum capital requirements and buffers

3.1 Components of capital

19. Total Regulatory Capital (TRC) is the sum of Common Equity Tier 1 (CET1), Additional Tier 1 Capital (AT1) and Tier 2 Capital (T2), net of regulatory adjustments.

20. Tier 1 capital is the sum of CET1 and AT1 capital, net of the regulatory adjustments applied to those categories.

21. CET1 and AT1 capital are going-concern capital[2] while Tier 2 capital is gone-concern capital[3].

22. A bank shall compute its regulatory capital adequacy ratios (CAR) as follows:

a) CET1 Capital Ratio

$$\text{CET1 Capital Ratio} = \frac{\text{CET1 Capital}}{\text{Total Risk Weighted Assets (TRWA)}} \times 100$$

[2] This component is able to absorb losses without constituting an event of default on the holders of the instrument.

[3] This component can absorb losses only when Tier 1 capital has been eroded and a bank is in liquidation.

b) Tier 1 Capital Ratio = $\frac{\text{Tier 1 Capital}}{\text{Total Risk Weighted Assets (TRWA)}} \times 100$

c) Capital Adequacy Ratio (CAR) = $\frac{\text{Total Regulatory Capital (TRC)}}{\text{Total Risk Weighted Assets (TRWA)}} \times 100$

Where Total Risk Weighted Assets (TRWA) is calculated as the sum of:

a) Credit Risk Weighted Assets (RWAs) as defined in the Guidance Notes on the Calculation of Capital Requirement for Credit Risk;

b) Market RWAs as defined in Guidance Note on the Calculation of Capital Requirement for Market Risk;

c) Operational RWAs as defined in Guidance Notes on the Calculation of Capital Requirement for Operational Risk.

23. The RWAs for market and operational risk shall be determined as **12.5 times** the sum of the estimated Pillar 1 capital charges as per the relevant Guidance Notes.

24. The non-distributable Regulatory Risk Reserve (RRR)[4] should not be recognised as a component of the total qualifying regulatory capital. Any balances in the RRR may however be netted against the TRWA and such balances must be based on the last audited financial statement.

3.2 Limits and Minimum Requirements

25. A minimum Pillar 1 regulatory Capital Adequacy Ratio (CAR) of 15% will be applicable to all banks and banking groups with international authorisation and those that have been categorized by the CBN as being Domestic Systemically Important Banks (D-SIBs). A minimum CAR of 10% will be applicable to all other banks.

26. With respect to a holding company group, its minimum capital adequacy ratio shall not be less than the capital ratio requirement of any banking subsidiary within the group. In this regard, the reference subsidiary shall be that with the highest minimum capital requirement.

[4] This arises where the provision determined under the prudential guidelines is greater than IFRS 9 provisions. The current practice is to transfer the difference from the general reserve to a non-distributable regulatory risk reserve.

27. The CBN may require a bank to maintain a higher minimum level of capital than those stated in **Paragraph 25** and **Table 1** after taking into consideration the outcome of the supervisory review of its Internal Capital Adequacy Assessment Process (ICAAP) under Pillar 2. The aim will be to ensure that the level of a bank's minimum capital requirement reflects its risk profile, business strategy and risk management capacity.

Table 1: Minimum Regulatory Capital Requirements

Regulatory Capital Ratio	As a percentage of TRWA	
	National and Regional Banks	International Banks and D-SIBs
CET1 Capital Ratio	7.0%	10.5%
Tier 1 Capital Ratio	7.5%	11.25%
Capital Adequacy Ratio	10.0%	15.0%

28. The minimum requirements set out in Table 1 do not take into consideration the additional capital buffers which the CBN may require banks in Nigeria to maintain from time to time depending on, amongst others, the prevailing macroeconomic conditions and the systemic importance of the individual banks.

29. The inclusion of eligible Tier 2 Capital would only be permitted subject to the minimum thresholds set out in Table 1 being met. In the absence of AT1 capital, the minimum Tier 1 capital ratio should be met from CET1 capital.

30. The minimum CAR for the institutions that have been designated as D-SIBs should be further enhanced with the Higher Loss Absorbency (HLA) requirement of 1.0% consisting wholly of CET1 capital.

31. In addition to the minimum CET 1 capital ratios specified in Table 1, banks are also required to maintain minimum capital conservation and countercyclical buffers specified **Paragraph 80**. This should be in form of CET1 capital.

4. Requirements for Inclusion in Regulatory Capital

4.1 Common Equity Tier 1

32. CET1 capital consists of the sum of the following elements:

a) Common shares issued by the bank that meet the criteria for classification as common shares for regulatory purposes;

b) Stock surplus (share premium) resulting from the issue of instruments included CET1;

c) Retained earnings (only audited components);

d) Small and Medium Enterprises Equity Investment scheme (SMEEIS) reserves and or any other scheme as may be stipulated from time to time by the CBN;

e) Statutory reserve;

f) Common shares issued by consolidated subsidiaries of the bank and held by third parties (i.e. minority interest) that meet the criteria for inclusion in CET 1 capital. Please see **Paragraph 49 to 53** for the relevant criteria;

g) Other reserves as may be determined by the CBN; and

33. For an instrument to be included as part of CET1 capital, it must meet all of the criteria set out below. The criteria must be met solely with common shares. In the rare cases where banks need to issue non-voting common shares as part of CET1, they must be identical to voting common shares of the issuing bank in all respects except the absence of voting rights:

a) Represents the most subordinated claim in liquidation of the bank;

b) Entitled to a claim on the residual assets that is proportional with its share of issued capital, after all senior claims have been repaid in liquidation[5];

c) Principal is perpetual and never repaid outside of liquidation;

d) The bank does nothing to create an expectation at issuance that the instrument will be bought back, redeemed, or cancelled nor do the statutory or contractual terms provide any feature which might give rise to such an expectation;

e) Distributions are paid out of distributable items (retained earnings included). The level of distributions should not in any way be tied or linked to the amount paid in at issuance and should not be subject to a contractual cap;

f) There are no circumstances under which the distributions are obligatory and therefore non-payment is not a default event[6];

g) Distributions are paid only after all legal and contractual obligations have been met and payments on more senior capital instruments have been made;

h) It is the issued capital that takes the first and proportionately greatest share of any losses as they occur. Within the highest quality capital, each instrument absorbs losses on a going concern basis proportionately and pari passu with all the others;

---

[5] That is, has an unlimited and variable claim, not a fixed or capped claim.

[6] Amongst other things, this requirement prohibits features that require the bank to make payment in kind.

i) The paid-in amount is recognised as equity capital (not as liability) for determining balance sheet insolvency;

j) The paid-in amount is classified as equity under IFRS;

k) It is directly issued and paid-in and the bank cannot directly or indirectly have funded the instrument or the purchase of the instrument;

l) The paid-in amount is neither secured nor covered by a guarantee of the issuer or related entity[7] or subject to any other arrangement that legally or economically enhances the seniority of the claim;

m) It is only issued with the approval of the owners of the issuing bank, either given directly by the owners or, where permitted by applicable law, given by the Board of Directors or by other persons duly authorised by the owners;

n) It is clearly and separately disclosed on the bank's balance sheet published in the bank's annual report.

34. There is no limit on the inclusion of Tier 1 capital for the purpose of calculating total regulatory capital.

4.2 Additional Tier 1 capital

35. Additional Tier 1 capital (AT1) consists of the sum of the following elements:

a) Instruments issued by the bank that meet the criteria for inclusion in AT1 capital and not included in CET1;

b) Stock surplus (share premium) resulting from the issue of instruments included in AT1 capital;

c) Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in AT1 capital and are not included in CET1 capital. Please see **Paragraph 48 to 52** for the relevant criteria;

36. The following criteria must be met or exceeded for an instrument issued by the bank to be included in AT1 capital.

a) Issued and paid-in;

b) Is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank general creditors;

[7] A related entity can include a parent company, a sister company, a subsidiary, or any other affiliate. A holding company is a related entity irrespective of whether it forms part of the consolidated banking group.

c) May be callable at the initiative of the issuer only after a minimum of five years (see **Paragraph 38** below for further details);

d) The instrument cannot have a credit sensitive dividend feature. That is, a dividend or coupon that is reset periodically based in whole or in part on the bank's credit rating;

e) Neither the bank nor a related party over which the bank exercises control or significant influence can have purchased the instrument, nor can the bank directly or indirectly have funded the purchase of the instrument;

f) The terms and conditions must have a provision that requires, at the option of the CBN, the instrument to either be written off or converted into common equity upon the occurrence of a trigger event (see **Paragraphs 42 to 43** for further details);

g) Is perpetual i.e. there is no maturity date and there are no incentives to redeem;

h) Any repayment of principal (e.g. through repurchase or redemption) must be with the prior approval of the CBN and banks should not assume or create market expectations that the CBN will grant the approval;

i) It has dividend or coupon discretion (see **Paragraph 39** below for further details);

j) Dividends or coupons must be paid out of same distributable items;

k) The instrument cannot contribute to liabilities exceeding assets for the purpose of insolvency testing;

l) Instruments classified as liabilities for accounting purposes must have principal loss absorption mechanism (see **Paragraph 40** for further detail);

m) The aggregate amount to be written down or converted for all instruments classified as liabilities for accounting purposes on breaching the trigger level must be at least the amount needed to immediately return the bank's CET1 ratio to the trigger level or, if this is not possible, the full principal value of the instruments;

n) Neither the bank nor a related party over which the bank exercises control or significant influence can have purchased the instrument, nor can the bank directly or indirectly fund the instrument or the purchase of the instrument;

o) The instrument cannot have any features that hinder recapitalisation, such as provisions that require the issuer to compensate investors if a new instrument is issued at a lower price during a specified time frame;

p) If the instrument is not issued out of an operating entity or the holding company in the consolidated group[8], proceeds must be immediately available without

[8] For example, a special purpose vehicle (SPV)

limitation to an operating entity[9] or the holding company in the consolidated group in a form which meets or exceeds all of the other criteria for inclusion in AT1 capital.

q) Subordinated to depositors, general creditors, and subordinated debt of the bank. In the case of an issue by a holding company, the instrument must be subordinated to all general creditors;

37. Stock surplus (share premium) that is not eligible for inclusion in CET1, will only be permitted to be included in AT1 capital if the shares giving rise to the stock surplus are permitted to be included in AT1 capital.

38. Where an instrument is callable at the initiative of the issuer:

a) A bank must receive prior written approval from the CBN before the call option can be exercised; and

b) A bank must not do anything which creates an expectation that the call option will be exercised; and

c) Banks must not exercise a call unless: (i) they replace the called instrument with capital of the same or better quality and the replacement[10] of this capital is done at conditions which are sustainable for the income capacity of the bank; or (ii) it is able to demonstrates that its capital position will be well above the CBN's prescribed minimum capital requirement after the call option is exercised.

39. Regarding the discretions on dividends or coupon:

a) The bank must have full discretion at all times to cancel distributions or payments;

b) Cancellation of discretionary payments must not constitute a default event;

c) Banks must have full access to cancel payments to meet obligations as they fall due;

d) Cancellation of distributions or payments must not impose restrictions on the bank except in relation to distributions to common stockholders.

40. The principal loss absorption mechanism must operate through either:

[9] An operating entity is an entity set up to conduct business with clients with the intention of earning a profit in its own right.
[10] Replacement issue can be concurrent with but not after the instrument is called.

a) Conversion to common shares at an objective pre-specified trigger point of at least 7.25% CET1 (7.0% + 25% of 1.0%) for banks with National Authorization Licence, 10.75% CET1 (10.5% + 25% of 1.0%) for banks with International Authorization Licence and 11.00% CET1 (10.5% + 25% of 1.0% + 1.0%) for D-SIBs; or

b) A write-down mechanism which allocates losses to the instrument at a pre-specified trigger points specified in (a) above. The write-down will have the following effects: (i) reduce the claim of the instrument in liquidation, (ii) reduce the amount re-paid when a call is exercised; and (iii) partially or fully reduce coupon or dividend payments on the instrument.

41. Any compensation paid to instrument holders as a result of a write-off must be paid immediately in the form of common stock of either the issuing bank or the parent company of the consolidated group (including any successor in resolution) and must be paid prior to any public sector injection of capital.

42. The issuing bank must maintain at all times all prior authorization necessary to immediately issue the relevant number of shares specified in the instrument's terms and conditions should the trigger event occur. The trigger event is the earlier of:

a) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the CBN; and

b) the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the CBN.

43. Where an issuing bank is part of a wider banking group and the issuing bank wishes the instrument to be included in the consolidated group's capital in addition to its solo capital, the terms and conditions must specify an additional trigger event. This additional trigger event is the earlier of:

a) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the CBN; or

b) the decision to make a public sector injection of capital, or equivalent support, in the jurisdiction of the consolidated supervisor, without which the firm receiving the support would have become non-viable, as determined by the CBN in consultation with the host regulator in the relevant jurisdiction.

4.3 Tier 2 capital

44. Tier 2 capital consists of the sum of the following elements:

  a) Instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital (and are not included in Tier 1 capital);
  b) Stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital;
  c) Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital. Please see **Paragraph 48 to 52** for the relevant criteria;
  d) Regulatory adjustments applied in the calculation of Tier 2 capital.

45. In addition to the criteria set out in **Paragraph 36 [(a) to (f)],** the following criteria must also be met or exceeded for an instrument to be included in Tier 2 capital.

  a) Minimum original maturity of at least five years (recognition in regulatory capital in the remaining five years before maturity **will be amortised on a straight-line basis by 20% per annum** and there should be no step-ups or incentives to redeem by the holder);
  b) Subordinated to depositors and general creditors of the bank;
  c) The investor must have no rights to accelerate the repayment of future scheduled payments (coupon or principal), except in bankruptcy and liquidation;
  d) If the instrument is not issued out of an operating entity or the holding company in the consolidated group e.g. a Special Purpose Entity (SPE), proceeds must be immediately available without limitation to a single operating entity[11] or the holding company in the consolidated group in a form which meets or exceeds all of the other criteria for inclusion in Tier 2 capital.

46. Stock surplus (share premium) that is not eligible for inclusion in Tier 1 will only be permitted to be included in Tier 2 capital if the shares giving rise to the stock surplus are permitted to be included in Tier 2 capital.

47. Other comprehensive income items other than fixed asset revaluation reserves that are created by the adoption of IFRS may be accepted as part of the Tier 2 capital subject to limitations that may be specified by the CBN from time to time.

---

[11] An operating entity is an entity set up to conduct business with clients with the intention of earning a profit in its own right

i) The paid-in amount is recognised as equity capital (not as liability) for determining balance sheet insolvency;

j) The paid-in amount is classified as equity under IFRS;

k) It is directly issued and paid-in and the bank cannot directly or indirectly have funded the instrument or the purchase of the instrument;

l) The paid-in amount is neither secured nor covered by a guarantee of the issuer or related entity[7] or subject to any other arrangement that legally or economically enhances the seniority of the claim;

m) It is only issued with the approval of the owners of the issuing bank, either given directly by the owners or, where permitted by applicable law, given by the Board of Directors or by other persons duly authorised by the owners;

n) It is clearly and separately disclosed on the bank's balance sheet published in the bank's annual report.

34. There is no limit on the inclusion of Tier 1 capital for the purpose of calculating total regulatory capital.

4.2 Additional Tier 1 capital

35. Additional Tier 1 capital (AT1) consists of the sum of the following elements:

a) Instruments issued by the bank that meet the criteria for inclusion in AT1 capital and not included in CET1;

b) Stock surplus (share premium) resulting from the issue of instruments included in AT1 capital;

c) Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in AT1 capital and are not included in CET1 capital. Please see **Paragraph 48 to 52** for the relevant criteria;

36. The following criteria must be met or exceeded for an instrument issued by the bank to be included in AT1 capital.

a) Issued and paid-in;

b) Is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank general creditors;

[7] A related entity can include a parent company, a sister company, a subsidiary, or any other affiliate. A holding company is a related entity irrespective of whether it forms part of the consolidated banking group.

c) May be callable at the initiative of the issuer only after a minimum of five years (see **Paragraph 38** below for further details);

d) The instrument cannot have a credit sensitive dividend feature. That is, a dividend or coupon that is reset periodically based in whole or in part on the bank's credit rating;

e) Neither the bank nor a related party over which the bank exercises control or significant influence can have purchased the instrument, nor can the bank directly or indirectly have funded the purchase of the instrument;

f) The terms and conditions must have a provision that requires, at the option of the CBN, the instrument to either be written off or converted into common equity upon the occurrence of a trigger event (see **Paragraphs 42 to 43** for further details);

g) Is perpetual i.e. there is no maturity date and there are no incentives to redeem;

h) Any repayment of principal (e.g. through repurchase or redemption) must be with the prior approval of the CBN and banks should not assume or create market expectations that the CBN will grant the approval;

i) It has dividend or coupon discretion (see **Paragraph 39** below for further details);

j) Dividends or coupons must be paid out of same distributable items;

k) The instrument cannot contribute to liabilities exceeding assets for the purpose of insolvency testing;

l) Instruments classified as liabilities for accounting purposes must have principal loss absorption mechanism (see **Paragraph 40** for further detail);

m) The aggregate amount to be written down or converted for all instruments classified as liabilities for accounting purposes on breaching the trigger level must be at least the amount needed to immediately return the bank's CET1 ratio to the trigger level or, if this is not possible, the full principal value of the instruments;

n) Neither the bank nor a related party over which the bank exercises control or significant influence can have purchased the instrument, nor can the bank directly or indirectly fund the instrument or the purchase of the instrument;

o) The instrument cannot have any features that hinder recapitalisation, such as provisions that require the issuer to compensate investors if a new instrument is issued at a lower price during a specified time frame;

p) If the instrument is not issued out of an operating entity or the holding company in the consolidated group[8], proceeds must be immediately available without

[8] For example, a special purpose vehicle (SPV)

limitation to an operating entity[9] or the holding company in the consolidated group in a form which meets or exceeds all of the other criteria for inclusion in AT1 capital.

q) Subordinated to depositors, general creditors, and subordinated debt of the bank. In the case of an issue by a holding company, the instrument must be subordinated to all general creditors;

37. Stock surplus (share premium) that is not eligible for inclusion in CET1, will only be permitted to be included in AT1 capital if the shares giving rise to the stock surplus are permitted to be included in AT1 capital.

38. Where an instrument is callable at the initiative of the issuer:

a) A bank must receive prior written approval from the CBN before the call option can be exercised; and

b) A bank must not do anything which creates an expectation that the call option will be exercised; and

c) Banks must not exercise a call unless: (i) they replace the called instrument with capital of the same or better quality and the replacement[10] of this capital is done at conditions which are sustainable for the income capacity of the bank; or (ii) it is able to demonstrates that its capital position will be well above the CBN's prescribed minimum capital requirement after the call option is exercised.

39. Regarding the discretions on dividends or coupon:

a) The bank must have full discretion at all times to cancel distributions or payments;

b) Cancellation of discretionary payments must not constitute a default event;

c) Banks must have full access to cancel payments to meet obligations as they fall due;

d) Cancellation of distributions or payments must not impose restrictions on the bank except in relation to distributions to common stockholders.

40. The principal loss absorption mechanism must operate through either:

---

[9] An operating entity is an entity set up to conduct business with clients with the intention of earning a profit in its own right.
[10] Replacement issue can be concurrent with but not after the instrument is called.

a) Conversion to common shares at an objective pre-specified trigger point of at least 7.25% CET1 (7.0% + 25% of 1.0%) for banks with National Authorization Licence, 10.75% CET1 (10.5% + 25% of 1.0%) for banks with International Authorization Licence and 11.00% CET1 (10.5% + 25% of 1.0% + 1.0%) for D-SIBs; or

b) A write-down mechanism which allocates losses to the instrument at a pre-specified trigger points specified in (a) above. The write-down will have the following effects: (i) reduce the claim of the instrument in liquidation, (ii) reduce the amount re-paid when a call is exercised; and (iii) partially or fully reduce coupon or dividend payments on the instrument.

41. Any compensation paid to instrument holders as a result of a write-off must be paid immediately in the form of common stock of either the issuing bank or the parent company of the consolidated group (including any successor in resolution) and must be paid prior to any public sector injection of capital.

42. The issuing bank must maintain at all times all prior authorization necessary to immediately issue the relevant number of shares specified in the instrument's terms and conditions should the trigger event occur. The trigger event is the earlier of:

a) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the CBN; and

b) the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the CBN.

43. Where an issuing bank is part of a wider banking group and the issuing bank wishes the instrument to be included in the consolidated group's capital in addition to its solo capital, the terms and conditions must specify an additional trigger event. This additional trigger event is the earlier of:

a) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the CBN; or

b) the decision to make a public sector injection of capital, or equivalent support, in the jurisdiction of the consolidated supervisor, without which the firm receiving the support would have become non-viable, as determined by the CBN in consultation with the host regulator in the relevant jurisdiction.

4.3 Tier 2 capital

44. Tier 2 capital consists of the sum of the following elements:

   a) Instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital (and are not included in Tier 1 capital);

   b) Stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital;

   c) Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital. Please see **Paragraph 48 to 52** for the relevant criteria;

   d) Regulatory adjustments applied in the calculation of Tier 2 capital.

45. In addition to the criteria set out in **Paragraph 36 [(a) to (f)]**, the following criteria must also be met or exceeded for an instrument to be included in Tier 2 capital.

   a) Minimum original maturity of at least five years (recognition in regulatory capital in the remaining five years before maturity **will be amortised on a straight-line basis by 20% per annum** and there should be no step-ups or incentives to redeem by the holder);

   b) Subordinated to depositors and general creditors of the bank;

   c) The investor must have no rights to accelerate the repayment of future scheduled payments (coupon or principal), except in bankruptcy and liquidation;

   d) If the instrument is not issued out of an operating entity or the holding company in the consolidated group e.g. a Special Purpose Entity (SPE), proceeds must be immediately available without limitation to a single operating entity[11] or the holding company in the consolidated group in a form which meets or exceeds all of the other criteria for inclusion in Tier 2 capital.

46. Stock surplus (share premium) that is not eligible for inclusion in Tier 1 will only be permitted to be included in Tier 2 capital if the shares giving rise to the stock surplus are permitted to be included in Tier 2 capital.

47. Other comprehensive income items other than fixed asset revaluation reserves that are created by the adoption of IFRS may be accepted as part of the Tier 2 capital subject to limitations that may be specified by the CBN from time to time.

---

[11] An operating entity is an entity set up to conduct business with clients with the intention of earning a profit in its own right

4.4 Minority interest and other capital issued out of consolidated subsidiaries

48. Minority interest (non-controlling interest) arising from common share equity capital issued by a fully consolidated subsidiary of a bank or a HoldCo may receive recognition in CET1 capital only if:

   a) the instrument giving rise to the minority interest would, if issued by the bank/HoldCo, meet all the criteria for classification as CET1 for regulatory capital purposes as stipulated in this Guideline; and

   b) the subsidiary that issued the instrument is itself a bank in the case of a banking group or a non-bank financial entity for a HoldCo group.

49. Minority interest in a subsidiary that is a bank is strictly excluded from the parent bank's common equity if the parent bank or affiliate has entered into any arrangements to fund directly or indirectly minority investment in the subsidiary whether through an SPE or through another vehicle or arrangement.

50. The amount of minority interest meeting the criteria set out in **Paragraph 48** that will be recognized in consolidated CET1 will be calculated as follows:

   a) Total minority interest meeting the two criteria set out in **Paragraph 48** above minus the amount of the surplus CET1 of the subsidiary attributable to the minority shareholders.

   b) Surplus CET1 of the subsidiary is calculated as the CET1 of the subsidiary minus the lower of: (i) the minimum CET1 requirement of the subsidiary plus the capital conservation buffer or (ii) the portion of the consolidated minimum CET1 requirement plus the capital conservation buffer that relates to the subsidiary.

   c) The amount of the surplus CET1 that is attributable to the minority shareholders is calculated by multiplying the surplus CET1 by the percentage of CET1 that is held by minority shareholders.

51. Tier 1 capital instruments issued by a fully consolidated subsidiary of the bank, whether wholly or partly owned, to third party investors (including amounts under **Paragraph 50** above) may receive recognition in Tier 1 capital only if the instruments would, if issued by the bank, meet all of the specified criteria for classification as Tier 1 capital. The amount of this capital that will be recognised in Tier 1 will be calculated as follows:

   a) Total Tier 1 capital of the subsidiary issued to third parties minus the amount of the surplus Tier 1 of the subsidiary attributable to the third-party investors.

b) Surplus Tier 1 of the subsidiary is calculated as the Tier 1 of the subsidiary minus the lower of: (i) the minimum Tier 1 requirement of the subsidiary plus the capital conservation buffer or (ii) the portion of the consolidated minimum Tier 1 requirement plus the capital conservation buffer that relates to the subsidiary.

c) The amount of the surplus Tier 1 that is attributable to the third-party investors is calculated by multiplying the surplus Tier 1 by the percentage of Tier 1 that is held by third party investors.

d) The amount of this Tier 1 capital that will be recognised in AT1 will exclude amounts recognised in CET1 under **Paragraph 50** above

52. Total capital instruments (i.e. Tier 1 and Tier 2 capital instruments) issued by a fully consolidated subsidiary of the bank, whether wholly or partly owned, to third party investors (including amounts under **Paragraph 50** to **Paragraph 51** above) may receive recognition in Total Capital only if the instruments would, if issued by the bank, meet all of the criteria for classification as Tier 1 or Tier 2 capital. The amount of this capital that will be recognised in consolidated Total Capital will be calculated as follows:

a) Total capital instruments of the subsidiary issued to third parties minus the amount of the surplus Total Capital of the subsidiary attributable to the third-party investors.

b) Surplus Total Capital of the subsidiary is calculated as the Total Capital of the subsidiary minus the lower of: (i) the minimum Total Capital requirement of the subsidiary plus the capital conservation buffer and (ii) the portion of the consolidated minimum Total Capital requirement plus the capital conservation buffer that relates to the subsidiary.

c) The amount of the surplus Total Capital that is attributable to the third-party investors is calculated by multiplying the surplus Total Capital by the percentage of Total Capital that is held by third party investors.

d) The amount of Total Capital that will be recognised in Tier 2 will exclude amounts recognised in CET1 under **Paragraph 50** above and amounts recognised in Additional Tier 1 under **Paragraph 51** above.

4.5 Regulatory Adjustments

53. This section sets out deductions to be applied to regulatory capital. In most cases, these adjustments are applied in the calculation of CET1 capital.

54. All items that are deducted from capital should be excluded from total assets in calculating the CAR.

55. If a bank is required to make a deduction from Tier 2 capital and it does not have sufficient capital to make that deduction, the shortfall will be deducted from Tier 1 capital.

56. In case of any shortfall in the regulatory capital requirements in any subsidiary entity, the shortfall should be fully deducted from the Common Equity Tier 1 (CET1) capital

4.5.1 Goodwill and other intangibles

57. Goodwill and all other intangibles must be deducted in the calculation of CET1. This includes any goodwill included in the valuation of significant investments in the capital of other financial entities that are outside the scope of regulatory consolidation.

58. The full amount is to be deducted net of any associated Deferred Tax Liability (DTL) which would be extinguished if the intangible assets become impaired or derecognised under the IFRS.

4.5.2 Deferred Tax Assets (DTA)

59. Deferred Tax Assets (DTAs) are to be deducted in the calculation of CET1.

4.5.3 Cash Flow Hedge Reserve

60. The amount of the cash flow hedge reserve that relates to the hedging of items that are not fair valued on the balance sheet should be derecognised in the calculation of CET1. This means that positive amounts should be deducted, and negative amounts should be added back.

4.5.4 Gain on Sale Related to Securitisation Transactions

61. Banks must deduct from CET1 any increase in equity capital resulting from a securitisation transaction, such as that associated with expected future margin income resulting in a gain on sale that is recognised in regulatory capital.

4.5.5 Defined Benefit Pension Fund Assets and Liabilities

62. Defined Benefit (DB) pension fund liabilities, as included on the balance sheet, must be fully recognised in the calculation of CET1. That is, CET1 cannot be increased through derecognising these liabilities.

63. For each DB pension fund that is an asset on the balance sheet, the net asset on the balance sheet in respect of the plan or fund should be deducted in the calculation of CET1 net of any associated deferred tax liability which would be extinguished if the asset should become impaired or derecognised under IFRS.

4.5.6 Investment in Own Shares (Treasury shares) and Own other Capital

64. All of a bank's investments in its own common shares, whether held directly or indirectly, should be deducted in the calculation of CET1. In addition, any own stock which the bank could be contractually obliged to purchase should be deducted in the calculation of CET1[12].

65. Banks must also deduct investments in their own AT1 in the calculation of their AT1 capital and must deduct investments in their own Tier 2 in the calculation of their Tier 2 capital.

4.5.7 Reciprocal cross holdings in the common shares of banking, financial and insurance entities

66. Reciprocal cross-holdings of capital (e.g. Bank A holds capital of Bank B and Bank B in return holds capital of Bank A) should be deducted in full.

67. Banks must apply a "corresponding deduction approach" to such investments in the capital of other banks and financial entities. This means the deduction should be applied to the same component of capital for which the capital would qualify if it was issued by the bank itself.

4.5.8 Investments in the capital of banking and financial entities outside the scope of regulatory consolidation where the bank does not own more than 10% of the issued common shares of the entity

68. A bank's aggregate investment in all types of eligible capital instruments, issued by banks and financial institutions (except its financial subsidiaries) should not exceed 10% of the investing bank's capital funds (Tier 1 plus Tier 2 before regulatory adjustments). Any investment in excess of this limit shall be assigned a risk weight of 1250%.

69. A banks' investment in the following instruments issued by financial institutions will be included in the prudential limit of 10%, referred to in **Paragraph 68** above:

    a) Equity shares;

[12] The treatment described will apply irrespective of the location of the exposure in the banking book or the trading book

b) Hybrid debt capital instruments

c) Subordinated debt instruments; and

d) Any other instrument approved by the CBN having the nature of capital.

70. Financial institutions whose instruments shall qualify for capital purposes shall be as defined in the Regulation on the Scope of Banking Activities and Ancillary Matters No. 3 and any other extant regulations issued by the CBN.

71. Investment in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity should be deducted from capital. For the purpose of this regulatory adjustment:

a) Investments include direct, indirect[13] and synthetic holdings of capital instruments or other liabilities;

b) Holdings in both the banking book and trading book are to be included;

c) For capital instruments, it is the net long position that is to be included (i.e. the gross long position net of short positions in the same underlying exposure where the maturity of the short position either matches the maturity of the long position or has a residual maturity of at least one year);

d) If the capital instrument of the entity in which the bank has invested does not meet the criteria for CET1, AT1, or Tier 2 capital of the bank, the capital is to be considered common shares for the purposes of this regulatory adjustment;

e) Banks may with prior written approval from the CBN exclude temporarily certain investments where these have been made in the context of resolving a distressed institution.

72. If a bank is required to make a deduction from a particular tier of capital and it does not have enough of that tier of capital to satisfy that deduction, the shortfall will be deducted from the next higher tier of capital.

73. Amounts that are not deducted will continue to be risk weighted as per the relevant Pillar 1 RWA rules.

4.5.9 Shortfall in impairment

74. Any shortfall in specific and collective impairment is to be deducted from CET1 capital.

[13] Indirect holdings are exposures or parts of exposures that, if a direct holding loses its value, will result in a loss to the bank substantially equivalent to the loss in value of the direct holding.

4.5.10 Significant Investment in the Capital of Banking, Financial and Insurance Entities that are Outside the Scope of Regulatory Consolidation

75. The regulatory adjustment described in this section applies to investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation where the bank owns more than 10% of the issued common share capital of the issuing entity or where the entity is an affiliate of the bank. In addition:
    a) Investments include direct, indirect, and synthetic holdings of capital instruments;
    b) Holdings in both the banking book and trading book are to be included;
    c) If the capital instrument of the entity in which the bank has invested does not meet the criteria for CET1, AT1, or Tier 2 capital of the bank, the capital is to be considered common shares for the purposes of this regulatory adjustment.

76. All investments in capital instruments included above that are not common shares must be fully deducted following a corresponding deduction approach. This means the deduction should be applied to the same tier of capital for which the capital would qualify if it was issued by the bank itself.

5. Transitional Arrangements for ECL Accounting

77. The transitional arrangement for Expected Credit Loss (ECL) accounting under IFRS 9 should take into consideration the CBN prescribed transitional approach[14].
78. The transitional period commenced from 1 January 2018 which is the date upon which banks in Nigeria were required to fully adopt IFRS 9.

79. During the transitional period, the transitional adjustment amount should be partially included in CET1. The transitional adjustment amount included in CET1 capital each year during the transition period must be taken through to other measures of capital as appropriate, and to the calculation of the leverage ratio and of large exposure limits.

6. Buffers Above the Regulatory Minimum

80. All banks shall be required to hold and maintain capital buffers above the regulatory minimum, as specified by the CBN from time to time. The capital buffers should be in the form of CET1 and should be above the minimum CET1, Tier 1 and Total Capital Adequacy levels as defined in this Guideline. The capital buffers shall comprise the sum of the following:

[14] Transitional Arrangements Treatment of IFRS 9 Expected Credit Loss for Regulatory Purposes by Banks in Nigeria, October 18, 2018, BSD/DIR/GEN/LAB/11/027

a) a Capital Conservation Buffer (CCB1) of 1.0% of TRWA; and

b) a Countercyclical Capital Buffer (CCB2), which will be determined by the CBN from to time taking into consideration the prevailing macroeconomic conditions and developments within the financial sector amongst other factors.

6.1 Capital Conservation Buffer

81. The capital conservation buffer (CCB1) is designed to ensure that banks build up capital buffers during business as usual time which can be used to absorb losses during periods of crisis.

82. All Nigerian banks are therefore required to maintain a CCB1 of 1.0% of TRWA in the form of CET1 during business as usual periods to withstand future periods of stress.

83. Where buffers have been drawn down, banks are required to restrict discretionary capital distributions, including dividend payments, share buybacks, and employee bonuses[15]. Discretionary distributions, for the purposes of this Guideline, shall also include payments in respect of intra-group transfer pricing and technical service fees to foreign group members and/or parents.

84. Employees in Paragraph 86 refers to:

   (i) individuals whose professional activities have a material impact on the bank's risk profile, which include senior management, material risk-takers and staff performing important risk management and control functions; and
   (ii) groups of employees who may together take material risks, even if no individual employee is likely to expose the bank to material risk (e.g. loan officers who, as a group, originate loans that account for a material amount of the organisation's credit risk).

85. Banks have the option of raising new capital from the capital market as an alternative to conserving internally generated capital. The approach to be taken by banks shall be subject to prior approval from the CBN.

6.2 Countercyclical Buffer

86. In addition to CCB1, all banks in Nigeria will be required to maintain a Countercyclical Capital Buffer (CCB2)[16] where the CBN determines that there is a build-up of credit risk which could lead to system-wide stress. The CCB2 shall

---

[15]

[16] The objective of countercyclical capital buffer is to support the broader macro-prudential goal and financial system stability

range from 0% to 2.5% of TRWA and shall be determined by the CBN from time to time taking into consideration, amongst others, the prevailing economic and industry circumstances.

87. The CCB2 is to be met with CET1 capital and thus the restrictions on discretionary capital distribution would also take into consideration banks' levels of CCB2.

88. The CBN shall apply its macro prudential tools and supervisory judgement in determining the level of CCB2 to be maintained by Nigerian banks. The supervisory judgement shall be informed by, amongst others, the assessment of developments in the macroeconomic and financial conditions including the underlying drivers.

89. The CBN shall announce the required CCB2 twelve (12) months in advance, during which time banks will be expected to take measures aimed at building up their capital buffers to the required level. Where there is an imminent crisis, the CBN may require banks to build up a CCB2 at a much shorter notice.

90. Banks shall be required to maintain, if necessary, CCB2 for a minimum period to be determined by the CBN after the expectation for system wide risk has been alleviated.

91. **The CCB2 buffer for banks with international authorization will be a weighted average of the buffers deployed across all the jurisdictions to which it has credit exposures.**

92. Where in place, banks must calculate and publicly disclose their CCB2 requirements with at least the same frequency as their minimum capital requirements. The buffer should be based on the most current jurisdictional countercyclical buffers.

93. Banks must also disclose the geographic breakdown of their exposures used in the calculation of the buffer requirement.

6.3 Higher Loss Absorbency for D-SIBs

94. The CBN's **Framework for The Regulation and Supervision of Domestic Systemically Important Banks (SIBs) in Nigeria issued on September 5, 2014**, requires D-SIBs in Nigeria to set aside Higher Loss Absorbency (HLA) or additional capital surcharge of 1.0% to their respective minimum required CAR. The HLA should be fully met with CET1 capital.

95. The aim of HLA requirement is to reduce the probability of failure of D-SIBs given the relatively higher impact that their failure is expected to have on the domestic financial system and real economy.

6.4 Minimum Capital Adequacy and Buffer Levels

96. The following table sets out the minimum levels of capital adequacy and capital buffers that are applicable to banks depending on the nature of their authorization and their systemic importance to the Nigerian economy.

Table 2: Minimum Capital Requirements and Buffer Levels

Capital Elements as % of TRWA	National Banks	International Banks	D-SIBs
CET1	7.0	10.5	10.5
T1	**7.5**	**11.25**	**11.25**
CAR	**10.0**	**15.0**	**15.0**
CCB1	1.0	1.0	1.0
CCB2	As determined by CBN from time to time		
HLA	Not Applicable	Not Applicable	**1.0**

7. Determination of Maximum Distribution Payment in Nigeria

7.1 Scope of Distribution

97. Distribution payment for the purpose of this Guideline shall refer to:

a) payment of dividends/coupon in respect of CET1 and AT1 capital;

b) payment for purchase of the bank's own shares, subject to the existing regulation;

c) discretionary bonus payment to the directors and employees of the bank as defined in Paragraph 87 ;

d) technical service fees, management fees or other agreed or discretionary payments to a group entity or group member/parent; and

e) any other payment that is in substance a distribution of the bank's CET1 capital

7.2 Conditions for Payment of Bonuses

98. Bonus payment to directors and employees shall only be made in respect of a financial year if the following conditions are jointly met. Specifically, no bonus shall be paid where:

(i) National bank - Composite Risk Rating (CRR) is Above Average or High, CET 1 is less than 8% (CET 1 of 7% + CCB1%)and has not satisfied the minimum leverage ratio requirement of 4%;
(ii) International authorization - Composite Risk Rating (CRR) is Above Average or High, CET 1 is less than 11.5% (CET 1 of 10.5% + CCB1%) and has not satisfied the minimum leverage ratio requirement of 4%; and
(iii) D-SIBs - Composite Risk Rating (CRR) is Above Average or High, CET 1 is less than 12.5% (CET 1 of 10.5% + CCB1% + HLA1%) and has not satisfied the minimum leverage ratio requirement of 5%.

99. For failure to meet their leverage ratio buffer requirement. The Table below sets out the criteria that has to be met by each class of banks before bonus payments can be made to directors and employees.

Table 3: Criteria for payment of bonus to directors and employees

Criteria	Banks with National Authorization	Bank with International Authorization	D-SIBs
CET1[17]	Greater than 8.0% of TRWA	Greater than 11.5% of TRWA	Greater than 12.5% of TRWA
Composite Risk Rating (CRR)	Low or Moderate		

100. Any bonuses not paid as a result of failure to meet the criteria set out in **Table 3** above shall be forfeited and shall not be paid in the subsequent years.

7.3 Conditions for Payment of Discretionary Obligations

101. A bank should be mindful of its capital adequacy and liquidity positions, amongst others, in its decision to fulfil its discretionary obligations[18] to a group entity, parent or member of its group.

102. Where payments in respect of technical service fees, management fees or other agreed or discretionary payments to a group entity or group member/parent have been made, details of such payments shall be provided to the CBN not later than three (3) months after payment.

7.4 Conditions for Payment of dividends in respect of CET1

103. Payments of dividends shall be subject to the provisions of the Banks and Other Financial Institutions Act (BOFIA).

[17] This consists of the sum of the minimum CET 1 (as per Table 1), CCB 1 and HLA (where applicable).
[18] e.g., discretionary technical service fees, management fees or other discretionary payments.

104. The maximum allowable dividend shall be determined taking into consideration the bank's: (i) level of CET 1capital, (ii) the level of non-performing loans (NPLs), and (iii) Composite Risk Rating (CRR) at the point in time. The bank's maximum dividend for a given financial year shall therefore be restricted to the applicable pay-out ratio contained in **Appendix 2**.

8. Disclosure requirements

105. To help improve transparency of regulatory capital and enhance market discipline, banks are required to publicly disclose the following as part of their Pillar 3 disclosures:

a) A full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements;

b) A description of all limits and minima, identifying the positive and negative elements of capital to which the limits and minima apply;

c) A description of the main features of capital instruments issued;

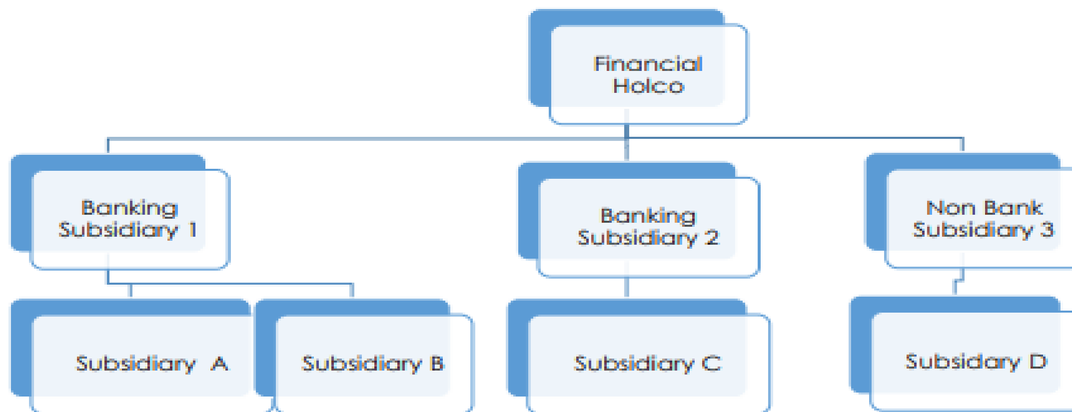
d) Full terms and conditions of all instruments included in regulatory capital;

d) Where applicable, counter cyclical buffer requirements;

e) Where applicable, geographic breakdown of exposures used in the calculation of the counter cyclical buffer requirement.

9. Appendix 1: Requirement at Solo and Consolidated Level

Below is an illustration of compliance requirement at solo and consolidated level.



Requirements:

a) **Financial Holco**: Consolidated (Group) CAR computation required

b) **Banking Subsidiary 1**: Both solo (stand-alone) and consolidated(group) CAR computation required

c) **Banking Subsidiary 2**: Both solo and consolidated CAR computation required

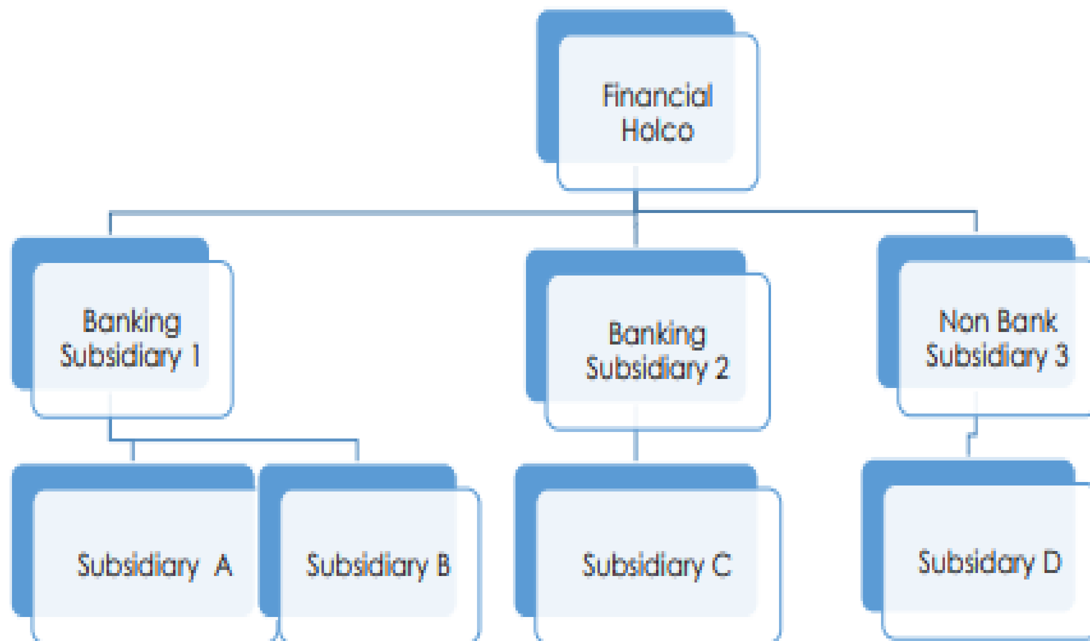
d) **Non-Bank Subsidiary 3**: No CAR computation required by CBN

e) **Subs A, B, C and D**: No CAR computation required by CBN

Note: The Financial Holco, Banking Subsidiary 1 and Banking Subsidiary 2 are Nigerian entities.

9. Appendix 1: Requirement at Solo and Consolidated Level

Below is an illustration of compliance requirement at solo and consolidated level.



Requirements:

a) **Financial Holco**: Consolidated (Group) CAR computation required

b) **Banking Subsidiary 1**: Both solo (stand-alone) and consolidated(group) CAR computation required

c) **Banking Subsidiary 2**: Both solo and consolidated CAR computation required

d) **Non-Bank Subsidiary 3**: No CAR computation required by CBN

e) **Subs A, B, C and D**: No CAR computation required by CBN

Note: The Financial Holco, Banking Subsidiary 1 and Banking Subsidiary 2 are Nigerian entities.

10. Appendix 2: Maximum Dividend Pay-out Ratio

1. Dividends for the purposes of this Guideline shall be the summation of dividends in respect of CET1 and AT1 capital.

2. Regardless of the type of authorization and the level of CET 1 ratio, **no dividend** shall be paid where:

   a) The non-performing loans (NPL) ratio is great than 10%, or,

   b) The Composite Risk Rating (CRR) is High, or

   c) The leverage ratio is below the minimum threshold

3. In all the other cases (scenarios), the maximum dividend pay-out ratio shall be as follows:

Determination of Maximum Payout Ratio Using CET1, CCB1, CCB2 and HLA

National Banks					
CET1 Scenario 1	CRR	High	Above Average	Moderate	Low
	NPL	NPL > 10%	NPL > 10%	NPL > 10%	NPL > 10%
7% - 7.25%	Minimum Pay-Out Ratio	0%	0%	0%	0%
7.26% - 7.5%		0%	0%	0%	0%
7.51% - 7.75%		0%	0%	0%	0%
7.76% - 8%		0%	0%	0%	0%
> 8		0%	0%	0%	0%

National Banks					
CET1 Scenario 2	CRR	High	Above Average	Moderate	Low
	NPL	NPL > 8% & NPL≤ 10%	NPL > 8% & NPL≤ 10%	NPL > 8% & NPL≤ 10%	NPL > 8% & NPL≤ 10%
7% - 7.25%	Maximum Pay-Out Ratio	0%	0%	5%	5%
7.26% - 7.5%		0%	5%	10%	15%
7.51% - 7.75%		0%	5%	20%	25%
7.76% - 8%		0%	10%	30%	40%
> 8		0%	15%	40%	50%

National Banks					
CET1 Scenario 3	CRR	High	Above Average	Moderate	Low
	NPL	NPL > 5% & NPL≤ 8%	NPL > 5% & NPL≤ 8%	NPL > 5% & NPL≤ 8%	NPL > 5% & NPL≤ 8%
7% - 7.25%	Maximum Pay-Out Ratio	0%	0%	5%	10%
7.26% - 7.5%		0%	5%	15%	20%
7.51% - 7.75%		0%	10%	30%	40%
7.76% - 8%		0%	15%	40%	55%
> 8		0%	20%	55%	75%

National Banks					
CET1 Scenario 4	CRR	High	Above Average	Moderate	Low
	NPL	NPL ≤ 5%	NPL ≤ 5%	NPL ≤ 5%	NPL ≤ 5%
7% - 7.25%	Maximum Pay-Out Ratio	0%	5%	10%	10%
7.26% - 7.5%		0%	5%	20%	25%
7.51% - 7.75%		0%	15%	40%	50%
7.76% - 8%		0%	20%	55%	75%
> 8		0%	25%	75%	100%

International Banks					
CET1 Scenario 1	CRR	High	Above Average	Moderate	Low
	NPL	NPL > 10%	NPL > 10%	NPL > 10%	NPL > 10%
10.5% - 10.75%	Maximum Pay-Out Ratio	0%	0%	0%	0%
10.76% - 11%		0%	0%	0%	0%
11.01% - 11.25%		0%	0%	0%	0%
11.26% - 11.5%		0%	0%	0%	0%
> 11.5		0%	0%	0%	0%

International Banks					
CET1 Scenario 2	CRR	High	Above Average	Moderate	Low
	NPL	NPL > 8% & NPL≤ 10%	NPL > 8% & NPL≤ 10%	NPL > 8% & NPL≤ 10%	NPL > 8% & NPL≤ 10%
10.5% - 10.75%	Maximum Pay-Out Ratio	0%	0%	5%	5%
10.76% - 11%		0%	5%	10%	15%
11.01% - 11.25%		0%	5%	20%	25%
11.26% - 11.5%		0%	10%	30%	40%
> 11.5		0%	15%	40%	50%

International Banks					
CET1 Scenario 3	CRR	High	Above Average	Moderate	Low
	NPL	NPL > 5% & NPL≤ 8%	NPL > 5% & NPL≤ 8%	NPL > 5% & NPL≤ 8%	NPL > 5% & NPL≤ 8%
10.5% - 10.75%	Maximum Pay-Out Ratio	0%	0%	5%	10%
10.76% - 11%		0%	5%	15%	20%
11.01% - 11.25%		0%	10%	30%	40%
11.26% - 11.5%		0%	15%	40%	55%
> 11.5		0%	20%	55%	75%

International Banks					
CET1 Scenario 4	CRR	High	Above Average	Moderate	Low
	NPL	NPL < 5%	NPL < 5%	NPL < 5%	NPL < 5%
10.5% - 10.75%	Maximum Pay-Out Ratio	0%	5%	10%	10%
10.76% - 11%		0%	5%	20%	25%
11.01% - 11.25%		0%	15%	40%	50%
11.26% - 11.5%		0%	20%	55%	75%
> 11.5		0%	25%	75%	100%

DSIBs					
CET1 Scenario 1	CRR	High	Above Average	Moderate	Low
	NPL	NPL > 10%	NPL > 10%	NPL > 10%	NPL > 10%
10.5% - 11%	Maximum Pay-Out Ratio	0%	0%	0%	0%
11.01% - 11.5%		0%	0%	0%	0%
11.51% - 12%		0%	0%	0%	0%
12.01% - 12.5%		0%	0%	0%	0%
> 12.5		0%	0%	0%	0%

DSIBs					
CET1 Scenario 2	CRR	High	Above Average	Moderate	Low
	NPL	NPL > 8% & NPL≤ 10%	NPL > 8% & NPL≤ 10%	NPL > 8% & NPL≤ 10%	NPL > 8% & NPL≤ 10%
10.5% - 11%	Maximum Pay-Out Ratio	0%	0%	5%	5%
11.01% - 11.5%		0%	5%	10%	15%
11.51% - 12%		0%	5%	20%	25%
12.01% - 12.5%		0%	10%	30%	40%
> 12.5		0%	15%	40%	50%

DSIBs					
CET1 Scenario 3	CRR	High	Above Average	Moderate	Low
	NPL	NPL > 5% & NPL≤ 8%	NPL > 5% & NPL≤ 8%	NPL > 5% & NPL≤ 8%	NPL > 5% & NPL≤ 8%
10.5% - 11%	Maximum Pay-Out Ratio	0%	0%	5%	10%
11.01% - 11.5%		0%	5%	15%	20%
11.51% - 12%		0%	10%	30%	40%
12.01% - 12.5%		0%	15%	40%	55%
> 12.5		0%	20%	55%	75%

DSIBs					
CET1 Scenario 4	CRR	High	Above Average	Moderate	Low
	NPL	NPL < 5%	NPL < 5%	NPL < 5%	NPL < 5%
10.5% - 11%	Maximum Pay-Out Ratio	0%	5%	10%	10%
11.01% - 11.5%		0%	5%	20%	25%
11.51% - 12%		0%	15%	40%	50%
12.01% - 12.5%		0%	20%	55%	75%
> 12.5		0%	25%	75%	100%

NB: CET1 is computed as the summation of actual level of CET1 plus CCB1 of 1% and HLA of 1%.
HLA only applies to DSIBs

Computation of Maximum Distributable Profit		
		NGN
Current Year Profit (after tax)	a	XXX
Less: Statutory Reserves Adjustment	b	(xxx)
Less: Regulatory Risk Reserve adjustment[xx]	c	(xxx)
Adjusted Profit	d=(a-b-c,0)	xxx
Maximum Dividend Pay-Out Ratio (from the Table above)	e	xx%
Maximum Distributable Profit	f= (d) x (e)	xxx

[xx] *This precludes transfers or writebacks from Regulatory Risk Reserve*

CENTRAL BANK OF NIGERIA

GUIDELINES ON LEVERAGE RATIO (LeR)

SEPTEMBER 2021

Table of Content

1. Abbreviations 2

2. Introduction 3

3. Scope of Application 3

4. Definition and Minimum Leverage Requirements 3

5. Exposure Measure 4

  5.1 On-balance sheet Exposure 5

  5.2 Derivative exposures 6

  5.3 Securities Financing Transaction Exposures 7

  5.4 Off-balance Sheet Exposures 9

6. Reporting Requirement 9

7. Appendix I - Requirements for the Recognition of Risk Transference 11

8. Appendix II - Add-on Factors 13

9. Appendix III - Leverage Ratio Templates and Explanatory Note 15

10. Appendix IV - Definition of Terms 21

1. Abbreviations

Acronym	Description
ABCP	Asset Backed Commercial Paper
CAR	Capital Adequacy Ratio
CCF	Credit Conversion Factors
CCP	Central Counterparty Clearing House
CCR	Counterparty Credit Risk
CET 1	Common Equity Tier 1
D-SIB	Domestic Systemically Important Banks
LeR	Leverage Ratio
NGR	The ratio of net replacement cost to gross replacement cost
OBS	Off Balance Sheet Exposures
PFE	Potential Future Exposure
RC	Replacement Cost
SFT	Securities Financing Transactions
SPE	Special Purpose Entities

2. Introduction

1. This Guideline sets out the Central Bank of Nigeria (CBN) requirements for the Leverage Ratio (LeR) along with the public disclosure requirements applicable to all licensed commercial, merchant, and non-interest banks in Nigeria.

2. The accumulation of excessive on- and off- balance sheet leverage in the banking system was a fundamental cause of the global financial crisis. This necessitated the introduction of a simple, transparent, and non-risk-based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements.

3. Banks must calculate the leverage ratio in accordance with the relevant requirements specified in this Guideline to supplement their risk-based capital requirements. The leverage ratio is intended to:

   a) Constrain the build-up of excessive on-balance-sheet and off-balance-sheet leverage in the banking system to avoid destabilizing effects of deleveraging processes which can damage the broader financial system and the economy; and

   b) Fortify the risk-based requirements with a simple, non-risk based "backstop" measure for capital adequacy requirements.

3. Scope of Application

4. This Guideline is applicable to all licensed commercial, merchant, and non-interest banks in Nigeria. The calculation of the LeR will be at both the entity and consolidated levels. Consolidated levels will include banking and Holding Company group levels.

5. The scope of regulatory consolidation for LeR purpose should be the same as that for the risk-based capital requirements.

4. Definition and Minimum Leverage Requirements

6. The leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator) with the ratio expressed as a percentage. Banks should therefore compute their leverage ratio in accordance with the formula specified below:

$$\text{Leverage Ratio} = \frac{\text{Capital Measure}}{\text{Exposure Measure}} \times 100$$

Where:

a) The Capital Measure for the leverage ratio shall be the Tier 1 capital as set out in the CBN's **Revised Guidance Note for Regulatory Capital** and should, where applicable, take into consideration any transitional arrangements in place.

b) The Exposure Measure is the sum of (i) on-balance sheet exposures, (ii) derivative exposures, (iii) Securities Financing Transactions (SFT) exposures[1], and (iv) Off-balance sheet exposures (OBS).

7. Banks are required to maintain a minimum leverage ratio of 4% at all times.

8. Domestic Systemically-Important Banks (D-SIBs) should meet an enhanced leverage ratio requirement given their size, complexity, and the impact that their potential failure could pose to the Nigerian banking system and the real economy. In this regard, entities that have been classified as D-SIBs by the CBN should maintain an additional leverage ratio buffer of 1% above the minimum at all times and this should be in form of Tier 1 capital.

9. The CBN shall impose bonus payment constraints on D-SIBs which do not meet the leverage ratio buffer requirement.

5. Exposure Measure

10. Total exposure measure for the leverage ratio should be computed as the sum of the following exposures:

    a) On-balance sheet exposures;
    b) Derivative exposures;
    c) Securities Financing Transactions (SFT) exposures; and
    d) Off-balance sheet (OBS) exposures.

11. The specific treatment for these four main exposure types are defined in **Paragraphs 15 – 34** below

[1] SFT are transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing, and margin lending transactions, where the value of the transactions depends on market valuations and the transactions are often subject to margin agreements.

12. The leverage ratio exposure measure should generally be based on gross accounting values. Therefore, unless specified otherwise, banks should not make use of physical or financial collateral, guarantees or other credit risk mitigation techniques to reduce the leverage ratio exposure measure, nor should they net assets and liabilities[2].

13. The CBN shall review banks' transactions to ensure that they are adequately captured in the leverage ratio exposure measure and to assess the risk of potential destabilising deleveraging process. Where concerns are identified, the CBN shall consider a range of supervisory actions, which may include:

    a) Requiring enhancements to the process for the management of leverage;
    b) Imposing operational requirements; and/or
    c) Requiring a bank to hold an additional Pillar 2 capital charge for the relevant exposure.

14. With regard to traditional securitizations, an originating bank may exclude securitized exposures from its leverage ratio exposure measure if the securitization meets the operational requirements for the recognition of risk transference as set out in **Appendix I.** Banks meeting these conditions must include any retained securitisation exposures in their leverage ratio exposure measure. In all other cases, the securitized exposures must be included in the leverage ratio exposure measure.

5.1 On-balance sheet Exposure

15. All on-balance sheet[3], non-derivative, assets should be included in the leverage ratio exposure measure at their accounting values net of specific provisions or accounting value adjustments. Netting of loans and deposits shall not be allowed and liability items should not be deducted from the measure of exposure.

16. Banks should include all balance sheet assets in their exposure measure, including on-balance sheet derivatives collaterals and collateral for securities financing transactions.

17. To ensure consistency, balance sheet assets deducted from Tier 1 capital may be deducted from the exposure measure. For example, where a banking or financial entity is not included in the regulatory scope of consolidation, the amount of any

[2] Possible effects arising from netting of loans and deposits should be reversed.
[3] This includes loans, shares, bonds, subordinated loans amongst others

investment in the capital of that entity that is totally or partially deducted from Tier 1 capital in accordance with the **Revised Guidance for Regulatory Capital** may also be deducted from the exposure measure.

18. General provisions or general loan loss reserves which have reduced Tier 1 capital may be deducted from the leverage ratio exposure measure.

19. Banks should include the various categories of all on-balance sheet exposures in its total LeR Exposure which should include exposures from the following:

a) Central Government and Central Banks;

b) Non-Central Government Public Sector Entities;

c) State Governments and Local Authorities;

d) Multilateral Development Banks (MDBs);

e) Supervised Institutions;

f) Corporates and Other Persons;

g) Regulatory Retail Portfolio;

h) Exposures secured by Mortgages on Residential Property;

i) Exposures secured by Mortgages on Commercial Real Estate Property;

j) Past Due Exposures;

k) High Risk Exposures;

l) Unsettled and Failed Transactions; and

m) Other Assets.

5.2 Derivative exposures

20. Banks should calculate their derivative exposures as the replacement cost (RC) for the current exposure plus an add-on for Potential Future Exposure (PFE). If the derivative exposure is covered by an eligible netting contract, an alternative treatment may be applied (see **Paragraph 22** below for details).

21. For a single derivative exposure not covered by an eligible bilateral netting contract, the amount to be included in the exposure measure shall be determined as follows:

Exposure measure = alpha * (RC + PFE)

Where:

a) *alpha* = 1.4;

b) *RC* = the replacement cost calculated where the contract has a positive value, and obtained by marking the contract to market as specified in **appendix II**; and

c) *PFE* = an amount for PFE over the remaining life of the contract calculated by applying an add-on factor to the notional principal amount of the derivative. Please see **Appendix II** for the add-on factors.

22. Where a bilateral netting contract has been reviewed and formally approved by the CBN as being eligible for netting for leverage ratio calculation purpose, the RC for the set of derivative exposures covered by the contract will be the net mark-to-market replacement cost (if positive) plus an add-on based on the notional underlying principal as specified in **Appendix II**.

23. Collateral received in connection with derivative contracts shall not be netted against derivative exposures whether or not netting is permitted under the bank's operative accounting or risk-based framework. Hence, when calculating the exposure amount, a bank should not reduce the exposure amount by any collateral received from the counterparty.

24. Banks should gross up their exposure measure by the amount of any derivatives collateral provided where the provision of that collateral has reduced the value of their balance sheet assets under the operative accounting framework.

5.3 Securities Financing Transaction Exposures

25. SFT are transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing, and margin lending transactions, where the value of the transactions depends on market valuations and the transactions are often subject to margin agreements. SFTs are an important source of leverage and therefore should be included in the exposure measure.

26. For a bank acting as principal, the sum of the following amounts should be included in the leverage ratio exposure measure:

a) Gross SFT assets recognized for accounting purposes[4] adjusted as per **Paragraphs 27 and 28** below where necessary; and

b) a measure of Counterparty Credit Risk (CCR) calculated as the current exposure without an add-on for PFE.

27. The value of any securities received under an SFT, where the bank has recognized the securities as an asset on its balance sheet, should be excluded from the SFT exposure measure.

28. Cash payables and cash receivables in SFTs with the same counterparty may be measured net if all the following criteria are met:

a) Transactions have the same explicit final settlement date;

b) The right to set off the amount owed to the counterparty with the amount owed by the counterparty is legally enforceable both currently in the normal course of business and in the event of the counterparty's default, insolvency, or bankruptcy; and

c) The counterparties intend to settle net, settle simultaneously, or the transactions are subject to a settlement mechanism that results in the functional equivalent of net settlement, that is, the cash flows of the transactions are equivalent, in effect, to a single net amount on the settlement date.

29. The effects of bilateral netting agreements for covering SFTs should be recognized on a counterparty by counterparty basis if the agreements are legally enforceable in each relevant jurisdiction upon the occurrence of an event of default and regardless of whether the counterparty is insolvent or bankrupt.

30. Netting across SFT positions held in the banking book and trading book shall only be recognized when the netted transactions fulfil the following conditions:

a) All transactions are marked-to-market daily; and

b) The collateral instruments used in the transactions are recognized as eligible financial collateral in the banking book.

---

[4] Gross SFT assets recognized for accounting purposes must not recognise any accounting netting of cash payables against cash receivables (e.g. as currently permitted under the IFRS).

31. Where a bank acting as agent in an SFT provides an indemnity or guarantee to a customer or counterparty for any difference between the value of the security or cash the customer has lent and the value of collateral the borrower has provided, then the bank will be required to calculate its exposure measure by applying only a measure of CCR calculated as the current exposure without an add-on for PFE[5].

5.4 Off-balance Sheet Exposures

32. OBS items include commitments (including liquidly facilities), whether or not unconditionally cancellable, direct credit substitutes, acceptances, standby letters of credit and trade letters of credit.

33. For the purpose of determining the exposure amount of OBS items for the leverage ratio, the CCFs as specified in the Capital Adequacy Ratio (CAR) template shall be applied to the notional amount. Please also see Annex B of the CBN Guidelines on the Calculation of Capital Requirement for Credit (Classification of Guarantees and Commitments) for the applicable CCFs.

34. Specific and general provisions set aside against OBS exposures that have decreased Tier 1 capital may be deducted from the credit exposure equivalent amount of those exposures, i.e., the exposure amount after the application of the relevant CCF. The resulting total off-balance sheet equivalent amount for OBS exposures however cannot be less than zero.

6. Reporting Requirement

35. Banks are required, at a minimum, to report both the capital measure and the exposure measure periodically as defined in paragraph (36). They should also be able to calculate and report the LeR on a more frequent basis for internal monitoring purposes to ensure ongoing compliance with internal LeR limits.

36. Banks should submit to the CBN an electronic copy of its LeR report, based on the prescribed LeR reporting templates provided in **Appendix III.** This should be done through the financial analysis (FinA) database, as follows:

Level of Reporting	Frequency	Position	Reporting Deadline
Entity	Monthly	End-of-month	5 days after month-end

[5] Where a bank acting as an agent in an SFT does not provide an indemnity or guarantee to any of the involved parties, the bank is not exposed to the SFT and therefore need not recognise those SFTs in its exposure measure.

Level of Reporting	Frequency	Position	Reporting Deadline
Consolidated	Quarterly	End-of-quarter	5 days after quarter-end

37. Banks are required to disclose and detail to the CBN the sources of material differences between their total balance sheet assets as reported in their Audited Financial Statement (accounting assets) and their on-balance sheet exposures for their leverage ratio exposure measure. The disclosure should be as per the Table below:

	Item	In Naira
1	Total consolidated assets as per published financial statements	
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
4	Adjustments for derivative financial instruments	
5	Adjustment for Securities Financing Transactions	
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	
7	Other adjustments (please specify)	
8	**Leverage ratio exposure**	

38. Banks are required to provide an explanation for the key drivers of material changes in their Basel III leverage ratio observed from the end of the previous reporting period to the end of the current reporting period.

39. The public disclosure requirements for the LeR are set out in **Appendix III**.

7. Appendix I - Requirements for the Recognition of Risk Transference

1. An originating bank may exclude underlying securitized exposures from the calculation of the LeR only if all of the following conditions are met on an ongoing basis.

2. Significant credit risk associated with the underlying exposures has been transferred to third parties.

3. The transferor does not maintain effective or indirect control over the transferred exposures. The exposures are legally isolated from the transferor in such a way (e.g. through the sale of assets or through sub participation) that the exposures are put beyond the reach of the transferor and its creditors, even in bankruptcy or receivership. Banks should obtain legal opinion from a qualified legal counsel with relevant experience in the financial sector that confirms true sale. The transferor's retention of servicing rights to the exposures will not necessarily constitute indirect control of the exposures. The transferor is deemed to have maintained effective control over the transferred credit risk exposures if it:

    a) is able to repurchase from the transferee the previously transferred exposures in order to realize their benefits; or

    b) is obligated to retain the risk of the transferred exposures. The originating bank's retention of servicing rights to the exposure will not necessarily constitute indirect control of the exposures.

4. The securities issued are not obligations of the transferor. Thus, investors who purchase the securities only have claim to the underlying exposures.

5. The transferee is a Special Purpose Entity (SPE) and the holders of the beneficial interests in that entity have the right to pledge or exchange them without restriction unless such restriction is imposed by a risk retention requirement.

6. Clean-up call options must satisfy the following conditions:

    a) the exercise of the clean-up call must not be mandatory, in form or in substance, but rather must be at the discretion of the originating bank;

    b) the clean-up call must not be structured to avoid allocating losses to credit enhancements or positions held by investors or otherwise structured to provide credit enhancement; and

c) the clean-up call must only be exercisable when 10% or less of the original underlying portfolio or securities issued remains, or, for synthetic securitizations, when 10% or less of the original reference portfolio value remains.

7. The securitisation does not contain clauses that:

   a) require the originating bank to alter the underlying exposures such that the pool's credit quality is improved unless this is achieved by selling exposures to independent and unaffiliated third parties at market prices;

   b) allow for increases in a retained first-loss position or credit enhancement provided by the originating bank after the transaction's inception; or

   c) increase the yield payable to parties other than the originating bank, such as investors and third-party providers of credit enhancements, in response to a deterioration in the credit quality of the underlying pool of the securitized assets.

8. There must be no termination options/triggers except eligible clean-up calls.

8. Appendix II - Add-on Factors

1. The following add-on factors apply to financial derivatives, based on residual maturity:

	Interest rates	Foreign exchange and gold	Equities	Precious metals except gold	Other commodities
One year or less	0.0%	1.0%	6.0%	7.0%	10.0%
Over one year to five years	0.5%	5.0%	8.0%	7.0%	12.0%
Over five years	1.5%	7.5%	10.0%	8.0%	15.0%

Notes:

a) For contracts with multiple exchanges of principal, the factors are to be multiplied by the number of remaining payments in the contract.

b) For contracts that are structured to settle outstanding exposures following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be set equal to the time until the next reset date. In the case of interest rate contracts with remaining maturities of more than one year that meet the above criteria, the add-on is subject to a floor of 0.5%.

c) Forwards, swaps, purchased options and similar derivative contracts not covered by any of the columns in this matrix are to be treated as "other commodities".

d) No potential future credit exposure would be calculated for single currency floating / floating interest rate swaps; the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market value.

2. For bilateral netting, the add-on for the netted transactions (ANet) will equal the weighted average of the gross add-on (AGross) and the gross add-on adjusted by the ratio of the net current replacement cost to gross current replacement cost (NGR). This is expressed through the following formula:

$$A_{Net} = 0.4 \times A_{Gross} + 0.6 \times NGR \times A_{Gross}$$

Where:

a) NGR is the ratio of net replacement cost to gross replacement cost for transactions subject to legally enforceable netting agreements;

b) A_{Gross} is the sum of individual add-on amounts calculated by multiplying the notional principal amount by the appropriate add-on factors set out above of all transactions subject to legally enforceable netting agreements with one counterparty.

3. Calculation of potential future exposure: The potential future exposure (PFE) for derivative exposures must be calculated mathematically as follows:

$$PFE = multiplier \times AddOn^{aggregate}$$

For the purposes of the leverage ratio framework, the multiplier is fixed at one. Further, as written options create an exposure to the underlying, they must be included in the leverage ratio exposure measure by applying the treatment described in this Appendix, even if certain written options are permitted the zero exposure at default (EAD) treatment allowed in the risk-based framework.

4. The following add-on factors for PFE apply to single-name credit derivatives:

	Protection buyer	Protection seller
Total return swaps		
"Qualifying" reference obligation	5%	5%
"Non-qualifying" reference obligation	10%	10%
Credit default swaps		
"Qualifying" reference obligation	5%	5%*
"Non-qualifying" reference obligation	10%	10%*

9. Appendix III - Leverage Ratio Templates and Explanatory Note

a) Leverage Ratio Disclosure Template

Name of the bank:	XYZ Bank Ltd
Basis of reporting:	[consolidated] or [unconsolidated]
Reporting period start date:	DD/MM/YYYY
Reporting period end date:	DD/MM/YYYY

Row	Item	Leverage ratio framework Naira equivalent
On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	0
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	0
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	**0**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	0
5	Add-on amounts for PFE associated with all derivatives transactions	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	Total derivative exposures (sum of lines 4 to 10)	**0**
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	CCR exposure for SFT assets	0
15	Agent transaction exposures	0
16	Total securities financing transaction exposures (sum of lines 12 to 15)	**0**
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	0
18	(Adjustments for conversion to credit equivalent amounts)	0

Row	Item	Leverage ratio framework Naira equivalent
19	Off-balance sheet items (sum of lines 17 and 18)	**0**
Capital and total exposures		
20	Tier 1 capital – fully phased-in definition	0
21	Tier 1 capital - transitional definition	0
22	Regulatory adjustments - Tier 1 - fully phased-in definition	0
23	Regulatory adjustments - Tier 1 - transitional definition	0
24	Total exposures (sum of lines 3, 11, 16 and 19)	0
Leverage ratio		
25	**Leverage Ratio** - using a fully phased-in definition of Tier 1	**0**
26	**Leverage Ratio** - using a transitional definition of Tier 1	**0**

b) Explanatory Note to the Leverage Ratio Disclosure Template

The table below provides an explanation of some of the line items to be reported in the Leverage Ratio ("LeR") Common Disclosure Template

Row Number	Explanatory note
On-balance sheet exposures	
1	On-balance sheet assets, excluding on-balance sheet derivative and securities financing transaction (SFT) assets but including on-balance sheet derivatives collateral and collateral for SFTs.
2	Deductions from Tier 1 capital in accordance with the **Revised Guidance Note for Regulatory Capital**
Derivative exposures	
4	Replacement cost associated with all derivatives transactions, net of cash variation margin received and with, where applicable, bilateral netting under a valid and CBN approved bilateral netting agreement.
5	Add-on amounts for PFE associated with all derivative transactions.
6	Gross-up for collateral provided in respect of derivative transactions where the provision of that collateral has reduced the value of the bank's balance sheet assets pursuant to the operative accounting framework.
7	Deductions of receivables assets in respect of cash variation margin provided in derivatives transactions, reported as negative amounts.
8	Exempted trade exposures associated with the central counterparty (CCP) leg of derivatives transactions resulting from client-cleared transactions, reported as negative amounts.
9	Adjusted effective notional amount for written credit derivatives.
10	Adjusted effective notional offsets and permitted deductions from add-on amounts for PFE of written credit derivatives, reported as negative amounts.
Securities financing transaction (SFT) exposures	
12	Gross SFT assets with no recognition of any accounting netting other than novation with qualifying central counterparties (in which case the final contractual exposure is to replace the gross SFT assets amount), removing any securities received under an SFT where the bank has recognized the securities as an asset on its balance sheet; and adjusting for any sales accounting transactions
13	Adjustment for netted amount of cash payables and cash receivables of gross SFT assets, reported as negative amounts, if the set criteria is met.
Other off-balance sheet exposures	
17	Total off-balance sheet exposure amounts on a gross notional basis before any adjustment for credit conversion factors (CCFs).
18	Reduction in gross amount of off-balance sheet exposures due to the application of CCFs, reported as negative amounts.
Calculation of the LeR	
20 & 21	Tier 1 capital as determined based on the **Revised Guidance Note for Regulatory Capital** and taking into consideration any transitional arrangements in place.

c) Additional Breakdown of Exposures

Row	Item	On- and off-balance sheet exposures in Naira	Nominal Value in Naira
01	Total on- and off-balance sheet exposures belonging to the banking book (breakdown according to the effective risk weight):		

Row	Item	On- and off-balance sheet exposures in Naira	Nominal Value in Naira
02	= 0%		
03	> 0 and ≤ 20%		
04	> 20 and ≤ 50%		
05	> 50 and ≤ 75%		
06	> 75 and ≤ 100%		
07	> 100 and ≤ 425%		
08	> 425 and ≤ 1250%		
09	Exposures in default		
10	Low risk off-balance sheet items and off-balance sheet items attracting a 0% conversion factor under the solvency ratio		

d) Breakdown of Leverage Ratio Exposure Measure Components

Row	Item	Leverage Ratio Exposure Value	RWA
Off-balance sheet items, derivatives, SFTs and trading book			
01	Off-balance sheet items		
02	Of which: Trade finance		
03	Derivatives and SFTs subject to a cross-product netting agreement		
04	Derivatives not subject to a cross-product netting agreement		
05	SFTs not subject to a cross-product netting agreement		
06	Other assets belonging to the trading book		
Other non-trading book exposures			
07	Exposures treated as sovereigns		
08	Central Governments and Central Banks		
09	State Government and Local Authorities treated as sovereigns		
10	Multilateral Development Banks (MDBs) and International organisations treated as sovereigns		
11	Non-Central Government Public Sector Entities (PSEs) treated as sovereigns		
12	Exposures to State Government, MDB, international organisations and PSE NOT treated as sovereigns		
13	State Government and Local Authorities NOT treated as sovereigns		
14	Multilateral Development Banks (MDBs) NOT treated as sovereigns		
15	Non-Central Government PSEs NOT treated as sovereigns		
16	Supervised Institutions		
17	Exposures Secured by Mortgages on Commercial Real Estates Property		
18	Exposures Secured by Mortgages on Residential Properties		
19	Regulatory Retail Portfolio		
20	Retail SME		
21	Corporate and Other Persons		
22	Past Due Exposures		
23	High Risk Exposures		
24	Unsettled and Failed Transactions		

Row	Item	Leverage Ratio Exposure Value	RWA
25	Other Assets (e.g., other non-credit obligation assets)		
24	*Securitisation Exposures*		
25	*Trade finance*		

e) Explanatory Note to the Breakdown of the Exposure Measure Components

The table below provides an explanation of some of the line items to be reported in the Breakdown of Leverage Ratio Exposure Measure Components as per the Template above.

Row Number	Explanatory note
17 & 18	Exposures from real estate shall include exposures secured by a mortgage on real estate or connected with real estate leasing contracts provided that the following conditions are adhered to: a) The value of the property does not materially depend upon the credit quality of the debtor; b) The property is appraised by an independent valuer at a value that does not exceed the market value; c) The claim on the collateral is legally enforceable in all relevant jurisdictions and may be realized in a reasonable period of time; d) The property value shall be adequately monitored. Thus; i. The value of the property shall be verified at least once every year three years for residential property and once every year for commercial real estate or more frequently where the market is subject to significant changes in conditions; ii. Where the verifications under (i) reveal a material decline in the value of the property, a valuation shall be made by an independent valuer based on a value that shall exceed the market value, the property valuation shall be reviewed by an independent valuer at least once every three years for exposures exceeding 5% of the bank's regulatory capital. e) The types of property accepted as collateral and the related lending policies shall be clearly documented; f) The property serving as collateral shall be adequately insured against damage.
19	Exposures to be qualified in the Regulatory Retail Portfolio must meet the following criteria: a) **Orientation criterion**: the exposure is to an individual person or persons or to a small business which may include sole proprietorships, partnerships, or small and medium-scale enterprises. b) **Product Criterion**: the exposures should take the form of revolving credits, lines of credit, personal term of loans, other terms of loans (installment loans, auto financing loans, educational loans, personal finance) and small business facilities. Investment in debt and equity securities (listed or not) and mortgages loans that qualify for treatment as exposures secured by residential property should be excluded from this portfolio. c) **Granularity criterion**: the aggregate exposure to one counterpart cannot exceed 0.2% of the overall regulatory retail portfolio. d) **Low Value of individual criterion**: the aggregate retail exposure to one counterpart cannot exceed an absolute threshold of N100 million.
21	Exposures to insurance companies, securities firms and collective investment schemes shall be treated as exposures to corporates.

10. Appendix IV - Definition of Terms

1. **Originating bank:** a bank shall be considered an originating bank in a securitization transaction if it meets either of the following conditions:
   a) The bank originates directly or indirectly the underlying exposures included in the securitization; or
   b) The bank serves as a sponsor of an ABCP (asset-backed commercial paper) conduit or similar programme that acquires exposures from third-party entities. In the context of such a program, a bank would generally be considered a sponsor and, in turn, an originator if it, in fact or in substance, manages or advises the programme, places securities into the market, or provides liquidity and/or credit enhancements.
2. **Securitization** is a transaction that divides the credit risk of an asset or portfolio of assets into two or more tranches and in which: (i) payments in the transaction are dependent on the performance of the asset or portfolio of assets in question, and (ii) tranches have different degrees of subordination in supporting the losses of the securitized asset or portfolio. Securitization exposures may arise from the following activities of the banks among others:
   a) Investments in any securitization issue, including retention or repurchase of one or more securitization positions;
   b) Provision of credit risk mitigants or credit enhancement to parties to securitization transactions;
   c) Provision of liquidity facilities or other similar facilities;
   d) Obligations due to early amortization features in a securitization; or
   e) Entitlements to future income, generated by a securitization through various forms of arrangements such as deferred purchase price, excess servicing income, gain-on-sale, future margin income, cash collateral accounts or other similar arrangements.

CENTRAL BANK OF NIGERIA

GUIDELINES ON LIQUIDITY COVERAGE RATIO(LCR)

SEPTEMBER 2021

Table of Contents

1. **Introduction** **2**

2. **Application Issues for the LCR** **2**

   2.1 Objectives of the Liquidity Coverage Ratio (LCR) 2

   2.2 Scope of Application 3

   2.3 Currencies 4

   2.4 Frequency of calculation and reporting 5

3. **Stock of HQLA** **7**

   3.1. Characteristics of HQLA 7

   3.2 Operational Requirements 8

4. **Definition of HQLA** **10**

   4.1 Level 1 Assets 11

   4.2 Level 2 Assets 12

5. **Total Net Cash Outflows** **14**

   5.1 Cash Outflows 15

   5.2 Cash Inflows 27

6. **Appendix 1 – Calculation of the Cap on Level 2 Assets** **30**

7. **Appendix 2 – Summary of the LCR** **32**

8. **Appendix 3 – LCR Templates** **35**

1. Introduction

1. The objective of these Guidelines is to define the minimum requirements for Liquidity Coverage Ratio (LCR) for reporting entities operating in the Nigerian Banking Industry. The LCR aims to promote short-term resilience of the liquidity risk profile of reporting entities by ensuring that they have an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted easily and immediately into cash in private markets to survive a significant stress scenario lasting 30 calendar days.

2. Liquidity risk is the risk that a reporting entity may not be able to meet its obligations as they fall due without incurring unacceptable losses. This could be as a result of the inability of the entity to liquidate sufficient assets in a timely fashion or to obtain funding to meet its liquidity needs due to institution-specific reasons or market-wide stress.

3. The Central Bank of Nigeria (CBN) acknowledges the importance of liquidity to the proper functioning of financial markets and the banking sector. The role of reporting entities in financial intermediation engenders maturity transformation of short-term deposits into long-term loans, which in turn makes the entities vulnerable to liquidity risk.

4. Liquidity challenges facing individual entities may have systemic knock-on effects to the banking system, affecting the smooth functioning of the payment systems and other segments of the financial markets. Sound liquidity risk management is therefore critical to the viability of every entity and the stability of the overall banking system. The LCR will improve the banking sector's ability to absorb shocks arising from financial and economic stress, thus reducing the risk of spill-over from the financial sector to the real economy.

2. Application Issues for the LCR

2.1 Objectives of the Liquidity Coverage Ratio (LCR)

5. The LCR is aimed at promoting the short-term resilience of the liquidity risk profile of reporting entities. This is achieved by ensuring that the entities have an adequate stock of unencumbered HQLAs that can easily and immediately be converted into cash at little or no loss of value in private markets to meet their liquidity needs for a 30-calendar-day liquidity stress scenario[1].

[1] At a minimum, the stock of unencumbered HQLA should enable the bank to survive until day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions are taken.

6. A reporting entity shall hold and maintain, at all times a stock of HQLA that is at least equal to total net cash outflows, i.e., maintain an LCR of at least 100 % on an on-going basis.

2.2 Scope of Application

7. The LCR shall apply to all commercial and merchant banks (Reporting Banks) operating in the Nigerian Financial System at both entity (stand-alone) and consolidated basis.

8. Notwithstanding the scope of application of the LCR, reporting entities should actively monitor and control their liquidity risk exposures and funding needs at the level of individual legal entities, subsidiaries, and the group as a whole, taking into consideration legal, regulatory and operational limitations to the transferability of liquidity.

9. To ensure consistency in applying the LCR, further information is provided below on two application issues.

2.2.1 Differences in home/host liquidity requirements

10. While most of the parameters in the LCR are internationally "harmonised", national differences in liquidity treatment may occur in those items subject to national discretion (e.g. deposit run-off rates, contingent funding obligations, market valuation changes on derivative transactions, etc.) and where more stringent parameters are adopted by some supervisors.

11. When calculating the LCR on a consolidated basis, a cross-border banking group should apply the liquidity parameters adopted by the CBN to all legal entities being consolidated except for the treatment of retail / small business deposits that should follow the relevant parameters adopted in host jurisdictions in which the entities (subsidiary) operate. This approach will enable the stressed liquidity needs of legal entities of the group (including branches of those entities) operating in host jurisdictions to be more suitably reflected, given that deposit run-off rates in host jurisdictions are more influenced by jurisdiction-specific factors such as the type and effectiveness of deposit insurance schemes in place and the behaviour of local depositors.

12. The CBN requirements for retail and small business deposits should apply to the relevant legal entities (including subsidiaries of those entities) operating in host jurisdictions if:

a) there are no host requirements for retail and small business deposits in the particular jurisdictions;

b) those entities operate in host jurisdictions that have not implemented the LCR; or

c) the CBN (as the home supervisor) decides that home requirements should be used that are stricter than the host requirements.

2.2.2 Treatment of Liquidity Transfer Restrictions

13. As a general principle, no excess liquidity should be recognised by a cross-border banking group in its consolidated LCR if there is reasonable doubt about the availability of such liquidity. Liquidity transfer restrictions (e.g. ring-fencing measures, non-convertibility of local currency, foreign exchange controls etc.) in jurisdictions in which a banking group operates will affect the availability of liquidity by inhibiting the transfer of HQLA and fund flows within the group. A banking group should have processes in place to capture all liquidity transfer restrictions to the extent practicable, and to monitor the rules and regulations in the jurisdictions in which the group operates and assess their liquidity implications for the group as a whole.

2.3 Currencies

14. While the LCR is expected to be met and reported on a consolidated basis in a single currency, reporting entities should be able to meet their liquidity needs in each currency and maintain a stock of HQLA consistent with the distribution of their liquidity needs by currency. The reporting entities should be able to use the stock of HQLA to generate liquidity in the currency and jurisdiction in which the net cash outflows arise. As such, the LCR by currency is expected to be observed and reported to allow the entity and the CBN to track any potential currency mismatch issues that could arise.

15. A reporting entity with assets and liabilities denominated in foreign currencies shall therefore:

    a) Report its LCR positions for US dollars, Pound Sterling, Euro, Yuan, and other currencies in Naira equivalent separately, regardless of whether these are significant currencies for the reporting entity; and

    b) Monitor the liquidity needs in significant currencies on an ongoing basis.

16. In managing foreign exchange liquidity risk, a reporting entity should consider the risk that its ability to swap currencies and access the relevant foreign exchange

markets may erode rapidly under stressed conditions. It should be aware that sudden, adverse exchange rate movements could sharply widen existing mismatched positions and alter the effectiveness of any foreign exchange hedges in place. These considerations should be incorporated in the entity's Internal Liquidity Adequacy Assessment Process (ILAAP) report to the CBN.

2.4 Frequency of calculation and reporting

17. Reporting entities are required to comply with the minimum LCR on an on-going (daily) basis to help monitor and control their liquidity risk. However, for the purposes of supervisory oversight, reporting entities shall submit their respective LCR returns to the CBN in the manner prescribed below:

Table 1: Frequency of Reporting

Reporting Details	Solo Basis	Consolidated Basis
Reporting Frequency	Monthly	Quarterly
Reporting Date	Month-end	Quarter-end
Reporting Coverage	30 Calendar days from reporting date	30 Calendar days from reporting date
Submission Deadlines	5 days after the last day of each month.	5 days after the last day of each month.

18. Reporting entities should have the operational capability to increase the frequency of submission of returns to the CBN to weekly or even daily in stressed situations.

19. **Reporting entities must notify the CBN immediately if their LCR has fallen, or is expected to fall, below 100%.**

2.5 Definition of LCR

20. The LCR is a ratio, expressed as a percentage of a reporting entity's stock of HQLA to its total net cash outflows over 30 calendar days, i.e., the LCR period. It has two components:

    a) value of the stock of HQLA in stressed conditions; and

    b) total net cash outflows calculated according to the scenario parameters outlined below in **Paragraph 24.**

21. The LCR is specified as:

$$\frac{\textbf{Stock of HQLA}}{\textbf{Total net cash outflows over the next 30 calendar days}} \geq 100\%$$

22. The stock of unencumbered HQLA is intended to serve as a defence against the potential onset of liquidity stress. A reporting entity should aim to ensure on an ongoing basis that its stock of HQLA is at least equal to its total net cash outflows over the next 30 calendar days (i.e., LCR is at least 100 %). During periods of stress, however, it would be entirely appropriate for reporting entities to draw on their stock of HQLA, resulting in the LCR falling below the minimum. In such circumstance, the reporting entity shall immediately notify the CBN in writing of its intent to utilise its stock of HQLA and provide an explanation on:

   a) The factors that contributed to its LCR falling below 100%, including any supporting documentation;

   b) The measures that have been and/or will be taken to restore the LCR position; and

   c) The expectation on the length of time that the LCR position would remain below the minimum prescribed level.

23. The CBN will assess the situation where a reporting entity's reported LCR falls below 100% and could require actions by the entity to:

   a) reduce its exposure to liquidity risk;

   b) strengthen its overall liquidity risk management; and/or

   c) improve its Contingency Funding Plan (CFP).

The CBN may also require enhanced supervisory reporting of the reporting entity's LCR position.

24. The scenario parameters for the LCR are a combination of idiosyncratic and market-wide shocks that would result in:

   a) the run-off of a proportion of retail deposits;

   b) a partial loss of unsecured wholesale funding capacity;

   c) a partial loss of secured, short-term financing with certain collateral and counterparties;

d) additional contractual outflows that would arise from a downgrade in the reporting entity's public credit rating by up to and including three notches, as well as collateral posting requirements;

e) increases in market volatilities that impact the quality of collateral or potential future exposure of derivative positions and thus require larger collateral haircuts or additional collateral, or lead to other liquidity needs;

f) unscheduled draws on committed but unused credit and liquidity facilities that the reporting entity has provided to its clients; and

g) the potential need for the reporting entity to buy back debt or honour non-contractual obligations in the interest of mitigating reputational risk.

25. Reporting entities should view the above stress parameters as a minimum supervisory requirement. They are therefore expected to conduct their own stress test to assess the level of liquidity that they should hold beyond the minimum and formulate scenarios that could adversely impact on their specific business activities.

26. From time to time, the CBN reserves the right to impose stricter parameters where it deems necessary. Reporting entities should comply with any requirement to hold additional liquidity buffers that may be specified by the CBN. The additional liquidity buffers will take into consideration the entity's liquidity risk profile and the quality of its risk mitigation measures in place.

3. Stock of HQLA

27. Reporting entities must hold a stock of unencumbered HQLA to cover their total net cash outflows over a 30-day period under the prescribed stress scenarios. The CBN will assess eligibility of any assets for inclusion in the stock of HQLA on the basis of the fundamental and market-related characteristics set out below in **Paragraphs 29-35**, as well as the capacity of such assets to fulfil certain operational requirements described in Paragraphs **36-43**.

3.1. Characteristics of HQLA

28. Assets are considered to be HQLA if they can be easily and immediately converted into cash at little or no loss of value. The liquidity of an asset depends on the underlying stress scenario, the volume to be monetised and the timeframe considered. The following outlines the factors that influence whether or not the market for an asset can be relied upon to raise liquidity when considered in the context of the possible stresses.

3.1.1 Fundamental Characteristics:

29. **Low risk:** Assets that are less risky tend to have higher liquidity. High credit standing of the issuer and a low degree of subordination increase an asset's liquidity. Low sensitivity to changes in interest rate. low legal risk. low inflation risk and denomination in a convertible currency with low foreign exchange risk all enhance an asset's liquidity.

30. **Ease and certainty of valuation:** An asset's liquidity increases if market participants are more likely to agree on its valuation. Assets with more standardised, homogenous, and simple structures tend to be more fungible, promoting liquidity. The pricing formula of a HQLA must be easy to calculate and not dependent on strong assumptions. The inputs into the pricing formula must also be publicly available[2];

31. **Low correlation with risky assets:** The stock of HQLA should not be subject to wrong-way (highly correlated) risk[3]; and

32. **Listed on a developed and recognised exchange:** Being listed increases an asset's transparency.

3.1.2 Market-Related Characteristics

33. **Active and sizeable market:** The asset should have active outright sale or repo markets at all times. This means that there should be historical evidence of market breadth and depth, and a robust market infrastructure in place.

34. **Low volatility:** Assets whose prices remain relatively stable and are less prone to sharp price declines over time will have a lower probability of triggering a forced sale to meet liquidity requirements. There should also be historical evidence of relative stability of the market in terms of prices, haircuts, and volumes during stressed periods.

35. **Flight to quality:** Historically, market had shown tendencies to move into these types of assets in a systemic crisis. The correlation between proxies of market liquidity and banking system stress is one simple measure that could be used.

3.2 Operational Requirements

36. Operational requirements are designed to ensure that the stock of HQLA is managed in such a way that the reporting entity can, and is able to demonstrate

---

[2] In practice, this should exclude most structured or exotic products.

[3] For example, assets issued by financial institutions are more likely to be illiquid in times of liquidity stress in the banking sector.

that it can, immediately use the stock of assets as a source of contingent funds and that the stock of assets is available for the entity to convert into cash through outright sale or repo. The aim is to fill funding gaps between cash inflows and outflows at any time during the 30-day stress period with no restriction on the use of the liquidity generated.

37. A reporting entity shall treat an asset as HQLA only if the following operational requirements are met:

a) a reporting entity must periodically monetise a representative proportion of the assets in the stock through repo or outright sale, in order to test its access to the market, the effectiveness of its processes for monetisation, the availability of the assets, and to minimise the risk of negative signalling during a period of actual stress;

b) all assets in the stock should be unencumbered, i.e., free of legal, regulatory, contractual, or other restrictions on the ability of the reporting entity to liquidate, sell, transfer, or assign the asset. Pledged assets do not fulfil this requirement. An asset in the stock should not be pledged (either explicitly or implicitly) to secure, collateralise or credit-enhance any transaction, nor be designated to cover operational costs (such as rents and salaries). Assets received in reverse repo and securities financing transactions that are held by the reporting entity, have not been rehypothecated, and are legally and contractually available for the reporting entity's use can be considered as part of the stock of HQLA.

c) a reporting entity should exclude from the stock those assets that, although meeting the definition of 'unencumbered" specified in (b) above, the entity does not have the operational capability to monetise to meet outflow during stress period. Operational capability to monetise assets requires having procedures and appropriate systems in place;

d) monetisation of the asset must be executable from an operational perspective in the standard settlement period for the asset class in the relevant jurisdiction;

e) a reporting entity has a policy in place that identifies the legal entities, geographical locations, currencies and specific custodial or bank accounts where HQLA are held;

f) the stock must be under the control of the function charged with managing the liquidity of the reporting entity (e.g. the treasurer) and the function should have continuous authority, and legal and operational capability, to monetise any asset in the stock.

38. A reporting entity is permitted to hedge the market risk associated with ownership of the stock of HQLA and still include the assets in the stock. If it chooses to hedge the market risk, the reporting entity should take into account (in the market value

applied to each asset) the cash outflow that would arise if the hedge were to be closed out early (in the event of the asset being sold);

39. The function charged with managing liquidity must have access to all necessary information to execute monetisation of any asset at any time. It must also evidence control either by:

   a) maintaining assets in a separate pool managed by the function with the sole intent for use as a source of contingent funds, or
   b) demonstrating that the function can monetise the asset at any point in the 30-day stress period and that the proceeds of doing so are available to the function throughout the 30-day stress period without directly conflicting with a stated business or risk-management strategy.

40. Assets held in legal entities without market access should only be included to the extent that they can be freely transferred to other entities that could monetise the assets.

41. The reporting entity must exclude from the stock of HQLA those assets where there are impediments to sale, such as large fire-sale discounts which would cause it to breach minimum solvency requirements, or requirements to hold such assets.

42. Reporting entities must not include in the stock of HQLA any assets, or liquidity generated from assets, they have received under right of rehypothecation if the beneficial owner has the contractual right to withdraw those assets during the 30-day stress period.

43. The reporting entity must be able to show proof of existence of policies, procedures and systems that monitor the current market value, as well as:

   a) diversification of the stock of HQLA within the asset classes themselves (except for cash, Nigerian government securities, and accounts with the CBN); and
   b) concentration with respect to asset type, issue and issuer type, and currency (consistent with the distribution of net cash outflows by currency) within asset classes.

4. Definition of HQLA

44. The stock of HQLA should comprise assets with the characteristics outlined **in Paragraphs 28-35**. There are two categories of assets (Level 1 and Level 2) that

can be included in the stock. These are assets held by a reporting entity on the first day of the stress period, irrespective of their residual maturity.

45. **Level 1 assets can be included without limit (that is, 100%), while Level 2 assets can only comprise up to 40% of the stock.** Level 2 assets are further sub-divided into Level 2A and Level 2B assets on the basis of their price-volatility. **Level 2B assets can comprise no more than 15% of the total stock of HQLA and must be included within the overall 40% cap on Level 2 assets.**

46. The 40% cap on Level 2 assets and the 15% cap on Level 2B assets should be determined after the application of required haircuts of 15% for Level 2A and 50% for Level 2B, and after taking into account the unwind of short-term securities financing transactions and collateral swap transactions maturing within 30 calendar days that involve the exchange of HQLA.

4.1 Level 1 Assets

47. Level 1 assets can comprise an unlimited share of the stock of eligible HQLA. Level 1 assets are included at current market value and are not subject to a haircut under the LCR. They are limited to:

a) cash and banknotes;

b) central bank reserves (excluding Cash Reserve Requirement reserves);

c) marketable securities representing claims on, or guaranteed by, sovereigns, central banks, Public Sector Entities (PSEs), multilateral development banks, etc., that satisfy all of the following conditions:

i. assigned a 0% risk-weight under the Standardised Approach (SA) to credit risk as per Guidance Notes on the Calculation of Capital Requirement for Credit Risk;

ii. traded in large, deep, and active repo or cash markets characterized by a low level of concentration;

iii. have a proven record as a reliable source of liquidity in the markets (through repo or outright sale) even during stressed market conditions; and

iv. not an obligation of a financial institution or any of its associated entities.

d) where the sovereign has a non-0% risk weight, sovereign or central bank debt securities issued in domestic currencies by the sovereign or central bank in the country in which the liquidity risk is being taken or in the entity's home country; and

e) where the sovereign has a non-0% risk weight, domestic sovereign or central bank debt securities issued in foreign currencies are eligible up to the amount

of the reporting entity's stressed net cash outflows in that specific foreign currency stemming from the entity's operations in the jurisdiction where the entity's liquidity risk is being taken.

4.2 Level 2 Assets

48. Level 2 assets (comprising Level 2A assets and Level 2B assets permitted by the CBN) are limited to 40% of the overall stock of HQLA after haircuts have been applied. The method for calculating the cap on Level 2 assets and the cap on Level 2B assets is set out in **Appendix I**

4.2.1 Level 2A Assets

49. A 15% haircut is applied to the current market value of each Level 2A asset held in the stock of HQLA. Level 2A assets are limited to the following:

a) marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs, or multilateral development banks that satisfy all of the following conditions:

i. assigned a 20% risk weight under the Standardised Approach to credit risk;

ii. traded in large, deep, and active repo or cash markets characterised by a low level of concentration;

iii. have a proven record as a reliable source of liquidity in the markets (through repo or outright sale) even during stressed market conditions (i.e. maximum decline of price not exceeding 10% or increase in haircut not exceeding 10 percentage points over a 30-day period during a relevant period of significant liquidity stress); and

iv. not an obligation of a financial institution or any of its affiliated entities.

b) Corporate debt securities (including commercial paper) that satisfy all of the following conditions:

i. in the case of corporate debt securities: not issued by a financial institution or any of its affiliated entities;

ii. the assets have a long-term credit rating from a recognized external credit assessment institution (ECAI) of at least AA- or in the absence of a long term rating, a short term rating equivalent in quality to the long term rating as per Guidance Notes on the Calculation of Capital Requirement for Credit Risk;

iii. traded in large, deep, and active repo or cash markets characterised by a low level of concentration; and

iv. have a proven record as a reliable source of liquidity in the markets (through repo or outright sale) even during stressed market conditions i.e. maximum decline of price or increase in haircut over a 30-day period during a relevant period of significant liquidity stress not exceeding 10%.

4.2.2 Level 2B Assets

50. The reporting entity should be able to fully demonstrate to the CBN that it has appropriate systems and measures to monitor and control the potential risks (e.g., credit and market risks) that the entity could be exposed to in holding these assets.

51. A larger haircut is applied to the current market value of each Level 2B asset held in the stock of HQLA. Level 2B assets are limited to the following:

a) Corporate debt securities (including commercial paper) that satisfy all of the following conditions may be included in Level 2B, subject to a 50% haircut:

i. not issued by a financial institution or any of its affiliated entities;

ii. have a long-term credit rating from a recognized ECAI between A+ and BBB- or in the absence of a long-term rating, a short-term rating equivalent in quality to the long-term rating as per Guidance Notes on the Calculation of Capital Requirement for Credit Risk;

iii. traded in large, deep, and active repo or cash markets characterised by a low level of concentration; and

iv. have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions, i.e. a maximum decline of price not exceeding 20% or increase in haircut over a 30-day period not exceeding 20 percentage points during a relevant period of significant liquidity stress.

b) Common equity shares that satisfy all of the following conditions may be included in Level 2B, subject to a 50% haircut:

i. not issued by a financial institution or any of its affiliated entities;

ii. exchange traded and centrally cleared;

iii. a constituent of the major stock index in the home jurisdiction or where the liquidity risk is taken, as decided by the supervisor in the jurisdiction where the index is located;

iv. denominated in the domestic currency of a reporting entity's home jurisdiction or in the currency of the jurisdiction where the entity's liquidity risk is taken;

v. traded in large, deep, and active repo or cash markets characterised by a low level of concentration; and

vi. have a proven record as a reliable source of liquidity in the markets (through repo or outright sale) even during stressed market conditions, i.e. a maximum decline of share price not exceeding 40% or increase in haircut not exceeding 40% over a 30-day period during a relevant period of significant liquidity stress.

5. Total Net Cash Outflows

52. Total net cash outflows[4] is defined as the total expected cash outflows minus total expected cash inflows in the specified stress scenario for the subsequent 30 calendar days. Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by the rates at which they are expected to run off or be drawn down. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in under the scenario up to an aggregate cap of 75% of total expected cash outflows.

Total net cash outflows over the next 30 calendar days = Total expected cash outflows – Min {total expected cash inflows; 75% of total expected cash outflows}

53. Total net cash outflow over the next 30 calendar days is given by the total expected cash outflows minus the lower of:

a) total expected cash inflows; or

b) 75% of total expected cash outflows.

54. **Appendix 2** provides a summary of the factors that are applicable to each category.

55. A reporting entity is not allowed to double count items in the calculation of the LCR, i.e., if an asset is included as part of the stock of HQLA (i.e. the numerator), the associated cash inflows should not also be counted as cash inflows (i.e. part of the denominator). Where there is potential that an item could be counted in multiple outflow categories, (e.g. committed liquidity facilities granted to cover debt maturing within the 30-calendar day period), a reporting entity should only assume up to the maximum contractual outflow for that product.

[4] Where applicable, cash inflows and outflows should include interest that is expected to be received and paid during the 30-day time horizon.

56. In calculating cash outflows and inflows with uncertain maturities, the reporting entity must make the most conservative assumptions for determining the maturity or transaction date for an instrument or transaction.

5.1 Cash Outflows

5.1.1 Retail Deposit Run-Off

57. Retail deposits are defined as deposits placed with a bank by a natural person. Retail deposits subject to the LCR include demand deposits and term deposits, unless otherwise excluded under the criteria set out in **Paragraph 67 and 68**. Deposits from legal entities, sole proprietorships or partnerships are captured in wholesale deposit categories.

58. Retail deposits are divided into "stable" and "less stable" deposits.

A. Stable deposit (run-off rate = 5%)

59. Stable deposits, for the purposes of the LCR, are the amount of retail deposits that are fully insured by an effective deposit insurance scheme (e.g., Nigeria Deposit Insurance Corporation (NDIC)) up to the maximum coverage limit or by a public guarantee that provides equivalent protection, and where:

    a) the depositors have other established relationships with the bank that make deposit withdrawal highly unlikely; or

    b) the deposits are in transactional accounts (e.g. accounts where salaries are automatically deposited).

60. A reporting entity shall assign a run-off rate of 5% to stable deposits.

61. An established relationship shall refer to any banking relationship excluding deposit and credit card relationships, whereby:

    a) the relationship has existed for at least 12 months; or

    b) the depositor is contractually bound to the relationship with the banking institution for at least the next 12 months.

62. Deposit balances up to the deposit insurance limit may be treated as "fully insured" even if a depositor has a balance in excess of the deposit insurance limit. However, any amount in excess of the deposit insurance limit must be treated as "less stable".

63. An effective deposit insurance scheme refers to a scheme:

a) that guarantees that it has the ability to make prompt pay-outs;

b) for which the coverage is clearly defined;

c) of which public awareness is high; and

d) in which the deposit insurer has formal legal powers to fulfil its mandate and is operationally independent, transparent, and accountable.

64. **For the avoidance of doubt, all deposits insured by NDIC shall be deemed as deposits insured by an effective deposit insurance scheme.**

B. Less Stable deposit (run-off rate = 10%)

65. A reporting entity shall categorize retail deposits which do not meet the criteria set in **Paragraph 57** as less stable deposits and shall assign a run off rate of 10% to such deposits. These retail deposits shall include any amounts that are not fully covered by an effective deposit insurance scheme[5] or sovereign deposit guarantee, high-value deposits, deposits from sophisticated or high net worth individuals, deposits that can be withdrawn quickly (e.g., internet deposits) and foreign currency deposits[6].

66. If a reporting entity is not able to readily identify which retail deposit that would qualify as 'stable' as set in **Paragraph 57**, it should place the full amount in the 'less stable' buckets.

5.1.2 Retail term deposit

67. Cash outflows related to retail term deposits with a residual maturity or withdrawal notice period of greater than 30 days should be excluded from LCR calculations if:

a) the depositor has no legal right to withdraw deposits within the 30-day horizon of the LCR; or

b) if early withdrawal results in a significant penalty that is materially greater than the loss of interest.

68. If a reporting entity allows a depositor to withdraw such deposits without applying the corresponding penalty or despite a clause that says the depositor has no legal

[5] This include deposits in excess of NDIC insurance coverage.

[6] Foreign deposits must be considered as "less stable" if there is a reason to believe that such deposits are more volatile than domestic currency deposits.

right to withdraw, the entire category of these funds shall be treated as demand deposits.

69. A reporting entity may choose to outline exceptional circumstances that would qualify as hardship, under which the term deposit could exceptionally be withdrawn by the depositor without changing the treatment of the entire pool of deposits. This shall be subject to supervisory review and must be documented in the entity's Liquidity Management Policy (LMP).

5.1.3 Unsecured Wholesale Funding

70. For the purpose of LCR, unsecured wholesale funding is defined as those liabilities and general obligations that are raised from non-natural persons (i.e., legal entities, including sole proprietorships and partnerships) and are not collateralised by legal rights to specifically designated assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation or resolution. Obligations related to derivative contracts are explicitly excluded from this definition.

71. The wholesale funding included in the LCR is defined as all funding that is callable within the LCR's horizon of 30 days or that has its earliest possible contractual maturity date situated within this horizon (such as maturing term deposits and unsecured debt securities) as well as funding with an undetermined maturity. This should include all funding with options that are exercisable at the fund provider's discretion within the 30-calendar-day horizon.

72. Wholesale funding that is callable by the fund provider subject to a contractually defined and binding notice period surpassing the 30-day horizon is not included.

73. Unsecured wholesale funding includes:

a) Unsecured wholesale funding provided by small business customers: 5%, 10% and higher

74. Unsecured wholesale funding provided by small business customers is treated the same way as retail deposits under these guidelines, effectively distinguishing between a "stable" portion of funding provided by small business customers and different buckets of less stable funding defined in these Guidelines. The same bucket definitions and associated run-off factors apply as for retail deposits. **See Appendix 2 for specific haircuts.**

75. Term deposits from small business customers must be treated in accordance with the treatment for term retail deposits as outlined in **Paragraph 67** and **68.**

b) Operational deposits generated by clearing, custody, and cash management activities: 25%

76. Operational deposits are those where financial and non-financial customers place, or leave, deposits with a bank to facilitate their access and ability to use payment and settlement systems and otherwise make payments. These funds may receive a 25% run-off factor only if the customer has a substantive dependency with the bank and the deposit is required for such activities. A run-off rate of 5% shall be applied on the portion of operational deposits which is fully covered by the Nigeria Deposit Insurance Corporation (NDIC).

77. Qualifying activities in these Guidelines refer to clearing, custody or cash management activities that meet the following criteria:

   a) the customer must be reliant on the reporting entity to perform these services as an independent third-party intermediary in order to fulfil its normal banking activities over the next 30 days[7];

   b) these services must be provided under a legally binding agreement to institutional customers;

   c) the termination of such agreements must be subject either to a notice period of at least 30 days or significant switching costs (such as those related to transaction, information technology, early termination or legal costs) to be borne by the customer if the operational deposits are moved before 30 days.

78. The operational deposits generated by such an activity are where:

   a) the deposits are by-products of the underlying services provided by the reporting entity and not sought out in the wholesale market in the sole interest of offering interest income; and

   b) the deposits are held in specifically designated accounts and priced without giving an economic incentive to the customer to leave excess funds on these accounts.

79. Any excess balances that could be withdrawn and would still leave enough funds to fulfil these clearing, custody or cash management activities do not qualify for the 25% factor. Excess balances must be treated in the appropriate category for non-operational deposits. If reporting entities are unable to determine the amount of the excess balance, then the entire deposit must be assumed to be excess requirements and, therefore, considered non-operational.

---

[7] This condition would not be met if the entity is aware that the customer has adequate backup arrangements.

80. A reporting entity must determine the methodology for identifying excess deposits that are excluded from this treatment. The assessment should be conducted at a sufficiently granular level to adequately assess the risk of withdrawal in an idiosyncratic stress scenario.

81. **Operational deposits must receive a 0% inflow assumption for the depositing bank given that these deposits are required for operational reasons and are therefore not available to the depositing bank to repay other outflows.**

82. Notwithstanding the operational categories, if the deposit under consideration arises out of correspondent banking or from the provision of prime brokerage services, it must be treated as if there were no operational activity for the purpose of determining the run-off factors.

83. A reporting entity should evaluate whether activities described in **Paragraph 84 to 86** do indeed generate an operational deposit as not all such activities qualify due to differences in customer dependency, activity and practices.

84. **A clearing relationship** refers to a service arrangement that enables customers to transfer funds (or securities) indirectly through direct participants in domestic settlement systems to final recipients. Such services are limited to the following activities:

    a) transmission, reconciliation, and confirmation of payment orders;
    b) intra-day overdraft, overnight financing, and maintenance of post-settlement balances; and
    c) determination of intra-day and final settlement positions.

85. **A custody relationship** refers to the provision of safekeeping, reporting, processing of assets or the facilitation of the operational and administrative elements of related activities on behalf of customers in the process of their transacting and retaining financial assets. Such services are limited to the settlement of securities transactions, the transfer of contractual payments, the processing of collateral, and the provision of custody related cash management services. Also included are the receipt of dividends and other income, client subscriptions and redemptions[8]. A custodial service is as defined by the CBN Scope, Conditions & Minimum Standards for Commercial Banks Regulations No. 01, 2010.

---

[8] Custodial services can extend to asset and corporate trust servicing, treasury, escrow, funds transfer, stock transfer and agency services, including payment and settlement services, and depository receipts.

86. **A cash management relationship** refers to the provision of cash management and related services to customers. Cash management services refers to those products and services provided to a customer to manage its cash flows, assets, and liabilities, and conduct financial transactions necessary to the customer's ongoing operations. Such services are limited to payment remittance, collection and aggregation of funds, payroll administration, and control over the disbursement of funds.

87. The portion of the operational deposits generated by clearing, custody and cash management activities that are fully covered by the deposit insurance (NDIC) may receive the same treatment as "stable" retail deposits.

c) Unsecured wholesale funding provided by non-financial corporates and sovereigns, central banks, multilateral development banks, and PSEs: 20% or 40%

88. This category includes all deposits and other extensions of unsecured funding from non-financial corporate customers (that are not categorised as small business customers) and (both domestic and foreign) sovereign, central bank, multilateral development bank, and PSE customers that are not specifically held for operational purposes (as defined above). The run-off factor for these funds is 40%.

89. Unsecured wholesale funding provided by non-financial corporate customers, sovereigns, central banks, multilateral development banks, and PSEs without operational relationships should receive a 20% run-off factor only if the entire amount of the deposit is fully covered by an effective deposit insurance (NDIC) or by a public guarantee that provides equivalent protection.

d) Unsecured wholesale funding provided by other legal entity customers: 100%

90. This category consists of all deposits and other funding from other institutions (including banks, securities firms, insurance companies, etc.), fiduciaries, beneficiaries, conduits and special purpose vehicles, affiliated entities of the bank and other entities that are not specifically held for operational purposes and not included in the prior categories. The run-off factor for these funds is 100%.

91. All notes, bonds and other debt securities issued by a reporting entity must be included in this category regardless of the holder, unless the bond is sold exclusively in the retail market and held in retail accounts (including small business customer accounts treated as per **Paragraph 74 to 75** in which case the instruments may be treated in the appropriate retail or small business customer deposit category.

5.1.4 Secured funding run-off

92. For the purpose of these Guidelines, secured funding is defined as those liabilities and general obligations that are collateralised by legal rights to specifically designated assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation, or resolution. Unless the counterparty is a central bank, secured funding does not include transactions collateralised by assets that are not tradable in financial markets such as property, plant and equipment.

93. Collateral swaps must be treated as repurchase or reverse repurchase agreements, as any other similar transaction. Additionally, collateral lent to a reporting entity's customers to effect short positions must be treated as a form of secured lending.

94. Due to the high-quality of Level 1 assets, no reduction in funding availability against these assets is assumed to occur. Moreover, no reduction in funding availability is expected for any maturing secured funding transactions with the CBN. A reduction in funding availability will be assigned to maturing transactions backed by Level 2 assets equivalent to the required haircuts. A 25% factor may be applied for maturing secured funding transactions with the bank's domestic sovereign, multilateral development banks, or domestic PSEs that have a 20% or lower risk weight, when the transactions are backed by assets other than Level 1 or Level 2A assets, in recognition that these entities are likely to withdraw secured funding from banks in time of market-wide stress. This treatment may be applied only to outstanding secured funding transactions. Unused collateral or merely the capacity to borrow, as determined at the end of the day for the reporting date, must not be given any credit in this treatment.

95. For all other maturing transactions, the run-off factor is 100%, including transactions where a reporting entity has satisfied customers' short positions with its own long inventory. All secured transactions maturing within 30 days should be reported according to the collateral actually pledged as of close of business on the LCR measurement date. If the reporting entity pledges a pool of assets and cannot determine which specific assets in the collateral pool are used to collateralise the transactions with a residual maturity greater than 30 days, it may assume that assets are encumbered to these transactions in order of increasing liquidity value, in such a way that assets with the lowest liquidity value in the LCR are assigned to the transactions with the longest residual maturities first. The table below summarises the outflow applicable to transactions maturing within 30 days.

Table 2: The table below summarises the applicable rates:

Categories for outstanding maturing secured funding transactions	Amount to add to cash outflows
Backed by Level 1 assets or with central banks	0%
Backed by Level 2A assets	15%
Secured funding transactions with domestic sovereign, PSEs or multilateral development banks that are not backed by Level 1 or 2A assets. PSEs that receive this treatment are limited to those that have a risk weight of 20% or lower	25%
Backed by other Level 2B assets	50%
All others	100%

5.1.5 Additional Required Cash Outflows:

96. The sum of all derivative net cash outflows must receive a 100% factor. A reporting entity should calculate expected contractual derivative cash inflows and outflows using their existing valuation methodologies. Cash flows may be calculated on a net basis (i.e., inflows can offset outflows) by counterparty only where a valid master netting agreement exists as defined in the CBN Guidance Notes on the Calculation of Capital Requirement for Credit Risk. A reporting entity should exclude from such calculations those liquidity requirements that would result from increased collateral needs due to market value movements or declines in value of collateral posted. Options should be assumed to be exercised when they are 'in the money' to the option buyer.

97. Where derivative payments are collateralised by HQLA, cash outflows should be calculated net of any corresponding cash or collateral inflows that would result, all other things being equal, from contractual obligations for cash or collateral to be provided to the reporting entity , if it is legally entitled and operationally capable to re-use the collateral in new cash raising transactions once the collateral is received. This is in line with the principle that a reporting entity should not double count liquidity inflows and outflows.

98. **Increased liquidity needs related to downgrade triggers embedded in financing transactions, derivatives and other contracts:** A reporting entity shall include 100% of additional collateral or cash that would be posted for, or contractual cash outflows associated with, any downgrade up to and including a 3-notch downgrade of the banking institution's long-term credit rating, where downgrade triggers are embedded in derivatives, financing transactions and other contracts. Triggers linked to the reporting entity's short-term rating shall be assumed to be triggered at the corresponding long-term rating in accordance with published rating criteria. The reporting entity shall assess the impact of its rating

downgrade on all types of margin collateral requirements and contractual triggers that may change rehypothecation rights for non-segregated collateral.

99. **Increased liquidity needs related to the potential for valuation changes on posted collateral securing derivative and other transactions:** A reporting entity posting non-Level 1 HQLA collateral to reflect potential valuation changes on collateral posted to secure against the mark-to-market valuation of derivatives positions and other transactions, shall include 20% of the notional amount required to be posted, after applying the relevant haircuts, and net of collateral received (so long as that such collateral received can be re-used or rehypothecated without limitations), in the calculation of total expected cash outflows.

100. **Increased liquidity needs related to excess non-segregated collateral held by the bank that could contractually be called at any time by the counterparty:** Where a reporting entity holds non-segregated collateral in excess of the counterparty's current collateral requirements and the collateral can be contractually called at any time by the counterparty, the banking institution shall include 100% of the excess non-segregated collateral in the calculation of total expected cash outflows.

101. **Increased liquidity needs related to contractually required collateral on transactions for which the counterparty has not yet demanded the collateral to be posted:** A reporting entity shall include 100% of the value of any collateral which is contractually due to a counterparty in the calculation of total expected cash outflows, in situations where the counterparty has not yet demanded the collateral to be posted.

102. **Increased liquidity needs related to contracts that allow collateral substitution to non-HQLA assets:** In a situation where a reporting entity enters into a contract which allows collateral received to be substituted for non-HQLA assets without the banking institution's consent, the reporting entity shall include 100% of the collateral amount received in the calculation of total expected cash outflows if the collateral received is not segregated and is used to secure another transaction.

103. **Increased liquidity needs related to market valuation changes on derivative or other transactions:** In a situation where a reporting entity has entered into collateralisation arrangements to secure against mark-to-market exposures on derivative and other transactions, it shall include any outflows related to market valuation changes in the calculation of expected cash outflows by identifying the largest absolute net 30-day collateral flow realised during the preceding 24 months. The absolute net collateral flow shall be based on both realised outflows and inflows, regardless of the direction of these flows. To the extent that these

transactions are executed under a valid and enforceable master netting agreement, the collateral inflows and outflows from the same counterparty shall be calculated by the reporting entity on a net basis

104. **Loss of funding on asset-backed securities and other structured financing instruments:** A reporting entity shall assume that a re-financing market for funding instruments issued by the entity itself and which are maturing within 30 calendar days will not exist. The reporting entity shall assign a 100% outflow rate to the total outstanding amount of these instruments maturing within 30 calendar days.

105. **Loss of funding on asset-backed commercial paper, conduits, securities investment vehicles and other such financing facilities:** Where a reporting entity has structured financing facilities which remain outstanding, such as the issuance of short-term asset-backed commercial paper, the reporting entity shall assume that it is potentially unable to refinance the maturing debt, and shall include 100% of the amount of the structured finance instrument maturing within the next 30 calendar days in its expected cash outflows.

106. In cases where derivatives or derivative-like components which may allow the **"return" of assets to a reporting entity or require the reporting entity ("asset originator")** to provide liquidity are contractually written into the documentation associated with the structured financing facility, the reporting entity shall include 100% of the amount of assets that could potentially be returned, or the liquidity required, in its expected cash outflows.

107. In applying the requirements set out in **Paragraphs 105 to 106**, a reporting entity shall look through to the maturity of the debt instruments issued by a Special Purpose Vehicle and any embedded options in financing arrangements that may potentially trigger the "return" of assets or the need for liquidity, irrespective of whether the SPV issuing the structured finance instrument is consolidated.

Table 3: Required HQLA given the potential risk elements

Potential Risk Element	HQLA Required
Debt maturing within the calculation period	100% of maturing amount
Embedded options in financing arrangements that allow for the return of assets or potential liquidity support	100% of the amount of assets that could potentially be returned, or the liquidity required

108. **Drawdown on Committed Credit and Liquidity Facilities:** Credit and liquidity facilities are defined as explicit contractual agreements or obligations to extend funds at a future date to retail or wholesale counterparties. These facilities only

include contractually irrevocable (committed) or conditionally revocable agreements to extend funds in the future.

109. A liquidity facility is defined as any committed, undrawn back-up facility that would be utilised to refinance the debt obligations of a customer in situations where such a customer is unable to rollover that debt in financial markets (e.g. pursuant to a commercial paper programme, secured financing transactions, obligations to redeem units, etc.). This shall include any facility provided to money market funds and special purpose funding vehicles or vehicles used to finance the reporting entity's own assets, but shall exclude the portion of a liquidity facility that is backing debt that does not mature within the 30-day window. Any additional capacity of the facility (i.e., the remaining commitment) must be treated as a committed credit facility with its associated drawdown rate as specified in **Paragraph 111.**

110. Any facility provided to money market funds and special purpose funding vehicles, or other vehicles used to finance an entity's own assets, must be captured in their entirety as a liquidity facility to a financial institution.

111. Any contractual loan drawdowns from committed facilities and estimated drawdowns from revocable facilities within the 30-day period should be fully reflected as outflows.

a) Committed credit and liquidity facilities to retail and small business customers: reporting entities should assume a 5% drawdown of the undrawn portion of these facilities;

b) Committed credit facilities to non-financial corporates, sovereigns and central banks, PSEs, and multilateral development banks: reporting entities should assume a 10% drawdown of the undrawn portion of these credit facilities;

c) Committed liquidity facilities to non-financial corporates, sovereigns and central banks, PSEs, and multilateral development banks: reporting entities should assume a 30% drawdown of the undrawn portion of these liquidity facilities;

d) Committed credit and liquidity facilities extended to supervised financial institutions: reporting entities should assume a 40% drawdown of the undrawn portion;

e) Committed credit facilities to other financial institutions including securities firms, insurance companies, fiduciaries, and beneficiaries: reporting entities should assume a 40% drawdown of the undrawn portion of these credit facilities;

f) Committed liquidity facilities to other financial institutions including securities firms, insurance companies, fiduciaries, and beneficiaries: reporting entities should assume a 100% drawdown of the undrawn portion of these liquidity facilities; and

g) Committed credit and liquidity facilities to other legal entities (including Special Purpose Entities (SPE), conduits, special purpose vehicles, and other entities not included in the prior categories): reporting entities should assume a 100% drawdown of the undrawn portion of these facilities.

112. A reporting entity shall calculate the expected cash outflows for liquidity calls arising from non-contractual contingent funding obligations according to the following outflow rates:

Table 4: Outflow rates for contingent funding obligations

Category	Outflow rate
Unconditionally revocable (uncommitted) credit and liquidity facilities	0%
Contingent funding obligations related to trade finance (e.g. documentary trade letters of credit, documentary, and clean collection, import bills and export bills, guarantees directly related to trade finance obligations)	5% of trade finance obligations
Non-contractual contingent funding obligations related to potential liquidity draws by consolidated joint ventures or minority investments in entities.	10% of the investment value
Guarantees and letters of credit unrelated to trade finance obligations.	10% of the amount of guarantees and letters of credit
Potential request for debt repurchases of the banking institutions own debt or that of related conduits, SIV and other such financing facilities.	10% of the total outstanding amount
Structured products where customers anticipate ready marketability, such as adjustable rate notes and variable-rate demand notes.	10% of the total outstanding amount
Managed funds that are marketed with the objective of maintaining a stable value (e.g. money market mutual funds, other types of stable collective investment funds, etc.)	10% of the total outstanding amount
Outstanding debt securities having maturities greater than 30 days whereby the banking institution or its affiliate is a dealer or market maker.	10% of the total outstanding amount.
Non-contractual obligations where customers short positions are covered by other customers' collateral, where the collateral does not qualify as Level 1 or Level 2 assets.	50% of the collateral amount used to cover customer's short position.
Any other contingent funding obligation not covered above.	10% of the total outstanding amount.

113. **Other Contractual Cash Outflows:** A reporting entity should apply a 100% run-off factor for any other contractual cash outflows maturing within the next 30 calendar days such as outflows to cover unsecured collateral borrowing, uncovered short positions, dividends, or contractual interest payment. The

reporting entity shall provide an explanation as to what comprises each bucket. However, outflows related to operating cost are excluded in these Guidelines.

5.2 Cash Inflows

114. When considering its available cash inflows, the reporting entity must only include contractual inflows (including interest payments) from outstanding exposures that are fully performing and for which the entity has no reason to expect a default within the 30-day time horizon. Contingent inflows, including facilities obtained from a central bank or other party, must not be included in total net cash inflows.

115. Reporting entities are expected to monitor the concentration of expected inflows across wholesale counterparties in the context of their liquidity management in order to ensure that their liquidity position is not overly dependent on the arrival of expected inflows from one or a limited number of wholesale counterparties.

116. In order to prevent reporting entities from relying solely on anticipated inflows to meet their liquidity requirement, and also to ensure a minimum level of HQLA holdings, the amount of inflows that can offset outflows is capped at 75% of total expected cash outflows as calculated in these Guidelines. This requires that a reporting entity must maintain a minimum amount of stock of HQLA equal to 25% of its total cash outflows.

5.2.1 Secured lending, including reverse repos and securities borrowing

117. A reporting entity shall assume that maturing reverse repurchase or securities borrowing agreements secured by Level 1 assets will be rolled over and will not give rise to any cash inflows (0%). Maturing reverse repurchase or securities lending agreements secured by Level 2 HQLA must lead to cash inflows equivalent to the relevant haircut for the specific assets. A reporting entity is assumed not to roll over maturing reverse repurchase or securities borrowing agreements secured by non-HQLA assets and may assume to receive back 100% of the cash related to those agreements.

118. As an exception to **Paragraph 117**, if the collateral obtained through reverse repo, securities borrowing, or collateral swaps, which matures within the 30-day horizon, is re-used (i.e. rehypothecated) and is used to cover short positions that could be extended beyond 30 days, a reporting entity must assume that such reverse repo or securities borrowing arrangements will be rolled-over and not give rise to any cash inflows, reflecting its need to continue to cover the short position or to repurchase the relevant securities.

119. If the collateral obtained from secured lending transactions is not used to cover the reporting entity's short position, the reporting entity shall apply the following inflow rates from maturing reverse repurchase or securities borrowing agreements based on the type of asset securing the transaction:

Table 5: Inflow Rates from Maturing Reverse Repurchase or Securities Borrowing Agreements

Maturing secured lending transactions backed by the following asset category:	Inflow rate (if collateral is not used to cover short positions)	Inflow rate (if collateral is used to cover short positions)
Level 1 assets	0%	0%
Level 2A assets	15%	0%
Level 2B assets		
Other Level 2B assets	50%	0%
Margin lending backed by all other collateral	50%	0%
Other collateral	100%	0%

5.2.2 Committed facilities

120. No credit facilities, liquidity facilities or other contingent funding facilities that the reporting entity holds at other institutions for its own purposes are assumed to be able to be drawn. Such facilities shall receive a 0% inflow rate.

5.2.3 Other Inflows by Counterparty

121. A reporting entity should include only inflows from fully performing loans and must be taken only at the latest possible date, based on the contractual rights available to counterparties. Inflows from loans that have no specific maturity are not included, with the exception of minimum payments of principal, fee or interest associated with an open maturity loan provided that such payments are contractually due within 30 days. Inflows from loans that have no specific maturity (i.e., have non-defined or open maturity) should be excluded.

5.2.4 Retail and small business customer inflows

122. A reporting entity is assumed to receive all payments (including interest payments and instalments) from retail and small business customers that are fully performing and contractually due within a 30-day horizon. At the same time, however, reporting entities are assumed to continue to extend loans to retail and small business customers, at a rate of 50% of contractual inflows. This results in a net inflow number of 50% of the contractual amount.

5.2.5 Other Wholesale Inflow

123. A reporting entity is assumed to receive all payments (including interest payments and instalments) from wholesale customers that are fully performing and contractually due within the 30-day horizon. In addition, reporting entities are assumed to continue to extend loans to wholesale clients, at a rate of 0% of inflows for financial institutions and central banks, and 50% for all others, including non-financial corporates, sovereigns, multilateral development banks, and PSEs. This will result in an inflow percentage of:

    a) 100% for financial institutions and central bank counterparties; and

    b) 50% for non-financial wholesale counterparties.

5.2.6 Operational Deposits

124. A reporting entity will apply 0% inflow rate for all deposits held at other financial institutions for operational purposes. It is assumed that operational deposits for activities such as clearing, custody and cash management purpose stay at those institutions and no inflow can be counted for these funds.

5.2.7 Other Cash Inflows

125. The sum of all net cash inflows should receive a 100% inflow factor. The amounts of derivatives cash inflows and outflows should be calculated in accordance with the methodology described in **Paragraph 966**.

126. **Other Contractual Cash Inflows:** Reporting entities should explain all other contractual cash flows included in this bucket to the CBN. These items receive an inflow rate of 100 per cent. Cash inflows related to non-financial revenues are not considered in the calculation of the net cash outflows for the purposes of the LCR.

6. Appendix 1 – Calculation of the Cap on Level 2 Assets

Calculation of the cap on Level 2 assets with regard to short-term securities financing transactions

1. This appendix seeks to clarify the appropriate method for the computation of the cap on Level 2 assets with regards to short-term securities financing transactions.

2. The calculation of the 40% cap on Level 2 assets should consider the impact on the stock of HQLA of the amount of Level 1 and Level 2 assets involved in secured funding, secured lending and collateral swap transactions maturing within 30 calendar days. The maximum amount of adjusted Level 2 assets in the stock of HQLA is equal to two-thirds of the adjusted amount of Level 1 assets after haircuts have been applied. The calculation of the 40% cap on Level 2 assets should consider any reduction in eligible Level 2B assets on account of the 15% cap on Level 2B assets.

3. Further, the calculation of the 15% cap on Level 2B assets should consider the impact on the stock of HQLA of the amounts of HQLA assets involved in secured funding, secured lending and collateral swap transactions maturing within 30 calendar days. The maximum amount of adjusted Level 2B assets in the stock of HQLA is equal to 15/85 of the sum of the adjusted amounts of Level 1 and Level 2 assets, or, in cases where the 40% cap is binding, up to a maximum of 1/4 of the adjusted amount of Level 1 assets, both after haircuts have been applied.

4. The adjusted amount of Level 1 assets is defined as the amount of Level 1 assets that would result after unwinding those short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for any Level 1 assets (including cash) that meet, or would meet if held unencumbered, the operational requirements for HQLA set out in **Paragraphs 36 to 43.** The adjusted amount of Level 2A assets is defined as the amount of Level 2A assets that would result after unwinding those short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for any Level 2A assets that meet, or would meet if held unencumbered, the operational requirements for HQLA set out in **Paragraphs 36 to 43.** The adjusted amount of Level 2B assets is defined as the amount of Level 2B assets that would result after unwinding those short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for any Level 2B assets that meet, or would meet if held unencumbered, the operational requirements for HQLA set out in **Paragraphs 45 to 43.** In this context, short-term transactions are transactions with a maturity date up to and including 30 calendar days. Relevant haircuts would be applied prior to calculation of the respective caps.

5. As stated in the definition of LCR, it is a ratio of two factors, viz, the Stock of HQLA and the Net Cash Outflows over the next 30 calendar days. Therefore, computation of LCR of a reporting entity will require calculations of the numerator and denominator of the ratio, as detailed in subsequent paragraphs.

6. The formula for the calculation of the stock of HQLA is as follows:

Stock of HQLA = Level 1 + Level 2A + Level 2B – Adjustment for 15% cap – Adjustment for 40% cap   Where: *Adjustment for 15% cap= Max ((Adjusted Level 2B – 15/85 * (Adjusted Level 1 + Adjusted Level 2A), (Adjusted Level 2B -15/60 * Adjusted Level 1), 0)*   *Adjustment for 40% cap= Max ((Adjusted Level 2A + Adjusted Level 2B – Adjustment for 15% cap) - 2/3* Adjusted Level 1 assets), 0)*

7. Alternatively, the formula can be expressed as:

Stock of HQLA= Level 1 + Level 2A + Level 2B – Max ((Adjusted Level 2A + Adjusted Level 2B) - 2/3* Adjusted Level 1, Adjusted Level 2B – 15/85 * (Adjusted Level 1 + Adjusted Level 2A), 0)

7. Appendix 2 – Summary of the LCR

Illustrative Summary of the Liquidity Coverage Ratio (LCR)

(Percentages are factors to be multiplied by the total amount of each item)

Item	Factor
Stock of HQLA	
A. Level 1 assets:	
▪ Coins and bank notes ▪ Qualifying marketable securities from foreign, central banks, PSE, and multilateral development banks ▪ Qualifying central bank reserves (excluding cash reserve requirement) ▪ Domestic sovereign or central bank debt for non-0% risk-weighted sovereigns	100%
B. Level 2 assets (Maximum of 40% of HQLA):	
Level 2A assets:	
▪ Sovereign, central bank, multilateral development banks, and PSE assets qualifying for 20% risk weighting ▪ Qualifying corporate debt securities rated AA- or higher	85%
Level 2B assets (maximum of 15% of HQLA)	
• Qualifying corporate debt securities rated between A+ and BBB- • Qualifying common equity shares	50% 50%
Total value of stock of HQLA	

Cash Outflows	
A. Retail deposits:	Run-off rates
Demand deposits and term deposits (less than 30 days maturity) • Stable deposits (deposit insurance scheme meets additional criteria) • Stable deposits • Less stable retail deposits	 5% 5% 10%
Term deposits with residual maturity greater than 30 days	0%
B. Unsecured wholesale funding:	
Demand and term deposits (less than 30 days maturity) provided by small business customers: • Stable deposits • Less stable deposits	 5% 10%
Operational deposits generated by clearing, custody, and cash management activities • Portion covered by deposit insurance	25% 5%
Non-financial corporates, sovereigns, central banks, multilateral development banks, and PSEs • If the entire amount fully covered by deposit insurance scheme	40% 20%
Other legal entity customers	100%
C. Secured funding:	

▪ Secured funding transactions with central bank counterparty or backed by Level 1 assets with any counterparty. ▪ Secured funding transactions backed by Level 2A assets, with any counterparty ▪ Secured funding transactions backed by non-Level 1 or non-Level 2A assets, with domestic sovereigns, multilateral development banks, or domestic PSEs as a counterparty ▪ Backed by other Level 2B assets ▪ All other secured funding transactions	0% 15% 25% 50% 100%
D. Additional requirements:	
Liquidity needs (e.g. collateral calls) related to financing transactions, derivatives, and other contracts	3 notch downgrade
Market valuation changes on derivatives transactions (largest absolute net 30-day collateral flows realised during the preceding 24 months)	Look back approach
Valuation changes on non-Level 1 posted collateral securing derivatives	20%
Excess collateral held by a bank related to derivative transactions that could contractually be called at any time by its counterparty	100%
Liquidity needs related to collateral contractually due from the reporting bank on derivatives transactions	100%
Increased liquidity needs related to derivative transactions that allow collateral substitution to non-HQLA assets	100%
ABCP, SIVs, conduits, SPVs, etc.:	
▪ Liabilities from maturing ABCP, SIVs, SPVs, etc. (applied to maturing amounts and returnable assets)	100%
▪ Asset Backed Securities applied to maturing amounts.	100%
Currently undrawn committed credit and liquidity facilities provided to:	
▪ retail and small business clients	5%
▪ non-financial corporates, sovereigns and central banks, multilateral development banks, and PSEs	10% for credit 30% for liquidity
▪ banks subject to prudential supervision	40%
▪ other financial institutions (include securities firms, insurance companies)	40% for credit 100% for liquidity
▪ other legal entity customers, credit, and liquidity facilities	100%
Other contingent funding liabilities (such as guarantees, letters of credit, revocable credit, and liquidity facilities, etc.) ▪ Trade finance ▪ Customer short positions covered by other customers' collateral	 5% 50%
Any additional contractual outflows	100%
Net derivative cash outflows	100%
Any other contractual cash outflows	100%
Total cash outflows	

Cash Inflows	
Maturing secured lending transactions backed by the following collateral:	
Level 1 assets	0%
Level 2A assets	15%
Level 2B assets ▪ Other assets	50%
Margin lending backed by all other collateral	50%
All other assets	100%
Credit or liquidity facilities provided to the reporting bank	0%
Operational deposits held at other financial institutions	0%
Other inflows by counterparty: ▪ Amounts to be received from retail counterparties ▪ Amounts to be received from non-financial wholesale counterparties, from transactions other than those listed in above inflow categories ▪ Amounts to be received from financial institutions and central banks, from transactions other than those listed in above inflow categories.	50% 50% 100%
Net derivative cash inflows	100%
Other contractual cash inflows	100%
Total cash inflows	
Total net cash outflows = Total cash outflows minus min [total cash inflows, 75% of gross outflows]	
LCR = Stock of HQLA / Total net cash outflows	

8. Appendix 3 – LCR Templates

a) High Quality Liquid Assets

(All amounts to be rounded off to the nearest Naira'000)				
High-Quality Liquid Assets	**Line No.**	**Total**	**Specified factor**[9]	**Weighted total** (col.1 * 2)
		1	2	3
Total qualifying high-quality liquid assets (total of items 2 and 16 to 19)	1			
Total Level 1 high-quality liquidity assets (total of items 3 to 7)	2			
Coin and banknotes	3		100%	
Qualifying marketable securities representing claims on, or guaranteed by, sovereigns, central banks, Public Sector Entities (PSE), multilateral development banks, etc.	4		100%	
Qualifying central bank reserves (excluding CRR balances)	5		100%	
Qualifying sovereign or central bank debt securities issued in domestic currencies	6		100%	
Qualifying central bank debt securities issued in foreign currencies	7		100%	
Total Level 2 high-quality liquid assets (total of items 9 and 13)	8			
Total level 2A high-quality liquid assets (total of items 10 to 12)	9			
Qualifying marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs, or multilateral development banks	10		85%	
Qualifying corporate debt securities (including commercial paper)	11		85%	
Other qualifying items (please specify)	12		85%	
Total level 2B high-quality liquid assets (total of items 14 and 15)	13			
Qualifying corporate debt securities (including commercial paper)	14		50%	
Qualifying common equity shares	15		50%	
Total qualifying level two high-quality liquid assets	16			
Committed Central Bank facility	17		As specified by the Central Bank of Nigeria	
Foreign currency liquid assets	18			
Additional level two high-quality liquid assets	19			

Item 12: Relates to consolidated reporting only. Where applicable, include in this line item the aggregate number of instruments qualifying as level 2A high-quality liquid assets for entities established in jurisdictions outside Nigeria.

Item 13: This should not exceed 15% of item 1

Item 16: Total qualifying level two high-quality liquid assets are limited to 40% of the overall stock of HQLA after haircuts have been applied. See Appendix 1 of the Guidelines for the method for calculating the cap on Level 2 assets and the cap on Level 2B assets

[9] The CBN may, from time to time, prescribe alternative factors.

b) Cash Outflows

(All amounts to be rounded off to the nearest Naira'000)				
Liquidity coverage ratio (LCR): Cash outflows	**Line no.**	**Total**	**Specified factor**[10]	**Weighted total** (col.1 * 2)
		1	2	3
Retail deposits (total of items 21 and 26)	20			
Demand deposits and qualifying term deposits with residual maturity or notice period within 30 days (total of items 22 to 25)	21			
Qualifying stable deposits where deposit insure meets additional criteria	22		5%	
Stable deposits that do not meet the specified additional criteria	23		10%	
Less stable retail deposits	24		10%	
Other (please specify)	25		To be specified by the CBN from time to time	
Term deposits with a residual maturity or withdrawal notice period greater than 30 days where the depositor has no legal right to withdraw within the 30-day horizon or if early withdrawal result in a significant penalty	26		0%	
Unsecured wholesale funding (total of items 28 to 35)	27			
Stable demand and term deposits (less than 30 days maturity) provided by small business customers	28		5%	
Less stable demand and term deposits (less than 30 days maturity) provided by small business customers	29		10%	
Qualifying term deposits with residual maturity greater than 30 days	30		To be specified by the CBN from time to time	
Operational deposits generated by clearing, custody, and cash management activities	31		25%	
Portion of qualifying operational deposits fully covered by deposit insurance	32		5%	
Qualifying non-financial corporates, sovereigns, central banks, multilateral development banks and public-sector entities with no operational relationship	33		40%	
Specified non-financial corporates, sovereigns, central banks, multilateral development banks and public-sector entities with no operational relationship when entire amount is fully covered by deposit insurance scheme	34		20%	
Other legal entity customers	35		100%	
Secured funding (total of items 37 to 41)	36			
Secured funding transactions with central bank counterparty or backed by Level 1 assets with any counterparty	37		0%	
Secured funding transactions backed by Level 2A assets with any counterparty	38		15%	
Secured funding transactions backed by non-Level 1 or non-Level 2A assets with domestic sovereigns, multilateral development banks, or domestic PSEs as a counterparty	39		25%	
Secured funding backed by other qualifying level 2B high-quality liquid assets other than	40		50%	

[10] The CBN may, from time to time, prescribe alternative factors.

Liquidity coverage ratio (LCR): Cash outflows	Line no.	Total	Specified factor[10]	Weighted total (col.1 * 2)
level 2B high-quality liquid assets already specified hereinbefore				
All other secured funding transactions	41		100%	
Other expected outflows (total of items 44 to 53, 61, and 66 to 70)	43			
Net payable (cash outflows) amount related to qualifying derivative transactions	44		100%	
Liquidity needs (e.g., collateral calls) related to financing transactions, derivatives, and other contracts for any downgrade up to and including a 3 notch downgrade of banking institution's long-term credit rating	45		100%	
Valuation changes on posted collateral securing derivative and other transactions that is comprised of non-level 1 high-quality liquid assets	46		20%	
Excess collateral held by a bank related to derivative transactions that could contractually be called at any time by its counterparty	47		100%	
Liquidity needs related to contractually required collateral due from reporting bank on derivatives transactions	48		100%	
Liquidity needs related to derivative transactions that allow collateral substitution to non-high-quality liquid assets	49		100%	
Market valuation changes on derivatives or other transactions (largest absolute net 30-day collateral flows realised during the preceding 24 months)	50		100%	
Specified funding related to asset-backed securities or other structured financing instruments	51		100%	
Sum of liabilities from maturing funding related to asset-backed commercial paper, conduits, securities investment vehicles and other similar financing facilities, and required liquidity related to assets that may be returned	52		100%	
Committed undrawn credit or liquidity facilities (total of items 54 to 60)	53			
Retail and small business clients	54		5%	
Credit facilities to non-financial corporates, sovereigns or central banks, public sector entities and multilateral development banks	55		10%	
Liquidity facilities to non-financial corporates, sovereigns or central banks, public sector entities and multilateral development banks	56		30%	
Credit or liquidity facilities extended to any other bank subject to prudential supervision	57		40%	
Credit facilities extended to other financial institution other than banks subject to prudential supervision	58		40%	
Liquidity facilities extended to any financial institution other than banks subject to prudential supervision	59		100%	
credit and liquidity facilities extended to other legal entity customers	60		100%	
Uncommitted undrawn credit or liquidity facilities (total of items 62 to 65)	61			
Retail or small business clients	62			

Liquidity coverage ratio (LCR): Cash outflows	Line no.	Total	Specified factor[10]	Weighted total (col.1 * 2)
Credit facilities to non-financial corporates, sovereigns and central banks, public sector entities and multilateral development banks	63		To be specified by the CBN from time to time	
Liquidity facilities to non-financial corporates, sovereigns and central banks, public sector entities and multilateral development banks	64			
Other legal entities	65			
Trade finance instruments	66		5%	
Internally matched client assets against other clients' short positions	67		To be specified by the CBN from time to time	
Specified contractual lending obligations	68		100%	
Other contractual outflows	69		100%	
Other (please specify)	70		To be specified by the CBN from time to time	
Total outflows (total of items 20, 27, 36 and 43)	71			

c) Cash Inflows

All amounts to be rounded off to the nearest Naira/000

Liquidity coverage ratio (LCR): Cash inflows	Line no.	Total	Specified factor	Weighted total (col.1 * 2)
		1	2	3
Maturing secured lending transactions backed by the following collateral: (total of items 73 to 76)	72			
Level one high-quality liquid assets as collateral	73		0%	
Level 2A high-quality liquid assets as collateral	74		15%	
Level 2B high-quality liquid assets as collateral	75		50%	
Assets other than level 1 or level 2 high-quality liquid assets as collateral	76		100%	
Margin lending transactions secured by assets other than qualifying level 1 or level 2 high-quality liquid assets as collateral	77		50%	
Credit or liquidity facilities provided to the reporting bank	78		0%	
Specified net inflows by counterparty (total of items 80 to 82)	79			
Amounts to be received from retail counterparties	80		50%	
Amounts to be received from non-financial wholesale counterparties, from transactions other than those listed in the above inflow categories	81		50%	
Amounts to be received from financial institutions and central banks, from transactions other than those listed in above inflow categories.	82		100%	
Specified operational deposits held at other financial institutions	83		0%	
Net receivable amount from derivative instruments	84		100%	
Other contractual cash inflows	85		100%	
Total inflows (total of items 72, 77 to 79, and 83 to 85)	86			

d) Calculation of LCR

(All amounts to be rounded off to the nearest Naira'000)		
Calculation of Liquidity Coverage Ratio (LCR)	**Line no.**	**Total**
		1
Total outflows (item 71, column 3)	87	
Total inflows (item 86, column 3)	88	
Total net cash outflows (item 87 minus min [item 88, 75% of item 87])	89	
		LCR
		1
Liquidity Coverage ratio (item 1 divided by item 89, multiplied with 100)	191	

CENTRAL BANK OF NIGERIA

GUIDELINES ON LIQUIDITY MONITORING TOOLS (LMT)

SEPTEMBER 2021

Table of Contents

1. Introduction 2

2. Frequency of Reporting 3

3. Contractual Maturity Mismatch 3

3.1. Assumptions Underlying Contractual Cash Flows 3

3.2 Utilization of the Metric. 4

4. Concentration of Funding 5

4.1 Calculation of the Metric 5

4.2 Utilization of the Metric 6

5. Available Unencumbered Assets 7

5.1 Calculation of the Metric 7

5.2 Utilization of the Metric 8

6. LCR by Significant Currency 8

7. Market-related Monitoring Tools 9

7.1 Definition and Practical Application of the Metric 9

7.2 Utilization of the Metric/Data 9

8. Appendix 1 – Reporting Templates 11

8.1 Contractual Maturity Mismatch 11

8.2 Concentration of Funding 12

8.3 Unencumbered Assets 14

8.4 LCR by Significant Currency 16

8.5 Market Related Monitoring Tools 17

1. Introduction

1. The Central Bank of Nigeria (CBN) Guidelines on Liquidity Coverage Ratio (LCR) is aimed at ensuring that banks hold sufficient unencumbered high-quality liquid assets (HQLA) to survive a 30-day stress period. The LCR requirements assume that 30 days is enough time for the bank's management and the CBN to take corrective action or resolve the bank in an orderly way.

2. **It is essential that banks deploy appropriate tools to monitor their liquidity position on a regular basis given the uncertainty around timing of outflows and inflows which could result in potential mismatches within the 30-day period and hence the need to hold sufficient HQLA to bridge any cash flow gaps that could ensue.**

3. The Basel Committee on Banking Supervision (BCBS)[1] specifies five additional tools and metrics for monitoring of banks' liquidity risk. These metrics capture specific information relating to a bank's cash flows, balance sheet structure, available unencumbered collateral, and certain market indicators. The metrics are expected to help supervisors in the ongoing assessment of the liquidity risk profile of banks in their jurisdictions.

4. The CBN will monitor the trends in individual bank's liquidity risk metrics and will take appropriate action when:

    a) potential liquidity difficulties are signalled through a negative trend in the metrics;

    b) a deteriorating liquidity position is identified; or

    c) the absolute result of the metric identifies a current or potential liquidity problem

5. The five monitoring tools (metrics) specified by BCBS are:

    a) Contractual maturity mismatch;

    b) Concentration of funding;

    c) Available unencumbered assets;

    d) LCR by significant currency; and

    e) Market-related monitoring tools.

---

[1] Basel III: The Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools, January 2013

2. Frequency of Reporting

6. A Reporting bank is required to report to the CBN on a monthly basis, not later than 5 days after the last day of each month on each of the metrics as tabulated below.

Table 1: Frequency of Reporting

Metric	Reporting Frequency	Implementation Date	Reporting Time
Contractual maturity mismatch	Monthly	01 January 2020	Not later than 5 working days after the last day of each month
Concentration of funding	Monthly		
Available unencumbered assets	monthly		
LCR by significant currency	Monthly		
Market-related monitoring tools.	Monthly		

3. Contractual Maturity Mismatch

7. The contractual maturity mismatch profile identifies the gaps between the contractual inflows and outflows of liquidity for defined time bands. These maturity gaps indicate how much liquidity a reporting bank would potentially need to raise in each of these time bands if all outflows occurred at the earliest possible date. This metric provides insight into the extent to which the reporting bank relies on maturity transformation under its current contracts.

8. A reporting bank should report contractual cash and security flows in the relevant time bands based on their residual contractual maturity. This is achieved by mapping contractual cash and security inflows from all on-and off- balance sheet items to defined bands based on their respective maturities.

9. A reporting bank should report instruments that have no specific maturity (non-defined or open maturity) separately, with details on the instruments and with no assumptions applied as to when maturity occurs. Reporting banks should also include information on possible cash flows arising from derivatives such as interest rate swaps and options to the extent that their contractual maturities are relevant to the understanding of the cash flow.

10. The data a reporting bank collects from the contractual maturity mismatch should be aligned with the categories outlined in the Guidelines on LCR.

3.1. Assumptions Underlying Contractual Cash Flows

11. A reporting bank should ensure that:

    a) No rollover of existing liabilities is assumed to take place. For assets, the reporting bank is assumed not to enter any new contracts.

b) Contingent liability exposures that would require a change in the state of the world (such as contracts with triggers based on a change in prices of financial instruments or a downgrade in the bank's credit rating) is detailed, grouped by what would trigger the liability, with the respective exposures clearly identified.

c) All securities flows are recorded. This will allow the CBN to monitor movements in securities that mirror corresponding cash flows as well as the contractual maturity of collateral swaps and any uncollateralised stock lending/borrowing where stock movements occur without any corresponding cash flows.

d) It reports separately the customer collateral received that the reporting bank is permitted to rehypothecate as well as the amount of such collateral that is rehypothecated at each reporting date. This will also highlight instances when the bank is generating mismatches in the borrowing and lending of customer collateral.

3.2 Utilization of the Metric

12. Given that the metric is based solely on contractual maturities with no behavioural assumptions, the reporting bank's data will not reflect actual future forecasted flows under the bank's current, or future strategy or plans, i.e., under a going-concern view. Also, the contractual maturity mismatches do not capture outflows that a reporting bank may make in order to protect its franchise, even where contractually there is no obligation to do so. Contractual data provided by reporting banks will enable the CBN to build a market-wide view on liquidity and identify market outliers.

13. Reporting banks should also:

a) Conduct their own maturity mismatch analyses, based on going-concern behavioural assumptions of the inflows and outflows of funds in both normal situations and under stress;

b) Ensure that the analyses of maturity mismatches are based on strategic and business plans and are shared and discussed with the CBN and the data provided in the contractual maturity mismatch should be utilized as a basis of comparison;

c) Be able to demonstrate the appropriateness of the assumptions underpinning their projected mismatches and should ensure that such assumptions are adequately conservative (prudent);

d) Articulate how it plans to bridge any identified gaps in its internally generated maturity mismatches; and

e) Justify any differences between the assumptions applied and the underlying contractual terms.

14. The CBN will, as part of its supervisory review process, challenge the reporting bank's assumptions, its approach to bridging any maturity mismatches, and assess the feasibility of its funding plans under different stress scenarios.

15. The CBN will also require banks to submit projected mismatch reports as part of an assessment of impact of any material changes to their business models as a result of potential major acquisitions or mergers or the launch of new products that have not yet been contractually entered into.

4. Concentration of Funding

16. This metric is meant to identify those sources of wholesale funding that are of such significance that their withdrawal could trigger liquidity problems. The metric encourages the diversification of funding sources.

17. Definition and practical application of the metric

A. Funding liabilities sourced from each significant counterparty as a % of total liabilities;

B. Funding liabilities sourced from each significant product/instrument as a % of total liabilities

C. List of asset and liability amounts by significant currency

4.1 Calculation of the Metric

18. The numerator for A and B is determined by examining funding concentrations by counterparty or type of instrument/product. Banks should monitor both the absolute percentage of the funding exposure, as well as significant increases in concentrations.

19. The numerator for counterparties should be calculated by aggregating the total of all types of liabilities to a single counterparty or group of connected or affiliated counterparties, as well as all other direct borrowings, both secured and unsecured, which the reporting bank can determine arise from the same counterparty (such as for overnight commercial paper / certificate of deposit funding).

20. A **significant counterparty** is defined as a single counterparty or group of connected or affiliated counterparties accounting in aggregate for more than 1% of the reporting bank's total balance sheet. A group of connected counterparties shall be defined in the same way as in the **CBN Guidelines on Large Exposures**.

21. Intra-group deposits and deposits from related parties should be identified specifically under this metric, regardless of whether the metric is being calculated at a legal entity or group level, due to the potential limitations to intra-group transactions in stressed conditions.

22. The numerator for type of instrument or product should be calculated for each individually significant funding instrument or product, as well as by calculating groups of similar types of instruments or products.

23. A **significant instrument or product** is defined as a single instrument or product or group of similar instruments or products that in aggregate amount to more than 1% of the reporting bank's total balance sheet.

24. In order to capture the amount of structural currency mismatch in a bank's assets and liabilities, reporting banks are required to provide a list of the amount of assets and liabilities in each significant currency.

25. A currency is considered significant if the aggregate liabilities denominated in that currency amount to 5% or more of the bank's total liabilities.

26. The above metrics should be reported separately for the time horizons of less than one month, 1-3 months, 3-6 months, 6-12 months, and for longer than 12 months.

4.2 Utilization of the Metric

27. In utilizing this metric to determine the extent of funding concentration to a certain counterparty, the reporting bank must recognize that currently it is not possible to identify the actual funding counterparty for many types of debt.

28. The actual concentration of funding sources, therefore, could likely be higher than this metric indicates. The list of significant counterparties could change frequently, particularly during a crisis. The CBN will consider the potential for herding behavior on the part of funding counterparties in the case of an institution-specific problem. In addition, under market-wide stress, multiple funding counterparties and the reporting bank itself may experience concurrent liquidity pressures, making it difficult to sustain funding, even if sources appear well diversified.

29. In interpreting this metric, one must recognize that the existence of bilateral funding transactions may affect the strength of commercial ties and the amount of the net

outflow e.g., where the reporting bank also extends funding or has large unused credit lines outstanding to the significant counterparty.

30. These metrics do not indicate how difficult it would be to replace funding from any given source.

31. To capture potential foreign exchange risks, the comparison of the amount of assets and liabilities by currency will provide the CBN with a baseline for discussions with the banks about how they manage any currency mismatches through swaps, forwards, etc. It is meant to provide a base for further discussions with the bank rather than to provide a snapshot view of the potential risk.

5. Available Unencumbered Assets

5.1 Calculation of the Metric

32. The metrics on a reporting bank's available unencumbered assets will provide the CBN with data on the quantity and key characteristics, including currency denomination and location, of those assets. Available unencumbered assets have the potential to be used as collateral to raise additional HQLA or secured funding in secondary markets or are eligible at the central bank's standing facilities and as such may potentially be additional sources of liquidity for the bank.

33. A reporting bank is to report the amount, type and location of available unencumbered assets that could serve as collateral for secured borrowing in secondary markets at prearranged or current haircuts at reasonable costs.

34. For assets to be counted in this metric, a reporting bank must have already put in place the operational procedures that would be needed to monetise the collateral.

35. A reporting bank should report separately the customer collateral received that the bank is permitted to deliver or re-pledge, as well as the part of such collateral that it is delivering or re-pledging at each reporting date.

36. In addition to providing the total amounts available, a reporting bank should report these items categorised by significant currency. A currency is considered 'significant' if the aggregate stock of available unencumbered collateral denominated in that currency amounts 5% or more of the associated total amount of available unencumbered collateral (for secondary markets or central bank).

37. A reporting bank must report the estimated haircut that the secondary market or central bank would require for each asset. In the case of the latter, a reporting bank would be expected to reference, under business as usual, the haircut required by

the central bank that it would normally access (which likely involves matching funding currency).

38. As a second step after reporting the relevant haircuts, a reporting bank should report the expected monetised value of the collateral (rather than the notional amount) and where the assets are actually held, in terms of the location of the assets and what business lines have access to those assets.

39. **Reporting banks are required to report their available unencumbered assets on a monthly basis within 5 working day after the end of the month.**

5.2 Utilization of the Metric

40. These metrics are useful for examining the potential for a bank to generate an additional source of HQLA or secured funding. They will provide a standardised measure of the extent to which the LCR can be quickly replenished after a liquidity shock either via raising funds in private markets or utilising central bank standing facilities.

41. The metrics do not capture potential changes in counterparties' haircuts and lending policies that could occur under either a systemic or idiosyncratic event and could provide false comfort that the estimated monetised value of available unencumbered collateral is greater than it would be when it is most needed.

6. LCR by Significant Currency

42. While the LCR is required to be met in one single currency, in order to better capture potential currency mismatches, reporting banks should also monitor the LCR in significant currencies. This will allow the reporting banks to track potential currency mismatch issues that could arise.

Foreign Currency LCR = Stock of HQLA in each significant currency / Total net cash outflows over a 30-day time period in each significant currency[2]

43. The definition of the stock of high-quality foreign exchange assets and total net foreign exchange cash outflows should mirror those of the LCR for common currencies[3].

---

[2] Amount of total net foreign exchange cash outflows should be net of foreign exchange hedges

[3] Cash flows from assets, liabilities and off-balance sheet items will be computed in the currency that the counterparties are obliged to deliver to settle the contract, independent of the currency to which the contract is indexed (or "linked"), or the currency whose fluctuation it is intended to hedge

44. A currency is considered "significant" if the aggregate liabilities denominated in that currency amount to 5% or more of the bank's total liabilities.

45. Reporting banks are required to submit their LCR by significant currency on monthly frequency to the CBN along with the main LCR return.

7. Market-related Monitoring Tools

46. This metric includes high frequency market data that can be used as early warning indicators in monitoring potential liquidity difficulties at banks.

7.1 Definition and Practical Application of the Metric

47. The CBN shall monitor the market data on the following levels to focus on potential liquidity difficulties:

a) **Market-wide information:** These include but are not limited to, equity prices[4] debt markets[5]; foreign exchange markets, commodities markets, and indices related to specific products, such as for certain securitised products.

b) **Information on the financial sector:** These include equity and debt market information for the financial sector broadly and for specific subsets of the financial sector, including indices.

c) **Bank-specific information:** These include information on equity prices, CDS spreads, money-market trading prices, the situation of roll-overs and prices for various lengths of funding, the price/yield of bank debenture or subordinated debt in the secondary market.

7.2 Utilization of the Metric/Data

48. Reporting bank should, where applicable, ensure that Information such as equity prices and credit spreads are readily available. However, the accurate interpretation of such information is important[6]. Also, when considering the liquidity impact of changes in certain data points, the reaction of other market participants to such information can be different, as various liquidity providers may emphasise different types of data.

---

[4] Overall stock markets and sub-indices in various jurisdictions relevant to the activities of the supervised banks

[5] Money markets, medium-term notes, long term debt, derivatives, government bond markets, credit default spread indices, etc.

[6] For instance, the same CDS spread in numerical terms may not necessarily imply the same risk across markets due to market-specific conditions such as low market liquidity

49. To address this metric, bank specific information[7] shall be submitted not later than 5 working days after the last day of each month in the prescribed format as set out in **Section 8.5 of Appendix 1.**

8. Appendix 1 – Reporting Templates

8.1 Contractual Maturity Mismatch

Table 1: Reporting Template for Contractual Cash Flow Mismatch

All amounts to be rounded off to the nearest N'000

Contractual Balance Sheet Mismatch	Line No.	Total	Next day	2 to 7 days	8 to 14 days	15 days to 1 month	1 month to 2 months	2 months to 3 months	3 months to 6 months	6 months to 9 months	9 months to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	> 5 years	Non contractual
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Contractual maturity of assets (items 2 to 4)	1															
Advances	2															
Trading, hedging and other investment instruments	3															
Other assets	4															
Contractual maturity of liabilities (items 6 to 9)	5															
Stable deposits	6															
Volatile deposits	7															
Trading and hedging instruments	8															
Other liabilities	9															
On-balance sheet contractual mismatch (item 1 less item 5)	10															
Cumulative on-balance sheet contractual mismatch	11															
Off-balance sheet exposure to liquidity risk	12															
of which:																
Liquidity facilities provided to off-balance sheet vehicles	13															
Undrawn commitments (items 15 to 17)	14															
Unutilised portion of irrevocable lending facilities	15															
Unutilised portion of irrevocable letters of credit	16															
Indemnities and guarantees	17															

Table 2: Information on Investments and Items with No Contractual Maturity

Name of Instrument/investments/Item without contractual maturity	Amount (N'000)
Instrument 1	
Instrument 2	
Instrument 3	
....	
....	
....	
....	
Instrument n	
Total	

Table 3: Customer Collateral Received

Customer collateral which can be re-hypothecated			
Name of Instrument	Total Amounts (N'000)	Amounts (N'000) already hypothecated	Amount (N'000) Available
	A	B	C = (A-B)
Instrument 1			
Instrument 2			
Instrument 3			
....			
....			
....			
....			
Instrument n			
Total			

8.2 Concentration of Funding

Table 4: Funding Liabilities Sourced from Significant Counterparties

Name of Significant counterparty	Amount of Funding (N'000)	Percentage of Total Liabilities	Intragroup or related parties (Yes or No) to be marked	
1	2	3	Yes	No
Significant counterparty 1			Yes	No
Significant counterparty 2			Yes	No
Significant counterparty 3			Yes	No
....			Yes	No
....			Yes	No
....			Yes	No
Significant counterparty n			Yes	No
Total				

Table 5: Funding Liabilities Sourced from Significant Product/Instruments

Name of Significant Instrument or Groups of Similar Instruments	Amount (N'000)	Percentage of Total Liabilities
1	2	3
Significant instrument/product 1		
Significant instrument/product 2		
Significant instrument/product 3		
....		
....		
....		
Significant instrument/product n		
Total		

Table 6: List of Assets and Liabilities by Significant Currencies

Name of Significant Currency	Amount (N'000)			Mismatch as a Percentage of Total Liabilities
	Assets	Liabilities	Mismatch	
1	2	3	4 = (2 – 3)	5
Significant currency 1				
Significant currency 2				
Significant currency 3				
....				
....				
....				
Significant currency n				
Total				

Table 7: Time Buckets of Maturity of Exposures

All amounts to be rounded off to the nearest N'000

Item	Months					Total
	<1	1 - 3	3 - 6	6 – 12	>12	
A. Funding from Significant Counterparties						
Significant counterparty 1						
Significant counterparty 2						
....						
....						
Significant counterparty n						
Total						
B. Funding from Significant Instrument						
Significant instrument 1						
Significant instrument 2						
....						
....						
Significant instrument n						
Total						
C. Liabilities by Significant Currency						
Significant currency 1						
Significant currency 2						
....						
....						
Significant currency n						
Total						

Table 8: Concentration of Deposit Funding

All amounts to be rounded off to the nearest N'000

Concentration of deposit funding	Total	Next day	2 to 7 days	8 days to 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 to 12 months	> 12 months
	1	2	3	4	5	6	7	8	9
Funding supplied by associates of the reporting bank									
Ten largest depositors									
Ten largest financial institutions funding balances									
Ten largest government and parastatals funding balances									
Negotiable paper funding instruments									
of which: issued for a period not exceeding twelve months									
of which: issued for a period exceeding five years									

8.3 Unencumbered Assets

Table 9: Statement of Available Unencumbered Assets

S/No.	Description	Asset Type & Nature	Location	Carrying Value in Naira (N'000)	Estimated Haircut (%)[8]	Expected Monetized Value of Collateral
A. Available unencumbered assets that are marketable as collateral in secondary market						
1						
2						
3						
..						
n						
Total						
B. Available unencumbered assets that are eligible for central banks' standing facilities						
1						
2						
3						
..						
n						
Total						
C. By Significant Currency – Available unencumbered assets that are marketable as collateral in secondary markets or eligible for central banks' standing facilities						
Naira						
1						
2						
3						
..						
n						
Sub-Total						
USD						
1						
2						

[8] Required by Secondary Market

S/No.	Description	Asset Type & Nature	Location	Carrying Value in Naira (N'000)	Estimated Haircut (%)[8]	Expected Monetized Value of Collateral
3						
..						
n						
Sub-Total						
Pound						
1						
2						
3						
..						
n						
Sub-Total						
Euro						
1						
2						
3						
..						
n						
Sub-Total						
Yuan						
1						
2						
3						
..						
n						
Sub-Total						
Others						
1						
2						
3						
..						
n						
Sub-Total						
Total						

Table 10: Collateral received by the reporting bank

Collateral received by the reporting bank	Fair value of collateral received, or own debt securities issued available for encumbrance			Nominal of collateral received, or own debt securities issued but not available for encumbrance
	Total	Issued by other entities of the group	Central bank's eligible	
	1	2	3	4
Loans and advances				
Equity instruments				
Debt securities				
Asset-backed securities				
Government issued				
Issued by financial corporations				
Issued by non-financial corporations				
Other collateral received				
Own debt securities issued other than ABSs				
Total Assets, Collateral Received and Own Debt Securities Issued				

Table 11: Unencumbered assets of the reporting bank

All amounts to be rounded off to the nearest N'000

	Line No.	Carrying amount of unencumbered assets			Fair value of unencumbered assets	
		Total	Issued by other group entities	Central bank's eligible	Total	Central bank's eligible
		1	2	3	4	5
Assets of the reporting institution (item 2 to 9)	1					
Loans on demand	2					
Equity instruments	3					
Debt securities	4					
Government Issued	5					
Issued by financial corporations	6					
Issued by non-financial corporations	7					
Loans and advances other than loans on demand	8					
Other assets	9					

8.4 LCR by Significant Currency

Table 12: LCR by Significant Currency

All amounts to be rounded off to the nearest N'000

	LCR by Significant Currency					
	Naira	**USD**	**Pound**	**Euro**	**Yuan**	**Others**
		Values in Naira (₦'000)				
Stock of HQLA						
Level 1						
Level 2A						
Level 2B						
A) Total adjusted HQLA						
Net Cash Outflow						
Total Cash outflow (1)						
Total Cash inflow (2)						
B) Net Cash Outflow (2-1)						
Liquidity Coverage Ratio (LCR) (A/B*100)	%	%	%	%	%	%

8.5 Market Related Monitoring Tools

Table 13: Movement in Equity Prices[9]

All prices should be reported in Naira

Entity Name	Par Value	Price on the first trading of the month	Highest Price during the month with date		Lowest Price during the month with date		Price on the last trading day of the month	Standard Deviation of the Price
			Price	Date	Price	Date		
Bank								
Other Group Entities								
1								
2								
3								
......								
......								
n								

Table 14: Movement in Non-Equity Instruments[10]

Type of Instrument	Amount Outstanding	Face Value	Date of Issue	Date of Maturity	Dividend/ Markup rate	Price at the beginning of the month	Price at the end of the month
1							
2							
3							

Table 15: Penalties imposed in respect of Breach of Liquidity Requirements on Overseas Operations including subsidiaries

Name of Branch/ Subsidiary along with Jurisdiction	Particulars of breach and penalty imposed (in foreign currency)	Date of Breach	Amount of Breach (in foreign currency)	Action initiated by the Bank
1				
2				
3				

[9] Bank and Other Group Entities
[10] Preference shares, other instruments

CENTRAL BANK OF NIGERIA

GUIDELINES ON LARGE EXPOSURES (LEX)

SEPTEMBER 2021

Table of Contents

ABBREVIATIONS 2

1. INTRODUCTION 3

    1.1 BACKGROUND 3

    1.2 SCOPE OF APPLICATION 4

    1.3 SCOPE OF COUNTERPARTIES AND EXEMPTIONS 4

    1.4 DEFINITION OF A LARGE EXPOSURE AND REGULATORY REPORTING 5

3. DEFINITION OF CONNECTED COUNTERPARTIES 6

4. VALUES OF EXPOSURES AND DEFINITIONS OF EXPOSURE VALUE 8

    4.1 EXPOSURE VALUES 8

    4.2 CALCULATION OF EXPOSURE VALUE FOR TRADING BOOK POSITIONS 8

    4.3 OFFSETTING LONG AND SHORT POSITIONS IN THE TRADING BOOK 9

5 TREATMENT OF SPECIFIC EXPOSURES 10

    5.1 SOVEREIGN EXPOSURES AND ENTITIES CONNECTED WITH SOVEREIGNS 10

    5.2 INTERBANK EXPOSURES 10

6. COLLECTIVE INVESTMENT UNDERTAKINGS AND OTHER STRUCTURES 11

7. EXPOSURES TO CENTRAL COUNTERPARTIES (CCPS) 11

8. RISK MANAGEMENT REQUIREMENTS 12

9. TRANSITION ARRANGEMENT 14

APPENDIX I – RETURNS ON LARGE EXPOSURES 15

APPENDIX II – THE LOOK THROUGH APPROACH 17

Abbreviations

Acronym	Description
BCBS	Basel Committee on Banking Supervision
BOFIA	Banks and Other Financial Institutions Act
CCF	Credit Conversion Factors
CCPs	Central Counterparties
CCR	Counterparty Credit Risk
CDS	Credit Default Swap
CIU	Collective Investment Undertakings
CPSS	Committee on Payment and Settlement Systems
D-SIBs	Domestic Systematically Important Banks
IOSCO	International Organization of Securities Commissions
LE	Large Exposures
LTA	Look Through Approach
NDIC	Nigeria Deposit Insurance Corporation
QCCP	Qualifying Central Counterparties
SA-CCR	Standardised Approach for Counterparty Credit Risk
SCEL	Single Counterparty Exposure Limit
SFT	Securities Financing Transactions
SOL	Single Obligor Limit

1. Introduction

1.1 Background

1. The global financial crisis of 2007 revealed that banks did not always consistently measure, aggregate and control exposures to single counterparties or to groups of connected counterparties across their books and operations.

2. The impact of the crisis created a need for banks to measure and limit the size of large exposures in relation to their capital. The Central Bank of Nigeria (CBN) has previously issued various guidelines on the recognition and treatment of large exposures and exposures to single counterparties.

3. The previous supervisory guidelines however did not specifically set out how banks should measure and aggregate exposures to a single counterparty or the factors to be taken into consideration when assessing whether separate legal entities form a group of connected counterparties. This has resulted in a considerable variation in practice across banks.

4. This Guideline is aimed at aligning the supervisory practice in Nigeria with the expectation of the Basel Committee on Banking Supervision (BCBS) Standards on Large Exposures (LEs)[1] and ensuring a more consistent supervisory approach to dealing with large exposures in Nigeria.

5. This Guideline will complement the existing guidelines on risk-based capital requirements and is also aimed at:

   a) Restricting the level of exposures to a single counterparty or group of connected counterparties so as to ensure that the maximum possible losses in the event of sudden default of a counterparty would not endanger a bank's survival as a going concern;

   b) Reducing the vulnerability of the Nigerian banking system to idiosyncratic risk due to large exposures to individual counterparties; and

   c) Contributing to the stability of the Nigerian financial system.

---

[1] Basel Committee on Banking Supervision, Supervisory Framework for Measuring and Controlling Large Exposures, April 2014

1.2 Scope of Application

6. The Guideline shall apply to all commercial, merchant, and non-interest banks operating in Nigeria at both the entity and consolidated levels.

7. In the application of this Guideline at the consolidated level, banks should capture all exposures to third parties across all the entities falling within the scope of regulatory consolidation for the risk-based capital requirement and should compare the aggregate of these exposures with the eligible regulatory capital at the consolidated (group) level.

1.3 Scope of Counterparties and Exemptions

8. The Guideline applies to all banks' exposures to single counterparties and groups of connected counterparties irrespective of their performance or the quality of any pledged collateral, with the exception of the following exposures:

   a) Exposures to the Federal Government of Nigeria and State Governments (guaranteed by the Federal Government of Nigeria) which are eligible for a zero percent Risk Weight[2];
   b) Exposures to the Central Bank of Nigeria;
   c) Exposures where the principal and interest are fully guaranteed by the Federal Government of Nigeria;
   d) Exposures secured by financial instruments issued by the Government of Nigeria;
   e) Exposures of an overseas branch or subsidiary of a banking institution to the sovereign government or central banks in the jurisdiction where it is located and where the exposure is denominated and funded in local currency and held to meet regulatory requirements imposed by the central bank in that jurisdiction;
   f) Credit facilities (both funded and non-funded) granted against the security of a bank's own term deposit, to the extent that the bank has a specific lien on such deposits;
   g) Intra-day interbank exposures;
   h) Intra-group exposures which have been recognized in the computation of eligible capital;

[2] Circular - Re: Review of Risk Weights on Certain Industry Exposures in The Computation of Capital Adequacy BSD/DIR/GEN/LAB/06/017 April 2013

i) Borrowers with limits authorized by the CBN in various intervention facilities; and

j) Banks' clearing activities related exposures to Qualifying Central Counterparties (QCCPs), till further notification as detailed in Section 7 of this Guidance Notes;

9. Where applicable, exposures to exempted entities which are hedged by a credit derivative shall be treated as an exposure to the counterparty providing the credit protection.

10. Banks are required to report all exempted exposures that meet the criteria for definition of Large Exposures as required under regulatory reporting specified in **Section 1.4** below.

1.4 Definition of a Large Exposure and Regulatory Reporting

11. A large exposure is defined as the sum of all exposures of a bank to a single counterparty or to a group of connected counterparties that are equal to or above 10% of shareholders' funds unimpaired by losses[3]

12. Banks should report their Large Exposures to the CBN on a monthly basis as per the templates provided in **Appendix 1**.:

a) The one hundred (100) largest exposures to counterparties measured as specified in this Guidance Note and included in the scope of application, irrespective of the values of these exposures.

2. The Large Exposure Limit

13. The sum of all the exposure values of a bank to a single counterparty or to a group of connected counterparties must not be higher than 20% or 50% of the bank's shareholders funds unimpaired by losses for a commercial or merchant bank respectively.

14. The total outstanding exposure (on and off-balance sheet) by a bank to all tiers of government and their agencies shall not at any point in time exceed 10% of the total credit portfolio.

[3] Subject to any change in prevailing regulations and guidelines as may be issued by the CBN from time to time.

15. Aggregate large exposures in any bank should not exceed eight times the shareholders' funds unimpaired by losses.

16. Breaches of the limit, which must remain the exception, should be communicated immediately to the CBN and must be rectified quickly.

3. Definition of Connected Counterparties

17. In some cases, a bank may have exposures to a group of counterparties with specific relationships or dependencies such that, were one of the counterparties to fail, all of the counterparties would very likely fail. A group of this sort, referred to in this Guideline as a group of connected counterparties, must be treated as a single counterparty.

18. The sum of the bank's exposures to all the individual entities included within a group of connected counterparties should be subject to the large exposure limit and to the regulatory reporting requirements as specified above.

19. Two or more natural or legal persons shall be deemed to be a group of connected counterparties if at least one of the following criteria is satisfied:

    a) **Control relationship:** one of the counterparties, directly or indirectly, has control over the other(s);
    b) **Economic interdependence:** if one of the counterparties were to experience financial problems, in particular funding or repayment difficulties, the other(s), as a result, would also be likely to encounter funding or repayment difficulties[4]; and
    c) Common Directorship across entities.

20. Banks should assess the relationship amongst counterparties with reference to **Paragraph 19** above in order to establish the existence of a group of connected counterparties.

21. The control relationship between counterparties exists when one entity owns more than 50% of the voting rights of the other entity. Banks should also assess the existence of control relationship between counterparties based on the following criteria:

[4] See Supervisory Framework for measuring and Controlling Large Exposures pg. 5 note 24 (April 2014) for details on establishing connectedness based on economic interdependence

a) Voting agreements, e.g. control of a majority of voting rights pursuant to an agreement with other shareholders;

b) Significant influence on the appointment or dismissal of an entity's administrative, management or supervisory body, such as the right to appoint or remove a majority of members in those bodies, or the fact that a majority of members have been appointed solely as a result of the exercise of an individual entity's voting rights;

c) Significant influence on senior management, e.g. an entity has the power, pursuant to a contract or otherwise, to exercise a controlling influence over the management or policies of another entity (e.g., through consent rights over key decisions).

22. Banks are also expected to refer to the criteria specified in appropriate internationally recognized accounting standards for further qualitative guidance for determining the existence of control relationship.

23. In establishing connectedness based on economic interdependence, banks should consider, at a minimum, the following qualitative criteria:

a) Where 50% or more of one counterparty's gross receipts or gross expenditures (on an annual basis) is derived from transactions with the other counterparty;

b) Where one counterparty has fully or partly guaranteed the exposure of the other counterparty, or is liable by other means, and the exposure is so significant that the guarantor is likely to default if a claim occurs;

c) Where a significant part of one counterparty's production/output is sold to another counterparty, which cannot easily be replaced by other customers;

d) When the expected source of funds to repay each loan one counterparty makes to another is the same and the counterparty does not have another source of income from which the loan may be fully repaid;

e) Where it is likely that the financial problems of one counterparty would cause difficulties for the other counterparties in terms of full and timely repayment of liabilities;

f) Where the insolvency or default of one counterparty is likely to be associated with the insolvency or default of the other(s); and

g) When two or more counterparties rely on the same source for the majority of their funding and, in the event of the common provider's default, an alternative provider cannot be found.

4. Values of Exposures and Definitions of Exposure Value

4.1 Exposure Values

24. The exposure values to be considered in the identification of large exposures to a counterparty should include all the exposures defined under the risk-based capital framework. An exposure amount to a counterparty that is deducted from capital should not be added to other exposures to that counterparty for the purpose of the large exposure limit.

25. Banks should consider both on- and off-balance sheet exposures included in either the banking or trading book and instruments with Counterparty Credit Risk (CCR). The definitions and measurements of such exposures should be consistent with the expectation of this Guidance Note. For the purpose of determining the exposure amount of OBS items, the Credit Conversion Factors as specified in the Guidance note on the calculation of Capital Requirement for Credit Risk

26. The exposure value must be the accounting value of the exposure (gross of specific provisions and value adjustments).

27. Banks should have in place appropriate limits aimed at constraining their exposures to large single or connected counterparties. In setting such limits, specific considerations should be given to:

    a) The prevailing statutory and prudential limits on exposure to a single obligor;
    b) The quality of the bank's processes for its management of credit concentration risk; and
    c) The bank's risk taking capacity including its capital and liquidity position.

4.2 Calculation of Exposure Value for Trading Book Positions

28. Banks must aggregate all the exposures to a single counterparty arising in the trading book to any other exposures to that counterparty in the banking book in the calculation of the total exposure to that counterparty.

29. Exposures in financial instruments such as bonds and equities must be constrained by the large exposure limit including concentrations in a particular commodity or currency.

30. Banks must define the exposure value of straight debt instruments and equities as the accounting value of the exposure (i.e. the market value of the respective instruments)

31. Banks with instruments such as swaps, futures, forwards, and credit derivatives must convert such positions following the risk based capital requirements. The instruments should be decomposed into individual legs and only transaction legs representing exposures in the scope of the large exposures should be considered.

32. In the case of credit derivatives that represent sold protection, the exposure to the referenced name must be the amount due in the case that the respective referenced name triggers the instrument, minus the absolute value of the credit protection. For credit-linked notes, the protection seller needs to consider positions both in the bond of the note issuer and in the underlying referenced by the note.

33. In determination of exposures in options, banks are required to use the change(s) in option prices that would result from a default of the respective underlying instrument. The resulting positions should in all cases be aggregated with those from other exposures. After aggregation, negative net exposures must be set to zero.

34. Exposure values of banks' investments in transactions[5] should be calculated on the same rules as for similar instruments in the banking book. The amount invested in a particular structure may hence be assigned to: (i) the structure itself, which is defined as a distinct counterparty, (ii) the counter parties corresponding to the underlying assets, or (iii) the unknown client, following the rules described in **Section 6** below.

4.3 Offsetting Long and Short Positions in the Trading Book

35. Banks should use the net position in a specific issue for the purpose of calculating their exposure to a particular counterparty for the same issue. Banks should offset long and short positions in the same issue (two issues are defined as the same if the issuer, coupon, currency, and maturity are identical).

36. Banks should offset positions in different issues from the same counterparty only when the short position is junior to the long position, or if the positions are of the same seniority.

[5] That is, index positions, securitisations, hedge funds or investment funds.

37. Banks may recognize positions hedged by credit derivatives, provided the underlying of the hedge and the position hedged fulfil the specified provision (the short position is junior or of equivalent seniority to the long position).

38. In order to determine the relative seniority of positions, securities may be allocated into broad buckets of degrees of seniority (for example, "Equity", "Subordinated Debt" and "Senior Debt").

39. Banks that find it excessively burdensome to allocate securities to different buckets based on relative seniority may recognise no offsetting of long and short positions in different issues relating to the same counterparty in calculating exposures.

40. Banks must not net across the banking and trading books, i.e., offsetting short positions in the trading book against long positions in the banking book.

41. When the result of the offsetting is a net short position with a single counterparty, this net exposure need not be considered as an exposure for large exposure purposes.

5 Treatment of Specific Exposures

5.1 Sovereign exposures and entities connected with sovereigns

42. Banks' exposures to sovereigns and their central banks are exempted. This exemption also applies to Public Sector Entities (PSEs) treated as sovereigns according to the risk-based capital requirement. Any portion of an exposure guaranteed by, or secured by financial instruments issued by, sovereigns would be similarly excluded from the scope of this Guidance Note to the extent that the eligibility criteria for recognition of the credit risk mitigation are met.

43. Banks must however report exposures subject to the sovereign exemption if these exposures meet the criteria for definition as a large exposure.

5.2 Interbank exposures

44. Intraday Interbank exposures are not subject to the large exposure framework, either for reporting purposes or for application of the large exposure limit; this is to avoid disturbing the payment and settlement processes.

6. Collective Investment Undertakings and Other Structures

45. Banks should consider exposures even when a structure lies between the bank and the exposures, i.e., even when the bank invests in structures through an entity which itself has exposures to assets (hereafter referred to as the "underlying assets"). Banks must assign the exposure amount, i.e. the amount invested in a particular structure, to specific counterparties following the approach set out in **Appendix 2.** Such structures include funds, securitisations and other structures with underlying assets.

7. Exposures to Central Counterparties (CCPs)

46. Banks' exposures to qualifying central counterparties (QCCPs) related to clearing activities are exempted from the large exposure framework. However, these exposures will be subject to the regulatory reporting requirements as specified in this Guidance Note.

47. The definition of QCCP for large exposures is the same as that used for the risk-based requirement purposes. A QCCP is an entity that is licensed to operate as a CCP and is permitted by the appropriate regulator to operate as such with respect to the products offered. This is subject to the provision that the CCP is based in, and prudentially supervised in, a jurisdiction where the relevant regulator has established, and publicly indicated that it applies to the CCP on an ongoing basis, domestic rules and regulations that are consistent with the CPSS-IOSCO Principles for Financial Market Infrastructures.

48. Banks should measure their exposure to non-QCCPs as the sum of both the clearing exposures described in **Section (a)** below and the non-clearing exposures described in **Section (b)** below and must comply with the general large exposure limit as specified in the Prudential Guidelines.

49. The concept of connected counterparties described in this Guidance Note does not apply in the context of exposures to CCPs that are specifically related to clearing activities.

a) Calculation of exposures related to clearing activities

50. Banks must identify exposures to a CCP related to clearing activities and sum together these exposures. Exposures related to clearing activities are listed in the table below together with the exposure value to be used:

Trade exposures	The exposure value of trade exposures must be calculated using the exposure measures prescribed in other parts of this Guidance Note for the respective type of exposures.
Segregated initial margin	The exposure value is zero.
Non-segregated initial margin	The exposure value is the nominal amount of initial margin posted.
Pre-funded default fund contributions	Nominal amount of the funded contribution.[6]
Unfunded default fund contributions	The exposure value is zero.

51. Banks must determine the counterparty to which exposures must be assigned by applying the provisions of the risk-based capital requirements for exposures subject to clearing services (the bank acting as a clearing member or being a client of a clearing member).

b) Other exposures

52. Other types of exposures that are not directly related to clearing services provided by the CCP, such as funding facilities, credit facilities, guarantees etc., will be added together, and subjected to the large exposure limit. Such exposures must be measured according to the rules set out in **Sections 4 and 5** of this Guidance Note, as for any other type of counterparty.

53. Banks must determine the counterparty to which exposures should be assigned by applying the provisions of the risk-based capital requirements for exposures subject to clearing services.

8. Risk Management Requirements

54. The board of directors (Board) of a bank must ensure that:

   a) The bank establishes and adheres at all times to the approved internal policies governing risk concentrations.

   b) The internal policies are reviewed regularly (at least annually) to ensure that they remain current, adequate, and appropriate.

[6] The exposure value for pre-funded default fund contributions may need to be revised if applied to QCCPs and not only to non QCCPs.

c) Independent reviews are conducted regularly to verify ongoing compliance with the prudential limit and standards set by the CBN as well as the established internal policies.

55. Senior management of a bank must:

a) Establish and implement internal policies, processes and procedures governing risk concentrations.

b) Clearly communicate and monitor compliance with the internal policies throughout the bank.

c) Establish and maintain adequate systems that are able to identify, measure, monitor and aggregate exposures to single counterparties in a timely manner.

56. The internal policies on risk concentration must at a minimum include the following:

a) Procedures for identifying, measuring, monitoring, controlling, and reporting single counterparty exposures of the institution.

b) Detailed internal parameters for identifying persons or legal entities connected to a single counterparty.

c) Internal exposure limits (including limits on total large exposures) that are reflective of the bank's risk appetite and risk bearing capacity, and which also takes into consideration the potential changes to the market value of the underlying exposures.

d) Clearly defined roles and accountability for ensuring compliance and effective communication of the policies, procedures, and internal limits throughout the bank.

e) Measures to manage and address compliance with the single counterparty exposure limit (SCEL) including authority and procedures for approving exceptions to the internal limits which in any case, must not exceed the SCEL; and

f) Nature and frequency of reporting to the Board and senior management.

57. Banks should have adequate procedures and controls in place for monitoring the exposures and counterparties excluded from the Large Exposure Framework.

9. Transition Arrangement

58. This Large Exposures Guideline is focused on, and applicable to, a bank's counterparties. It does not address other types of concentration risks such as sectoral and geographical concentrations which are covered in other Guidelines[7] issued by the CBN.

59. The extant provisions in the Prudential Guidelines and other circulars of the CBN will continue to be applicable, except to the extent superseded by the provisions of this Guidance Note.

60. Banks should continue to compute the single obligor limits (SOL)[8].

[7] Guidelines on the Management of Credit Concentration Risk
[8] BOFIA 2014 and Prudential Guidelines, 2010

APPENDIX I – Returns on Large Exposures

Name of the Bank	
Return for the Month	
Shareholders' Funds	**(NGN)**

Table A: Bank's 100 Largest Exposures to counterparties (single as well as group of connected counterparties) irrespective of their values relative to bank's shareholders' funds unimpaired by losses.

S/ No.	Name of the Counterparty	Whether Single (S) or Group (G) of connected counterparties	Sector	Sub-sector	Exposure Amount	Exposure as % of Shareholders Funds
1.						
2.						
3.						
--						
--						
98.						
99.						
100.						

Table B. Bank's exposures with values equal to or above 10% of shareholders' funds unimpaired by losses.

SI No.	Name of the Counterparty	Whether Single (S) or Group (G) of connected counterparties	Exposure Amount	Exposure as % of Shareholders' fund
1.				
2.				
--				
n				

Table C. Bank's other exposures with values equal to or above 10% of shareholders' funds unimpaired by losses (not including exposures reported in B already).

Sl No.	Name of the Counterparty	Whether Single (S) or Group (G) of connected counterparties	Exposure Amount	Exposure as % of Shareholders' fund
1.				
2.				
3.				
n				

Table D. Bank's exempted exposures with values equal to or above 10% of shareholders' funds unimpaired by losses.

S/ No.	Name of the Counterparty	Whether Single (S) or Group (G) of connected counterparties	Exposure Amount	Exposure as % of Shareholders' fund
1.				
2.				
...				
n.				

APPENDIX II – Collective Investment Undertaking and Other Structures

a) Determination of the relevant counterparties to be considered

1. A bank may assign the exposure amount to the structure itself, defined as a distinct counterparty, if it can demonstrate that the bank's exposure amount to each underlying asset of the structure is smaller than 0.25% of its eligible capital base, considering only those exposures to underlying assets that result from the investment in the structure itself and using the exposure value calculated according to paragraphs 6 and 7 below[9]. In this case, a bank is not required to look through the structure to identify the underlying assets.

2. A bank must look through the structure to identify those underlying assets for which the underlying exposure value is equal to or above 0.25% of its eligible capital base. In this case, the counterparty corresponding to each of the underlying assets must be identified so that these underlying exposures can be added to any other direct or indirect exposure to the same counterparty. The bank's exposure amount to the underlying assets that are below 0.25% of the bank's eligible capital base may be assigned to the structure itself (i.e. partial look-through is permitted).

3. If a bank is unable to identify the underlying assets of a structure:

   - where the total amount of its exposure does not exceed 0.25% of its eligible capital base, the bank must assign the total exposure amount of its investment to the structure;

   - otherwise, it must assign this total exposure amount to the unknown client.

   The bank must aggregate all unknown exposures as if they related to a single counterparty (the unknown client), to which the large exposure limit would apply.

4. When the look-through approach (LTA) is not required according to paragraph 1 above, a bank must nevertheless be able to demonstrate that regulatory arbitrage considerations have not influenced the decision whether to look through or not – e.g. that the bank has not circumvented the large exposure limit by investing in several individually immaterial transactions with identical underlying assets.

[9] By definition, this required test will be passed if the bank's whole investment in a structure is below 0.25% of its eligible capital base.

b) Calculation of underlying exposures - bank's exposure amount to underlying assets

5. If the LTA need not be applied, a bank's exposure to the structure must be the nominal amount it invests in the structure.

   Any structure where all investors rank pari passu (e.g. CIU)

6. When the LTA is required according to the paragraphs above, the exposure value assigned to a counterparty is equal to the pro rata share that the bank holds in the structure multiplied by the value of the underlying asset in the structure. Thus, a bank holding a 1% share of a structure that invests in 20 assets each with a value of 5 must assign an exposure of 0.05 to each of the counterparties. An exposure to a counterparty must be added to any other direct or indirect exposures the bank has to that counterparty.

   Any structure with different seniority levels among investors (e.g. securitisation vehicles)

7. When the LTA is required according to the paragraphs above, the exposure value to a counterparty is measured for each tranche within the structure, assuming a pro rata distribution of losses amongst investors in a single tranche. To compute the exposure value to the underlying asset, a bank must:

   - first, consider the lower of the value of the tranche in which the bank invests and the nominal value of each underlying asset included in the underlying portfolio of assets

   - second, apply the pro rata share of the bank's investment in the tranche to the value determined in the first step above.

CENTRAL BANK OF NIGERIA

GUIDELINES ON LIQUIDITY RISK MANAGEMENT AND INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS (ILAAP)

SEPTEMBER 2021

TABLE OF CONTENTS

1. INTRODUCTION 2

1.1 Purpose 2
1.2 Scope and Proportionality 3
1.3 Disclosures and Frequency of Reporting 3

2. ILAAP GOVERNANCE 3

2.1 Risk Governance Framework 3
2.2 Internal Review and Validation 4
2.3 Liquidity Adequacy Statement 4
2.4 Risk Appetite Framework 5
2.5 Business Model and Strategy 5

3. ESSENTIALS IN LIQUIDITY RISK IDENTIFICATION 5

3.1 Nature of Balance Sheet Structure 5
3.2 Operating Liquidity 6
3.3 Asset Based Liquidity Sources 6
3.4 Liability based liquidity sources 6

4. LIQUIDITY RISK MANAGEMENT 7

4.1 Policies, Procedures and Limits 7
4.2 Liquidity Risk Quantification, Monitoring and Reporting 9
4.3 Intraday Liquidity Management. 11
4.4 Funding Diversification 12
4.5 Buffer of Highly Quality Liquid Assets (HQLA) 13
4.6 Contingency Funding Plans 13
4.7 Internal Controls 14
4.8 Stress Testing 15

ANNEX A: INFORMATION ON LIQUIDITY RISK MANAGEMENT FRAMEWORK 17

ANNEX B: ORGANIZATION OF THE ILAAP REPORT 24

1. INTRODUCTION

1. Liquidity risk management is a fundamental aspect of banks' operations, as insufficient liquidity poses an immediate threat to their ability to meet short term maturing obligations.

2. These Guidelines takes into consideration the Basel Committee for Banking Supervision (BCBS) Principles for Sound Liquidity Risk Management and Supervision which was published in 2008 and reviewed in January 2019.

3. The BCBS Principles require banks to establish a robust liquidity risk management framework that ensures they maintain sufficient liquidity, including a cushion of unencumbered high-quality liquid assets (HQLA) to withstand a range of stress events.

4. The BCBS Principles also require supervisors to assess the adequacy of banks' liquidity risk management frameworks and their liquidity position and to take prompt action where deficiencies are identified.

5. In line with the expectation of the BCBS Principles, the Central Bank of Nigeria (CBN) expects all banks to adequately manage their liquidity and funding risk and has issued these Guidelines on Liquidity Risk Management and Internal Liquidity Adequacy Assessment Process (ILAAP) with the aim of setting out the minimum supervisory expectation.

6. As part of the ILAAP, Nigerian banks are required to ensure that all the material liquidity risks are identified, effectively managed, and covered by a sufficient level of high-quality liquidity buffers.

7. The ILAAP shall remain the responsibility of individual banks and should be implemented in a proportionate and credible manner taking into consideration the nature, scale, and complexity of the bank's activities.

8. Banks are expected to update and document their ILAAP on a quarterly basis and whenever there are material changes in the business processes and strategy or when economic and other conditions suggest that the current level of liquidity is insufficient for the bank to meet its obligations without incurring unacceptable losses.

1.1 Purpose

9. The primary objective of the liquidity risk management framework should be to ensure that the bank is in a position to meet its daily liquidity obligations and that

it can withstand a period of market-wide or bank-specific liquidity stress affecting both secured and unsecured funding.

10. The main purpose of the ILAAP is to assess and be able to demonstrate that a bank has adequate liquidity, a prudent funding profile, and robust processes for the management of its liquidity and funding risks.

1.2 Scope and Proportionality

11. These Guidelines are applicable to all Deposit Money Banks in Nigeria including the specialized non-interest banks. The principle of proportionality will however be applied by CBN in the supervisory assessment of liquidity management processes and methodologies as part of the ILAAP review.

1.3 Disclosures and Frequency of Reporting

12. Banks should bi-annually submit to the CBN the ILAAP report. The submission should be made not later than one (1) month after the end of the period

13. Banks should publicly disclose relevant and adequate quantitative and qualitative information on their liquidity risk management and liquidity position on an annual basis. This is to enable market participants to make an informed assessment of the soundness of their liquidity risk management framework and ability to meet their liquidity needs and obligations.

2. ILAAP GOVERNANCE

2.1 Risk Governance Framework

14. Banks should develop and implement strategies, policies, and practices for the management of liquidity risk, taking into consideration their risk tolerance and risk-taking capacity. The aim should be to ensure that the bank effectively manages its liquidity risk and maintains adequate liquidity buffers. These strategies, policies and practices should be approved by the board and reviewed at least annually.

15. The boards and senior management should be responsible for the implementation of an effective liquidity risk management process and this should be reflected in the internal governance arrangements.

16. The liquidity strategy should be communicated to all the business units whose activities have an impact on the liquidity position of the bank. The activities of such business units should also be consistent with approved policies, procedures, limits, and controls.

17. Banks should have reliable management information systems designed to provide the board, senior management and other members of staff involved in the management of liquidity risk with timely, relevant, accurate and complete information on the liquidity position of the bank. The management information system should also be able to generate forward-looking information based on a range of scenarios and assumptions.

18. The board and senior management should have a thorough understanding of the close linkages between funding liquidity risk and market liquidity risk, as well as how other risks, including credit, market, operational and reputation risks could affect the bank's overall liquidity risk position and strategy.

19. The board has overall responsibility for the implementation of the ILAAP, and it is expected to approve an ILAAP governance framework which should include clear and transparent assignment of responsibilities and a well-articulated approach to its regular internal review and validation to ensure that it continues to be fit-for-purpose.

20. The Board, senior management and relevant board and executive committees are expected to discuss and challenge the ILAAP in an effective way.

21. The Board is expected to produce and approve the Risk Appetite Statement (RAS) for liquidity and funding risk. The board is also expected to review and approve: the governance framework; the internal documentation framework; business model and strategy; liquidity contingency plan; liquidity stress testing framework etc.

2.2 Internal Review and Validation

22. The ILAAP outcomes and assumptions should be subject to regular internal review. The review should take due account of the limits and constraints arising from the methodologies employed, the underlying assumptions and the input data used in quantifying the risk.

23. The outcome of the review should be thoroughly assessed, documented, and reported to senior management and the Board. Any weaknesses identified should be addressed in an effective and timely manner.

2.3 Liquidity Adequacy Statement

24. The Board should on a quarterly basis provide its assessment of the liquidity adequacy of the bank through a Liquidity Adequacy Statement (LAS). The assessment should be supported by ILAAP outcomes and any other relevant information.

2.4 Risk Appetite Framework

25. Banks should set a liquidity risk tolerance that is appropriate for their business strategy. The liquidity risk tolerance should take into consideration business objectives, strategic direction, and overall risk appetite.

26. The set liquidity risk tolerance should be aimed at ensuring that the bank effectively manages its liquidity and that it is able to withstand a prolonged period of market-wide or bank-specific stress.

27. Banks are expected to widen the monitoring of the liquidity risks to metrics other than the regulatory limits, which may include; contractual maturity mismatch liquidity ratio, Liquidity Coverage Ratio (LCR).

28. Bank should incorporate liquidity costs, benefits and risks in the internal pricing, performance measurement and new product approval process for all significant business activities.

29. Banks should clearly articulate how the implementation and monitoring of its strategy and risk appetite are supported by its ILAAP, and how this effectively allows it to comply with the limits and thresholds set out in the Risk Appetite Statement (RAS).

30. The ILAAP outcome should inform the design of an effective risk monitoring and reporting system, and an adequately granular limit system that allocates specific limits to: individual risks, business segments, subsidiaries, etc. The limit system should include effective escalation procedures.

2.5 Business Model and Strategy

31. Banks are expected to consider their business model and strategy in all their liquidity management processes.

3. ESSENTIALS IN LIQUIDITY RISK IDENTIFICATION

3.1 Nature of Balance Sheet Structure

32. Banks should evaluate the cash flow characteristics, structure, and stability of asset and liability categories to determine their effect on operating and contingent liquidity risk.

33. Banks should ensure that their asset cash flow is stable and that it can be converted to cash without incurring unacceptable loss. Banks should also ensure

the stability of funding liabilities and the ability to renew or replace them at favourable terms.

34. Banks that manage liquidity primarily with liabilities, especially from volatile funding sources, should develop very robust strategies and execute them more effectively as this carries more risk compared to banks that manage their liquidity by relying mainly on assets.

3.2 Operating Liquidity

35. Banks should develop cash flow projections using multiple scenarios. These scenarios should include bank-specific risks, market-wide risks, and a combination of the two.

36. The projection of operational cash flows including cash inflows (sources of funds) and outflows (uses of funds) should be based on reasonable assumptions.

37. Banks should be able to demonstrate the adequacy of their management of both contractual and behavioural mismatches in their assets and liabilities structure.

3.3 Asset Based Liquidity Sources

38. Banks should incorporate the best possible estimates of their cash-flows from their loan portfolio based on current and future development with the obligors (counterparties) rather than purely based on contractual cashflows.

39. Banks should be more prudent in their projection of cash flow from unsecured lines of credit as they may be unavailable under stressed liquidity conditions.

40. Banks should assess their collateral positions, including assets currently pledged in relation to the amount of security required and unencumbered assets available to be pledged to secure borrowings or credit line.

41. Banks should ensure that assets held as a contingent liquidity source under adverse liquidity circumstances must be unencumbered, be marketable, and have a low interest-rate and price-risk profile to be effective.

3.4 Liability based liquidity sources

42. Banks should recognise the fact that retail and wholesale liability funding sources react differently to changes in economic conditions and the financial condition of a bank.

43. Banks should implement appropriate measures aimed at ensuring a more diversified and stable funding base.

44. The introduction of Treasury Single Account (TSA) in Nigeria means that government deposits may no longer be relied upon as a source of funding for banks. Banks should therefore consider this limitation and the underlying sensitivities in their operational and contingency planning activities.

45. Banks that rely on borrowed funds for ongoing or contingent funding should maintain a good understanding of the credit standards of the funds' providers to enable it to properly estimate the amount of funding that would be accessible as its financial condition changes.

46. Banks should be cognizant of the fact that reliance on financial markets for funding[1] increases the level, uncertainty, and complexity of their liquidity risk profile.

47. When planning to access funding through the financial market, banks should assess the following: (i) volatility of global and domestic funds' supply and demand, (ii) unexpected disruptions in normal market trading and pricing, (iii) settlement and operational interruptions, and (iv) adjustments in a market's risk pricing and acceptance.

4. LIQUIDITY RISK MANAGEMENT

48. The board should develop and oversee a comprehensive liquidity risk management process that: identifies, measures, monitors, controls and reports a bank's liquidity risk exposure.

4.1 Policies, Procedures and Limits

49. Banks should have policies and procedures for identifying, measuring, monitoring, controlling, and reporting liquidity risk exposures. These policies and procedures should be consistent with the bank's business objectives, risk tolerances, and the applicable laws and regulations.

50. Banks' policies should include both quantitative and qualitative targets such as:

    a) Definition and minimum level of high-quality liquid assets (HQLA);
    b) Reliance on both short- and long-term funding sources, both on an ongoing basis and under contingent liquidity scenarios;

---

[1] This may be in form of repurchase agreements and equity and debt issuances.

c) Limits on the composition of assets and liabilities;
d) Level of cash flow mismatches and controls over funding costs; and
e) Convertibility of assets into cash to be used as contingent sources of liquidity.

51. Banks should assign the responsibility for managing liquidity on a solo and group basis and the internal policies should clearly articulate: the approach to managing liquidity and setting limits, and the extent to which the management of liquidity will be centralized or decentralized.

52. Banks' policies should identify the primary methods of meeting daily operating cash outflows, providing for cyclical cash flow fluctuations, and addressing various adverse liquidity scenarios. This should include plans for dealing with potential temporary, medium, and long-term liquidity disruptions.

53. Policies and procedures should define management responsibilities and address the lines of authority for the following:

    a) Developing liquidity risk management policies, procedures, and limits;
    b) Developing and implementing tactics and strategies for managing liquidity risk;
    c) Conducting day-to-day liquidity management;
    d) Establishing and maintaining liquidity risk measurement and monitoring systems;
    e) Authorizing exceptions to limits; and
    f) Identifying potential liquidity risk and related issues arising from the introduction of new products and activities.

54. Banks' policies and procedures should clearly identify the individual or the committee's duties and responsibilities, the extent of their decision-making authority, and the form and frequency of periodic reports to senior management and the board.

55. The bank's liquidity risk tolerances or limits should take into consideration its liquidity risk profile and should reflect both quantitative targets and qualitative guidelines and may include the following:

    a) Limits on projected net cash flow positions (sources and uses of funds) over specified time horizons;
    b) Limits on discrete or cumulative funding mismatches or gaps over specified short- and long-term time horizons;
    c) Target amounts of highly liquid asset reserves;

d) Limits or triggers on funding concentrations or guidelines that promote funding diversification; and

e) Guidance on the minimum and maximum average maturity of different categories of assets and liabilities.

4.2 Liquidity Risk Quantification, Monitoring and Reporting

56. Banks should have a sound process for identifying, measuring, monitoring and controlling liquidity risk. This process should include a robust framework for comprehensively projecting cash flows arising from assets, liabilities, and off-balance sheet items over an appropriate set of time horizons.

57. Banks should actively monitor and control liquidity risk exposures and funding needs within and across legal entities, business lines and currencies, taking into consideration: legal, regulatory, and operational limitations to the transferability of liquidity.

58. Banks should actively manage their collateral positions, differentiating between encumbered and unencumbered assets. This includes monitoring the legal entity and physical location where collateral is held and how it may be mobilized in a timely manner.

59. The measurement of liquidity should be forward-looking and should incorporate all the cash flows and liquidity implications from all material assets, liabilities, off-balance-sheet positions, and other activities, including the potential optionality embedded in the bank's assets and liabilities.

60. Banks should evaluate each major on and off-balance sheet position that may affect the sources and uses of funds and determine how it can affect liquidity risk.

61. Banks should project their cash flows under different scenarios (business-as-usual and adverse) as part of their liquidity risk measurement approach.

62. Banks should ensure that all assumptions used in the generation of liquidity measures and in the projection of cash flows are reasonable and appropriate.

63. Banks that rely heavily on secured financing should have strong processes in place for the evaluation of asset liquidity under a variety of business-as-usual and stress conditions. This includes the process for determining whether an asset is available for use as collateral, assessment of market haircuts, and market capacity constraints.

64. Banks should ensure that methods used to measure, and monitor liquidity risk are robust and flexible to allow for timely computation of the metrics used in liquidity risk management. The frequency and scope of risk monitoring systems should also be developed in such a way that they are easily expandable during times of stress.

65. Banks should implement sufficiently detailed information systems that allow management to assess the sensitivity of the bank's liquidity position to changes in market conditions, its own financial performance, and other risk factors.

66. Banks and particularly those with material payment, settlement, and clearing activities are expected to maintain appropriate intraday liquidity management processes that allows them to actively manage their intraday liquidity positions and risks under both normal and stressed conditions.

67. Banks should capture the fact that asset valuations may deteriorate under market stress and that this could have an adverse impact on the feasibility of asset sales and their liquidity position.

68. Bank should identify, measure, monitor and control their liquidity risk positions while taking the following into consideration:

    a) Future cash flows of assets and liabilities;
    b) Sources of contingent liquidity demand and related triggers associated with off-balance sheet positions;
    c) Currencies in which a bank is active; and
    d) Correspondent, custody, and settlement activities.

69. Banks' dynamic cash flow forecasts should include assumptions on the likely behavioural responses of key counterparties to changes in economic and financial conditions and this should be carried out at a sufficiently granular level. The assumptions about future liquidity needs should be realistic and should reflect the nature of the underlying businesses, products, and markets.

70. Banks should consider factors that influence the "stickiness" of retail deposits, such as size, interest-rate sensitivity, geographical location of depositors and the deposit channel.
71. Banks should estimate the potential changes in cash flows related to undrawn loan commitments, letters of credit and financial guarantees (provided to customers) during periods of stress.

72. Banks should assess their aggregate foreign currency liquidity needs and determine acceptable level of currency mismatches. The size of foreign currency mismatches should take into consideration:

   a) The bank's ability to raise funds in foreign currency markets;

   b) The ability to transfer a liquidity surplus from one currency to another, and across jurisdictions and legal entities; and

   c) Convertibility of currencies in which the bank is active.

73. Banks should appropriately identify and manage liquidity risk exposures arising from the use of foreign currency deposits and short-term credit lines to fund domestic currency assets as well as the funding of foreign currency assets with domestic currency. They should also consider the risks of sudden changes in foreign exchange rates or market liquidity, or both, which could sharply widen liquidity mismatches.

74. Banks should assess the likelihood of loss of access to the foreign exchange markets as well as the likely convertibility of the currencies in which the bank carries out its activities. A bank should negotiate a liquidity back-stop facility[2] for a specific currency, or develop a broader contingency strategy, if the bank runs significant liquidity risk positions in that currency.

4.3 Intraday Liquidity Management.

75. Banks should actively manage their intraday liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions.

76. Banks should adopt intraday liquidity management objectives that allow it to identify and prioritise time-specific and other critical obligations and to settle other less critical obligations as soon as possible.

77. The bank's strategy to achieve its intraday liquidity management objectives should incorporate the appropriate operational elements. These include:

   a) Capacity to measure expected daily gross liquidity inflows and outflows;

   b) Sufficient intraday funding to meet its intraday objectives;

   c) Ability to manage and mobilise collateral as necessary to obtain intraday funds;

[2] A bank needs to carefully manage market access to ensure that liquidity sources including credit lines can be accessed when needed.

d) Robust capability to manage the timing of its liquidity outflows in line with its intraday objectives; and

e) Ability to deal with unexpected disruptions to its intraday liquidity flows.

78. Banks should have policies, procedures, and systems to support operational objectives in all the financial markets and currencies in which it has significant payment and settlement flows. The tools and resources applied should be tailored to the bank's business model and how it conducts its activities in a specific financial market.

79. Where a bank chooses to rely on correspondents or custodians to conduct payment and settlement activities, it should assure itself that this arrangement allows it to meet obligations on a timely basis and to manage its intraday liquidity risks under a variety of circumstances[3].

4.4 Funding Diversification

80. Banks should establish a funding strategy that provides effective diversification in the sources and tenor of funding. They should also regularly gauge their capacity to raise funds quickly from each source.

81. Banks should identify the main factors that affect its ability to raise funds and monitor those factors closely to ensure that estimates of fund-raising capacity remain valid.

82. Banks' funding plans should take into consideration correlations between sources of funds and market conditions. The desired diversification should also include limits by: counterparty, secured versus unsecured market funding, instrument type, currency, and geographic market.

83. Banks should identify alternative sources of funding that strengthen their capacity to withstand a variety of severe yet plausible bank-specific and market-wide liquidity shocks. The potential sources of funding should take into consideration the nature, severity, and duration of the liquidity shock.

84. Banks that rely heavily on market-based funding sources should maintain an ongoing presence in their chosen funding markets and strong relationships with funds' providers to promote effective diversification of funding sources.

[3] This include the potential for operational or financial disruptions at its correspondent or custodian.

4.5 Buffer of Highly Quality Liquid Assets (HQLA)

85. Banks should maintain a cushion of unencumbered, high quality liquid assets as a mitigant against a range of liquidity stress scenarios, including those that involve the loss or impairment of unsecured and typically available secured funding sources. There should be no legal, regulatory, or operational impediment to using these assets to obtain funding.

86. Banks should hold appropriate HQLA, subject to the minimum stated in the **CBN Guidelines on Liquidity Coverage Ratio**. The appropriate level of HQLA should take into consideration the estimates of liquidity needs based on the outcomes of the bank's stress testing and should be aligned with the bank's risk tolerance and profile.

87. Banks' estimates of liquidity requirements during periods of stress should incorporate both contractual and non-contractual cash flows, including the possibility of funds being withdrawn. The estimates should also assume the inability to obtain unsecured funding and the loss or impairment of access to funds secured by assets other than the safest, most liquid assets.

88. Banks should ensure that HQLA are readily available and are not pledged against any liability.

4.6 Contingency Funding Plans

89. Banks should formulate clear and unambiguous management actions to be taken in the event of crystallisation of liquidity risk and the proposed actions should take into consideration its risk profile and business strategy.

90. Banks should have a formal Contingency Funding Plan (CFP) that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations.

91. The CFP should:

    a) Provide a plan for responding to various liquidity scenarios;

    b) Designate management responsibilities, crisis communication methods and channels, and reporting requirements;

    c) Identify a menu of contingent liquidity sources that a bank can use under various adverse liquidity circumstances; and

    d) Describe steps that should be taken to ensure that the bank's sources of liquidity are sufficient to fund scheduled operating requirements and meet the bank's commitments with minimal costs and disruption.

92. The CFP should also:

  a) Identify plausible stress events that could threaten a bank's ability to fund its obligations;
  b) Evaluate those stress events under different levels of severity including their expected impact on cash flows;
  c) Make a quantitative assessment of funding needs under stress events; and
  d) Provide for management processes, reporting, and internal as well as external communication throughout the stress event.

93. Banks should identify the series of actions they will take during a stress event and commit sources of funds for contingent needs in advance of those stress events.

94. Banks should evaluate the potential erosion in funding as well as the cash flow mismatches at alternative stages of the stress event. The evaluation should be based on realistic estimates of funds providers' behaviour and collateral expectations and should include both on and off-balance-sheet cash flows.

95. Banks should develop a process for identifying a potential liquidity risk event before it becomes a crisis. This process should involve the use of early warning indicators, limits and event triggers that are tailored to the bank's specific liquidity risk profile. Early warning indicators can be qualitative or quantitative in nature.

96. The CFP should be regularly tested and updated to ensure that it is operationally robust, and that it reflect current market conditions and bank-specific circumstances.

4.7 Internal Controls

97. Banks should put in place effective internal controls, consisting of procedures, approval processes, reconciliations, reviews, and other mechanisms designed to provide reasonable assurance that the bank achieves its liquidity risk management objectives.

98. Banks should ensure that operationally independent, appropriately trained, and competent personnel are responsible for implementing internal controls.

99. Independent reviews of various components of a bank's liquidity risk management processes should be conducted regularly. These reviews should test and document the current measurement processes, evaluate the system's accuracy, and recommend solutions for identified weaknesses.

100. Independent reviews should also assess compliance with policies and procedures and any non-compliance noted should be reported to senior management and the board.

4.8 Stress Testing

101. Banks should conduct stress tests on a regular basis based on a variety of short-term and protracted bank-specific and market-wide stress scenarios (individually and in combination) to identify sources of potential liquidity strain and to ensure that they continue to operate within the established liquidity risk tolerance.

102. Banks should use the outcomes of stress testing to adjust their liquidity risk management strategies, policies, and positions and to develop effective contingency plans.

103. The design of stress scenarios should take into consideration the nature of the bank's business, activities and vulnerabilities, and the defined scenarios should enable the bank to evaluate their potential adverse impact on its liquidity position.

104. Banks should specifically take into consideration the linkage between reductions in market liquidity and constraints on funding liquidity. Banks should also consider the insights and results of stress tests performed for other risk types when stress testing their liquidity position and the possible interactions between liquidity risk and these other types of risk.

105. The scenario design should be subject to regular reviews to ensure that the nature and severity of the selected scenarios remain appropriate and relevant to the bank. The review should take into consideration: (i) changes in market conditions, (ii) changes in the nature and size of the bank's business model and activities, and (iii) actual experiences in stress situations.

106. Banks should incorporate the results of stress tests in the assessment and planning for potential funding shortfalls in their CFP. Where the projected funding deficits are larger than (or projected funding surpluses are smaller than) implied by the bank's liquidity risk tolerance, banks should consider whether to adjust its liquidity position or to bolster the bank's contingency plan

107. Banks' liquidity stress testing framework should capture different time horizons (including intraday) and the relevant currency exposures.

108. Banks should define scenarios and sensitivities in a manner that best addresses its individual situation and assess their impact on liquidity inflows and outflows. Specifically:

a) Banks should continuously analyze the impact of stress scenarios on Liquidity Coverage Ratio;
b) Banks with significant cross-border activities should assess the transferability of liquidity within the group and take this into account in their stress-testing exercise;
c) The range of adverse scenarios should adequately cover severe economic downturns, severe market disruptions and financial shocks;
d) Banks should focus on their vulnerabilities in the definition of plausible adverse scenarios and should demonstrate the relationship between ICAAP and ILAAP stress tests;
e) Banks should conduct reverse stress-testing assessments.

109. The reverse stress tests should be used to challenge the comprehensiveness and conservatism of the ILAAP framework assumptions and should be conducted at least once a year.

110. Reverse stress testing in the ILAAP context should inform the development of recovery planning scenarios.

ANNEX A: INFORMATION ON LIQUIDITY RISK MANAGEMENT FRAMEWORK

At a minimum, banks are expected to provide the following information in their ILAAP report:

1. Information on liquidity and funding risk management framework

a) Description of the scope of the ILAAP including an overview of, and reasoning for, any deviations from the prudential scope of liquidity requirements.

b) Description of the setup of the ILAAP explaining the relation between all its components and providing reasoning about how that setup ensures the bank has access to sufficient liquidity.

c) The criteria applied by the bank for the selection of significant risk drivers for liquidity and funding risk, including the selection of significant currencies for monitoring the liquidity and the funding position.

d) The criteria applied by the bank for the selection of appropriate tools and assumptions for ILAAP, such as the method of measuring and projecting current and future cash-flows of assets, liabilities, and off-balance-sheet items over appropriate time horizons.

e) An assessment of the intragroup liquidity flows and funding positions, including any possible legal or regulatory impediments to the transfer of liquidity within the group.

f) Reasoning for the selection of the significant risk drivers and a quantitative overview of these risk drivers, updated at an appropriate frequency.

g) Quantitative overview of the funding profile and its perceived stability in all significant currencies.

h) Evidence of the monitoring of compliance with minimum and additional prudential requirements related to liquidity and funding risk in accordance with Prudential Guidelines and the **CBN Guidelines on Liquidity Coverage Ratio**.

2. Information on Risk Appetite Framework

a) Description of how the strategy and business model of the bank links with its risk appetite framework.

b) Description of the process and governance arrangements, including the roles and responsibilities within the senior management and the board, in respect to the design and implementation of the risk appetite framework.

c) Information on the identification of the material liquidity and related risks to which the bank is or might be exposed.

d) Description of the risk appetite/tolerance levels, thresholds and limits set for the identified material liquidity and related risks, as well as the time horizons, and the process applied to keeping such threshold and limits up to date.

e) Description of the limit allocation framework within the group, and, for example to, core business lines, markets, products, and subsidiaries.

f) Description of the integration and use of the risk appetite framework in the risk and overall management, including links to business strategy, risk strategy, ICAAP and ILAAP, including capital and liquidity planning.

3. Information on intraday liquidity risk management

a) Description of the criteria and tools for measuring and monitoring intraday liquidity risks;

b) Description of the escalation procedures for the purpose of intraday liquidity shortfalls which ensure that payments due and settlement obligations are met on a timely basis under both 'business as usual' and stressed conditions.

c) Where appropriate, quantitative overview of intraday liquidity risk over the past year at an appropriate frequency.

d) Where applicable, the total number of missed payments and an overview with explanation of material payments missed or material obligations not met by the bank in a timely manner.

4. Information on Funding Strategy

a) Description of the general set-up of the funding plan, including sources of funding, tenors, key markets, products used, etc.

b) Where appropriate, a policy document on maintaining presence in markets to ensure and periodically test market access and fund-raising capacity of the bank, where relevant.

c) A policy document on funding concentration risk, including on the principles for measuring and monitoring of correlation between funding sources and economic connection between depositors and other liquidity providers.

d) Where appropriate, a policy on funding in foreign currencies, including the most relevant assumptions with regard to availability and convertibility of these currencies.

e) The current funding plan and strategy.

f) A quantitative overview of the characteristics, such as volumes, prices, and investor appetite, of recent funds raised and an analysis of the feasibility of the execution of the funding plan given (changes in) market volatility.

g) A forward-looking view on the (desired) development of the funding position over a forward-looking time horizon.

h) An assessment of the funding position and funding risk after execution of the funding plan.

5. Liquidity risk quantification, monitoring and reporting

This analysis, at a minimum, should address the following:

a) The bank's sources and uses of cash and their relevant trends.

b) Pro-forma cash flow statements and funding mismatch gaps over different time horizons.

c) New products and their effect on liquidity.

d) Trends and expectations in the volume and pricing of assets, liabilities, and off-balance-sheet items that may significantly affect the bank's liquidity.

e) Trends in the relative cost of funds required by existing and alternative funds providers and the impact on net interest income and margin.

f) The diversification of funding sources and trends in funding concentrations.

g) Asset quality trends.

h) The sensitivity of funds providers to both financial market and banking trends and events.

i) The bank's exposure to both broad-based market and bank-specific contingent liquidity events.

j) A discussion of highly liquid assets, trends in those assets, and the market dynamics that could affect their conversion to cash.

k) The market's perception of the bank as indicated by excess spread paid relative to similar banks.

l) If applicable, the impact of cash flows related to the repricing, exercise of embedded options, or maturity of financial derivatives contracts, including the potential for counterparties to demand additional collateral in the event of a weakening of the market's perception of the bank.

m) If applicable, the impact on cash flows by providing correspondent, custodian, and settlement activities.

n) If applicable, the bank's capacity to manage liquidity risk exposures arising from the use of foreign currency deposits and short-term credit lines to fund domestic currency assets, as well as the funding of foreign currency assets with domestic currency.

6. Information on Strategy Regarding Liquidity Buffers and Collateral Management

a) The methodology for determining the internal minimum size of the liquidity buffer, including the bank's definition of liquid assets, the criteria it applies for determining the liquidity value of liquid assets and the constraints relating to concentration and other risk characteristics of the liquid assets.

b) Policy document on collateral management, including principles in relation to the location and transferability of collateral as well as to their role in relation to meeting minimum prudential requirements.

c) Policy document on asset encumbrance, including principles for measuring and monitoring both encumbered and unencumbered assets and linking the limit and control framework regarding asset encumbrance to the bank's (liquidity and funding) risk appetite.

d) Principles for testing the assumptions relating to the liquidity value of, and time to sell or repo, assets included in the liquid asset buffer.

e) Policy document on liquidity concentration risk in the liquidity buffer, including principles for measuring and monitoring of any potential loss of available liquidity due to this concentration.

f) Quantification of the minimum volume of liquid assets considered adequate to meet internal requirements.

g) Quantification of the current liquidity buffer, including its distribution over products, currencies, counterparties, regions/group entities, etc.

h) Projections of the development of the internally required minimum volume of liquid assets and available liquid assets over appropriate time horizons under both 'business as usual' and stressed conditions.

i) Quantitative overview and analysis of current and projected levels of asset encumbrance, including details of encumbered as well as unencumbered assets that could be used for generating liquidity.

j) Assessment of the time it takes to convert liquid assets into directly usable liquidity, given legal, operational, or prudential impediments to the use of liquid assets to cover cash outflows.

k) Analysis of the testing of assumptions in relation to the liquidity value of, and time to sell or repo, assets included in the liquid asset buffer.

7. Information on Liquidity Stress Testing

a) Description of the adverse scenarios applied, and the assumptions considered in liquidity stress testing, including any relevant items such as the number of scenarios used, the scope, internal reporting frequency to the management body,

risk drivers (macro and idiosyncratic), the applied time horizons and, where relevant, the split in currencies/regions/business units.

b) Description of the criteria for calibrating scenarios, selecting appropriate time horizons (including intraday, where relevant), quantification of the impact of stress on the liquidity value of buffer assets, etc.

c) Quantitative outcome of the stress tests including an analysis of (the main drivers of) this outcome and a clear insight into the relevance of the outcome for the internal limits, liquidity buffers, reporting, modelling and risk appetite.

d) Quantitative and qualitative analysis of the outcomes of stress testing on the funding profile.

8. Information on liquidity contingency plan

a) Description of the lines of responsibilities for designing, monitoring, and executing the liquidity contingency plan.

b) Description of the strategies for addressing liquidity shortfalls in emergency situations.

c) Description of a tool to monitor market conditions that allow banks to determine in a timely manner whether escalation and/or execution of measures is warranted.

d) Description of testing procedures, where available (e.g. examples of sales of new asset types, pledging of collateral, etc.).

e) The current liquidity contingency plan.

f) Information on the possible management actions including the assessment of their feasibility and liquidity generating capacity under different stress scenarios.

g) The management view on the implications of all liquidity-related public disclosures made by the bank for the feasibility and timeliness of management actions included in the liquidity contingency plan.

h) Recent analysis of testing, including conclusions on the feasibility of the management actions included in the liquidity contingency plan.

i) Description of the internal view on the impact of executing the management actions included in the liquidity contingency plan, e.g. on the access the bank has to relevant markets and on the overall stability of its funding profile in the short and longer terms.

9. Information on risk data, aggregation, and IT systems

a) Description of the framework and process used to gather, store and aggregate risk data across various levels of a bank, including flow of data from subsidiaries to the group.

b) Description of data flow and structure of risk data used for ILAAP.

c) Description of data checks applied for risk data used for ILAAP purposes.

d) Description of IT systems used to gather, store, aggregate and disseminate risk data used for ILAAP.

10. Supporting Documentation

In addition to the information referred to in the above sections, banks are expected to provide the following:

a) Evidence of approval of the overall set-up of the ILAAP.

b) Evidence of approval of the key ILAAP elements, such as the funding plan, the liquidity contingency plan, the liquidity cost-benefit allocation mechanism, stress test assumptions and conclusions on outcomes, specific liquidity and funding risk appetite, targeted size and composition of liquid asset buffer, etc.

c) Evidence of discussion on (changes in) the liquidity and funding risk profile, limit breaches, etc., including decisions on management actions or the explicit decision not to take any action.

d) Examples of significant decisions in new product approval committees evidencing, if applicable, the use of the liquidity transfer pricing (LTP) and risk views in these decisions.

e) Evidence of discussion of the analysis of the feasibility of the funding plan based on (changes in) market depth and volatility.

f) Evidence of decisions on management actions related to intraday liquidity risk after internal escalation due to intraday liquidity events.

g) Evidence of discussion of the outcome of liquidity stress tests and decision on any management (non-)action.

h) Evidence of discussion on the regular testing of the liquidity contingency plan and decisions on adjusting the management actions listed in the liquidity contingency plan.

i) Decision relating to the size and composition of the liquid asset buffer.

j) Evidence of discussion regarding the testing of the liquidity value of, and of the time required to sell or repo, assets included in the liquid asset buffer.

k) Where available, internal self-assessments in which banks can take the opportunity to justify their level of compliance against publicly available criteria regarding risk management and control that affect the ILAAP.

ANNEX B: ORGANIZATION OF THE ILAAP REPORT

1. Executive Summary
2. Structure and Operations
3. Governance Structure
4. Risk Appetite Statement
5. Risk Assessment and Liquidity Adequacy
6. Stress Testing
7. Funding Plan and strategy
8. Summary of Internal Liquidity Adequacy Assessment Process
9. Design, Approval, Review, and Use of ILAAP
10. Challenges and Further Steps
11. Use of Internal Models for Liquidity Assessment
12. Review of ILAAP

CENTRAL BANK OF NIGERIA

REVISED GUIDELINES ON SUPERVISORY REVIEW PROCESS OF INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (SRP/ICAAP)

SEPTEMBER 2021

Table of Contents

1.0 INTRODUCTION 2

2.0 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) 3

2.1 General Rules for the ICAAP 3

2.2 Proportionality in the ICAAP 4

2.3 Scope of Application 4

2.4 Features of the ICAAP 5

2.5 Regulatory Reporting of the ICAAP 10

3.0 INTERACTION BETWEEN RISK BASED SUPERVISION AND ICAAP 11

4.0 INTERACTION BETWEEN ICAAP, ILAAP AND RRP 12

5.0 SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP) 12

5.1 General Rules for the SREP 12

5.2 Stages of the SREP 13

5.3 Proportionality in the SREP 14

5.4 Early Intervention 15

ANNEX A: RISKS SUBJECT TO THE ICAAP 16

ANNEX B: MINIMUM EXPECTATION FOR ICAAP REPORTING 17

1.0 INTRODUCTION

1. The Central Bank of Nigeria (CBN) has conducted the Supervisory Review and Evaluation Process (SREP) of banks' Internal Capital Adequacy Assessment Process (ICAAP) since December 2013 as part of its risk-based supervisory process.

2. The introduction of Basel III standards and its impact on capital requirements and supervisory expectations has made it necessary to update the CBN Guidance Note on Supervisory Review Process to ensure that it reflects emerging best practice. The Basel III Framework not only strengthened the risk-based capital standards but also introduced additional measures, some of which have a direct implication on banks' assessment of their risk profiles and capital requirements.

3. The Supervisory Review Process is structured along two separate but complementary stages.

   a) The Internal Capital Adequacy Assessment Process (ICAAP), and

   b) The Supervisory Review and Evaluation process (SREP.

4. The ICAAP requires banks to:

   a) Perform an independent and complete forward looking assessment of the risks to which they are exposed, and

   b) Estimate the internal capital requirement that adequately reflects their risk profile, business strategy and risk acceptance level.

5. The SREP is the process by which the CBN:

   a) Reviews and assesses the bank's ICAAP;

   b) Analyses the bank's own assessment of its risk profile, the corporate governance, and the internal control system;

   c) Verifies overall compliance with prudential requirements and supervisory expectations in relation to the quantification of internal capital and liquidity requirements; and

   d) Formulates an overall view on the risk profile of a bank and, where necessary, takes remedial measures.

2.0 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

6. All banks are required to develop an ICAAP to maintain adequate capital levels consistent with their strategies, business plans, risk profiles and operating environment on a going concern basis.

7. The ICAAP should be based on appropriate risk management systems that require adequate corporate governance mechanisms, an organisational framework with clear lines of responsibility, and effective internal control systems. This is because capital should not be regarded as a substitute for addressing fundamentally inadequate control or risk management processes.

8. The ICAAP should be documented, understood, and shared by all bank structures and should be subject to independent internal review.

9. The respective banks' boards are entirely responsible for the ICAAP. They are expected to independently establish the design and organisation of the ICAAP in accordance with the risk appetite of the bank. They are also responsible for the implementation and the annual update of the ICAAP and the calculation of internal capital that takes into consideration the banks' activities and operating environment.

10. Banks should, on an annual basis, submit to the CBN an ICAAP report detailing, amongst others: the key features of the ICAAP, their risk exposures and the level of capital deemed adequate to support those risks. The report should also contain a self-assessment of the ICAAP, areas for improvement, any deficiencies in the process and any corrective measures to be taken.

2.1 General Rules for the ICAAP

11. Banks should have a process for determining the total capital, currently and prospectively, necessary to support all material risks. This process should be;

   a) Formalized and documented;
   b) Subject to internal review and approval by board and management; and
   c) Proportionate to the nature, scale and complexity of the business conducted.

12. The calculation of total capital requires an assessment of all the risks to which a bank is or may be exposed, including those not considered in calculating the capital requirement under Pillar 1.

13. Banks should determine the risks, other than credit, market and operational risks, for which the adoption of quantitative methodologies that can be used in

determining internal capital would be appropriate and those for which control and mitigation measures, in combination or alternatively, would be more suitable.

2.2 Proportionality in the ICAAP

14. A bank is expected to have an appropriate approach for the assessment of its internal capital requirements in line with its size, the nature, scale, and complexity of its activities. The selection of the approach is the responsibility of the bank. Banks with fewer and less complex activities may use simpler approaches to identify and measure risks while banks with large and complex activities may use more comprehensive methods to assess internal capital requirements.

15. An assessment of the risk profile of a bank must consider all material risks arising from its business and operating environment. The ICAAP should fit banks' individual circumstances and needs, having regard to the risk profile and level of sophistication of their operations. The principle of proportionality shall be applied, taking into consideration factors such as:

a) Size and complexity of the business;
b) Growth and expansion strategies;
c) Nature, scale and complexity of asset mix, and product offering; and
d) Composition and market segments.

16. The principle of proportionality shall apply also to the following aspects:

a) Methodologies used in measuring/assessing risks and in determining the related internal capital requirements;
b) Type and nature of the stress tests adopted;
c) Determination of total internal capital;
d) Organisational structure of the risk control systems; and
e) Scope and detail of ICAAP reporting to the CBN.

2.3 Scope of Application

17. This Guideline is applicable to all Deposit Money Banks (DMBs) in Nigeria at both solo level and consolidated level. The CBN shall apply the principle of proportionality to its supervisory assessment of banks' processes and methodologies.

2.4 Features of the ICAAP

18. In developing an ICAAP, banks should consider the key supervisory principles as articulated by the Basel Committee on Banking Supervision (BCBS). At a minimum, banks should incorporate the following features in their ICAAPs:

a) Board and senior management oversight;

b) Established policies, procedures, limits, and control;

c) Sound capital assessment and planning;

d) Comprehensive assessment of risks;

e) Stress testing;

f) Monitoring and reporting; and

g) Internal control review.

2.4.1 Comprehensive Identification of Risks

19. Banks should independently identify the risks to which they are exposed, taking into consideration their operations and the markets in which they operate.

20. This analysis should consider, at a minimum, the risks listed in Annex A. This list is however not exhaustive. The identification of any further risk factors connected with a bank's specific operations is left to the prudent assessment of each bank.

21. Banks and banking groups should clearly identify the sources of the various forms of risks and where these are to be found at the level of operating units, enterprise-wide, within the group or from external counterparties. This is to ensure that the regulatory and internal capital requirements calculated at the individual entity level for the most significant legal entities adequately cover the risks effectively faced by these entities.

22. Risk identification is an integral part of a bank's ICAAP. The identification of the risks to which a bank is exposed, and the determination of their materiality should be based on a comprehensive assessment of the existing and potential risk factors of individual transactions, products, activities, and processes of a bank. Banks should also ensure that the approaches to risk identification take into consideration the assessment of the external environment.

23. Banks are expected to have a defined process of risk identification and for the frequency of reviewing the risks included in the ICAAP. The identification process should be clear and also include the description of responsible departments for the identification process.

24. Given that the ICAAP is a bank-wide process, the CBN expects banks to ensure that all relevant departments participate in the risk identification process. An anchor department, normally the risk function, should be responsible for coordination and collation as well as communication of risks identified to the entire bank.

25. Bank are expected to identify all risks, whether material or immaterial. Banks should ensure that the basis for determining materiality of risks is directly associated with the bank's approach to the risk concerned and/or the assessment of expected loss from such risks. The criteria for determining the materiality of risks, including the set quantitative and qualitative thresholds, should be expressly stated in the bank's ICAAP.

26. Without prejudice to Annex A of this Guideline, banks are expected to have internal definitions of the risks they are exposed to and should clearly describe such risks in their ICAAP.

27. Banks are expected to review the materiality of the identified risks on a continuous basis, giving consideration to market conditions, information gathered in respect of counterparties as well as the possible impact of the risks on the bank's earnings, capital position and reputation.

2.4.2 Sound Capital Assessment

28. The capital assessment process should include the risk measurement and modeling process that produces accurate loss and resource estimates, and a detailed process for generating reports for the board and senior management.

29. In order to calculate internal capital, banks should have:

a) Policies and procedures ddesigned to clearly identify, measure and report all material risks;

b) A process that relates capital adequacy to the level of risks assumed;

c) A process that relates capital adequacy goals with the banks' strategic focus and business plan; and

d) A process of internal controls that reviews and audits continuously the bank's activities to ensure robustness and integrity of the overall risk management process;

30. Banks are also required to quantify all material risks they are exposed to using appropriate methodologies which capture their organisational and operational features.

31. For credit, counterparty, market and operational risks, a methodological starting point is provided by the regulatory systems for calculating capital requirements for such risk types under Pillar 1 of the Basel Framework.

32. Banks which have implemented internal models for the quantification of capital requirements under Pillar 2 should be able to fully demonstrate the appropriateness of such models given their risks and exposures. Banks should also ensure that such models adequately identify and measure the underlying risks arising from the bank's activities and are subject to rigorous on-going validation.

33. Banks are expected to consider several factors in relating capital to the level of risk, including:

 a) A comparison of their own capital ratios with regulatory standards and with those of industry peers;

 b) Potential severe adverse events, including historical experiences and the external economic environment; and

 c) Planned changes in the bank's business or strategic plans, identified changes in its operating environment, and consequential changes in its risk profile.

34. The banks' ICAAP should include a reconciliation between the total internal capital and the eligible regulatory capital. Banks should also, where applicable, explain the inclusion of capital instruments that may not be eligible as regulatory capital in the calculation of their internal capital.

35. Banks are expected to take into consideration the CBN guidelines on respective Pillar II risks in the assessment and the quantification of the relevant risk types.

2.4.3 Stress testing

36. Banks should conduct stress testing of their risk mitigation and control systems and the adequacy of their internal capital, in order to enhance the assessment of their exposure to risks.

37. Banks are expected to consider the **CBN Guidelines on Stress testing for the Nigerian Banks** in the development of their end-to-end stress testing process.

Banks should also consider the relevance of the CBN's stress scenarios and the suggested risk drivers[1] in the context of their business and specific risk drivers.

38. Banks are expected to articulate realistic management actions anticipated to reduce risk or restore capital adequacy in the event that:

a) Severe and plausible adverse stress scenarios result in a Capital Adequacy Ratio (CAR) that is below the regulatory threshold; and/or
b) The bank's current capital ratio is below its internal risk appetite target.

39. Banks are particularly expected to:

a) Ensure that management actions are feasible given adverse macro-economic conditions and the potential impact on reputation;
b) Consider preconditions that might affect the effectiveness of management actions e.g. debt covenants, legal or regulatory implications;
c) Consider the implications of management actions on the bank's business model;
d) Demonstrate the qualitative and quantitative impact of management actions on projected metrics under different scenarios;
e) Demonstrate evidence of management actions implemented in the past during similar circumstances, e.g. through board reports and minutes of meetings, etc.

2.4.4 Corporate Governance in the ICAAP

40. The board is responsible for ensuring that the bank maintains an appropriate level and quality of capital given its risk profile and business plan. The board should therefore have a sound understanding of the nature and materiality of risks inherent in the bank's activities.

41. The board should establish a framework for assessing the various risks, develop a system to relate risk to the bank's capital level, and establish a method for monitoring compliance with internal policies and regulatory capital limits[2]. The board should also:

a) Implement strong internal controls and comprehensive policies and procedures, and
b) Ensure that senior management effectively communicates these throughout the organization.

[1] Appendix II of the CBN Guidelines on Stress testing for the Nigerian Banks
[2] Banks are expected to always operate above the minimum regulatory capital ratios

42. In exercising its oversight responsibilities, the board is expected to approve the bank's risk appetite and capital management frameworks and to ensure that senior management discharges its responsibilities for:

a) The development and effective implementation of the ICAAP;

b) The establishment of detailed policies that set institution-wide controls that are consistent with its risk-taking capacity and appetite;

c) The establishment of a risk management framework that is not limited to credit, market, operational and liquidity risks, but incorporates all material risks, including reputational, legal and strategic risks, as well as risks which do not appear significant in isolation, but when combined with other risks could lead to material losses;

d) The development of a system to relate risk to the bank's capital level as part of its internal assessment of capital adequacy; and

e) Establishing strong internal controls and a process for monitoring compliance with internal policies.

2.4.5 Monitoring and Reporting

43. Banks should have a robust IT infrastructure and effective internal processes for monitoring and reporting risk exposures and assessing how their changing risk profiles affect their capital needs. They are therefore required to:

a) Evaluate the level and trend of material risks and their effects on capital levels;

b) Evaluate the sensitivity and reasonableness of the key assumptions used in capital assessment;

c) Determine that they hold sufficient capital against the various risks and ensure compliance with established capital adequacy goals; and,

d) Assess future capital requirements based on reported risk profiles and indicate any necessary adjustments to be made to the banks' strategic plan based on that assessment.

2.4.6 Internal Control Review

44. Banks should have a process of internal controls, independent reviews, and audits to ensure the adequacy, effectiveness, and reliability of the ICAAP and the overall capital planning process. Banks should also have a process for monitoring the actual performance against the approved capital targets [3] as well as conformity with the strategy and objectives stated in the ICAAP.

[3] Capital targets should be commensurate to the bank's risk profile and control environment.

45. The board should ensure that the bank's system of internal controls facilitate the monitoring of its business environment.

46. The bank should conduct periodic reviews of its risk management process to ensure its continued integrity, accuracy, and reasonableness. The reviews should cover:

a) Appropriateness of the ICAAP;

b) Large exposures and risk concentration;

c) Accuracy and completeness of data input;

d) Reasonableness and validity of scenarios used in the assessment; and

e) Stress testing and analysis of assumptions / inputs.

47. The frequency of the independent reviews and audits may vary depending on the size and complexity of individual bank but should not be less than once every year.

48. The ICAAP and risk management process should be subject to periodic reviews to ensure their integrity, accuracy, and reasonableness. At a minimum, the following areas should be reviewed:

a) The appropriateness of risk appetite/tolerance levels and capital planning, the effectiveness of the ICAAP, and the strength of internal control infrastructure;

b) The appropriateness, accuracy and reliability of third-party inputs or other tools used for management information purposes e.g. credit ratings, risk measures and models;

c) The methodologies for identification of large exposures and risk concentrations;

d) The accuracy and completeness of data input into the bank's assessment process;

e) The reasonableness of scenarios used in the assessment process; and

f) The stress testing and capital planning assumptions.

2.5 Regulatory Reporting of the ICAAP

2.5.1 Content and structure

49. The ICAAP report will enable the CBN to conduct a comprehensive assessment of the key qualitative features of the capital planning process, the bank's overall

exposure to risks and the quantification of total internal capital required to mitigate those risks.

50. The report should be submitted to the CBN along with the relevant board resolutions and senior management reports containing their comments on the ICAAP in line with their respective responsibilities and functions. The report should be organised, at a minimum, into the areas specified in **Annex B.**

2.5.2 Frequency of ICAAP reporting

51. Banks should, on an annual basis, submit to the CBN a comprehensive ICAAP report and other relevant supporting documents. The ICAAP report as at 31st December of the previous year should be submitted not later than four months after the year end (end of April).

52. Banks are expected to frequently update and document their ICAAP to capture any material changes in their business strategy or macroeconomic conditions. At a minimum, banks are expected to update their ICAAP at least once annually.

53. The CBN may require banks to submit an updated ICAAP at any point in time and particularly where there has been a significant change in its risk profile.

3.0 INTERACTION BETWEEN RISK BASED SUPERVISION AND ICAAP

54. The CBN expects banks to articulate the interaction between Examiners' perceptions of their risk profile under the Risk Based Supervision (RBS) framework and its ICAAP Framework. Examiners' risk assessment of the inherent risk within each significant activity of a bank, the quality of risk management applied to mitigate these identified risks, direction of risk and overall net risk rating should be taken into account in the ICAAP.

55. The consideration of the Examiners' perception of risk is required to ensure that there is an appropriate interplay between Examiners' assessment of inherent risks and the banks' ICAAP. Specifically, banks are required to:

a) Take into consideration the Examiners' findings on the assessment and perception of material risks during the most recent RBS examination;

b) Demonstrate the extent of compliance with recommendations issued by Examiners during the most recent RBS Examination; and

c) Demonstrate that the choice of stress testing scenarios and their severity reflect Examiners' perception of the bank's risk profile.

4.0 INTERACTION BETWEEN ICAAP, ILAAP AND RRP

56. A bank's Recovery and Resolution Plan (RRP) is aimed at ensuring that banks and supervisors are prepared to manage the threat to the viability of a bank in times of stress. The main purpose of the ILAAP is to assess and be able to demonstrate that a bank has adequate liquidity, a prudent funding profile, and robust processes for the management of liquidity and funding risks. It forms part of a bank's liquidity management framework that ensures a bank's ability to fulfil its payment obligations at all times even under adverse conditions. Given the implication of ILAAP and RRP on capital, banks are expected to articulate the interlinkages between ICAAP, ILAAP and RRP in the ICAAP document. Accordingly:

   a) Banks are expected to ensure consistency and coherence between the ICAAP, ILAAP and RRP in terms of assumptions, early warning indicators, triggers, escalation procedures following breaches of thresholds, and potential management actions;

   b) Potential management actions in the ICAAP should, where relevant, be reflected in the RRP and the ILAAP and vice versa, to ensure consistency in the assessment of inherent risks and reasonableness of the proposed management actions; and

   c) The underlying assumptions and proposed management actions should be consistent across the three risk management processes (ICAAP, ILAAP and RRP).

5.0 SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

5.1 General Rules for the SREP

57. The SREP shall be conducted for banks and banking groups on an annual basis. The objective will be to verify that banks have established capital and organisational arrangements that are appropriate for the risks they face.

58. The SREP involves rigorous assessment of the adequacy of banks' capital and, where applicable, the determination of the appropriate capital add-ons and buffers, which take into account: (i) the quality of banks' overall risk management practices and internal control systems, (ii) the extent to which a bank is exposed to risks that are outside the coverage of Pillar 1, and (iii) the effectiveness of its ICAAP.

59. The review of a bank's risk profile will take into consideration the CBN assessment of the assumptions, methodology, coverage, and outcome of a bank's ICAAP, with a view to ascertaining the adequacy and effectiveness of the bank's ICAAP.

60. The CBN will consider the following in the assessment of the bank's risk profile: (i) the Examiners' perception of the bank's risk profile based on the most recent RBS, and (ii) the strength and availability of parental support as well as other relevant information from the home supervisor of its parent or host supervisors of its subsidiaries.

61. The review of a bank's risk profile shall also take into account the bank's prospects and ability to obtain or raise new additional capital, particularly under stressed market conditions. In the case of a bank within a group structure (local or foreign), the CBN shall also consider whether the bank has strong parental support and whether the parent bank or holding company has the resources to provide such support when needed.

62. The assessment of a bank's risk profile shall be based on a combination of tools, which include:

   a) Quantitative and qualitative assessments;
   b) Ranking of risk factors;
   c) Benchmarking against industry performance; and
   d) Peer group comparisons.

63. The CBN may, as a result of a bank's ICAAP assessment, impose a higher Pillar 2 capital requirement on the bank. This will however take into consideration the requirements set out in the **CBN Supervisory Intervention Framework** and the **Capital Add-on Framework.**

5.2 Stages of the SREP

64. The SREP is organised into the following main stages:

   a) Analysis of exposure to all material risks and the relative control systems;
   b) Verification of compliance with capital and other supervisory requirements;
   c) Assessment of the procedure and methodologies for calculating total internal capital and of the adequacy of total capital given the bank's risk profile;
   d) Issuance of specific opinions (or rating) for each form of risk and the overall situation of the bank;

e) Determination of any supervisory response including capital add-ons.

5.3 Proportionality in the SREP

65. The CBN shall apply the principle of proportionality in the assessment of a bank's ICAAP including the Pillar 2 capital requirements. In order to ensure a proportional SREP, the CBN will categorize banks based on two dimensions:

   a) Systemic importance to the domestic economy; and
   b) The "quality" of the bank (risk level, risk control etc.)

66. The criteria for the assessment of the systemic importance is based on the indicator-based measurement approach in line with the framework for Regulation and Supervision of Domestic Systemically Important Banks (D-SIB). The criteria for categorization include: size, interconnectedness, substitutability, and complexity.

67. Categorization based on the "quality' of the bank shall be done on a case-by-base analysis and shall take into consideration the bank's individual risk profile including its sensitivity to external shocks, its available capital resources, and the quality of its risk management.

68. The intensity of a SREP for D-SIBs would be high while the intensity of SREP for non-systemic banks would depend on the composite risk rating of the respective banks as reflected in their most recent RBS report. Further, the SREP shall also be informed by the principle of proportionality, under which:

   a) The frequency and the comprehensiveness of the SREP shall have regard to the systemic importance, nature, size, and complexity of banks; and
   b) The corporate governance systems, risk management processes, internal control mechanisms and the determination of capital deemed adequate to cover risks shall be proportionate to the nature, scale and complexity of the business conducted by the banks;

69. The CBN, as part of its RBS process, will review and evaluate the soundness of a bank's ICAAP against the expectations set out under the features of ICAAP in this guideline. This review will also consider the comprehensiveness of the ICAAP and the quality of risk management to form a view on the appropriateness of the bank's internal capital targets and its capacity to meet the internal and supervisory targets.

70. Based on the ICAAP reviews, the CBN may require a bank to, among other things, take action to improve its capital and risk management processes if it is not satisfied with the bank's ICAAP.

5.4 Early Intervention

71. The board and senior management of banks shall have primary responsibility to ensure their institutions maintain adequate capital resources on an ongoing basis. The CBN can however intervene at an early stage to prevent a bank's capital from falling below the level that it deems adequate to support its risks. The CBN may also require rapid remedial action if adequate capital is not maintained or restored. The remedial actions could include the following:

a) Altering the risk profile of the bank through the restructuring of business or operations;

b) Directing a bank to raise additional capital;

c) Strengthening of: (i) the risk management systems, procedures, and processes, (ii) internal control mechanisms, and (iii) internal assessment of capital adequacy;

d) Restrictions on the distribution of profits or other elements of capital;

e) Directing the bank to hold an amount of regulatory capital greater than the minimum under Pillar 1;

f) Requiring a bank to prepare and implement a satisfactory capital adequacy restoration plan; and/or

g) Using other measures as contained in the CBN Supervisory Intervention Framework (SIF) and the BOFIA.

5.5 Pillar 2 Capital Add-on Assessment

The Central Bank of Nigeria will challenge the adequacy of banks' estimate of Pillar 2 capital requirement for material risks. In doing so, the CBN will take into account:

1. Risk Based Supervision Composite Risk Rating
2. The banks' risk profile
3. The banks' risk management capacity
4. Compliance with the provision of the Pillar 2 Guidelines issued by the CBN

The assessment will include the following elements: Single Name and Sectoral Credit Concentration Risk, IRRBB, Business Model Risk, Reputational Risk, Residual Operational Risk, Stress testing, ICAAP, Model Risk, and Country Risk.

The outcome of this assessment will drive:

1. The Pillar 2 minimum capital requirement for the bank given its risk profile business model and systemic importance
2. Additional capital requirement for the bank which will flow into Pillar 1 capital requirement
3. The capital add-on would be imposed where the assessment produces ratings for Pillar II risks to be "Above Average" or "High" or the quality of risk management is "Weak" or "Need improvement".
4. The removal of the Pillar II capital add-on would be dependent on the respective bank addressing the identified issues to the full satisfaction of the CBN.

ANNEX A: RISKS SUBJECT TO THE ICAAP

1. Pillar 1 risks

a) Credit risk (including counterparty risk);

b) Market risk;

c) Operational risk.

2. Pillar 2 risks

a) Concentration risk

b) Interest rate risk in the banking book

c) Business and Strategic risk.

d) Reputational risk.

e) Country and Transfer risk.

f) Model risk

g) Environmental and Social risk (E&S)

Note: The above listed Pillar 2 risks are not exhaustive. Banks are therefore required to assess all their respective material risks.

ANNEX B: MINIMUM EXPECTATION FOR ICAAP REPORTING

At a minimum, banks are expected to provide the following information in their ICAAP report, or as part of the supplementary submission:

1. Organization of the ICAAP Report

a) Executive Summary

b) Structure and Operations

c) Governance Structure

d) Risk Appetite Framework

e) Risk Identification and Materiality Assessment

f) Risk Assessment and Capital Adequacy

g) Stress Testing

h) Capital Planning

i) Capital Allocation and Reconciliation of Internal Capital

j) Internal Audit and Review of ICAAP

k) Approval, Review, and Use of ICAAP

l) Challenges and Further Steps

m) Summary of Internal Capital Adequacy Assessment Process

n) Use of Internal Models for Capital Assessment

2. Strategies and forecasting horizon adopted

a) Business plan and annual budgets; schedule of reviews of business plan and its components; extraordinary events necessitating review.

b) Reconciliation between time horizon of business plan and capital plan.

c) Ordinary and extraordinary sources of capital.

3. Corporate governance, organizational arrangements and internal control systems connected with the ICAAP

a) Description of the process for the preparation and updating of the ICAAP.

b) Description of the process for reviewing the ICAAP.

c) Definition of the role and functions assigned to the board and senior management bodies for the purposes of the ICAAP.

d) Definition of the role and functions assigned to various corporate functions for the purposes of the ICAAP, e.g., internal audit, compliance, risk management etc.

e) Description of organizational and contractual safeguards relating to any elements of the ICAAP that is outsourced.

f) Description of internal policies and procedures relevant to the ICAAP.

g) Minutes of the board meeting and relevant committee meetings evidencing implementation of ICAAP.

h) Evidence of discussion on, or changes in, the bank's risk and capital situation, limit breaches, etc., including decisions on management actions or any explicit decisions not to take any action.

i) Decisions on management actions related to internal capital estimates, their aggregation, and their comparison with the available internal capital (current situation and forward-looking).

4. Business model and strategy

a) Description of the current business model(s) including identification of core business lines, markets, geographies, subsidiaries, and products.

b) Description of main income and cost drivers, allocated to core business lines, markets, geographies and subsidiaries.

c) Description of the changes planned by the bank to the current business model and its underlying activities.

d) Description of how the business strategy and ICAAP are linked.

5. Risk Appetite Framework

a) A copy of the board approved risk appetite statement.

b) Description of the alignment between the bank's strategy and business model and its risk appetite framework.

c) Description of the process and governance arrangements, including the roles and responsibilities within the senior management and the board, in respect of the design and implementation of the risk appetite framework.

d) Description of the risk appetite/tolerance levels, thresholds and limits set for the identified material risks, as well as the time horizons, and the process for the review and update of such thresholds and limits.

e) Description of the limit allocation framework within the banking group.

f) Description of the integration and use of the risk appetite framework in the risk and overall management.

6. Risk Identification and Materiality Assessment

a) Description of the approach taken to identify risks, of the identified risks included within risk categories covered in the ICAAP, and the approach for assessing the materiality of risks.

b) Description of ICAAP time horizon(s), including an explanation of possible differences between the risk categories and the subsidiaries covered, where applicable.

c) Description of risk categories and sub-categories covered in the ICAAP, including their definitions.

d) Explanations of the differences between the risks covered in the ICAAP and the risk appetite framework, where the scope of risks covered is different.

e) Description of any deviations in the ICAAP process and in the key assumptions within the group and the subsidiaries of the group, where applicable.

f) Description, for every category of measurable risk, of the main characteristics of the main risk control and mitigation instruments.

g) General description of systems for control and mitigation of non-measurable risks.

7. Quantification of Pillar 2 Capital Requirement

a) General description of key features of quantification/measurement methodologies and models, including metrics, assumptions and parameters used (e.g. confidence intervals, holding periods etc.) for all risk categories and sub-categories.

b) Description of the quality of internal challenge of the adequacy of internal capital estimates.

c) Demonstration of the reasonableness of the internal capital estimates given the bank's risk profile.

d) Information on the actual data used, including an explanation of how the data used reflects the scope of subsidiaries covered by the ICAAP, including the length of the time series.

e) Description of the main differences between the measurement methodologies and models used for ICAAP purposes and those used for the calculation of the minimum Capital Adequacy Ratio (CAR).

f) The results of the calculation of internal capital estimates for all material risk categories covered by ICAAP on a risk-by-risk basis.

g) Where certain risks are identified as material but resulted in zero capital, the bank shall demonstrate the basis of its judgment.

8. Capital allocation and Reconciliation of internal capital, regulatory requirements as well as regulatory capital

a) Description of the methodology and assumptions used for the allocation of internal capital to operating units, subsidiaries, business segments and products, where appropriate.

b) Description of the monitoring process (comparison of internal capital estimates vs. allocated capital), including escalation procedures.

c) Amount of internal capital available to date, broken down by various elements of capital considered.

d) Actual amounts of the internal capital allocated to risks covered by ICAAP and group subsidiaries, and core business lines.

e) Quantitative comparison between the actual internal capital usage relative to the internal capital allocated based on ICAAP estimates supported by an explanation of cases where actual capital usage is close to or exceeds the allocated capital.

f) Reconciliation of total internal capital and regulatory requirements.

g) Listing and definition of capital components covering internal capital.

h) Eligibility of components covering internal capital to be calculated for supervisory purposes including the explanation for inclusion of ineligible components.

6. Capital planning

a) Description of capital planning, including dimensions considered (e.g. internal, regulatory), time horizons, capital instruments, capital measures etc.

b) Description of the main assumptions underlying the capital planning.

c) Description of the current conclusions from capital planning such as planned issuances of various capital instruments, other capital measures (e.g. dividend policy) and planned changes to the balance sheet (e.g. sales of portfolios etc.).

d) Documented capital policy and scope in term of coverage of all the material risk types in the capital planning process.

e) Description of management framework for preserving capital.

9. Stress testing in ICAAP

a) Description of adverse scenarios considered under the ICAAP, scenario assumptions and key macroeconomic variables.

b) Description of how reverse stress tests have been used to calibrate the severity of scenarios used.

c) Governance of the end-to-end stress testing process and data infrastructure.

d) Information on role of outputs in the management decision making.

e) Description of key assumptions used in the scenarios considered, including management actions, business assumptions regarding balance sheet, reference dates, time horizons etc.

f) Quantitative outcome of the scenarios considered and impact on key metrics, including profit & loss and capital, both internal and regulatory own funds, and prudential ratios, as well as the impact on the liquidity position.

g) Explanation of how the scenario outcomes are relevant to the institution's business model, strategy, material risks and group entities covered by ICAAP.

10. Internal audit review of ICAAP

a) Scope and frequency of the internal audit review of ICAAP.

b) Resourcing of, and the independence of, the internal audit function.

c) Process for tracking of open audit issues and verification of management action prior to their closure.

d) Approach to review of methods and techniques, assumptions and sources of information used in the ICAAP.

e) The outcome from the independent validation of risk measurement models.

11. Self -Assessment of ICAAP

a) Identification of the areas for improvement;

b) Planning of capital or organisational actions.

12. Decision-Making Process:

a) The decisions approved by senior management should be properly documented.

b) Key decisions about capital actions should include the detailed criteria on which the following decisions were made;

- Formulation of Risk Appetite Statement (RAS)
- Allocation of internal capital to specific business lines

- Assessment of capital adequacy under stress market conditions
- Assessment of performance of specific business lines and product on risk adjusted basis.

CENTRAL BANK OF NIGERIA

Banking Supervision Department
Central Business District
P.M.B. 0187 Garki, Abuja.

Tel: 09-46236403 E-mail: bsd@cbn.gov.ng

30th August, 2021

BSD/DIR/PUB/LAB/14/059

LETTER TO ALL BANKS

PUBLICATION OF NAMES OF DEFAULTERS OF THE CBN POLICY ON SALE OF FOREX FOR PTA/BTA

The CBN has received and noted with concern reports of sharp practices by some unscrupulous customers to circumvent the new CBN policy on the sale of forex for overseas personal and business travel. Some of these unwholesome practices include the use of fake visas and cancellation of air tickets after purchase of PTA/BTA. This trend, if not curbed, portends risk to the integrity and stability of the forex market.

Consequently, further to the various measures already put in place, all banks are hereby directed to publish on their websites the names and BVN of defaulting customers who present fake travel documents or cancel their tickets and fail to return the purchased PTA/BTA within two (weeks) as stipulated in the customer declaration form signed by them.

Please be guided accordingly.

HARUNA B. MUSTAFA
DIRECTOR, BANKING SUPERVISION DEPARTMENT

CENTRAL BANK OF NIGERIA

Banking Supervision Department
Central Business District
P.M.B. 0187 Garki, Abuja. Tel:........09 46236403.... E-mail: bsd@cbn.gov.ng

July 28, 2021

BSD/DIR/PUB/LAB/14/052

LETTER TO ALL BANKS

RE: TELLER POINTS AT BANK BRANCHES FOR THE SALE OF FX TO RETAIL CUSTOMERS

Further to the Monetary Policy Committee (MPC) briefing of July 27, 2021, all Deposit Money Banks (DMBs) are hereby reminded to set up teller points at designated branches across the country to fulfil legitimate FX requests for Personal Travel Allowance, (PTA), Business Travel Allowance (BTA), tuition fees, medical payments, SMEs transactions, amongst others.

In this regard, DMBs are also required to adequately publicize the locations of the designated branches and make necessary arrangements to sell FX to customers in cash and/or electronically in compliance with extant regulations.

DMBs are strongly advised to ensure that no customer is turned back or refused FX provided that documentation and all other requirements are satisfied. Equally, undue delays, rationing and/or diversion of FX is strongly discouraged whilst DMBs are required to establish electronic application and alert systems to update customers on status of their FX requests.

As communicated during the briefing, a toll-free line has been set up at the CBN for bank customers to escalate unresolved complaints related to their FX requests.

The CBN will continue to closely monitor banks' conduct and compliance with this directive in order to ensure an efficient FX market for all legitimate users.

Please note that any breach of the directive will be severely sanctioned.

HARUNA B. MUSTAFA
DIRECTOR, BANKING SUPERVISION DEPARTMENT

CENTRAL BANK OF NIGERIA
Banking Supervision Department
Central Business District
P.M.B. 0187
Garki, Abuja.

46236401

Tel:...............................
E-mail: bsd@cbn.gov.ng

BSD/DIR/PUB/LAB/014/001

February 5, 2021

LETTER TO ALL DEPOSIT MONEY BANKS, NON-BANK FINANCIAL INSTITUTIONS AND OTHER FINANCIAL INSTITUTIONS

The Central Bank of Nigeria's (CBN) circular of January 12, 2017 ref. FPR/DIR/GEN/CIR/06/010 which cautioned Deposit Money Banks (DMBs), Non-Bank Financial Institutions (NBFIs), Other Financial Institutions (OFIs) and members of the public on the risk associated with transactions in crypto currency, refers.

Further to earlier regulatory directives on the subject, the Bank hereby wishes to remind regulated institutions that dealing in crypto currencies or facilitating payments for cryptocurrency exchanges is prohibited.

Accordingly, all DMBs, NBFIs and OFIs are directed to identify persons and/or entities transacting in or operating crypto currency exchanges within their systems and ensure that such accounts are closed immediately.

Please note that breaches of this directive will attract severe regulatory sanctions.

This Letter is with immediate effect.

Yours faithfully,

BELLO HASSAN
DIRECTOR OF BANKING SUPERVISION

MUSA I. JIMOH
DIRECTOR PAYMENTS SYSTEM MANAGEMENT DEPARTMENT

CENTRAL BANK OF NIGERIA
Banking Supervision Department
Central Business District
P.M.B. 0187 Garki, Abuja. Tel:.09-462-36402 E-mail: bsd@cbn.gov.ng

BSD/DIR/GEN/LAB/131086

December 1, 2020

INTRODUCTION OF CENTRAL BANK OF NIGERIA SPECIAL BILLS

The Central Bank of Nigeria (CBN) hereby announces the introduction of Special Bills as part of efforts to deepen the financial markets and avail the monetary authority with an additional liquidity management tool.

The features of the CBN Special Bills are as follows:

a. Tenor of 90 days;
b. Zero coupon, applicable yield at issuance will be determined by the CBN;
c. The instrument will be tradable amongst banks, retail and institutional investors;
d. The instrument shall not be accepted for repurchase agreement transactions with the CBN and shall not be discountable at the CBN window; and
e. The instrument will qualify as liquid assets in the computation of liquidity ratio for deposit money banks.

The CBN will continue to ensure optimal regulation of systemic liquidity and promote efficient financial markets in support of economic recovery and sustained growth.

Yours faithfully

Bello Hassan
Director of Banking Supervision

CENTRAL BANK OF NIGERIA
Banking Supervision Department
Central Business District
P.M.B. 0187
Garki, Abuja

Tel: 09-46236403
E-mail: bsd@cbn.gov.ng

BSD/DIR/GEN/LAB/13/052

September 01, 2020

LETTER TO ALL BANKS

RE: INTEREST RATE ON SAVINGS DEPOSIT

The Central Bank of Nigeria (CBN) has noted with satisfaction the recent declining trend in market rates in the banking sector following the implementation of policies aimed amongst others, at stimulating credit flow to the real sector.

In line with recent market developments, the Bank has reviewed the minimum interest payable on savings deposits as provided in its Guide to Charges by Banks, Other Financial and Non-Bank Financial Institutions issued in December 2019.

Consequently, all deposit money banks are hereby informed that effective September 1, 2020 interest on local currency savings deposits shall be negotiable subject to a minimum of 10% per annum of Monetary Policy Rate.

This Letter supersedes that of August 31, 2020 referenced **BSD/DIR/GEN/LAB/13/051** on the same subject.

Yours faithfully,

BELLO HASSAN
DIRECTOR OF BANKING SUPERVISION

CENTRAL BANK OF NIGERIA
Banking Supervision Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-462-36401
E-mail: bsd@cbn.gov.ng

BSD/DIR/GEN/LAB/12/070

January 7, 2020

LETTER TO ALL BANKS

RE: REGULATORY MEASURES TO IMPROVE LENDING TO THE REAL SECTOR OF THE NIGERIAN ECONOMY

The Central Bank of Nigeria's (CBN) regulatory directives contained in its circulars dated July 3, 2019, ref. BSD/DIR/GEN/MDD/01/045 and September 30, 2019 ref BSD/DIR/GEN/LAB/12/049 refers.

The CBN has noticed remarkable increase in the size of gross credit by the Deposit Money Banks (DMBs) to customers. Accordingly, the CBN has decided to retain the minimum 65% Loan Deposit Ratio (LDR) in the interim. All DMBs are required to maintain this level and are further advised that average daily figures shall be applied to assess compliance going forward.

The incentive which assigns a weight of 150% in respect of lending to SMEs, Retail, Mortgage and Consumer Lending shall continue to apply while failure to achieve the target shall continue to attract a levy of additional Cash Reserve Requirement of 50% of the lending shortfall of the target LDR on or before March 31, 2020.

DMBs are further encouraged to maintain strong risk management practices regarding their lending operations.

The CBN shall continue to monitor compliance, review market developments and make further alterations in the LDR as it deems appropriate.

Yours faithfully,

AHMAD ABDULLAHI
DIRECTOR OF BANKING SUPERVISION

09-462-36418

October 10, 2019 **BSD/DIR/GEN/LAB/12/050**

LETTER TO ALL BANKS

RE: AUTOMATION OF AML/CFT PROCESSES- RETURNS DATA RENDITION, VALIDATION, DATA WAREHOUSE AND ANALYSIS

We refer to our letter on the above subject dated May 30, 2017 which established the roadmap for final deployment of the AML/CFT Data Rendition and Processing System (ADRAPS) and wish to provide further clarifications on the matter.

Following the achievement of 93 percent rendition rate on ADRAPS, we wish to state that the cut-off date for parallel run of ADRAPS has been slated for **December 31, 2019.** Consequently, **with effect from January 2, 2020** the Foreign Currency Transactions Report (FTR), Politically Exposed Persons (PEP) and Three Tiered KYC reports should only be rendered via ADRAPs. Manual renditions of the returns would no longer be acceptable by that date.

In addition, it was also observed that the returns rendition of some banks were not up-to-date. All banks are therefore required to ensure that their returns for the period January 1, 2018 – December 31, 2019 are completely uploaded on the platform by the **cut-over date -January 2, 2020.** Newly licensed banks are required to render the applicable returns from the date they commenced operations.

Please be guided accordingly.

AHMED ABDULLAHI
DIRECTOR OF BANKING SUPERVISION

09 46236403

September 30, 2019 **BSD/DIR/GEN/LAB/12/049**

LETTER TO ALL BANKS

RE: REGULATORY MEASURES TO IMPROVE LENDING TO THE REAL SECTOR OF THE NIGERIAN ECONOMY

Our Letter To All Banks on the above subject dated July 3, 2019, BSD/DIR/GEN/MDD/01/045, refers.

1. The Central Bank of Nigeria (CBN) has noted the appreciable growth in the level of the industry gross credit, which increased by N829.40 billion or 5.33% from N15,567.66 billion at end-May 2019, to N16,397.06 billion as at September 26, 2019 following its pronouncements on the above initiative. In order to sustain the momentum and in line with the provisions of our earlier letter, the minimum Loan to Deposit Ratio (LDR) target for all Deposit Money Banks (DMBs) is hereby reviewed upwards from 60% to 65%.

2. Consequently, all DMBs are required to attain a minimum LDR of 65% by December 31, 2019 and this ratio shall be subject to quarterly review. To encourage SMEs, Retail, Mortgage and Consumer Lending, these sectors shall be assigned a weight of 150% in computing the LDR for this purpose.

3. Failure to meet the above minimum LDR by the specified date shall result in a levy of additional Cash Reserve Requirement equal to 50% of the lending shortfall implied by the target LDR.

4. DMBs are required to continue to strengthen their risk management practices particularly with regards to their lending operations.

5. The CBN shall continue to review developments in the market with a view to facilitating greater investment in the real sector of the Nigerian economy whilst promoting a safe, sound and resilient financial system.

This letter is with immediate effect.

Yours faithfully,

BELLO HASSAN
For: DIRECTOR OF BANKING SUPERVISION

CENTRAL BANK OF NIGERIA

GUIDELINES ON THE ISSUANCE AND TREATMENT OF BANKERS ACCEPTANCES AND COMMERCIAL PAPERS

SEPTEMBER 11, 2019

TABLE OF CONTENTS

		Page
1.0	Introduction	3
2.0	Definitions of Bankers Acceptances (BAs) and Commercial Papers	3
3.0	General Conditions for Creating a BA or CP	3
4.0	Documentation Requirements for BAs and CPs	6
5.0	Rating Requirements	8
6.0	Tenor and Rollover of BAs and CPs	8
7.0	Denominations of BAs and CPs	9
8.0	Limits and Amounts of Issue of BAs and CPs	10
9.0	Underwriting of CPs	10
10.0	Investors in BAs and CPs	11
11.0	Forms of Maintaining BAs and CPs	11
12.0	Issuing and Paying Agent	11
13.0	Mode of Payment and Issuance of BAs and CPs	11
14.0	Procedure for Issuing of BAs and CPs	12
15.0	Roles and Responsibilities	13
16.0	Registration of BAs and CPs	13
17.0	Reporting Requirements	14
18.0	Accounting Treatment	14
19.0	Provision of Stand-by Facility for CPs	14
20.0	Disclosure Requirements	15
21.0	Miscellaneous Provisions	15
22.0	Penalty for Non-Compliance	16

1.0 INTRODUCTION

In order to ensure uniform practice and correct treatment of Bankers Acceptances (BAs) and Commercial Papers (CPs) by Banks and Discount Houses in Nigeria, it has become imperative to issue these guidelines, to deepen and facilitate the effective and efficient functioning of the Nigerian money market. These guidelines are issued by the Central Bank of Nigeria (CBN) in exercise of its statutory powers under Section 33 (1)(b) of the Central Bank of Nigeria Act 2007.

2.0 DEFINIION OF BANKERS' ACCEPTANCE AND COMMERCIAL PAPER

2.1 Working definitions of BA and a CP are given below for guidance

2.1.1 A BA is a draft drawn on and accepted by a bank, unconditionally ordering payment of a certain sum of money at a specified time in the future to the order of a designated party. Since the instrument is negotiable, title to it is transferred by endorsement. It is a marketable instrument and allows a bank to finance its customers without necessarily utilising its loanable funds. Instead, funds are provided by investors who are willing to purchase these obligations on a discounted basis.

2.1.2 A CP is an unconditional promise by a person to pay to the order of another person a certain sum at a future date. Such an instrument may or may not carry the bank's guarantee. Where the bank guarantees the CP to make it more marketable in the money market, the instrument acquires the force of a BA and the bank incurs a contingent liability. Where the CP is not secured or guaranteed by the bank (clean CP), it needs not be reported as a contingent liability.

3.0 GENERAL CONDITIONS FOR CREATING A BANKERS ACCEPTANCE AND COMMERCIAL PAPERS

(a) Bankers Acceptances

(i) Every BA shall have an underlying trade transaction for which the bank should hold the title documents to the merchandise as collateral for the acceptance. These documents shall be available for Examiners' scrutiny.

(ii) A BA shall be represented by a physical instrument in the form of a draft signed by the drawer and accepted by the bank. All BAs shall be properly executed by the bank by affixing its 'ACCEPTED' stamp, signature and

date on the face of the bill. These shall be made available for the Examiners' scrutiny.

(iii) The bank shall have a signed agreement, for each acceptance it creates, with the drawer.

(iv) Subject to these Guidelines, a BA may only be drawn on and accepted by a bank, pursuant to an acceptance credit line, to finance the drawer's business-related activity in relation to the purchases from or sale of goods to another person who may be a resident or non-resident, evidenced by proper and adequate documentation.

(v) Unless otherwise specifically provided for in these Guidelines or approved by the CBN, the "sale" or "purchase" of services shall not be eligible for BA financing.

(vi) A bank shall not accept a BA that is drawn to finance a sale or purchase of goods, where:

(a) The two parties to the trade transaction are part of a single legal entity (e.g. Production Department and Marketing Department of one company or one branch and another branch);

(b) The two transacting parties are sole proprietorships operated or owned by the same individual or where the proprietors are different individuals related to each other (parent/child or spouse); or

(c) The two transacting parties are partnerships in which the partners are the same individuals, or the majority of the partners are common, or one or more common partners own the majority share in the partnerships.

(vii) Where the two transacting parties are related corporations, a BA may still be drawn provided that the accepting bank shall take reasonable measures to verify that:

(a) The related corporations are indeed separate legal entities;

(b) The trade transaction between the two related corporations was undertaken at arm's length and there was a genuine transfer of title to the goods concerned, evidenced by proper and adequate documentation.

(c) The transaction is to finance cross border trade.

(viii) Extension of BA tenure or creation of new BA to repay the financing created by existing BA using the same commercial and/or financial documents is not allowed.

(ix) In the event that funds collected from investors are not disbursed to the issuer immediately, such funds shall be treated as deposits.

(x) A BA shall be executed before canvassing for funds from potential investors. Investors in BAs shall also be made aware of the identity of the issuer.

(b) Commercial Papers

(i) A CP qualifies as a financing vehicle under these guidelines if:

  (a) the issuer has 3-years audited financial statements, the most current not exceeding 18 months from the last financial year end; and

  (b) the issuer has an approved credit line with a Nigerian bank acting as an issuing and payment agent (IPA), where the bank guarantees the issue.

(ii) Investors in CPs shall be made aware of the identity of the issuer.

(iii) CPs shall only be guaranteed and not accepted since the intermediating bank is only a secondary obligor.

(iv) When a bank invests in a CP by disbursing its own funds, the transaction shall be reported on balance sheet and treated as a loan. However, if the bank merely guarantees the instrument, it shall be shown off-balance sheet as a contingent liability.

(v) Resale of CPs by banks/discount houses shall be accompanied by adequate documentation which should be provided to Examiners on request.

4.0 DOCUMENTATION REQUIREMENTS FOR BAs AND CPs

4.1 Bankers Acceptances

(1) In general, a BA may only be drawn on the presentation of a complete set of documents, as follows:

(i) The drawer's declaration that no other source of finance (including a lease, hire purchase, or factoring agreement) has been or would be entered into in respect of the trade transaction concerned;

(ii) The full set of commercial and/or financial documents, evidencing or acknowledging the trade transaction concerned; and

(iii) A receipt or other documentary evidence of payment, in the case where the purchaser who is drawing the Bankers Acceptance has already made payment to the supplier prior to the creation of the Bankers Acceptance.

(2) Where the full set of commercial and/or financial documents may not yet be available on the drawing date or where the transaction is only evidenced by a single document, a Bankers Acceptance may still be drawn subject to the following conditions:

(i) At least one supporting document or the single document is presented;

(ii) The document(s) presented contain the following information:

(a) Names and addresses of the parties to the trade transaction;

(b) Specific description of the goods which is the subject of the trade transaction;

(c) Financial value of the trade transaction; and

(d) Terms and conditions for the settlement of the trade transaction.

(iii) The remaining documents should be presented for the accepting bank's records once they become available.

(3) The commercial and/or financial documents presented to the accepting bank should be original copies.

(4) In the event that the original copies of the commercial and/or financial documents are not available or may not be available on the acceptance date, a bank may accept copies of such documents which are produced:

(i) by reprographic systems;

(ii) by or as a result of, automated or computerised systems; or

(iii) as second or carbon copies;

Provided that such documents:

(i) have a serial number; and

(ii) are authenticated by authorised signatories, where applicable.

(5) The original copies of the commercial and/or financial documents should be presented for the accepting bank's record within seven (7) days for a local and thirty (30) days for a foreign transaction, of the acceptance date, even though the Bankers Acceptance has already been drawn and accepted.

(6) The accepting bank should clearly indicate it is the drawee of the Bankers Acceptance on the first page of each and every commercial and/or financial document presented.

4.2 Commercial Papers

The standard documentation requirements for a CP transaction in Nigeria shall include:

(a) CP raising mandate

(b) Board Resolution to borrow

(c) Issuing, placing and paying agency agreement

(d) Commercial Paper Note

(e) Bank Guarantee, where applicable

(f) Investment Instruction/Investment Mandate

(g) Investment Advice

(h) Custodial Agreement

(i) Information memorandum on the issuer in the case of clean CPs

(j) Latest rating report from the credit rating agency

(k) Backstop loan request for guaranteed CPs

5.0 RATING REQUIREMENTS FOR CP ISSUES

5.1 Commercial Papers

Either the issuer of a CP or the specific issue itself shall be rated by a rating agency registered in Nigeria or an international rating agency acceptable to the CBN. An indicative rating must have been obtained by the issuer at the time of submission of declarations and information to a licensed Securities Depository.

5.2 The issuer or the issue shall have a minimum of investment grade credit rating (BBB- or similar rating).

6.0 TENOR AND ROLLOVER OF BANKERS ACCEPTANCES AND COMMERCIAL PAPERS

6.1 Bankers Acceptances

(i) The tenor of the BA, including rollover, shall not exceed:

(a) In the case of financing purchases, 365 days after execution of documents and acceptance by the bank.

(b) In the case of financing sales, the shortest remaining credit period extended by the drawer (seller) to the purchaser(s) of the goods.

(c) In the case of importation of capital goods, 365 days and a final rollover of additional 180 days, subject to CBN approval.

6.2 Commercial Papers

(a) The CP shall be issued for maturities of between 15 days and 270 days, including rollover, from the date of issue.

(b) Every issue of a CP is therefore, a separate CP.

(c) The capitalization of upfront interest and discount on maturing Commercial papers into a rollover is not allowed.

7.0 DENOMINATIONS OF BANKERS ACCEPTANCES AND COMMERCIAL PAPERS

7.1 Bankers Acceptances

7.1.1 The face value of a BA may be equal to but shall not exceed the financial value of the trade transaction stipulated in the supporting document(s).

7.1.2 The financial value of a trade transaction shall be:

(i) In the case of purchases, equal to the amount of money payable by the drawer of the BA to the supplier for the settlement of the trade, plus other separate payments to relevant parties (e.g. import duties to the Government, insurance premiums to insurance companies, transportation charges to transport companies etc.), if applicable, which are necessary to enable the drawer to accept delivery of the goods; or

(ii) In the case of sales, the amount of money receivable by the drawer

(of the BA) from the buyer for the settlement of the trade.

7.1.3 Any fees, charges, costs, or payments whatsoever payable or receivable as consideration for after-sales services shall not be eligible for financing under a BA facility.

7.1.4 Where it is the normal commercial practice in particular types of trade to stipulate in the supporting documents that the financial value is only provisional, the face value of the BA drawn to finance such types of trade may not exceed the provisional financial value.

7.1.5 Drawing Multiple BAs on a Single Transaction

Where multiple BAs are drawn to finance a single trade transaction, the drawer shall appoint a lead bank to accept the draft on behalf of the other banks.

7.2 Commercial Papers

7.2.1 CP shall be issued at the primary market for a minimum value of N100 million and in multiples of N50 million, thereafter.

8.0 LIMITS AND THE AMOUNT OF ISSUE OF BAs AND CPs

8.1 Off-balance sheet BAs and guaranteed CPs extended to a single obligor shall not exceed 30 percent of a bank's or discount house's shareholders' funds unimpaired by losses.

8.2 Aggregate off-balance sheet BAs and guaranteed CPs shall not be more than:

(a) 150 percent of shareholders' funds unimpaired by losses for a bank; and

(b) 300 percent of shareholders' funds unimpaired by losses for a discount house.

9.0 UNDERWRITING OF CPs

9.1 The underwriting of any issue shall be decided by the issuer.

9.2 In the event that the issuer shall decide that no underwriting or only partial underwriting is required, the issuer shall state the minimum level of subscription necessary to achieve its funding objectives.

9.3 Unless otherwise allowed, where any issue is under-subscribed and cannot meet the minimum level of subscription as required under paragraph 9.2, the issue shall be aborted, and any consideration received for the purposes of subscription, where applicable, shall be immediately returned to all subscribers.

9.4 In the event that an underwriting met the minimum level of subscription but failed to attain full subscription, the shortfall shall be recognized on the balance sheet as a loan.

9.5 Banks may provide issuers with credit enhancement by way of stand-by credits or guarantees to the issue based on their prudent commercial judgment.

9.6 Guarantees so provided are subject to proper credit guidelines, processes and Board approvals.

9.7 Guarantees shall be executed by an officer not below the rank of Director or Company Secretary.

9.8 Banks shall ensure that appropriate accounting entries are passed off balance sheet for every guarantee issued by the bank.

9.9 If the issuer credit risk of a CP guaranteed by a bank crystallizes the bank as the secondary obligor of the instrument shall redeem its guarantee of the instrument by disbursing funds to the beneficiary immediately.

9.10 All transaction arising from paragraph 9.8 shall be reported on-balance sheet of the bank as a loan.

10.0 INVESTORS IN BANKERS ACCEPTANCES AND COMMERCIAL PAPERS

10.1 BAs and CPs may be issued to and held by individuals, deposit money banks, other corporate bodies registered or incorporated in Nigeria and unincorporated bodies, Non-Resident Nigerians and Foreign Institutional Investors.

11.0 FORMS OF MAINTAINING BAs AND CPs

11.1 Issuers and investors in BAs and CPs may do so in dematerialized or physical form. Issuers and investors are encouraged to issue and hold BAs and CPs in a dematerialized form.

12.0 ISSUING AND PAYING AGENT (IPA)

12.1 Only a Deposit Money Bank and Discount House may act as an IPA for issuance of CP.

13.0 MODE OF PAYMENT AND ISSUANCE OF BAs AND CPs

13.1 The initial investor in a BA or CP may pay the discounted value of the BA or CP through the IPA (where applicable) to the account of the issuer. On

maturity, when the BA or CP is held in a physical form, the holder shall present the instrument for payment to the issuer through the IPA (where applicable). However, when the BA or CP is held in a dematerialized form, the holder shall have it redeemed through a licensed Securities Depository and receive payment from the IPA (where applicable).

14.0 PROCEDURE FOR ISSUANCE OF BAs AND CPs

14.1 Bankers Acceptances

The general procedure for the creation of a BA is as follows:

(i) An acceptance credit line is arranged with a bank;
(ii) The required documentary evidence of trade is presented to the bank for the purpose of drawing a BA on the bank; and
(iii) When the bank is satisfied that the documents are in order and the BA complies with the terms of the acceptance of a normal credit facility and all the applicable conditions for the creation of BA specified in these Guidelines, the bank accepts the BA.

14.2 Commercial Papers

14.2.1 Any company proposing to issue CPs shall submit a proposal to the IPA with its rating report issued by a credit rating agency. The IPA, on receipt of the proposal, shall scrutinize same and, on being satisfied, take the proposal on record or record the proposal in its blotter.

14.2.2 Companies shall ensure that the proposed issue of CP is completed within the period of two weeks from the date of opening of the issue for subscription.

14.2.3 After the exchange of deal confirmation between the IPA and the issuer, the IPA shall issue physical certificates to the investor or arrange for crediting the CP to the investor's account with a Securities Depository.

14.2.4 All IPAs issuing the CPs shall, within three working days from the date of completion of issue, advise the relevant Securities Depository on the amount of CPs actually issued.

15.0 ROLES AND RESPONSIBILITIES OF PARTIES TO CP ISSUANCE

15.1 Issuer

With the simplification in the procedures for CP issuance, issuers shall now have more flexibility. Issuers shall, however, have to ensure that the guidelines and procedures laid down for CP issuance are strictly adhered to.

15.2 Issuing and Paying Agent (IPA)

(i) IPA would ensure that issuer has the minimum credit rating as stipulated by the CBN and amount mobilised through issuance of CP is within the quantum indicated by the guidelines for the specified rating.

(ii) IPA shall verify that all documents submitted by the issuer viz., copy of board resolution, signatures of authorised executants (when CP is in physical form) are in order. It shall also ensure that it has a valid agreement with the issuer.

(iii) Original documents, or certified true copies thereof, verified by the IPA should be held in its custody.

15.3 Credit Rating Agency (CRA)

(i) Furthermore, the credit rating agency shall have the discretion to determine the validity period of the rating depending upon its perception about the strength of the issuer. Accordingly, CRA shall at the time of rating, clearly indicate the date when the rating is due for review.

(ii) While the CRAs can decide the validity period of credit rating, CRAs would have to closely monitor the rating assigned to issuers vis-a-vis their track record at regular intervals and intimate the issuing bank of any revision in the rating, particularly when the rating is due for review.

16.0 REGISTRATION OF CPs

All CPs issued in Nigeria shall be registered with a licensed Securities Depository, which shall serve as the depository of the issue.

17.0 REPORTING REQUIREMENTS FOR BAs AND CPs

17.1 All deposit money banks and discount houses shall report their transactions in BAs and CPs on a weekly basis to the CBN.

17.2 All Security Exchanges and licensed Securities Depositories shall be required to submit all information on BA and CP trades to a CBN designated reporting platform.

18.0 ACCOUNTING TREATMENT

18.1 All transactions in BAs and CPs in which the bank merely adds its name as guarantee to enhance marketability without investing in the instrument, shall be treated off-balance sheet as a contingent liability.

18.2 All financial entries for each bank guarantee shall be passed off-balance sheet.

18.3 In view of Paragraph 18.1 above, where a bank/discount house invests directly in the instrument in which it also serves as issuer, the transaction shall be treated as an on-balance sheet item.

18.4 Banks and discount houses shall book all CP purchases and sales on their balance sheets as loans and deposits, respectively.

18.5 All clean unsecured sales without recourse shall be netted off the already existing asset on the balance sheet. The net effect of a fully sold clean CP will be a nil asset position on the balance sheet.

18.6 CPs shall only be guaranteed and not accepted since the intermediating banks is only a secondary obligor.

19.0 PROVISION OF STAND-BY FACILITY FOR CPS

19.1 Banks and DHs shall have the flexibility to provide for a CP issue, credit enhancement by way of stand-by assistance/credit backstop facility, etc., based on their commercial judgment and as per terms prescribed by them.

19.2 However, these should be within the prudential norms as applicable and subject to specific approval of the Board.

20.0 DISCLOSURE REQUIREMENTS

(a) The bank shall fully disclose the issuer risk in the placement memorandum.

(b) CP are only redeemable at maturity, as such cannot be pre-liquidated.

(c) The investor in a CP may rediscount the paper with the bank before maturity at new market terms if the bank is willing to purchase the risk.

(d) Banks shall expressly state in customer advice/correspondence the difference between bank deposits and clean CP investments as well as highlight the underlying agreement that the bank is not obliged to pay at maturity until the issuer redeems the paper.

(e) Investment instructions in CP shall be received from the customer before transaction is booked.

(f) Acceptable channels of communication include:
   (i) Logged/recorded telephone conversation

   (ii) email from official corporate email addresses
   (iii) Letter signed according to existing mandate
   (iv) SWIFT

   (iv) Bloomberg, Reuters

(h) Every issue of CP, including renewal, shall be treated as a fresh issue.

21.0 MISCELLANEOUS PROVISIONS

21.1 All transactions in BAs shall have an underlying trade transaction for which the bank shall hold the title documents as collateral.

21.2 A BA shall be represented by a physical instrument in form of a draft signed by the drawer and stamped 'accepted' by the bank.

21.3 Any bank which, after acceptance, discounts the bill shall treat the transaction as a loan.

22.0 PENALTY FOR NON-COMPLIANCE

22.1 Non-compliance with these guidelines or any part thereof shall attract appropriate penalties as prescribed in Section 60 (1) of the Banks and Other Financial Institutions Act 1991 (as amended) and may also include debarring from the BA or CP market, or as may be prescribed by the CBN from time to time.

BANKING SUPERVISION DEPARTMENT
CENTRAL BANK OF NIGERIA
SEPTEMBER 11, 2019

09-462-36401 August 26, 2019

BSD/DIR/GEN/LAB/12/054

LETTER TO ALL BANKS

NEW OFFER LETTER CLAUSE FOR CREDIT FACILITIES

The Central Bank of Nigeria has been implementing regulatory measures to spur credit growth in the economy to accelerate economic expansion and boost employment creation.

These measures have started yielding positive results through sustained increase in credit to the private sector over the past three (3) months. The trend of industry financial soundness indicators (asset quality and capital adequacy) have also been positive over the review period.

The Bankers Committee at its 345th meeting held on August 26, 2019 considered additional measures to improve credit culture and enhance credit risk management in the system, in order to sustain the above positive trends.

Accordingly, the Committee resolved that banks shall have access and utilize the deposits of defaulting customers across the banking industry to regularize their non-performing facilities.

In light of the above, the CBN hereby issues the following implementation guidelines:

1. With effect from August 26, 2019, the terms and conditions in offer letters and loan agreements must among others, contain the following undertaking to be signed by prospective obligors:

   "By signing this offer letter/loan agreement and by drawing on the loan, I covenant to repay the loan as and when due. In the event that I fail to repay the loan as agreed, and the loan becomes delinquent, the bank shall have the right to report the delinquent loan to the CBN through the Credit Risk management System (CRMS) or by any other means, and request the CBN exercise its regulatory power to direct all banks and other financial institutions under its regulatory purview to set-off my indebtedness from any money standing to my credit in any bank account and from any other financial assets they may be holding for my benefit.

   I covenant and warrant that the bank shall have power to set-off my indebtedness under this loan agreement from all such monies and funds standing to my credit/benefit in any and all such accounts or from any other financial assets belonging to me and in the custody of any such bank.

   I hereby waive any right of confidentiality whether arising under common law or statute or in any other manner whatsoever and irrevocably agree that I shall not argue to the contrary before any court of law, tribunal, administrative authority or any other body acting in any judicial or quasi-judicial capacity."

2. Accordingly, all loan documentations from that date must contain the undertaking referred to in 1 above as well as the Bank Verification Number (BVN) of the obligor for individual loans and that of the directors of the company and its Tax Identification Number for corporate loans for ease of identification of other deposits of the individual or corporate borrower as the case may be.

3. Where personal guarantees are provided, the BVN of the guarantor in respect of individual or corporate loan should equally be provided.

4. Upon default on a credit obligation by a borrower, the bank that originated the credit shall request the CBN to invoke the utilization of the defaulting borrower(s) deposits in other banks in repayment of the obligation.

Please be guided accordingly.

AHMAD ABDULLAHI
DIRECTOR, BANKING SUPERVISION DEPARTMENT

CENTRAL BANK OF NIGERIA
Banking Supervision Department
Central Business District
P.M.B. 0187
Garki, Abuja.

09 46236403
Tel:.................................
E-mail: bsd@cbn.gov.ng

July 3, 2019 **BSD/DIR/GEN/MDD/01/045**

LETTER TO ALL BANKS

REGULATORY MEASURES TO IMPROVE LENDING TO THE REAL SECTOR OF THE NIGERIAN ECONOMY

In order to ramp up growth of the Nigerian economy through investment in the real sector, the Central Bank of Nigeria (CBN) has approved the following measures:

1) All DMBs are hereby required to maintain a minimum Loan to Deposit Ratio (LDR) of 60% by September 30, 2019. This ratio shall be subject to quarterly review.
2) To encourage SMEs, Retail, Mortgage and Consumer Lending, these sectors shall be assigned a weight of 150% in computing the LDR for this purpose. The CBN shall provide a framework for classification of enterprises/businesses that fall under these categories.
3) Failure to meet the above minimum LDR by the specified date shall result in a levy of additional Cash Reserve Requirement equal to 50% of the lending shortfall of the target LDR.

The CBN shall continue to review developments in the market with a view to facilitating greater investment in the real sector of the Nigerian economy.

This letter is with immediate effect.

Yours faithfully,

AHMAD ABDULLAHI

DIRECTOR OF BANKING SUPERVISION

10 April 2019

BSD/DIR/GEN/LAB/12/011

LETTER TO ALL NON-INTEREST FINANCIAL INSTITUTIONS

ISSUANCE OF FINAL GUIDELINES ON ISLAMIC FINANCIAL SERVICES BOARD STANDARDS FOR NIGERIAN NON-INTEREST FINANCIAL INSTITUTIONS

The Central Bank of Nigeria (CBN) in its effort to enhance financial system stability has adopted the Islamic Financial Services Board (IFSB) Standards 4, 15 and 16 on Disclosure Requirement, Capital Adequacy Computation and Supervisory Review Process respectively for the non-interest banking industry in Nigeria.

To facilitate the implementation of the standards, the Central Bank of Nigeria hereby issues the following Guidelines:

1. Guidance Notes on Regulatory Capital;
2. Guidance Notes on Calculation of Capital Requirement for Credit Risk (Standardized Approach);
3. Guidance Notes on Calculation of Capital Requirement for Market Risk (Standardized Approach);
4. Guidance Notes on Calculation of Capital Requirement for Operational Risk (Basic Indicator Approach and The Standardized Approach);
5. Guidance Notes on Supervisory Review Process;
6. Guidance Notes on Disclosure Requirements to Promote Market Discipline;
7. Guidelines on the Practice of Smoothing the Profit Payout to Investment Account Holders for Non-Interest Financial Institutions in Nigeria (NIFIs);
8. Guidelines on the Management of Investment Accounts; and
9. Capital Adequacy Ratio reporting template for NIFIs.

The Guidelines communicate minimum supervisory expectations for the implementation of the standards. A period of three months, from **July 1, 2019 to September 30, 2019** will be allowed for parallel run during which implementation challenges that may arise would be addressed. Accordingly, NIFIs would be required to submit their capital adequacy returns using both the Capital Adequacy Ratio Reporting template for NIFIs (to be provided) as well as the current conventional Capital Adequacy Ratio returns until **October 1, 2019**.

To ensure a seamless implementation, a help desk can be reached on abarau@cbn.gov.ng and ambarau@cbn.gov.ng.

Yours Faithfully,

K. O. BALOGUN
FOR: DIRECTOR OF BANKING SUPERVISION

GUIDANCE NOTES ON THE CALCULATION OF CAPITAL REQUIREMENT FOR MARKET RISK FOR NON-INTEREST FINANCIAL INSTITUTIONS IN NIGERIA

STANDARDIZED APPROACH

MARCH 2019

Table of Contents

DEFINITION OF TERMS 3

1.0 INTRODUCTION 4

1.1 Objectives of the Guidance Notes 4

2.0 POLICIES & PROCEDURES 5

3.0 GUIDANCE ON VALUATION PRACTICES 5

3.1 Valuation Methodologies 6

4.0 MEASURING MARKET RISK 7

4.1 Equity Position Risk in the Trading Book 8

4.2 Benchmark Risk in Trading Positions in *Sukuk* 8

4.3 Foreign Exchange Risk 12

4.4 Commodities and Inventory Risk 13

Definitions of Terms

	Term	Definition
1	Non-Interest Financial Institutions	Means banks and other financial institutions under the regulatory purview of the Central Bank of Nigeria that provide banking and other financial services on the basis of Islamic Commercial Jurisprudence.
2	*Sukuk* (Islamic Investment Certificates)	*Sukuk* are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services, or (in the ownership) of assets of particular projects or special investment activity.
3	Banking Book	The bank's on and off-balance sheet exposures except those falling under the scope of trading book.
4	Fair Value	A fair value amount for which the asset can be exchanged between knowledgeable and willing parties in an arm's length transaction.
5	Marked-to-Market	It means to revalue a transaction, position, exposure or contract at current market value
6	Marked-to-Model	It represents the valuation of an exposure, position or transaction using a model whose parameters are estimated, on continuous basis, based on the market price or market factors.
7	Trading Book	The trading book represents a bank's exposure in financial instruments which are held with the intention of trading or hedging internal exposures.

1.0 INTRODUCTION

1. Market risk is defined as the risk of loss in on and off-balance sheet positions arising from movements in market prices. The risks in NIFIs that are subject to the market risk capital requirement are:

   - Equity position risk in the trading book;
   - Benchmark risk in trading positions in *Sukuk*;
   - Foreign exchange risk; and
   - Commodities and inventory risk.

2. The market risk capital charge on an equity position in the trading book and trading positions in *Sukuk* shall be applied to trading book items based on the guidance provided in the paragraphs below. For the foreign exchange, commodities and inventories risks, market risk will apply to the trading book positions at the NIFIs' level.

3. Trading positions are defined as those positions of a NIFI that are held for short-term resale and/or with the intent of benefiting from actual or expected short-term price movements or to lock in arbitrage profits.

4. NIFIs shall have clearly defined policies and procedures for including or not including any position in the trading book. Such policies shall be commensurate with the NIFI's capabilities and capacities for risk management. The NIFI shall have a well-documented procedure to comply with stated policies and procedures, which shall be subject to periodic Internal Audit/*Shari'ah* Review.

5. A trading book consists of positions in equity instruments, *Sukuk*, foreign exchange, as well as commodities and inventories held for the purpose of trading by a NIFI. It can also include exposures of a NIFI held to hedge its trading positions, on the basis of *Shari`ah*-compliant contracts. Only those instruments which are free of any restrictions on their tradability will be eligible for trading book capital treatment. Further, the trading positions shall be actively managed and a frequent and accurate valuation of the trading positions shall be made.

1.1 Objective of the Guidance Note

6. This Guidance Notes identifies and prescribes the treatment of positions and settlement risk pertaining to estimating capital requirement for market risk;
   - Benchmark risk in trading positions in *Sukuk;*
   - Equities in the trading book;
   - Foreign exchange risk; and
   - Commodity and inventory risk throughout the NIFI.

The capital requirement takes into account both on-and off-balance sheet positions that are subject to market risk. NIFIs that are not able to properly measure and manage the risks associated with financial instruments which are sensitive to multiple risk factors shall not conduct business in those instruments.

2.0 POLICIES AND PROCEDURES

7. The policies and procedures of the NIFI to include an instrument or position in the trading book shall address the following considerations, at a minimum:
   - The types of activities the NIFI considers to be part of its trading book activities for capital adequacy purposes;
   - The extent to which an exposure can be marked-to-market on a daily basis;
   - If not marked-to-market, the extent to which an exposure can be marked-to-model, with clearly defined criteria;
   - How far the NIFI can have access to reliable valuations for the exposure that can be validated by external parties, in a coherent manner;
   - The legal, regulatory or operational restrictions on immediate liquidation of the exposure, if any;
   - The capacity and systems of the NIFI to manage its risk relating to trading positions; and
   - The criteria for, and extent of, transferring risks and exposures between the banking book and the trading positions of the NIFI.

8. In order for a NIFI to include any instrument or position in the trading book for capital treatment, some minimum requirements shall be fulfilled. These requirements include:

   (a) a clearly documented trading strategy, approved by senior management, for relevant positions, instruments or portfolios; and

   (b) Well-defined policies and procedures for the active management, reporting and monitoring of the trading positions.

9. All other exposures that are not defined as trading book positions should be classified as banking book exposures. This will include both on-and off-balance sheet positions.

3.0 GUIDANCE ON VALUATION PRACTICES

10. NIFIs shall have adequate systems and controls for carrying out the valuation of positions in the trading book. In view of the less liquid positions of some *Sukuk* and equity positions held by NIFIs, adhering to prudent valuation practices as set out in the following sub-sections is of vital importance. Less liquid positions, however, are not to be excluded from the trading book solely on the basis of lesser liquidity.

11. NIFIs shall have robust systems and controls, with documented policies and procedures for the valuation process. These systems shall be integrated with the NIFI's enterprise risk management processes and shall have the ability to give confidence to the CBN and its management regarding the reliability of the valuations. The policies and procedures shall include:

(a) Clearly defined responsibilities of the personnel and departments involved in the valuation;

(b) Sources of market information, and review of their reliability;

(c) Frequency of independent valuations;

(d) Timing of closing prices;

(e) Procedures for adjusting valuations between periods;

(f) Ad-hoc verification procedures; and

(g) Reporting lines for the valuation department that should be independent of the front office.

12. Such policies and procedures shall also take into consideration compliance with the relevant accounting standards (International Financial Reporting Standard (IFRS) and Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and supervisory requirements as may be issued by the CBN from time to time.

3.1 Valuation Methodologies

13. NIFIs shall use either of the following valuation methodologies in order of preference:

(a) mark-to-market; and

(b) mark-to-model, subject to the approval of the CBN.

Mark-to-market valuation requires daily valuation of positions based on independently sourced current market prices.

14. In the case where a NIFI is unable to mark-to-market its positions as a result of certain limitations on the reliability of their price estimates owing to low volume and number of transactions or in distressed market conditions, it can use mark-to-model for the valuation of its trading positions provided it is established that the market for an asset is inactive or that a transaction on which a valuation might have been based is a distressed transaction, so that no reliable fair value estimate is possible.

15. In order to verify that the market for an asset is inactive, a NIFI shall establish that there is a lack of recent transactions with sufficient frequency and volume, which could otherwise provide ongoing price information related to the assets to be valued (which

may be *Sukuk* and/ or other *Sharī`ah* compliant instruments).

16. A NIFI shall also verify that price quotations available in the market are not up-to-date and have large variations overtime. The prices should demonstrate a significant premium related to liquidity risk underlying the instruments. A NIFI shall also confirm that the bid–ask spread has become abnormally wide or has been fluctuating overtime, and that quoted prices available in the market are not related to any stressed market conditions.

17. After the verification of the aforementioned points, subject to CBN approval, a NIFI may use the mark-to-model technique for estimating the value of assets. Mark-to-model valuation methodology is benchmarked, extrapolated or otherwise calculated from a market input. Such calculations shall be performed while taking a conservative approach.

18. Senior management shall be aware of trading book exposures that are calculated using mark-to-model and should understand the impact of using this technique on reporting the risk and performance of the NIFI. To the extent possible, any market inputs used shall reflect market prices. For particular products, generally accepted valuation methodologies shall be used. Internally developed models shall be subject to verification and testing of assumptions, calculation methods and software implementation by CBN and independent parties such as internal auditors, consultants, etc.

19. Those responsible for risk management shall be aware of any weaknesses of the model used. The model shall be reviewed periodically in order to verify the accuracy of its performance. To cover the uncertainties of mark-to-model valuation, valuation adjustments shall be made as appropriate.

20. NIFIs shall also have an arrangement for independent verification of market prices or model inputs for accuracy. Such verification shall be made at least monthly. When pricing sources are few or limited, valuation adjustments or other appropriate measures may be used by NIFIs.

4.0 MEASURING MARKET RISK

21. As mentioned in paragraph 1, market risk calculation includes:

    (a) Equity position risk in the trading book;

    (b) Benchmark risk on trading positions in *Sukuk*;

    (c) Foreign exchange risk; and

    (d) Commodities and inventory risk.

22. The calculation methodologies for these risks are provided below. The total market risk capital charge summed arithmetically will be the overall measure of the market risks from the aforementioned sources.

4.1 Equity Position Risk in the Trading Book

23. The market risk capital charge for equity securities (including common shares and investments in Islamic collective investment schemes) in a NIFI's trading book comprises two components that are calculated separately as specified below:

4.1.1 *Specific Risk*

24. The capital charge for specific risk is 8% on all long equity positions which must be calculated on a security-to-security basis (for each national market).

4.1.2 *General Market Risk*

25. The capital charge for general market risk is 8% on all long equity positions. These positions must be calculated on a market-by-market basis (for each national market).

4.2. Benchmark Risk in Trading Positions in *Sukuk*

26. In the case of benchmark risk in trading positions in *Sukuk*, the capital charge comprises two components that are calculated separately as specified below:

4.2.1 *Specific Risk*

27. The capital charge for specific risk covers against an adverse movement in the price of a *Sukuk* held for trading due to factors related to an individual issuer. Offsetting is restricted only to matched positions in the identical issues. No offsetting will be permitted between different issues even if the issuer is the same, since differences in features of *Sukuk* with respect to profit rates, liquidity and call features, etc. would imply that prices may diverge in the short run.

28. The capital charge for specific risk will depend on the RW of the issue and the term to maturity of the *Sukuk*, as follows:

Categories*		Capital Charge
Government	AAA to AA-	0%
	A+ to BBB-	0.25% (residual term to final maturity<=6months) 1.00% (residual term to final maturity>6and<=24months)
		1.60% (residual term to final maturity>24months)
	BB+ to B-	8%
	Below B-	12%
	Unrated	8%
		0.25% (residual term to final maturity<=6months)

Investment grade	1% (residual term to final maturity>6and<=24months)
	1.60% (residual term to final maturity>24months)
BB+ to BB-	8%
Below B-	12%

*The CBN has the discretion to apply a different specific RW to *Sukuk* by certain foreign governments/issuers

4.2.2 ***General Market Risk***

29. The capital charge for General Market Risk captures the risk of loss arising from changes in benchmark profit rates.

30. Subject to CBN approval, the capital charge for general market risk can be calculated by either the "maturity" or the "duration" method.

(i) Maturity method

31. The capital charge for general market risk will depend on the residual term to maturity or to the next re-pricing date, using a simplified form of the maturity method on the net positions in each time band in accordance with the table below:

Residual Term to Maturity	RW
1 month or less	0.00%
1–3months	0.20%
3–6months	0.40%
6–12months	0.70%
1–2years	1.25%
2–3years	1.75%
3–4years	2.25%
4–5years	2.75%
5–7years	3.25%
7–10years	3.75%
10–15years	4.50%
15–20years	5.25%
>20years	6.00%

(ii) **Duration method**

32. At CBN discretion, NIFIs with the necessary capability may use the more accurate "duration" method. However, for NIFIs to use the duration method, they will be required to meet certain criteria to be specified by CBN. This method shall be used consistently by NIFIs, unless a change is approved by the CBN.

33. The steps involved in the calculation of capital charge for general market risk using duration method are as follows:

a) Calculate the price sensitivity of each *Sukuk* position (called "weighted positions") in terms of a change in profit rates between 0.6 and 1 percentage points depending on the maturity of the *Sukuk (*table 3a).

b) Slot the resulting sensitivity measures into a duration-based ladder with 13 time bands as set out in Table 3a.

c) Subject long positions in each time band to a 5% *vertical disallowance* on the smaller of Offsetting positions (i.e. a matched position) in each time band (in table 3c).

d) From the results of the above calculations, two sets of weighted positions–the net long position in each time band–will be produced. The maturity ladder is then divided into three zones, as follows: zone1, 0–1 year; zone2, >1< 4 years; and zone 3, > 4 years. NIFIs shall be required to conduct two further rounds of offsetting:

   (i) between the net time band positions in each of the three zones; and

   (ii) between the net positions across the three different zones (i.e. between adjacent zones and non-adjacent zones).

The residual net positions are then carried forward and offset against opposite positions in other zones when calculating net positions between zones 2 and 3, and zones1 and 3.

The offsetting will be subject to a scale of disallowances (*horizontal disallowances*) expressed as a fraction of matched position, subject to a second set of disallowance factors (Table 3b).

e) The general market risk capital charge will be the aggregation of three charges: net position, vertical disallowances and horizontal disallowances (Table 3c)

Table 3a: Duration Method: Time Bands and Assumed Changes in Yield

Zone	Time Band (Expected profit rate>=3%)	Time Band (Expected profit rate<3%)	Assumed Change in Expected Yield (%)
Zone1	1month or less	1month or less	1.00
	>1–3months	>1–3months	1.00
	>3–6months	>3–6months	1.00
	>6–12months	>6–12months	1.00
Zone2	>1–2years	>1.0–1.9years	0.90
	>2–3years	>1.9–2.8years	0.80
	>3–4years	>2.8–3.6years	0.75
Zone3	>4–5years	>3.6–4.3years	0.75
	>5–7years	>4.3–5.7years	0.70
	>7–10years	>5.7–7.3years	0.65

	>10–15years	>7.3–9.3years	0.60
	>15–20years	>9.3–10.6years	0.60
	>20years	>10.6–12years	0.60
		>12–20years	0.60
		>20years	0.60

Table 3b: Duration Method: Horizontal Disallowances

Zone	Time Band	Within the Zone	Between Adjacent Zones	Between Zones 1 and 3
Zone1	<=1month	40%	40%	100%
	>1–3months			
	>3–6months			
	>6–12months			
Zone2	>1–2years	30%		
	>2–3years		40%	
	>3–4years			
Zone3	>4–5years	30%		
	>5–7years			
	>7–10years			
	>10–15years			
	>15–20years			
	>20years			

Table 3c: General Risk Capital Charge Calculation

The sum of:		
Net position	**Net long weighted position**	**x 100%**
Vertical disallowances	Matched weighted positions (i.e. the smaller of the absolute value of the short and long positions with each time band) in all maturity bands	x 10%
Horizontal disallowances	Matched weighted positions within Zone1	
	Matched weighted positions within Zone2	
	Matched weighted positions within Zone3	
	Matched weighted positions between Zones1 and 2	
	Matched weighted positions between Zones 2 and 3	
	Matched weighted positions between Zones 1 and 3	

4.3 Foreign Exchange Risk

34. The capital charge to cover the risk of holding or taking long positions in foreign currencies, and in gold and silver[1] is calculated in two steps by measuring:

a) the exposure in a single currency position; and

b) the risks inherent in a NIFIs' portfolio mix of long and short positions in different currencies.

4.3.1. Measuring an exposure in a single currency and an open position in a unilateral binding promise to buy or sell gold and silver.

35. The net open position in each currency exposure is calculated by adding the following:

- Net spot position (total assets less total liabilities including accrued profit in the currency in question);
- Net position of a binding unilateral promise by the NIFI to buy and /or sell currencies on a specified future date (that are not included in the spot position);
- Guarantees and similar off-balance sheet instruments that are likely to be called and irrecoverable; and
- Any other items representing an exposure to risk in foreign currencies–for example, a specific provision held in the currency in question but the underlying asset is held in a different currency.

36. The net open position with a unilateral binding promise to buy or sell gold or silver should first be expressed in terms of the standard unit of measurement (i.e. ounces or grams) and then be converted at the current spot rate into the reporting or base currency.

37. Structural positions which are of a non-trading nature and are merely positions taken in order to hedge partially or totally against the adverse effect of the exchange rate on the NIFI's capital ratio may be excluded from the calculation above, subject to the CBN satisfaction that such positions are merely to protect the NIFI's capital ratio.

There is no capital charge for positions related to items that are deducted from the NIFI's capital, such as investments in non-consolidated subsidiaries or long-term participations denominated in foreign currencies which are reported at historical cost.

---

[1]Gold, silver and currency fall under foreign exchange risk in accordance with the Sharī'ah principles that require the exchange of currencies to be made in an equal amount on a spot basis.

4.3.2 Measuring the foreign exchange risk in a portfolio

38. A NIFI is allowed to use either a short hand method or an internal model approach in calculating the risks inherent in its mix of long and short positions in different currencies. However, the shorthand method, as stated below, is recommended.

    (a) Convert the nominal amount of the net position (net long or net short position) in each foreign currency as well as in net long gold and silver into the reporting currency using spot rates.

    (b) Aggregate the sum of converted net short positions and the sum of converted net long positions.

    The greater sum of net short positions or net long positions calculated in (b) is added to the net position of gold and silver, to arrive at the overall net position. The capital charge is 8% on the overall net position.

39. The use of an internal model approach by a NIFI is subject to the CBN explicit approval and fulfillment of qualitative standards; specifications of market risk factors being captured into the NIFI's risk management system; quantitative standards; comprehensive stress testing programme; and validation of the models by the CBN.

4.4 Commodities and Inventory Risk

40. This section sets out the minimum capital requirements to cover the risks of holding or taking long positions in commodities, including precious metals but excluding gold and silver (which falls under foreign exchange risk as set out in section 6.0), as well as the inventory risk which results from NIFIs holding assets with a view to reselling or leasing them under Ijarah contract.

41. A commodity is defined as a physical product which is, and can be, traded on a secondary market - for example, agricultural products, minerals (including oil) and precious metals.

42. Inventory risk is defined as the risk arising from holding items in inventory either for resale under a *Murabahah* contract, or with a view to leasing under an *Ijarah* contract. In the case of inventory risk, the simplified approach described in paragraph 47 below should be applied.

43. Commodities risk can be measured using either the maturity ladder approach or the simplified approach for the purpose of calculating the capital charge for commodities risk. Under both approaches, each commodity position is expressed in terms of the standard unit of quantitative measurement of weight or volume (barrels, kilograms, grams, etc.). The net position in each commodity will then be converted at current spot rates into the reporting currency.

44. Positions in different groups of commodities cannot be offset except in the following instances:

a) The sub-categories of commodities are deliverable against each other.

b) The commodities represent close substitutes for each other.

c) A minimum correlation of 0.9 between the price movements of the commodities can be clearly established over a minimum period of one year to the satisfaction of the CBN. Netting of positions for different commodities is subject to the CBN approval. Under the maturity ladder approach, the net positions are entered into seven time bands as shown in the table below:

MATURITY LADDER

	Time Band
1	0–1month
2	1–3months
3	3–6months
4	6–12months
5	1–2years
6	2–3years
7	>3years

45. A separate maturity ladder is used for each type of commodity, while the physical stocks are allocated to the first time band. The capital charge is calculated as follows:

a) The sum of short and long positions that are matched is multiplied by the spot price for the commodity and then by the appropriate spread rate of 1.5% for each time band.

b) The residual or unmatched net positions from nearer time bands may be carried forward to offset exposures in a more distant time band, subject to a surcharge of 0.6% of the net position carried forward in respect of each time band that the net position is carried forward.

c) Any net position at the end of the carrying forward and offsetting will attract a capital charge of 15%.

46. The summation of the above three capital charges represents the total capital charge for commodities risk based on the maturity ladder approach.

47. Under the simplified approach as applied to commodities, the net position, long or short, in each commodity requires a capital charge of 15% to cater for directional risk plus an additional capital charge of 3% of the gross positions – that is, long plus short positions–to cater for basis risk. The capital charge of 15% applies to assets held by NIFIs in inventory

with a view to resale or lease.

48. For *Istisna* work-in-process (WIP), WIP inventory belonging to the NIFIs shall attract a capital charge of 8% (equivalent to a 100% RW). In the case of the balance of unbilled WIP inventory under *Istisna* without parallel *Istisna*, in addition to the RW for credit risk, a capital charge of 1.6% is applied (equivalent to a 20% RW) to cater for market risk exposure.

49. The funding of a commodities position that exposes the NIFI to foreign exchange exposure is also subject to a capital charge as measured under the foreign exchange risk (refer to subsection 4.3).

CENTRAL BANK OF NIGERIA

GUIDANCE NOTES ON DISCLOSURE REQUIREMENTS TO PROMOTE TRANSPARENCY & MARKET DISCIPLINE FOR NON-INTEREST FINANCIAL INSTITUTIONS IN NIGERIA

MARCH 2019

Table of Contents

1.0 Introduction 7

1.1 General Disclosure Principle 7

2.0 Disclosure Requirements 7

2.1 Organization of information and limitation of obligations 7

2.2 Content and procedures for disclosing information 7

2.3 Disclosure eligibility requirements 7

2.4 Derogation from disclosure requirements 8

2.5 Medium and frequency of disclosure 8

2.6 Organization and controls 8

ANNEX A 9

Table 1: General requirements 9

Table 2: Scope of application 10

Table 3: Regulatory capital structure, including Equity of UIAH 10

Table 4: Capital adequacy 11

Table 5: Investment Accounts 11

Table 6: Unrestricted Investment Accounts – Additional Disclosures 11

Table 7: Restricted Investment Accounts – Additional Disclosures 11

Table 8: Credit risk: General Disclosures for all NIFI 16

Table 9: Credit risk: disclosures for portfolios treated under the standardized approach, specialized financing and equity exposures treated under IRB approaches 17

Table 10: Credit risk: disclosures for portfolios treated under IRB approaches (*) .. 17

Table 11: Risk mitigation techniques (*) 20

Table 12: Liquidity Risk 21

Table 13: Market risks: Disclosures for NIFI using the internal models approach (IMA) for position risk, foreign exchange risk and commodity risk 21

Table 14: Counterparty risk 22

Table 15: Operational risk 23

Table 16: Equity exposures: disclosures for banking book positions 24

Table 17: Rate of Return Risk 24

Table 18: Displaced Commercial Risk 24

Table 19: Contract-Specific Risk 24
Table 20: General Governance Disclosures 24
Table 21 Shari'ah Governance Disclosures 24
Table 22: Treatment of Islamic Windows of Conventional Banks 24

DEFINITIONS OF TERMS

TERM	DEFINATION
Confidential information	Confidential information means information in respect of which the NIFI has obligations to customers or other counterparty relationships binding it to secrecy.
Material information	Material information means information which if omitted or misstated could change or influence the assessment or decision of a user relying on such information for the purpose of making economic decisions.
Proprietary information	Proprietary information means information which, if shared with the public, would undermine the NIFI's competitive position. It may include information regarding products or systems which, if shared with competitors, would render the NIFI's investment therein less valuable.
Hamish Jiddiyyah (Earnest Deposit)	This is an amount advanced by a party making a binding promise to enter into a contract with a counter party, whereby the amount is deposited to serve as compensation for any loss suffered by the counter party as a result of a breach of the promise by the promisor.
Ijarah (Leasing)	An *Ijarah* contract refers to an agreement made by NIFIs to lease to a customer an asset specified by the customer for an agreed period against specified instalments of lease rentals. An *Ijarah* contract usually commences with a promise to lease that is binding on the part of the potential lessee prior to entering the *Ijarah* contract.
Ijarah wa Iqtina (Finance Lease)	A finance lease contract that provides a separate promise of the lessor giving the lessee an option to own the asset at the end of the lease period either by purchase of the asset through a token consideration or payment of the market value, or by means of a *Hibah* contract.
Investment Risk Reserve	The amount appropriated by the NIFIs out of the income of Investment Account Holders (IAH), after allocating the *Mudarib*'s share in order to cushion against future investment losses for IAH.
Istisna (Manufacturing/ Construction Contract)	A contract of sale of specified objects to be manufactured or constructed, with an obligation on the part of the manufacturer or builder to deliver the objects to the customer upon completion.
Non-Interest Financial Institutions	Means banks and other financial institutions under the regulatory purview of the Central Bank of Nigeria that provide banking and other financial services on the basis of Islamic Commercial Jurisprudence.

Non-Interest Banking Window	A Non-Interest banking Window is part of a conventional financial institution that mobilises deposits and provides fund management (investment accounts), financing and investment, and other banking services that are Shariah compliant, with proper segregation of funds from the parent bank.
Mudarabah (Trust Partnership)	A contract between the capital provider (*Rabbul-Mal*) and a skilled entrepreneur (*Mudarib*) whereby the capital provider contributes capital to an enterprise or activity that is to be managed by the entrepreneur as the *Mudarib* (or labour provider). Profits generated by the enterprise or activity are shared in accordance with the terms of the *Mudarabah* agreement, while losses are borne solely by the capital provider, unless the losses are due to the *Mudarib's* misconduct, negligence or breach of contractual terms.
Murabahah (Cost plus Mark-up Sale)	A sale contract whereby a NIFI sells to a customer a specified kind of asset that is already in its possession, whereby the selling price is the sum of the original price and an agreed profit margin.
Musharakah (Active Partnership)	A *Musharakah* is a contract between an NIFI and a customer to contribute capital to an enterprise, whether existing or new, or to ownership of a real estate or moveable asset, either on a temporary or permanent basis. Profits generated by the enterprise or real estate/asset are shared in accordance with the terms of the *Musharakah* agreement whilst losses are shared in proportion to each partner's share of capital.
Profit Equalization Reserve (PER)	PER is the amount appropriated by the NIFIs out of the *Mudarabah* income, before allocating the *Mudarib's* share, in order to maintain a certain level of return on investment for IAH and to increase owners' equity.
Restricted Investment Accounts Holders (RIAHs)	The account holders authorize the NIFIs to invest their funds based on *Mudarabah* or agency contracts with certain restrictions as to where, how and for what purpose these funds are to be invested.
Shari`ah (Islamic Law)	The divine laws derived from the Qur'an and Sunnah and other sources such as consensus and analogical deductions from the Qur'an, Sunnah and consensus.
Sukuk (Islamic Investment Certificates)	*Sukuk* are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services, or (in the ownership) of assets of particular projects or special investment activity.
Takaful (Islamic Insurance)	*Takaful* means solidarity whereby a group of participants agree among themselves to indemnify one another jointly

	against a defined loss or peril.
Unrestricted Investment Account (URIA)	URIA is an account where the holders authorize the NIFI to invest their funds based on *Mudarabah* or *Wakalah* (agency) contracts without imposing any restrictions. The NIFI can commingle these funds with their own funds and invest them in a pooled portfolio
Urbun/Arbun (Earnest Money)	*Urbun or Arbun* means earnest money held as collateral (taken from a purchaser or lessee) to guarantee contract performance after a contract is established.

1.0 INTRODUCTION

1. The aim of this Guidance Notes is to achieve transparency and promote market discipline by allowing market participants, particularly the Investment Account Holders (IAHs), to access relevant, reliable and timely information on risk exposures and risk management policies and procedures of a NIFI. This document sets out the disclosure requirements with respect to procedure, frequency and content of information to be disclosed.

1.1 General Disclosure Principle

2. Non-Interest Financial Institutions (NIFIs) shall have a formal disclosure policy approved by the board of directors that addresses the NIFIs' approach for determining what disclosures it will make and the internal controls over the disclosure process. In addition, NIFIs shall implement a process for assessing the appropriateness of their disclosures, including validation and frequency. Also, NIFIs shall have a Governance Committee to oversee governance issues relating to IAHs so as to enhance the transparency of returns and risks and of the underlying factors that affect them, as required by CBN Guidelines on Income Smoothing and Management of Profit Sharing Investment Accounts. For smaller and less complex NIFIs, the function of the Governance Committee can be assigned to an existing Board Committee (such as Board Audit Committee or Board Finance and General Purpose Committee) in liaison with the Advisory Committee of Experts (ACE).

2.0 DISCLOSURE REQUIREMENTS

2.1 Organization of Information and Limitation of Obligations

3. The information whose disclosure is governed by this Guidance Notes is listed in Annex A.

2.2 Content and Procedures for Disclosing Information

4. NIFIs shall disclose information relating to their core activities, risks profiles and methodologies used in risk management.

5. NIFIs are expected to make adequate disclosure consistent with their organizational complexity and the type of business they engage in, taking into account their internal reporting systems to the board and management.

2.3 Disclosure Eligibility Requirements

6. For NIFIs that adopt internal systems to calculate capital requirements for credit, market and operational risks and for those using credit risk mitigation techniques, compliance with specific disclosure requirements (Disclosure Eligibility Requirements) shall be a necessary condition for the recognition of such approach and the effects of such techniques for regulatory capital purposes. These disclosure requirements are marked by an asterisk in the annexed tables.

2.4 Derogation from Disclosure Requirements

7. NIFIs may omit the disclosure of information that is not considered material, with the exception of information that represents a disclosure eligibility requirement.

8. In exceptional cases, NIFIs may omit the disclosure of proprietary or confidential information (including information that represents a disclosure eligibility requirement), provided that they specify the information that is not disclosed and the reasons for non-disclosure, and publish more general information on the matter in question.

2.5 Medium and frequency of disclosure

9. Information on qualitative and quantitative disclosures shall be made through NIFIs' website, prospectuses, flyers and in printed audited financial statements.

10. NIFIs shall make adequate pronouncement on the means of disclosure in their financial statements.

    i. Disclosures shall be published on a bi-annual basis and within thirty days of publishing the financial statements. However, for NIFIs with stable Composite Risk Rating (CRR) of "Low" and "Moderate" other than domestic systemically important NIFIs, annual reporting will be acceptable.
    ii. Domestic systemically important NIFIs may be required to publish information on a more frequent basis in recognition of their level of business, international affiliations and financial sectors dynamics.

2.6 Organization and controls

i. NIFIs shall adopt suitable organizational arrangements to ensure the compliance with disclosure requirement under this Guidance Notes. Board and management shall independently assess and verify the quality of information. The solutions adopted shall form part of the NIFI's system of internal controls.
ii. Within this framework, NIFIs shall establish appropriate specific procedures for verifying disclosures that are yet to be subjected to verification by external auditors or the CBN.

ANNEX A

Table 1: General requirements

<table>
<tr><th colspan="2">Nature of Disclosure</th><th>Description of Disclosure</th></tr>
<tr><td>Qualitative Disclosure</td><td>(a)</td><td>For each risk category (including those considered in the following tables), NIFIs shall disclose risk management objectives and policies, including:
• The strategies and processes for managing such risks;
• The structure and organization of the relevant risk management function;
• The scope and nature of risk measurement and reporting systems;
• The policies for Shari'ah-compliant hedging and mitigating risk as well as strategies and processes for monitoring their continuing effectiveness.</td></tr>
<tr><td rowspan="7">Quantitative Disclosure</td><td>(b)</td><td>Disclosure of the types and measures of risks facing each Restricted IAHs funds based on its specific investment policies.</td></tr>
<tr><td>(c)</td><td>Disclosure of the treatment of assets financed by Restricted IAHs in the calculation of Risk Weighted Asset (RWA) for capital adequacy purposes.</td></tr>
<tr><td>(d)</td><td>Disclosure of the treatment of assets financed by Unrestricted IAHs in the calculation of RWA for capital adequacy purposes.</td></tr>
<tr><td>(e)</td><td>Composition of financing by type of contract as a percentage of total financing.</td></tr>
<tr><td>(f)</td><td>Percentage of financing for each category of counterparty to total financing – that is, amount of financing extended to a category of counterparties (outstanding) / amount of total financing (outstanding) x 100.</td></tr>
<tr><td>(g)</td><td>Disclosure of the carrying amount of any assets pledged as collateral (excluding amounts pledged to the Central Bank of Nigeria (CBN) and the terms and conditions relating to each pledge.</td></tr>
<tr><td>(h)</td><td>The amount of guarantees or pledges given by NIFIs and the conditions attached to those guarantees or pledges.</td></tr>
</table>

Table 2: Scope of application

Nature of Disclosure		Description of Disclosure
Qualitative Disclosure	(a)	The name of the NIFI to which the disclosure requirement applies.
	(b)	An outline of differences on the basis of consolidation for accounting and prudential purposes, with a brief description of the entities within the group which: i) Are fully consolidated; ii) Are proportionally consolidated; iii) Are deducted from the regulatory capital; iv) From which surplus capital is recognized; v) Are neither consolidated nor deducted. This specifically applies to full-fledged Non-interest banking subsidiaries. In the case of Islamic Window operations, a separate set of financial statements is to be disclosed in the notes.
	(c)	Any restrictions, or other impediments, on the transfer of funds or regulatory capital within the group.
	(d)	For groups, any reduction in individual capital requirements applied to the parent entity and the Nigerian subsidiaries.
Quantitative Disclosure	(e)	The names of all subsidiaries excluded from consolidation and aggregate amount of their capital deficiencies with respect to any mandatory capital requirements.

Table 3: Regulatory capital structure, including Equity of UIAHs

Nature of Disclosure		Description of Disclosure
Qualitative Disclosure	(a)	Summary descriptive information on the types, forms, terms and conditions of the main features of all capital- and equity-related capital instruments and unrestricted investment accounts.
Quantitative Disclosure	(b)	The amount of Tier 1 capital, with separate disclosure of: • Issued and paid-up share capital of NIFI, and any changes since the last reporting financial year; • Disclosed reserves; • Minority interests in the equity of subsidiaries;

		• Any capital- and equity-related capital instruments that are eligible for inclusion in Tier 1 capital; • Shareholdings equal to or exceeding 5% of the total paid-up capital.
	(c)	The total amount of Tier 2 capital, if any.
	(d)	Total Regulatory Capital.
	(e)	The amount of Unrestricted IAH funds.
	(f)	Profit Equalization Reserve (**PER**) (Shareholders' and IAHs' components) and Investment Risk Reserve (**IRR**).

Table 4: Capital adequacy

Nature of Disclosure		**Description of Disclosure**
Qualitative Disclosure	(a)	Summary description of the NIFI's approach to assessing the adequacy of its internal capital to support current and future activities.
	(b)	A description of policy on identifying RWA funded by unrestricted investment accounts.
Quantitative Disclosure	(b)	For a NIFI calculating credit risk-weighted exposure amounts using the standardized approach, the capital requirement for each of the exposure classes.
	(c)	For a NIFI calculating credit risk-weighted exposure amounts using the IRB approach, the capital requirement for each of the exposure classes envisaged in this Guidance Notes. For retail exposures, separate disclosure shall be made for each of the following categories: "exposures secured by residential property", and "other retail exposures".
	(d)	Capital requirements for market risks, with separate disclosure for: - Assets included in the supervisory trading portfolio: i) Equity Position risk; ii) Foreign exchange risk; iii) Commodity risk; (v) Inventory Risk; and (vi) Rate of Return Risk.

	(e)	Capital requirement for operational risks
	(f)	Capital requirement for counterparty risks.
	(g)	Capital adequacy ratio (**CAR**) (Standard formula or Supervisory Discretion formula).
	(h)	Ratio of total Tier1 capital to total RWA.
	(i)	Ratio of total capital to total assets.
	(j)	Disclosure of capital requirements according to different risk categories (credit and market risks) for each category of *Shari`ah* -compliant financing contract
	(k)	Disclosure of DCR, when the supervisory discretion formula is used.

Table 5: Investment Accounts (both Unrestricted and Restricted IAH) – General Disclosures ("F" means periodic external financial reporting process, "P" means part of product information published)

			F	P
Qualitative Disclosures	(a)	Written procedures and policies applicable to the investment accounts, including a synopsis of the following: • Range of investment products available from the NIFI; • Characteristics of investors for whom various investment accounts may be appropriate; • Purchase, redemption and distribution procedures; • Governance arrangements for the IAH funds; and • Procedures for trading and origination of assets.		✔
	(b)	Disclosure that IAH funds are invested and managed in accordance with *Shari`ah* requirements.	✔	✔
	(c)	Product information and the manner in which the products are made available to investors.		✔
	(d)	Bases of allocation of assets, expenses and profit in relation to IAH funds.	✔	
	(e)	Disclosure on the policies governing the management of both unrestricted and restricted IAH funds, which covers the	✔	✔

		approaches to the management of investment portfolio, establishment of prudential reserves, and the calculation, allocation and distribution of profits.		
Quantitative Disclosures	(f)	PER-to-PSIA ratio: Amount of total PER / Amount of PSIA by type of IAH (i.e. Restricted and Unrestricted IAH)	✔	
	(g)	IRR-to-PSIA ratio: Amount of total IRR / Amount of PSIA by type of IAH.	✔	
	(h)	Return on assets (**ROA**): Amount of total net income (before distribution of profit to unrestricted IAH) / Total amount of assets financed by shareholders' equity and minority interests, Unrestricted IAHs, and current accounts and other liabilities.	✔	
	(i)	Return on equity (**ROE**): Amount of total net income (after distribution of profit to IAH) / Amount of shareholders' equity.	✔	
	(j)	Ratios of profit distributed to PSIA by type of IAH.	✔	✔
	(k)	Ratios of financing to PSIA by type of IAH.	✔	

Table 6: Unrestricted Investment Accounts – Additional Disclosures

			F	**P**
Qualitative Disclosures	(a)	General investment objectives and policies that are offered to the unrestricted IAH based on the general business strategy and risk-sharing policies of the NIFI (including commingling of funds).		✔
	(b)	Disclosure that IAH funds are invested and managed in accordance with *Shari`ah* requirements.	✔	✔
	(c)	Method for calculation and distribution of profits.		✔
	(d)	Rules governing the transfer of funds to or from PER and IRR	✔	✔
	(e)	Basis applied for charging expenses to unrestricted IAH	✔	✔

	(f)	Description of total administrative expenses charged to unrestricted IAH.		✔
Quantitative Disclosures	(h)	Total amount of unrestricted IAH funds, and sub-totals by asset category.	✔	
	(i)	Share of profits earned by unrestricted IAH, before transfers to or from reserves (amount and as a percentage of funds invested).	✔	
	(j)	Share of profits paid out to unrestricted IAH, after transfers to or from reserves (amount and as a percentage of funds invested).	✔	
	(k)	Movements on PER during the year.	✔	
	(l)	Movements on IRR during the year.	✔	
	(m)	Disclosure of the utilization of PER and/or IRR during the period.	✔	
	(n)	Profits earned and profits paid out over the past five years (amounts and as a percentage of funds invested).	✔	
	(o)	Amount of total administrative expenses charged to unrestricted IAH.	✔	
	(p)	Average declared rate of return or profit rate on unrestricted PSIA by maturity (3-month, 6-month, 12-month and 36-month).	✔	✔
	(q)	Changes in asset allocation in the last six months.	✔	
	(r)	Off-balance sheet exposures arising from investment decisions, such as commitments and contingencies.	✔	
	(s)	Disclosure of limits imposed on the amount that can be invested in any one type of asset.	✔	✔

Table 7: Restricted Investment Accounts – Additional Disclosures

			F	P
Qualitative Disclosures	(a)	Written policies on the NIFIs' fiduciary duties in managing IAH funds.		✔
	(b)	Investment objectives and policies applicable to the restricted IAH based on their specific investment portfolio.	✔	✔
	(c)	Disclosure of the duties and obligations of investment account managers in managing the IAH funds.		✔
	(d)	Written policies and procedures for monitoring fiduciary duties and regulatory obligations of the investment account managers.	✔	✔
	(e)	Method for calculation and distribution of profits.	✔	✔
	(f)	If applicable, rules for the transfer of amounts to and from PER and IRR, including contractual or regulatory limits on management's discretion in the matter.	✔	✔
Quantitative Disclosures	(h)	Amount of restricted IAH funds for each fund with sub-totals by asset category.	✔	
	(i)	Share of profits earned by restricted IAH, before transfers to or from reserves (amount and as a percentage of funds invested)	✔	
	(j)	Share of profits paid out to restricted IAH, after transfers to or from reserves (amount and as a percentage of funds invested).	✔	
	(k)	Movements of PER during the year, if applicable.	✔	
	(l)	Movements of IRR during the year, if applicable.	✔	
	(m)	Disclosure of the computation of PER and/or IRR, if applicable.	✔	
	(n)	Disclosure of the utilization of PER and/or IRR, if applicable.	✔	
	(o)	Current period returns.	✔	

	(p)	Historical returns over the past five years	✔	✔
	(q)	Average declared rate of return or profit rate on restricted PSIA by maturity (3-month, 6-month, 12-month, 36-month).	✔	✔
	(r)	Off-balance sheet exposures arising from investment decisions, such as commitments and contingencies.	✔	
	(s)	Changes in asset allocation in the last six months.	✔	
	(t)	Disclosure of limits imposed on the amount that can be invested in any one type of asset.	✔	✔

Table 8: Credit Risk: General Disclosures for all NIFIs

Nature of Disclosure		Description of Disclosure
Qualitative Disclosure	(a)	In addition to the general disclosure indicated in Table 1, the following information shall be disclosed for the exposure to credit risk: (i) Disclosure of the names of External Credit Assessment Institutions (ECAIs) used for the purpose of assigning risk weights to assets. ii) Disclosure of definitions of past due receivables and impaired financial assets, and policies and practices for making loss provisions on financial assets.
Quantitative Disclosure	(b)	Total gross credit exposures[1] and average gross credit exposures[2] over the period in terms of geographical area, counterparty and industry, and residual contractual maturity[3] for each class of Islamic financing assets, giving the percentages funded by the NIFI's own capital and current accounts and by PSIA, respectively.
	(c)	Total gross credit exposures and average gross credit exposures over the period by rating categories, where applicable.
	(d)	Total gross exposure and average gross exposure to equity-based financing structures by type of financing contract.
	(e)	Amount of past due and impaired financing assets, as well as specific and general impairment, classified by counterparty, industry and

		significant geographic areas, for each class of Islamic financing assets.
	(f)	Disclosure of the amount and changes in impairment during the financial year.
	(g)	Disclosure of any penalty imposed on customers for default, and the disposition of any monies received as penalties.

Table 9: Credit Risk: Disclosures for Portfolios Treated under the Standardized Approach, Specialized Financing and Equity Exposures Treated under IRB Approaches

Nature of Disclosure		**Description of Disclosure**
Qualitative Disclosure	(a)	NIFIs calculating credit risk-weighted exposures using the standardized approach shall provide the following information for each exposure class: i) Names of the nominated external credit assessment institutions (ECAIs), and the reasons for any changes; ii) The exposure classes for which each ECAI is used;
Quantitative Disclosure	(b)	NIFIs calculating credit risk-weighted exposures using the standardized approach shall provide, for each exposure class, the exposure values, with and without credit risk mitigation, associated with each credit quality step as well as the exposure values deducted from the regulatory capital.
	(c)	For exposures subject to the supervisory risk weights in IRB approaches (specialized financing – equity exposures under the simple risk weight method), the exposures assigned to each credit risk class shall be provided.

Table 10: Credit Risk: Disclosures for Portfolios Treated Under IRB Approaches (*)

Nature of Disclosure		**Description of Disclosure**
Qualitative Disclosure	(a)	Authorization from the CBN to use the approach selected and/or to use phased roll-out.
	(b)	Explanation of: i) The structure of internal rating systems and relation between

		internal and external ratings; ii) The use of internal estimates for purposes other than the calculation of risk-weighted exposure amounts in accordance with IRB approaches; iii) The process for managing and recognizing credit risk mitigation techniques; iv) The control and review mechanisms for the rating systems, including discussion of independence and accountability.
	(c)	Description of the internal ratings process, provided separately for the following exposure classes: i) Central governments and central banks; ii) Banks and other financial institutions; iii) Non-financial institutions, including SMEs and specialized financing; iv) Retail exposures, for each of the categories envisaged (exposures secured by residential property and other retail exposures); v) Equities.[1] The description shall include: • The types of exposure included in the exposure classes; • The definitions, methods and data for estimation and validation of Probability of Default (PD) and, where applicable, Loss Given Default (LGD) and the credit conversion factors, including assumptions employed in the derivation of these variables;[2] • The description of deviations from the definition of default as permitted by prudential regulations, where these are determined to be material, also indicating for each class the main categories of exposure affected by such deviations.[3]

[1]Equities shall only be disclosed here as a separate class where the bank uses the PD/LGD approach for equities held in the banking book.

[2]Banks shall provide a general overview of the system approach, describing definitions of the variables, and methods for estimating and validating those variables set out in the quantitative risk disclosures. This should be done for each of the classes indicated in the text. Banks should draw out any significant differences in the approaches used to estimate these variables within each class.

[3]Banks shall only describe the main areas where there has been material divergence from the reference definition of default such that it would affect the reader's ability to compare and understand the disclosure of exposures by PD grade.

Quantitative Disclosure: Risk Assessment	(d)	Exposure values for each exposure class. Exposures towards central governments and central banks, banks and other financial institutions, and corporates, where the NIFI use the IRB advanced approach, must be shown separately from exposures for which the NIFI do not utilise this approach.
	(e)	For each exposure class – central governments and central banks; banks and other financial institutions; corporates; equities – provide the following information, with a sufficient breakdown between PD categories (including default) to allow a significant differentiation of credit risk:[4] i) Total exposures (for exposures towards central governments and central banks, banks and other financial institutions, and corporates, the sum of outstanding financing plus unutilised profit; for equities, outstanding amount); ii) For NIFIs on the advanced IRB approach, exposure-weighted average LGD (percentage); iii) Exposure-weighted average risk weight; iv) For NIFIs on the advanced IRB approach, the amount of unutilised profit and relative exposure-weighted average EAD.[5]
	(f)	For retail exposures, provide for each category envisaged: i) The information referred to in point e above (if applicable, on a pool basis) or ii) Analysis of exposures (if applicable, on a pool basis) against a sufficient number of expected loss (EL) grades to allow for a meaningful differentiation of credit risk.
Quantitative Disclosure: Historical Results	(g)	Actual value adjustments (for example, charge-offs and specific write-downs) in the preceding period for each exposure class (showing each retail exposure category separately) and how this differs from previous years.
	(h)	Discussion of the factors that impacted on the loss experience in the preceding period (for example, has the bank experienced higher than

[4]The PD, LGD and EAD disclosures below shall reflect the effects of collateral, netting and guarantees, where recognized. Disclosure of each PD grade should include the exposure-weighted average PD for each grade.
Where banks are aggregating PD grades for the purposes of disclosure, this shall be a representative breakdown of the distribution of PD grades used in the IRB approach.

[5]Banks shall only provide one estimate of EAD for each exposure class. However, where banks believe it is helpful, in order to give a more meaningful assessment of risk, they may also disclose EAD estimates across a number of EAD categories, against the undrawn exposures to which these relate.

		average default rates, or higher than average LGDs and credit conversion factors).
	(i)	NIFI's estimates against actual outcomes over a longer period. This should at least include information on estimates of losses against actual losses in each exposure class, over a period sufficient to allow for a meaningful assessment of the performance of the internal rating processes for each exposure class (for retail exposures, the information must be given for each of the categories provided). Where necessary, NIFI should further decompose this to provide analysis of PD and, for NIFI on the advanced IRB approach, LGD and credit conversion factor outcomes against estimates provided.

(*) Eligibility requirements for the use of particular instruments or methodologies

Table 11: Risk mitigation techniques (*)

Nature of Disclosure		**Description of Disclosure**
Qualitative Disclosure	(a)	Policies and processes for, and an indication of the extent to which the NIFI makes use of, on- and off-balance sheet netting.
	(b)	Disclosure of the policies and processes for valuation of collateral and for ensuring its enforceability, together with related policies and processes for assets leased under *Ijarah Wa Iqtina*. When the assets are not readily convertible into cash by the NIFIs, the policies for disposing of the assets, or for using them in the NIFIs' operations, shall be disclosed.
	(c)	A description of the main types of collateral and other credit risk mitigants taken by the NIFIs, such as *Hamish Jidiyyah*, *Urbun*, PSIA/Deposit, pledged assets, *Sukuk*, and guarantees by third parties.
	(d)	Where a third party Guarantee (*Kafalah*) is taken as a risk mitigant, the risk weight applicable to the guarantor shall be disclosed.
	(e)	Information about market or credit risk concentrations under the credit risk mitigation instruments used.
Quantitative disclosure	(f)	For NIFI calculating credit risk-weighted exposures in accordance with the standardized or foundation IRB approaches, separately for each exposure class, the total exposure value (if applicable, net of on-balance sheet netting and off-balance sheet netting agreements) that is covered by financial collateral and other eligible collateral, after application of haircuts.

	(g)	Disclosure of the carrying amount of assets owned and leased under *Ijarah Wa Iqtina*.

(*) Disclosure requirements for NIFIs using credit risk mitigation techniques.

Table 12: Liquidity Risk

Nature of Disclosure		Description of Disclosure
Qualitative Disclosure	(a)	A summary of the liquidity risk management framework in addressing risk exposure for each category of funding as well as on an aggregate basis: • Current accounts; • Unrestricted investment accounts; and • Restricted investment accounts.
	(b)	General information on policies to address liquidity risk, taking into account the ease of access to *Shari`ah*- compliant funds and diversity of funding sources.
Quantitative Disclosure	(c)	Indicators of exposures to liquidity risk such as short-term assets to short-term liabilities, liquid asset ratios or funding volatility.
	(d)	Maturity analysis of financing and various categories of funding (current account, unrestricted investment account and restricted investment account) by different maturity buckets.

Table 13: Market Risks: Disclosures for NIFIs using the Internal Models Approach (IMA) for Position Risk, Foreign Exchange Risk and Commodity Risk

Nature of Disclosure		Description of Disclosure
Qualitative Disclosure	(a)	Disclosure of appropriate framework for market risk management, including reporting, in respect of all assets held for sale, including those that do not have a ready market and/or are exposed to high price volatility.
	(b)	For each portfolio covered by the IMA: i) Characteristics of the models used; ii) A description of stress testing applied to the portfolio; iii) A description of the approach used for back testing and/or validating the accuracy and consistency of the internal models and

		modelling processes.
	(c)	The scope of acceptance by the CBN regarding the use of the internal models approach.
	(d)	Description of the level of conformity with the rules governing the systems and controls used to ensure prudent and reliable assessments of the positions included in the supervisory trading portfolio, as well as the methods used to ensure compliance with such rules.
Quantitative Disclosure	(e)	Indicators of exposures to market risk, such as: • Breakdown of market RWA by: i) Equity position risk in the trading book and market risk on trading positions in *Sukuk*; ii) Foreign exchange risk; and iii) Commodity and inventory risk; • Foreign exchange net trading position to capital; • Commodity net trading position to capital; and • Equity net trading position to capital.
	(e)	Total amounts of assets subject to market risk by type of assets
	(f)	Measures of value-at-risk (VAR) or other sensitivity analyses for different types of market risk, such as; • Foreign exchange risk; • Commodity price risk; and • Potential losses due to movements in market rate of return, benchmark rates or equity prices

Table 14: Counterparty Risk

Nature of Disclosure		Description of Disclosure
Qualitative Disclosure	(a)	Description of: i) The method used to assign the operating limits defined in terms of internal capital and credit for counterparty credit exposures; ii) Policies relating to guarantees and assessments concerning counterparty risk; iii) The impact in terms of the amount of collateral that the bank

		would be required to provide given a credit rating downgrade.
Quantitative Disclosure	(b)	i) Gross positive fair value of contracts; ii) Reduction in gross positive fair value due to netting; iii) Positive fair value net of netting agreements; iv) Collateral held; vi) Measures of Exposure at Default (EAD), or value of the exposure to counterparty risk, calculated in accordance with the methods used (internal, standardized, mark-to-market models)

Table 15: Operational risk

Nature of Disclosure		**Description of Disclosure**
Qualitative Disclosure	(a)	Policies to incorporate operational risk measures into the management framework – for example, budgeting, target-setting, performance review and compliance.
	(b)	Policies on processes; (a) to help track loss events and potential exposures; (b) to report these losses, indicators and scenarios on a regular basis; (c) to review the reports jointly by risk and line managers; and (d) to ensure *Shari`ah* compliance
	(c)	Policies on the loss mitigation process via contingency planning, business continuity planning, staff training and enhancement of internal controls, as well as business processes and infrastructure.
	(d)	A description of the advanced measurement approaches (AMA), if used by the NIFI, including a discussion of relevant internal and external factors considered in the approach adopted. In case of partial use of the AMA, the scope and coverage of the different approaches used should be indicated.
	(e)	For NIFI using the AMA, a description of the use of *Takaful* (insurance) for the purpose of mitigating operational risk.
Quantitative Disclosure	(f)	Disclosure of the RWA equivalent for Quantitative operational risk.
	(g)	Indicators of operational risk exposures, such as: • Gross income; and • Amount of *Shari`ah* non-compliant income.

(*) Eligibility requirements for the use of particular instruments or methodologies

Table 16: Equity Exposures: Disclosures for Banking Book Positions

Nature of Disclosure		Description of Disclosure
Qualitative Disclosure	(a)	i) Differentiation between exposures according to the objectives pursued (for example, capital gains, relationships with counterparties, strategic reasons); ii) Description of accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation, as well as significant changes in these practices.
Quantitative Disclosure	(b)	Value disclosed in the balance sheet and fair value; in addition, for listed securities, a comparison with market quotation where it is materially different from fair value.
	(c)	Type, nature and amounts of exposures, distinguishing between: i) Exposures traded in the market; ii) Exposures in private equity instruments held in sufficiently diversified portfolios; iii) Other exposures.
	(d)	Total cumulative realised gains and losses arising from sales and liquidations in the reporting period.
	(e)	i) Unrealised gains/losses (recognised in the balance sheet but not taken to the income statement); ii) Amount of the above gains/losses included in Tier 1 or Tier 2 capital.

Table 17: Rate of Return Risk

		Description of Disclosure
Qualitative Disclosure	(a)	Discussion of factors affecting rates of return and benchmark rates, and the effects thereof on the pricing of contracts
	(b)	Processes and systems to monitor and measure the factors that give rise to rate of return risk.
Quantitative Disclosure	(c)	Indicators of exposures to rate of return risk – for example, data on expected income from financing and the cost of funding at different maturity buckets according to time of maturity or time of re-pricing for floating rate assets or funding

	(d)	Sensitivity analysis of NIFIs' profits and the rate of returns to price or profit rate movements in the market

Table 18: Displaced Commercial Risk

Nature of Disclosure		Description of Disclosure
Qualitative Disclosure	(a)	Disclosure of the NIFI's policy on DCR, including the framework for managing the expectations of its shareholders and unrestricted IAH, the sharing of risks among the various stakeholders, and the range and measures of risks facing unrestricted IAH based on the NIFI's general business strategies and investment policies
Quantitative Disclosure	(b)	Disclosure of historical data over the past five years: • Total *Mudarabah* profits available for sharing between unrestricted IAH and shareholders (as *Mudarib*) as a percentage of *Mudarabah* assets); • *Mudarabah* profits *earned* for unrestricted IAH (as a percentage of assets) before any smoothing; • *Mudarabah* profits *paid out* to unrestricted IAH (as a percentage of assets) after any smoothing; • Balances of PER and IRR, and movements on these in determining unrestricted IAH payout; • Variations in *Mudarib's* agreed profit-sharing ratio from the contractually agreed ratio; and • Market benchmark rates.
	(c)	Five-year comparison of historical rate of return of unrestricted IAH in relation to the market benchmark rate.
	(d)	Five-year comparison between the percentage rate of returns to IAH and the percentage returns to shareholders from *Mudarabah* profits.
	(e)	Amount and percentage of profits appropriated to PER and IRR.
	(f)	Analysis of the difference between aggregate *Mudarabah*-earned profits and profits distributed (paid out) to IAH as a function of movements in PER, IRR and the *Mudarib's* share.
	(g)	Analysis of the proportion of the RWA funded by IAH that should be considered in arriving at the total RWA (α, as specified in Appendix A of the IFSB's *Capital Adequacy Standard*), as approved by the CBN, together with an explanation of the underlying rationale.

Table 19: Contract-Specific Risks

Nature of Disclosure		Description of Disclosure
Qualitative Disclosure	(a)	Policy on relative shares of various *Shari`ah*-compliant financing contracts and capital allocation for various types of *Shari`ah*-compliant financing contracts.
Quantitative Disclosure	(b)	Total RWA classified by type of *Shari`ah*-compliant financing contract.

Table 20: General Governance Disclosures

		Description of Disclosure
Qualitative Disclosure	(a)	Disclosure and explanation of any departure from complying with the applicable financial reporting standards.
	(b)	Disclosure of the NIFI's corporate governance arrangements and practices, including whether the NIFI complies in full with the *Code of Corporate Governance Standard* issued by CBN, and if it does not so comply, an explanation of any non-compliance.
	(c)	Disclosure of any related party transactions and treatment of material events by the NIFI.
	(d)	Disclosure of any investor/consumer education programmes for information on new products and services.
	(e)	Information on mediation and advice bureaus for investors and customers set up by the NIFI, including clearly written procedures for lodging of complaints.
	(f)	Disclosure of social functions and charitable contributions of the NIFI, such as *Sadaqah* (Donation), *Qarḍ* (Benevolent loan), etc.

Table 21: *Shari`ah* Governance Disclosures

Nature of Disclosure		Description of Disclosure
Qualitative Disclosure	(a)	A statement on the governance arrangements, systems and controls employed by the NIFI to ensure *Shari`ah* compliance and on how these meet applicable national or international standards, and if there is less than full compliance with desirable standards, an explanation of the reasons for non-compliance. A statement of compliance with the guidelines on *Shari`ah* governance and Corporate Governance Standard for NIFI issued by CBN (and reasons for any non-

		compliance) shall be provided.
	(b)	Disclosure of how *Shari`ah* non-compliant earnings and expenditure occur and the manner in which they are disposed of.
	(c)	Disclosure that compliance with *Shari`ah* rulings is mandatory.
Quantitative Disclosures	(d)	Disclosure of the nature, size and number of violations of *Shari`ah* compliance during the year.
	(e)	Conventional banks with Windows shall disclose information on the appropriate mechanism established to segregate the funds of the Islamic window from the funds of the parent entity.
	(f)	Disclosure of annual *Zakat* contributions of the NIFI, where relevant.
	(g)	Remuneration of ACE members.

Table 22: Treatment of Islamic Windows of Conventional Banks

Nature of Disclosure		**Description of Disclosure**
Qualitative Disclosure	(a)	Conventional banks shall disclose the Window arrangement adopted whether branch or dedicated unit.
	(b)	All relevant disclosure requirements for NIFI under this standard also apply to the Window.
	(c)	Conventional banks shall provide complete set of financial statements with notes for an Islamic Window.
	(d)	Conventional banks shall disclose information on the appropriate mechanism established to provide *Shari`ah* oversight of the activities of an Islamic Window.
Quantitative Disclosure	(e)	Conventional banks shall disclose their holdings in *Sukuk*, if any.

CENTRAL BANK OF NIGERIA

GUIDANCE NOTES ON REGULATORY CAPITAL FOR NON-INTEREST FINANCIAL INSTITUTIONS IN NIGERIA

MARCH 2019

Table of Contents

DEFINITION OF TERMS **3**
SECTION 1: INTRODUCTION **6**
1.1 Background........ 6
1.2 Objectives of the Guidance Notes 6
SECTION 2: REGULATORY CAPITAL **6**
2.1 Components of Capital........ 6
2.2 Tier 1 Capital 6
2.2.1 Common Equity Tier 1 Capital 7
2.2.2 Additional Tier 1 Capital 9
2.3 Tier 2 Capital 10
SECTION 3: TREATMENT OF PSIA, PER AND IRR **12**
SECTION 4: REGULATORY ADJUSTMENTS AND DEDUCTIONS **12**
SECTION 5: ISLAMIC WINDOWS **16**
SECTION 6: METHODS OF CALCULATING CAR **16**
6.1 The Standard Formula Approach........ 16
6.2 The Supervisory Discretion Formula Approach........ 17

DEFINITION OF TERMS

Affiliate Entity of Non-Interest Financial Institution (NIFI)	An affiliate of a NIFI is defined as a company that controls, or is controlled by, or is under common control with the NIFI. Control of a company is defined as: (1) ownership, control, or holding with power to vote 20% or more of a class of voting securities of the company; or (2) consolidation of the company for financial reporting purposes.
Deferred Tax Assets (DTAs)	DTAs are amounts of income tax paid which have the effect of reducing the amount of income tax payable in subsequent periods and which are therefore recognised as assets. When DTAs are recognised but their realisation through reduction of future taxes payable is uncertain, they should be deducted from capital.
Islamic Financial Services Board (IFSB)	The Islamic Financial Services Board is an international standard-setting Organisation, which promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors. The Malaysia-based institution complements the efforts of Basel Committee on Banking Supervision (BCBS) and other international standard setters on prudential regulation that focus on conventional financial institutions.
IFSB-15	Revised Capital Adequacy Standard for Institutions Offering Islamic Financial Services issued in December 2013 by the IFSB. This Guidance Notes is adapted from IFSB-15.
IFSB-16	Revised Guidance on Key Elements in the Supervisory Review Process of Institutions Offering Islamic Financial Services issued in March 2014 by the IFSB.
Investment Risk Reserve (IRR)	The amount appropriated by the NIFIs out of the income of Investment Account Holders (IAH), after allocating the *Mudarib*'s share in order to cushion against future investment losses for IAH.
Non-Interest Banking Window	A Non-Interest banking Window is part of a conventional financial institution that mobilises deposits and provides fund management (investment accounts), financing and investment, and other banking services that are Shariah compliant, with proper segregation of funds from the parent bank.
Ijarah (Leasing)	An *Ijarah* contract refers to an agreement made by NIFIs to lease to a customer an asset specified by the customer for an agreed period against specified instalments of lease rentals. An *Ijarah* contract commences with a promise to lease that is

	binding on the part of the potential lessee prior to entering the *Ijarah* contract.
Ijarah Sukuk	*Sukuk* issued on the basis of *Ijarah* principle.
Minority Interest	Minority interest is capital in a subsidiary that is owned by other shareholders from outside the Group. It includes such third parties' interests in the common shares, retained earnings and reserves of the consolidated subsidiaries.
Mudarabah (Trust Partnership)	A contract between the capital provider (*Rabbul-Mal*) and a skilled entrepreneur (*Mudarib*) whereby the capital provider contributes capital to an enterprise or activity that is to be managed by the entrepreneur as the *Mudarib* (or labour provider). Profits generated by the enterprise or activity are shared in accordance with the terms of the *Mudarabah* agreement, while losses are borne solely by the capital provider, unless the losses are due to the *Mudarib's* misconduct, negligence or breach of contractual terms.
Mudarabah Sukuk	*Sukuk* issued on the basis of *Mudarabah* principle.
Musharakah (Partnership)	A *Musharakah* is a contract between a NIFI and a customer to contribute capital to an enterprise, whether existing or new, or to ownership of a real estate or moveable asset, either on a temporary or permanent basis. Profits generated by the enterprise or real estate/asset are shared in accordance with the terms of the *Musharakah* agreement whilst losses are shared in proportion to each partner's share of capital.
Musharakah Sukuk	*Sukuk* issued on the basis of *Musharakah* principle.
Non-Interest Financial Institutions	Means banks and other financial institutions under the regulatory purview of the Central Bank of Nigeria that provide banking and other financial services on the basis of Islamic Commercial Jurisprudence.
Paid-in Capital	Refers to capital that has been received with conclusiveness by the NIFI, reliably valued and fully under its control.
Profit Equalization Reserve (PER)	PER is the amount appropriated by the NIFIs out of the *Mudarabah* income, before allocating the *Mudarib's* share, in order to maintain a certain level of return on investment for IAH and to increase owners' equity.
Restricted Investment Account (RIA)	An account in which the holder authorizes a NIFI to invest funds based on *Mudarabah* or *Wakalah* contracts with certain restrictions as to where, how and for what purpose these funds are to be invested.
Regulatory Capital	This is the amount of capital a NIFI shall hold as required by the CBN. It is usually expressed as a ratio of Capital to risk-weighted assets.

Unrestricted Investment Accounts (UIA)	The account holders authorize the NIFI to invest their funds based on *Mudarabah* or *Wakalah* contracts without imposing any restrictions. The NIFI can commingle these funds with their own funds and invest them in a pooled portfolio.
Sukuk (Islamic Investment Certificates)	*Sukuk* are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services, or (in the ownership) of assets of particular projects or special investment activity.
Wakalah (Agency Contract)	*Wakalah* is a contract where one party, the principal (*Muwakkil*), appoints the other as agent (*Wakil*) to carry out a business or transaction on his behalf with or without any fee.
Wakalah Sukuk	*Sukuk* issued on the basis of *Wakalah* principle.

SECTION 1: INTRODUCTION

1.1 Background

1. This Guidance Notes (GN) defines eligible capital for the purpose of computing Capital Adequacy Ratio (CAR) by Non-Interest Financial Institutions (NIFIs) in Nigeria. The Rules governing regulatory capital, its components and required deductions to the capital levels shall be applied by the NIFIs for assessment of qualifying capital.

2. NIFIs are required to maintain a minimum regulatory CAR of 10% or 15% for banks with National or International licence respectively as may be determined by CBN from time to time.

3. Accordingly, CBN will consider prescribing a higher level of minimum capital ratio for each NIFI under the IFSB-15 on the basis of their respective risk profiles and risk management processes. Furthermore, in terms of the IFSB-15 requirements of the capital adequacy framework, NIFIs are expected to operate at a level well above the minimum requirement.

1.2 Objectives of the Guidance Notes

4. The main objectives of this Guidance Notes are as follows:
   - To assist the NIFIs in the implementation of a capital adequacy framework that will ensure effective coverage of risk exposures and allocation of appropriate capital to cover these risks, thus enhancing the resilience of the NIFIs;
   - To provide guidance on the maintenance of high-quality regulatory capital components by NIFIs, which comply with *Shari`ah* rules and principles;
   - To provide guidance on items that shall be deducted from NIFIs' capital; and
   - To adapt international best practices, as well as current and emerging standards relating to capital adequacy for NIFIs.

SECTION 2: REGULATORY CAPITAL

2.1 Components of Capital

5. This Section specifies the components of Regulatory (eligible) Capital for NIFIs. The eligible capital shall be used as the numerator and total Risk-weighted Assets (RWAs) as denominator in the formula for calculating CAR. The Section will further explain the criteria and characteristics of each component of eligible capital.

2.2 Tier 1 Capital

6. Tier 1 capital consists of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1). CET1 consists of common equity share capital, retained earnings and some other reserves. AT1 capital consists of *Shari'ah*-compliant instruments and reserves that

meet the criteria specified in paragraph 11. Tier 1 (CET1 and AT1) capital is considered as "going concern" capital which absorbs losses while the NIFI is solvent.

2.2.1 Common Equity Tier 1 Capital

7. CET1 capital forms the highest quality of capital for NIFIs. There are stringent criteria for an instrument to be considered as CET1 capital so as to ensure its permanence and loss absorption capacity.

8. CET1 capital comprises the sum of elements (a)–(f), minus (g), below:
   (a) Common shares issued by the NIFIs: This is the main shareholders' equity issued by NIFIs, which should be fully paid up and should meet the criteria of being classified as common shares.

   (b) Stock surplus: Stock surplus (share premium) from the issue of common shares.

   (c) Retained earnings: The amount of net earnings which is carried forward from previous financial periods shall be recognized and included in the calculation of CET1 capital. Retained earnings include interim profit or loss recognized by CBN.

   (d) Other disclosed reserves and comprehensive income, including interim profit or loss. Dividends declared and payable are not included in CET1 as such amounts are classified as liabilities in accordance with International Financial Reporting Standards (IFRS). Other comprehensive income includes interim profit or loss.

   (e) For interim profit or loss, CBN may seek verification by external auditors.

   (f) Common shares issued by consolidated subsidiaries of NIFIs: Such common shares that are issued by a NIFI's consolidated subsidiaries and held by third parties (minority interest) and meet the criteria of being included in CET1 provided in paragraph 10.

   (g) Regulatory adjustments/deductions applicable to CET1.

9. Shareholders' portion of Profit Equalization Reserves (PER) are not considered as part of CET1 reserves in the computation of CAR.

10. Specific criteria for common equity are set out below:

    (a) Loss absorbency
    Common equity represents the most subordinated claim in the event of liquidation of the NIFI having a claim on the residual assets after all senior claims have been repaid. In terms of sharing any losses as incurred, common equity serves as a first loss position and is able to absorb losses on a going concern basis. Going concern capital allows a NIFI to continue its activities and helps to prevent insolvency. Going concern capital is considered to be CET1. The purest form of going concern capital is common equity.

(b) Issuance process and procedure

At the issuance of common equity instruments, the NIFI shall not create an expectation or state in the contractual terms that the instrument will be redeemed, cancelled or bought back (call option) under any circumstances.

Common equity is directly issued and **paid-in** such that no related party of the NIFI directly or indirectly purchases it or funds the purchase. The issuance receives the formal approval of the existing common shareholders of the issuing NIFI either directly or indirectly based on the approval of the Board of Directors or according to the applicable laws in Nigeria.

(c) Permanence

The principal amount of common shares is perpetual in nature and is never repaid except in the case of liquidation. However, in some cases, the law and the NIFI's statutes may permit common shares to be repurchased, subject to the approval of the CBN.

(d) Distribution of profit or dividends

There is no circumstance in which distribution of profits (or payment of dividends) is obligatory. Non-payment of dividends, therefore, is not a default event. Distributions shall be made out of distributable items which normally consist of profits for the year that are attributable to common equity and, subject to the approval of the CBN, retained earnings. The level of distribution of profit must be independent of, and not linked or tied to, the amount paid in at issuance). Distributions can only be made after meeting all legal and contractual obligations and payments to more senior capital instruments. There are no preferential distributions on the eligible instruments.

e) Equity in nature

The paid amount is recognized as equity capital in the NIFIs' balance sheet and classified as equity under the applicable accounting standards. However, where associates and joint ventures are accounted for under the equity method, earnings of such entities are eligible for inclusion in the CET1 of the NIFIs to the extent that they are reflected in retained earnings and other reserves of the NIFIs and are not excluded by any of the regulatory adjustments.

(f) Unsecured in nature

The amount paid in at issuance is neither secured nor guaranteed by the NIFI or its related entity (parent/ subsidiary or sister of the company or Islamic Window or other affiliate group). There shall be no contractual terms or arrangements in the issue of eligible instruments that enhance the seniority of claims under the instruments in insolvency or liquidation.

(g) Disclosure requirement

Common Equity shall be clearly stated and disclosed on the NIFIs' balance sheet.

2.2.2 Additional Tier 1 Capital

11. Additional Tier 1 (AT1) capital shall consist only of instruments such that they have a high degree of loss absorbency. AT1 capital comprises the sum of elements (a)–(c) minus (d) below:

Add:

(a) Instruments issued by NIFIs that meet the criteria for inclusion in AT1 capital.

(b) Any premium received on the issue of instruments included in AT1 capital, and which is not included in CET1;

(c) Instruments or qualifying capital issued by consolidated subsidiaries of the NIFIs to third-party investors that meet the criteria for inclusion in AT1 capital and are not included in CET1.

Minus:

(d) Regulatory adjustments/deductions applicable to AT1 capital.

12. Specific criteria for classification of instruments as AT1 capital are set out below.

(a) Loss absorbency

Any instrument other than Common Equity issued by NIFIs that is able to absorb losses will qualify for inclusion in AT1 capital.

(b) Issuance process and procedure

All AT1 instruments issued by NIFIs require prior CBN approval. The instrument is issued and paid-up and neither the NIFI nor a related party over which it exercises control or significant influence can purchase the instrument, or fund its purchase, either directly or indirectly. Repayment of principal through repurchase or buy-back is allowed subject to CBN approval. The repayment however, shall be without any expectation being created by the NIFI.

(c) Maturity and Callability

The qualifying instrument shall be perpetual in nature and has no maturity date. It shall not have step-up features (i.e. periodic increases in the rate of return) and is without any other incentive to the issuer to redeem it. However, if the instrument is callable, the issuer is permitted to exercise a call only after five years and subject to certain requirements such as:

i. Prior CBN approval;
ii. No call expectation is created by the NIFIs; and
iii. Ability to replace the called instruments with the same or better quality of capital, either before or concurrently with the call.

The NIFI shall not exercise a call unless it proves that its capital position is above the regulatory capital requirement after the call is exercised. Instruments which qualify for AT1 capital cannot have any features that hinder recapitalization (provisions that require the NIFI to compensate investors if a new instrument is issued at a lower price during a specified time frame). If an instrument is issued out of a Special Purpose

Entity (SPE), proceeds must be immediately available without limitation to the NIFI in a form which meets or exceeds all of the other criteria for inclusion in AT1 capital.

(d) Distribution of profits

The contract shall provide that non-distribution of profits would not constitute a default event. Distributions shall not be linked to the credit rating of the NIFI, either wholly or in part.

(e) Unsecured in nature

The amount paid at issuance is neither secured nor guaranteed by the NIFI or any related entity. In addition, there shall not be any arrangement that legally or economically increases the seniority of the instrument's claim.

13. Musharakah Sukuk can be issued as Additional Tier 1 capital by NIFIs. This is due to it being the most loss absorbing instrument from a Shari'ah perspective. It can also be treated *parri passu* with shareholders' funds.

2.3 Tier 2 Capital

14. Tier 2 (T2) Capital consists of *Shari'ah*-compliant instruments and reserves. T2 capital is considered to be "gone concern" capital which absorbs further losses in the event of non-viability of the NIFIs and therefore, helps to protect the Current Account Holders and other creditors of the NIFIs. Various eligible adjustments/deductions shall apply to the respective type of capital.

15. NIFIs shall maintain T2 capital which comprises the sum of elements (a)–(d) minus (e) below:

Add:

(a) Instruments issued by NIFIs that meet the criteria for inclusion in T2;

(b) General provisions or reserves held against future, presently unidentified losses on financing.

(c) Any premium paid on issue of T2 capital instruments;

(d) Instruments or qualifying capital issued by consolidated subsidiaries of a NIFI to third party investors that meet the criteria of T2 capital;

Minus:

(e) Regulatory adjustments/deductions applicable to T2 capital.

16. Specific criteria for classification of instruments as T2 are set out below:

(a) *Loss absorbency*

Any instrument other than Common Equity and Additional Tier1 issued by a NIFI that is able to absorb losses will qualify for inclusion in T2 capital.

(b) *Issuance process and procedure*

The instrument is issued and paid-up, and neither the NIFI nor a related party over which the NIFI exercises control or significant influence can purchase the instrument or fund the purchase of the instrument, either directly or indirectly. Issuance that takes

place outside an operating entity of the NIFI or the holding company in the consolidated group such as through an SPE shall follow specific requirements. For instance, the proceeds of issuance must be made immediately available to an operating entity or holding company in the consolidated group, in a form that meets or exceeds all the other criteria of Tier 2.

(c) *Maturity and callable option*

The original minimum maturity shall be at least five years. The instrument shall not have step-up facilities and be without any incentive to redeem by the issuer. For recognition in regulatory capital, any amortization of the principal will be on a straight-line basis in the remaining five years before maturity. If the instrument is callable, the issuer is permitted to exercise a call option only after five years and subject to certain requirements, such as:

(i) Prior CBN approval;

(ii) There is no call expectation created by the NIFIS; and

(iii) Ability to replace the called instruments with the same or better quality of capital, either before or concurrently with the call. NIFI shall not exercise a call unless it successfully exhibits that its capital position is above the regulatory capital requirement.

As an exception, a call option by the NIFI as an issuer is permitted only in case of a tax or regulatory events. Subject to meeting other conditions specified from (i) to (iii) above, CBN may permit a NIFI to exercise the call only if it is convinced that the NIFI was not in a position to anticipate the event at the time of issuance.

(d) *Distribution of Profits*

The distribution of profits to the holders of the instruments shall not be linked to the credit rating of the NIFIs, either wholly or in part. Future scheduled payments should not be accelerated at the option of investors, except in the case of liquidation or bankruptcy.

(e) *Unsecured in Nature*

The amount paid during issuance is neither secured nor guaranteed by the NIFIs or any of their related entities. Besides, there shall not be any arrangement that legally or economically increases the seniority of claim in the event of liquidation.

Mudarabah or *Wakalah Sukuk* can be issued as Tier 2 capital by NIFIs as they have met the criteria (a)-(e) mentioned above.

17. The eligible capital requirements for NIFIs with regional or national authorization shall not be less than 10% of total RWA at all times. Such NIFIs shall maintain CET1 capital of at least 5.6% and Additional Tier1 of 1.9% of RWA at all times. Furthermore, Tier 1 capital (CET1=5.6% plus AT1= 1.9%) shall be at least 7.5% of RWA at all times while Tier 2 capital shall be at least 2.5% of RWA at all times.

SECTION 3: TREATMENT OF PSIA, PER AND IRR

18. Profit-sharing investment accounts of NIFIs are not classified as part of the capital because they do not meet the above-mentioned criteria of core or additional capital. Similarly, all the Investment Risk Reserve (IRR) and a portion of the Profit Equalization Reserve (PER) belong to the equity of Investment Account Holders, and thus are not part of the capital of the NIFIs.

    As the purpose of a PER is to smooth the profit payouts and not to cover losses, any portion of a PER that is part of the NIFIs' reserves shall not be treated as part of their regulatory capital. It should be noted that the impact of PER and IRR has already been incorporated in the denominator of the supervisory discretion formula for calculation of the CAR.

SECTION 4: REGULATORY ADJUSTMENTS AND DEDUCTIONS

19. The adjustments to regulatory capital are intended to make its quantification more conservative so that it is available at all times to absorb losses. In order to achieve this objective, the assets that may not have a stable value in stressed market conditions (e.g. goodwill) are deducted, and gains that have not been realised are not recognised in the calculation of regulatory capital. Elements which shall be recognized or adjusted in the calculation of eligible capital from a regulatory perspective are as follows, subject to the stated conditions:

    (a) Minority interest:
    Minority interest arising from the issue of capital instruments by a fully consolidated subsidiary of the NIFIs may be treated as CET1 or AT1 capital subject to meeting the following conditions and criteria:
    Common Equity Tier 1: The conditions are:
    i. The subsidiary issuing the instrument shall be a NIFI itself; and
    ii. The relevant instrument shall meet all the criteria for being considered as common shares for regulatory purposes.

    The amount recognised in consolidated CET1 is equal to the total minority interest (meeting the above conditions) minus the *surplus CET1 of the subsidiary attributable to minority investors*. The surplus CET1 of the subsidiary (**i.e. the amount in excess of 7.0% of RWA** – which is the sum of the minimum CET1 requirement of the subsidiary plus the capital conservation buffer) should be multiplied by the percentage of CET1 that is held by minority shareholders in order to arrive at the amount of the surplus CET1 of the subsidiary attributable to the minority shareholders.

    Tier 1 Capital (CET1 and AT1 Capital): The condition is that the relevant instruments issued by a fully consolidated subsidiary of the NIFIs to third-party investors should meet all the criteria for being considered as Tier 1 (CET1 or AT1) capital. The amount recognised in Tier 1 capital is equal to the amount of the Tier 1 capital instruments issued to third parties minus the surplus Tier 1 capital of the

subsidiary attributable to the third-party investors. The surplus Tier 1 capital of the subsidiary (**i.e. the amount of 8.5% of RWA** – which is the sum of the minimum Tier 1 capital requirement of the subsidiary plus the capital conservation buffer) should be multiplied by the percentage of the subsidiary's Tier 1 capital that is held by third-party investors. The amount of the Tier 1 capital that will be recognised in "additional capital" will exclude amounts already considered part of CET1.

Total Capital (CET1, AT1 and T2 Capital): The condition is that the relevant instruments issued by a fully consolidated subsidiary of the NIFIs to third-party investors shall meet all the criteria for being considered as CET1, AT1 or T2 capital. The amount recognised in consolidated total capital is equal to the amount of the total capital instruments issued to third parties (meeting the above condition) minus the *surplus total capital of the subsidiary attributable to the third-party investors.* The surplus total capital of the subsidiary (**i.e. the amount in excess of 10.5% of RWA** – which is the sum of the minimum total capital requirement of the subsidiary plus the capital conservation buffer) should be multiplied by the percentage of the subsidiary's total capital that is held by third-party investors in order to arrive at the amount of the *surplus total capital of the subsidiary attributable to the third-party investors.*

(b) Unrealized gains and losses:

NIFIs shall derecognize from CET1 any component of equity resulting from changes in the fair value of liabilities due to their own credit risk variations.

(c) Investment in own shares (Treasury shares) and capital:

NIFI's investment in its own shares shall be deducted in the calculation of CET1 since such an investment has an effect similar to calling the shares – that is, to reduce the capital. Furthermore, in case of any contractual obligation of the NIFI to purchase its own shares, such shares will be deducted from CET1. It shall equally deduct investments in its own additional capital in the calculation of additional capital.

(d) Goodwill and other intangible assets:

Goodwill and other intangible assets should be deducted from CET1. Also deducted is goodwill that is part of the valuation of significant investments in the capital of banking, financial and *Takaful* entities which are outside the scope of regulatory consolidation. NIFIs shall use International Financial Reporting Standards (IFRS) and AAIOFI Standards, where applicable, to identify elements which fall under the definition of intangible assets.

(e) Pension fund assets and liabilities:

A NIFI may have its own pension fund, while some NIFIs may establish a pension fund, subject to fulfilling CBN regulatory requirement. Where such pension funds are

on the balance sheet or consolidated balance sheet of the NIFI, the net assets of the fund should be deducted from CET1 capital.[1]

(f) Deferred Tax Assets (DTAs):

CBN may allow recognition of DTAs. Such DTAs may be used to reduce any subsequent period's income tax expense of the NIFI as recognized in its income statement. DTAs which have been recognized, but rely on the future profitability of the NIFI and are yet to be realized, shall be deducted from the calculation of CET1. All DTAs that depend on the future profitability of the NIFI to be realized and that arise from net operating losses shall be deducted from CET1 in full. DTAs and associated "deferred tax liabilities" can be netted off only if the tax authority has levied the taxes and permitted the set-off.

(g) Cash-flow hedge reserve:

If an NIFI has a cash-flow hedge reserve, the amount of this reserve that relates to the hedging (by means of *Shari'ah*-compliant hedging instruments which are reported at fair value in the NIFI's balance sheet) of items which are themselves not reported at fair values in the NIFI's balance sheet, including projected cash flows, should be derecognized in the calculation of CET1. This means that positive amounts should be deducted and negative amounts added back. The element of the cash-flow hedge reserve that gives rise to artificial volatility in common equity is thereby removed, since such an element reflects only the fair value of the hedging item but not that of the hedged item.

(h) Securitization Exposure:

Any increase in equity capital resulting from a securitization transaction shall be deducted from the calculation of CET1. Certain securitization exposures arise from the provision of credit enhancement by the NIFIs as originators by retaining a residual equity interest in a percentage of the securitized asset. In such cases, the capital treatment of the NIFI's residual equity share will be a risk weighting of 1250%. This has been mentioned in the Guidance Notes on Credit Risk Capital Computation. However, subject to CBN discretion, the risk weighting of 1250% will be used irrespective of the minimum capital requirement.

(i) Investment in the capital of banking, financial and Takaful entities:

This derecognizing adjustment applies to an investment in the capital of NIFIs that are outside the scope of regulatory consolidation. Such investment is addressed and classified under two categories:

a) ***Where the NIFI does not own more than 10% of the issued common shares of the entity:*** The amounts below the 10% of its common equity (after applying all

[1] The Wisdom behind deducting the NIFI's Pension fund assets is that the funds are not loss absorbing or permanent. Since pension fund assets and liabilities belong to the pension fund holders (i.e. bank employees) and will be periodically drawn down due to retirement or staff claims, they cannot be considered part of regulatory capital for these reasons.

other regulatory adjustments) will not be deducted and will continue to be risk-weighted. Thus, instruments in the trading book shall be treated as per the market risk rules, and instruments in the banking book shall be treated as per the standardized approach.

b) ***Where the NIFI owns more than 10% of the issued common shares of the entity,*** Holdings of both the banking book and the trading book should be included in these calculations, after application of all the regulatory adjustments mentioned prior to this category. "Capital" includes common shares and, where applicable, convertible or subordinated *Sukuk* that qualify for recognition as regulatory capital.

20. Furthermore, if *the entity is an Affiliate of the NIFI, the NIFI* shall deduct the amount of the investment in full even if the investment does not fall under the definition of common equity. The objective of this deduction is to prevent the double counting of capital – that is, to ensure that the bank is not boosting its own capital with the capital that is also used to support the banking, *Takaful* or other financial subsidiary.

"The deduction shall also follow the "corresponding deduction" approach – that is, the deduction should be applied to the same component of capital for which the capital would qualify if it were issued by the NIFI itself. This means that the amount to be deducted from common equity should be calculated as the total of all holdings which in aggregate exceed 10% of the NIFI's common equity multiplied by the common equity holdings as a percentage of the total capital holdings. This would result in a common equity deduction which corresponds to the proportion of total capital holdings held in common equity. Similarly, the amount to be deducted from additional capital should be calculated as the total of all holdings which in aggregate exceed 10% of the bank's common equity multiplied by the additional capital holdings as a percentage of the total capital holdings

However, under the corresponding deduction approach, if the NIFI is required to make a deduction from a particular component of capital and it does not have enough of that component of capital to satisfy that deduction, the shortfall will be deducted from the next-higher components of capital. (For example, if a NIFI does not have enough additional capital to satisfy the deduction, the shortfall will be deducted from CET1.)"

(j) Reciprocal cross-holdings in the capital of banking, financial and Takaful entities

Any cross-holdings of capital that serve to inflate artificially the capital position of the NIFI shall be required to be subject to a full deduction, using a "corresponding deduction approach" to such investments. This approach requires the NIFIs to apply the deduction to the same component of capital for which the capital would qualify if it were issued by the NIFI itself.

(k) Exposures to entities within a group

NIFIs shall deduct any exposure granted to entities within the group from the parents' capital.

SECTION 5: ISLAMIC WINDOWS

21. All conventional banks with Islamic Windows shall allocate a notional capital fund (not Share capital) for the operations of the Window. The banks shall establish a separate and self-accounting Islamic banking department, with designated management as contained in the CBN Guidelines for the Regulation and Supervision of Institutions Offering Non-Interest Financial Services in Nigeria.

22. A Window's minimum level of capital fund requirement at any point in time shall be determined by the level of its RWAs.

SECTION 6: METHODS OF COMPUTING CAPITAL ADEQUACY RATIO

23. Capital Adequacy Ratio of NIFIs shall be calculated through the following two methods:

(a) **The standard formula**, in which NIFIs shall not hold Regulatory Capital in respect of risk arising from assets funded by Profit-Sharing Investment Accounts (PSIA), so that the Risk-weighted Assets (RWA) in respect of commercial risks (credit and market risks) funded by such accounts are excluded in calculating the denominator of the CAR; and

(b) **The supervisory discretion formula**, in which NIFIs shall hold Regulatory Capital in respect of Displaced Commercial Risk (DCR). In this approach, commercial risks of assets financed by Unrestricted PSIA (UPSIA) are considered to be borne proportionately by both the Unrestricted Investment Account Holders (UIAH) and the NIFIs. Hence, a proportion of the (risk-weighted) assets funded by UPSIA, symbolized as "alpha" is required to be included in the denominator of the CAR, the permissible value of alpha being subject to CBN discretion. The CBN may also decide to extend this treatment to restricted investment accounts.

6.1 The Standard Formula Approach

24. NIFIs shall compute their regulatory capital adequacy ratio in the following manner:

$$\frac{\text{Eligible Capital}}{\{\text{Total Risk-Weighted Assets (Credit + Market Risks) plus Operational Risk Less Risk-Weighted Assets Funded by PSIA (Credit and Market Risks)}\}}$$

Where Total Risk-Weighted Assets are calculated as the sum of:

1) Risk-weighted on-balance sheet and off-balance sheet assets computed according to The Standardised Approach for credit risk (Refer to The Standardized Approach –TSA in the Guidance Notes on the calculation of capital requirement

for Operational Risk for Non-interest Banks and other Financial Institutions in Nigeria).

2) 12.5 times the sum of the capital charges determined for market risk and operational risk; and

3) Qualifying capital is broadly classified as Tier 1 and Tier 2 capital. Elements of Tier 2 capital will be limited to a maximum of one-third (i.e. 33.33%) of Tier 1 capital, after making deductions for goodwill, Deferred Tax Asset (DTA) and other intangible assets but before deductions of investments.

6.2 The Supervisory Discretion Formula Approach

25. Alternatively, NIFIs shall compute their regulatory capital adequacy ratio by using the supervisory discretion formula approach as follows:

Eligible Capital

{Total Risk-Weighted Assets (Credit + Market Risks) Plus Operational Risk

Less

Risk-Weighted Assets Funded by Restricted PSIA (Credit and Market Risks)

Less

(1 – α) [Risk-Weighted Assets Funded by Unrestricted PSIA (Credit and Market Risks)]

Less

α[Risk-Weighted Assets funded by PER and IRR of Unrestricted PSIA (Credit and Market Risks)]}

26. In applying the Supervisory Discretion Formula Approach, the following should be noted:

- Total RWAs include those financed by both restricted and unrestricted PSIA.
- Credit and market risks for on- and off-balance sheet exposures.
- Where the funds are co-mingled, the RWAs funded by PSIA are calculated based on their pro-rata share of the relevant assets. PSIA balances include PER and IRR, or equivalent reserves.
- "Alpha (α)" refers to the proportion of assets funded by unrestricted PSIA which shall be determined by the CBN.
- The relevant proportion of RWAs funded by the PSIA's share of PER and by IRR is deducted from the denominator. The PER has the effect of reducing the displaced commercial risk, and the IRR has the effect of reducing any future losses on the investment financed by the PSIA.

CENTRAL BANK OF NIGERIA

GUIDELINES ON THE PRACTICE OF SMOOTHING THE PROFIT PAYOUT TO INVESTMENT ACCOUNT HOLDERS FOR NON-INTEREST FINANCIAL INSTITUTIONS IN NIGERIA

MARCH 2019

Table of Contents

Definition of Terms 3
1 Background 5
1.1 Introduction 5
1.2 Scope of the Guidelines 5
1.3 Objectives of the Guidelines 6
1.4 Rationale for Income Smoothing 6
1.5 Types of Investors & Investment Accounts 7
1.6 Categorization of Smoothing Techniques 8
2 Permissible Income Smoothing Techniques for NIFIs 8
2.1 Profit Equalization Reserve 8
2.2 Foregoing Part or All of the Mudarib's Share of Profit 9
2.3 Transfers from Shareholders' Current or Retained Profit 9
2.4 Investment Risk Reserve 10
3 Specific Requirements on Income Smoothing 10
3.1 Disclosure and Transparency 10
3.2 Liquidation of Non-interest Banks & Other Financial Institutions 11
3.3 Capital Adequacy 11
3.4 Terms and Conditions of a PSIA Contract 11
4 Governance of Income Smoothing at Institutions 12
4.1 Internal Policy on Income Smoothing 12
4.2 Board of Directors 12
4.3 Governance Committee 12
4.4 Advisory Committee of Experts 13
4.5 Internal Audit/Shariah Review & External Audit 13

DEFINITION OF TERMS

Hibah (Gift)	A unilateral transfer of ownership of a property or its benefit to another party without any counter-value from the recipient.
Ijarah (Leasing)	*An Ijarah* contract refers to an agreement made by Non-Interest Islamic Financial Institutions (NIFIs) to lease to a customer an asset specified by the customer for an agreed period against specified installments of lease rentals. An *Ijarah* contract commences with a promise to lease that is binding on the part of the potential lessee prior to entering the *Ijarah* contract.
Income Smoothing	The practice of levelling out the profit pay-out to investment account holders (IAH) by NIFIs.
Investment Risk Reserve (IRR)	Investment Risk Reserve is the amount appropriated by the NIFIs out of the income of Investment Account Holders (IAH), after allocating the *Mudarib's* share, in order to cushion against future investment losses for IAH.
Islamic Financial Services Board (IFSB)	The IFSB is an international standard-setting organization, which promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors. The Malaysia-based institution complements the efforts of Basel Committee on Banking Supervision (BCBS) and other international standard setting organization on prudential regulation that focus on conventional financial institutions.
Mubara'at (Waiver)	An agreement between a NIFI and its customer whereby the customer waives a certain portion of his profits earned during the investment period.
Mudarabah (Trust Partnership)	A contract between the capital provider (*Rabb-ul-Mal)* and a skilled entrepreneur (*Mudarib)* whereby the capital provider contributes capital to an enterprise or activity that is to be managed by the entrepreneur as the *Mudarib* (or labor provider). Profits generated by the enterprise or activity are shared in accordance with the terms of the *Mudarabah* agreement while losses are borne solely by the capital provider, unless the losses are due to the *Mudarib*'s misconduct, negligence or breach of contractual terms.
Murabahah (Cost Plus Mark-up Sale)	A *Murabahah* contract refers to a sale contract whereby the NIFIs sell to a customer at an agreed profit margin plus cost, a specified kind of asset that is already in their ownership and possession.

Non-Interest Financial Institutions	Means banks and other financial institutions under the regulatory purview of the Central Bank of Nigeria that provide banking and other financial services on the basis of Islamic Commercial Jurisprudence.
Profit Sharing Investment Accounts (PSIA)	These are accounts on the liability side of NIFIs' balance sheet that share in the profit and bear the losses generated from the investment of their funds. The owners of these accounts are called Investment Account Holders (IAHs).
Profit Equalization Reserve (PER)	PER is the amount appropriated by the NIFIs out of the *Mudarabah* income, before allocating the *Mudarib's* share, in order to maintain a certain level of return on investment for IAH and to increase owners' equity.
Restricted Investment Account (RIA)	An account in which the holder authorizes a NIFI to invest funds based on *Mudarabah* or *Wakalah* contracts with certain restrictions as to where, how and for what purpose these funds are to be invested.
Sukuk (Islamic Investment Certificates)	*Sukuk* are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services, or (in the ownership) of assets of particular projects or special investment activity.
Unrestricted Investment Accounts (URIA)	The account holders authorize the NIFI to invest their funds based on *Mudarabah* or *Wakalah* contracts without imposing any restrictions. The NIFI can commingle these funds with their own funds and invest them in a pooled portfolio.

1.0 BACKGROUND

1.1 Introduction

1. In the exercise of the powers conferred on the Central Bank of Nigeria (CBN) by Section 55(2) of the CBN Act 2007, which is to make rules and regulations for the operation and control of all institutions under its supervision, the provisions herein are made as Guidelines on the Practice of Smoothing the Profit Payout to Investment Account Holders for Non-Interest Financial Institutions in Nigeria (NIFIs), herein after referred to as "income smoothing" or "smoothing".

2. Section 11.3 of the Guidelines for the Regulation and Supervision of Institutions Offering Non-Interest Financial Services in Nigeria issued by the CBN permits NIFIs under its regulatory purview to practice income smoothing.

3. Income smoothing is defined as a Shariah-compliant technique employed by NIFIs to pay a certain level of competitive returns to Profit Sharing Investment Account Holders (PSIAHs). Various factors necessitate smoothing and are explained in Section 1.4 of this Guidelines.

4. This Guidelines complements relevant CBN Guidelines that deal with the subject. These include Guidelines on Corporate Governance for Non-interest Banks and Other Financial Institutions; various Guidance Notes on Calculation of Capital Requirements for Non-Interest Financial Institutions; Guidance Notes on Disclosure Requirements to Promote Market Discipline for Non-Interest Financial Institutions; Guidance Notes on Supervisory Review Process for Non-Interest Financial Institutions; and Guidelines on the Management of Investment Accounts.

1.2 Scope of Application

5. This Guidelines shall apply to the following NIFIs:
   - Full-fledged non-interest bank or full-fledged non-interest banking subsidiary[1] of a conventional bank;
   - Full-fledged non-interest merchant bank or full-fledged non-interest banking subsidiary of a conventional merchant bank;
   - Full-fledged non-interest microfinance bank;
   - Non-interest Window of a conventional bank;
   - Non-interest subsidiary, branch or window of a non-bank financial institution;
   - A development bank regulated by the CBN offering non-interest financial services;

[1]Conventional banks can only have a NIFI subsidiary under a Holding Company structure arrangement in line with the Guidelines for Licensing and Regulation of Financial Holding Companies in Nigeria issued by the CBN.

- A primary mortgage bank licensed by the CBN to offer non-interest financial services either full-fledged or as a subsidiary; and
- A Finance Company licensed by the CBN to provide non-interest financial services, either full-fledged or as a subsidiary.

1.3 Objectives of the Guidelines

6. The Guidelines is intended to achieve the following objectives:
    - To explain the rationale for income smoothing;
    - To regulate and standardize income smoothing practices by NIFIs in Nigeria;
    - To specify and explain the techniques of income smoothing permitted for NIFIs in Nigeria;
    - To highlight some specific requirements relating to income smoothing; and
    - To state the role of Advisory Committee of Experts (ACE), Board of Directors (BOD), Governance Committee and Internal Audit/Shariah Review on income smoothing.

1.4 Rationale for Income Smoothing

7. NIFIs obtain a significant portion of their funds for financing and investment from Investment Account Holders (IAHs) based on *Mudarabah* and *Wakalah* contracts. Under the *Mudarabah* contract, the IAHs agree to participate as *Rabb-ul-Mal* in the financing and investment activities undertaken by the NIFIs as *Mudarib* and to share the profits generated from such activities based on a predetermined profit-sharing ratio. As capital owners, IAHs are liable to bear the losses arising from the assets funded under the *Mudarabah* contract, except in the case of fraud, misconduct, negligence, or breach of contracted terms and conditions by the NIFIs.

8. Under the *Mudarabah* contract, the IAHs therefore bear the commercial risk associated with the assets financed by the funds provided by them. At the same time, the NIFIs have a fiduciary obligation to manage the investment assets in a profitable manner and to safeguard the interests of the IAHs through the establishment of sound and prudent policies in the management of the assets funded by them.

9. However, NIFIs in Nigeria, like most of their counterparts in other jurisdictions, face a number of challenges while managing funds provided by the IAHs. Unlike their conventional counterparts that have readily available liquidity management instruments for investment of surplus funds and an efficient money and inter-bank markets including lender of last resort facilities, such infrastructures and instruments are not yet fully developed for NIFIs in Nigeria. This situation is not helped by the limited availability of

long-term but liquid investment instruments called *Sukuk*, which operates like a conventional bond.

10. The unavailability or limited supply of the aforementioned instruments or market mechanisms in Nigeria impacts on NIFIs' liquidity management as result of the holding of significant amounts of cash or other assets with zero or very low rates of return, and these have negative consequences on profitability. This situation results, at times, in the returns earned on IAHs funds being uncompetitive compared to those being offered by its competitors, whether other NIFIs or conventional institutions, and hence to those expected by its unrestricted investment account holders (UIAHs). This leads to *rate of return risk*, which is a particular problem with respect to funds of UIAHs, who typically may withdraw their funds at short notice as a result of low profit share thereby resulting to *withdrawal risk.* This, if unmitigated can ignite systemic risk which is a concern to supervisory authorities.

11. The scenarios painted in paragraphs 9 and 10 lead to Displaced Commercial Risk (DCR) which refers to the risk (i.e. volatility of the stream of income) arising from assets managed on behalf of IAHs that is effectively transferred to the NIFI's own capital because it follows the practice of forgoing part or all of its *Mudarib* share of profit on such funds, and/or making a transfer to UIAHs out of the shareholders' retained profit as a *hibah* when it considers this necessary as a result of commercial pressure. The rate of return paid to the UIAHs is thus "smoothed" at the expense of the profits attributable to the NIFI's shareholders.

12 DCR is caused principally by low income due to the limitations on liquidity management and rate-of-return risk. Rate-of-return risk is the risk of facing a lower rate of return on assets than that currently expected by UIAHs. For instance, a NIFI may have invested UIAHs' funds into relatively long-maturity assets such as long-maturity *Murabahah* and *Ijarah* and thereby have locked in lower rates of return on assets than those currently on offer in the market. DCR results when there is pressure on the NIFIs to match the market expectations of UIAHs.

1.5 Types of Investors and Investment Accounts

13. Two main types of investment accounts may be offered by NIFIs: Unrestricted Investment Accounts (UIAs) and Restricted Investment Accounts (RIAs). In managing UIAs, a NIFI has full discretion to utilize the funds for financing and investments, as UIAHs provide funds without specifying any restrictions as to where, how or for what purpose the funds should be invested, provided that they are *Shari`ah* compliant. For RIA, on the other hand, the mandate is confined to financing and investment activities

agreed between the NIFI and the account holders as to where, how and for what purpose the funds are to be invested.

14. Smoothing may apply to both types of accounts, but in practice it is more generally applied to UIAs since they are considered as *Shari'ah*-compliant substitutes for conventional term deposits. NIFIs usually maintain separate reserves, such as Profit Equalization Reserve (PER) and/or Investment Risk Reserves (IRR) for each type of account for risk management and segregation purposes.

1.6 Categorization of Smoothing Techniques

15. In order to prevent withdrawal risk emanating from IAHs due to low returns, Islamic Financial Institutions (IFIs), in many jurisdictions, resorts to various income smoothing techniques all of which have varying degrees of legal and governance implications to the institutions. The basic purpose of Smoothing is to give better rates of payout to UIAH in periods when assets financed from their funds fail to generate competitive returns vis-à-vis competitors' asset portfolios. In addition, some IFIs are also involved in the practice of building separate reserves for covering losses on the UIAHs' investments.

16. The smoothing methods used by IFIs in various jurisdictions may entail DCR without mitigation, or mitigation of DCR by the use of reserves (PER & IRR). DCR occurs when IFIs, as Mudarib, effectively transfer risk (i.e. volatility of income stream) arising from the assets managed on behalf of UIAHs to their own capital, by forgoing a part or all of (a) the *Mudarib's* share of profit and/or (b) the shareholders' portion of profit in the joint investments in order to increase the rate of return payable to UIAHs.

2.0 PERMISSIBLE INCOME SMOOTHING TECHNIQUES FOR NIFIs IN NIGERIA

2.1 Profit Equalization Reserve

17. NIFIs shall create PER and appropriate to the reserve amount out of the profits earned from the commingled pool of assets before the allocation to UIAHs and *Mudarib* (the NIFI). The amounts appropriated to the PER has the implication of reducing the profits available for distribution to both categories of investors – shareholders and IAHs. The PER allows NIFIs to mitigate considerably their exposure to DCR. The PER is computed by applying an agreed percentage on the gross *Mudarabah* income before allocating the *Mudarib's* share.

18. The internal policy of using PER as a smoothing technique shall be subject to approval of ACE and the BOD. The actual transfers to and from the PER shall be subject to ACE and executive management committee's approval. The consent of IAHs shall also be obtained who shall agree to give up any portion of the reserve as *hibah* on the basis of *Mubara'at* when the *Mudarabah* contracts terminate.

19. The condition that triggers a transfer to PER shall be determined by executive management and approved by the BOD. This should usually be signified when the aggregate rate of return from *Mudarabah* assets exceeds a certain expected level of rate of return payable to IAHs at the end of any given profit calculation period adopted by the NIFI, after deducting the *Mudarib*'s share. This rate (expected rate of return) should typically be a benchmark rate of return. There shall not be any transfer to PER once this rate is not met or exceeded.

20. The maximum amount of transfer to PER at any point shall be set by the BOD and endorsed by the ACE, subject to CBN approval

21. The balance in PER shall be utilized within a maximum period to be set by the BOD and endorsed by the ACE after which it shall be transferred back to income for distribution to existing IAHs and the shareholders.

22. The IAH's portion of PER shall be added to their equity in the liability side of the balance sheet while that of the *Mudarib's* shall be reported under shareholders' funds.

2.2 Forgoing Part or All of the *Mudarib's* Share of Profit

23. A NIFI may forgo or give up part or the entire *Mudarib's* share of profit earned on UIAHs funds. The contractual profit sharing ratio for the *Mudarib* shall be seen as the maximum which can be reduced to zero. However, a NIFI shall not unilaterally increase its profit sharing ratio without obtaining the consent of the IAHs.

24. The overall decision to reduce the profit share for *Mudarib* shall be subject to the consent of the BOD, while a formal approval of executive management committee is required for any reduction of *Mudarib's* share at the time of each profit distribution.

2.3 Transfers from Shareholders' Current or Retained Profit

25. NIFIs may make transfer from current or Retained Profit/General Reserve for distribution to IAHs on the basis of *Hibah*. The use of this smoothing technique shall be subject to BOD approval and shareholders' consent at annual general meeting.

26. The actual amount to be transferred from current profit and/or Retained Profit/General Reserve for distribution to IAHs at any time shall be subject to the decision of executive management committee. The amount of each transfer from current or Retained Profit/General Reserve shall be determined by the BOD subject to the approval of the CBN.

27. Both practices of foregoing part or *Mudarib's* entire share of profits, and transfer from shareholders' amount of retained profits, shall only occur at the point of profit realisation and distribution, but not a condition precedent to the *Mudarabah* agreement.

2.4 Investment Risk Reserve

28. NIFIs shall create IRR and transfer to the reserve amounts out of the profit attributable to IAHs after deducting the *Mudarib's* share in order to cushion the effects of future investment losses on IAHs. This reserve is added to the equity of IAHs. The IRR enables the NIFIs to cover, fully or partially, unexpected losses from the investments of IAHs' funds. It should be noted that the NIFIs do not guarantee the investment losses for IAHs as the reserve is appropriated from their income. The IRR is computed by applying an agreed percentage on the *Mudarabah* income after allocating the *Mudarib's* share.

29. The internal policy of using IRR as a smoothing technique shall be subject to the approval of and the BOD. The consent of IAHs shall also be obtained who shall agree to give up any right they have to the reserve when the *Mudarabah* contract terminates.

30. The maximum amount of transfer to IRR at any point shall be determined by the BOD and endorsed by the ACE subject to CBN approval. IRR complements Shariah-compliant deposit insurance even though the latter is useful only in the event of liquidation.

31. Transfer to IRR shall be made after each profit calculation period whenever the NIFI recorded a positive rate of return on investment of assets funded with PSIA funds.

32. The balance in IRR shall be utilized within a maximum period to be determined by the BOD after which it shall be transferred back to income for distribution to IAHs.

3.0 SPECIFIC REQUIREMENTS ON INCOME SMOOTHING

3.1 Disclosure and Transparency

33. NIFIs shall inform the IAHs that they practice income smoothing, indicating the nature of the smoothing and the types of reserve it maintains.

34. NIFIs shall make relevant disclosures regarding income smoothing in appropriate media as contained in the Guidance Notes on Disclosure Requirements to Promote Market Discipline for Non-Interest Financial Institutions in Nigeria issued by the CBN.

35. NIFIs shall disclose the analysis of the proportion of the RWA funded by IAHs that should be considered in arriving at the total RWA (as specified in the Guidance Notes on Regulatory Capital for Non-Interest Financial Institutions in Nigeria issued by the CBN).

36. NIFIs shall appropriately disclose the process of disposal of PER and IRR in the event of liquidation or termination of contractual relationship.

3.2 Liquidation of Non-Interest Financial Institutions

37. At the time of creating the PER and/or IRR, NIFIs shall have a provision that in the event of their voluntary liquidation, the outstanding PER and/or IRR shall be disposed of either: (i) to those parties who "own" them – that is, existing IAHs and shareholders in the case of PER; or IAHs alone in the case of IRR; or (ii) the funds corresponding to the balances of these reserves should be donated to charity.

38. Notwithstanding paragraph 37, the CBN may decide that the outstanding balance of the reserves should be distributed differently from what was initially agreed between NIFIs and IAHs.

3.3 Capital Adequacy Ratio Computation

39. Where DCR exists, NIFIs are required to allocate capital to cover some of the credit and market risks exposures arising from the assets funded by the IAHs that would otherwise be absorbed by the IAHs. The proportion of the credit and market risks exposures on assets financed by IAH funds, which is to be borne by the NIFI's shareholders because DCR and the resultant Smoothing, is represented by a parameter alpha (α) in the Supervisory Discretion formula of the CAR calculation as specified in the Guidance Notes on Regulatory Capital for Non-Interest Financial Institutions in Nigeria issued by the CBN.

3.4 Terms and Conditions of a PSIAs Contract

40. At the time of establishing the relationship with IAHs, NIFIs shall ensure that the terms and conditions of the *Mudarabah* contracts are in accordance with *Shari'ah* principles and the relevant laws and regulations issued by the CBN and contracts governing the product.

41. NIFIs shall ensure that prohibited and imprudent activities are not undertaken in breach of the terms and conditions of the contract.

42. NIFIs shall ensure that the IAHs are fully aware of and agreeable to the terms and conditions stipulated under the PSIA contract. The terms and conditions shall include profit sharing ratio and basis of profit distribution and allocation. The PSIAs' contractual terms and conditions shall be transparent, concise and written in a simple language that can be easily understood by the IAHs.

43. NIFIs shall clearly state in the investment contract any smoothing practices that they employ – in particular, if they expect the IAHs to forgo their rights to any portion of income which is appropriated for building up reserves such as PER and IRR.

4.0 GOVERNANCE OF INCOME SMOOTHING

4.1 Internal Policy on Income Smoothing

44. NIFIs are required to develop an internal policy on income smoothing to address the requirements of this Guidelines. The policy shall be commensurate to the size and complexity of each institution's operations.

45. The policy shall be subject to ACE's concurrence and the approval of the BOD.

4.2 Board of Directors

46. Considering the importance of IAHs and their peculiar position in NIFIs, the latter have a fiduciary duty towards the IAHs under the *Mudarabah* contract to safeguard the rights and interests of the IAHs whose investment accounts are exposed to credit and market risks arising from the NIFIs' financing and investment activities. Under the existing legal and regulatory framework, it is the responsibility of the BOD to provide a robust oversight and sound monitoring to ensure that investment accounts are managed in the best interests of IAHs.

47. For PER, the basis for computing the amounts to be so appropriated shall be pre-defined and applied in accordance with the contractual terms and conditions accepted by the IAHs and after formal review and approval by the NIFI's BOD. Similarly, the terms and conditions whereby IRR can be set aside and utilized shall be determined and approved by the NIFI's ACE and BOD.

48. The BOD shall review and approve the policies and strategies of the investments and for the management of DCR, and conduct regular reviews of the investment policies and the performance of the asset portfolio in which UIAHs funds are invested.

4.3 Governance Committee

49. IAHs occupy a special place in NIFIs. They provide the bulk of the funds for investment in income-earning assets on the basis of profit-sharing and loss-bearing *Mudarabah* contract. They are similar in many respects to shareholders as their return is not fixed while they bear any loss from the assets invested with their funds. However, unlike shareholders, IAHs are in a weak position to monitor management decisions regarding the profitable management of their funds.

50. Following from paragraph 49, NIFIs shall form a Governance Committee which shall comprise of at least three members one of whom shall be a member of the NIFI's ACE,which shall coordinate and integrate the implementation of the NIFI's Income Smoothing Policy, with the primary objective of protecting the interests of IAHs and other stakeholders. Depending on the size and complexity of the NIFI, an appropriate Board committee such as Board Audit Committee or Board Finance & General Purpose Committee may perform this role.

51. If the function of Governance Committee is performed by any other Board Committee, the Committee's mandate shall include the protection of the interest of IAHs as outlined in paragraphs 49-50 of this Guidelines. The Committee shall be chaired by an independent director.

52. In order to ensure that smoothing, including utilization of reserves such as PER and IRR is appropriately checked and monitored, the Governance Committee shall be mandated to scrutinize the utilization of such reserves and to make appropriate recommendations to the BOD.

53. The Governance Committee shall ensure that the interests of IAHs are taken into account when the profits are appropriated to such reserves or when reserves are drawn down, in order to enhance the profit distribution to IAHs.

54. The Governance Committee shall also evaluate the disclosures made by the NIFI regarding its asset allocation and investment strategies in respect of investment accounts in order to monitor closely the performance of NIFIs as managers of such accounts.

4.4 Advisory Committee of Experts

55. The ACE shall monitor effective management of investment accounts and ensure compliance with internal policy on income smoothing.

4.5 Internal Audit/Shariah Review & External Audit

56. As part of systems and controls, the NIFI's Internal Audit or Internal *Shari'ah* Review shall verify the conformity to the approved policies and procedures relating to profit calculation and Smoothing. This review shall also be within the scope of External Audit.

GUIDANCE NOTES ON THE CALCULATION OF CAPITAL REQUIREMENT FOR CREDIT RISK FOR NON-INTEREST FINANCIAL INSTITUTIONS IN NIGERIA

STANDARDIZED APPROACH

MARCH 2019

Contents

1.0 INTRODUCTION ... 6
1.1 Individual Claims Based on External Credit Assessments ... 7
1.2 Off-balance Sheet Exposures ... 9
1.3 Exposures in Investments Made under Profit-Sharing Modes ... 10
1.3.1 Commercial enterprise to undertake a business venture ... 10
(a) Simple risk-weight method ... 11
1.3.2 Supervisory slotting method ... 12
1.3.4 Equity investments in a company or an Islamic collective investment scheme not held for short-term resale or trading purposes ... 12
1.3.5 A Specified Project ... 13
1.3.6 *Musharakah* with *Ijarah* or *Murabahah* sub-contract ... 13
1.3.7 Preferential Risk Weights Based on Underlying Assets ... 14
1.4. Retail Portfolios ... 14
1.5. Residential Real Estate ... 15
1.6. Commercial Real Estate ... 15
1.7 Past Due Receivables ... 16
1.8. Other Assets ... 16
1.9 Higher Risk Weights ... 16
2.0 CREDIT RISK MITIGATION ... 17
2. 1. Credit Risk Mitigation Techniques ... 18
2.2 Types of Collateral ... 20
2.3 Risk Mitigation Approaches ... 21
2.3.2 Comprehensive Approach ... 22
2.4. Maturity Mismatch ... 24
2.5 Credit Risk Mitigation for *Mudarabah* Exposures ... 24
2.6 Treatment of an Exposure Covered by Multiple CRM Techniques ... 25
2.7 Recognition of Ratings by ECAI ... 25
3.0 COMMODITY *MURABAHAH* TRANSACTIONS ... 25
3.1 Capital Requirements for CMT ... 26
3.2.1 Credit Risk Weight for Commodity Murabaha Transactions ... 26
4.5 Capital Requirements for *Sukuk* ... 26
APPENDIX A: SUPERVISORY SLOTTING FOR NIFI's PRODUCTS ... 28
APPENDIX B: SUPERVISORY SLOTTING FOR DIMINISHING MUSHARAKAH ... 35

DEFINITION OF TERMS

Non-interest Financial Institutions	Means banks and other financial institutions under the regulatory purview of the Central Bank of Nigeria that provide banking and other financial services on the basis of Islamic Commercial Jurisprudence.
Investment Account Holders (IAHs)	These are individuals and institutions that place funds with NIFIs for the purpose of profit sharing under *Mudarabah* and *Musharakah* contracts. Losses, if any, are borne by the investment account holders.
Diminishing *Musharakah* (DM)	A form of partnership in which one of the partners (Customer) promises to buy the equity share of the other partner (NIFI) over a period of time until the title to the equity is completely transferred to the buying partner.
Hibah (Gift)	A unilateral transfer of ownership of a property to another without any counter-value from the recipient.
Ijarah (Leasing)	An *Ijarah* contract refers to an agreement made by NIFIs to lease to a customer an asset specified by the customer for an agreed period against specified instalments of lease rentals. An *Ijarah* contract commences with a promise to lease that is binding on the part of the potential lessee prior to entering the *Ijarah* contract.
Ijarah wa Iqtina (Finance Lease)	A finance lease contract that provides a separate promise of the lessor giving the lessee an option to own the asset at the end of the lease period either by purchase of the asset through a token consideration or payment of the market value, or by means of a *Hibah* contract.
Investment Risk Reserve (IRR)	The amount appropriated by the NIFIs out of the income of Investment Account Holders (IAH), after allocating the *Mudarib*'s share in order to cushion against future investment losses for IAH.
Islamic Window	An Islamic window is part of a conventional financial institution that mobilises deposits and provides fund management (investment accounts), financing and investment, and other banking services that are Shariah compliant, with proper segregation of funds from the parent unit.
Istisna (Construction)	A contract of sale of specified objects to be manufactured or constructed, with an obligation on the part of the manufacturer or builder to deliver the objects to the customer upon completion.
Mubara'at (Mutual Waiver)	An agreement between a NIFI and its customer whereby at the time of early withdrawal, the customer will waive a certain portion of his profits earned during the investment period, and the NIFI will not recall any payment made to him on losses incurred in the investment period.
Mudarabah (Trust Partnership)	A partnership contract between the capital provider (*Rabb al-Mal*) and an entrepreneur (*Mudarib*) whereby the capital provider would contribute capital to an enterprise or activity that is to be managed by the entrepreneur. Profits generated by that enterprise or activity are shared in accordance with the percentage specified in the contract,

	while losses are to be borne solely by the capital provider unless the losses are due to the entrepreneur's misconduct, negligence or breach of contracted terms.
Murabahah (Cost Plus Mark-Up Sale)	A sale contract whereby the institution offering Islamic financial services sells to a customer a specified kind of asset that is already in its possession, whereby the selling price is the sum of the original price and an agreed profit margin.
Murabahah for the purchase orderer (MPO)	A sale contract whereby the institution offering Islamic financial services (NIFI) sells to a customer at cost plus an agreed profit margin (selling price) a specified kind of asset that has been purchased and acquired by the NIFI based on a promise to purchase from the customer, which can be binding or non-binding.
Musharakah (Partnership)	A contract between the NIFI and a customer whereby both would contribute capital to an enterprise, whether existing or new, or to ownership of a real estate or movable asset, either on a temporary or permanent basis. Profits generated by that enterprise or real estate/asset are shared in accordance with the terms of the Musharakah agreement, while losses are shared in proportion to each partner's share of capital.
Profit Equalization Reserve (PER)	The amount appropriated by the institution offering Islamic financial services out of the *Mudarabah* income, before deducting the *Mudarib's* share, in order to maintain a certain level of return on investment for investment account holders and to increase owners' equity.
Qarḍ (Loan)	A loan intended to allow the borrower to use the funds for a period with the understanding that this would be repaid at the end of the period, where it is not permissible for any increase in cash or benefit.
Restricted Investment Account (RIA)	An account in which the holder authorizes a NIFI to invest funds based on *Mudarabah* or *Wakalah* contracts with certain restrictions as to where, how and for what purpose these funds are to be invested.
Salam (Forward Sales)	An agreement to purchase, at a pre-determined price, a specified kind of fungible commodity not currently available to the seller, which is to be delivered on a specified future date as per agreed specifications and specified quality. The institutions offering Islamic financial services as the buyers make full payment of the purchase price upon conclusion of a *Salam* contract.
Shari`ah (Islamic Law)	The divine laws derived from the Qur'an and Sunnah and other sources such as consensus and analogical deductions from the Qur'an, Sunnah and consensus.
Advisory Committee of Experts (ACE)	An independent body set up by Non-Interest Financial Institutions (NIFIs), as part of their *Shari'ah* governance system, to supervise and ensure compliance with the *Shari'ah*.
Sukuk	*Sukuk* are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services, or (in the

(Islamic Investment Certificates)	ownership) of assets of particular projects or special investment activity.
Takaful (Islamic Insurance)	The term "*Takaful*" is derived from Arabic word which means solidarity, whereby a group of participants agree among themselves to support one another jointly against a defined loss. In a *Takaful* arrangement, the participants contribute a sum of money as wholly or partially *Tabarru* (donation) into a common fund, which will be used for mutual assistance for the members against a defined loss or damage, according to the terms and conditions of the Takaful.
Unrestricted Investment Accounts (UIA)	The account holders authorize the NIFI to invest their funds based on *Mudarabah* or *Wakalah* contracts without imposing any restrictions. The NIFI can commingle these funds with their own funds and invest them in a pooled portfolio.
Wadi'ah	The term "Wadi'ah" means custody or safe-keeping whereby the items are held in trust by the safe-keeper. The items are not guaranteed by the safe-keeper, except in the case of misconduct, negligence or violation of the conditions.
Wakalah (Agency Contract)	*Wakalah* is a contract where one party, the principal (*Muwakkil*), appoints the other as agent (*Wakil*) to carry out a business or transaction on his behalf with or without any fee.
Securitization Exposures.	Basel II defines a traditional securitization (in conventional finance) as a structure where the cash flow from an underlying pool of exposures is used to service at least two different stratified risk positions or tranches reflecting different degrees of credit risk. Payments to the investors depend upon the performance of the specified underlying exposures, as opposed to being derived from an obligation of the entity originating those exposures.

1.0 INTRODUCTION

1. Credit risk exposures in Islamic financing arise from accounts receivable in *Murabahah* contracts, counterparty risk in *Salam* contracts, accounts receivable and counterparty risk in *Istisna* contracts, lease payments receivable in *Ijarah* contracts, Capital investment/counterparty risk in *Wakalah* and *Sukuk*[1] held in the banking book. In this Guidance Notes, credit risk is measured according to the standardized approach of Basel II, as will be discussed below, except for certain exposures arising from investments by means of *Musharakah* or *Mudarabah* contracts included in assets in the banking book. The latter are to be treated as giving rise to capital impairment risk as well as credit risk and are risk-weighted depending on the structure and purpose of the enterprise and the types of assets in which the funds are invested.
2. The assignment of Risk Weights (RW) shall take into consideration the following:

   (a) The credit risk rating of a debtor, counterparty or other obligor, or a security, based on external credit assessments. NIFIs are to refer to CBN-approved External Credit Assessment Institutions (ECAIs) that are to be used in assigning credit ratings for the purpose of calculating credit RWs;

   (b) Credit risk mitigation techniques adopted by the NIFI;

   (c) Types of underlying assets that are sold, collateralized or leased by the NIFI; and

   (d) Amount of specific provisions made for the overdue portion of accounts receivable or lease payments receivable.

3. A NIFI shall disclose the names of the ECAIs that it has used for the purpose of assigning RWs to its assets. If there are two assessments by ECAIs chosen by a NIFI which map into different risk weights, the higher RW will be applied. To illustrate, if there are two external credit assessments mapping into credit grades with risk weights of 20% and 50% then the applicable risk weight is 50%. If there are three or more assessments with different risk weights, the assessments corresponding to the two lowest RWs should be referred to and the higher of those two RWs will be applied. For example, if there are three external credit assessments mapping into credit grades with risk weights of 0%, 20% and 50%, and then the applicable risk weight is 20%.

[1] This is an additional item to IFSB-15 in the list of credit risk exposures of Islamic banks. It was added based on Examiners' review of local Islamic banks' operations.

1.1 Individual Claims Based on External Credit Assessments

4. Exposures to the following counter parties are credit risk weighted in accordance with the table below:

Table 1: Risk Weights and Ratings for Exposures to Governments Agencies

Risk Weights Rating/Risk Score	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Below B-**	**Unrated**
ECA Country Risk Score	1	2	3	4 to 6	7	
Counterparty			**Risk Weight (RW)**			
Sovereigns and central banks (a)	0%	20%	50%	100%	150%	100%
Non-central government public sector entities (PSEs)(c)			Subject to CBN regulations from time to time			

Table 2: Risk Weights and Ratings for Exposures to Other Agencies

Rating/Risk Score	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Below B-**	**Unrated**
ECA Country Risk Score	1	2	3	4 to 6	7	
Multilateral development banks (MDBs)(d)	20%	50%	50%	100%	150%	50%
NIFI, banks and securities firms Option 1*	20%	50%	100%	100%	150%	100%
Option 2a**	20%	50%	50%	100%	150%	50%
Option 2b**@(e)	20%	20%	20%	50%	150%	20%
Rating/Risk Score	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**Below BB-**		**Unrated**
Corporate	20%	50%	100%	150%		100%

*Credit assessment based on ECAI of sovereigns.

**Credit assessment based on an ECAI of the NIFIs and securities firms.

@ Applicable for original maturity ≤ 3 months which is not rolled over.

5. Notwithstanding the ratings by the ECAIs, the following exceptions can apply:

(a)The Central Bank of Nigeria (CBN) has the discretion to reduce the RW for exposures to the sovereigns and central banks that are denominated and funded in domestic currency. This lower RW may be extended to the risk-weighting of collateral and guarantees. The CBN may extend this treatment to portions of claims guaranteed by the sovereigns or central banks,

provided the guarantee is denominated in the domestic currency and the exposure is funded in that currency.

(b) Inclusive of international organizations/official entities that will receive a 0% RW as determined by the CBN.

(c) Exposure to Public Sector Entities (PSEs) such as Ministries, Departments and Agencies (MDAs) owned by the Federal Government shall be assigned a risk weight of 100% regardless of the length of the residual maturities of the exposure. Public sector entities include both commercial and non-commercial entities owned by Federal, State and Local Government. The exposure of on a foreign PSE shall be risk weighted according to the credit rating applicable to the jurisdiction where the PSE is located.

(d) Exposure to State and Local Governments in Nigeria shall receive the following risk weights:

i. 20% risk weight for State Government *Sukuk and* exposures that meets the eligibility criteria for classification as liquid assets by the CBN as per the Guidelines for Granting Liquid Assets Status to *Sukuk* Instrument issued by state governments.
ii. 50% risk weights for other State Governments *Sukuk* and exposures that do not meets the eligibility criteria for classification as liquid assets by the CBN.
iii. 100% risk weight for other Local Government Sukuk and exposures.

(d) The following Multilateral Development Banks are eligible for a 0% Risk Weight;

1) International Bank for Reconstruction and Development (IBRD);
2) International Finance Corporation (IFC);
3) African Development Bank (AfDB);
4) Asian Development Bank (ADB)
5) European Bank for Reconstruction and Development (EBRD)
6) Inter-American Development Bank (IADB)
7) European Investment Bank (EIB)
8) European Investment Fund (EIF)
9) Nordic Investment Bank (NIB)
10) Caribbean Development Bank (CDB)
11) Islamic Development Bank (IDB)
12) Council of Europe Development Bank (CEDB)
13) International Islamic Liquidity Management Corporation (IILMC)
14) Any other MDBs that may be specified from time to time by the CBN.

(e) Under Option 2b, the RWs are one category less favorable than that assigned to claims on the sovereigns subject to a floor of 20% when the exposure is denominated and funded in domestic currency.

(f) An unrated corporate shall not be given a preferential RW compared to its sovereign. The CBN has the discretion to require a RW higher than 100%, or to allow all corporates to be risk-weighted at 100%.

6. For any claim with an original maturity of up to three months that is not rolled over, the short-term RW as set out in the table below shall be applied.

Table 3: Risk Weights and Ratings for Exposures base on maturity

Rating/Risk Score	A-1 / P-1	A-2 / P-2	A-3 / P-3 or unrated	Others
Risk weight	20%	50%	100%	150%

7. The CBN has the discretion to allow a NIFI to apply an internal-rating based approach if it meets the minimum requirements set by CBN.

1.2 Off-balance Sheet Exposures

8. Off-balance-sheet items under the standardized approach will be converted into credit exposure equivalents through the use of Credit Conversion Factors (CCF).

9. Commitments with an original maturity up to one year and those with an original maturity over one year will receive a CCF of 20% and 50%, respectively. However, any commitments that are unconditionally cancellable at any time by the NIFI without prior notice, or that effectively provide for automatic cancellation due to deterioration in the credit worthiness of the obligor will receive a 0% CCF.

10. An import or export financing which is based on *Murabahah* where the underlying shipment are collateralized and insured shall attract a 20% CCF to the NIFI that issues or confirms the Letter of Credit (LC). This treatment of collateral assumes there are no obstacles to the exercise of rights over it by the issuer or confirmer.

11. *Shari'ah*-compliant alternatives to repurchase agreements and securitized financing will receive a CCF of 100%. Furthermore, a CCF of 50% will be applied to certain transaction-related contingent items such as performance bonds, bid bonds and warranties. Direct credit substitutes, such as standby letters of credit serving as financial guarantees against financing and securities, or irrevocable credit commitments, will receive a CCF of 100%.

12. *Shari'ah*-compliant hedging contracts that are traded over-the-counter (OTC) expose a NIFI to counterparty credit risk (CCR). CCR refers to the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transaction or portfolio of transactions with the counterparty had a positive economic value at the time of default. Unlike a firm's exposure to credit risk through a financing arrangement where the exposure to credit risk is unilateral and only the NIFI financing the transaction faces the risk of loss, CCR involves a bilateral risk of loss that is, the market value of the transaction can be positive or negative to either counterparty to the transaction, depending on the movements in the market prices of the underlying variables.

13. A credit equivalent for *Shari'ah*-compliant hedging techniques can be derived using the Current Exposure Method. The credit equivalent exposure is based on the positive mark-to-market replacement cost of the contract. An add-on factor will be added to cover for potential future credit exposure.

1.3 Exposures in Investments Made under Profit-Sharing Modes

14. A NIFI shall provide financing and hold investments made under profit and loss sharing mode (*Musharakah*) or profit-sharing and loss-bearing mode (*Mudarabah*) which may be used, *inter alia,* to invest in the following:

(a) Commercial enterprise to undertake a business venture (with the intention of holding the investment for an indefinite period or with a view to eventual sale, such as venture capital investments or privately held equity);

(b) Diminishing *Musharakah* in which the share of the NIFI can be gradually reduced during the tenure of the contract until the asset is fully sold to the partner(s);

(c) Equity investment in a company or an Islamic collective investment scheme not held for short-term resale or trading purposes;

(d) Specific project; or

(e) Joint ownership of real assets or movable assets (such as cars) on a *Musharakah* basis for onward lease or sale on an *Ijarah* or a *Murabahah* basis, respectively (i.e. *Musharakah* with an *Ijarah* or *Murabahah* sub-contract).

15. This section also covers such exposures of the NIFI that are not held for trading but for the purpose of earning investment returns from medium- to long-term financing (i.e. held in the "banking book"). Such investments are:

(a) Not held with the intent of trading or short-term resale benefiting from actual or expected price movements.

(b) Not marked-to-market on a daily basis;

(c) Not actively monitored with reference to market sources; and

(d) Exposed to credit risk in the form of capital impairment risk

16. In assigning the RW, consideration shall be given to the intent of the profit-sharing investment, and to the nature of the underlying assets. For the purpose of determining minimum capital requirements, the RW shall be applied based on sections 1.3.1 to 1.3.6 below.

1.3.1 Commercial enterprise to undertake a business venture

17. Financing on a *Musharakah* or *Mudarabah* basis of a commercial enterprise to undertake a business venture can expose a NIFI to capital impairment risk as well as credit risk, to an extent that depends on the structure and purpose of the financing and the types of assets in which the funds are invested. Commonly, a NIFI would invest in a commercial

enterprise with the intention of holding the investment for an indefinite period or with a view to eventual sale (as in the case of venture capital or private equity investments). As an equity investor, the NIFI's rights and entitlements are subordinated to the claims of secured and unsecured creditors. Capital impairment risk is the risk of losing the amount invested in an enterprise or in the ownership of an asset. Such impairments may arise for two kinds of reasons:

(a) The investee may be unprofitable, so that the investor NIFI fails to recover its investment; and

(b) The *Musharakah* partner or *Mudarib* may fail either to:

(i) pay the NIFI's share in the profit on a periodical basis, as contractually agreed; or

(ii) settle the NIFI's entitlement to its share of the capital and the profits at the time of redemption.

18. The former reason is an impairment of capital without any credit default being involved; whereas the latter, being a failure of the partner to meet its contractual obligations, is a type of credit default.

19. The RW for such investments (*Mudarabah* and *Musharakah*) shall be calculated according to either of the following methods:

(a) Simple risk-weight method, treating the investment as an equity exposure held in the banking book;
(b) Supervisory slotting method, considering the investment as a type of specialized financing.

(a) Simple risk-weight method

20. For *Musharakah* or *Mudarabah* investments in commercial enterprises whose common shares are listed on a recognized security exchange, a 300% RW is to be applied. For *Musharakah* or *Mudarabah* investments in all other enterprises, a 400% RW will be applicable.

21. From a risk management perspective, a major distinction between *Mudarabah* and *Musharakah* financings relates to the NIFI's involvement in the investments during the contract period. In *Mudarabah*, the NIFI invests as a silent partner and the management is the exclusive responsibility of the other party, namely the *Mudarib*. In contrast, in *Musharakah* financing, the NIFI (and its partner or partners) invest their funds together, and the NIFI may be a silent partner, or may participate in management. Therefore, the CBN may at its discretion allow the application of a 300% RW for any such *Musharakah* financing. Furthermore, in all cases where the NIFI can withdraw its financing at short notice (maximum five working days), the investment may be considered as being as liquid as publicly traded equity holdings. The applicable RW in such a case will be 300%.

22. In other types of financing, a NIFI can use eligible *Shari'ah*-compliant risk mitigation techniques in profit-sharing financing to reduce the credit exposure and risk of possible capital impairment. The use of such risk mitigation and subsequent reduction in credit exposure shall be taken into account when calculating the capital requirements of the NIFI.

1.3.2 Supervisory slotting method

23. In appropriate cases related mostly to project finance or business ventures, the CBN may permit a NIFI to employ an alternative approach, namely the supervisory slotting criteria. Under this method, a NIFI may be required to map its internal risk grades into four supervisory categories for specialized financing, as set out in Appendix A. Each of these categories will be associated with a specific RW, as given in the following. These RWs include an additional fixed factor of 20% RW to cater for the potential decline in the *Mudarabah's* or *Musharakah's* net asset value.

Table 4: Supervisory Slotting Method Risk Weights

Supervisory Categories	Strong	Good	Satisfactory	Weak
Risk weights	90%	110%	135%	270%

1.3.3 Diminishing Musharakah

24. If a Diminishing *Musharakah* contract is related to a specific fixed asset/real estate leased to a customer under an *Ijarah* contract, the NIFI's credit exposure will be similar to an exposure under a *Musharakah* with an *Ijarah* sub-contract. In this case, the *Musharakah* investment shall be assigned a RW based on the credit standing of the counterparty/lessee, as rated by an ECAI and 100% RW on residual value of an asset. In case the counterparty is unrated, a RW of 100% shall apply.

25. However, if the exposure under the Diminishing *Musharakah* contract consists of working capital finance in the customer's business venture, the NIFI shall measure its credit risk similarly to an equity exposure held in the banking book. This treatment will be, however, subject to the consideration of any third-party guarantee to make good impairment losses. In that case, the RW of the guarantor shall be substituted for that of the outstanding balance of the *Musharakah* investment for the amount of any such guarantee. Moreover, subject to CBN approval, a NIFI can use the supervisory slotting method, based on the criteria set out in Appendix B.

1.3.4 Equity investments in a company or an Islamic collective investment scheme not held for short-term resale or trading purposes

26. Such a holding is not a trading book exposure, and thus the "look-through" principle, whereby the RW of the exposure would be that of the underlying assets does not apply and the exposure is that of an equity position in the banking book. Banking book investments would not normally include investments in common shares or Islamic collective investment schemes that are publicly listed.

27. However, if such an investment is in an entity or Islamic collective investment scheme (consisting predominantly of equity instruments/stocks) that is publicly listed on a recognized securities exchange, the holding being not for short-term resale or trading purposes, a 300% RW shall be applied, consistent with the simple RW method. Likewise, a 400% RW shall be applied to all other equity holdings. The exposure in such investments shall be measured at the carrying values of the investments, according to the International Financial Reporting Standards (IFRS).

1.3.5 A Specified Project

28. A NIFI can advance funds to a construction company which acts as *Mudarib* in a construction contract for a third-party customer (ultimate customer). The ultimate customer will make progress payments to the *Mudarib*, who in turn makes payments to the NIFI. The essential role of the NIFI in this structure is to provide bridging finance to the *Mudarib* pending its receipt of the progress payments. In this *Mudarabah* structure, the NIFI as investor advances funds as *Rabb-al-Mal* to the construction company as *Mudarib* for the construction project, and is thus entitled to a share of the profit of the project but must bear 100% of any loss (except in cases of negligence or misconduct). In most cases, the NIFI has no direct or contractual relationship with the ultimate customer, but in such a structure the NIFI stipulates that payments by the ultimate customer to the *Mudarib* be made to an account ("settlement account") with the NIFI which has been opened for the purpose of the *Mudarabah* and from which the *Mudarib* may not make withdrawals without the NIFI's permission.

29. In such a case, the NIFI is exposed to the risk on the amounts advanced to the *Mudarib* under the *Mudarabah* contract, but this risk would be mitigated by the amounts received from the ultimate customer into the "settlement account" which are effectively collateralized, Thus, while under the *Mudarabah* contract the amounts advanced by the NIFI to the *Mudarib* would normally be treated under credit risk as "equity positions in the banking book", the use of the structure involving a "settlement account", whereby the ultimate customer makes payments into such an account with the NIFI instead of making payments directly to the *Mudarib*, has the effect of substituting the credit risk of the ultimate customer for that of the *Mudarib* to the extent of the collateralized balance of the "settlement account".

30. In addition to credit risk (i.e. in the absence of a settlement account, the risk that the *Mudarib* has received payment from the ultimate customer but fails to pay the NIFI, or, if the settlement account is used, that the ultimate customer fails to pay), the NIFI is exposed to capital impairment in the event that the project results in a loss. The proposed RW and impact of credit risk mitigation are explained in section 1.3.6

1.3.6 *Musharakah* with *Ijarah* or *Murabahah* sub-contract

31. A NIFI can establish joint ownership of tangible fixed assets (such as cars, machinery, etc.) with a customer on a *Musharakah* basis, the assets being leased or sold on an *Ijarah*

or a *Murabahah* basis, respectively. In these cases, the "look-through" principle (whereby the RW is that of the underlying contract) applies, as explained below:

a) In the case of *Ijarah*, ownership of such assets can produce rental income for the partnership, through leasing the assets to third parties by means of *Ijarah* contracts. In this case, the risk of the *Musharakah* investment is that of the underlying *Ijarah* contracts – that is, credit risk mitigated by the "quasi-collateral" represented by the leased assets. In the event the asset is leased to the NIFI's partner as a customer instead of to a third party, the credit risk will relate to the partner's obligation to pay the lease rentals. This *Musharakah* investment shall be assigned a RW based on the credit standing of the counterparty/lessee, as rated by CBN-approved ECAI, and a 100% RW on the residual value of the *Ijarah* asset. In the event the counterparty is unrated, a RW of 100% shall apply.

b) In the case of *Murabahah*, the NIFI is entitled to its share of income (mark-up) generated from selling the assets to third parties. The NIFI as a capital contributor is exposed to credit risk in respect of the *Murabahah* receivables from the buyer/counterparty. This *Murabahah* investment shall be assigned a RW based on the credit standing of the counterparty/buyer, as rated by CBN-approved ECAI. In the event the counterparty is unrated, a RW of 100% shall apply.

1.3.7 Preferential Risk Weights Based on Underlying Assets

32. The RW of a debtor, counterparty or other obligor shall be reduced and given preferential treatment if the underlying assets are financed under *Murabahah*, *Ijarah (Operating Lease)*, *Ijarah Wa Iqtinah (Finance Lease)*, *Istisna* or Diminishing *Musharakah*.

1.4. Retail Portfolios

33. The RW to exposures of a NIFI to retail portfolio shall be 75% if the exposures meet the following conditions:

(a) The financing is provided to an individual person or persons or a small business;

(b) The subject matter of the financing is pledged as collateral to the NIFI;

(c) The aggregate receivables (accounts receivable in *Murabahah* and *Istisna`*, lease payments receivable in *Ijarah Wa Iqtinah*, and share purchase plus lease receivables in Diminishing *Musharakah*) due from a single counterparty or person(s) shall not exceed ₦100 Million subject to CBN guideline from time to time; and

(d) The regulatory retail portfolio is adequately diversified so that this reduces the risks in the portfolio. Aggregate exposure (without taking any credit risk mitigation into account) to one counterpart cannot exceed 1% of the overall regulatory retail portfolio. CBN may at its discretion specify the numerical limit from time to time.

34. Any retail financing contract which is collateralized (or quasi-collateralized) by an asset other than the subject matter of the financing will not qualify for this preferential

treatment unless the value of such collateral after adjustment for haircuts is higher than the aggregate selling price of the financed asset throughout the tenure of the contract.

35. For any financing on the basis of the aforementioned contracts that is fully secured by real estate, the accounts or lease payments receivable can be excluded from this category and qualify for a lower RW as stated with respect to residential real estate (RRE) in section 1.5.

1.5. Residential Real Estate

36. A NIFI shall apply RW of 75% if the property is located in Nigeria subject to meeting the prudential criteria imposed by the CBN, which include, *inter alia*:

    (a) The real estate is to be utilized for residential purposes only;

    (b) The subject matter of RRE must be pledged as collateral (or serve as quasi-collateral) to the NIFI in the case of *Murabahah*, *Ijarah Wa Iqtinah* or Diminishing *Musharakah*;

    (c) The total accounts/lease receivables do not exceed 50% of the market value of the collateralized RRE subject to professional valuation of the RRE made within one year preceding the contract date, the 50% figure being subject to the CBN's discretion; and

    (d) There exists a legal infrastructure whereby the NIFI can enforce the repossession and liquidation of the RRE.

    The CBN has discretion to apply a higher RW if any of the above criteria are not met.

1.6. Commercial Real Estate

37. NIFIs shall apply a RW of 100% for Commercial Real Estate (CRE) located in Nigeria. However, subject to the CBN's discretion, a preferential RW of 50% can be applied provided that, *inter alia*:

    (a) a well-developed and long-established CRE market is readily available;

    (b) financing is provided for office and/or multi-purpose premises and/or multi-tenanted premises;

    (c) the CRE is collateralized (or quasi-collateralised) in case financing is provided on the basis of *Murabahah*, *Ijarah Wa Iqtinah* or diminishing *Musharakah*;

    (d) the tranche or outstanding balance of the financing does not exceed 50% of the market value of the collateralized CRE; and

    (e) total losses from CRE financing do not exceed 0.5% of the total amount due in respect of the outstanding balance of the financing in any given year.

1.7 Past Due Receivables

38. In the event that accounts receivable or lease payments receivable become past due, the exposure shall be risk-weighted in accordance with the following table. The exposures should be risk-weighted net of specific provisions.

Table 5: Risk Weights for Past Due Exposures

Type	Risk Weighted	% of Specific Provisions for Past Due Receivables
Unsecured exposure (other than unsecured portion of receivable partly secured by RRE) that is past due more than 90 days, net of specific provisions.	150%	Less than 20% of the outstanding receivables.
	100%	At least 20% of the outstanding receivables.
	100%	At least 50% of the outstanding receivables, but the CBN have discretion to reduce RW to 50%.
Exposure fully secured by other than eligible collateral.	100%	At least 15% of the outstanding receivables. The CBN is to set strict operational criteria to ensure the quality of collateral.
Exposure secured by RRE	100%	For receivables that are past due for more than 90 days, net of specific provisions.
	50%	The RW can be reduced to 50% RW if specific provisions are at least 20% of the outstanding receivables at CBN discretion.

1.8. Other Assets

39. Other assets shall be risk-weighted at 100%. A RW of 20% shall be applicable on cash items under collection. Investments in regulatory capital instruments issued by banks or securities firms will have a RW of 100%, provided they are not deducted from the capital of the NIFI.

1.9 Higher Risk Weights

40. The following exposures are regarded as high risk exposures and are assigned specific risk weights as follows:

    a) Investments in venture capital firms will be risk weighted 150%;

    b) Investment in equity financial instruments that are non-publicly traded (inclusive of investments/financing structured based on Musharakah and Mudarabah contracts) shall be risk-weighted at 150%

c) Investment in non-financial firms with negative financial results over the past two years will be risk-weighted at 200%.

d) Where exposure to a particular industry within a sector (as defined by the International Standard Industrial Classification of Economic Sectors as adopted by CBN) is in excess of 20% of total credit facilities of the bank, the risk weights of the entire exposures to that industry will be 150%. If, for instance, the total exposure of a bank to food manufacturing industry within the manufacturing sector is in excess of 20% of the total credit facilities, the entire exposure to food manufacturing industry will be risk weighted at 150%.

2.0 CREDIT RISK MITIGATION

41. The exposure in respect of a debtor, counterparty or other obligor can be further adjusted or reduced by taking into account the Credit Risk Mitigation (CRM) techniques employed by the NIFIs. This section covers CRM used by NIFIs in the Standardized Approach and outlines criteria, methodologies and specific requirements for using these techniques.

42. The use of only one CRM technique on an exposure is permitted. However, double counting of CRM impacts shall not be permitted. Therefore, additional supervisory recognition of CRM will not be allowed on receivables for which an issue-specific rating is used that already reflects that CRM. NIFIs should also take into account any residual risks arising out of use of CRM techniques such as market, operational, legal and liquidity risks. Therefore, a NIFI should have a strategy, policies and procedures to control and manage residual risks. Further, the impact of these risks on the overall credit profile and concentration risk of the NIFI should be monitored and controlled.

43. The collateral used as a part of CRM must be compliant with *Shari'ah* requirements. The collateralization shall be properly documented in a security agreement or in the body of a contract to the extent permissible by *Shari'ah*, and must be binding on all parties and legally enforceable and should carry out periodic reviews to confirm its enforceability at all times. The NIFI cannot recognize a commitment to provide collateral or a guarantee as an eligible CRM unless such a commitment is actually executed.

44. There shall be a negligible positive correlation, if any, between the value of collateral and the credit quality of counterparty. Consequently, securities issued by a counterparty or its related entities would not be eligible for collateral.

45. For a collateralized transaction – such as *Shari'ah*-compliant alternatives to repo/reverse repo or financing of Sukuk and Islamic securities – capital requirements shall be applicable on either side of the transaction.

46. CBN can impose additional capital charges or take other supervisory steps under Guidance Note on Supervisory Review Process issued by CBN if residual risks are not effectively controlled.

47. The requirements for relevant disclosure of CRM techniques by NIFI are specified under Guidance Note on Disclosure Requirements for NIFIs issued by the CBN.

2. 1. Credit Risk Mitigation Techniques

48. The CRM techniques that will be commonly employed by NIFIs shall be as follows:

(a) ***Hamish Jidiyyah*** (earnest deposit)

49. *Hamish Jidiyyah* (HJ): An earnest deposit taken by a NIFI prior to entering into a contract carries a limited recourse to the extent of damage incurred by the NIFI when the customer fails to honour a binding Promise to Purchase (PP) or Promise to Lease (PL)

(b) ***Urbun*** **(earnest money held after a contract is established to guarantee contract performance)**

50. The *Urbun* taken from a purchaser or lessee when a contract is established accrues to the benefit of the NIFI if the purchaser or lessee fails to execute the contract within the agreed term which qualifies it as an eligible CRMT.

(c) ***Kafalah*** **(Guarantee from a third party i.e. recourse or non-recourse guarantee)**

51. The guarantor may or may not have recourse to the obligor (i.e. purchaser or lessee) and the guarantee can be for a fixed period and for a limited amount, without any consideration being received by the guarantor. However, a claim should first be made against the obligor, and then against the guarantor, unless an option is provided to make the claim against either the obligor or the guarantor.

52. The guarantee can also be given in a "blanket" form that covers an unknown amount or a future receivable. However, this type of guarantee (sometimes known as a "market/business guarantee" or "guarantee of contractual obligation") is revocable at any time prior to the existence of the future receivable and does not qualify as an eligible CRM.

53. The CBN may give capital relief for the use of a guarantee that meets the following conditions:

(i) The guarantee represents the NIFI's direct claim on the guarantor;

(ii) The guarantee is irrevocable and does not allow the guarantor to cancel unilaterally the guarantee after the creation of the receivables;

(iii) The guarantee is unconditional and provides no protection clause that prevents the guarantor from being obliged to pay out in a timely manner in the event that the original counterparty fails to make payments due;

(iv) The NIFI has the right to pursue, in a timely manner, the guarantor for monies outstanding, rather than having to pursue the original counterparty to recover its exposure;

(v) The guarantee shall be an explicitly documented obligation assumed by the guarantor; and

(vi) The guarantee shall cover all types of expected payments made under the contract in the event that the original counterparty defaults.

54. It is permitted to have a range of guarantors to cover the exposure. Guarantees issued by parties with a lower RW than the counterparty will result in a reduction of the capital charge because the credit exposure covered by the guarantee is assigned the RW of guarantor. The RW applicable to the uncovered portion will remain that of the underlying counterparty.

(d) Pledge of assets as collateral

55. The pledged asset must be a *Shari'ah*-compliant asset of monetary value that can be lawfully owned, and is saleable, specifiable, deliverable and free of encumbrance. The pledge must be legally enforceable. The asset pledged may either be the underlying asset or any other asset owned by the customer. The pledge of an asset owned by a third party is subject to the owner's consent to the pledge.

56. The pledger can authorize the NIFI, as the pledgee, to sell the asset and to offset the amount due against the sales proceeds without recourse to the courts. Alternatively, the NIFI can demand the sale of the pledged asset in order to recover the amount due. Any surplus from the sale proceeds is to be returned to the pledger, and any shortfall shall be treated as an unsecured exposure that ranks *pari passu* with other unsecured creditors when the debtor is declared insolvent.

57. In case a NIFI takes collateral of an asset pledged more than once, the collateral of the NIFI shall be ranked either *pari passu* to the collaterals of other earlier pledgees with their consent, or junior to the earlier pledgees, in which case the NIFI's claim shall be limited to the residual value of the pledged asset after payment is made to earlier pledgees. The NIFI shall take the residual value after deducting a haircut under the simple approach or the comprehensive approach (the standard supervisory haircuts or the internal haircuts) to offset its credit exposure but should first ascertain the recoverable value of the asset after taking into consideration the NIFI's position as a pledgee as to whether it ranks *pari passu* with the other pledgee(s) or ranks junior to a pledgee that is registered earlier than the NIFI.

(e) Leased Assets

58. Assets leased under *Ijarah* or Ijarah *Wa Iqtinah* contracts fulfil a function similar to that of collateral, in that they may be repossessed by the lessor in the event of default by the lessee (hence the term "quasi-collateral" used in this Guideline.

(f) On-balance sheet netting

59. Subject to *Shari'ah* approval, netting arrangements between financing assets and deposits/PSIA should be legally enforceable in order to be used as an eligible CRM technique. The net exposure will be used for capital adequacy purposes if the NIFI has a legally enforceable arrangement for netting or offsetting the financing assets and the deposits/PSIA, irrespective of whether the counterparty is insolvent or bankrupt. The NIFI should have a robust system of monitoring those financing assets and deposits/PSIA with the counterparty that is subject to the netting arrangements. In using the net exposure for the calculation of capital adequacy, financing assets shall be treated as exposures and deposits/PSIA as collateral in the comprehensive approach (as per the formula provided in paragraph 67). A zero haircut will be applicable, except in the case of a currency mismatch.

2.2 Types of Collateral

60. The following types of collateral are eligible for relief in respect of the above CRM techniques:

(a) *Hamish Jidiyyah (*security deposit) - only for agreements to purchase or lease preceded by a binding promise.

(b) *Urbun*.

(c) Unrestricted PSIA or cash on deposit with the NIFI which is incurring the exposure.

(d) *Sukuk* rated by an external rating agency, which is issued by:

(i) Sovereigns and PSEs (treated as sovereigns) with a minimum rating of BB-; or

(ii) Issuers other than the above, with a minimum rating of BBB- (for long-term) or A-3/P-3 (for short-term).

(e) *Sukuk* that are unrated by an ECAI but fulfil each of the following criteria:

(i) Issued by a NIFI or a conventional bank (with Islamic windows or subsidiary operations) or a sovereign;

(ii) Listed on a recognized exchange;

(iii) The NIFI which incurs the exposure or is holding the collateral has no information to suggest that the issue would justify a rating below BBB- or A-3/P-3;

(iv) The CBN is sufficiently confident about the market liquidity of the securities;

(v) All rated issues by the issuing NIFI must be rated at least BBB- or A-3/P-3 by a recognized ECAI.

(f) *Shari'ah*-compliant equities and units in Islamic collective investment schemes.

(g) Guarantees issued by third parties that fall within the following categories:

(i) Sovereigns and central banks;

(ii) PSEs;

(iii) MDBs;

(iv) International organizations/official entities with a 0% RW;

(v) NIFI or conventional banks (with Islamic windows or subsidiary operations); and

(vi) Corporate entities (including *Takaful*- and *Shari'ah*-compliant securities firms) of a minimum rating of A-. This category includes guarantees issued by parent, subsidiary and affiliate companies when their RW is lower than the ultimate obligor.

(h) Assets pledged as collateral

61. Any portion of the exposure which is not collateralized shall be assigned the RW of the counterparty.

2.3 Risk Mitigation Approaches

62. Capital relief against the collateral can be granted based on either the simple or the comprehensive approach as described below. However, NIFIs are permitted to use either, but not both, of the approaches in reducing their risk exposures in the banking book. NIFIs can use partial collateralization in both approaches. Maturity mismatches between exposure and collateral will only be allowed under the comprehensive approach.

2.3.1 Simple Approach

63. NIFIs can substitute the RW of the collateral for the RW of the counterparty for the collateralized portion of the exposure, subject to the collateral being pledged for at least the duration of the contract. The RW of that collateralized portion shall not be lower than 20%. The uncollateralized portion of the exposure will be assigned the RW of the counterparty. A 0% RW can be applied where the exposure and the collateral are denominated in the same currency, and the collateral consists of any of the following:

(a) Cash or cash equivalents;

(b) A deposit with the NIFI; or

(c) Sovereign/PSE securities eligible for a 0% RW and its market value has been discounted by 20%.

64. *Shari'ah*-compliant hedging instruments which are normally traded OTC can be given a RW of 0% provided the conditions set out in the following are met:

(a) The OTC *Shari'ah*-compliant hedging instruments are subject to daily mark-to-market.

(b) There is no currency mismatch.

(c) The collateral is cash. In case the collateral is not cash, but consists of *Sukuk* issued by sovereigns/PSE that qualify for a 0% RW in the standardized approach, a minimum RW of 10% shall be applicable.

65. In case the above conditions are not fulfilled, see the Current Exposure Method for calculating the credit equivalent.

2.3.2 Comprehensive Approach

66. In the comprehensive approach, the exposure to a counter party shall be adjusted based on the collateral used. The NIFI shall adjust *both* the amount of the exposure to the counterparty *and* the value of the collateral, using *haircuts* in order to reflect variations in the value of both the exposure and the collateral due to market movements. The resultant volatility-adjusted amount of exposure and collateral will be used for the calculation of capital requirements for the underlying risk exposure. In most cases, the adjusted exposure will be higher than the unadjusted exposure and adjusted collateral will be lower than the unadjusted collateral, unless either of them is cash. An additional downward adjustment for collateral shall be made if the underlying currencies of exposure and collateral are not similar, so as to take account of foreign exchange fluctuations in the future.

67. Risk-weighted assets shall be calculated by computing the difference between the volatility-adjusted exposure and the volatility-adjusted collateral and multiplying this adjusted exposure by the RW of the counterparty. The formula for calculation of the adjusted exposure after incorporating risk mitigation using the comprehensive approach will be as follows:

$$E^* = \max [0, \{E \times (1 + He) - C \times (1 - Hc - Hfx)\}],$$

Where:

E^* = Adjusted exposure amount after risk mitigation

E = Exposure amount

He = Applicable haircut for exposure

C = The current value of underlying collateral

Hc = Applicable haircut for collateral

Hfx = Applicable haircut for foreign exchange exposure, in case exposure and collateral have dissimilar currencies

68. If more than one asset is involved in a collateralized transaction, the haircut on the basket (H) will be a weighted sum of applicable haircuts to each asset (Hi), with asset weights (ai) measured by units of currency – that is, $H = \Sigma$ ai Hi.

69. For calculating haircuts, either of the two following methods may be used by NIFI: (a) standard supervisory haircuts; and (b) internal haircuts. The parameters for standard supervisory haircuts and features of qualitative and quantitative criteria for using internal haircuts are provided in the following paragraph.

(a) Standard Supervisory Haircuts

70. Both the amount of exposure to counterparty and the value of collateral received are adjusted by using standard supervisory haircuts, as set out below:

Table 6: Standard Supervisory Haircuts

Types of Collateral*	Residual Maturity (yrs)	Haircuts	
		Sovereigns	Others
Cash	All	0	0
Sukuk Long-term: AAA to AA- and Short-term: A-1	≤1 >1 to ≤5 >5	0.5 2 4	1 4 8
Sukuk Long-term: A+ to BBB- and Short-term: A-2 to A-3	≤1 >1 to ≤5 >5	1 3 6	2 6 12
Sukuk Long-term: BB+ to BB-	All	15	25
Sukuk(unrated)	All	25	25
Equities (listed and included in main index)	All	15	15
Equities (listed but not included in main index)	All	25	25
Units in Islamic collective investment schemes	All	Depending on the underlying assets as above	Depending on the underlying assets as above
Physical assets pledged in accordance with section 3.1.7(d)	All	>=30	>=30

**Collateral denominated in a different currency will also be subject to an additional 8% haircut to cater for foreign exchange risk.*

(b) Internal Haircuts

71. Subject to obtaining approval from CBN, a NIFI may use its own estimate of haircuts to measure market price and foreign exchange volatilities. Such approval will normally require the fulfillment of certain qualitative and quantitative criteria set by the CBN, *inter alia*:

(i) Integration of risk measures into daily risk management;

(ii) Validation of any significant change in the risk management process;

(iii) Verification of consistency, timeliness and reliability of data; and

(iv) Accuracy and appropriateness of volatility assumptions.

2.4. Maturity Mismatch

72. A maturity mismatch is a situation where the residual maturity of the CRM is less than that of the underlying credit exposure. In the case of a maturity mismatch with the CRM having a maturity of less than one year, the CRM will not be recognized. This means that a CRM with a maturity mismatch will only be permitted where its maturity is at least one year. Only the comprehensive approach shall be used for CRM with maturity mismatches. In addition, a CRM having a residual maturity of three months or less, with a maturity mismatch, will not be recognized for capital adequacy purposes.

73. The following adjustment will be applied for a CRM with a maturity mismatch:

$$Pa = P \times (t - 0.25) / (T - 0.25)$$

Where:

Pa = adjusted value of risk mitigation
P = value of risk mitigation used (e.g. collateral or guarantee amount)
T = min (5, residual maturity of the exposure) in years
t = min (T, residual maturity of the risk mitigation) in years

2.5 Credit Risk Mitigation for *Mudarabah* Exposures

74. A placement of funds made under a *Mudarabah* contract may be subject to a *Shari'ah*-compliant guarantee from a third party.

75. In such cases, the capital with profit, if any, should be treated with a risk-weighting equal to that of the guarantor provided that the RW of that guarantor is lower than the RW of the *Mudarib* as counterparty. Otherwise, the RW of the *Mudarib* shall apply; that is, a RW for "equity exposure in the banking book" shall apply.

76. In a *Mudarabah* investment in project finance, collateralization of the progress payments made by the ultimate customers (e.g. by means of a settlement account) can be used to mitigate the exposure to unsatisfactory performance by the *Mudarib*.

77. A NIFI may also place liquid funds with another NIFI on a short-term *Mudarabah* basis in order to obtain a return on those funds. Such placements serve as an interbank market transaction with maturities ranging from overnight up to three months, but the funds may be withdrawn on demand before the maturity date, in which case the return is calculated proportionately on the basis of duration and amount. Although from a juristic point of view the amounts so placed do not constitute debts, since (in the absence of misconduct or negligence) *Mudarabah* capital does not constitute a liability for the institution that acts as *Mudarib*, in practice the operation of this interbank market requires that the *Mudarib* should effectively treat them as liabilities. Hence, a NIFI placing funds on this basis may treat them as cash equivalents and, for risk-weighting purposes, apply the RW applicable to the *Mudarib* as counterparty.

2.6 Treatment of an Exposure Covered by Multiple CRM Techniques

78. If an exposure is covered by multiple CRM techniques (e.g. an exposure partially covered by both collateral and a guarantee), the NIFI shall segregate the exposure into segments covered by each type of CRM technique. The calculation of risk-weighted assets will be made separately for each segment. Similarly, if a single CRM has differing maturities, they should also be segregated into separate segments.

2.7 Recognition of Ratings by ECAI

79. Ratings issued by CBN-approved ECAIs are to be used by NIFI for calculating capital requirements under the Standardized Approach.

3.0 COMMODITY *MURABAHAH* TRANSACTIONS

80. This section sets out the minimum capital requirements to cover the credit risks arising from financing contracts that are based on the *Shari'ah* rules and principles of Commodity *Murabahah* Transactions (CMT), either in the inter-bank market or to other customers.

81. A NIFI can be involved in CMT-based financing in the following forms;

(a) CMT for inter-bank operations for managing short-term liquidity surplus (i.e. selling and buying of *Shari'ah*-compliant commodities through *Murabahah* transactions, which is commonly termed "placement" in conventional institutions) or where the counterparty is the Central Bank of Nigeria offering a *Shari'ah*-compliant lender of last resort and/or a standing facility for effective liquidity management. Such placement/financing is referred to as "Commodity *Murabahah* for Liquid Funds (CMLF)"

(b) CMT for providing financing to counterparty by a longer-term commodity *Murabahah* where the counterparty immediately sells the commodities on the spot market is referred to as "Commodity *Murabahah* Financing (CMF)".

82. CMLF is a tool for liquidity management for NIFI in order for them to invest their surplus liquid funds on a short-term basis with other market players, within or outside Nigeria. In this type of transaction, the RW will be influenced by the credit standing of the counterparty receiving the funds and the duration of the placement.

3.1 Capital Requirements for CMT

83. Based on the general CMT structures, the transactions can pass through several important phases, each of which has different risk implications. Thus, a NIFI is exposed to different risks in different phases of the CMT. Consequently, it is crucial for a NIFI to recognize and evaluate the overlapping nature and transformation of risks that exist between various types of risks. Since the dynamism of risk exposure through the phases of CMT is unique, NIFIs should break down the contractual timeline for CMT while managing the risks in each phase.

3.2.1 Credit Risk Weight for Commodity Murabaha Transactions

84. As in both CMLF and CMF, a binding promise from the customer exists to purchase the commodity; a NIFI will be exposed to default on the customer's obligation to purchase. In the event of default by the customer, the NIFI will dispose of the asset to a third party; that is, the credit risk will be mitigated by the asset in possession as collateral, net of any haircut. The exposure shall be measured as the amount of the total acquisition cost to the NIFI for the purchase of commodities, less the market value of the commodities as collateral, subject to any haircut and specific provisions, if any. The RW of the counterparty shall be applicable to the resultant receivables, and would be based on credit ratings issued by a recognized ECAI. In the case of an unrated counterparty, the applicable RW will be 100%.

4.5 Capital Requirements for *Sukuk*

85. This section sets out the minimum capital requirements to cover the credit risk arising from the holding of a *Sukuk* in the "banking book" by a NIFI. CBN has the discretion to specify measurement approaches as it thinks appropriate for other types of *Sukuk* which are not listed in this sub-section, provided they are approved by a relevant *Shari'ah* board. For unrated *Sukuk* that use a combination of more than one of the *Shari'ah*-compliant contracts, the capital requirement will be calculated taking into account the risk implications of the overall structure.

86. As in principle, *Sukuk* are externally rated, the relevant risk weight will be based on the ECAI ratings in accordance with the standardized approach covered in this Guidance Notes. It is implied that ECAI has taken into account the structure and other features of

Sukuk while assigning the ratings. Where there are no acceptable ECAI ratings, the RWs will be determined on the basis of the underlying assets as set out in paragraph 88, which may involve market risk as well as credit risk.

87. Though, the RWs suggested in the following are based on an acceptable ECAI rating, a NIFI shall have methodologies that enables it to assess the credit risk involved in securitization exposures at individual and portfolio levels. A NIFI shall assess exposures, regardless of whether they are rated or unrated, and determine whether the RWs applied to such exposures under the standardized approach, which are appropriate for their inherent risk. In the instances where a NIFI determines that the inherent risk of such an exposure, particularly if it is unrated, is significantly higher than that implied by the RW to which it is assigned, the NIFI shall consider the higher degree of credit risk in the evaluation of its overall capital adequacy.

88. NIFIs shall apply risk weights to *Sukuk* issued by Governments as follows;

a) 0% risk weight for Sovereign *Sukuk*
b) 20% risk weight for State Government *Sukuk* that meets the eligibility criteria for classification as liquid assets by the CBN;
c) 50% risk weight for State Government *Sukuk* that did not meet the eligibility criteria for classification as liquid assets by the CBN.
d) 100% risk weight for Corporate *Sukuk*

APPENDIX A: SUPERVISORY SLOTTING FOR NIFI's PRODUCTS

INTERNAL RATING		Strong	Good	Satisfactory	Weak
Financials					
Market conditions		Few competitors or substantial and durable advantage in location, cost or technology Demand is strong and growing	Few competitors or better-than-average location, cost or technology, but this situation may not last Demand is strong and stable	Project/business venture has no advantage in location, cost or technology Demand is adequate and stable	Project/business venture has worse-than-average location, cost or technology Demand is weak and declining
Financial ratios		Strong financial ratios considering the level of project/business venture risk; very robust economic assumptions	Strong to acceptable financial ratios considering the level of project/business venture risk; robust project/business venture economic assumptions	Standard financial ratios considering the level of project/business venture risk	Aggressive financial ratios considering the level of project/business venture risk
Stress analysis		The project/business venture can meet its financial obligations under sustained, severely stressed economic or sectoral conditions	The project/business venture can meet its financial obligations under normal stressed economic or sectoral conditions. The project/ business venture is only likely to	The project/business venture is vulnerable to stresses that are not uncommon through an economic cycle, and may default in a normal downturn	The project/business venture is likely to default unless conditions improve soon

			default under severe economic conditions		
Financing Structure					
Duration of the contract compared to the duration of the project/ business venture		Useful life of the project/ business venture significantly exceeds tenor of the financing contract	Useful life of the project/ business venture exceeds tenor of the financing contract	Useful life of the project/ business venture exceeds tenor of the financing contract	Useful life of the project/ business venture may not exceed tenor of the contract
Payment structure of selling price (Note: Applicable to *Istisna*` only)		Partly in advance and in installments	Installments	Installments with limited bullet payment	Bullet payment or in installments with balloon structure (higher instalment amounts towards end of the contract)
Political and Legal Environment					
Political risk, including transfer risk, considering project/business venture type and mitigants		Very low exposure; strong mitigation instruments, if needed	Low exposure; satisfactory mitigation instruments, if needed	Moderate exposure; fair mitigation instruments	High exposure; no or weak mitigation instruments
Force majeure risk (war, civil unrest, etc.)		Low exposure	Acceptable exposure	Standard protection	Significant risks, not fully mitigated
Political and Legal Environment (cont'd)					
Government support and project/business		Project/business venture of strategic	Project/business venture considered	Project/business venture may not be strategic	Project/business venture not key to the

venture's importance for the country over the long term		importance for the country (preferably export-oriented) Strong support from government	important for the country Good level of support from government	but brings unquestionable benefits for the country Support from government may not be explicit	country No or weak support from government
Stability of legal and regulatory environment (risk of change in law)		Favorable and stable regulatory environment over the long term	Favorable and stable regulatory environment over the medium term	Regulatory changes can be predicted with a fair level of certainty	Current or future regulatory issues may affect the project/business venture
Acquisition of all necessary supports and approvals for such relief from local content laws		Strong	Satisfactory	Fair	Weak
Enforceability of contracts, collateral and security		Contracts, collateral and security are enforceable	Contracts, collateral and security are enforceable	Contracts, collateral and security are considered enforceable even if certain non-key issues may exist	There are unresolved key issues in respect of actual enforcement of contracts, collateral and security
Transaction Characteristics					
Design and technology risk		Fully proven technology and design	Fully proven technology and design	Proven technology and design start-up issues are mitigated by a strong completion package	Unproven technology and design; technology issues exist and/or complex design
Construction Risk *(for project finance only)*					

Permitting and siting		All permits have been obtained	Some permits are still outstanding but their receipt is considered very likely	Some permits are still outstanding but the permitting process is well defined and they are considered routine	Key permits still need to be obtained and are not considered routine. Significant conditions may be attached
Type of construction contract		Fixed-price date-certain turnkey construction EPC (engineering and procurement contract)	Fixed-price date-certain turnkey construction EPC	Fixed-price date-certain turnkey construction contract with one or several contractors	No or partial fixed-price turnkey contract and/or interfacing issues with multiple contractors
Completion guarantees		Substantial liquidated damages supported by financial substance and/or strong completion guarantee from sponsors with excellent financial standing	Significant liquidated damages supported by financial substance and/or completion guarantee from sponsors with good financial standing	Adequate liquidated damages supported by financial substance and/or completion guarantee from sponsors with good financial standing	Inadequate liquidated damages or not supported by financial substance or weak completion guarantees
Construction Risk *(for project finance only)* (cont'd)					
Track record and financial strength of contractor in constructing similar project/business ventures		Strong	Good	Satisfactory	Weak
Operating Risk *(for project finance only)*					

Scope and nature of operations and maintenance (O&M) contracts		Strong long-term O&M contract, preferably with contractual performance incentives and/or O&M reserve accounts	Long-term O&M contract and/or O&M reserve accounts	Limited O&M contract or O&M reserve account	No O&M contract: risk of high operational cost overruns beyond mitigants
Operator's expertise, track record and financial strength		Very strong or committed technical assistance of the Sponsors	Strong	Acceptable	Limited/weak, or local operator dependent on local authorities

Off-take Risk *(for project finance only)*				
(a) If there is a take-or-pay or fixed-price off-take contract	Excellent creditworthiness of off-taker; strong termination clauses; tenor of off-take contract comfortably exceeds the maturity of the financing contract	Good creditworthiness of off-taker; strong termination clauses; tenor of off-take contract exceeds the maturity of the financing contract	Acceptable financial standing of off-taker; normal termination clauses; tenor of off-take contract generally matches the maturity of the financing contract	Weak off-taker; weak termination clauses; tenor of off-take contract does not exceed the maturity of the financing contract
(b) If there is no take-or-pay or fixed-price off-take contract	Project produces essential services or a product sold widely on a world market; output can readily be absorbed at projected prices even at lower than historic market growth	Project produces essential services or a product sold widely on a regional market that will absorb it at projected prices even at historical growth rates	Product is sold on a limited market that may absorb it only at lower than projected rates	Project output is demanded by only one of a few buyers or is not generally sold on an organized market

	rates			
Supply Risk *(for project finance only)*				
Price, volume and transportation risk of feed-stocks; supplier's track record and financial strength	Long-term supply contract with supplier of excellent financial standing	Long-term supply contract with supplier of good financial standing	Long-term supply contract with supplier of good financial standing – a degree of price risk may remain	Short-term supply contract or long-term supply contract with financially weak supplier – a degree of price risk definitely remains
Supply Risk (cont'd) *(for project finance only)*				
Reserve risks (e.g. natural resource development)	Independently audited, proven and developed reserves well in excess of requirements over lifetime of the project	Independently audited, proven and developed reserves well in excess of requirements over lifetime of the project	Proven reserves can supply the project adequately through the maturity of the financing contract	Project relies to some extent on potential and undeveloped reserves
Strength of Sponsor				
Sponsor's (or partner's, in the case of *Musharakah*) track record, financial strength and country/sector experience	Strong sponsor (partner) with excellent track record and high financial standing	Good sponsor (partner) with satisfactory track record and good financial standing	Adequate sponsor (partner) with adequate track record and good financial standing	Weak sponsor (partner) with no or questionable track record and/or financial weaknesses
Sponsor's (or partner's, in the case of *Musharakah*) support, as evidenced by equity, ownership clause and incentive to inject additional cash if necessary	Strong. Project/business venture is highly strategic for the sponsor (partner) – i.e. core business and long-term strategy	Good. Project/business venture is strategic for the sponsor (partner) – i.e. core business and long-term strategy	Acceptable. Project/business venture is considered important for the sponsor (partner) – i.e. core business	Limited. Project/business venture is not key to sponsor(partner)'s long- term strategy or core business
Security Package				
Assignment of contracts and accounts*	Fully comprehensive	Comprehensive	Acceptable	Weak

Pledge of assets, taking into account quality, value and liquidity of assets*	First perfected security arrangement in all project assets, contracts, permits and accounts necessary to run the project	Perfected security arrangement in all project assets, contracts, permits and accounts necessary to run the project	Acceptable security arrangement in all project assets, contracts, permits and accounts necessary to run the project	Little security or collateral for IIFS; weak negative pledge clause
IIFS' control over cash flow (e.g. independent escrow accounts)	Strong	Satisfactory	Fair	Weak
Reserve funds (payment of selling price in *Istisnā`*, O&M, renewal and replacement, unforeseen events, etc.)	Longer than average coverage period, all reserve funds fully funded in cash	Average coverage period, all reserve funds fully funded in cash	Average coverage period, all reserve funds fully funded in cash	Shorter than average coverage period, reserve funded from operating cash flows

*In *Musharakah*, the collateralization of underlying assets is restricted to losses arising from negligence and misconduct cases only.

APPENDIX B: SUPERVISORY SLOTTING FOR DIMINISHING MUSHARAKAH

	Strong	Good	Satisfactory	Weak
Financial Strength				
Market conditions	The supply and demand for the business venture's type and location are currently in equilibrium. The number of competitive properties coming to market is equal to or lower than forecasted demand.	The supply and demand for the business venture's type and location are currently in equilibrium. The number of competitive properties coming to market is roughly equal to forecasted demand.	Market conditions are roughly in equilibrium. Competitive properties are coming on the market and others are in the planning stages. The business venture's design and capabilities may not be state of the art compared to new project/ business ventures.	Market conditions are weak. It is uncertain when conditions will improve and return to equilibrium. The business venture is losing tenants at *Ijarah*/lease expiration. New *Ijarah*/lease terms are less favorable compared to those expiring.
Stress analysis	The property's resources,contingencies and liability structure allow it to meet its financial obligations during a period of severe financial stress.	The property can meet its financial obligations under a sustained period of financial stress. The property is likely to default only under severe economic conditions.	During an economic downturn, the property would suffer a decline in revenue that would limit its ability to fund capital expenditures and significantly increase the risk of default.	The property's financial condition is strained and is likely to default unless conditions improve in the near term.
Cash-flow Predictability				
(a) For complete and stabilized property	The property's leases are long-term with creditworthy Tenants, and their maturity dates are scattered. The property has a track record of tenant retention	Most of the property's leases are long-term, with tenants that range in creditworthiness. The property experiences a normal level of tenant turnover upon lease expiration. Its vacancy rate is low. Expenses are	Most of the property's leases are medium rather than long-term, with tenants that range in creditworthiness. The property experiences a moderate level of tenant turnover upon lease expiration.	The property's leases are of various terms, with tenants that range in creditworthiness. The property experiences a very high level

	upon lease expiration. Its vacancy rate is low. Expenses (such as maintenance, insurance, security, and property taxes) are predictable.	predictable.	Its vacancy rate is moderate. Expenses are relatively predictable but vary in relation to revenue.	of tenant turnover upon lease expiration. Its vacancy rate is high. Significant expenses are incurred in preparing space for new tenants.
(b) For complete but not stabilized property	Leasing activity meets or exceeds projection. The business venture should achieve stabilization in the near future.	Leasing activity meets or exceeds projections. The project should achieve stabilization in the near future.	Most leasing activity is within projections; however, stabilization will not occur for some time.	Market rents do not meet expectations. Despite achieving target occupancy rate, cash-flow coverage is tight due to disappointing revenue.
Strong	**Strong**	**Good**	**Satisfactory**	**Weak**
(c) For construction phase	The property is entirely pre-leased through the tenor of the contract or pre-sold to an investment- grade tenant or buyer.	The property is entirely pre-leased or pre-sold to a creditworthy tenant or investor.	Leasing activity is within projections but the building may not be pre-leased. The IIFS may be the permanent investor.	The property is deteriorating due to cost overruns, market deterioration, tenant cancellations or other factors. There may be a dispute with the party providing the permanent financing.
Asset Characteristics				
Location	Property is located in highly desirable location that is convenient to services that tenants desire.	Property is located in desirable location that is convenient to services that tenants desire.	The property location lacks a competitive advantage.	The property's location, configuration, design and maintenance have contributed to its difficulties.

Design and condition	Property is favored due to its design, configuration and maintenance, and is highly competitive with new properties.	Property is appropriate in terms of its design, configuration and maintenance. The property's design and capabilities are competitive with new properties.	Property is adequate in terms of its configuration, design and maintenance.	Weaknesses exist in the property's configuration, design or maintenance.

CENTRAL BANK OF NIGERIA

GUIDANCE NOTES ON SUPERVISORY REVIEW PROCESS FOR NON-INTEREST FINANCIAL INSTITUTIONS IN NIGERIA

MARCH 2019

Table of Contents

DEFINITION OF TERMS....3
BACKGROUND....5
1.1 INTRODUCTION....5
1.2 OBJECTIVE OF THE GUIDANCE NOTES....5
1.3 SCOPE....5
2.0 SUPERVISORY REVIEW PROCESS....5
3.0 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS....5
3.1 GENERAL RULES FOR THE ICAAP....6
3.2 PROPORTIONALITY IN THE ICAAP....6
3.3 FEATURES OF THE ICAAP....7
3.3.1 Comprehensive Identification of Risks:....7
3.3.2 Sound Capital Assessment:....8
3.3.3 Stress testing....9
3.3.4 Corporate Governance in the ICAAP....9
3.3.5 Monitoring and Reporting....9
3.3.6 Internal Control Review....10
3.4 REGULATORY REPORTING OF THE ICAAP....10
3.4.1 Content and structure....10
3.4.2 Frequency of ICAAP reporting....11
4.0 SUPERVISORY REVIEW AND EVALUATION PROCESS....11
4.1 GENERAL RULES FOR THE SREP....11
4.2 STAGES OF THE SREP....11
5.0 THE SREP PROCESS....11
5.1 REGULATORY CAPITAL REQUIREMENTS.... ERROR! BOOKMARK NOT DEFINED.
5.2 RISK EXPOSURE COVER....13
5.3 COMPONENTS OF CAPITAL....13
5.4 SLOTTING METHOD ON THE RISK WEIGHTS APPLICABLE TO MUSHARAKAH AND MUDARABAH FINANCING....14
5.5 ADDITIONAL CAPITAL CHARGE FOR OPERATIONAL RISK....14
6.0 GOVERNANCE AND RISK MANAGEMENT....14
6.1 CORPORATE GOVERNANCE....14
6.2 SHARI'AH GOVERNANCE....15
6.3 AUDIT AND COMPLIANCE....15
6.4 RISK MANAGEMENT PROCESS....15
6.4.1 Board and Senior Management Oversight....15
6.4.2 Policies, Procedures and Limit of Controls....16
6.4.3 Identifying, Measuring, Monitoring and Reporting of Risks....16
6.4.4 Internal Controls....16
6.5 RELATED PARTY TRANSACTIONS....17
6.6 SHARI'AH-COMPLIANT SECURITISATION EXPOSURES....17
6.7 RISK CONCENTRATION....18
7.0 ISLAMIC WINDOW OPERATIONS....18
ANNEX A....20
ANNEX B....21

DEFINITION OF TERMS

Term	Definition
Advisory Committee of Experts (ACE)	An independent body set up by Non-Interest Financial Institutions (NIFIs), as part of their *Shari'ah* governance system, to supervise and ensure compliance with the *Shari'ah*.
Business and Strategic Risk	The risk of loss caused by changes in the business environment or erroneous decisions and inadequate implementation of decisions or poor response to competition.
Counter Party Credit Risk	This is a risk that arises where the counter party to a transaction could default before the final settlement of the transactions cash flows.
Credit Concentration Risk	The risk arising from exposures to counterparties, group of connected counterparties, and counterparties in the same economic sector or which engage in the same activity or are from the same geographic region.
Credit Risk	Credit risk is the potential loss arising from a counterparty's failure to meet its obligations in accordance with agreed terms.
Displaced Commercial Risk (DCR)	Displaced Commercial Risk refers to the extent of additional risk (volatility of returns) borne by NIFIs' shareholders compared to the situation where profit sharing investment account holders assume all commercial risks as specified in the *Mudarabah* contract.
Fiduciary Risk	Fiduciary risk is the risk arising from a NIFI's failure to safeguard the best interests of all fund providers.
Internal Capital	This is the amount of capital that is related to risk which a NIFI is carrying.
Legislative Risk	This is the risk arising from the enactment of new laws.
Liquidity Risk	This risk arises from either difficulties in obtaining cash at reasonable cost from borrowings (Funding liquidity risk) or sale of assets (asset liquidity risk).
Market Risk	Market risk is defined as the risk of loss in on and off-balance sheet positions arising from movements in market prices.
Model Risk	This arises due to limitations of data inputs or weaknesses in model structures under advanced approaches.
Murabahah (Cost Plus Mark-Up Sale)	A sale contract whereby the institution offering Islamic financial services sells to a customer a specified kind of asset that is already in its possession, whereby the selling price is the sum of the original price and an agreed profit margin.
Musharakah (Partnership)	A contract between the NIFI and a customer whereby both would contribute capital to an enterprise, whether existing or new, or to ownership of a real estate or movable asset, either on a temporary or permanent basis. Profits generated by that enterprise or real estate/asset are shared in accordance with the terms of the Musharakah agreement, while losses are shared in proportion to each partner's share of capital.

Operational Risk	This is the risk of loss resulting from inadequate or failed internal processes, people, and technology or from external events.
Rate of Return Risk	Rate-of-return risk is the risk of facing a lower rate of return on assets than that currently expected by UIAHs
Related Party Transaction	This is a transfer of resources, services or obligations between a NIFI (s) and a related party, regardless of whether a price is charged. It include on- and off-balance sheet credit exposures and claims, as well as dealings such as service contracts, asset purchases and sales, construction contracts, lease (*Ijarah*) contracts, financings, borrowings (through *Qard*) and write-offs. They also include transactions that are entered into in situations in which an unrelated party with whom the NIFIs have an existing exposure subsequently becomes a related party.
Reputational Risk	The current or prospective risk of a decline in profits or capital should customers, counterparties, shareholders, investors or supervisors take a negative view of the NIFI.
Shari'ah Non-Compliance Risk	The risk that arises from the bank's failure to comply with the Shari'ah rules and principles.
Sukuk (Islamic Investment Certificates)	Certificates that represent a proportional undivided ownership right in tangible assets, or a pool of assets that are *Shari`ah*- compliant. *Sakk* is the singular of *Sukuk*

1.0 BACKGROUND

1. 1 Introduction

. This Guidance Notes on Supervisory Review Process adopts a risk-based approach to supervisory review process in line with Basel 2 Pillar 2 and Islamic Financial Services Board's (IFSB) Standard Number 16 issued for Islamic Financial Institutions. The Guidance Notes covers capital adequacy, risk management, capital management, corporate governance and internal controls.

1.2 Objectives of the Guidance Notes

2. The objectives of this Guidance Notes are as follows:
   - To specify the role of Non-Interest Financial Institutions (NIFIs) on the computation of internal capital and capital management; and
   - To specify the role of the CBN in ensuring the maintenance of adequate capital for the level of risks the NIFIs are exposed to.

1.3 Scope of the Guidance Notes

3. This Guidance Notes is applicable to Non-Interest Banks and Other Financial Institutions under the supervisory purview of the CBN.

2.0 SUPERVISORY REVIEW PROCESS

4. Supervisory Review Process is a formalised and structured strategy which staff of regulatory authorities shall follow when conducting off-site surveillance and on-site examinations of financial institutions.

5. The Supervisory Review Process (SRP) is structured along the following two separate but complementary stages:

   i) The Internal Capital Adequacy Assessment Process (ICAAP). This requires NIFIs to perform an independent and complete assessment of the risks to which they are exposed and calculate an internal capital requirement, and

   ii) The Supervisory Review and Evaluation Process (SREP). This is a process by which the CBN reviews and assesses the ICAAP. It also analyses the NIFIs' own assessment of risk profile, risk management practices, corporate governance system as they relate to the ICAAP and the internal control system. It further verifies the overall compliance with prudential rules in calculating internal capital.

3.0 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

6. The ICAAP is based on appropriate risk management systems that require adequate corporate and Shari'ah governance mechanisms, an organisational framework with clear lines of responsibility, and effective internal control systems. It should be noted that capital cannot be regarded as a substitute for sound risk management processes.

7. The ICAAP shall be documented, understood and shared by all NIFI's structures and shall be subject to independent internal review.

8. The Board of Directors (BOD) is ultimately responsible for the ICAAP. It is expected to independently establish the design and organisation in accordance with the risk appetite of the NIFI. BOD is also responsible to ensure the implementation and the annual update of the ICAAP and the resulting calculation of internal capital in order to ensure its conformity with the NIFIs operations and environment.

9. On an annual basis, NIFIs shall render returns to the CBN on the key features of the ICAAP, their risk exposures and the level of capital deemed adequate to support those risks. The report shall also contain a self-assessment of the ICAAP, areas for improvement, any deficiencies in the process and the corrective measures to be taken.

10. On regular basis, NIFIs are required to hold capital in excess of the minimum regulatory requirement that is commensurate to the level of their risk exposures.

3.1 General Rules for the ICAAP

11. NIFIs shall have a process for determining the total capital, currently and prospectively necessary to support all material risks. This process shall be:

- Formalized and documented;
- Subject to internal review and approval by board and management; and
- Proportionate to the nature, scale and complexity of business operations.

12. The calculation of total capital requires an assessment of all the risks to which a NIFI is or may be exposed, including those not considered in calculating the capital requirement under Pillar 1.

13. NIFIs shall determine the risks, other than credit, market and operational risks, for which the adoption of quantitative methodologies that can be used in determining internal capital would be appropriate, and those for which control and mitigation measures, in combination or alternatively, would be more suitable.

3.2 Proportionality in the ICAAP

14. Proportionality is the principle under which systems, processes, mechanisms and determination of capital shall be proportionate to the nature, scale and complexity of the business conducted by the NIFI.

15. The principle of proportionality shall apply to the following aspects:

- The methodologies used in measuring/assessing risks and in the determination of the related internal capital;
- The type and nature of the stress tests adopted;

- The treatment of correlation among risks and the determination of total internal capital;
- The organisational structure of the risk control systems; and
- The scope and detail of ICAAP reporting to the CBN.

3.3 Features of the ICAAP

16. In developing the ICAAP, NIFIs shall be able to demonstrate that chosen internal capital targets are well founded and are consistent with its overall risk profile and current operating environment (i.e. the current business cycle in which the NIFI is operating).

17. The main features of the ICAAP are summarized below:
    - Comprehensive Identification of Risks
    - Sound Capital Assessment
    - Stress testing
    - Corporate and Shari'ah Governance
    - Internal Control Review
    - Monitoring and Reporting

3.3.1 Comprehensive Identification of Risks:

18. All material risks faced by NIFIs shall be addressed in the capital assessments process.

a) NIFIs shall independently identify the range of relevant material risks to which they are exposed, taking into consideration their operations and the markets in which they operate.

b) This analysis shall consider at a minimum, the risks listed in **Annex A** (which is not exhaustive). The identification of any further risk factors connected with its specific operations is left to the prudent assessment of each NIFI.

c) NIFIs shall clearly identify the sources of the various forms of risk and where these are to be found at the level of operating units, enterprise-wide or from external counterparties. This makes it possible to ascertain whether the regulatory capital requirements calculated at the individual level for the most significant legal entities adequately cover the risks effectively faced by these entities.

19. All NIFIs are required to design a robust risk management process taking note of the specificities of their operations and risk categories such as credit risk, equity investment risk, market risk, liquidity risk, rate of return risk, displaced commercial risk, operational risk, Shari'ah non-compliance risk and fiduciary risk.

20. For each risk identified, NIFI shall ensure that appropriate risk assessments are supported by;

a) Consistent and robust risk assessment approaches (i.e. quantitative and qualitative techniques) commensurate with the NIFI size, nature of business and complexities of activities; and
b) Quality data used for the risk measurement in ICAAP. The assessment should also cover the adequacy and robustness of the NIFI's internal controls for mitigating risk.

3.3.2 Sound Capital Assessment:

21. Based on the risk identified, a NIFI is required to assess its overall capital adequacy, and develop a strategy for maintaining adequate capital levels consistent with its risk profile and taking into account current and anticipated changes in the risk profile. This shall be reflected in the NIFI's capital planning process and the setting of internal capital targets.

22. In order to calculate internal capital, NIFIs shall have:

i. Designed policies and procedures that clearly identify, measure and report all material risks;

ii. A process that relates capital adequacy to the level of risks assumed;

iii. A process that relates capital adequacy goals (with respect to risk) with the NIFIs strategic focus and business plan;

iv. A process of internal controls that reviews and audits continuously the activities of the NIFIs to ensure robustness and integrity of the overall risk management process;

v. For credit, market and operational risks, a methodological starting point is provided by the regulatory systems for calculating capital requirements for such forms of risk;

vi. To calculate the exposure and any internal capital related to concentration risk (for individual borrowers or groups of connected customers) and to the rate of return risk in the banking book, NIFIs may refer to the simplified methodologies set out in **Annexes B**;

vii. With regard to rate of return risk, all NIFIs shall assess the impact of hypothetical shocks on the rate of return exposure of the banking book. Where this should cause a significant reduction of a NIFI's regulatory capital, the CBN shall examine the results with the NIFI and may adopt appropriate actions; and

viii. The ICAAP of a NIFI shall show how total capital reconciles with the definition of regulatory capital. Specifically, they shall explain the use of capital instruments that may not be included in regulatory capital but are included in the calculation of internal capital.

23. The capital planning process shall be dynamic and forward-looking in relation to the NIFIs' risk profile. Also, in assessing capital adequacy, NIFIs are required to evaluate the quality and capacity of its capital to absorb losses.

3.3.3 Stress testing

24. Stress tests are quantitative and qualitative techniques used by NIFIs to assess their vulnerability to exceptional but plausible events. They involve assessing the impact on NIFIs' exposures to specific events ranging from mild to very severe shocks or joint movements of a set of economic and financial variables under adverse scenarios.

25. NIFIs shall conduct stress test of their risk mitigation and control systems and, where necessary, the adequacy of their internal capital, in order to enhance the assessment of their exposure to risks.

3.3.4 Corporate Governance in the ICAAP

26. The Board and management of NIFIs shall be responsible for the ICAAP.

27. The board and management shall establish a framework for assessing the various risks, develop a system to relate risk to the NIFIs' capital level, and establish a method for monitoring compliance with internal policies. It is equally important that the Board of Directors adopts and supports strong internal controls, written policies and procedures and ensuring that management effectively communicates these throughout the organization.

28. The Board shall ensure that senior management discharges its responsibilities for the development and effective implementation of the ICAAP. Senior management is responsible for understanding the nature and level of risk being taken by the NIFIs and responsible for ensuring that the sophistication of the risk management processes is appropriate in the light of the risk profile and business plan.

3.3.5 Monitoring and Reporting

29. NIFIs are required to have an adequate system for continuous monitoring and reporting risk exposures and assessing how their changing business risk profiles affect their capital needs. Such a system shall incorporate internal triggers to serve as early warning signals of deviation from internal capital targets and breaches of regulatory capital requirements.

30. Senior management shall, on regular basis, provide to the Board reports on the NIFI's risk profile and capital needs in a manner appropriate to facilitate informed conduct of responsibilities. They are therefore required to:

    i. Evaluate the level and trend of material risks and their effects on capital levels;

ii. Evaluate the sensitivity and reasonableness of the key assumptions used in capital assessment;

iii. Determine that they hold sufficient capital against the various risks and ensure compliance with established capital adequacy goals; and

iv. Assess future capital requirements based on reported risk profiles and indicate any necessary adjustments to be made to the NIFI's strategic plan.

3.3.6 Internal Control Review

31. An effective ICAAP requires that the relationship between risks and capital levels is monitored.

32. The Board shall ensure that NIFI's system of internal control is adequate to monitor its operations.

33. NIFI shall ensure conduct of periodic reviews of its risk management and capital management process relating to ICAAP to ensure its integrity, accuracy, consistent applications and reasonableness of its risk management process. Such reviews shall cover:

- Appropriateness of the ICAAP, given the nature, scope & complexities of its activities;
- Identification of large exposures and risk concentrations;
- Accuracy, quality and completeness of data inputs to the ICAAP;
- Reasonableness and validity of scenarios used in the assessment;
- Stress testing and analysis of assumptions / inputs;
- Robustness of risk monitoring and reporting systems;
- Performance and appropriateness of the use of third-party vendors, products, services and information; and

The review shall be performed by units not directly involved in the preparation of ICAAP.

3.4 Regulatory Reporting of the ICAAP

3.4.1 Content and structure

i) The ICAAP report will enable the CBN to conduct a complete, documented assessment of the key qualitative features of the capital planning process, the overall exposure to risks and the consequent calculation of total internal capital.

ii) The report shall be transmitted to the CBN along with the relevant Board resolutions and senior management reports containing their comments on the ICAAP, in accordance with their respective responsibilities and functions.

iii) The report shall be organised, at a minimum, into the areas specified in **Annex B.**

3.4.2 Frequency of ICAAP reporting

34. On an annual basis, NIFIs shall, not later than the end of April, submit to the CBN the ICAAP report as at 31 December of the previous year.

35. Based on the capital reported at the close of the previous year, the ICAAP document shall provide the NIFI's strategies for taking on risk and ensuring that the related capital needs through the end of the current year are met.

4.0 SUPERVISORY REVIEW AND EVALUATION PROCESS

36. The Supervisory Review and Evaluation Process (SREP) is informed by the principle of proportionality, under which:

- Corporate and *Shari'ah* governance systems, risk management processes, internal control mechanisms and the determination of capital deemed adequate to cover risks shall be proportionate to the nature, scale and complexity of the business conducted by the NIFIs; and
- The frequency and the comprehensiveness of the SREP shall have regard to the systemic importance, nature, size and complexity of NIFIs.

4.1 General Rules for the SREP

37. The SREP shall be conducted on NIFIs on an annual basis in order to verify that they have established capital and organisational arrangements that are appropriate for the risks they face and ensures overall operational equilibrium.

4.2 Stages of the SREP

38. The SREP is organised into the following five main stages:

a) Analysis of exposure to all material risks and the relative control systems;

b) Verification of compliance with capital requirements and other supervisory rules;

c) Assessment of the procedure for calculating total internal capital and of the adequacy of total capital in relation to the NIFI's risk profile;

d) Issuance of specific opinions for each form of risk and of an overall opinion on the situation of the NIFI; and

e) Determination of any supervisory response.

5.0 THE SREP PROCESS

39. The CBN, as part of its Risk-Based Supervisory process, will review and evaluate the soundness of NIFIs' ICAAP against the expectations set out under the features of

ICAAP in this Guidance Notes. This review will also consider the comprehensiveness of the ICAAP and the quality of risk management to form a view on the appropriateness of the NIFIs' internal capital targets and their capacity for meeting the targets. Based on these reviews, the CBN may require all NIFIs to, among other things, take action to improve their capital and risk management processes if it is not satisfied with the NIFIs' ICAAP.

40. While the Board and senior management of NIFIs maintain primary responsibility for their institutions' capital adequacy, the CBN reserves the power to intervene at an early stage to prevent a NIFI's capital from falling below the level that it deems adequate to support its risks. The CBN may require rapid remedial action if adequate capital is not restored. This may include the following:

    i) Altering the risk profile of the NIFI through business or operational restrictions;

    ii) Directing NIFIs to raise additional capital;

    iii) Strengthening of the systems, procedures and processes concerning risk management, control mechanisms and internal assessment of capital adequacy;

    iv) Prohibition of distribution of profits or other elements of capital;

    v) Holding of an amount of regulatory capital greater than the legal minimum for credit, market and operational risks; and

    vi) Other measures as contained in the CBN Supervisory Intervention Framework (SIF) and BOFIA.

41. As part of the risk based supervisory approach, the CBN in assessing the NIFI's ICAAP shall consider among others the following elements:

    i. The NIFI's regulatory capital requirements (components and quality);

    ii. Internal Capital Adequacy Assessment Process (ICAAP);

    iii. Corporate and *Shari'ah* Governance, risk management and other controls;

    iv. Related party transactions;

    v. *Shari'ah*-Compliant Securitization Risk and Related Off-balance sheet Exposures;

    vi. Transparency and market discipline;

    vii. Non-interest Window operations;

    viii. Concentration Risk; and

    ix. Supervisory Transparency and Accountability.

5.1 Regulatory Capital Requirements

42. CBN will ensure that NIFIs meet the applicable minimum capital adequacy requirements. An assessment of the appropriate level of the capital adequacy requirements for NIFIs shall be based on an analysis of the risk exposures arising from the underlying asset portfolio, as well as off-balance sheet exposures and the results of the supervisory review process, taking into account rate of return risk and other risks that may give rise to displaced commercial risk.

43. NIFI may be required to set aside additional capital over and above the normal minimum requirements; CBN will set out the factors that are the basis for such additional capital requirements. Such factors may include, *inter alia*:
    i. any precedents of material *Sharī'ah* non-compliance;
    ii. the robustness of the NIFI's existing internal *Shari'ah* governance systems to check *(ex-ante)* and monitor *(ex-post)* potential *Shari'ah* non-compliance;
    iii. the presence of internal *Sharī'ah* audit and the enforcement of relevant *Sharī'ah* audit standards;
    iv. the availability of a *Shari'ah* review function, including the *Shari'ah* reviewers responsible for assessment of the *Shari'ah* compliance of transactions, as determined by the NIFI's ACE or FRACE;
    v. income smoothing and usage of reserves; and
    vi. value of alpha.

5.2 Risk Exposure Cover

44. CBN will require each NIFI to demonstrate that its capital is commensurate with the level of its overall risk exposures, including exposures to assets such as real estate or commodities not used as part of financial intermediation, whether these activities are carried out by the NIFI itself or through a subsidiary.

45. CBN will require all NIFIs to have in place an appropriate risk management control techniques in mitigating risk exposures to various contracts and the sharing of risks between the NIFI and the IAHs (with particular reference to displaced commercial risk).

5.3 Components of Capital

46. CBN will ensure that NIFIs demonstrate and take into account the applicable criteria for various components of capital (particularly, those components other than common equity), as well as regulatory adjustments and deductions attached to these components. The definition of (regulatory) eligible capital (i.e. the sum of Tier 1 and Tier 2 capital) for NIFIs as provided in CBN Guidance Notes on Regulatory Capital, and should be referred to by NIFIs in determining the numerator to be used in calculating the Capital Adequacy Ratio (CAR) formula.

5.4 Slotting Method on the risk weights applicable to Musharakah and Mudarabah financing

47. CBN will take into consideration in the review of the NIFIs slotting method applicable to Musharakah or Mudarabah (financing) contracts. The review should take into account, among other matters, restrictions (e.g. legal, tax, rights of shareholders and IAHs interest, foreign exchange), significant exposure to risks, or influence by virtue of their participation as a Musharakah and/or Mudarabah partner.

5.5 Additional Capital Charge for Operational Risk

48. Additional capital charge for operational risk may be required by the CBN in order to cater for *Shari'ah* non-compliance risk from time to time.

49. In determining regulatory capital requirements, reference should be made to the CBN Guidance Notes on Regulatory Capital, the treatment of IAHs and Income Smoothing.

6.0 GOVERNANCE AND RISK MANAGEMENT

6.1 Corporate Governance

50. Sound Corporate Governance is a vital element in ensuring the soundness and prudent management of an organisation. Board of Directors are required to set up a robust Corporate Governance policies and processes that are commensurate with the NIFI's risk profile and systemic importance. There shall also be an independent, permanent and effective Internal Audit/Compliance Functions charged with the following, among others:
    - Assessing whether the existing policies, processes and internal controls (including risk management, compliance, and corporate governance processes) are effective, appropriate and remain sufficient for the NIFIs business;
    - Ensuring that policies and procedures are fully complied with.

51. To effectively discharge the above functions by the Auditor/Compliance Officer, reference should be made to the CBN, NIFI, ACE and code of Corporate Governance guideline which specify, among others, the following;
    i. Compliance with *Shari'ah* rules and principles;
    ii. Roles of the Advisory Committee of Experts in the Governance, the roles of auditors in terms of independence and accountability;
    iii. Roles of Governance Committees and process of controls for protecting the right of IAHs;
    iv. Transparency of financial reporting in respect of investment accounts.

52. While Board are expected to approve and oversee the implementation of the NIFI's strategic direction, risk appetite and strategy, the CBN shall be required to review the controls and the quality of internal governance that have been put in place to ensure that the NIFI's control environment is:

i. Consistent with the general framework; and
ii. Commensurate with the size, complexity and nature of the business operations.

6.2 Shari'ah Governance

53. There shall be a proper and functional *Shari'ah* governance system, which demonstrates clear terms of reference of the ACE, reporting line and responsibilities. CBN will ensure that NIFI's *Shari'ah* governance system covers the relevant ex-ante (including issuance and dissemination of *Shari'ah* pronouncements/resolution and compliance checks before products are offered to customers) and ex-post process (internal *Shari'ah* review and *Shari'ah* governance reporting).

6.3 Audit and Compliance

54. CBN will ensure that NIFIs have an independent, permanent and effective internal audit function, including internal *Shari'ah* audit charged with:
   i. Assessing whether existing policies, processes and internal controls (including risk management, compliance, and corporate & Shari'ah governance processes) are effective, appropriate and remain sufficient for the NIFI's business; and
   ii. Ensuring that policies and processes are complied with.
   iii. Ensuring that product, policies and processes of the NIFI are and remain Shari'ah compliant.

55. The internal audit function shall have a reporting line to the BOD through board audit committee, and the head shall have appropriate status within the NIFI to ensure that Senior Management (SM) acts upon its recommendations. The NIFI's BOD has the ultimate responsibility for ensuring that SM establishes and maintains an adequate, effective, efficient internal control framework and internal Shari'ah audit.

6.4 Risk Management Process

56. As part of the risk based approach, CBN shall ensure that NIFIs put in place a robust and sound Enterprise-wide Risk Management (ERM) Framework which defines risk appetite of the NIFI and recognises all material risks, including the risks posed by concentrations, securitisation, off-balance sheet exposures, valuation practices and other risks exposures that are peculiar to Islamic banking operations.

57. The ERM framework shall consist of the following key features:

6.4.1 Board and Senior Management Oversight

58. It is the responsibilities of the Directors and Senior Management to define and approve the NIFIs risk appetite. There should also be risk management process put in place to monitor and control/mitigate various types of risks, taken into consideration the specificities of the NIFIs operations. These shall not be limited to only credit,

market, liquidity, and operational risks, but shall incorporate all material risks such as reputational, strategic, equity investment, rate of return , displaced commercial, Shari'ah non-compliant, fiduciary and other risks that do not appear to be significant in isolation, but when combined with other risks could lead to material losses.

59. As part of the implementation of the ERM, NIFIs are required to have an internal risk function and a Chief Risk Officer (CRO), or equivalent position with a good understanding of the specificities of Islamic Finance. The Risk function and CRO shall be independent of the individual business lines and direct reporting to the Board through Risk committee with an administrative reporting relationship to the Chief Executive Officer (CEO).

6.4.2 Policies, Procedures and Limit of Controls

60. NIFIs are required to document risk policies and strategies that are appropriate to the nature and scale of its activities.

6.4.3 Identifying, Measuring, Monitoring and Reporting of Risks

61. There shall be an appropriate system in place that is adequate (both under normal circumstances and in period of stress) for identifying, measuring, assessing and reporting on the size, composition and quality of exposures on a NIFI-wide basis across all risks types, products and counter-parties taken into consideration the risk profile, capital and liquidity needs.

6.4.4 Internal Controls

62. Risk management process of a NIFI shall be frequently monitored and tested by an independent control unit, and by both internal and external auditors. This is to ensure:
    i. that the information on which decision are based is accurate so that processes fully reflect management policies; and
    ii. the regular reporting, including limit breaches and other exception based reporting, is undertaken effectively.

63. To ensure the effectiveness of a NIFIs ERM framework, CBN shall:
    (a) Ensure that the framework is adequate and provides a comprehensive "business-wide" view of risk across all material risk types taking account of the risk profile and systemic importance of the NIFIs; and
    (b) Assess risks arising from the macroeconomic environment affecting the markets in which the NIFI operates and incorporate such assessments into their evaluation of the NIFI's risk management process.

64. Where appropriate, CBN will seek verification or demonstration of the BOD's role in approving the firm's risk appetite statement – for instance, by reviewing BOD minutes or through discussions with directors and management – to ensure that the BOD did not merely "rubber stamp" management's recommendation. CBN will also look for evidence in BOD papers and minutes, the risk appetite statement documents,

metrics, reporting and other activities, that the BOD understands how management interprets and applies the risk appetite and risk limits. Other materials may also be reviewed, such as strategy and planning documents and board reports, to ensure that risk-taking is aligned in practice with the board-approved risk appetite statement.

6.5 Related Party Transactions

65. A related party transaction is a transfer of resources, services or obligations between a NIFI and a related party, regardless of whether a price is charged. Related party transactions include on- and off-balance sheet credit exposures and claims, as well as dealings such as service contracts, asset purchases and sales, construction contracts, lease (*Ijarah*) contracts, financings, borrowings (through *Qard*) and write-offs. They also include transactions that are entered into in situations in which an unrelated party with whom the IIFS has an existing exposure subsequently becomes a related party.

66. The CBN will ensure that NIFIs have policies and processes to identify individual exposures to transactions with related parties as well as the total amount of exposures, and to monitor and report on them through an independent review or audit process.

67. The CBN will also need to satisfy itself that the NIFI's related party transactions are conducted on an arm's-length basis and that the NIFI takes appropriate steps to control or mitigate the related risks. In this context, as part of its review process, the CBN needs to satisfy itself, through on-site inspection or external auditors, as to appropriate evidence of the accounting and disclosure of any material transactions with related parties.

6.6 Shari'ah-Compliant Securitisation Exposures

68. NIFIs engaging in *Shari'ah*-Compliant Securitisation shall design an assessment of risk exposure, based on the understanding of structure of the transaction. The Board shall oversee and set up the scope and purpose of its involvement in the activities. There shall be an appropriate assessment for identifying various types of triggers, credit events and other legal provisions that may affect the performance of the whole exposure (both on and off-balance sheet).

69. Risk to be identified and managed shall include but not limited to:
    a) Credit, market, liquidity and reputational risk of each exposure;
    b) Potential delinquencies and losses on the underlying securitised exposures;
    c) Exposures from credit lines or liquidity facilities to SPEs; and
    d) Exposures from *Kafalah* (guarantees) provided by mono-line and other third parties.

70. CBN will ensure that all activities undertaken by NIFIs in securitisation are compliant with applicable regulatory and prudential requirements as well as appropriate *Shari'ah* governance.

6.7 Risk Concentration

71. NIFIs are required to put in place effective internal policies, systems and controls to identify, measure, monitor and control their risk concentration in a timely manner. In order to mitigate the concentration risk, NIFIs are required to set a limit of exposures in relation to their capital, total assets or, where adequate measure exist, its overall risk level. The risk concentration limit of exposures shall take into account Real Estate Investment for NIFIs engaging in real estate business.

72. CBN, with respect to SREP, shall review the risk concentration of NIFIs in the following areas:
    - (a) risk concentration analysed at the level of NIFI and/or on a consolidated basis;
    - (b) risk concentration viewed in the context of a single or a set of closely related risk-drivers that may have different impacts on the NIFI;
    - (c) the NIFI's compliance with defined limits for large individual exposures and for exposures in total;
    - (d) a framework for managing credit risk concentrations that clearly documents and includes a definition of the credit risk concentration relevant to a NIFI; and
    - (e) Different forms of credit risk concentration to which a NIFI may be exposed.

7.0 ISLAMIC WINDOW OPERATIONS

73. An Islamic window is part of a conventional financial institution that mobilises deposits and provides fund management (investment accounts), financing and investment, and other banking services that are Shariah compliant, with proper segregation of funds from the parent unit.

74. Conventional banks with Window operations shall have a transparent system that separate Islamic assets and funds from non-*Shari'ah* compliant assets. It is required for Window operations to have an internal systems, procedures and controls to provide reasonable assurance that:
    - i. the transactions and dealings of the Windows are in compliance with *Shari'ah* rules and principles;
    - ii. the Window shall avoid commingling investors' funds with the funds of the conventional parent entity; and
    - iii. Appropriate risk management policies and practices are followed.

75. In-line with the requirement of Guidance Notes on Regulatory Capital for NIFIs in Nigeria, Windows are required to maintain a notional capital fund. The operations may be required to hold additional notional capital fund that is commensurate with their level of risk exposures.

76. The parent bank is required to disclose publicly, among other things:

a) Sources of funds to cover a liquidity deficit of the Window, if any.
b) Capital adequacy related disclosures;
c) Risk management and governance;
d) Appointment of Advisory Committee of Experts; and
e) *Shari'ah* compliance reporting covering the mechanisms established to provide *Shari'ah* oversight of the Window operations.

77. CBN shall ensure that Banks with Window operations have internal systems and controls to provide reasonable assurance that;

(a) The transactions and dealings of the windows are in compliance with *Shari'ah* rules and principles
(b) the Window shall avoid commingling investors' funds with the funds of the conventional parent entity; and
(c) Appropriate risk management policies and practices are followed.

78. The Supervisory Review Process is to examine the Window first as a unit of the entity, then on a consolidated basis in terms of capital adequacy, corporate governance, risk management, disclosure and accounting treatment.

ANNEX A

RISKS SUBJECT TO ICAAAP

a) Types of Risks under Pillar 1:

- Credit risk;
- Market risks;
- Operational risk.

b) Types of Risk not Fully Captured under Pillar 1:

- Shari'ah-Compliant Securitization exposure risk: the risk that the economic substance of a securitization is not fully reflected in risk assessment and management decisions;
- Model risk which arises due to limitations of data inputs or weaknesses in model structures under advanced approaches.

c) Other Types of Risks not covered by Pillar 1:

- Displaced Commercial Risk:
- Liquidity risk
- Credit Concentration risk
- Rate of Return risk
- Residual risk
- Business and Strategic risk
- Reputational risk : the current or prospective risk of a decline in profits or capital should customers, counterparties, shareholders, investors or supervisors take a negative view of the NIFI;
- Counter Party Credit Risk (CCR):- This is a risk that arises where the counter party to a transaction could default before the final settlement of the transactions cash flows.
- Compliance with minimum standards and disclosure requirements;
- Factors external to the NIFI, e.g., business cycle effects
- Legislative Risk
- Legal Risk
- Shariah Non-Compliance Risk

- Equity Investment Risk
- Fiduciary Risk.

d) Changes in External Factors: such as regulatory, economic or business enviroment that may affect an NIFIs risk profile over time.

ANNEX B

GUIDE FOR ICAAP REPORTING

1) Strategies and forecasting horizon adopted

a) Business plan and annual budgets; schedule of reviews of business plan and its components; extraordinary events necessitating review;

b) Reconciliation between time horizon of business plan and capital plan;

c) Ordinary and extraordinary sources of capital.

2) Corporate governance, organizational arrangements and internal control systems connected with the ICAAP

b. Description of the process for the preparation and updating of the ICAAP;

c. Description of the process for reviewing the ICAAP;

d. Definition of the role and functions assigned to the board and senior management bodies for the purposes of the ICAAP;

e. Definition of the role and functions assigned to various corporate functions for the purposes of the ICAAP (for example, internal auditing, compliance, planning, risk management, and other units such as head office and branch network commercial units, accounting and audit);

f. Description of organizational and contractual safeguards relating to any elements of the ICAAP that are outsourced;

g. Indication of internal regulations relevant to the ICAAP.

3) Risk exposures, risk measurement and aggregation methodologies, stress testing

a) Risk mapping: illustration of the position of the NIFI in respect of Pillar 1 and Pillar 2 risks;

b) Risk mapping in relation to NIFIs operating units and/or legal entities of the group;

c) Techniques for risk measurement, internal capital determination and stress testing;

d) Description, for every category of measurable risk, of the main characteristics of the main risk control and mitigation instruments;

e) General description of systems for control and mitigation of non-measurable risks.

4) <u>Components, estimation and allocation of internal capital</u>

a) Quantification of internal capital for each risk and total internal capital;

b) Any methods for allocating internal capital (by operating unit and/or legal entity).

5) <u>Reconciliation of internal capital, regulatory requirements and regulatory capital</u>

a) Reconciliation of total internal capital and regulatory requirements;

b) Listing and definition of capital components covering internal capital;

c) Eligibility of components covering internal capital to be calculated for supervisory purposes; explanation of inclusion of ineligible components;

d) Estimate of cost of using other capital sources in addition to those used.

6) <u>Self -Assessment of ICAAP</u>

a) Identification of the areas of the process amenable to improvement;

b) Planning of capital or organizational actions.

7) Organization of the ICAAP Report

1.	Executive Summary
2.	Structure and Operations
3.	Governance Structure
4.	Risk Assessment and Capital Adequacy
5.	Stress Testing
6.	Capital Planning
7.	Design, Approval, Review, and Use of ICAAP
8.	Challenges and Further Steps
9.	Summary of Internal Capital Adequacy Assessment Process
10.	Risk Appetite Statement
11.	Use of Internal Models for Capital Assessment
12.	Review of ICAAP

CENTRAL BANK OF NIGERIA

GUIDELINES ON THE MANAGEMENT OF INVESTMENT ACCOUNT HOLDERS FOR NON-INTEREST FINANCIAL INSTITUTIONS IN NIGERIA

MARCH 2019

Table of Contents

Definition of Terms 3

1.0 Background 5
1.1 Introduction 5
1.2 Objectives of the Guidelines 6
1.3 Scope of the Guidelines 6
1.4 Legal Basis 6

2.0 Management of Displaced Commercial Risk 7

3.0 General Requirements 7
3.1 Policy and Guidelines on Investment Accounts 8
3.2 Comprehensive Contract Documents 8
3.3 Sound Investment Policies and Strategies 9
3.4 Establishment of Sound Risk Management Strategies 9
3.5 Deployment of Staff with the Right Skills & Competencies to Manage IAH Funds 9
3.6 Deployment of Right Information Technology Systems 9

4.0 Creation and Management of Investment Pool & Tagging of Assets 10

5.0 Management of Displaced Commercial Risk & Rate of Return Risk Using Income Smoothing Techniques 10

6.0 Disclosures 10

DEFINITION OF TERMS

TERM	DEFINITION
Alpha (α)	The proportion of the Displaced Commercial Risk (DCR) borne by the shareholders of a Non-interest Financial Institutions (NIFI), which has a value ranging from 0 - 1.
Displaced Commercial Risk	Displaced Commercial Risk refers to the extent of additional risk (volatility of returns) borne by a NIFI's shareholders compared to the situation where Profit Sharing Investment Account Holders (PSIAHs) assume all commercial risks as specified in the *Mudarabah* contract.
Islamic Financial Services Board (IFSB)	The IFSB is an international standard-setting organization, which promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry, broadly defined to include banking, capital markets and insurance sectors. The Malaysia-based institution complements the efforts of Basel Committee on Banking Supervision (BCBS) and other international standard setting organization on prudential regulation that focus on conventional financial institutions.
Investment Risk Reserve (IRR)	Investment Risk Reserve is the amount appropriated by the NIFIs out of the income of Investment Account Holders (IAH), after allocating the *Mudarib's* share, in order to cushion against future investment losses for IAH.
Mudarabah (Trust Partnership)	A contract between the capital provider (*Rabb-ul-Mal)* and a skilled entrepreneur (*Mudarib)* whereby the capital provider contributes capital to an enterprise or activity that is to be managed by the entrepreneur as the *Mudarib* (or labor provider). Profits generated by the enterprise or activity are shared in accordance with the terms of the *Mudarabah* agreement while losses are borne solely by the capital provider, unless the losses are due to the *Mudarib*'s misconduct, negligence or breach of contractual terms.
Non-interest Financial Institutions.	Means banks and other financial institutions under the regulatory purview of the Central Bank of Nigeria that provide banking and other financial services on the basis of Islamic Commercial Jurisprudence.
Profit Equalization Reserve (PER)	PER is the amount appropriated by the NIFIs out of the *Mudarabah* income, before allocating the *Mudarib's* share, in

	order to maintain a certain level of return on investment for IAHs and to increase owners' equity.
Profit Sharing Investment Accounts (PSIA)	These are accounts on the liability side of NIFIs' balance sheet that share in the profit and bear the losses generated from the investment of their funds. The owners of these accounts are called Investment Account Holders (IAHs).

1.0 BACKGROUND

1.1 Introduction

1. Non Interest Financial Institutions (NIFIs) mobilize large percentage of their funds using *Mudarabah* and *Wakalah* contracts. In *Mudarabah*, the bank is acting as the *Mudarib* (entrepreneur) and the fund providers as the *Rabb-ul-Mal* otherwise called Profit Sharing Investment Account Holders (PSIAHs). In *Wakalah*, the bank acting as *Wakeel* (investment agent) for the PSIAHs, earns a *Wakalah* fee, and an incentive fee in the event of the realized profit exceeding an agreed threshold, and the agreed profit goes to the PSIAHs.

2. *Mudarabah* contract by its nature entails the sharing of profit between the contracting parties based on pre agreed profit sharing ratio and the bearing of loss by the fund provider except in cases of proven negligence, misconduct or breach of contract by the entrepreneur in which case the entrepreneur would bear such loss.

3. NIFIs in Nigeria essentially maintain two different types of *Mudarabah* accounts used for deposit mobilization namely: Restricted Investment Accounts (RIAs) and Unrestricted Investment Accounts (URIAs). Under the RIA contract, the bank shall act strictly based on the investment mandate of the customer, while under URIA contract the bank is free to invest the funds as it deems fit.

4. In practice, NIFIs co-mingle such PSIA deposits with other funds like shareholders' funds and current account deposits into different pools and invest in profitable ventures.

5. Being an equity-based contract, the PSIAHs are expected to bear the credit risk of any counterparty the funds are invested with as well as the market risk of the assets in which the funds were invested.

6. It is therefore the responsibility of NIFIs to put in place adequate framework that would ensure prudent management of assets funded by PSIA deposits and ensure that they discharge their fiduciary responsibilities.

7. NIFIs are equally expected to put in place sound risk management framework that would adequately identify, measure, monitor and control all the risks faced by the assets funded by the PSIA funds.

8. NIFIs are also expected to put in place sound corporate governance framework that would ensure adequate protection of the rights of IAHs, and emphasize the fiduciary responsibility of the NIFI in managing the PSIAs.

1.2 Objectives of the Guidelines

9. The objectives of this Guidelines is to provide the minimum standard to be met by NIFIs operating in Nigeria before they can recognize PSIA deposits as risk absorbent and thus deduct same from the computation of Risk Weighted Assets (RWAs) towards the calculation of Capital Adequacy Ratio (CAR) as specified in the Guidance Notes on Regulatory Capital For Non-Interest Financial Institutions in Nigeria issued by CBN.

10. This Guidelines complements the following regulations for NIFIs in Nigeria issued by the CBN:
    - Guidance Notes on Calculation of Capital Requirements for Non-Interest Financial Institutions;
    - Guidelines on Income Smoothing for Non-Interest Financial Institutions;
    - Guidance Notes on Disclosure Requirements to Promote Market Discipline for Non-Interest Financial Institutions.

1.3 Scope of the Guidelines

11. This Guidelines shall be applicable to all NIFIs duly licensed by CBN which may include:
    i. Full-fledged non-interest deposit money bank or subsidiary.[1]
    ii. Full-fledged non-interest microfinance bank or subsidiary.
    iii. Non-interest branch/Window of a conventional bank or financial institution
    iv. A development finance institution registered with the CBN to offer non-interest financial services either full-fledged or as a subsidiary.
    v. A primary mortgage institution registered with the CBN to offer non-interest financial services either full-fledged or as a subsidiary.
    vi. A finance company registered with the CBN to provide non-interest financial services, either as a full-fledged or as a subsidiary.

1.4 Legal Basis

12. This Guidelines is issued by the Central Bank of Nigeria (CBN) pursuant to the powers conferred on it by the provisions of Section 33 (1) (b) of the CBN Act 2007; Sections 23(1); 55(2); 59(1)(a); Section 61 of Banks and Other Financial Institutions Act (BOFIA) 1991 (as amended) and Section 4(1)(I) of the "Regulation on the Scope of Banking Activities and Ancillary Matters, No. 3, 2010".

---

[1] Conventional banks can only have a NIFI subsidiary under a Holding Company structure arrangement in line with the Guidelines for Licensing and Regulation of Financial Holding Companies in Nigeria issued by the CBN.

2.0 MANAGEMENT OF DISPLACED COMMERCIAL RISK

13. *Mudarabah* contract entails the sharing of profit based on pre agreed ratio between the bank as the *mudarib* (fund manager) and the IAHs as the *Rabbul Mal* (fund provider) as well as the bearing of losses, if any, by the IAHs except in cases of misconduct, negligence or breach of contract by the NIFI.

14. However, in practice due to either commercial pressure, NIFIs based on acceptable smoothing mechanisms may absorb all or a proportion of losses from assets funded by the IAH's funds in order to mitigate potential massive withdrawal of funds. This practice exposes the banks to a peculiar type of risk called Displaced Commercial Risk (DCR), which requires allocating adequate capital to cover such risk.

15. DCR may also arise as a result of rate of return risk, where the returns from the assets funded by the IAH's are lower than the prevailing market rates. In order to avoid the risk of massive withdrawal of funds by the IAHs, NIFIs try to match these returns by forfeiting part of or all of their shares in the *Mudarabah* profit. This exposes the banks to DCR, which may ultimately require the provision of additional capital.

16. The proportion of the DCR borne by the NIFIs is represented by the Alpha (α) factor.

17. Alpha is a measure of the proportion of actual credit and market risk on assets financed by IAHs' funds that is transferred to shareholders. It has a value ranging from 0-1.

3.0 GENERAL REQUIREMENTS

18. Before a NIFI can recognize PSIA deposits as risk absorbent and hence deduct same from its total RWA, it must satisfy all the requirements of these Guidelines.

19. NIFIs' Board of Directors (BOD) and Senior Management shall ensure that its PSIAHs' funds are invested and managed in their best interest. They shall fulfill their fiduciary responsibilities towards the IAHs.

20. NIFIs BOD shall ensure the establishment of a Governance Committee as board committee, which shall, among other things, ensure adequate protection of the rights of the IAHs, and that the NIFIs fulfils its fiduciary responsibilities in managing the IAHs' accounts.

21. The Governance Committee is to be headed by an Independent Director.

22. The principle of proportionality is to be observed in the appointment of the Governance Committee, as such for smaller and less complex NIFIs, the function of the Committee can be assigned to an existing Board committee such as Board Audit Committee or Board Finance & General Purpose Committee. This function shall be performed in liaison with the ACE.

3.1 Policies and Guidelines on Investment Accounts

23. Before a NIFI can recognize PSIA deposits as risk absorbents, it shall have in place policies and guidelines duly approved by its board of directors and endorsed by their respective Advisory Committees of Experts (ACE) on the following:

    i. A detailed *Mudarabah* contract that captures the rights and liabilities of the NIFI as the *Mudarib* and the PSIAH. The contract should explicitly disclose all the information relating to the *Mudarabah* contract to enable prospective PSIAH make informed decision before entering into the contract.

    ii. The contract documentation shall emphasize the fact that in case of liquidation, PSIAHs have no claim as creditors over the assets of the NIFI. However, they have a claim to the assets financed by their funds. The document shall also obtain the permission of the prospective PSIAHs for the NIFI to operate Profit Equalization Reserve (PER) and Investment Risk Reserve (IRR) during periods when returns from the assets of PSIAs are higher than the average market returns by deducting a portion of their share of gross profit before distribution.

    iii. NIFIs shall put in place a sound risk management framework to manage the funds of IAHs.

    iv. NIFIs shall have a good corporate governance framework that clearly shows the relationship between the NIFI and the PSIAHs and which emphasizes the fiduciary role of the NIFI to exercise due care in managing the PSIAs.

3.2 Comprehensive Contract Document

24. The *Mudarabah* contract upon which the PSIAs were created shall spell the rights, obligations and liabilities of the contracting parties including profit sharing ratio and the fact that the PSIAHs are to bear the loss of the investment, if any, except in the case of negligence, breach of contract or misconduct on the part of the NIFI.

25. The contract document shall also clearly disclose the portion of their earnings (if any) that shall form part of the PER and the IRR for the purpose of income smoothing during periods of low returns or loss respectively.

26. The basis upon which profit is calculated and distributed, either based on minimum balance or average balance, shall be agreed between the NIFI and the account holders and clearly stated in the contract.

27. NIFIs shall ensure that the contract documents are endorsed by their ACE and duly approved by the CBN.

3.3 Establishment of Sound Investment Policies and Strategies

28. It is the responsibility of senior management of NIFIs to put in place sound investment policies and strategies that ensure IAH's funds are invested in the right class of assets, which takes into cognizance the risk appetite of the IAHs.

29. The BOD shall continually review such investment policies and strategies to ensure they are strictly adhered to in the investment of the PSIAHs' funds. The policies shall be reviewed from time to time to reflect any changes in the fundamentals of the investment activities.

3.4 Establishment of Sound Risk Management Strategies

30. To safeguard the assets and the general interest of the IAHs, the senior management of NIFIs shall ensure the existence of a sound risk management policies and strategies that identify, measure, monitor and control the various type of risks associated with the assets funded by PSIAHs.

31. The BOD shall approve such policy and ensure its full implementation by senior management of the NIFI.

3.5 Deployment of Staff with the Right Skills and Competencies to Manage the IAH's Funds.

32. The senior management of NIFIs shall ensure deployment of staff with the right skills and competencies to manage the assets funded by the PSIAHs' funds. Such staff should have the responsibility of investing the funds and continuous monitoring of its performance.

33. The management shall ensure that the staff are trained on a continuous basis on investment strategies and risk management in order to safeguard the assets of PSIAHs.

3.6 Deployment of the Right Information Technology System

34. Every NIFI shall have in place the right Information Technology (IT) system that would ensure the following activities are carried out seamlessly:

    i. Allocation of deposits from different sources into investment pools. That is from PSIAHs' funds, shareholders' funds, current account deposits, etc.
    ii. Allocation of income and expenses among the different deposits in the pool.
    iii. Movement of assets to/from different investment pools.
    iv. Distribution of profit and bearing of loss among different deposits that make up the pool.
    v. Disclosure of the mechanism of calculation of profits to the IAHs.

4.0 CREATION AND MANAGEMENT OF INVESTMENT POOL AND TAGGING OF ASSETS

35. NIFIs mobilize their deposits on *Mudarabah* and *Wakalah* basis. The NIFIs usually commingle these funds with their shareholders' funds as well as current and saving accounts deposits (or a significant part of them) into the same pool for investment purposes.

36. NIFIs shall have in place a well-defined framework for the creation of investment pool as well as the distribution of profits and loss (if any) among participants in the pool and the allocation of expenses to the various contributors to the investment pool. The framework shall among other things cover the following areas:
    i. The basis of allocating funds to each investment pool as well as the amount and percentage of money from each source of funds allocated to a pool.
    ii. The objectives, duration, scope, investment strategy and risk management strategies of managing the investment pools.
    iii. Proper tagging of the assets funded by each pool and segregating them from the other assets of the bank. This shall enable the NIFI to easily allocate profit and loss to the respective sources of funds.
    iv. Profit sharing ratio and the basis for allocation of profits, loss and expenses among the respective sources of funds that make up the pool.

37. It shall be noted that only direct expenses (such as *Takaful*, transport expenses, shipping expenses, etc.) shall be charged to the PSIAHs' funds. All other indirect expenses must be charged to the shareholders' funds and current account deposits (since they are guaranteed by the bank)

5.0 MANAGEMENT OF DISPLACED COMMERCIAL RISK AND RATE OF RETURN RISK USING INCOME SMOOTHING TECHNIQUES

38. NIFIs shall practice income smoothing as specified by the Guidelines on Income Smoothing for Non-Interest Financial Institutions in Nigeria issued by CBN.

6.0 DISCLOSURES

39. To ensure transparency and accountability on the part of the NIFIs, they are expected to make the following disclosures via an appropriate medium (such as financial statements, pamphlet, flyers and contract documents):
    i. The method of smoothing employed by the NIFIs and the rationale for choosing it against other methods.
    ii. Methods used in the valuation of PSIAHs' assets.
    iii. Amounts outstanding in the respective reserves of PER and IRR and the total amount utilized from those reserves to smoothen returns payable to the PSIAHs in any given

financial year.

iv. Policy on the transfer to and from PER and IRR respectively.

v. Amount of *mudaribs'* share of profit foregone (if any) to smoothen PSIAHs' returns.

vi. Amount transferred from NIFI's earning if any (either current or retained) to smoothen PSIAHs' returns.

vii. The amount and percentages of various sources of funds (PSIA, bank's equity, current account, etc) allocated to respective investment pools.

viii. Criteria used in allocating profits and charging of expenses among contributors to investment pools.

ix. It should be noted that the total balance outstanding in IRR and the portion of the PER belonging to the PSIAHs shall be classified as part of the equity of PSIAHs.

For further guidance on disclosure requirements relevant to the investment account holders, please refer to the Guidance Notes on Disclosure Requirements to Promote Market Discipline for Non-Interest Financial Institutions issued by the CBN.

CENTRAL BANK OF NIGERIA

GUIDANCE NOTES ON THE CALCULATION OF CAPITAL REQUIREMENT FOR OPERATIONAL RISK FOR NON-INTEREST FINANCIAL INSTITUTIONS IN NIGERIA

BASIC INDICATOR APPROACH AND THE STANDARDIZED APPROACH

MARCH 2019

TABLE OF CONTENTS

Definition of terms 3

1.0 Operational Risk Capital Requirement 4

1.1 Introduction 4

1.2 Calculation Approaches 4

1.3 Adoption of Approaches 4

2.0 GOVERNANCE AND MANAGEMENT OF OPERATIONAL RISKS 4

2.1 Board, Management and Advisory Committee of Experts (ACE) 4

2.2 Processes and Procedures 5

2.3 Reversion of Approaches 5

2.4 Sound Practices for Operational Risk Management 5

3.0 BASIC INDICATOR APPROACH (BIA) 5

3.1 Calculation Method 5

4.0 THE STANDARDIZED APPROACH 6

4.1 Approval Process 6

4.2 Qualifying Criteria for the Standardized Approach 7

4.2.1 Internal controls 7

a) The Self-assessment Process 7

b) The Internal Audit / *Shari' ah* Review Function 7

4.2.2 Operational risk management system 7

4.3 Calculation of the Capital Requirement using TSA 10

APPENDIX A 12

APPENDIX B 14

DEFINITION OF TERMS

TERM	DEFINITION
Business Lines	The lines of business into which NIFIs' activities shall be classified in accordance with the criteria set out in the Standardized Approach for computation of capital charge for operational risk.
General Risk	Risk that is consequential upon various kinds of banking operations conducted by banks that are common to all financial intermediaries. Nevertheless, the asset-based nature of financing products in NIFIs such as *Murabahah*, *Salam*, *Istisna'* and *Ijarah* may give rise to additional forms of operational risk in contract drafting and execution that are specific to such products.
Legal Risk	Risk of loss resulting from violation of laws or regulations, from contractual or constructive liability or from other disputes.
Non-Interest Financial Institutions	Means banks and other financial institutions under the regulatory purview of the Central Bank of Nigeria that provide banking and other financial services on the basis of Islamic Commercial Jurisprudence.
Operating Segment	Any area of activity such as a business line, an organizational unit, a legal entity or a geographical area.
Operational Risk	Risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Shari`ah Non-Compliance Risk	*Shari`ah* Non-Compliance Risk is the risk that arises from NIFI's failure to comply with the *Shari`ah* rules and principles as determined by the NIFI's ACE or the CBN FRACE.

1.0 OPERATIONAL RISK CAPITAL REQUIREMENT

1.1 Introduction

1. In calculating the capital requirements to cover operational risk, NIFIs are required to assess the correlations among the various types of risks and identify their possible impact in terms of operational risk. For NIFIs, operational risk can be broadly divided into four categories: General risks, *Shari'ah* Non-Compliance Risk, Legal risk and Fiduciary risk.

1.2 Calculation Approaches

2. This Guidance Note makes provision for two methods of calculating operational risk capital charge: The Basic Indicator Approach (BIA) and The Standardized Approach (TSA).

3. NIFIs using the BIA are required to calculate their capital requirement by multiplying an indicator of its volume of business, gross income, by a specified regulatory percentage (currently 15%). They shall hold capital for operational risk equal to the average over the previous three years of a fixed percentage of positive annual gross income.

4. NIFIs using TSA are required to calculate their capital requirement by multiplying gross income by separate regulatory percentages (as specified in paragraph 30) for each of the eight Lines of Business (LOB) into which NIFIs' activities are divided (corporate finance, trading and sales, retail banking, commercial banking, payment and settlement, agency services, asset management and retail brokerage).

5. TSA uses the gross income from the above business lines as a proxy for the scale of business operations and thus the likely scale of operational risk exposure within each of these business lines. The capital charge for each LOB is calculated by multiplying gross income by the factor assigned to that business line. The total operational risk capital charge is the three-year average of the simple addition of the capital charges across the eight LOBs in each year.

1.3 Adoption of Approaches

6. NIFIs are expected to adopt the BIA at the commencement date of this regulation. NIFIs that seek to adopt TSA must convince the CBN that they have achieved sound implementation of operational risk management framework and processes, and have adhered to the business line mapping principles, inter alia.

2.0 GOVERNANCE AND MANAGEMENT OF OPERATIONAL RISKS

2.1 Board, Management and Advisory Committee of Experts (ACE)

7. The Board of Directors plays a key role in establishing an effective and efficient operational risk management and control system. To this end, the Board and Senior management shall, where applicable:
    a) Establish the general framework of the system;
    b) Be responsible for its implementation;
    c) Supervise its operation;
    d) Verify its overall functionality and compliance with regulatory requirements; and

e) Establish the relevant sub-committees and reporting lines to ensure appropriate management and oversight of operational risk.

8. The ACE shall ensure that policies, products and processes are *Shari'ah*-compliant.

2.2 Processes and Procedures

9. Specific attention shall be paid to the processes, functions and other aspects involved in the calculation of the capital requirement. Accordingly, NIFIs' Board and Management shall have the specific responsibility for:

   i. Identifying and measuring infrequent, yet severe loss events;
   ii. Identifying the various forms and manner in which operational risks may materialize;
   iii. Assessing the operational risks associated with the introduction of new products activities, processes and systems;
   iv. Adopting contingency and business continuity plans that ensure their operational resilience and limit losses in the event of severe business disruptions; and
   v. Periodic production of Operational Risk Management information reports.

2.3 Reversion of Approaches

10. NIFIs that have adopted TSA are not allowed to revert to the BIA without the approval of the CBN. However, if the CBN discovers that a NIFI using TSA no longer meets the qualifying criteria for the approach, it may require the NIFI to revert to the BIA until it meets the conditions specified by the supervisor before returning to TSA.

2.4 Sound Practices for Operational Risk Management

11. Regardless of the operational risk capital computation approach adopted, NIFIs are required to comply with principles provided for in *Sound Practices for the Management and Supervision of Operational Risk* (BCBS, February 2003), the Islamic Financial Services Board Standard on Risk Management for Islamic Financial Institutions (IFSB-1) and other relevant Risk Management Guidelines released by the CBN from time to time.

3.0 BASIC INDICATOR APPROACH (BIA)

3.1 Calculation Method

a) The capital requirement using the BIA shall be equal to 15% of the average of the last three years positive observations of the relevant indicator (i.e. gross income). The formula for the calculation is given below;

$$K_{BIA} = \Sigma\left[GI_{i=1\ldots\eta} * \alpha\right] / \eta$$

Where:

K_{BIA} = the capital charge under the Basic Indicator Approach

GI = positive annual gross income for the previous three years

η = number of the previous three years for which gross income is positive

α =15%,

b) Gross income under this Guideline is defined as:

i. Net financing income which shall be gross of:

- Any provisions and write-offs made during the year
- Any operating expenses, including fees paid to outsourcing service providers; in addition to fees paid for services that are outsourced, fees received by NIFIs that provide outsourcing services shall be included in the definition of gross income
- Depreciation of *Ijarah* assets

ii. Net income from investment activities, including the NIFIs' share of profits from *Musharakah* and *Mudarabah* financing activities;

iii. Fees income (e.g. agency and commission fees)

Less

iv. Share of income attributable to Investment Account Holders (IAHs) and other account holders.

The gross income includes income attributable to restricted and unrestricted PSIA funds, but excludes extraordinary or exceptional income from Takaful and other activities, and realised profits/losses from the sale of Sukuk in the banking book.

c) However, if, for any given observation, the value of the relevant indicator is negative or equal to zero, this figure shall not be taken into account in calculating the total capital requirement. The requirement shall be calculated as the average for the positive observations only.

d) Where data on the relevant indicator is not available for certain observations during the applicable three-year period, the calculation of the requirement shall be based on the average of the available observations only.

e) If the relevant indicator or its components are related to a period less than 12 months (e.g. in the case of newly formed NIFIs, mergers and acquisitions), this value shall be annualized linearly.

f) NIFIs shall be required to reconcile the gross income used in capital computation and the gross income reported in returns made to CBN.

4.0 THE STANDARDIZED APPROACH

4.1 Approval Process

12. NIFIs seeking the approval of CBN for the use of The Standardized Approach (TSA) shall show that their Boards are actively involved in the oversight of operational risk management system; the system is conceptually sound and implemented with integrity and must have sufficient resources to support the use of the approach. They would therefore, be required to submit the following in support of their application:

    i. Organization charts that specify the tasks and responsibilities of the operational risk management and control functions;
    ii. A Board and ACE certification of compliance with qualifying criteria;
    iii. A document describing the self-assessment process and the related findings; and
    iv. The Internal Audit report on the adequacy of the operational risk management system.

13. NIFIs that are authorized to use TSA shall send to the CBN annually, a formal certification of compliance with the qualifying criteria and the internal audit report on the adequacy of the operational risk management system.

4.2 Qualifying criteria for the Standardized Approach

14. In order to obtain authorization to use TSA, NIFIs shall have adequate internal control procedures and an effective operational risk management system (specified below) in addition to adequate corporate governance mechanisms.

4.2.1 Internal controls

a) The self-assessment process

The self-assessment process shall consist of a formalized set of procedures and activities to:

i. Assess the quality of the operational risk management system, as well as its continuing compliance with regulatory requirements; and

ii. Appropriateness to operational needs and market developments.

15. The procedures for conducting the self-assessment and the related findings shall be adequately documented and reported to Senior Management and the Board. The report shall place specific emphasis on any aspect of the operational risk management system that requires improvement, including changes in the NIFI structure and operations, and on the assessment of compliance with the qualifying criteria.

b) Internal Audit / *Shari'ah* Review Function

16. The Internal Audit and the *Shari' ah* Review units shall carry out periodic reviews of the operational risk management system and the self-assessment process at least once every year with a view to evaluating their effectiveness and compliance with the qualifying criteria.

17. The units shall forward their reports on the review to the Board of Directors for necessary corrective actions. The *Shari'ah* Review Unit shall forward its report through the ACE.

4.2.2 Operational Risk Management System

18. The key features of the operational risk management system are:

a) The mapping of activities into regulatory business lines[1]

19. For the purpose of calculating the capital requirement, the NIFI shall map its activities into eight regulatory business lines, listed in Appendix A, in accordance with the following principles:

i. All activities shall be mapped into the business lines in a mutually exclusive and jointly exhaustive manner;

---

[1] Business lines shall be in line with the permissible activities prescribed in the CBN banking model.

ii. Any activity that forms an integral or ancillary part of another shall be allocated in accordance with the mapping criteria for the main activity;
iii. An activity belonging to more than one business line shall be mapped to the dominant business line;
iv. Where an activity cannot be mapped on the basis of a dominant business line, it shall be mapped to the business line yielding the highest percentage of gross income. The same rule shall apply to any associated ancillary activity;
v. A compound activity shall be divided into its significant components, which shall be mapped to the most appropriate business lines on the basis of their nature and characteristics;
vi. NIFIs may use internal transfer pricing methods to allocate the relevant indicator to the various business lines;[2]
vii. The mapping of activities into business lines shall be consistent with the categories adopted for credit and market risks.
viii. The mapping criteria shall be reviewed and adjusted in line with current business activities and the NIFI's risk profiles.
ix. The process of mapping activities into business lines shall be subject to internal review and shall be documented.

In mapping activities into business lines, NIFIs shall take account of the table contained in Appendix A.

b) Supplementary Business Line Mapping Guidelines

20. There are a variety of valid approaches that NIFIs can use to map their activities to the eight business lines, provided the approach used meets the business line mapping principles. The following paragraphs 21-24 provides examples of approaches that could be used by a NIFI to map its gross income:

21. Gross income for retail banking consists of net income from financing retail customers and SMEs treated as retail, plus fees related to traditional retail activities, net income from *Shari'ah*-compliant derivatives held to hedge the retail banking book, and income on purchased retail receivables. To calculate net financing income for retail banking, a NIFI takes the income earned on its financing of retail customers less the profits paid to Investment Account Holders (cost of funding).

22. Gross income for commercial banking consists of the net financing income of corporate (plus SMEs treated as corporate), interbank and sovereign customers, plus fees related to traditional commercial banking activities including commitments, guarantees and net income (e.g. from Sukuk and dividends) on securities held in the banking book. Again, the calculation of net

[2] For example, the retail business line may carry out financing transactions making use of funds raised with activities typical of other business lines such as interbank funding, which is included in the trading and sales line. In this case, internal transfer prices can be used to reallocate the cost components from trading and sales to retail.

financing income is based on income earned on financing of corporate, *Shari' ah*-compliant interbank and sovereign customers less the weighted average cost of funding for these risk assets.

23. For trading and sales, gross income consists of profits/losses on instruments held for trading purposes (i.e. in the mark-to-market book), net of funding cost, plus fees and commissions.

24. For the other five business lines, gross income consists primarily of the net fees/commissions earned in each of these businesses. Payment and settlement consists of fees to cover provision of payment/settlement facilities for wholesale counterparties.

c) The operational risk data collection and storage system

25. NIFIs are required to establish an operational risk data collection and storage system, which at a minimum shall include material losses and any related recoveries, which are capable of ensuring the effectiveness of the risk management system.

26. The system shall ensure on a continuing basis that the data are relevant, reliable and up to date. For this purpose, NIFIs shall:
    i. Develop information systems capable of ensuring the integrity, confidentiality and availability of the data over time;
    ii. Carry out periodic reviews of the operational risk data collection and storage system.

d) Assessment of exposure to operational risks

27. At least once a year, NIFIs shall conduct an assessment of their exposure to operational risks for the entire NIFI and significant operating segments. The results of the assessment shall form an integral part of the process of controlling the NIFI's operational risk profile and shall be reported to the Board and Management, and within the scope of their duties, to the managers of the operating segments involved. The results of the assessment shall be used by Management to mitigate operational risks. Any significant changes in a NIFIs business strategy, risk profile and size also should require the NIFI's Internal Capital Adequacy Assessment Plan to be re-visited and updated.

e) The reporting system

28. NIFIs shall establish a reporting system which ensures that the Board, Management and all the functions involved have access to appropriate information on operational risk. At a minimum, the information shall include:
    i. Results of the assessment of operational risk exposure;
    ii. Material losses and related recoveries;
    iii. Description of actions taken to prevent and mitigate operational risks, with information on their effectiveness.

4.3 Calculation of the capital requirement using TSA

29. Under The Standardized Approach, the capital requirement for operational risk shall be equal to the average of the last three years observations of the Standardized Approach amount.

30. The Standardized Approach amount shall be calculated for each year as the sum of the relevant indicators (gross income as defined under BIA) for the business lines weighted on the basis of the percentages indicated below.

Business line	Percentage (β)
Corporate finance	18%
Trading and sales	18%
Retail banking	12%
Commercial banking	15%
Payment and settlement	18%
Agency services	15%
Asset management	12%
Retail brokerage	12%

The total capital charge under TSA may be expressed as follows:

$$K_{TSA} = \{\sum_{years\ 1-3} max[\sum(GI_{1-8} * \beta_{1-8}), 0]\} / 3$$

Where:

K_{TSA} = Capital charge under TSA

GI_{1-8} = Annual gross income in a given year for the eight business lines in the table above.

β_{1-8} = The fixed percentages for the business lines indicated in the table above.

31. Where the weighted relevant indicator of a business line is negative, it shall be included in calculating the Standardized Approach amount. Where the Standardized Approach amount for a given year is negative, then the result for that year shall be zero and shall be included in the calculation of the three-year average.

32. In any given year, negative capital charges (resulting from negative gross income) in any business line may offset positive capital charges in other business lines without limit.

33. Where data on the relevant indicator is not available for certain periods during the applicable three-year period, the calculation of the capital requirement shall be based on the average of the available periods only.[3]

34. If the relevant indicator or its components are related to a period less than 12 months (e.g. in the case of newly formed NIFIs, mergers and acquisitions), this value shall be annualized linearly.

35. In the event that a NIFI migrates from the Basic Indicator Approach to The Standardized Approach (after CBN approval) during the year, the capital requirement is calculated by using the new method from the first reporting date.

36. Appendix B shows an example of using The Standardized Approach for calculating capital requirement for operational risk.

---

[3]Only values for the relevant indicator determined on the basis of the International Accounting Standards shall be used in calculating the capital requirement.

APPENDIX A

STANDARDIZED APPROACH – MAPPING OF BUSINESS LINES TO NIFI'S ACTIVITIES

BUSINESS LINES	LIST OF ACTIVITIES
Corporate finance	Mergers, acquisitions, placements (public tenders and offerings, private placements, Sukuk issues). Investment banking activities involving equity and Sukuk (IPOs, privatizations, syndications, secondary private placements, underwriting, etc.). Business appraisals. *Shari' ah*-compliant securitizations on behalf of third parties. Corporate financial management. Capital increases (Lead manager only). Advisory and research services (capital structure, industrial strategy, undertakings, re-organizations, etc.). Investment advice as a specific business.
Trading and sales	Dealing on own account. Treasury management and funding on own account (asset & liability management, etc.). *Shari' ah*-compliant securitization on own account. Reception, transmission and execution of orders for corporate and professional clients. Advice, underwriting, placement of financial instruments (investment funds, securities and fund portfolio products, equities, Sukuk, derivatives, etc.) with corporate and professional clients.
Retail banking	Acceptance of deposits and financing. *Kafala* (guarantees) and commitments. Consumer financing for retail customers. *Ijarah* (leasing). Other transactions with retail counterparties not allocated to other business lines. Ancillary services such as collection and payment (issuing debit and credit cards, funds transfer and other payments on behalf of customers, exchange of foreign currency, etc.) and custodianship and administration of financial instruments.
Commercial banking	Acceptance of deposits and financing/investment. *Kafala* (guarantees) and commitments. *Ijarah* (leasing). Export and trade credit. Other transactions with corporate counterparties not allocated to other business lines. Ancillary services such as collection and payment (issuing debit and credit cards, funds transfer and other payments on behalf of customers, foreign exchange, etc.) and custodianship and administration of financial instruments. Net income (for example, Sukuk income and dividends) on non-trading books.
Payment and settlement	Payment, settlement and clearing services and systems (RTGS, NIBSS, SWIFT, MASTERCARD, VISA, CSCS etc.). Issuing and administering means of payment and funds transfer as a specific

	business. Correspondent banking.
Agency services	Depository banking. Custodianship and related services (cash/collateral management, *Wakala* investment account management etc.) as a specific business. Tax collection services. Treasury services for government entities. Trust services.
Asset management	Portfolio management and other forms of asset management (investment funds, pension funds, securities and fund portfolio products, hedge funds, etc.). This refers only to the production, and not the distribution of asset management products, except for placement with professional clients by specialized companies.
Retail brokerage	Reception, transmission and execution of orders for retail customers. Advice, underwriting and placing of financial instruments (investment funds, securities and fund portfolio products, equities, Sukuk, derivatives, etc.) with retail customers.

**Activities for each of the business lines shall be as approved by the Regulation on the Scope of Banking Activities & Ancillary Matters (2010) and other extant regulations.

APPENDIX B

STANDARDIZED APPROACH – EXAMPLE OF THE CALCULATION OF THE CAPITAL REQUIREMENT (All figures in ₦'000)

Business Line	Step 1			Beta Factor	Step 2		
	Annual Gross Income by Business Lines				Calculation of the weighted relevant indicator by business		
	Yr. 1	Yr. 2	Yr. 3		Yr. 1	Yr. 2	Yr. 3
Corporate finance	10	10	10	18%	1.80	1.80	1.80
Trading & sales	20	-60	30	18%	3.60	-10.80	5.40
Retail banking	20	20	30	12%	2.40	2.40	3.60
Commercial banking	20	15	10	15%	3.00	2.25	1.50
Payment and Settlement	10	-40	10	18%	1.80	-7.20	1.80
Agency services	20	15	0	15%	3.00	2.25	0.00
Asset Management	0	20	30	12%	0.00	2.40	3.60
Retail brokerage	-10	10	20	12%	-1.20	1.20	2.40
					Step 3		
					Algebraic sum for the year		
					14.40	-5.70	20.10
					Step 4		
					Calculation of the Standardized Approach amount		
					14.40	0.00	20.10
					Step 5		
					Standardized Approach capital requirement		
					11.50		

STEPS FOR CALCULATING THE REQUIRED CAPITAL FOR OPERATIONAL RISK USING THE STANDARDIZED APPROACH

1. Calculate the relevant indicator on an annual basis for each business line (the result may be either positive or negative).
2. Multiply the relevant indicator of each business line by the corresponding percentage (the result may be either positive or negative).
3. Sum the weighted relevant indicators of the eight business lines, offsetting the positive amounts against the negative amounts. If the total result for the year is negative, set it equal to zero.
4. Calculate the Standardized Approach amount for each of the three years (the result may be either positive or equal to zero).
5. Calculate the total capital requirement as the simple average of the Standardized Approach amounts for the three years.

BSD/DIR/GEN/LAB/12/004

February 21, 2019

LETTER TO ALL BANKS

GUIDELINES ON PILLAR 2 RISKS AND STRESS TESTING FOR BANKS

Following the issuance of Exposure Drafts (EDs) of the Guidelines for Pillar 2 Risks (Interest Rate Risk in the Banking Book, Reputational Risk, Credit Concentration Risk, and Business Risk) and Stress Testing in Q2 2018 and the receipt of comments from stakeholders, the Central Bank of Nigeria hereby issues the following Final Guidelines:

1. Guidelines on the Management of Credit Concentration Risk;
2. Guidelines on the Management of Reputational Risk;
3. Guidelines on the Management of Interest Rate Risk in the Banking Book (IRRBB); and
4. Guidelines on Stress Testing for the Nigerian Banks.

The essence of the Guidelines is to set out the minimum expectations with respect to the procedures for the identification, measurement, monitoring, reporting, management and assessment of those risks and stress testing by banks in line with the requirements of the Supervisory Review Process.

All banks are hereby required to adopt the above Final Guidelines with immediate effect (except the one on IRRBB). The guideline on IRRBB will come into effect in **January, 2020**. This is to give room for the development /update of existing infrastructure in respect of IRRBB. The CBN, however, encourages early adoption to ensure alignment of banks' practices with international best practices.

Yours faithfully,

AHMAD ABUDULAHI
DIRECTOR OF BANKING SUPERVISION

CENTRAL BANK OF NIGERIA

GUIDELINE ON STRESS TESTING FOR THE NIGERIAN BANKS

Issue Date: March 2019

Effective Date: March 2019

Table of Contents

1. ABBREVIATIONS 2
2. EXECUTIVE SUMMARY 3
3. GUIDANCE ON STRESS TESTING AND SCENARIO ANALYSIS 5
3.1 STRESS TESTING PROCEDURES 5
3.2 MACROECONOMIC SCENARIOS 7
3.3 RISK SPECIFIC AND DYNAMIC SCENARIO TESTING 8
3.4 MAJOR GOALS OF STRESS TESTING 8
3.5 MONITORING OF STRESS TESTING RESULTS 9
3.6 STRESS TESTING INFRASTRUCTURE 10
3.7 REVIEW OF STRESS TESTING FRAMEWORK 11
3.8 SCOPE OF STRESS TESTS 12
3.9 SEVERITY OF STRESS TEST SCENARIOS 13
3.10 INTERRELATIONS BETWEEN RISKS 14
4. RISK APPETITE 15
5. MANAGEMENT ACTIONS 15
6. CAPITAL PLANNING 17
7. APPENDIX I: STRESS TEST RESULTS AND PROJECTIONS 19
8. APPENDIX II: SUPERVISORY STRESS TEST ASSUMPTIONS 22
9. APPENDIX III: CREDIT RISK PARAMETERS 24
10. APPENDIX IV: ADDITIONAL REPORTING TEMPLATES 25

1. Abbreviations

Acronym	Description
AFR	Available Financial Resources
AFS	Available for Sale
BCBS	Basel Committee on Banking Supervision
BCP	Business Continuity Planning
Bps	Basis points
CCF	Credit Conversion Factors
CCR	Counterparty Credit Risk
CET 1	Common Equity Tier 1
CQS	Credit Quality Steps
DTA	Deferred Tax Asset
DTL	Deferred Tax Liability
EaR	Earnings at Risk
ECL	Expected Credit Loss
EL	Expected Loss
FVOCI	Fair value reported in other comprehensive income as defined in IFRS 9
FVPL	Fair value through profit and loss as defined in IFRS 9
IAF	Internal Audit Function
IFRS	International Financial Reporting Standards
LGD	Loss Given Default
LTV	Loan-to-Value
NII	Net Interest Income
PD	Probability of Default
PiT	Point in Time
PSE	Public Sector Entities
RST	Reverse Stress Test
RWA	Risk Weighted Assets
SREP	Supervisory Review and Evaluation and Process
STA	Standardized Approach
TC	Total Capital
VaR	Value at Risk

2. Executive Summary

1. The Basel Committee on Banking Supervision (BCBS), in an effort to address the issues identified during the Global Financial Crisis issued the "Principles for sound stress testing practices and supervision" in May 2009. However, given subsequent rapid evolution of stress testing in the years following the global financial crisis, the BCBS undertook a review of the supervisory and bank practices. This resulted in the update to those principles with the issuance of the "Stress Testing Principles' in October, 2018. The BCBS principles set out comprehensive standards on sound governance, and the design and implementation of stress testing frameworks at banks. Therefore, consistent with the Basel principles, these guidelines set out an enhanced approach to stress testing for the Nigerian banks and aims at ensuring the integration of the outcome into a bank's Internal Capital Adequacy Assessment Process ("ICAAP").

2. This guideline is particularly geared at steering banks towards the implementation of a more robust forward looking capital adequacy assessment, reflective of their risk profile and consistent with the expectation of Pillar 2 of the Basel capital framework.

3. The Central Bank of Nigeria (CBN) seeks to further enhance the Supervisory Review and Evaluation Process (SREP) by establishing additional stress testing as part of ICAAP requirements. The CBN will specifically evaluate the banks' stress test results to determine if a capital add-on is required under Pillar 2. A capital add-on may be required if stress test results reveal additional risk or vulnerability to capital that is not fully addressed through other risk mitigation measures. This will assist in determining a more risk sensitive minimum level of capital requirements for each bank. The outcome of the stress tests and related analysis can also be used as part of a bank's contingency planning and particularly to determine how persistent adverse economic scenarios or shocks could necessitate changes to a bank's business strategy or model.

4. This guideline addresses high-level principles, including Board and senior management involvement, risk governance and oversight, and

management actions that may arise as a result of the banks' internal capital assessment and stress testing process.

5. The focus of the supervisory review will be on the appropriateness of the banks' selected stress scenarios, the quality of governance and the robustness of the adopted methodology. The banks, where applicable, should be able to demonstrate the linkage between the selected scenarios and the key loss drivers such as Probability of Default (PD), Loss Given Default (LGD) and Expected Loss (EL). Where relevant, the PD and LGD for the estimation of the Expected Credit Loss (ECL) should meet the minimum requirements of the International Financial Reporting Standards on Financial Instruments (IFRS 9). Further, the computations of the mark-to-market losses as a result of the stress test shock should be fully supportable.

6. Banks should also, where applicable, consider making use of their other internally developed and validated risk quantification models in their stress testing exercise and should be able to provide a description of and justification for the methodology used to generate risk parameters including the relevant estimated parameters for all the credit portfolios. Further, banks should be able to provide strong rationale for the key stress testing assumptions.

7. The CBN is cognizant of the changes introduced under Basel 3 capital framework, which include: measures aimed at increasing the level and quality of minimum capital requirements over time, the prescription of additional capital buffers, introduction of leverage ratio as a supplement to the risk-based capital ratios, and harmonization of the definition of capital across jurisdictions. These changes have not been taken into consideration in the development of this guideline. This however should not prevent individual banks from early adoption of the full expectation of Basel 3 requirements and standards as part of their internal capital and liquidity management processes.

8. The CBN expects banks to design and implement applicable processes for integrating their stress testing exercise into their capital and liquidity adequacy assessment, and strategic planning activities. The

implemented processes and methodologies should ideally be consistent with current international best practice while taking into account local conditions and peculiarities, and bank's specific vulnerabilities.

9. This guideline focuses mainly on the content of the annual stress testing and capital assessment, which is submitted to the CBN as part of the annual ICAAP requirement. However, banks are expected to perform stress testing more frequently (at least quarterly) and should ensure and be able to demonstrate that stress testing is embedded into their risk management framework and processes.

3. Guidance on Stress Testing and Scenario Analysis

3.1 Stress Testing Procedures

A. The CBN expects banks to have in place documented procedures to undertake, review and, where appropriate, react to the results of rigorous, forward-looking stress testing that identifies possible events or cyclical changes in market conditions that could adversely impact the bank's earnings, liquidity or asset values.

10. Banks should conduct stress test of their risk mitigation and control systems and where necessary the adequacy of their internal capital and provisions for expected credit losses. This is to enhance the assessment of their vulnerability to different risk types and external shocks.

11. Stress tests should assess the impact on banks' exposure to specific events (sensitivity analysis) or joint movements of a set of economic and financial variables under adverse scenarios. **The selected scenarios should be plausible yet present a serious challenge to profitability and capital adequacy**. To adequately address concentration risk, the scenario should be bank-wide and comprehensive (on a consolidated and unconsolidated basis), covering balance sheet and off- balance sheet assets, contingent and non-contingent risks with appropriate and logical credit risk methodologies for purposes of estimating PD, LGD and

EL[1]. **Please see Appendix III** for the supervisory expectation in relation to the estimation of credit risk parameters[2].

12. The CBN requires all banks to clearly report the stress test results to its board and within the ICAAP report. The ICAAP report should, in particular, take into account all material exposures impacting capital position. The bank should be able to demonstrate the reasonableness of the estimated impact of the selected scenarios on the bank's capital position. To ensure appropriate and actionable outcome, banks may make specific assumptions in relation to their off-balance sheet exposures and material on-balance sheet exposures.

13. ICAAP stress tests should be undertaken at least annually and banks should implement stress testing process in a manner that is appropriate and commensurate to their risk profile and appetite.

14. Banks should develop, disclose and be ready to justify the rationale for their stress test assumptions. The selected scenarios should reflect senior management challenge and judgment and should take into consideration the materiality of particular business areas and their vulnerability to changes in economic and financial conditions.

15. Stress testing is a forward-looking risk analysis technique and banks should decide how far forward to look. Banks are required, however, to provide projections of their pre- and post- stress test regulatory capital position and the likely impact of the proposed management actions for at least three (3) years going forward.

16. Banks should appropriately take into account the estimated impact of changes in regulatory and accounting standards in the base year projections and/or over the forecasting horizon.

---

[1] Where a bank uses internal estimates of PDs and LGDs parameters for calculation of internal capital under Pillar II it should be able to demonstrate that such parameters meets the minimum expectations, i.e., use of Long Run PDs and Downturn LGDs.

[2] Guidance Note to Banks and Discount Houses on the implementation of IFRS 9 (Financial Instruments) in Nigeria.

17. Banks' stress testing should where applicable assess the impact of risk drivers on their solvency. Banks should, as a minimum, stress test the common set of risks, which includes: (i) credit risk including Credit Counterparty Risk (CCR), (ii) market risk, and (iii) operational risk including conduct and cyber security risks. Banks should, where applicable, also project the impact of the selected scenarios on Net Interest Income (NII) and Profit and Loss, and capital items not covered by other risk types. The risk arising from sovereign exposures should be covered under either credit risk or market risk depending on their accounting treatment[3].

18. Banks with significant[4] foreign currency exposure should take into account the adjusted creditworthiness of their respective obligors, given the evolution of the relevant foreign exchange rate under the baseline and adverse scenario. The marginal impact from the risk emanating from foreign exchange lending exposure should cover both PDs (risk of default) and LGDs (or recovery rates in the event of default).

3.2 Macroeconomic Scenarios

B. Bearing in mind the significance of oil & gas and related exposures to the Nigerian economy and the balance sheets of local banks, management should continue to address the impact of a shock to the income stream in that sector and consider the impact of a sharp decrease in global oil price, with consequential impact on the rest of the economy.

19. As part of the suggested stress test, the CBN proposes that banks should consider the impact of adverse movements in: Gross Domestic Product (GDP) growth rate, interest rates, foreign exchange rates, inflation rate, corporate income, oil prices, private consumption, real estate prices, stock market valuation and investment growth. The banks should also take into account the potential impact of: security challenges, geopolitical tensions, conduct related issues, and operational risk events that could have a material impact on their operations, and

[3] The expectation is that the impact of changes in interest rates on the valuation of the Available for Sale (AFS) portfolio will be assessed as part of the banks' stress testing exercise.
[4] Significance should be based on the bank's Risk Assessment Framework.

capital and liquidity position. In addition, banks should also consider other macro-economic and external scenarios that may have direct or indirect impact on its capital or liquidity position, and should ensure that key variables within each scenario are internally consistent.

20. Banks should, resources allowing, determine their own expected PD under stressed conditions, taking into account the impact of selected macroeconomic scenarios on the current PD levels and should be in a position to persuasively support such assumptions.

3.3 Risk Specific and Dynamic Scenario Testing

C. As well as the risk-specific stress tests, the CBN also expects management to undertake dynamic scenario testing that estimates the impact of a combination of factors at different stages in the business cycle on its ability to meet regulatory capital on a sustainable basis. These assessments need not be overly sophisticated, but should extrapolate historical events and consider a range of options that include the depth and severity of economic conditions.

21. Stress testing should provide senior management and the Board with a consolidated view of the amount of potential capital losses under the selected stress test scenarios. Senior management and the Board should also therefore be presented with information that considers the adverse impact of different risks crystallizing simultaneously.

22. The CBN recognizes that one of the key challenges will be the availability of reliable data for past periods of stress and the need to support and inform stress tests based on historical experience. Banks that do not have sufficient historical data to cover a full economic cycle should apply inherent conservatism to their estimates and extrapolations to address any uncertainties as a result of data limitation.

3.4 Major Goals of Stress Testing

D. Two major goals of stress testing are to evaluate the capacity of the bank's capital to absorb potential material losses and to identify steps

to reduce economic risk and conserve capital. This assessment is integral to evaluating the bank's risk management strategy.

23. Stress testing should be used as a tool to alert bank management to adverse unexpected outcomes related to a variety of risks and provides an indication of how much capital might be needed to absorb losses should severe, yet plausible shocks occur. The CBN proposes that banks should operate stress testing framework that promotes comprehensive risk identification and control, provides a heightened risk perspective to other risk management actions, contribute to the formulation and pursuit of strategic and policy objectives and improve the overall quality of capital management.

24. Board and senior management involvement is critical in ensuring that stress testing outcomes are appropriately used in a bank's risk governance and capital planning process. This includes their involvement in: setting stress testing objectives, defining and selecting scenarios, discussing and challenging the results of stress tests and assessing the potential management actions.

25. The stress testing process should foster robust internal debate and provide a forum for credible challenge of key assumptions.

3.5 Monitoring of Stress Testing Results

E. The results of stress testing should be actively monitored by the Board and senior management.

26. The stress test results should be reported to the board and senior management on a regular basis, at the relevant level of aggregation. The reports should include, where applicable, the main modelling and scenario assumptions as well as any significant limitations.

27. The CBN expects the results from stress testing analyses to impact decision-making at the appropriate management level, including strategic business decisions of the Board and senior management. Board and senior management involvement is essential to effectively

deploy and integrate stress testing into the bank's risk management framework.

28. The CBN expects that Board and senior management will take a direct interest in the stress testing programme by providing oversight of the scenario selection and ensuring a level of management reporting that addresses all identified vulnerabilities. Following this, senior management can assess and adjust their view of the risks that the bank faces and formulate appropriate risk mitigating action.

29. The results of stress tests should, where appropriate, inform banks' calibration of risk appetite and limits, financial and capital planning, liquidity and fund risk assessment, contingency planning and recovery and resolution planning.

3.6 Stress Testing Infrastructure

F. A bank should have a suitably robust infrastructure in place, which is sufficiently flexible to accommodate different and possibly changing stress tests at an appropriate level of granularity.

30. Banks should have suitably flexible infrastructure as well as data of appropriate quality and granularity[5]. The infrastructure should enable the bank to: (i) retrieve, process and report information used in both internal and bank-run supervisory stress tests, (ii) aggregate its exposures to a given risk factor, product or counterparty, and (iii) modify its methodologies to facilitate the application of new scenarios as needed.

31. The stress testing infrastructure should also be sufficiently flexible to allow for targeted or ad-hoc stress tests at the business line or firm-wide level to assess specific risks in times of stress and rapidly changing market conditions. System flexibility is crucial to: (i) handle customized and changing stress tests and to aggregate comparable risks and exposures

[5] The data used should be accurate and complete, and available at a sufficiently granular level and in a timely manner. The granularity of the data should align with the objective of the stress test.

across a bank, and (ii) meet on-demand requests arising from both internal needs and queries from the supervisor.

32. Banks should have mechanisms in place aimed at ensuring continuing ability to carry out stress testing as per the documented policies and procedures. This includes consideration of the stress testing data infrastructure as part of the Business Continuity Planning (BCP) process.

33. Banks should have appropriate data reconciliation and other data quality processes to ensure that the data feeding into stress testing is accurate, complete and up-to-date. Banks should also, where appropriate, ensure consistency of data sources, processing, and aggregation across their stress tests.

3.7 Review of Stress Testing Framework

G. Banks should regularly maintain and update their stress testing frameworks. The effectiveness of the stress testing programme, as well as the robustness of major individual components should be assessed regularly and independently.

34. The effectiveness and robustness of stress tests should be assessed quantitatively as well as qualitatively, given the importance of human judgments and the severity of shocks considered. Areas for assessment should include:

a) the effectiveness of the programme in meeting its intended purposes;
b) documentation;
c) development work;
d) system implementation;
e) management oversight;
f) data quality; and
g) underlying assumptions.

35. The quantitative stress testing processes should, where practicable, include benchmarking with other stress tests within and outside the bank. Any quantitative stress testing models should also be subjected to appropriate validation including, where applicable, backtesting.

36. Since the stress test development and maintenance processes often imply judgmental and expert decisions (e.g. assumptions to be tested, calibration of the stress, etc.), the independent control functions such as risk management and Internal Audit Function (IAF) should also play a key role in the process.

37. Banks should ensure that adequate model inventory and model management processes are in place for their stress testing activities, including a robust model validation function. The documentation of models used for stress testing should be maintained and made available to Board and senior management and other internal and external stakeholders, such as supervisors.

3.8 Scope of Stress Tests

H. Stress tests should cover a range of risks and business areas, including at the firm-wide level. Banks should be able to integrate effectively, in a meaningful fashion, across the range of their stress testing activities to deliver a complete picture of firm-wide risk.

38. A stress testing programme should consistently and comprehensively cover business and entity specific view. Using a level of granularity appropriate to the purpose of the stress test, the stress testing exercise should examine the effects of shocks across all relevant risk factors, taking into account interaction among them.

39. Banks should also use stress tests to identify, monitor and control concentration risk. In order to adequately address concentrations risk, the scenario should be firm-wide and comprehensive, covering balance sheet and off-balance sheet assets and liabilities, contingent and non-contingent risks, independent of their contractual nature. Further, stress tests should identify and address potential changes in

market conditions that could adversely impact a bank's exposure to concentration risk.

40. The impact of stress tests is usually evaluated against one or more measures. The particular measures used will depend on the specific purpose of the stress test, the risks and portfolios being analysed and the particular issue under examination. A range of measures may need to be considered to convey an adequate information and appropriate perspective of the impact. Typical measures used include:

    a) asset values;
    b) accounting profit or loss;
    c) economic profit or loss;
    d) regulatory capital or Risk Weighted Assets (RWA);
    e) economic (internal) capital requirements; and
    f) Liquidity and funding gaps.

41. In order to effectively challenge the business model and support the decision-making process, the scenarios should facilitate the assessment of the nature of linked risks across portfolios and across time. A relevant aspect in this regard is the role played by liquidity conditions in determining the ultimate impact of a stress test.

3.9 Severity of Stress Test Scenarios

I. Stress tests should feature a range of severities, including events capable of generating the most damage whether through size of loss or through loss of reputation. A stress testing programme should also determine what scenarios could challenge the viability of the bank (reverse stress tests) and thereby uncover hidden risks and interactions among risks.

42. Stress tests should capture the most material business areas and events that might be particularly damaging for the bank. This could include not only events that could inflict large losses but which could subsequently cause damage to the bank's reputation.

43. Banks should perform adequate reverse stress tests as part of the stress testing programme, sharing the same governance and quality standards and to complement other types of stress testing. The reverse stress test including their frequency should take into account the nature, size, scale and complexity of their business activities and risks. Reverse stress tests start from a known stress test outcome[6] and then asking what events could lead to such an outcome for the bank. As part of the overall stress testing programme, it is important to include some extreme scenarios which would cause the firm to be insolvent (i.e. stress events which threaten the viability of the whole bank).

3.10 Interrelations between Risks

J. As part of an overall stress testing programme, banks should aim to take account of simultaneous pressures in funding and asset markets, and the impact of a reduction in market liquidity on exposure valuation.

44. Funding and asset markets may be strongly interrelated, particularly during periods of stress. Banks should therefore address in their risk management approaches the potential linkages between asset and funding liquidity.

45. Banks should enhance their stress testing practices by considering important interrelations between various factors, including, where applicable:

a) price shocks for specific asset categories;

b) the drying-up of corresponding asset liquidity;

c) the possibility of significant losses damaging the bank's financial strength;

d) growth of liquidity needs as a consequence of liquidity commitments; and

e) diminished access to secured or unsecured funding markets.

[6] The outcome could include: breach of regulatory defined minimum capital ratios, illiquidity or insolvency.

4. Risk Appetite

K. The key challenge for management is to demonstrate that it follows comprehensive procedures for identifying, assessing and mitigating risk and ensuring that these risks are effectively linked to the bank's risk appetite, capital and strategic planning processes.

46. The CBN expects bank's senior management to identify and articulate its risk appetite in the context of a stress testing framework and to understand the implications of stress events on its capital adequacy. If such stress test scenarios are likely to result in outcomes that are outside the bank's risk appetite, then the CBN will expect management to put in place corrective actions. Senior management must also be able to present the effects of possible management action on the stress test results with the Board providing credible challenge and oversight to the plausibility and suitability of such actions.

47. Management should also utilise comprehensive procedures for identifying, assessing and mitigating risks, and should ensure that these procedures are effectively linked to the bank's high-level risk appetite, capital and strategic planning process.

5. Management Actions

L. Where stress tests reveal particular vulnerabilities to a given set of circumstances, prompt steps should be taken to manage those risks appropriately.

48. The CBN expects that senior management and the Board will give proper consideration to the implications of the stress testing results. Where the stress test results or outcomes fall outside the bank's risk tolerance, management should formulate an appropriate response. The response may include raising of additional qualifying equity capital, restriction of dividends, revision of other limits impacting capital or other prompt corrective action. Banks may choose to complement these management actions through quantitative limits and portfolio caps, business dispositions and economic risk transfers. Any proposed action

must be clearly articulated with specified timeframes, acceptable to the CBN, for restoring an adequate level of capital to offset the impact of the stress.

49. Banks should also assess the potential impact of the stress test shock on its ability to implement the proposed management actions.

50. Where the stress test results in a capital deficit, the bank should implement policies and procedures detailing the range of prompt remedial actions envisioned, based on the purpose, type and result of stress testing, including an assessment of the feasibility of corrective actions in stress situations. To assess possible responses to a stressed situation, banks should identify the credible actions that are most relevant and respective triggers.

51. Management should set out realistic actions and time horizon to mitigate the potential impact of risk events.

52. The range of the proposed remedial actions should take into consideration the magnitude, severity and duration of the potential stress events and should be proportionate to those results of the stress test. In addition, the overall risk management framework and specific risk mitigating policies should be evident in these action steps. Acceptable management actions will be subject to the guidance and judgment of the CBN and might include the following:

a) The review of internal risk limits;
b) The review of the use of risk mitigation techniques;
c) The revision of policies including liquidity and funding or capital adequacy;
d) The reduction of distributions to shareholders;
e) The changes in the overall strategy and business plan and risk appetite; and
f) Raising of capital or funding.

6. Capital Planning

M. The ICAAP should provide specific insight into the implications of stress testing analysis on capital planning and how these affect the adequacy of the capital base and the distribution of capital within the group. In particular, these implications may include the impact of capital transferability in times of stress and capital barriers that may exist.

53. Within each ICAAP submission, management and the Board should examine future capital resources versus capital requirements under stressed scenarios. In particular, the results of forward-looking stress testing should always be considered when evaluating the adequacy of a bank's capital buffer.

54. Capital adequacy should be assessed under stressed conditions against a variety of capital ratios including regulatory capital ratios, as well as ratios based on the bank's internal definition of capital resources.

55. Stress testing should constitute a central tool in identifying, measuring and controlling capital and liquidity risks, in particular for assessing the resiliency of the bank's liquidity profile and the adequacy of its liquidity buffers in case of both bank-specific and market-wide stress events.

56. All capital and liquidity contingency plans should take into consideration the results of the stress test exercise and should form an integral part of the ICAAP submission. Senior management and the Board should also monitor and assess the dynamic relationship between liquidity and capital.

N. A sound and effective governance structure is necessary for a bank to conduct an accurate assessment of its risk profile and essential to sustaining an appropriate capital adequacy position.

57. Banks should have a sufficiently detailed strategic plan that clearly outlines the bank's current and projected capital position under a range of scenarios, and consistent with the prevailing regulatory

requirements. Senior management and the Board should also have an effective framework for assessing and providing oversight around the various risks facing the business and relating those risks to the bank's capital needs. Banks should also incorporate any strategic or other material risks inherent in their business model into their capital planning process.

7. Appendix I: Stress Test Results and Projections

A. Summary of Stress Test Results

a) The CBN requires banks to follow the format in Table 1 below when presenting the summary of their stress test results as part of the ICAAP.

b) The impact of the stress test scenario (shock) should be assumed to be instantaneous and should capture the feedback effect of the assumed macroeconomic scenario on other risk drivers. All results should, where applicable, be presented for both the solo and the consolidated entity.

c) Exposures that are expected to be downgraded or to default as a result of the stress test shock should be risk-weighted at the appropriate risk weights as per the prevailing Pillar 1 capital calculation requirements for Nigerian banks.

Table 1: Summary results of the stress test scenario

Amounts in N'000	Current	Projection		
		Year 1	Year 2	Year 3
Pre - stress Test (Base Case)				
Tier 1 Capital	XXX	XXX	XXX	XXX
Tier 1 + Tier 2 Capital (Total Capital)	XXX	XXX	XXX	XXX
Risk Weighted Assets (RWA)	XXX	XXX	XXX	XXX
CAR Ratio	XX%	XX%	XX%	XX%
Tier 1 Capital Ratio	XX%	XX%	XX%	XX%
Impact of Stress Test Scenario				
Losses arising from stress test scenario[7]		**Year 1**	**Year 2**	**Year 3**
Governments and central banks		XXX	XXX	XXX
Public sector entities		XXX	XXX	XXX
State governments and local authorities		XXX	XXX	XXX
Multilateral Development Banks		XXX	XXX	XXX
Supervised institutions		XXX	XXX	XXX
Corporates and other persons		XXX	XXX	XXX
Retail portfolio		XXX	XXX	XXX
Mortgages on residential properties		XXX	XXX	XXX
Mortgages on commercial real estates		XXX	XXX	XXX
Past due exposures		XXX	XXX	XXX
High risk exposures		XXX	XXX	XXX
Unsettled and failed transactions		XXX	XXX	XXX
Other exposures		XXX	XXX	XXX

[7] The exposure classes are based on Basel II exposure types. Refer to CBN Guidance Notes on Credit Risk

Amounts in N'000	Current	Projection		
		Year 1	Year 2	Year 3
Total losses arising from the stress test scenario		**XXX**	**XXX**	**XXX**
Post - Stress test (Stress Case)				
Stressed Total RWA		XXX	XXX	XXX
Stressed Tier 1 Capital		XXX	XXX	XXX
Stressed Total Capital (TC)		XXX	XXX	XXX
Stressed Tier 1 Capital Ratio		XX%	XX%	XX%
Stressed CAR Ratio		XX%	XX%	XX%
Capital required to get to CBN minimum TC (10% or 15%)		XXX	XXX	XXX
Management actions				
Raising of additional capital		XXX	XXX	XXX
Revision of dividend policy		XXX	XXX	XXX
Other management actions (please specify)		XXX	XXX	XXX
Additional Capital Required		**XXX**	**XXX**	**XXX**
Tier 1 capital Ratio post - management actions		XX%	XX%	XX%
CAR post - management actions		XX%	XX%	XX%

B. Financial Projections

The CBN will require the regulatory capital projection (Table 2) and the movement in retained earnings projection (Table 3) for a minimum of three (3) years going forward. The projections should be provided under the base case and stress scenario and should be consistent with the bank's specific forward-looking business plan. The current balance should be based on the most recent audited financial year-end results. The results should, where applicable, be presented for both the solo and the consolidated entity.

a) Regulatory Capital

Table 2: Projection of Regulatory Capital

Amounts in N'000	Current	Projection (Base Case)			Projection (Stress Case)		
		Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Tier 1 capital							
Ordinary shares	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Share premium account	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Perpetual non - cumulative preferred shares	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Retained earnings at the end of the year	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Others	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Total Tier 1 capital	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**
Tier 2 capital							

Amounts in N'000	Current	Projection (Base Case)			Projection (Stress Case)		
		Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Subordinated debt (eligible for inclusion)	XXX	XXX	XXX	XXX	XXX	XXX	XXX
General provisions (eligible for inclusion)	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Others	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Total Tier 2 capital	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**
Other adjustments	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Total regulatory capital	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**
Regulatory Risk Reserve	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**

b) Retained Earnings

Table 3: Projection of Retained Earnings

Amounts in N'000	Current	Projections (Base Case)			Projections (Stress Case)		
		Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Retained earnings at the beginning of the year	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Net interest income	XX	XX	XX	XX	XX	XX	XX
Fee income	XX	XX	XX	XX	XX	XX	XX
Commission income	XX	XX	XX	XX	XX	XX	XX
Non - interest expenses	XX	XX	XX	XX	XX	XX	XX
Others components of profit and loss statement (including income from off-balance sheet positions)	XX	XX	XX	XX	XX	XX	XX
Net profit and loss	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**
other adjustment (e.g., dividends)	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**
Retained earnings at the end of the year	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**

8. Appendix II: Supervisory Stress Test Assumptions

The CBN suggests the use of the following risk drivers, where applicable to the bank's own portfolio and risk profile while taking into account the materiality of the potential impact:

a) Decline or stagnation in oil prices and decrease in oil production
b) Depreciation of the Naira against major global currencies
c) Deceleration in the GDP growth rate
d) Adverse fluctuations in short-term and long-term interest rates
e) Reduction or stagnation in corporate income
f) Increase in inflation rate
g) Economic deterioration in other jurisdictions where the bank has operations
h) Decrease in value of sovereign and corporate bonds
i) Increase in the value of contingent fiscal liabilities at all levels of government
j) Higher than expected liquidity outflows
k) Increase in funding cost
l) Damage to the bank's reputation
m) Significant losses at a subsidiary or associate entity

Banks should also consider specific drivers and variables that are expected to have an impact on the exposure to sovereigns and supervised financial institutions including mark-to-market or mark-to-model exposures. This may include risk drivers such as interest rate, equity price and rating migrations.

Banks should provide, as part of their stress testing exercise, detailed analysis and/or justification of how the relevant macroeconomic parameters were translated into specific shocks to the individual portfolio of the bank. Further, banks should provide details of the assumed level or changes in the following drivers, where relevant, under base and adverse

(stress) scenarios for the main geographical locations where it has operations.

Table 4: Key risk drivers and forecasting assumptions

Risk Driver	Base Case			Stress Case		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
GDP Growth Rate						
Interest Rates						
Unemployment Rate						
Oil Prices per Barrel (US$)						
FX rates (US$ to Naira)						
Inflation Rates						
Changes in Real Estate Prices						
Export Growth Rate						
Investment Growth Rate						
Year-on-Year Changes in Stock Market Valuation (NSE Index)						
Fiscal deficit						
Government debt service to revenue						

9. Appendix III: Credit Risk Parameters

1. Where applicable, banks should provide summary description of the methodology used to derive the starting position point-in-time (PiT) parameters[8] used to generate the ECL under IFRS 9 for all portfolios, and for the generation of the projected credit risk parameters over the forecasting time horizon. This can be in form of a supplementary submission to the ICAAP.

2. The estimation of projected parameters, i.e., stressed PD and LGD parameters (under both the baseline and the adverse scenario) should where practical be based on the bank's internal credit risk models. However, where a bank does not have the appropriate internal models for the generation of forward-looking credit risk parameters then consideration should be given to the application of industry benchmarks to inform or to challenge expert judgement applied in the quantification of the impact of the selected stress test shock.

3. Where applicable, the models used as part of the banks' stress testing should meet the minimum standards in terms of econometric/statistical soundness and responsiveness of the risk parameters to macroeconomic shocks to ensure the model specification results in a prudent outcome. Banks should be able to demonstrate this to the CBN by making available the outcome of the:

   a) relevant statistical tests carried out as part of the model development and testing, and

   b) outcome of the internal validation exercise[9].

[8] That is, PD, LGD and CCF (or utilization rate) for off-balance sheet exposures
[9] The internal validation should include the necessary backtesting and sensitivity analysis to assess the impact of changes in the model assumption on the model output

10. Appendix IV: Additional Reporting Templates

a) Credit Risk Summary

Table 5: Credit Risk Summary Results[10]

(N' 000, %)	Current	Base Case			Stress Case		
		Year 1	year 2	Year 3	Year 1	year 2	Year 3
End of year information							
Performing exposure share (%)							
Stage 1 share (%)							
Stage 2 share (%)							
Non-performing exposure - Stage 3 (%)							
Stock of provisions (N'000)							
Coverage - Performing exposure (%)							
Coverage Stage 1 (%)							
Coverage Stage 2 (%)							
Coverage Non-performing exposure - Stage 3 (%)							
Staging flow							
Stage 1 to stage 2 (N'000)							
Stage 1 to stage 3 (N'000)							
Stage 2 to stage 1 (N'000)							
Stage 2 to stage 3 (N'000)							
Stage 3 to stage 1 (N'000)							
Stage 3 to stage 2 (N'000)							
Impairment							
Total impairment losses (N'000)							
Of which: Impairment loss - stage 1 to stage 2 (N'000)							
Of which: Release of Stage 1 provisions ((N'000) (-)							
Of which: Release of Stage 2 provisions (N'000) (-)							
Of which: Impairment loss - stage 2 (N'000)							
Impairment loss - stage 1 to stage 3 (N'000)							
Impairment loss - stage 2 to stage 3 (N'000)							
Of which: Impairment loss - stage 3 (N'000)							
Risk parameters							
Exposure weighted average PD PiT (%)							
Exposure weighted average LGD PiT new (%)							

[10] The classification of exposures should be as per the expectation of IFRS 9. This Table should be completed on a best effort basis.

b) Staging Flow by Asset Class

Banks should, where applicable, report the following under base and stress case scenario over their capital planning (forecasting) horizon.

Table 6: Staging Flow Base Asset Classes[11]

	Exposure %			Provision Cover %			Average[12]	
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	PD PIT	LGD PIT
Actuals								
Governments and central banks								
Public sector entities								
State governments and local authorities								
Multilateral Development Banks								
Supervised institutions								
Corporates and other persons								
Retail portfolio								
Mortgages on residential properties								
Mortgages on commercial real estates								
Past due exposures								
High risk exposures								
Unsettled and failed transactions								
Other exposures								
Year 1 - Projections								
Governments and central banks								
Public sector entities								
State governments and local authorities								
Multilateral Development Banks								
Supervised institutions								
Corporates and other persons								
Retail portfolio								
Mortgages on residential properties								
Mortgages on commercial real estates								
Past due exposures								
High risk exposures								
Unsettled and failed transactions								
Other exposures								
Year 2 - Projections								
Governments and central banks								
Public sector entities								
State governments and local authorities								
Multilateral Development Banks Supervised institutions								
Corporates and other persons								

[11] This Table should be completed on a best effort basis
[12] Exposure Weighted Average

	Exposure %			Provision Cover %			Average[12]	
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	PD PIT	LGD PIT
Retail portfolio								
Mortgages on residential properties								
Mortgages on commercial real estates								
Past due exposures								
High risk exposures								
Unsettled and failed transactions								
Other exposures								
Year 3 - Projections								
Governments and central banks								
Public sector entities								
State governments and local authorities								
Multilateral Development Banks								
Supervised institutions								
Corporates and other persons								
Retail portfolio								
Mortgages on residential properties								
Mortgages on commercial real estates								
Past due exposures								
High risk exposures								
Unsettled and failed transactions								
Other exposures								

c) Evolution of Risk Weighted Assets (RWA)

Banks should report the evolution of their risk weighted assets for each of the Pillar 1 risk types under base and stress case scenario over their capital planning horizon as per Table 7 below.

Table 7: Evolution of RWAs under base and stress case

(N'000)	Current	Base Case			Stress Case		
		Year 1	year 2	Year 3	Year 1	year 2	Year 3
RWA for credit risk							
RWA for market risk							
RWA for operational risk							
Other RWA							
Total RWA							

d) Location of Capital

Banks should, where applicable, also report the expected distribution of capital across its group entities at the end of capital planning horizon under base and stress case scenario as per Table 8 below.

Table 8: Distribution of capital across the group

Amounts (N'000)	Base Case			Stress Case		
	Available Regulatory Capital	Risk Weighted Assets	Minimum Regulatory Total Capital Ratio (%)	Available Regulatory Capital	Risk Weighted Assets	Minimum Regulatory Total Capital Ratio (%)
Consolidated Level						
Parent Level						
Subsidiary 1						
Subsidiary 2						
Subsidiary 3						
Subsidiary 4						
Subsidiary 5						
Subsidiary 6						
Subsidiary 7						
Subsidiary 8						
Subsidiary 9						

e) Exposures to Corporates and Other Persons

Please also report (as per the Table below) the level of exposures to corporates and other persons classified by:

a) the IFRS 9 performance stage or any other accounting standard,

b) the most recent loan-to-value ratio, and

c) type of collateral.

The amounts should be reported in thousands of Naira and the bank should be in a position to provide a reconciliation of the reported figures to the audited financial statements (General Ledger)

Table 9: Collateral coverage of exposure to corporates and other persons

Collateralized by Real Estate	**Loan-to-Value (LTV)**					**Total exposure**	**Exposure Weighted Average LTV**
	0 -25%	**25 - 50%**	**50 - 75%**	**75 - 100%**	**>100%**		
Stage 1							
Stage 2							
Stage 3							
Sub-total							
Collateralized by other assets	**Loan-to-Value (LTV)**					**Total exposure**	**Exposure Weighted Average LTV**
	0 -25%	**25 - 50%**	**50 - 75%**	**75 - 100%**	**>100%**		
Stage 1							
Stage 2							
Stage 3							
Sub-total							
Total Secured Exposures to corporates and other persons							
Unsecured exposures to corporates and other persons							
Total exposure to corporates and other persons							

CENTRAL BANK OF NIGERIA

GUIDELINES FOR THE MANAGEMENT OF REPUTATIONAL RISK

Issue Date: March 2019

Effective Date: March 2019

Table of Content

1. **Abbreviations** 2
2. **Introduction** 3
3. **Definition of Terms** 4
4. **Scope of Application** 5
5. **Guidelines on the Internal Governance of Reputational Risk** 6
   - 5.1 Overall Reputational Risk Strategy 6
   - 5.2 Risk Management Framework and Responsibilities 7
   - 5.3 Risk Policies, Processes and Controls 9
   - 5.4 Risk Tolerance and Limits 9
   - 5.5 Internal Audit Review 10
   - 5.6 Reporting of Reputational Risk 10
6. **Risk Identification, Assessment, and Control** 11
   - 6.1 General Requirements 11
   - 6.2 Risk Identification 11
   - 6.3 Risk Assessment and Pillar 2 Capital 13
   - 6.4 Risk Control 14
7. **Supervisory Approach to Reputational Risk** 15
8. **Appendix 1: Scoring of Reputational Risk** 18

1. Abbreviations

Acronym	Description
BCBS	Basel Committee on Banking Supervision
CBN	Central Bank of Nigeria
DMB	Deposit Money Banks
IAF	Internal Audit Function
ICAAP	Internal Capital Adequacy Assessment Process
ICT	Information and Communication Technology
RAF	Risk Appetite Framework
RAS	Risk Appetite Statement
SLA	Service Level Agreement
SREP	Supervisory Review and Evaluation Process

2. Introduction

1. This framework sets out the Central Bank of Nigeria (CBN) approach to assessment of Reputational Risk as part of the Supervisory Review and Evaluation (SREP) of the banks' end-to-end Internal Capital Adequacy Assessment Process (ICAAP), and provides guidance to banks on the key elements of effective reputational risk management.

2. The CBN expects banks to manage reputational risks on a day-to-day basis rather than on ad hoc basis where it is approached as a crisis management issue. The focus should, in particular, not be only on damage control in the aftermath of a reputational event.

3. This framework is essential given that reputational risk has become a key concern for banks particularly in the wake of the 2008-2009 global financial crisis which resulted in increased stakeholders' interest in the issues of trust and corporate culture in financial institutions. The CBN therefore expects banks in Nigeria to effectively manage their reputational risk, which is critical given that trust in the integrity of the individual banks and the overall banking sector is essential in ensuring safety and soundness of banks, and stability of the overall financial system.

4. Reputational risk is not addressed in the context of Pillar 1 of the Basel Capital Framework though it is a material risk for banks given the rise of social media and the resulting speed at which information including rumours can be disseminated to a much wider audience.

5. The potential impact of reputational risk on financial performance and brand value of a bank can be very material. The general expectation therefore is that banks will assess their exposure to reputational risk as part of their ICAAP. The banks' internal assessment of reputational risk, including the quantification of any Pillar 2 capital and any other proposed management actions, will also be subjected to a rigorous SREP by the CBN.

3. Definition of Terms

6. In the context of this framework, the meaning of reputational risk and other related terms are as detailed below:

7. "Reputation" means perception, opinions and beliefs that a bank's stakeholders have in respect of the bank, based on their experience with, or expectations of the bank

   7.1. "Reputational event" includes any action, incident or circumstance in relation to a bank which induces, or is likely to induce, reputational risk for the bank. Reputational event may arise from market rumours, severe regulatory sanctions, operational shortcomings, questionable judgement, external attacks, bad conduct or heavy financial losses. Such events, if not actively managed, may turn into a full-blown crisis such as a run on the bank.

   7.2. "Reputational risk" is the risk of damage to a bank's reputation as a result of any reputational event, arising from negative publicity about its business practices, conduct or financial condition. Such negative publicity may affect public confidence in the bank; result in decline in its customer base, business volume, revenue, liquidity or capital position. Reputational risk may also arise as a result of negative stakeholder opinion.

   7.3. "Reputational risk management process" is the risk management process adopted by a bank to identify, assess, mitigate, control, monitor and report reputational risk.

   7.4. "Stakeholders" mean those groups of individuals or organizations that (i) are involved or interested in the affairs of a bank, or (ii) can exert an influence over, or are affected by, the bank and its activities.

4. Scope of Application

8. In line with the expectation of Principle 15 of the revised "Core Principles for Effective Banking Supervision" issued by the Basel Committee on Banking Supervision (BCBS) in September 2012, the CBN requires all banks in Nigeria to establish an effective process for the management of reputation risk. The adopted process should be appropriate for the size, geographical spread, product range and complexity of its operations.

9. These guidelines are applicable to all the Deposit Money Banks (DMBs) in Nigeria, including the specialized non-interest financial institutions. The principle of proportionality will however be applied by the CBN in the supervisory assessment of the banks' processes and methodologies.

10. The CBN has not prescribed any specific methodology for measuring and quantification reputational risks capital charge under Pillar 2. The discretion in respect of approaches to be adopted is left to the banks. However, this framework focuses on the following:

    10.1. Ensuring that banks value their institution's reputation and assesses risks to that value. This includes understanding the contribution of the institution's reputation to its value creation and how this can be measured in absolute or relative terms;

    10.2. Drawing banks' attention to various sources of reputational risk;

    10.3. Providing banks with guidance on the key elements of reputational risk management;

    10.4. Promoting the adoption of a formalized and structured approach to managing reputational risk;

    10.5. Elaborating on the CBN's approach to supervisory review of reputational risk

5. Guidelines on the Internal Governance of Reputational Risk

5.1 Overall Reputational Risk Strategy

11. Though it does not appear in most balance sheets (except for acquisitions), reputation is increasingly being recognized as a valuable asset particularly to financial institutions for which the confidence of key stakeholders is critical to their survival. Business strategy and approach to its implementation can, in particular, have significant impact on the reputation of a bank. The board of a bank should therefore have a very good understanding of their organization's reputation and its key drivers including vulnerabilities. This knowledge is very important in strategic and risk management decision-making.

12. It is the responsibility of the bank's board to ensure that: (i) sufficient focus is given to reputational risk management, and (ii) the bank has appropriate governance structures and policies in place to facilitate the provision of reliable, timely and complete information on the bank's reputation and the underlying risks and vulnerabilities. Hence, the overall ownership of reputational risk management resides with the Board.

13. The banks' strategy for management of reputational risk, including the risk tolerance levels and the management actions to mitigate against the impact of reputation risk events should be approved by the board. Banks should also be able to fully demonstrate to the CBN that the risk management objectives of Reputational Risk Strategy are fully aligned with the overall strategic objective of the bank.

14. Banks are expected to implement appropriate governance framework to support the management of reputational risk. The framework should, among others, set out clear objectives in relation to management of reputational risk as well as define the responsibilities of all parties involved in the management of the risk. The responsibilities and lines of authorities should be adequately documented and disseminated to all the relevant parties. There should also be an effective process for monitoring the performance of assigned responsibilities, and for

triggering early corrective actions before any damage to reputation is caused as a result of either internal or external events.

15. Banks are expected to carry out self-assessments of their reputational risk management practices and subject the same to independent third-party reviews.

5.2 Risk Management Framework and Responsibilities

16. The banks' board should ultimately be responsible for the oversight of Risk Management Framework and challenge of the adequacy of the level of the internally estimated capital to cover all the bank's material risks including reputational risk, where applicable. The board may however delegate the responsibility for the monitoring and management of reputational risk to bank's senior management or other board committees[1]

17. Banks are expected to continuously promote staff awareness of reputational risk in their respective businesses, operations or functions. This should particularly be the case for those staff that interact on an ongoing basis with external stakeholders such as depositors, investors, media, market participants, equity analysts, rating agencies, suppliers, vendors, etc.

18. Banks are required to continuously identify key risks (e.g. strategic, operational risks[2] etc) that could significantly affect the bank's reputation or business and should bring them to the Board's attention in a timely manner.

19. Banks should ensure that it has Service Level Agreements (SLAs) for all its outsourced activities. The bank should also have a process in place to effectively monitor the performance of external service providers (e.g. outsourced telephone banking operations, Information Technology (IT) support, debt collection services, etc.) to ensure that

[1] This include the Board Risk Management Committee

[2] This includes the impact of ICT and Cyber-security risks in terms of both losses and reputational damage to the bank

the bank's' reputation is not damaged as a result of substandard services, business disruption or improper acts.

20. The bank's Internal Audit Function (IAF) is expected to provide independent assessment of the adequacy of risk management processes and the effectiveness of actions taken to control individual risks affecting the bank's reputation. The assessment should be done on a frequent basis (at least annually).

21. Banks are required to establish a process aimed at promoting effective external communications, especially in the handling of reputational risk related events. Banks should also ensure that reputational consideration is adequately taken into account in the design of the bank's risk management processes and in formulation of the business strategy.

22. Senior Management shall from time to time carry out surveillance of the external sources of reputational risks and report accordingly to the Board.

23. Banks should set up effective systems and controls for the management of all material risks (including reputational risk) faced by the bank, and to monitor compliance with all applicable laws, regulatory standards, best practices and internal guidelines.

24. Banks are expected to have adequate policies and procedures in place to ensure that all disclosures to external stakeholders are clear, accurate, complete, relevant, consistent and timely, and guided by the principles of ethics, integrity and transparency.

25. A bank's reputational risk management process can be standalone, centralized or integrated with other risk management processes. This depends on how the process fits into the bank's existing management structure, and the nature and complexity of its operations.

5.3 Risk Policies, Processes and Controls

26. Banks are required to have in place appropriate policies, codes of conduct, guidelines and procedures for managing the risk to its reputation. This is not only to facilitate the achievement of the set business goals as per the adopted strategy but also to guide the behaviour of staff. Banks should also implement adequate processes, procedures and controls to help monitor the performance of key service providers including outsourcing partners.

27. The bank's policies, codes of conduct and guidelines should clearly define expected, undesirable or unlawful practices. It should also set out the boundaries of acceptable risks (risk tolerance) for different business activities and areas of operations, taking into account the potential impact of any proposed activities or operations on customers and the general public. These policies should be adequately disseminated to all relevant parties within the bank.

5.4 Risk Tolerance and Limits

28. Banks are expected to articulate their risk tolerance for reputational risk in terms of the risk to financial performance, liquidity and brand or franchise value. The risk tolerance should set clear boundaries and expectations by establishing quantitative limits and qualitative statements. The bank should also ensure that the risk tolerance limit is approved by the Board and appropriately implemented through a comprehensive RAF.

29. Banks should establish adequate processes for the management of reputational risk event and should formulate action plans for escalation of breaches of reputation risk tolerance to the board. The risk management and escalation processes should enable the bank to respond quickly to reputational risk events and ensure that any potential damage to the bank's reputation is fully mitigated or substantially reduced.

5.5 Internal Audit Review

30. It is the responsibility of the Board and Senior Management to ensure independent reviews and audit of the bank's reputational risk management processes and procedures, whether in form of a review dedicated to reputation risk or as part of a wider review of the bank's risk management framework and practices. The independent review should be conducted regularly so as to provide the Board and Senior Management with assurance that controls and actions aimed at managing the risks to the bank's reputation are appropriately designed and operating effectively.

31. The approach, scope, frequency and depth of the independent reviews or internal audits of reputational risk management processes and procedures may vary depending on: individual bank's needs, the size and complexity of its operations, historical experience in relation to reputational risk events, and the inherent reputational risk given its business model.

32. The results of such reviews and audits, including any significant issues and weaknesses identified, should be promptly reported to the Board and senior management for early remedial actions.

33. The recommendations from the internal audit review should be subjected to a formal follow-up procedure by the appropriate levels of management to ensure and report on their effective and timely resolution.

5.6 Reporting of Reputational Risk

34. Banks should ensure that the approach to identification of reputational risk events and the strategies in place to mitigate reputation risk are reported to the board and senior management at least on a quarterly basis while supervisory benchmarks (metrics) should be reported as part of the annual Internal Capital Adequacy Assessment Process (ICAAP) submission to the CBN. The reports to the board and senior management should include:

34.1. Reputational risk indicators reflecting stakeholder confidence to provide a gauge of a bank's reputation;

34.2. Early warning indicators such as a sudden increase in customer complaints, breaches of internal controls, operational errors, system outages, fraudulent incidents and any significant deterioration in other performance indicators;

34.3. Industry, market, political, legislative or social developments which may have implications on the bank's performance and reputation;

34.4. The progress in the implementation of remedial action plans arising from either the SREP, internal self-assessment or internal audit reviews, and

34.5. Other relevant issues or developments.

6. Risk Identification, Assessment, and Control

6.1 General Requirements

35. Banks are required to adopt a systematic approach to identification, assessment, mitigation and control of any risk or potential threat that may adversely affect their reputation. The approach should be relevant to their business model and risk profile, and should be tailored to their individual circumstances and needs.

36. Banks are expected to document the results of their reputational risk identification and assessment exercise, as well as the proposed action plans to mitigate it.

6.2 Risk Identification

37. Banks are required to develop processes and procedures for the identification of reputational risk that:

37.1. Defines the types of risk events they would expect to capture and the areas of their focus in their risk assessment and management;

37.2. Establishes the key sources of reputational risk they are exposed to on the basis of bank's circumstances. These sources of risk may be classified by risk category, business activity or area of operations;

37.3. Describes the risks identified in terms of the nature of risk and the potential consequences that the risks may bring to their reputation;

37.4. Takes into account any risks arising from new business projects which may affect reputation; and

37.5. Establishes procedure to ensure that the risks identified are subject to ongoing review and no major risk areas or events are missed.

38. Banks are expected to involve all relevant staff (e.g. those representing major departments, business or functional units) in the identification of reputational risk. In doing so, banks should adopt techniques that are appropriate to their individual circumstances. These may include the use of: interviews, questionnaires, risk identification workshops, or self-assessments.

39. Stakeholder analysis constitutes an important part of banks' risk identification process; particularly given that reputation is largely about stakeholders' trust and confidence. As stakeholders' expectations and concerns changes over time, banks should conduct regular stakeholder monitoring to facilitate the identification of new issues and threats.

40. Banks are required to conduct stress testing or scenario analysis to assess any secondary effects of reputational risk on liquidity position,

funding cost, earnings, own funds etc. In the formulation of stress test scenarios and estimation of impact, banks are required to take into account the potential interaction between reputational risk exposure and other material risk types such as credit, market, operational, liquidity etc.

41. Bank's stress test should also take into account peer incidences which may have spillover effects on its own financial performance, financial condition and reputation.

6.3 Risk Assessment and Pillar 2 Capital

42. Banks are required to develop and implement procedures for assessing the reputational risk event to determine the likelihood of the event materializing into a reputational risk and the impact of the risk on their business in terms of liquidity and capital positions.

43. Banks may employ different techniques and tools to facilitate assessment of the likelihood and the potential impact of the identified reputational risk events. The techniques may include:

    43.1. **Control assessment:** using this tool, banks may assess the likelihood of an identified reputational risk materializing by analyzing the root causes of the risk, existing controls to manage the risk, and the effectiveness of such controls.

    43.2. **Stakeholders' impact assessment:** This tool can be used to assess and analyze stakeholder's interest and influence in relation to a particular reputational event and deciding whether these groups have a critical influence on the bank, and anticipating the likely impact on the bank if these stakeholders react adversely to the risk.

    43.3. **Stress-testing:** This tool is useful for identifying reputational events or changes that could pose significant threats to banks under different sets of stress scenarios which may lead to reputational crisis and adverse impact on their businesses and reputation.

44. In the event of limitation of internal data, banks may use other relevant information such as past experience of similar institutions for assessing likelihood and impact of reputational risk on their businesses.

45. Banks should identify and document the appropriate mitigants against any residual reputational risk under Pillar 2.

46. Banks operating as part of a group may be exposed to reputational risk events affecting their: parents, non-operating financial holding company, subsidiaries or other members of the group. Banks are therefore expected to develop contingency plans and procedures to deal with the potential reputational risk that may emanate from such relationship.

6.4 Risk Control

47. Banks are required to address all reputational events that could have adverse impact on its reputation, liquidity or solvency position as part of its ICAAP.

48. Banks should consider the appropriate actions required to address the identified risks, taking into account the results of its risk assessment. A contingency plan should also be established for all the identified reputational risk events.

49. Banks' management should carry out periodic review of the level and impact of reputational risk and where applicable take remedial action. The effectiveness of remedial actions should be subject to periodic review by the board.

7. Supervisory Approach to Reputational Risk

50. Reputational risk is one of the inherent risks which the CBN has identified as risks that should be assessed under ICAAP. Banks are thus required to establish a sound and effective system to manage all its material risks.

51. The CBN will use a combination of techniques, such as qualitative analysis, peer group comparison and supervisory judgment, in its assessment of appropriateness of banks' approach to management of reputational risk. Based on its assessment results, the CBN will assign one of the four risk score for reputational risk, i.e., Low, Moderate, Above Average, or High. **Please see Appendix 1** for further details on the indicative criteria for assignment of the risk score.

52. The effectiveness of the banks' reputational risk management strategy will be assessed by the CBN as part of its SREP. The assessment will mainly focus on the quality of policies, systems, processes, procedures and controls established by banks. To facilitate this assessment, the CBN may require banks to provide the following, amongst other:

    52.1. Policies, codes of conduct, guidelines and procedures relevant to reputation risk management;

    52.2. Documentary evidence in support of the banks' processes for risk identification, assessment, control, monitoring and reporting (including early warning systems), as well as other available measures to mitigate against reputational risk;

    52.3. Management reports submitted to the Board and senior management to facilitate the management of reputational risk;

    52.4. Minutes of Board or committee meetings addressing reputational risk management;

    52.5. Report of any independent review or audit relating to reputational risk management;

52.6. Historical records of reputation events, if any, and how they were managed.

52.7. Details of the methodology and quantification justifying the adequacy of capital charge assigned to reputational risk

53. The following are the proposed supervisory benchmarks (metrics) for use as the basis for peer group comparison of the level of reputational risk across Nigerian banks, and to facilitate the supervisory challenge of the appropriateness of the banks' reputational risk management framework including, where applicable, estimates of internal capital to cushion against the potential crystallization of reputational risk. Supervisory benchmarks (metrics) shall be reported as part of the annual Internal Capital Adequacy Assessment Process (ICAAP) submission to the CBN. The benchmarks are:

a) Frequency, nature of and changes in complaints from customers and other third parties;

b) Staff turnover at different operational and management levels;

c) Number and nature of reported unethical practices, failure to comply with any market rules and conducts that could undermine orderly development and growth of the economy;

d) Number and nature of regulatory sanctions from official bodies, i.e., financial regulator, tax authorities etc;

e) Fraud rate (internal and external);

f) Number of negative mentions in the traditional and social media;

g) Increased costs of raising funds from the capital or money market;

h) Average number of years of industry experience for the key office holders;

i) Current and recent changes in external credit ratings;

j) Supervisory rating of bank's quality of internal controls and governance arrangements;

k) Where applicable, changes in share price, yield on debt instrument relative to peers or the relevant sectoral index;

l) Number and nature of pending litigations;

m) Failure to redeem obligations (such as obligations to Customers, other banks, contractors, vendors, staff, etc.)

n) Frequency of system downtime

o) Failure to execute valid customer instructions.

p) Cybersecurity attacks and near misses

8. Appendix 1: Scoring of Reputational Risk

Please note that the indicators below are only indicative and not exhaustive.

Consideration	Supervisory Risk Score			
	Low	Moderate	Above Average	High
Negative publicity regarding the bank's business	Low relative to peers	Not substantial relative to peers	Above average relative to peers	High relative to peers
Probability of a reputational event having an adverse impact on the bank's performance	Low	Average	Above Average	High
Regulatory compliance	Good track record and absence of regular litigation and customer complaints	No significant cases of non-compliance	Unsatisfactory and no significant improvement has been noted	Breach of regulatory requirements and possibility of regulatory sanctions
Exposure to reputational risk	Expected to remain low in the foreseeable future	Not expected to increase substantially in the foreseeable future	Expected to increase in the foreseeable future	Expected to have a significant adverse impact on the bank's performance
Management anticipation and response to market and regulatory changes and directives	Good	Adequate	Inadequate	Weak
Corporate culture and conflict of interest practices	Fully effective and well supported	Satisfactory with no evidence of conflicts of interest and other legal or control breaches	Less than effective with evidence of conflict of interest and other legal or control breaches	Weak with evidence of conflict of interest or other legal or control breaches
Quality of reputational risk management (including policies and procedures)	Strong	Satisfactory	Ineffective	Weak
Internal controls and audits to effectively reduce exposure	Fully effective	Generally effective	Less than effective	Absent or weak

CENTRAL BANK OF NIGERIA

GUIDELINES ON THE MANAGEMENT OF INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

Issue Date: March 2019

Effective Date: January 2020

Table of Content

1. Abbreviations 1

2. Introduction 2

3. Scope of Application 3

3.1 Reporting Level 3

3.2 Reporting Standards 4

4. Supervisory Expectations 5

4.1 IRRBB Elements 6

4.2 Board Oversight 6

4.3 Risk Appetite 7

4.4 Measurement of IRRBB Using IMS 7

4.5 Assumptions 8

4.6 Measurement System 9

4.7 Reporting 9

4.8 Disclosure 10

4.9 Capital Adequacy for IRRBB 11

5. Supervisory Responsibilities 11

6. The CBN Standardised Framework 12

Appendix 1: Dimensions Influencing Behavioural Options 14

Appendix 2: Disclosures 15

Appendix 3: The standardised interest rate shock scenarios 17

Appendix 4: The Standardized Methodology (SM) 18

1. Abbreviations

Acronym	Description
ALCO	Asset and Liability Management Committee
BCBS	Basel Committee on Banking Supervision
CBN	Central Bank of Nigeria
CPR	Conditional Repayment Rate
CSRBB	Credit Spread Risk in the Banking Book
EaR	Earnings at Risk
EV	Economic Value
EVE	Equity Value of Equity
GDP	Gross Domestic Product
ICAAP	Internal Capital Adequacy Assessment Process
IMS	Internal Measurement System
IRRBB	Interest Rate Risk in the Banking Book
LTV	Loan-to-Value
NII	Net Interest Income
NMDs	Non-Maturity Deposits
PV	Present Value
PVO1	Price Value of 1 basis point
RAF	Risk Appetite Framework
RAS	Risk Appetite Statement
SM	Standardised Measurement
TDRR	Term Deposit Redemption Rate

2. Introduction

1. This Guidance Note sets out the Central Bank of Nigeria (CBN) specified principles and methods expected to be adopted by banks operating in Nigeria for measuring, managing, monitoring and controlling Interest Rate Risk in the Banking Book (IRRBB), as part of their Internal Capital Adequacy Assessment Process (ICAAP). The Guidance Note is consistent with the standards on IRRBB as published in April 2016 by the Basel Committee on Banking Supervision (BCBS).

2. IRRBB refers to the current or prospective risk to both earnings and economic value of a bank arising from adverse movements in interest rates that affect interest rate sensitive positions in the banking book.

3. The banking book refers to instruments not in the trading book. In January 2016, the Basel Committee on Banking Supervision (BCBS) issued a standard document on minimum capital requirements for market risk that defines a trading book as one comprising instruments held for one or more of the following purposes:

   a) short-term re-sale;
   b) profiting from short-term price movements;
   c) locking in arbitrage profits; and
   d) hedging risks that arise from the above.

4. IRRBB can arise from a variety of sources and financial transactions and has a number of components including: gap risk, basis risk and option risk.

5. Gap risk results from the term structure of interest sensitive banking book exposures that arises from differences in the timing of changes in rates. Basis risk results from the impact of relative changes in interest rates on interest sensitive positions that have similar tenor but which are repriced using different interest rate indices. Option risk, on the other hand, arises from embedded or explicit options, where the bank or its customer can alter the level or timing of their cash flows.

6. Excessive IRRBB can pose a significant threat to a bank's capital position and future earnings if not well-managed. The expectation is that when interest rates change, the Present Value (PV) and timing of future cash flows also change. This in turn changes the underlying value of a bank's assets, liabilities and off-balance sheet items and hence its Economic Value (EV). Changes in interest rates also affect a bank's earnings by altering interest rate-sensitive income and expenses, affecting its Net Interest Income (NII).

7. The expectation is that this Guideline will come into full effect in **January 2020**. The CBN however encourages early adoption of the expectation set out in the Guideline to ensure alignment of banks practices with international best practice.

3. Scope of Application

3.1 Reporting Level

8. This Guidance Note focuses only on interest rate risk with respect to the banking book exposures as interest rate risk arising from trading book exposures is covered under the Pillar 1 market risk regulations. It outlines the supervisory expectations in relation to IRRBB management framework, and the specific systems to be implemented by a bank for the identification, measurement and management of IRRBB. It also spells out the supervisory requirements in relation to the bank's internal governance and control arrangements for the management of IRRBB.

9. The Guidance Note applies to all commercial and merchant banks operating in Nigeria. Banks are therefore required to, on an annual basis, render their IRRBB reports as part of Pillar 2 reporting at the same entity level at which the Internal Capital Adequacy Assessment Process (ICAAP) report is made. In addition, the IRRBB report should cover every major currency in which a bank holds interest rate-sensitive positions (e.g. Naira, US Dollars, Euro, British Pound, Renminbi, etc.), which is defined, for the purpose of this Guidance Note, as each currency with material exposures, i.e. those accounting for more than 5% of the bank's either banking book assets or liabilities.

3.2 Reporting Standards

10. Banks are required to adopt the Standardised Methodology (SM) for the assessment of IRRBB, for supervisory reporting (ICAAP), as outlined under **Section 6** (The CBN Standardised Framework) and **Appendix 4** (The Standardized Methodology). Banks may however use their Internal Measurement System (IMS) for the purposes of quantification and reporting of IRRBB under Pillar 2, where the following conditions are met:

   i) The bank has appropriate model governance framework incorporating:

      a) A formal model management policy appropriately approved by the board;

      b) Specification of management roles and personnel responsible for the development, validation, documentation, implementation and use of models for quantification of IRRBB;

      c) A regular formal process for the assessment of model risk;

      d) A regular independent model review and validation. The validation process should particularly include evaluation of: conceptual and methodological soundness; model monitoring, including process verification and benchmarking; analysis of outcomes and back-testing; and assessment of any expert opinions and judgments used in internal models

   ii) Interest rate risk is reported on a regular basis to the board and management on the basis of the bank's IMS and assumptions;

   iii) The IMS output data should provide a sufficient and comprehensive representation of the bank's interest rate risk profile over a relevant time horizon;

   iv) The IMS data should allow the management of interest rate to be scrutinized and monitored sufficiently;

v) The model (IMS) reports the following key figures, amongst others:

a) Projected net interest income in the first and second year after the reporting date under the baseline interest rate scenario

b) The level of the bank's Own Funds under the baseline interest rate scenario

c) Earnings-at-Risk (EaR) in the first and second year after the reporting date, based on scenarios of gradual shifts away from the yield curve, over the course of twelve months, to a value of between 200-500 basis points above and below the baseline projection

d) Equity value changes based on stress scenarios projecting 200-500 basis point interest rate shocks in the form of parallel upward and downward shifts vis-à-vis the yield curve, taking into account effects caused by convexity and embedded options

e) Price Value of 1 basis point (PV01) of the bank´s Own Funds under the baseline interest rate scenario

f) Regulatory capital to cover IRRBB

4. Supervisory Expectations

11. Banks are required to have a comprehensive risk management process in place that effectively identifies, measures, monitors and controls IRRBB exposures. The process should also be subjected to appropriate board and senior management oversight. The Principles outlined in this Guidance Note, when properly embedded, will ensure a successful implementation of a comprehensive and efficient risk management process for IRRBB management. These prescribed principles will be used by the CBN as supervisory criteria in the evaluation of banks' interest rate risk management processes and procedures.

12. Below is a specification of the CBN's supervisory expectations in relation to a banks' frameworks, processes and practices for management of IRRBB. The CBN's expectations are generally consistent with BCBS principles.

4.1 IRRBB Elements

13. Banks are expected to be familiar with all elements of IRRBB and, on a continuous basis, identify, monitor, measure and control their exposures to IRRBB. In addition, they are expected to identify the IRRBB inherent in their products and activities, and ensure that these are subject to adequate management procedures and controls. Credit Spread Risk in the Banking Book (CSRBB), where significant, should also be properly monitored and assessed.

4.2 Board Oversight

14. A bank's board is responsible for the oversight of the IRRBB management framework and the bank's risk appetite for IRRBB. Specifically, supervisory expectations with regards to a bank's board include:

a) Ensuring implementation of an adequate IRRBB management framework, incorporating clear guidance on the acceptable level of IRRBB;

b) Ensuring that steps are taken by the bank to identify, measure, monitor and control IRRBB in line with the approved framework;

c) Overseeing the review of IRRBB management policies, procedures and limits. The board should be informed regularly (at least semiannually) on the level of and trend in the bank's IRRBB exposures by any committee(s) to which certain IRRBB responsibilities have been delegated;

d) Ensuring that board members understand the implications and impact of the bank's IRRBB exposures and strategies in relation to market, liquidity, credit and operational risk. Board members

should also have sufficient technical knowledge to effectively challenge IRRBB reports;

e) Clearly identify committee(s) with delegated authority for managing IRRBB and ensure committee(s) meet regularly and include representatives from each major department connected to IRRBB management;

f) Ensure that the IRRBB identification, measurement, monitoring and control processes are regularly reviewed by an independent audit function (such as an internal or external auditors).

4.3 Risk Appetite

15. Banks should have an approved and clear Risk Appetite Statement (RAS) for the IRRBB, and this should be articulated in terms of the risk to both Economic Value of Equity (EVE) and earnings. It is expected that risk appetite for the IRRBB will be implemented through the bank's corporate Risk Appetite Framework (RAF).

16. The approach used by banks to track their risk appetite including the applicable limits will be subject to the CBN's supervisory review and evaluation.

4.4 Measurement of IRRBB Using IMS

17. Banks that qualify to adopt an IMS are expected to implement an appropriate system that measures their IRRBB based on both economic value and earnings-based methodologies. The bank's IMS for IRRBB should specifically incorporate the calculation of the impact of multiple scenarios on economic value and earnings, based on:

a) internally formulated interest rate shock scenarios which takes into account the bank's specific IRRBB risk profile, as per its ICAAP;

b) historical and hypothetical interest rate stress scenarios, which should ideally be more severe than the six (6) supervisory prescribed standard shock scenarios;

c) the six (6) prescribed interest rate shock scenarios set out in **Appendix 3**; and

d) any additional interest rate shock scenarios which may be prescribed by the CBN.

4.5 Assumptions

18. In measuring IRRBB, banks should ensure that their key behavioural and modelling assumptions underlying their measurement system are fully understood, conceptually sound, consistent with historical experience, and well documented.

19. Banks should, in particular, make sound and reasonable judgments and assumptions about how an instrument's actual maturity or repricing behaviour may vary from the instrument's contractual terms because of behavioural optionalities. Generally, assumptions may be made in relation to:

    a) expectations for the exercise of interest rate options (explicit and embedded) by both the bank and its customers under specific interest rate shocks and stress scenarios;

    b) treatment of balances and interest flows arising from non-maturity deposits (NMDs);

    c) treatment of own equity in economic value measures; and

    d) the implications of accounting practices for IRRBB.

20. Banks should carefully consider how the exercise of behavioural optionality could vary not only under the interest rate shock and stress scenario but also across other dimensions. These considerations are contained in **Appendix 1.**

4.6 Measurement System

21. Measurement systems and models used for IRRBB should be based on accurate data, and subject to appropriate documentation, testing, and internal controls.

22. Banks should have an effective internal validation framework for their IMS and models incorporating methodological evaluation, ongoing model monitoring, and analysis of model outcomes.

4.7 Reporting

23. Measurement outcomes of IRRBB and, where applicable, hedging strategies should be reported to the board and the relevant board committees on a regular basis. The reports should be at the appropriate reporting level for every currency in which the banks have material exposures. The reports, as a minimum, should contain the following:

a) Summaries of the bank's aggregate IRRBB exposures, and explanations to highlight the assets, liabilities, cash flows, and strategies driving the level and direction of IRRBB;

b) Comparison of IRRBB measurement outcomes with policy limits;

c) Key measurement and modelling assumptions such as NMD characteristics, prepayments on fixed rate loans and currency aggregation;

d) Results of stress tests, including assessment of sensitivity to key assumptions and parameters; and

e) Summaries of the reviews of IRRBB policies, procedures and adequacy of the measurement systems, including any significant findings of independent assessment and evaluations.

f) Appropriate information on the range of maturities and currencies in each portfolio including off balance sheet items, trading and non-trading activities.

4.8 Disclosure

24. As part of its Pillar 3 reporting and public disclosure, banks should provide information on the level of their IRRBB exposure. **Please see Appendix 2 for the qualitative and quantitative disclosure requirements**. Specifically, banks should disclose the measured variation in EVE, i.e., ΔEVE and variation in NII, i.e., ΔNII under the prescribed interest rate shock scenarios set out in **Appendix 3** of this Guidance Note**.**

25. Where applicable, banks are also encouraged to disclose adequate information on internal measures of IRRBB that would assist the market in interpreting the mandatory disclosure as set out in **Appendix 2**. In order to improve comparability between banks, exposures should be calculated based on the following considerations:

4.8.1 Variation in Economic Value of Equity (ΔEVE)

26. Banks' own equity should be excluded from computation of exposure level.

27. All cash flows from all interest rate-sensitive assets, liabilities and off-balance sheet items in the banking book in the computation of their exposure should be included.

28. Cash flows should be discounted using a risk-free rate[1]; and

29. The variation in economic value of equity (ΔEVE) should be computed with the assumption of a run-off balance sheet, where existing banking book positions amortize and are not replaced by any new business.

4.8.2 Variation in net interest income (ΔNII)

30. All expected cash flows arising from all interest rate-sensitive assets, liabilities and off- balance sheet items in the banking book should be included

[1] The discounting factors should be representative of a risk-free zero-coupon rate.

31. ΔNII should be computed assuming a constant balance sheet, where maturing or repricing cash flows are replaced by new cash flows with identical features with regard to the amount, repricing period and spread components; and

32. ΔNII should be disclosed as the difference in future interest income over a rolling 12-month period.

4.9 Capital Adequacy for IRRBB

33. Banks are required to specifically assess their internal capital requirements for IRRBB as part of their board approved ICAAP and in line with their risk appetite for IRRBB. Banks are responsible for evaluating the appropriate capital level to hold, and for ensuring that this is sufficient to cover IRRBB and its related risks. The contribution of IRRBB to the overall internal capital assessment should be based on either the standardised methodology or the IMS outputs, as applicable.

34. The overall level of capital should be commensurate with both the bank's actual measured level of risk (including for IRRBB) and its risk appetite, and should be duly documented in its ICAAP report.

5. Supervisory Responsibilities

35. As part of its Supervisory Review and Evaluation Process (SREP), the CBN will regularly collect sufficient and relevant information to be able to:

    a) monitor industry trends with respect to IRRBB exposures;

    b) assess the soundness of banks' IRRBB management; and

    c) identify outlier banks that will be subject to further review and/or Pillar 2 IRRBB capital add-on.

36. For the purpose of identifying an outlier bank, the CBN will implement at least one outlier/materiality test that compares a bank's maximum ΔEVE, under the six prescribed interest rate shock scenarios set out in

Appendix 3, with 15% of its Tier 1 capital, computed in line with the disclosure requirements outlined in **Section 4.8.**

6. The CBN Standardised Framework

37. The Standardised Methodology (SM) is applicable where a bank's IMS does not meet the conditions specified in **Section 3.2** of this Guidance Note, or where it voluntarily elects to apply the SM. The SM is based on the Standardised framework as contained in the BCBS standards on interest rate risk in the banking book published in April 2016. The focus of the SM is the measurement of the ΔEVE. **Please see Appendix 4 for full details of the SM.**

38. The steps involved in measuring banks' ΔEVE for IRRBB are as highlighted below:

    i) **Stage 1:** Interest rate-sensitive banking book positions are allocated to one of three categories (i.e. amenable, less amenable and not amenable to standardisation).

    ii) **Stage 2:** Determination of slotting of cash flows based on repricing maturities. This is a straightforward translation for positions amenable to standardisation. For positions less amenable to standardisation, they are excluded from this step. For positions with embedded automatic interest rate options, the optionality should be ignored for the purpose of slotting of notional repricing cash flows.

    For positions that are not amenable to standardisation, there is a separate treatment for:

    (a) NMDs – according to separation of core and non-core cash flows via the approach as set out in **paragraphs 8 to 13 under Appendix 4**

    (b) Behavioural options (fixed rate loans subject to prepayment risk and term deposits subject to early redemption risk) – behavioural

parameters relevant to the position type may rely on a scenario-dependent look-up table set out under paragraph 22 and 27 of Appendix 4.

iii) **Stage 3:** Determination of ΔEVE for relevant interest rate shock scenarios for each currency. The ΔEVE is measured per currency for all six prescribed interest rate shock scenarios.

iv) **Stage 4:** Add-ons for changes in the value of automatic interest rate options (whether explicit or embedded) are added to the EVE changes. Automatic interest rate options sold are subject to full revaluation (net of automatic interest rate options bought to hedge sold interest rate options wherever permitted or possible) under each of the six- prescribed interest rate shock scenarios for each currency. Changes in values of options are then added to the changes in the EVE measure under each interest rate shock scenario on a per currency basis.

v) **Stage 5:** IRRBB EVE calculation. The ΔEVE under the standardised framework will be the maximum of the worst aggregated reductions to EVE across the six prescribed interest rate shocks **(See Appendix 3)**.

Appendix 1: Dimensions Influencing Behavioural Options

Product	Dimensions influencing the exercise of the embedded behavioural options
Fixed rate loans subject to prepayment risk. Banks should understand the nature of prepayment risk for their portfolios and make reasonable and prudent estimates of the expected prepayments. The assumptions underlying the estimates and where prepayment penalties or other contractual features affect the embedded optionality effect should be documented. There are several factors that are important determinants of the bank's estimate of the effect of each interest rate shock and stress scenario on the average prepayment speed. Specifically, a bank must assess the expected average prepayment speed under each scenario.	Loan size, loan-to-value (LTV) ratio, borrower characteristics, contractual interest rates, seasoning, geographical location, original and remaining maturity, and other historical factors. Other macroeconomic variables such as stock indices, unemployment rates, GDP, inflation and housing price indices should be considered in modelling prepayment behaviour.
Fixed rate loan commitments. Banks may sell options to retail customers whereby, for a limited period, the customers can choose to draw down a loan at a committed rate. Unlike loan commitments to corporates, where drawdowns strongly reflect characteristics of automatic interest rate options, mortgage commitments to retail customers are impacted by other drivers.	Borrower characteristics, geographical location (including competitive environment and local premium conventions), customer relationship with bank as evidenced by cross-products, remaining maturity of the commitment, seasoning and remaining term of the mortgage.
Term deposits subject to early redemption risk. Banks may attract deposits with a contractual maturity term or with step-up clauses that enable the depositor at different time periods to modify the speed of redemption. The classification scheme should be documented, whether a term deposit is deemed to be subject to redemption penalties or to other contractual features that preserve the cash flow profile of the instrument.	Deposit size, depositor characteristics, funding channel (e.g. direct or brokered deposit), contractual interest rates, seasonal factors, geographical location and competitive environment, remaining maturity and other historical factors. Other macroeconomic variables such as stock indices, unemployment rates, GDP, inflation and housing price indices should be considered in modelling deposit redemption behaviour.
NMDs. Behavioural assumptions for deposits that have no specific repricing date can be a major determinant of IRRBB exposures under the economic value and earnings-based measures. Banks should document, monitor and regularly update key assumptions for NMD balances and behaviour used in their IMS. To determine the appropriate assumptions for its NMDs, a bank should analyse its depositor base in order to identify the proportion of core deposits (i.e. NMDs which are unlikely to reprice even under significant changes in interest rate environment). Assumptions should vary according to depositor characteristics (e.g. retail/wholesale) and account characteristics (e.g. transactional/non-transactional).	Responsiveness of product rates to changes in market interest rates, current level of interest rates, spread between a bank's offer rate and market rate, competition from other firms, the bank's geographical location and demographic and other relevant characteristics of its customer base.

Appendix 2: Disclosures

Table A

Purpose: To provide a description of the risk management objectives and policies concerning IRRBB.

Scope of application: Mandatory for all banks within the scope of application set out in **Section 3**

Content: Qualitative and quantitative information. Quantitative information is based on the daily or monthly average of the year or on the data as of the reporting date.

Frequency: Annual.

Format: Flexible.

Qualitative disclosure	
a	A description of how the bank defines IRRBB for purposes of risk control and measurement.
b	A description of the bank's overall IRRBB management and mitigation strategies. Examples are: monitoring of EVE and NII in relation to established limits, hedging practices, conduct of stress testing, outcomes analysis, the role of independent audit, the role and practices of the asset and liability management committee (ALCO), the bank's practices to ensure appropriate model validation, and timely updates in response to changing market conditions.
c	The periodicity of the calculation of the bank's IRRBB measures, and a description of the specific measures that the bank uses to gauge its sensitivity to IRRBB.
d	A description of the interest rate shock and stress scenarios that the bank uses to estimate changes in the economic value and in earnings.
e	Where significant modelling assumptions used in the bank's IMS (i.e. the EVE metric generated by the bank for purposes other than disclosure, e.g. for internal assessment of capital adequacy) are different from the modelling assumptions prescribed for the disclosure in Table B, the bank should provide a description of those assumptions and of their directional implications and explain its rationale for making those assumptions (e.g. historical data, published research, management judgment and analysis).
f	A high-level description of how the bank hedges its IRRBB, as well as the associated accounting treatment.
g	A high-level description of key modelling and parametric assumptions used in calculating ΔEVE and ΔNII in Table B, which includes: For ΔEVE, whether commercial margins and other spread components have been included in the cash flows used in the computation and discount rate used. How the average repricing maturity of non-maturity deposits in (1) has been determined (including any unique product characteristics that affect assessment of repricing behaviour). The methodology used to estimate the prepayment rates of customer loans, and/or the early withdrawal rates for time deposits, and other significant assumptions. Any other assumptions (including for instruments with behavioural optionalities that have been excluded) that have a material impact on the disclosed ΔEVE and ΔNII in Table B, including an explanation of why these are material. Any methods of aggregation across currencies, and significant interest rate correlations between different currencies.
h	Any other information which the bank wishes to disclose regarding its interpretation of the significance and sensitivity of the IRRBB measures disclosed and/or an explanation of any significant variations in the level of the reported IRRBB since previous disclosures.
Quantitative disclosures	
1	Average repricing maturity assigned to NMDs.
2	Longest repricing maturity assigned to NMDs.

Table B

Scope of application: Mandatory for all banks within the scope of application set out **Section 3**

Content: Quantitative information.

Frequency: Annual, as at the bank's financial year-end.

Format: Fixed.

Accompanying narrative: Commentary on the significance of the reported values and an explanation of any material changes since the previous reporting period.

In reporting currency	**ΔEVE**		**ΔNII**	
Period	**T**	**T–1**	**T**	**T–1**
Parallel up				
Parallel down				
Steepener				
Flattener				
Short rate up				
Short rate down				
Maximum				
Period	**T**		**T–1**	
Tier 1 capital				

Definitions

For each of the supervisory prescribed interest rate shock scenarios, the bank must report for the current period and for the previous period:

a) the change in the economic value of equity based on its IMS, using a run-off balance sheet and an instantaneous shock or based on the result of the CBN standardised framework; and

b) the change in projected NII over a forward-looking rolling 12-month period compared with the bank's own best estimate 12-month projections, using a constant balance sheet assumption and an instantaneous shock.

Appendix 3: The standardised interest rate shock scenarios

1. A bank should apply the six prescribed interest rate shock scenarios (highlighted below) to capture parallel and non-parallel gap risks for EVE and two prescribed interest rate shock scenarios for NII. Under this approach, IRRBB is measured by means of the following six scenarios:

   i) parallel shock up;

   ii) parallel shock down;

   iii) Steepener shock (short rates down and long rates up);

   iv) flattener shock (short rates up and long rates own);

   v) short rates shock up; and

   vi) short rates shock down

	Specified size of interest rate shocks					
	NGN	**USD**	**EUR**	**GBP**	**CNY**	**Other**
Parallel	400	200	200	250	400	400
Short	500	300	250	300	500	500
Long	300	150	100	150	300	350

2. Given Table above, the instantaneous shocks to the risk-free rate for parallel, short and long, for each currency, the following parameterisations of the six interest rate shock scenarios should be applied:

   i) *Parallel shock for currency c:* a constant parallel shock up or down across all time buckets.

$$\Delta R_{parallel,c}(t_k) = \pm\overline{R_{parallel,c}}$$

   ii) *Short rate shock for currency c:* shock up or down that is greatest at the shortest tenor midpoint. That shock, through the shaping scalar $S_{short}(t_k) = (e^{-t_k/x})$, where x=4, diminishes towards zero at the tenor of the longest point in the term structure

$$\Delta R_{short,c}(t_k) = \pm\overline{R_{short,c}} \cdot S_{short}(t_k) = R_{short,c} \cdot e^{-t_k/x}$$

   iii) *Long rate shock for currency c (note: this is used only in the rotational shocks):* Here the shock is greatest at the longest tenor midpoint and is related to the short scaling factor as: $S_{long}(t_k) = 1 - S_{short}(t_k)$.

$$\Delta R_{long,c}(t_k) = \pm\overline{R_{long,c}} \cdot S_{long}(t_k) = R_{long,c} \cdot (1 - e^{-t_k/x})$$

   iv) *Rotation shocks for currency c:* involving rotations to the term structure (i.e. steepeners and flatteners) of the interest rates whereby both the long and short rates are shocked and the shift in interest rates at each tenor midpoint is obtained by applying the following formulas to those shocks:

$$\Delta R_{steepener,c}(t_k) = -0.65 \cdot |\cdot \Delta R_{short,c}(t_k)| + 0.9 \cdot |\Delta R_{long,c}(t_k)|$$

$$\Delta R_{flattener,c}(t_k) = +0.8 \cdot |\cdot \Delta R_{short,c}(t_k)| - 0.6 \cdot |\Delta R_{long,c}(t_k)|$$

Appendix 4: The Standardized Methodology (SM)

A. Introduction

1. The CBN requires banks whose IMS do not meet conditions set out in this Guidance Note (See section 3.2) to apply the Standardized Methodology (SM) in the computation of IRRBB. Banks may also voluntarily choose to adopt the SM. The SM is consistent with the BCBS Standardized Framework. The steps involved in measuring a bank's IRRBB, under the SM, based solely on EVE, are:

i) **Stage 1.** Interest rate-sensitive banking book positions are allocated to one of three categories (i.e. amenable, less amenable and not amenable to standardisation).

ii) **Stage 2.** Determination of slotting of cash flows based on repricing maturities. This is a straightforward translation for positions amenable to standardisation. For positions less amenable to standardisation, they are excluded from this step. For positions with embedded automatic interest rate options, the optionality should be ignored for the purpose of slotting of notional repricing cash flows.

For positions that are not amenable to standardisation, there is a separate treatment for:

(a) NMDs – according to separation of core and non-core cash flows via the approach set out in paragraphs 8 to 13 below

(b) Behavioural options (fixed rate loans subject to prepayment risk and term deposits subject to early redemption risk) – behavioural parameters relevant to the position type must rely on a scenario-dependent look-up table set out in paragraphs 22 and 27 below.

iii) **Stage 3.** Determination of ΔEVE for relevant interest rate shock scenarios for each currency. The ΔEVE is measured per currency for all six prescribed interest rate shock scenarios.

iv) **Stage 4.** Add-ons for changes in the value of automatic interest rate options (whether explicit or embedded) are added to the EVE changes. Automatic interest rate options sold are subject to full revaluation (possibly net of automatic interest rate options bought to hedge sold interest rate options) under each of the six prescribed interest rate shock scenarios for each currency. Changes in values of options are then added to the changes in the EVE measure under each interest rate shock scenario on a per currency basis.

v) **Stage 5.** IRRBB EVE calculation. The ΔEVE under the standardised framework will be the maximum of the worst aggregated reductions to EVE across the six supervisory prescribed interest rate shocks.

B. Components of the SM

2.1 Cash flow bucketing

2. Banks must project all future notional repricing cash flows arising from interest rate-sensitive:

a) assets, which are not deducted from Common Equity Tier 1 (CET1) capital and which exclude (i) fixed assets such as real estate or intangible assets and (ii) equity exposures in the banking book;

b) liabilities (including all non-remunerated deposits), other than CET1 capital under the Basel II/III framework; and

c) off-balance sheet items;

onto (i) ***19 predefined time buckets*** (indexed numerically by k) as set out in Table 1 below, into which they fall according to their repricing dates, or onto (ii) the time bucket midpoints as set out in Table 1, retaining the notional repricing cash flows' maturity. Alternative (ii) requires splitting up notional repricing cash flows between two adjacent maturity bucket midpoints

Table 1. The maturity schedule with 19 time buckets for notional repricing cash flows repricing at t^{CF}
The number in brackets is the time bucket's midpoint

	Time bucket intervals (M: months; Y: years)							
Short-term rates	Overnight (0.0028Y)	$O/N < t^{CF} \leq 1M$ (0.0417Y)	$1M < t^{CF} \leq 3M$ (0.1667Y)	$3M < t^{CF} \leq 6M$ (0.375Y)	$6M < t^{CF} \leq 9M$ (0.625Y)	$9M < t^{CF} \leq 1Y$ 0.875Y)	$1Y < t^{CF} \leq 1.5Y$ (1.25Y)	$1.5Y < t^{CF} \leq 2Y$ (1.75Y)
Medium-term rates	$2Y < t^{CF} \leq 3Y$ (2.5Y)	$3Y < t^{CF} \leq 4Y$ (3.5Y)	$4Y < t^{CF} \leq 5Y$ (4.5Y)	$5Y < t^{CF} \leq 6Y$ (5.5Y)	$6Y < t^{CF} \leq 7Y$ (6.5Y)			
Long-term rates	$7Y < t^{CF} \leq 8Y$ (7.5Y)	$8Y < t^{CF} \leq 9Y$ (8.5Y)	$9Y < t^{CF} \leq 10Y$ (9.5Y)	$10 < t^{CF} \leq 15Y$ (12.5Y)	$15Y < t^{CF} \leq 20Y$ (17.5Y)	$t^{CF} > 20Y$ (25Y)		

3. A notional repricing cash flow CF(k) is defined as:

a) any repayment of principal (e.g. at contractual maturity);

b) any repricing of principal; repricing is said to occur at the earliest date at which either the bank or its counterparty is entitled to unilaterally change the interest rate, or at which the rate on a floating rate instrument changes automatically in response to a change in an external benchmark; or

c) any interest payment on a tranche of principal that has not yet been repaid or repriced; spread components of interest payments on a tranche of principal that has not yet been repaid and which do not reprice must be slotted until their contractual maturity irrespective of whether the non-amortized principal has been repriced or not.

The date of each repayment, repricing or interest payment is referred to as its repricing date.

4. Floating rate instruments are assumed to reprice fully at the first reset date. Hence, the entire principal amount is slotted into the bucket in which that date falls, with no additional slotting of notional repricing cash flows to later time buckets or time bucket midpoints (other than the spread component which is not repriced).

C. Process for Slotting and Decomposing Banking Book Instruments

5. All notional repricing cash flows associated with interest rate-sensitive assets, liabilities and off-balance sheet items, for each currency, are allocated to the prescribed time buckets or time bucket midpoints (henceforth, denoted by $CF_{i,c}$(k) or $CF_{i,c}$ (t_k)] under interest rate shock scenario i and currency c based on their amenability to standardisation

Process for positions that are amenable to standardisation

6. Notional repricing cash flows can be slotted into appropriate time buckets or time bucket midpoints based on their contractual maturity, if subject to fixed coupons, or into the next repricing period if coupons are floating. Positions amenable to standardisation fall into two categories:

a) *Fixed rate positions*: such positions generate cash flows that are certain till the point of contractual maturity. Examples are fixed rate loans without embedded prepayment options, term deposits without

redemption risk and other amortizing products such as mortgage loans. All coupon cash flows and periodic or final principal repayments should be allocated to the time bucket midpoints closest to the contractual maturity.

b) *Floating rate positions*: such positions generate cash flows that are not predictable past the next repricing date other than that the present value would be reset to par. Accordingly, such instruments can be treated as a series of coupon payments until the next repricing and a par notional cash flow at the time bucket midpoint closest to the next reset date bucket.

7. Positions amenable to standardisation include positions with embedded automatic interest rate options where the optionality (whether sold or bought) should be ignored for the purpose of slotting of notional repricing cash flows. That is, the stripped-out embedded automatic interest rate option must be treated together with explicit automatic interest rate options. The CBN may allow banks to categorize other positions as amenable to standardisation and ignore the optionality if it can be shown to be of immaterial consequence.

Process for positions not amenable to standardisation

8. Positions not amenable to standardisation include (i) NMDs, (ii) fixed rate loans subject to prepayment risk and (iii) term deposits subject to early redemption risk.

D. Treatment of NMDs

9. Under the standardised framework, banks should first separate their NMDs according to the nature of the deposit and depositor. Banks should then identify, for each category, the core and non-core deposits, up to the limits specified in Table 2 below. Finally, banks should determine an appropriate cash flow slotting for each category, in accordance with the average maturity limits specified in Table 2.

a) NMD categories

10. NMDs must be segmented into retail and wholesale categories. Retail deposits are defined as deposits placed with a bank by an individual person. Deposits made by small business customers and managed as retail exposures are considered as having similar interest rate risk characteristics to retail accounts and thus can be treated as retail deposits. Retail deposits should be considered as held in a transactional account when regular transactions are carried out in that account (e.g. when salaries are regularly credited) or when the deposit is non-interest bearing. Other retail deposits should be considered as held in a non-transactional account. Deposits from legal entities, sole proprietorships or partnerships are captured in wholesale deposit categories.

b) Separation of NMDs

11. Banks should distinguish between the stable and the non-stable parts of each NMD category using observed volume changes over the past 10 years[2]. The stable NMD portion is the portion that is found to remain undrawn with a high degree of likelihood. Core deposits are the proportion of stable NMDs which are unlikely to reprice even under significant changes in the interest rate environment[3]. The remainder constitutes non-core NMDs.

12. Banks are required to estimate their level of core deposits using this two-step procedure for each deposit category, and then to aggregate the results to determine the overall volume of core deposits subject to imposed caps as shown in Table 2 below.

---

[2] Where a bank does not have 10 years of data then a shorter historical period may be used. The bank should however put in place measures aimed at building the data history over time.
[3] Banks are expected to identify and assess all their material risk which may include credit risk spread in the bank book

c) Cash flow slotting

13. NMDs should finally be slotted into the appropriate time bucket or time bucket midpoint. Non- core deposits should be considered as overnight deposits and accordingly should be placed into the shortest/overnight time bucket or time bucket midpoint.

14. Banks should determine an appropriate cash flow slotting procedure for each category of core deposits, up to the maximum average maturity per category as specified in Table 2 below.

Table 2. Caps on core deposits and average maturity by category

	Cap on proportion of core deposits (%)	Cap on average maturity of core deposits (years)
Retail/transactional	90	5
Retail/non-transactional	70	4.5
Wholesale	50	4

E. Treatment of positions with behavioural options other than NMDs

15. The treatment set out in this section applies only to behavioural options related to retail customers. Where a wholesale customer has a behavioural option that may change the pattern of notional repricing cash flows, such options must be included within the category of automatic interest rate options.

Standardised framework for positions with behavioural options other than NMDs

16. The standardised framework is applied to fixed rate loans subject to prepayments and term deposits subject to early redemption risk. In each case, the customer has an option, which, if exercised, will alter the timing of a bank's cash flows. The customer's exercise of the option is, among other factors, influenced by changes in interest rates. In the case of the fixed rate loan, the customer has an option to repay the loan early (i.e., prepay); and for a fixed-term deposit, the customer may have an optional to withdraw their deposit before the scheduled date.

17. Under the standardised framework, the optionality in these products is estimated using a two- step approach. Firstly, baseline estimates of loan prepayments and early withdrawal of fixed-term deposits are calculated given the prevailing term structure of interest rates.

18. In the second stage, the baseline estimates are multiplied by scenario-dependent scalars that reflect the likely behavioural changes in the exercise of the options.

Fixed rate loans subject to prepayment risk

19. Prepayments, or parts thereof, for which the economic cost is not charged to the borrower, are referred to as uncompensated prepayments. For loan products where the economic cost of prepayments is never charged, or charged only for prepayments above a certain threshold, the standardised framework for fixed rate loans subject to prepayments set out below must be used to assign notional repricing cash flows.

20. Banks must determine (subject to CBN approval) the baseline conditional prepayment rate ($CPR^{p}_{0,c}$) for each portfolio p of homogeneous prepayment-exposed loan products denominated in currency c, under the prevailing term structure of interest rates.

21. The conditional prepayment rate (CPR) for each portfolio p of homogeneous prepayment-exposed loan products denominated in currency c, under interest rate scenario i, is given as:

$$CPR_{i,c}^{p} = \min(1, \gamma_i . CPR_{0,c}^{p})$$

where $CPR_{0,c}^{p}$ is the (constant) base CPR of a portfolio p of homogeneous prepayment-exposed loans given in currency c and given the prevailing term structure of interest rates. γ_i is a multiplier applied for scenario i as given in Table 3 below.

22. Prepayment speeds vary according to the interest rate shock scenario. The multipliers (γ_i) reflect the expectation that prepayments will generally be higher during periods of falling interest rates and lower during periods of rising interest rates.

Table 3. CPRs under the shock scenarios

Scenario Number (i)	Interest Rate Shock Scenarios	Scenario Multiplier (γ_i)
1	Parallel up	0.8
2	Parallel down	1.2
3	Steepener	0.8
4	Flattener	1.2
5	Short rate up	0.8
6	Short rate down	1.2

23. The prepayments on the fixed rate loans must ultimately be reflected in the relevant cash flows (scheduled payments on the loans, prepayments and interest payments). These payments can be broken up into scheduled payments adjusted for prepayment and uncompensated prepayments:

$$CPR_{i,c}^{p}(k) = CPR_{i,c}^{s}(k) + CPR_{i,c}^{p}(k) . N_{i,c}^{p}(k-1)$$

where $CPR_{i,c}^{s}(k)$ refers to the scheduled interest and principal repayment, and $N_{i,c}^{p}(k-1)$denotes the notional outstanding at time bucket $k-1$. The base cash flows (i.e. given the current interest rate yield curve and the base CPR) are given by $i=0$, while the interest rate shock scenarios are given for $i=1$ to 6.

Term deposits *subject to early redemption risk*

24. Term deposits lock in a fixed rate for a fixed term and would usually be hedged on that basis. However, term deposits may be subject to the risk of early withdrawal, also called early redemption risk. Consequently, term deposits may only be treated as fixed rate liabilities and their notional repricing cash flows slotted into the time buckets or time bucket midpoints up to their corresponding contractual maturity dates, provided that:

    a) the depositor has no legal right to withdraw the deposit; or

    b) an early withdrawal results in a significant penalty that at least compensates for the loss of interest between the date of withdrawal and the contractual maturity date and the economic cost of breaking the contract.

25. If neither of these conditions is met, the depositor holds an option to withdraw and the term deposits are deemed to be subject to early redemption risk. Further, if a bank issues term deposits that do not meet the above criteria to wholesale customers, it must assume that the customer will always exercise the right to withdraw in the way that is most disadvantageous to the bank (i.e. the deposit is classified as an automatic interest rate option).

26. Banks must determine (to the CBN satisfaction) the baseline term deposit redemption ratio $TDRR_{0,c}^{p}$ applicable to each homogeneous portfolio p of term deposits in currency c and use it to slot the notional

repricing cash flows. Term deposits which are expected to be redeemed early are slotted into the overnight time bucket (k=1) or time bucket midpoint (t_1).

27. The term deposit redemption ratio for time bucket k or time bucket midpoint t_k applicable to each homogeneous portfolio p of term deposits in currency c and under scenario i is obtained by multiplying $\boldsymbol{TDRR^p_{0,c}}$ by a scalar u_1 that depends on the scenario i, as follows:

$$\boldsymbol{TDRR^p_{i,c} = \min(1, u_1 . TDRR^p_{0,c})}$$

where the values of the scalars $uuii$ are set out in Table 4.

Table 4. Term deposit redemption rate (TDRR) scalars under the shock scenarios		
Scenario number (i)	**Interest rate shock scenarios**	**Scalar multipliers (u_1)**
1	Parallel up	1.2
2	Parallel down	0.8
3	Steepener	0.8
4	Flattener	1.2
5	Short rate up	1.2
6	Short rate down	0.8

28. The notional repricing cash flows which are expected to be withdrawn early under any interest rate shock scenario i are described as:

$$\boldsymbol{CF^p_{i,c}(1) = TD^p_{0,c} . TDRR^p_{i,c}}$$

Where $\boldsymbol{TD^p_{0,c}}$ is the outstanding amount of term deposits of type p.

Process for positions that are less amenable to standardisation

29. This paragraph describes the methodology for calculating an add-on explicit automatic interest rate options, as well as embedded automatic interest rate options that are separated or stripped out from the bank's assets or liabilities (i.e. the host contract. Banks have a choice to either include all bought automatic options or include only automatic options used for hedging sold automatic interest rate options:

   a) For each sold automatic option **o** in currency **c**, the value change, denoted $\boldsymbol{\Delta FVAO^o_{i,c}}$, is calculated for each interest rate shock scenario i. The value change is given by:

      i) an estimate (to the satisfaction of CBN) of the value of the option to the option holder, given:
         - a yield curve in currency c under the interest rate shock scenario i; and
         - a relative increase in the implicit volatility of 25%;

      minus

      ii) the value of the sold option to the option holder, given the yield curve in currency c at the valuation date.

   b) Similarly, for each bought automatic interest rate option q, the bank must determine the change in value of the option between interest rate shock scenario i and the current interest rate term structure combined with a relative increase in the implicit volatility of 25%. This is denoted as $\boldsymbol{\Delta FVAO^q_{i,c}}$.

   c) The bank's total measure for automatic interest rate option risk under interest rate shock scenario i in currency c is calculated as:

$$\boldsymbol{KAO_{i,c} = \sum_{o=1}^{n_c} \Delta FVAO^o_{i,c} - \sum_{q=1}^{m_c} \Delta FVAO^q_{i,c}}$$

where n_c (m_c) is the number of sold (bought) options in currency c.

30. If the bank chooses to only include bought automatic interest rate options that are used for hedging sold automatic interest rate options, the bank must, for the remaining bought options, add any changes in market values reflected in the regulatory capital measure of the respective capital ratio (i.e. CET1, AT1 or total capital) to the total automatic interest rate option risk measure $KAO_{i,c}$

F. Calculation of the standardised EVE risk measure

31. First, the loss in economic value of equity $\Delta EVE_{i,c}$ under scenario i and currency c is calculated for each currency with material exposures, i.e. those accounting for more than 5% of either banking book assets or liabilities, as follows:

    a) Under each scenario i, all notional repricing cash flows are slotted into the respective time bucket $\kappa \in \{1, 2, \ldots, K\}$ or time bucket midpoint t_k $\{1, 2, \ldots, K\}$. Within a given time bucket k or time bucket midpoint t_k all positive and negative notional repricing cash flows are netted to form a single long or short position, with the cancelled parts removed from the calculation. Following this process across all time buckets or time bucket midpoints leads to a set of notional repricing cash flows $CF_{i,c}(\kappa)$, $\kappa \in \{1, 2, \ldots, K\}$.

    b) Net notional repricing cash flows in each time bucket κ or time bucket midpoint tk, are weighted by a continuously compounded discount factor:

    $$DF_{i,c}(t_k) = \exp(-R_{i,c}(t_k) \cdot t_k)$$

    that reflects the interest rate shock scenario i in currency c as set out in Appendix 3, and where t_k is the midpoint of time bucket k. This result is a weighted net position, which may be positive or negative for each time bucket. The cash flows should be discounted using either a risk-free rate or a risk-free rate including commercial margin and other spread components (only if the bank has included commercial margins and other spread components in its cash flows).

    c) These risk-weighted net positions are summed to determine the EVE in currency c under scenario i (excluding automatic interest rate option positions):

    $$EVE_{i,c}^{nao} = \sum_{k=1}^{k} CF_{i,c}(k) \cdot DF_{i,c}(t_k) \quad (\textbf{maturity buckets})\ \textbf{or}$$

    $$EVE_{i,c}^{nao} = \sum_{k=1}^{k} CF_{i,c}(t_k) \cdot DF_{i,c}(t_k) \quad (\textbf{maturity bucket midpoints})$$

    d) Then, the full change in EVE in currency c associated with scenario i is obtained by subtracting $EVE_{i,c}^{nao}$ from the EVE under the current interest rate term structure $EVE_{0,c}^{nao}$ and by adding the total measure for automatic interest rate option risk $KAO_{i,c}$, as follows:

    For maturity buckets:

    $$\Delta EVE_{i,c} = \sum_{k=1}^{k} CF_{0,c}(k) \cdot DF_{0,c}(t_k) - \sum_{k=1}^{k} CF_{i,c}(k) \cdot DF_{i,c}(t_k) + KAO_{i,c}$$

    or, for maturity buckets midpoints:

    $$\Delta EVE_{i,c} = \sum_{k=1}^{k} CF_{0,c}(t_k) \cdot DF_{0,c}(t_k) - \sum_{k=1}^{k} CF_{i,c}(t_k) \cdot DF_{i,c}(t_k) + KAO_{i,c}$$

    Finally, the EVE losses $\Delta EVE_{i,c}$ are aggregated under a given interest rate shock scenario i and the maximum loss across all interest rate shock scenarios is the EVE risk measure:

    $$\textbf{Standardised EVE Risk Measure} = \underbrace{\max}_{i \in \{1,2,\ldots,6\}} \left(\max\left(0; \sum_{c: \Delta EVE_{i,c} > 0} \underbrace{\Delta EVE_{i,c}}_{\text{loss in currency } c}\right)\right)$$

CENTRAL BANK OF NIGERIA

GUIDELINES ON MANAGEMENT OF CREDIT CONCENTRATION RISK UNDER THE SUPERVISORY REVIEW PROCESS

Issue Date: March 2019

Effective Date: March 2019

Table of Contents

1. **Abbreviations** 2
2. **Background** 3
3. **The Concept of Credit Concentration Risk** 4
4. **Supervisory Expectation** 4
   - 4.1 Credit Concentration Risk Management Framework 5
   - 4.2 Credit Concentration Risk within the ICAAP 7
   - 4.3 Management and Supervision of Credit Risk 9
   - 4.4 Reporting of Credit Concentration Risk 10
5. **Supervisory Review and Evaluation Process (SREP)** 11
   - 5.1 Approach to SREP 11
   - 5.2 The Central Bank of Nigeria Challenger Process 14

1. Abbreviations

Acronym	Description
BCBS	Basel Committee on Banking Supervision
CBN	Central Bank of Nigeria
CCF	Credit Conversion Factors
CRWA	Credit Risk Weighted Assets
DT	Down Turn
EAD	Exposure at Default
ECAI	External Credit Assessment Institutions
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IT	Information Technology
LGD	Loss Given Default
LR	Long Run
PD	Probability of Default
RW	Risk Weight
RWA	Risk Weighted Assets
SREP	Supervisory Review and Evaluation Process
UL	Unexpected Loss

2. Background

1. The Basel 2 Capital Framework does not fully address credit concentration risk in the context of Pillar 1. This results in potential underestimation of risk and capital requirements which should be addressed through Pillar 2 of the framework. Specifically, under Pillar 2 of the Basel 2 Framework, supervisors expect banks to hold adequate internal capital for all their material risks, including credit concentration risk. The additional internal capital should be allocated to the material risks after steps have been taken to mitigate them and hence they should be reflective of the unmitigated part of the relevant risk.

2. The principle of proportionality will be applied in the assessment of the banks' methodologies for the identification, measurement, monitoring, and management of credit concentration risk. The assessment will therefore take into account the size, systemic importance, scale and complexity of banks' activities which will reflect the risks arising from the exposures in each institution.

3. The Central Bank of Nigeria (CBN) recognizes that while concentration within the credit portfolio may increase vulnerability with regard to specific economic cycles and other external adverse events or shocks, specialization in certain business lines and/or geographical location may, in some specific instances, enhance the performance of a bank. This is because focusing on specific industrial sectors, markets, products or geographical regions may generate valuable expertise. The supervisor will therefore take a balanced view in the assessment of the level of inherent concentration risk, and the viability and sustainability of the banks' business model.

4. The implementation of International Financial Reporting Standard on Financial Instruments (IFRS 9) is expected to result in improvements in the banks' internal credit risk modelling capabilities. We therefore expect that banks will be in a position to generate the appropriate regulatory credit risk parameters for internal use in the estimation or challenge of their economic (internal) capital for credit risk and its sub-categories such as credit concentration risk.

3. The Concept of Credit Concentration Risk

5. According to the Basel Committee on Banking Supervision (BCBS), concentration risk is defined as any single exposure or group of exposures with the potential to produce losses large enough[1] to threaten a bank's health or ability to maintain its core operations.

6. Credit concentration risk arises as a result of credit portfolio having a skewed distribution of exposures across different segments. The segments may for instance consist of certain industries, geographical regions or correspond to individual counterparties.

7. Credit concentration risk can be classified into three main types. That is, single name, sectoral and credit contagion. Single name credit concentration relates to imperfect diversification of idiosyncratic risk in the portfolio because of either its small size or large exposures to specific individual obligors or groups of connected obligors. Sectoral credit concentration relates to imperfect diversification across industrial or geographical sectors. Credit contagion refers to the increased dependence or correlation of risk of default by counterparties as a result of their shared business connections such as supply chain links or counterparty exposures.

8. The estimations of contagion effect can be complex and require information on bilateral links between counterparties, which may not be available within the banks' credit management information systems. This methodology document therefore focuses only on the single name and sectoral credit concentration risks. Banks are however expected to put in place appropriate processes and procedures aimed at identifying and managing any potential contagion risk within their individual portfolios.

4. Supervisory Expectation

9. In addition to the existing regulations around credit concentration risk contained in our Prudential Guidelines for Deposit Money Banks, 2010 and any subsequent revision and other relevant Central Bank of

[1] Relative to a bank's capital, total assets or overall risk level

Nigeria (CBN) circulars, the following section provides additional risk management processes and practices expected from banks to further enhance the management of concentration risks within their portfolios.

10. While this methodology covers credit concentration risk, banks are also expected to assess the materiality of other sources of concentration including those arising from concentration of funding sources, types of collateral, market risk factors and those that might increase operational risks. Where such concentration risks are assessed to be material, banks should be able to fully demonstrate to the CBN how they are being managed and where necessary should have a process in place for the estimation of the Pillar 2 capital add-ons relating to the risks.

4.1 Credit Concentration Risk Management Framework

11. Banks are required to identify the sources and degree of credit concentration risk in their portfolios, including those arising from:

    a) Single counterparties and groups of connected counterparties;

    b) Counterparties in the same industry, economic sector or geographical region;

    c) Counterparties whose financial performance is dependent on the same activity, commodity or product; and

    d) Exposures to particular asset classes, products, collateral or currencies.

12. Banks should adequately address credit concentration within their governance and risk management framework. This include, but not limited to, assignment of responsibilities for the management of credit concentration risk, and appropriate policies and procedures for the identification, measurement, management, monitoring and reporting of credit concentration risk.

13. The banks' framework for identification of credit concentration risk should be comprehensive enough to ensure that all the significant sources of concentration risk are covered. To facilitate this, a bank should have adequate data management systems and processes to

enable it to identify credit concentration risk arising from different types of exposures.

14. Banks should use stress testing as one of the key tools for the identification of credit concentration risk. Stress testing in particular allows banks to identify interdependencies between exposures which may become apparent only under stressed market conditions. The stress testing exercise for the purpose of identification of credit concentration risk should be performed at an enterprise wide, business line and entity level.

15. The banks' framework for measurement of credit concentration risk should facilitate the evaluation and quantification of the impact of credit concentration risk on its earnings, solvency and liquidity positions. The measurement framework should also facilitate assessment of ongoing compliance with the applicable regulatory requirements (e.g., solvency ratios, large exposure limits, sectoral limits etc) in a reliable and timely manner.

16. The bank should have a process in place aimed at ensuring that the senior management and the board are made aware of the material limitations and underlying assumptions of the credit risk measurement framework used to assess credit concentration risk. Further, where applicable, the limitations and assumptions of the credit risk measurement models and their calibration, should be adequately taken into consideration in the assessment and challenge of the adequacy of the estimated internal capital for credit concentration risk.

17. Banks' credit risk limit structures and levels should reflect its risk tolerance. The limit structures should cover both on- and off- balance sheet positions and the structure of assets at consolidated and solo levels. The limit structures should be appropriately documented and communicated to all the relevant levels of the bank.

18. Banks should implement adequate Information Technology (IT) infrastructure that will enable it to monitor credit concentrations arising from its exposure against approved limits. The results of such limit (and

limit utilization) monitoring should be included in management and operational reports for users of the limits. The bank should also implement appropriate escalation procedures aimed at addressing any limit breaches.

19. Single-name concentration risk should be assessed at the borrower or, where applicable, connection level rather than at the exposure or facility level. This is to ensure that the level of single name concentration risk is not underestimated.

20. The bank's measurement methodology for credit concentration risk should be commensurate with the size of their credit portfolio, complexity of its business, and the environment in which it operates.

21. An essential precondition for measuring sectoral credit concentration risk is a suitable sectoral classification of individual exposure. The definition of sectors should ideally facilitate direct allocation to individual risk factors. That is, a sectoral classification is ideal if the asset correlations are high within a sector and low between different sectors.

4.2 Credit Concentration Risk within the ICAAP

22. Banks should ensure that credit concentration risk is adequately taken into account within their Internal Capital Adequacy Assessment Process (ICAAP) and capital planning frameworks. This include, where applicable, an assessment of the amount of Pillar 2 capital considered to be adequate given the level of credit concentration risk within their portfolios.

23. Banks should be able to fully demonstrate that their internal capital assessment is comprehensive and adequate given the nature of their credit concentration risk.

24. Banks may take into account mitigation measures in their assessment of exposure to credit concentration risk. The assessment of the mitigation measures by a bank may take into account relevant factors such as:

a) the quality of its risk management and other internal systems and controls; and

b) its ability to take effective and timely management action aimed at adjusting the level of its credit concentration risk.

25. Banks should develop and implement robust processes and methodologies for the assessment of capital requirements for credit concentration risk. The processes should capture all the material sources of credit concentration risk including, where applicable, those arising from exposure to limited number of: individual and related counterparties, industrial sectors and geographical regions.

26. Banks should, where applicable, be able to demonstrate the appropriateness of their approach to mapping of the estimated credit concentration risk metrics, into the Pillar 2 capital requirements for credit concentration risk based on, amongst others: own historical credit loss experience, and/or relevant benchmarks.

27. Banks should, where available, consider using the outputs of their internal credit rating systems including own estimates of credit risk parameters[2] as the basis for the estimation of Pillar 2 (internal) capital for credit default and concentration risks, and to address the known limitations of the current Pillar 1 approach to estimation of credit Risk Weighted Assets (RWAs) particularly as implemented in countries with low penetration of ratings by External Credit Assessment Institutions (ECAI).

28. Where a bank opts to use own estimates of credit risk parameters for Pillar 2 purpose, it should be able to fully demonstrate the appropriateness of such parameters. Specifically, it should be able to demonstrate that:

---

[2] That is, Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD)

a) such parameters have been subjected to rigorous internal validation and the necessary adjustments[3] in line with best practice and supervisory expectation,

b) the underlying rating systems continue to perform well in terms of their ability to differentiate risk across obligors and to predict the risk of default at portfolio and rating grade level.

29. Where a bank opts not to apply approaches that require the use of internal credit risk parameters in the quantification of its Pillar 2 capital requirements for credit concentration risk, i.e., model-free or heuristics methods[4] then it should be able to demonstrate to the CBN that the selected approaches are:

    a) appropriate given its size and portfolio structure and captures the risk profile of its exposures;

    b) consistently applied across all the exposures and portfolios; and

    c) adequately conservative and does not result in underestimation of Pillar 2 capital requirement.

30. The expectation is that the adequacy of Pillar 2 capital estimates from model-free or heuristic methods should be validated (challenged) using appropriate industry benchmarks that takes into account the peculiarity of the bank's own credit portfolio and the structure of the Nigerian economy.

4.3 Management and Supervision of Credit Risk

31. Banks should formulate a concise and practical definition of what constitutes a credit concentration risk. The definition should encompass the material sub-types of credit concentrations including, where applicable, those arising as a result of exposures to same counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or

[3] The estimation of economic capital, which is meant to capture Unexpected Loss (UL), should ideally be based on the Long Run (LR) Probabilities of Default (PD) and Downturn (DT) or regulatory prescribed Loss Given Default (LGD) and Credit Conversion Factors (CCF).
[4] such as Herfindahl-Hirschman Index (HHI), Gini Coefficient, Concentration Indices, Diversification Scores, Ratios

from the same activity or common type of collateral, and the application of credit risk mitigation techniques.

32. Banks should employ appropriate methodologies and tools for the identification of their overall credit risk exposure with regard to a particular customer, product, industry or geographic location.

33. The infrastructure used to aggregate and consolidate credit exposures and to manage credit risk limits should be sufficiently robust. Further, the risk measurement models, methodologies and indicators used by banks to measure credit concentration risk should adequately capture the nature of the inter-dependencies between exposures.

34. Given that the choice of modelling approach to quantification of credit concentration risk may have a significant impact on the quality of assessment of credit concentration risk, banks should have a full understanding of the underlying assumptions and techniques embedded in their adopted credit risk models, ratings systems and methodologies.

35. Banks should be able to fully demonstrate that their approach to quantification of credit concentration risk takes into account the specific characteristics of their credit portfolios and any inter-relationships between their credit exposures. This is to ensure that the level of credit concentration risk is not underestimated.

4.4 Reporting of Credit Concentration Risk

36. Banks should have adequate arrangements in place for reporting of credit concentration risk, which ensures timely, accurate and comprehensive provision of appropriate information to senior management and the board on the level of credit concentration risk.

37. Banks must ensure that credit risk reports to the board and senior management are prepared in a manner that clearly explains and gives sufficient prominence to significant credit risk issues and developments that may materially impact the bank. In particular, the

structure, depth and coverage of the reports must enable the board and senior management to:

a) relate the information being presented to the bank's credit risk strategy, risk appetite and credit risk policy, and to identify any of the three arrangements that need to be reviewed;

b) be aware of significant credit exposures, both on an individual; and aggregated basis; and

c) assess the need for measures to mitigate any emerging risks and vulnerabilities.

38. The banks monitoring and reporting framework for credit concentration risk should be reliable, timely and comprehensive to facilitate efficient decision making. The credit concentration risk management reports should provide qualitative and quantitative information on concentration risk as well as on material risk drivers and mitigating actions taken. The reports should include information at both consolidated and solo levels, as appropriate, and should follow the established limit structure, spanning business lines, geographical regions and legal entities.

39. Banks should derive a practical definition of what constitutes a material credit concentration in line with their risk tolerance. Banks should also determine their concentration risk tolerance taking into account their business model, size and geographic activity.

5. Supervisory Review and Evaluation Process (SREP)

5.1 Approach to SREP

40. The supervisory review and assessment of banks' exposure to credit concentration risk, and credit concentration risk management processes and practices will form part of the overall assessment of a bank's risk and business profile, and compliance with the requirements of the Basel 2 capital framework and other regulatory requirements

including requirements in relation to large exposures and sectoral limits and processes.

41. The supervisory assessment of a bank's credit concentration risk will take into account the bank's business model and strategy. This includes any strategy which could result in certain entities or business units being concentrated in certain geographical regions, products or markets as a result of the group-wide business strategy.

42. The supervisors will assess whether credit concentration risk is adequately captured in the bank's risk management framework. The supervisory review will in particular:

   a) capture the quantitative, qualitative and organizational aspects of the banks' credit concentration risk management

   b) involve an evaluation of the extent to which credit concentration risk management is embedded in the bank's risk management framework and whether the bank has considered all possible areas where credit risk concentration may arise.

43. Appropriate supervisory action will be taken if the supervisory assessment of the bank's credit concentration risk management processes and procedures identifies material deficiencies. The supervisory actions may involve requiring the bank to take:

   a) remedial actions aimed at reducing the level of concentration of its credit portfolio, or

   b) other management actions to mitigate against credit concentration risk.

44. The supervisors will ensure that the bank holds an adequate amount of capital against its credit concentration risk while taking into consideration any credit concentration inherent in the bank's chosen business strategy. Where the level of capital held by a bank against credit concentration risk is deemed to be inadequate given its level of inherent or potential credit concentration, then appropriate actions

will be taken. These actions will be aimed at reducing risk exposure and may include requiring the bank to hold additional capital under Pillar 2 of the Basel framework.

45. The requirement for banks to hold Pillar 2 capital in excess of the minimum level may also be used as a supervisory measure where banks are not able to demonstrate the appropriateness and adequacy of their internal processes for the identification, measurement, monitoring and mitigation of credit concentration risk.

46. The bank supervisors will assess the extent to which credit concentration risk is adequately captured in banks' stress testing exercise. The supervisors will also, in some instances, consider performing or requesting banks to perform additional stress tests to assess the potential impact of crystallization of credit concentration risk on their capital position. These additional tests may include application of relevant sectoral shocks.

47. The assessment of the credit concentration risk of a cross-border banks and its subsidiaries or legal entities, is expected to take into consideration the group's business model and strategy, including the board approved diversification strategy, which could result in certain entities being concentrated in certain sectors or products as a result of this group-wide diversification strategy.

48. The supervisor will also assess whether the credit risk mitigation techniques used by banks are adequate, manageable and fully understood by the relevant staff.

49. The inherent and potential credit concentration within cross-border banks will be closely reviewed and discussed by the college of supervisors and may form part of the joint risk assessment and inspection exercise. The review will take into account, amongst others, the fact that for cross-border banks, credit risk may arise at business line or legal entity level as a result of the groups' diversification strategy. Consequently, exposures at Group level that may be considered diversified, should also be assessed at both business and or entity level to see if there is concentration risk at that level.

5.2 The Central Bank of Nigeria Challenger Process

50. To facilitate the supervisory challenge of the adequacy of the banks' estimates of Pillar 2 capital for concentration risk, the CBN has developed a number of benchmarks and approaches to mapping of the estimated concentration risk metrics to an economic capital number. The benchmarks are simple methodologies based on the industry data aimed at assisting the CBN in having an idea of what the capital charge for Concentration risk could be. The benchmarks are expected to facilitate the rank ordering of banks in terms of the level of concentration of their credit portfolios and challenge on the adequacy or otherwise of their estimates.

51. The CBN approach to mapping of the concentration risk metrics to an economic capital figure (Pillar 2 capital) has been developed taking into account the available empirical studies and the historical loss experience of the Nigerian banks.

52. Specifically, the CBN challenger process is based on the estimated statistical relationship between the observed actual historical credit losses for the Nigerian banks and a number of credit concentration risk metrics and benchmarks.

53. The other considerations that will be taken into account in the assessment of the adequacy of banks' own estimates of Pillar 2 capital for credit concentration risk include:

a) the quality of bank's credit portfolio;

b) the correlation between the sectors and counterparties that the bank is exposed to; and

c) the quality of a bank's policies and processes for the management of credit concentration risk.

PART C
CURRENCY OPERATIONS CIRCULARS, POLICIES AND GUIDELINES

DIRECTOR:
CURRENCY OPERATIONS DEPARTMENT
Website: www.cbn.gov.ng

CENTRAL BANK OF NIGERIA
Corporate Head Office:
Plot 33, Abubakar Tafawa Balewa Way,
Central Business District,
Cadastral Zone, P.M.B. 0187,
Garki - Abuja.
Tel: +234 9 462 38544, Fax: +234 9 462 38545

CIRCULAR

COD/DIR/INT/CIR/001/002 9th April 2021

To: All Deposit Money Banks,
Bureau De Change Operators and
The General Public

THE REJECTION OF OLD/LOWER DENOMINATION OF UNITED STATES DOLLAR BY DMBs/FOREX DEALERS

1. The Central Bank of Nigeria (CBN) has in recent times been inundated with complaints from members of the public on the rejection of old/lower denominations of US Dollar bills by Deposit money banks (DMBs) and other authorized forex dealers.

2. All DMBs/authorized forex dealers should henceforth accept both old series and lower denominations of United States Dollars (USD) that are legal tender for deposit from their customers.

3. The CBN will not hesitate to sanction any DMB or other authorized forex dealers who refuse to accept old series/lower denominations of US Dollar bills from their customers.

4. In addition, all authorized forex dealers are advised to desist from defacing/stamping US Dollar Banknotes as such notes always fail authentication test during processing/sorting.

Please note for immediate compliance.

Ahmed 9/4/2021

Ahmed B. Umar
Director, Currency Operations Department

DIRECTOR:
CURRENCY OPERATIONS DEPARTMENT
Website: www.cbn.gov.ng

CENTRAL BANK OF NIGERIA
Corporate Head Office:
Plot 33, Abubakar Tafawa Balewa Way,
Central Business District,
Cadastral Zone, P.M.B. 0187,
Garki - Abuja.
Tel: +234 9 462 38544, Fax: +234 9 462 38545

CIRCULAR

COD/DIR/GEN/CIR/01/012 June 26, 2020

All Deposit Money Banks
All Licensed CITs and CPCs in Nigeria

APPROVAL FOR STIRLING TRUST COMPANY LIMITED TO COMMENCE CASH-IN-TRANSIT OPERATIONS

Please be informed that Stirling Trust Company Limited has been granted approval by the Central Bank of Nigeria (CBN) to commence Cash-in-Transit operations in Nigeria with effect from April 23, 2020.

Kindly accord Stirling Trust Company Limited all necessary assistance in the discharge of their functions as Cash-In-Transit Service Provider.

Thank you.

26/6/2020

Ahmed B. Umar
Director, Currency Operations Department

CENTRAL BANK OF NIGERIA

REVISED GUIDELINES FOR THE REGISTRATION OF CASH-IN-TRANSIT AND CURRENCY PROCESSING COMPANIES IN NIGERIA

In order to enhance the efficiency and cost-effectiveness of currency management, facilitate the generation of fit Naira banknotes for payment, promote the use of shared facilities to drive down currency management cost, engender healthy competition among service providers and ensure product quality, integrity and standardization in Nigeria, the Central Bank of Nigeria (CBN) hereby mandates all companies, including Deposit Money Banks, who are desirous of providing currency distribution and/or currency processing services in Nigeria, either for themselves or for other Deposit Money Bank(s) to register with the Central Bank of Nigeria.

This update is in furtherance of the circular released by the Central Bank of Nigeria on the "Notice to Companies Providing Currency Sorting and Distribution Services and Deposit Money Banks providing these Services for themselves or other Banks in Nigeria", published on 14th December, 2009.

The requirements for registration are as follows:

1.0 CASH-IN-TRANSIT (CIT) OPERATIONS

i. The company shall be duly incorporated in Nigeria.

ii. The company shall be registered either for National or Regional Operations. For the purpose of these guidelines, a National CIT means a company registered to operate in all States of the federation, while a Regional CIT shall operate within the States of one (1) geo-political zone.

iii. A company registered to operate as a National CIT shall:

a. Have a minimum capital of ₦1 billion or such other amount as may be prescribed by the CBN from time to time.
b. Be entitled to establish offices in any State of the federation subject to approval by the CBN, for the purpose of carrying out its operations.
c. Be authorized to move cash in Naira and foreign currencies to any part of Nigeria.

iv. A company registered to operate as a Regional CIT shall:
a. Have a minimum capital of ₦500 million or such other amount as may be prescribed by the CBN from time to time.
b. Be entitled to establish offices in States within one (1) geo-political zone subject to approval by the CBN, for the purpose of carrying out its operations.
c. Be authorized to move cash in Naira and foreign currencies within one (1) geo-political zone.

v. Any registered regional CIT shall be prohibited from establishing offices or carrying out operations in other geo-political zones.

vi. All approved vehicles of registered service providers shall be captured in the Cash Activity Reporting Portal (CARP) and only vehicles captured in the database may be used for CIT services.

vii. Promoters shall be private companies and/or individuals with proven integrity and experience in financial services (evidence required).

viii. All promoters/directors shall present evidence of clearance from the relevant security agencies.

ix. Evidence of insurance with a reputable Nigerian insurance company to cover the cash-in-transit and personnel.

x. Evidence of transport agreement with cargo airlines for cash movements between cities serviced by airports.

xi. Armoured vehicles shall have a six-sided minimum plate standard of not less than B3+ with separate compartments for currency and personnel; and fitted with run-flat tyres. All the armoured vehicles shall

have vehicle-tracking systems to monitor the location and security of the movement vehicles.

xii. Evidence of liaison with the appropriate security agencies such as the NPF, DSS, ONSA, NCS, EFCC, NFIU etc.

xiii. Upon registration, a CIT Company shall have a working agreement with the Nigerian Police Force to provide security back-up.

xiv. Operational and procedure manuals, detailing processes from the receipt of orders to execution and full documentation on all transactions shall be maintained by the CIT Company. This must be in line with the Central Bank of Nigeria (Anti-Money Laundering & Combating the Financing of Terrorism in Banks and Other Financial Institutions) Regulations, 2013.

xv. The roles and responsibilities of the representatives of customers should be clearly stated in the Service Level Agreements.

xvi. The CIT company shall have in place a Tariff for both intra- and inter-city cash movements and for air, rail and road movements.

xvii. The CBN shall enforce the implementation of these guidelines on CIT operations for all players.

xviii. The CIT company shall provide proposals on how to mitigate risks arising from the following:

a. **Operational risks**: These relate to exposure to losses occasioned by diversion of movement to areas not intended, accident, theft, non-compliance with security requirements, attacks, fire, information leakage, collusion, unavailability of surveillance systems and technical workshop etc. All service providers should ensure adequate security and insurance of their premises, vaults and currency movements.

b. **Reputational risks**: These entail integrity and building confidence in the correctness of the currency being moved, efficiency of operations, obedience to traffic rules and regulations, respect for other road users and reduction in noise pollution caused by the blaring of sirens, satisfactory references

on employees from reputable organizations and individuals, backed by adequate guarantees.

c. **Technology risks**: Ensuring the deployment of the appropriate armoured vehicles with the appropriate anti-ballistic properties, reducing the incidence of breakdown during movement operations, ensuring the safety of cash-in-transit after attack etc.

2.0 CURRENCY PROCESSING COMPANIES (CPC) OPERATIONS

i. The company shall be incorporated in Nigeria.

ii. The company shall be registered either for National or Regional Operations. For the purpose of these guidelines, a National CPC means a company registered to operate in all States of the federation, while a Regional CPC shall operate within the States of one (1) geo-political zone.

iii. A company registered to operate as a National CPC shall:

a. Have a minimum capital of ₦3 billion or such other amount as may be prescribed by the CBN from time to time.
b. Be entitled to establish offices in any State of the Federation subject to approval by the CBN, for the purpose of carrying out its operations.
c. Be authorized to process cash in Naira and foreign currencies to any part of Nigeria.

iv. A company registered to operate as a Regional CPC shall:

a. Have a minimum capital of ₦2 billion or such other amount as may be prescribed by the CBN from time to time.

b. Be entitled to establish offices in States within one (1) geo-political zone subject to approval by the CBN, for the purpose of carrying out its operations.
c. Be authorized to process cash in Naira and foreign currencies within one (1) geo-political zone.

v. Promoters shall be private companies and/or individuals with proven integrity and experience in currency sorting operations,

financial services, currency processing systems, sales and maintenance (evidence and proficiency required).

vi. All promoters/directors shall present evidence of clearance from the relevant security agencies.

vii. The company shall have adequately secured vaults, either owned or leased. The vaults shall be located in secured areas with adequate parking space and easy accessibility. The vaults shall meet the minimum requirements of the CBN in terms of location, area, size, doors (minimum of 1.97 metres in length and breadth 0.9 metres) and loading bays (length: 9.144 metres, breadth: 3.458 metres and height: 4.5 metres).

viii. The company shall demonstrate enough commitment to acquire its own vaults in the future where it operates in leased vaults.

ix. All vaults used by the service providers, either leased or owned shall meet CBN minimum requirements for space adequacy, loading bay specification, accessibility and security (both electronic and physical) etc.

x. The company can operate from a single location at the initial stage, but it shall demonstrate ability and commitment to expand the scope of its operations, upgrade its processing systems, information and communication technology.

xi. The company shall provide evidence of technical support from manufacturers of currency processing systems to ensure continuous and un-interrupted operations.

xii. The company shall provide evidence of insurance with a reputable Nigerian insurance company to cover cash and personnel.

xiii. The CBN shall enforce the implementation of these guidelines on CPC registration and operations for all players.

xiv. The company shall provide proposals/measures to mitigate risks inherent in currency processing:

   a. **Operational risks:** such as weak internal control processes/systems to control fraud, theft, deployment of inappropriate processing systems, security of currency held in the vaults, humidity and dust in the vaults, fire outbreak etc.

b. **Reputational risks**: such as shortages, counterfeit, non-compliance with fitness standards, unsecured bank deposits, poor service delivery etc.

c. **Technological risks**: such as system failure, data theft, deployment of obsolete information and communication technology, processing systems and unsecured cyber space.

xv. The processing systems deployed by the service providers shall be programmable and adaptable to conform to the sorting standards as advised by the CBN from time to time, in line with its Clean Notes Policy.

3.0 COMPANIES PROVIDING BOTH CASH-IN-TRANSIT AND CURRENCY PROCESSING SERVICES IN NIGERIA (CO-LOCATION)

All companies providing both cash-in-transit and currency processing services shall meet all the requirements for registration as specified under Cash-in-Transit and Currency Processing operations.

In addition, companies registered to operate both National CPC and CIT shall have a minimum capital of **₦4.0 billion** or such other amount as may be prescribed by the CBN from time to time, while companies registered to operate both Regional CPC and CIT shall have a minimum capital of **₦2.5 billion** or such other amount as may be prescribed by the CBN from time to time.

4.0 DEPOSIT MONEY BANKS PROVIDING CURRENCY PROCESSING AND DISTRIBUTION SERVICES

Deposit Money Banks desirous of providing currency processing and distribution services shall jointly (two or more banks) float a subsidiary company. The subsidiary company(ies) shall meet all these registration requirements and be subject to the regulatory and supervisory framework of the CBN.

5.0 REGISTRATION OF PROSPECTIVE COMPANIES

All prospective companies shall meet the registration requirements and

be duly registered by the CBN before the commencement of operations in Nigeria.

6.0 SANCTIONS

Operating Without Registration: Any private company and/or individual(s) operating without a valid registration issued by the CBN shall have the facility closed, and in addition the promoters shall be handed over to appropriate law enforcement agencies for prosecution.

7.0 METHOD OF SUBMISSION OF APPLICATION FOR REGISTRATION

Applications for registration shall be submitted to:

The Director,
Currency Operations Department,
Central Bank of Nigeria,
Plot 33, Abubakar Tafawa Balewa Way,
Central Business District,
Abuja.

Central Bank **of Nigeria**

Internal Memorandum

Website:www.cenbank.org
Email: info@cenabnk.org

CURRENCY OPERATIONS DEPARTMENT

To: See distribution below

From: Director, Currency Operations Department

Date: 14th August, 2019

Ref: **COD/DIR/CON/CMF/14/005**

SUBJECT: CIRCULAR ON THE GUIDELINES FOR THE DISBURSEMENT OF LOWER DENOMINATION BANKNOTES FOR MICROFINANCE BANKS (MFBS) INVOLVED IN THE SCHEME

1) The MFBs shall have a Composite Risk Rating (CRR) of ABOVE AVERAGE in the most recent RBS/Target examination. Restricting participation to MFBs with satisfactory ratings will ensure that only MFBs with good corporate governance practices take part.

2) The MFBs shall accept a mixture of new and Counted Audited Clean (CAC) banknotes under the intervention scheme.

3) The MFBs shall give 20% of any withdrawal in lower denomination banknotes subject to a maximum of ₦50,000.00. Where beneficiaries withdraw more than once a day, the disbursement under the initiative will apply to only one transaction per day.

4) The MFBs shall exchange banknotes subject to a maximum of ₦50,000.00 for customers with accounts and ₦10,000.00 for customers without accounts. The MFBs shall not exchange for same beneficiary more than once a week.

5) The MFBs shall:

    (i) maintain a register of the amount received from the CBN through its correspodent bank/DMB.
    (ii) maintain a register of the beneficiaries of the disbursement. The register will contain amount, denominations disbursed, names, addresses and phone numbers (template attached).

(iii) ensure that withdrawal teller slips contain a breakdown of the denomination of the currency disbursed to customers with accounts.

(iv) ensure that disbursement to customers without accounts shall be recorded in the Daily Withdrawal Register (DWR) which shall contain the amount, denominations disbursed and details of the beneficiaries (names, addresses, phone numbers and means of identification e.g. National I.D. card, Drivers License ,International passport and Permanent Voters Card).

(iv) ensure that the serial numbers of all banknote disbursed are captured.

6) MFBs shall not sell, hoard or use the funds obtained under the intervention for any other purpose other than for which it was intended.

7) MFBs shall put in place effective internal control measures to ensure that banknotes disbursed to customers with accounts and customers without accounts are not sold.

8) MFBs shall render weekly/monthly Returns to CBN Branches on lower denomination banknotes disbursed.

9) CBN shall monitor the disbursement of the banknotes periodically.

10) Appropriate sanctions shall apply for non-compliance with these modalities.

You are hereby advised to strictly comply with these guidelines.

Thank you

PART D
CONSUMER PROTECTION CIRCULARS, POLICIES AND GUIDELINES

CENTRAL BANK OF NIGERIA

CONSUMER PROTECTION

REGULATIONS

TABLE OF CONTENTS

INTRODUCTION..3

PART ONE - OBJECTIVES AND SCOPE

1. OBJECTIVES...4
2. SCOPE...4

3. PART TWO - FAIR TREATMENT OF CONSUMERS

3.1 GENERAL PROVISIONS...5
3.2 EQUITY...5
3.3 UNFAIR CONTRACT TERMS...6

4. PART THREE - DISCLOSURE AND TRANSPARENCY

4.1 GENERAL PROVISIONS...8
4.2 ADVERTISEMENT...10
4.3 PRE-CONTRACT DISCLOSURES...11
4.4 CONTRACTUAL DISCLOSURES...11
4.5 SPECIFIC PRODUCT DISCLOSURES.......................................13
4.6 DISCLOSURE ON DEFAULT OF CREDIT REPAYMENT..................14

5. PART FOUR - RESPONSIBLE BUSINESS CONDUCT

5.1 GENERAL PROVISIONS...15
5.2 RESPONSIBLE LENDING...16
5.3 SALES PROMOTION 17
5.4 DATA PROTECTION AND PRIVACY..18
5.5 DEBT COLLECTION..18

6. PART FIVE - COMPLAINTS HANDLING & REDRESS

6.1 GENERAL PROVISIONS...20
6.2 COMPLAINTS MANAGEMENT CHANNELS...............................20
6.3 INTERNAL DISPUTE RESOLUTION..21
6.4 DISPUTE RESOLUTION AT THE CENTRAL BANK OF NIGERIA.........23

PART SIX – SANCTIONS, COMPLIANCE AND AMENDMENTS

7. SANCTIONS...24
8. COMPLIANCE...24
9. AMENDMENT..24

PART SEVEN – GLOSSARY AND ANNEXURES

10. GLOSSARY.. 25
11. ANNEXURE A... 28
12. ANNEXURE B... 30
13. ANNEXURE C... 31
14. ANNEXURE D... 32

INTRODUCTION

Pursuant to the powers conferred on the Central Bank of Nigeria (CBN) by the CBN Act, 2007 (as amended) and the Banks and Other Financial Institutions Act [BOFIA] 1991, as amended, the CBN hereby issues the Consumer Protection Regulations, herein referred to as "the Regulations" to give effect to the Principles contained in the Consumer Protection Framework for institutions licensed and/or regulated by the CBN.

The Regulations provide minimum standards required of Institutions under the regulatory purview of the Bank on fair treatment of consumers, disclosure and transparency, business conduct, complaints handling and redress in order to protect the rights of consumers and to hold the institutions accountable.

PART ONE - OBJECTIVES AND SCOPE

1. OBJECTIVES

The objectives of the Regulations are to protect consumers:

1.1. From unfair and exploitative practices by Institutions in their dealings with the consumers;

1.2. From unethical and predatory practices that undermine consumer confidence in the use of financial products and services;

1.3. Against the provision of inadequate and misleading information and/or failure to disclose material information;

1.4. By ensuring access to complaint redress mechanisms that are free, fair, timely, transparent, accessible and independent; and

1.5. By encouraging transparency of Institutions in their dealings with consumers.

2. SCOPE

The Regulations shall apply to all Institutions licensed and/or regulated by the Central Bank of Nigeria. Institutions shall ensure that the provisions of the Regulations form part of any consumer related transaction, product or service agreement they may enter into with any other institutions which are otherwise not regulated by CBN.

PART TWO - FAIR TREATMENT OF CONSUMERS

3.1 GENERAL PROVISIONS:

Institutions shall comply with the following provisions to ensure fair treatment of consumers:

3.1.1 Treat consumers equitably without bias at all stages of the relationship.

3.1.2 Give consumers who meet the minimum legal and non – discriminatory eligibility requirements, equal access to basic services without regard to their social status, physical ability, marital status, gender, age, religion, tribe or ideology.

3.1.3 Consider the needs of the financially excluded, including the vulnerable groups such as low-income consumers, women, seniors, physically challenged and the non-literate in the development and implementation of their business models, strategies and processes.

3.2 EQUITY: It shall be the duty of Institutions to treat consumers equitably always. Therefore, Institutions shall:

3.2.1 Treat consumers with courtesy and respect and shall not engage in practices such as threats, intimidation, use of abusive or offensive language, humiliation, misrepresentation, deception or unfair inducements.

3.2.2 Apply lending fees on disbursed amounts only in respect of term loans, except for fees which are normally applicable on undisbursed portions.

3.2.3 Apply non-credit related fees/charges on an account only to the extent of the balance in the account, and defer the outstanding fees/charges until the account is funded and the customer notified of the deferred fees/charges.

3.2.4 Promptly oblige consumers' request for account closure or to switch providers, without unreasonable closing/switching barriers.

3.2.5 Ensure that variations to contracts including interest rate, fees or charges are only made if expressly provided for in the contract and shall notify consumer of any such variation.

3.2.6 Respond to customers' enquiries/requests within five (5) working days of receiving the enquiries/requests.

3.2.7 Communicate a decision (acceptance or decline) on applications for waivers, extensions, and other concessions to a customer within ten (10) working days, otherwise the application shall be deemed to have been granted.

3.2.8 Not act in a manner that is inconsistent with the terms and conditions of their contracts with their customers.

3.2.9 Not seek repayment or withhold, in part or in full, customer's funds to secure repayment before the due date, except with the written authorization of the customer.

3.2.10 Not charge early liquidation fees for consumer and SME loans with variable interest rate.

3.3 UNFAIR CONTRACT TERMS: Contracts between Institutions and consumers shall not contain unfair terms. Contract terms shall be considered unfair where there is an imbalance in rights and obligations which are detrimental to the consumer.

3.3.1 Without limitation to the general meaning of an "unfair contract term", a contract term is considered unfair if it:

a. Eliminates or limits the liability of an Institution to loss caused to a consumer by misrepresentation, negligence or misleading information on its products or services.

b. Binds a consumer to an obligation while the corresponding obligation on the Institution is conditional.

c. Terminates a contract or alters its clauses without reasonable notice to the consumer.

d. Eliminates or limits Institution's liability with respect to actions or commitments undertaken by their employees, agents or intermediaries.

e. Allows the Institution the possibility of transferring its rights and obligations under the contract, where this may reduce the rights of the consumers, without their consent.

f. Eliminates or limits the right of consumers to seek legal redress in the event of a breach.

g. Allows unilateral change to a contract without stating the circumstances under which the change could be made.

h. Purport to waive any protection provided by a law, regulations or guidelines.

3.3.2 Unfair terms used in contracts are void and shall not be binding on consumers.

3.3.3 Contract terms that conflict with any laws or regulations are null and void to the extent of their inconsistency.

3.3.4 Where there is any doubt or ambiguity about the meaning of a term used in a contract or other document provided to a consumer, the interpretation most favorable to the consumer shall prevail.

PART THREE - DISCLOSURE AND TRANSPARENCY

4.1 GENERAL PROVISIONS

To promote transparency and enhance disclosure practices, Institutions shall comply with the following provisions:

4.1.1. Ensure that documents provided or made available to consumers shall:

a. Be written in clear, legible and simple English language and in a minimum font size of 10.
b. Be provided in a durable form for future reference.
c. State the name, contact details of the Institution and the consumer.
d. Contain a statement that the Institution is regulated by the Central Bank of Nigeria.
e. Not be misleading or deceptive.

4.1.2. Put procedures in place to ensure that an oral explanation of the document is provided to the consumer in a language that he or she understands if:

a. the consumer requests; or
b. it is reasonably obvious that the consumer is illiterate or visually impaired or, for any other reason, cannot understand the document.

4.1.3. Conspicuously display in their banking halls and publish on their websites and internet banking platforms, accurate and up to date information on all their products and services. Such information shall include:

a. prime and maximum lending rates;
b. deposit rates; and
c. exchange rates of foreign currencies.

4.1.4. Disclose to the consumer in writing, all Terms and Conditions of a transaction agreement

4.1.5. Ensure that the disclaimer "Terms and Conditions Apply" or any other phrase conveying a similar meaning shall only be used if the terms and conditions have been explained and disclosed in the contract or in other medium accessible by the customer. The Institution shall at all times, draw the consumer's attention to such disclosure.

4.1.6. Clearly explain technical terms used in documents to the consumer to aid understanding.

4.1.7. Agree with consumers on the communication channel(s) to be used for all correspondences and include the channel(s) in all contract documents.

4.1.8. Ensure that their websites and other information dissemination channels are functional and regularly updated with the current features of products and services offered.

4.1.9. Comply with the rates, fees, charges, or prices published or disclosed at the engagement points.

4.1.10. Inform consumers of applicable and indicative foreign exchange rates through customer engagement points and advise consumers to always check the rates before consummating foreign exchange transactions.

4.1.11. Bear all costs associated with disclosures to customers required by the Regulations, except for deposits and withdrawals by or on behalf of the customer.

4.2 ADVERTISEMENT

Institutions shall comply with the following disclosures for all advertisements and promotional materials:

4.2.1 The content of advertisements shall be factual and unambiguous, expressed in clear and simple language and shall not be offensive, misleading, deceptive, injurious, or exaggerate the benefits of the products or services being advertised.

4.2.2 The overall impression of advertisements shall not emphasize benefits of a product or service while de-emphasizing its associated risks.

4.2.3 Disclose their contact details in any advertisement or promotional material.

4.2.4 Clearly disclose details of the cost of a product or services, including all fees and other associated charges.

4.2.5 Fully disclose the nature and value of benefits, where an advertisement refers to, or is linked to other value adding benefits.

4.2.6 Not make references to unaudited financial statements.

4.2.7 Not mention names of competitors or make comparisons in their advertisements.

4.2.8 Unsolicited advertisements through emails, text messages, voice calls and other channels sent by or on behalf of a Institution shall be at no cost to the consumer and shall contain an opt-out provision for future advertisements.

4.2.9 Notify the Director, Consumer Protection Department of the CBN prior to the commencement of advertisement of product or service by submitting a description of the content of the advertisement.

4.3 PRE-CONTRACT DISCLOSURES

Institutions shall comply with the following requirements prior to the execution of any contract with consumers:

4.3.1 Disclose all terms and conditions of a product or service on offer, as well as the features, risks, benefits, fees and other associated charges.

4.3.2 Disclose in contracts, the possibility of variations in interest rates or foreign exchange due to changes in market conditions.

4.3.3 Disclose similar products and services within the Institution, to enable consumers make comparisons and informed choices.

4.3.4 Provide the consumer, a Key Facts Statement (KFS) in the format attached as Annexure A stating a summary of key information on consumer loans.

4.3.5 Allow consumers a minimum of two (2) days from date of receipt, to review draft contract before execution except where the customer waives this in writing.

4.3.6 Give a consumer a cooling-off period of three (3) working days after the signing of a credit contract within which the consumer may cancel the contract without having to pay any penalty or charges. However, the consumer may choose to waive the option by notifying the bank in writing.

4.4 CONTRACTUAL DISCLOSURES

Institutions shall comply with the following requirements during the lifecycle of any contract with consumers:

4.4.1 Notify consumers of any transaction on their account immediately it is made. At a minimum, the notification shall include date, amount, payer, transaction reference, channel and the cleared account balance.

4.4.2 Ensure that descriptions in account statements are clear. At a minimum, it shall include, transaction reference, payer transaction channel, location and account balance.

4.4.3 Ensure that, at a minimum, credit contracts contain the following information:

a. Key features and risks;

b. Tenor of the contract;

c. The nature, amount and method of calculation of any interest, fee or charge and when it is payable;

d. The applicable Annual Percentage Rate (APR) to be calculated using the formula stated in Annexure B1 and B2;

e. Notice of possible variations in interest rates, and how the consumer will be informed of changes; and

f. Information on how to lodge a complaint to the Institution and escalate complaint to the CBN where necessary.

4.4.4 Provide consumer with monthly statements (or confirmation/investment advice as the case may be) for all products and account types, including loan accounts, special accounts and other related accounts at no cost.

4.4.5 Provide account balances to consumers on request.

4.4.6 Give prior notice of variation in interest rates to customers. At a minimum, the notice shall state:

a. The reason for the variation;

b. The commencement date;

c. The revised repayment schedule (where necessary); and

d. The alternatives available such as concession, restructuring, re-negotiation, opt-out or termination of the contract.

4.4.7 Ensure that variations in interest shall only be implemented after requisite notification to consumers: 10 working days (DMB) and 5 working days for other Institutions.

4.5 SPECIFIC PRODUCT DISCLOSURES

Institutions shall comply with the following additional disclosure requirements for specific product types in any proposed contract, letter of offer or final contract:

4.5.1 **For credit facilities**:

a. Name and contact details of borrower;
b. type and purpose of credit;
c. collateral pledged and its estimated value;
d. the amount of credit or applicable credit limit;
e. conditions precedent to drawdown;
f. moratorium (where applicable);
g. insurance requirements (where applicable);
h. details of lending fees;
i. variable rate information (where applicable)
j. repayment schedule for term loans;
k. early liquidation terms;
l. total cost of the credit;
m. applicable rate of interest or fee relating to late payment or default;

4.5.2 **For deposit products:**

a. minimum balance requirement and other limit on account balances or transactions where applicable;
b. monthly maintenance fee, any applicable tenor for a term deposit and any penalty for terminating a term deposit early;
c. savings withdrawal options; and
d. any reason(s) and timeline within which the account could become inactive or dormant.

4.5.3 **For products or instruments used as store of value such as e-wallet accounts, cards or any other form:**

a. minimum balance and any other limit on account balances and transactions (if applicable);
b. types of payments for which the instrument may not be used;
c. applicable agent outlets;
d. expiration date which may be applicable to the payment instrument;
e. processes and procedures to report mistaken and fraudulent transactions.

4.6 DISCLOSURE ON DEFAULT OF CREDIT REPAYMENT

a. Institutions that are DMBs shall notify consumers within 3 days from the first day of default, through the agreed medium that a default charge would be applied on the account after 7 days from the date the obligation becomes due.
b. Customers of Institutions other than DMBs shall be notified on the first day of default, that default charge would be applied on the account after 3 days from the date the obligation becomes due.
c. Default charge shall be disclosed in customers' statements of account separately from the interest charge.

PART FOUR - RESPONSIBLE BUSINESS CONDUCT

5.1 GENERAL PROVISIONS

To promote good business practices, Institutions shall comply with the following provisions:

5.1.1 Conduct their business in a responsible, professional and ethical manner.

5.1.2 Train their staff to promote competence, efficiency and professionalism in the discharge of their duties.

5.1.3 Provide clear information about products and services, features, terms and conditions and the applicable fees and charges.

5.1.4 Provide and inform consumers of the channels to make enquiries and complaints.

5.1.5 Notify customers of circumstances or situations that may affect the terms of their contracts or relationships.

5.1.6 Display all applicable fees for electronic payment services with the option to accept or decline before a transaction is consummated. This should include a notice that third-party charges may apply.

5.1.7 Not impose any product, service or channel on consumers.

5.1.8 Not charge fees for issuance and renewal of products or services which have not been requested by the customer.

5.1.9 Not compel consumers to buy a product or service as a condition for the purchase of another product or service unless where the products or services are directly dependent.

5.2 RESPONSIBLE LENDING

To ensure that the capability of consumers to repay credits are professionally assessed, Institutions shall comply with the following requirements:

5.2.1 Include in credit risk assessment procedures, the type and circumstances for which a credit will be suitable as well as clear lines of authority for approving the product.

5.2.2 Before granting credit to consumers, assess their capability to repay in a sustainable manner taking into consideration their financial circumstances.

5.2.3 Ascertain the credit history of consumers from the Credit Risk Management System, Credit Bureau and other sources of credit reference before advancing credits.

5.2.4 Have a policy to deal with consumers who are in financial difficulty.

5.2.5 Monitor loan performance and upon early detection of repayment difficulties engage the customer to discuss alternative repayment options.

5.2.6 Not compel consumers to buy products or services, such as insurance or valuation from a particular third-party provider as a pre-condition for the grant of a credit facility, but can provide the option to choose from at least three (3) providers or any number as may be prescribed by CBN from time to time.

5.2.7 Ensure that guarantors confirm in writing that they have read and understood their commitments, potential implications and the maximum amount they are guaranteeing, and have either:

a. sought and obtained independent professional advice before executing the guarantee; or

b. declared that they do not need independent advice.

5.2.8 Provide periodic update to Guarantors on the loan performance to enable them to assess the likelihood of being called upon to discharge their commitments.

5.2.9 Issue Letter of Discharge at no cost to customers within 5 business days after liquidation of their loans, and where the loan is guaranteed, the guarantor shall also be notified accordingly.

5.2.10 Notify customers where their loan requests are declined. The reason(s) for decline shall be provided upon request.

5.3 SALES PROMOTION

To ensure that advertisements and promotional materials on products and services are clear and not misleading, Institutions shall

5.3.1 Provide information that would aid consumers' decisions.

5.3.2 Carry out marketing of products and services in an ethical and professional manner

5.3.3 Ensure that sales and marketing staff are properly trained and competent to perform their functions. The staff should be knowledgeable in key features, risks and critical terms of product offering.

5.3.4 Establish a process to periodically check and monitor the competence and conduct of sales and marketing staff.

5.3.5 The remuneration of marketing/sales staff shall not be solely based on sales volume/target but must give consideration to the interests and circumstances of the customers.

5.3.6 Provide consumers with the option to opt out from receiving marketing materials.

5.4 DATA PROTECTION AND PRIVACY

To ensure data protection and privacy of consumers, Institutions shall:

5.4.1 Protect the privacy and confidentiality of consumer information and assets against unauthorized access, and be accountable for acts or omissions in respect thereof.

5.4.2 Obtain the written consent of consumers to collect and process their personal data for specific purpose and provide them with the option to withdraw the consent at any time.

5.4.3 Not transfer personal data of consumers to a third party without their express consent, except in compliance with a legal obligation.

5.4.4 Inform consumers whenever their data is exchanged with an authorized third party, stating details of the exchange.

5.4.5 Review data processing and privacy procedures to ensure that the purpose(s) for which initial consent was granted remained valid.

5.4.6 Keep accurate and updated data of consumers always.

5.5 DEBT COLLECTION

To ensure that debt recovery processes are transparent, courteous and fair, devoid of undue pressure, intimidation, harassment, humiliation or threat, Institutions shall.

5.5.1 Engage and give customers notice(s) of outstanding obligations prior to the commencement of a debt collection.

5.5.2 Initiate foreclosures only when other recovery steps have been unsuccessful.

5.5.3 Give customers the option of a private sale, to be exercised within 30 days before commencing foreclosure, except where the customer waives the right.

5.5.4 Ensure that the net proceeds from foreclosures are immediately applied to the loan account and customers informed of any balance.

5.5.5 Provide customers with a report of the sale of the collateral. At a minimum, the report shall state the process, proceeds, incidental expenses and the net proceeds.

5.5.6 Be liable for the actions of their agents engaged for debt collection.

5.5.7 Not engage in any of the following:

a. Contact friends, employer, relatives or neighbours of a customer for any information other than information on employment status, telephone numbers or address, except where:

   i. the person has guaranteed the loan; or

   ii. the person has consented to be contacted.

b. Require any of the persons listed in (a) above to offset the debt, except where the person has acted as a guarantor.

c. Make telephone or personal contact with customers between the

PART FIVE - COMPLAINTS HANDLING & REDRESS

6.1 GENERAL PROVISIONS

The resolution of disputes shall be the responsibility of Institutions. Consumer complaints shall first be lodged with Institutions for timely resolution and redress. Institutions shall:

6.1.1 Develop documented processes on Complaints Handling that will guarantee fairness, transparency, responsiveness and independence of the complaint handling mechanism.

6.1.2 Allocate adequate resources for complaints handling/redress and the processes manned by skilled and well-trained members of staff.

6.1.3 At all customer engagement points, disclose channels and contact details for lodging complaints, timeframe for resolution, and options for escalation. Where it is not practicable to comply with this, refer customers to where the information required could be obtained.

6.2 COMPLAINTS MANAGEMENT CHANNELS

Institutions shall provide multiple dedicated channels to receive and handle consumer complaints including verbal complaints. The channels may include letters, e-mails, telephone lines, social media and digital software platforms. The following requirements shall apply in the deployment of the channels:

6.2.1 Be effective, functional, efficient and accessible always.

6.2.2 Generate a unique identification number and acknowledge complaints within 24 hours of lodgment, including transcription of verbal complaints.

6.2.3 Accord special consideration to the needs of vulnerable groups, especially the physically challenged persons and seniors.

6.2.4 Provide emergency channels for reporting time-sensitive issues especially fraud-related complaints at all times.

6.3 INTERNAL DISPUTE RESOLUTION

Institutions shall establish Internal Dispute Resolution (IDR) structures and processes for the effective management of consumer complaints. The IDR mechanism shall satisfy the following requirements:

6.3.1 Be under the oversight of the Executive Compliance Officer or an equivalent.

6.3.2 Upon receipt of a complaint, communicate to the consumer within 24 hours, an acknowledgment containing:

a. a unique identification or tracking number,
b. contact details of the complaints desk,
c. expected resolution timeline,
d. escalation options; and
e. an assurance that the complaint is being addressed.

6.3.3 Use the unique identification or tracking number in all correspondence with the complainant.

6.3.4 Designate a unit for complaints handling independent of other products or business functions taking into consideration, the nature and complexity of their business.

6.3.5 Staff responsible for handling complaints shall be required to declare any conflict of interest that may affect their objectivity in handling a complaint.

6.3.6 Resolve complaints received within the time specified in the Timelines for Complaints Resolution by Institutions in Annexure D.

6.3.7 Refund identified excess charges, non-payment or under-payment of interest on deposits, unauthorized debits, etc. along with interest as provided in the extant Monetary, Credit, Foreign Trade and Exchange Policy Guidelines or any regulation issued by the CBN.

6.3.8 Issue a letter of apology to the complainant where the above applies.

6.3.9 Reconstruct customers' accounts to establish excess charges on overdrawn accounts, and pay Interest on the identified excess charges after reconstruction, in accordance with extant CBN Regulations.

6.3.10 Remit established refunds and interest thereon to the complainants' accounts within the prescribed Timelines for Complaints Resolution by Institutions contained in Annexure D.

6.3.11 Send a Summary Resolution Communication (SRC) for resolved complaints, to the complainant by the next business day conveying:

a. the basis for the decision(s);
b. the right of appeal available to the complainant for a second level review by the Institution; and
c. the right of escalation to the CBN, or other Alternative Dispute Resolution (ADR) avenues where the complainant is not satisfied with decisions arrived at.

6.3.12 A complaint shall be considered as resolved where the complainant has indicated acceptance of the resolution in writing to the Institution within 30 days after the receipt of the SRC, otherwise the complaint shall be deemed resolved and closed in the records of the Institution.

6.3.13 Where a complainant is dissatisfied with a decision communicated by a Institution, the complainant shall, within 30 days from the date of the receipt of the SRC, request in writing for a 2nd level review.

6.3.14 Upon receipt of a request for 2nd level review, the Institution shall review, resolve and communicate decision(s) within the Timelines for Complaints Resolution by Institutions as contained in Annexure D for second level review.

6.3.15 Identify recurring complaint types, identify their root cause(s), implement remedial measures, and generate a Root Cause Analysis Report (RCAR).

6.3.16 Prepare quarterly RCAR and submit to the Central Bank of Nigeria on or before 14th day of January, April, July and October respectively.

6.3.17 The RCAR shall contain the frequency of occurrence, identified root cause(s) and the remedial actions implemented.

6.3.18 Report complaints statistics in annual reports and the abridged Financial Statement in line with the approved format or any other format as may be prescribed by the CBN from time to time.

6.3.19 Institutions may outsource complaints handling functions subject to CBN approval.

6.4 DISPUTE RESOLUTION AT THE CENTRAL BANK OF NIGERIA

6.4.1 **Eligibility:** A complaint shall only be escalated to the CBN:

a. If the complainant has exhausted the Institution's Internal Dispute Resolution (IDR) process.

b. If an Institution fails to acknowledge the complaint within 3 days.

c. Within 90 days from the date of the receipt of a decision from an Institution.

d. If it is not undergoing the process of resolution or already considered and resolved by a recognized ADR channel.

e. If it is not under litigation or already adjudicated upon by a court of law, except where the aspect before the court is distinct from the matter brought to the CBN or where the court is dealing with the criminal aspect of the matter.

f. Provided that the provisions of Clauses 6.4.1.d and Clauses 6.4.1.e shall not fetter the power of the CBN over regulatory issues.

PART SIX – SANCTIONS, COMPLIANCE AND AMMENDMENTS

7. SANCTIONS

Penalties for violation of the Guidelines by Institutions shall be applied as provided below:

7.1 Non-resolution of complaints within prescribed timelines - A penalty of N500,000.00 per complaint per week while the infraction subsists.

7.2 Non-acknowledgment of complaints from customer or non-issuance of tracking numbers – N2,000,000.00 per complaint.

7.3 Non-response to request or failure to comply with CBN directive - A penalty of N2,000,000.00.

7.4 False or non-rendition of Returns/Reports - N100,000.00, and in addition, N10,000 for each day the infraction continues.

7.5 Persistent breach of regulations - Administrative sanctions on responsible officer(s), including issuance of warning letters and any other statutory sanctions on the officer(s) or Institution. These may be in addition to the sanctions prescribed in this Section of the Regulation.

7.6 Failure to comply with other provisions of the Regulations not specified above shall attract sanctions provided in the CBN Act, the BOFIA, other enabling laws and regulations.

8. COMPLIANCE

Institutions shall, not later than three months after the issuance of the Regulations, develop a policy approved by the Board of Directors that documents the processes, procedures and systems designed to ensure compliance with the provisions of the Regulations.

9. AMENDMENT

This Regulations may be amended by the CBN, as the need arises.

10. GLOSSARY

TERMS	DEFINITION
Advertisement	Information disseminated to the public through displays, exhibitions, sales promotions, publications, press releases, notices, etc.
Annual Percentage Rate (APR)	Annual rate charged for borrowing expressed as a percentage that constitutes the interest rate charged and annualized fees/charges for the tenor of the facility.
Complaint	An expression of dissatisfaction with a service rendered by an Institution.
Conditions precedent to drawdown	Requirements a borrower must fulfil before accessing approved loan.
Consumer	A person or an entity that uses, has used or a potential user of financial products or services of an Institution.
Consumer loan	Loan granted to an individual (whether secured or unsecured) for personal, family, or household purposes.
Credit contracts	Contracts for loans and overdrafts
Credit Risk Management System	Central credit register maintained by the Central Bank of Nigeria.
Customer	A person or entity that has a relationship with an Institution by reason of purchase of products or services offered by the institution.
Customer engagement points	Location or medium (physical or virtual) where interactions between a consumer and the Institution take place.
Document	Document Include contract agreements, offer letters, correspondence, etc. in hard or soft copy.

Early liquidation Fee	Amount charged by an Institution when a consumer pays down a loan before the agreed time.
Institutions	Commercial Banks, Merchant Banks, Specialized Banks, Micro-finance Banks (MFBs), Development Finance Institutions (DFIs), Finance Companies (FCs), Bureau-de-Change (BDCs), Primary Mortgage Banks (PMBs), Credit Bureau, Mobile Money Operators, Payment Service Banks, Switching Companies, Payment Solution Service Providers, Payment Terminal Service Providers, Non-bank Acquirer, Super Agents, Mobile Money Operators, including their agents and any other Institution licensed and/or regulated by the Central Bank of Nigeria
Internal Dispute Resolution	Procedure within an Institution for the resolution of consumer complaints.
Letter of Discharge	A letter issued by an Institution to customers as evidence of discharge of credit obligation.
Non-credit related fees/charges	Fees and charges other than repayments of credits or other credit related obligations
Private Sale	Sale of collateral by a customer.
Physically challenged	Persons with limited capacity to undertake normal activities because of a challenge beyond their control.
Recognized ADR Institutions	Institutions established by law or recognized by the CBN.
Related accounts	All accounts held by an Institution in the name of a customer or with common ownership.
SME	As defined by the Central Bank of Nigeria.
SME loan	Loans granted to enterprises defined by CBN as an SME.

Seniors	Elderly consumers who are 60 years and above.
Summary Resolution Communication	A written communication from an Institution informing a complainant that a complaint has been resolved with the option of escalation to CBN, if dissatisfied with the outcome.
Tracking Number	As defined in and generated by the Consumer Complaints Management System.
Unsolicited Advertisements	Information disseminated for commercial purposes to consumers without their consent.

ANNEXURE A

KEY FACTS STATEMENT

(THIS IS NOT AN OFFER OF CREDIT OR CONTRACT)

This Key Facts Statement (KFS) summarizes key information of the loan you are interested in and can be used for comparison purposes between different credit providers.

DISCLOSURE DATE: Include date at which information is correct. *This is the date at which the information is correct. Note that the final loan features may differ because of your personal financial position or due to a change in the information provided, including interest rates and fees and charges.*

THE LOAN	
Loan amount:	₦----------
Tenor:	___ months / years (***delete whichever is not applicable***)
Interest rate:	___% Variable/Fixed (***delete whichever is not applicable***)
Collateral:	Yes/No (**delete whichever is not applicable**)

TOTAL COST TO CONSUMER	
Total amount you will pay back	₦ _________
This means you will pay back	₦----- for every ₦---- borrowed
Annual Percentage Rate (APR) *This reflects the total cost of the credit on a yearly basis expressed as percentage, using the information at the disclosure date. It is a useful tool for comparison with similar loans*	_____ %

Specific information about your loan	
Loan received	₦
Interest rate ***(Variable interest rates may change)***	___%
Total interest charges (Total interest you will pay) ***(Total interest may increase for variable interest rates)***	₦
Total fees and charges* ***(Total other charges you will pay throughout the duration of the loan).***	₦
Total cost of credit ***(This is made up of total interest and all other charges for the tenor of the loan.***	₦
Repayments	
Repayment amount *(see attached repayment schedule)* ***Amount you will need to repay on due date***	**₦ month/quarter for tenor of loan**

Date of first repayment	__/__/__
Date on which other repayments are due	**in each week / month for tenor of loan after the first repayment period**
Total number of repayments	____

***Note that the amount required to be paid (for each repayment and total) does not include fees which are dependent on events that may not occur (for example, late payment fees)**

Fees and charges comprise of:

(A) credit prover's fees			**(B) Third party fees/charges**	
(List all applicable lending fees)			*(List all applicable 3rd party fees)*	
(1) ________	₦----		(1) ________	₦-------
(2) ________	₦-----		(2) ________	₦-------
Total (A)	₦----		**Total (B)**	₦-------
Total Fees and charges (A+B)	₦-----			

<u>Penalties and Additional Requirements</u>

- **Late Payment:** If a payment is more than 7 days late from the due date, you will be charged 1% flat per month on the overdue amount.
- **Early Liquidation of the Loan:** You may be charged a fee if you pay off your loan before maturity, the amount of which will depend on the terms of your contract.
- **Cooling Off Period:** You may cancel your loan contract within 3 days after signing.
- **Variations:** The interest rate, and fees and charges, disclosed here may change, including during your contract. You should receive notice of any change after your contract is entered into.

Have a complaint or a query?		
Do not hesitate to reach out to your lender through the following		
Telephone	Address:	Email:

If dissatisfied with the resolution of your complaint, you can escalate the complaint to the Consumer Protection Department of the Central Bank of Nigeria by writing to the Director, Consumer Protection Department, CBN, Abuja or send an email to: cpd@cbn.gov.ng.

ANNEXURE B

FORMULA FOR CALCULATING ANNUAL PERCENTAGE RATE (APR) FOR TERM LOANS OF ONE YEAR AND ABOVE

$$APR = \frac{2nc}{P(N+1)}$$

Where:

n = Number of payment periods in 1 year

c = Total cost of the loan made up of total interest payments and **all** other fees charges (including third parties' charges such as insurance etc)

P = Principal or net amount borrowed

N = Total number of payments to pay off the loan

ANNEXURE C

FORMULA FOR CALCUILATING ANNUAL PERCENTAGE RATE (APR)

For overdrafts and other short term loans below 1 year:

$$APR = \frac{C}{L} x \frac{365}{t}$$

Where:

C = Total cost of the loan made up of total interest charge and **all** other fees charges (including third parties' charges such as insurance etc.)

L = Loan amount

t= Tenor in days

Assumptions:

For overdraft facility, the limit is assumed to be taken as a whole on day 1.

ANNEXURE D

TIMELINES FOR COMPLAINTS RESOLUTION BY INSTITUTIONS

Category	Sub-category	CCMS Code	1st Review (working days)	2nd review (working days)
Account Management	Account Closure without notice	A001	2	1
	Account Details Maintenance	A002	2	1
	Account Statement Issues	A003	2	1
	Account Status	A004	2	1
	Cheque Issues	A005	2	1
	Corporate Search	A006	2	1
	Delay in honouring Standing Instruction request.	A007	2	1
	Non-reflection of Cash/Cheque Deposits in Customer Account	A008	2	1
	Account Closure Delays	A009	2	1
	Account Freeze Complaint	A010	2	1
	Account Reactivation Delays	A011	2	1
	Account to Account Transfer Delays (Same bank)	A012	2	1
	Cheque Confirmation Complaints	A013	2	1
	Cheque Return Complaint	A014	2	1
	Account Alert Issues (SMS and e-mails)	A015	2	1
	Wrong Account Lien	A016	2	1

Category	Sub-category	CCMS Code	1st Review (working days)	2nd review (working days)
	Cheque Return Request	A017	2	1
	Bills Payment and collection	A018	2	1
	Others	A999	2	1
Cards	Card Activation	B001	3	2
	Card Deactivation	B002	3	2
	Card Issuance	B003	3	2
	Card Functionality	B004	3	2
	Charges/Rates Issues	B005	3	2
	Chargebacks / Claim local (not on us)	B006	5	3
	Chargebacks / Claim local (on us)	B007	3	2
	Chargebacks / Claim international (not on us)	B008	60	30
	Chargebacks / Claim international (on us)	B009	50	25
	Credit card contract migration	B010	3	2
	Card PIN Issues	B011	3	2
	Limit Maintenance	B012	3	2
	Repayment Issues	B013	3	2
	Card Statements Issues	B014	3	2
	Missing card	B015	3	2
	Card Modifications	B016	3	2
	Card Account(s) Link complaints	B017	3	2
	Billing address Issues	B018	3	2
	Card Blockage Issues	B019	3	2

Category	Sub-category	CCMS Code	1st Review (working days)	2nd review (working days)
	Declined Transactions	B020	3	2
	Others	B999	3	2
Loans	Loan Application Issues	C001	14	7
	Loan Repayment Issues	C002	14	7
	Loan Insurance	C003	14	7
	Concessions Issues	C004	14	7
	Delayed delivery of financed assets	C005	14	7
	Loan Liquidation issues	C006	14	7
	Loan Restructuring issues	C007	14	7
	Loans Interest Rate Review Complaint	C008	14	7
	Others	C999	14	7
Fraud	Conversion of Cheque/Deposit	D001	60	30
	Scam Mails	D002	3	2
	Fraudulent Withdrawals	D003	14	7
	Internet Banking Fraud	D004	3	2
	ATM Fraud (Domestic)	D005	3	2
	ATM Fraud (International)	D006	60	30
	Cash/Cheque Suppression	D007	60	30
	Cheque Cloning	D008	60	30
	Others	D999	3	2
Excess Charges	Excess Fees and charges	E001	30	15
	Excess Interest on loan	E002	30	15
	Others	E999	14	7

PART E

DEVELOPMENT FINANCE CIRCULARS, POLICIES AND GUIDELINES

Anchor Borrowers' Programme (ABP) Guidelines

Development Finance DepartmentCentral Bank of Nigeria

REVISED SEPTEMBER 2021

Table of Contents

1.0	**INTRODUCTION**	4
1.1	Background	4
1.2	Objectives	5
1.3	Targeted Beneficiaries	6
1.4	Targeted Agricultural Commodities	6
2.0	**STAKEHOLDERS**	7
2.1	Participating Financial Institution	7
2.2	The Anchor	7
2.3	Service Provider	7
2.4	Insurance	8
2.5	Other Stakeholders	8
3.0	**FEATURES OF THE PROGRAMME**	9
3.1	Loan Limit	9
3.2	Interest Rate	9
3.3	Tenor	9
3.4	Repayment	9
3.5	Collateral Requirement	10
3.6	Eligibility Criteria	11
3.6.1	Smallholder Farmer	11
3.6.2	Private Anchor	11
3.6.3	Prime Anchor	11
3.6.4	Commodity Association	11
3.6.5	State Government	12
3.6.6	Service Provider	12
4.0	**MANAGEMENT AND ADMINISTRATION**	13
4.1	Models under the ABP	13
4.2	Membership of PMT	13
4.3	Private Sector Window	14
4.3.1	Private Anchor Model	14
4.3.2	Prime Anchor Model	14
4.3.3	Commodity Association Model	15
4.4	Public Sector (State) Model	15
4.5	Procedure for Accessing ABP facility	15

4.6 Risk Sharing and Procedure for Write-off 16
4.7 Determination of Farming Season 17
4.8 Provision of Extension Services 17

5.0 ROLES AND RESPONSIBILITIES OF STAKEHOLDERS 18
5.1 Smallholder Farmer 18
5.2 Commodity Association 19
5.3 Anchor/Off-taker 19
5.4 Participating Financial Institution 20
5.5 Insurance Company 21
5.6 State Government/FCT 22
5.7 Central Bank of Nigeria 22
5.8 Development Partner 22
5.9 Project Management Team 22
5.10 Service Provider 23

6.0 INFRACTIONS AND SANCTIONS 25
6.1 Participating Financial Institution 25
6.2 Anchor 26
6.3 Smallholder Farmer 26
6.4 Commodity Association 27
6.5 Project Management Team 28

LIST OF ABBREVIATIONS AND ACRONYMS

ABP:	Anchor Borrowers' Programme
ADP:	Agricultural Development Programme
BVN:	Bank Verification Number
CBN:	Central Bank of Nigeria
CRMS:	Credit Risk Management System
DFIs:	Development Finance Institutions
DFO:	Development Finance Officer
DMBs:	Deposit Money Banks
FCT:	Federal Capital Territory
KYC:	Know Your Customer
LGA:	Local Government Area
MFBs:	Microfinance Banks
MSMEDF:	Micro, Small and Medium Enterprises Development Fund
NAIC:	Nigerian Agricultural Insurance Corporation
NCR:	National Collateral Registry
NIRSAL:	Nigerian IncentiveBased Risk Sharing System for Agricultural Lending
P.A:	Per Annum
PFIs:	Participating Financial Institutions
PMT:	Project Management Team
RACD:	
SHF:	Small Holder Farmer

1.0 INTRODUCTION

1.1 Background

The Central Bank of Nigeria (CBN), in line with its developmental functions as enshrined in Section 31 of the CBN Act 2007, established the Anchor Borrowers' Programme (ABP) to create economic linkages between smallholder farmers (SHFs) and reputable companies (anchors) involved in the production and processing of key agricultural commodities. The core of the Programme is to provide loans (in kind and cash) to smallholder farmers to boost agricultural production, create jobs, reduce food import bill towards conservation of foreign reserve.

The Programme evolved from consultations with stakeholders comprising Federal Ministry of Agriculture & Rural Development, state governments, agro-processors, commodity associations, financial institutions and smallholder farmers to ramp up agricultural production, boost non-oil exports and diversify the revenue base of Nigeria.

The revised Guidelines address current realities and developments in the Anchor Borrowers' Programme, aimed at promoting best practice in the implementation of the Programme. The Guidelines recognize the distinctiveness of smallholder farmers, the ABP transactions dynamics and the Project Management Team (PMT) in the implementation process. It also adopts measures to ensure the protection of smallholder farmers. It defines eligibility criteria

and responsibilities of relevant stakeholders under the Programme such as the loan limit, interest rate, tenor; agricultural commodities eligible for financing under the Programme. It outlines the implementation windows and operating models under each window type.

This document is therefore aimed at improving the Programme's implementation process and enhancing stakeholders' participation for the realization of the ABP's objective.

1.2 Objective

The broad objective of the ABP is to create economic linkages between smallholder farmers and processors with a view to increasing agricultural output and ensuring food price stability. The specific objectives include:

I. Increase banks' financing to improve agricultural productivity by creating an ecosystem that drives value chain financing;

II. Reduce the nation's food import bill through import substitution and enhanced domestic value addition;

III. Create new generation of farmers through innovative financing to support smart agriculture; and

IV. Deepen financial inclusion and grow smallholder farmers from subsistence to commercial farming.

1.3 Targeted Beneficiaries

The targeted beneficiaries shall be smallholder farmers and medium to large scale farmers engaged in the production of agricultural commodities across the country. The smallholder

farmers should be in groups, cooperative(s), associations or under out-grower arrangement.

1.4 Targeted Agricultural Commodities

The agricultural commodities covered under the Programme shall include:

I. Cereals (Rice, Maize, wheat etc.)

II. Cotton

III. Roots and Tubers (Cassava, Potatoes, Yam, Ginger etc.)

IV. Sugarcane

V. Tree crops (Oil palm, Cocoa, Rubber etc.)

VI. Legumes (Soybean, Sesame seed, Cowpea etc.)

VII. Tomato

VIII. Livestock (Fish, Poultry, Ruminants etc.)

IX. Any other commodity that may be decided upon by the Bank from time to time.

CHAPTER TWO

2.0 STAKEHOLDERS

2.1 Participating Financial Institutions (PFIs)

Eligible PFIs under the programme shall include;

I. Deposit Money Banks (DMBs);

II. Development Finance Institutions (DFIs);

III. Non-Interest Banks; and

IV. Microfinance Banks (MFBs).

2.2 Anchor

An anchor shall be a duly registered entity with capacity to off-take produce/ output at agreed prices.

State Government may be an off-taker/anchor if it intends to fulfill the responsibilities of an Anchor as highlighted in Chapter 4 of this Guideline.

2.3 Service Provider

This is a duly registered entity in Nigeria with capacity to provide the following services: farm mapping; extension services; aggregation; mechanization; input supply; input distribution; and farm monitoring amongst others as contained in the Services Level Agreement (SLA).

2.4 Insurance Companies

This shall be a duly registered Insurance Company with the capacity to provide agricultural insurance products with an array of value added services.

2.5 Other Stakeholders

These are State Governments, Federal Ministry of Agriculture and Rural Development, Research Institutes, Federal Ministry of Water Resources, Federal Ministry of Industry, Trade and Investment and Development Partners, etc.

CHAPTER THREE

3.0 FEATURES OF THE PROGRAMME

3.1 Loan Limit

The maximum loan limit for each eligible farmer under the Programme, shall be decided based on CBN ratified Economics of Production (EOP) and validated land size.

3.2 Interest Rate

The Programme shall be administered at the prevailing interest rate for intervention funds as prescribed by the CBN from time to time.

3.3 Tenor

The tenor of loans under the Programme shall be based on the gestation period of the targeted commodity.

3.4 Repayment

Repayment shall be by produce and/or cash as may be prescribed by the CBN.

The loans granted under the Programme shall be fully repaid within the tenor of the facility.

Where the facility was accessed through a Commodity Association, the leadership of the Association shall be responsible for full repayment of facility granted to its members.

3.5 Collateral Requirements

The collateral requirements under the Programme shall be as stipulated below:

a) State Governments – Irrevocable Standing Payment Order (ISPO).

b) Commodity Associations/Cooperatives

Combination of the following:

i. Joint and cross-guarantee of members;

ii. Equity contribution by the farmers of a minimum of 10 per cent of the loan amount as lien with the PFI;

iii. Salary domiciliation of beneficiaries for workers co-operatives;

iv. Personal guarantees of the leadership (Executives and Board of Trustees) supported by individual statements of net worth;

v. Executed Global Standing Instruction (GSI) mandate;

vi. Title on farmland;

vii. All assets debenture which shall be registered with NCR.

c) Prime Anchor

The anchor shall provide collateral as may be required by the PFI.

3.6 Eligibility Criteria

3.6.1 Smallholder Farmer shall:

i. be a member of a farmer group;

ii. have a bank account with the PFI;

iii. provide a valid Bank Verification Number (BVN);

iv. not be a defaulting borrower;

v. have a validated farmland;

vi. provide 10 per cent minimum equity contribution;

vii. not participate under multiple associations in one cropping season.

3.6.3 Prime Anchor shall:

i. Be a duly registered entity;

ii. Be a processor or an off-taker;

iii. Possess capacity to off-take produce from the farmers;

iv. Identify a PFI that is willing to partner with it under the Programme;

v. Provide validated farmland.

3.6.4 Commodity Association shall:

i. Be duly registered by relevant government agencies;

ii. have a corporate governance structure in line with the Programme's objectives at all levels;

iii. present off-taker(s) for the produce;

iv. champion a single commodity;

v. identify a PFI to partner with;

vi. ensure repayment of the facility

3.6.5 **State Government** shall:

i. present an ISPO covering the entire value of the facility including accrued interest;

ii. identify and organize the smallholder farmers according to commodity;

iii. provide contiguous and validated farmland;

iv. provide aggregation services;

v. provide off-taker(s) for the produce

vi. identify PFI(s) to partner with.

3.6.6 **Service Provider** shall:

i. be a duly registered entity;

ii. sign SLA with relevant stakeholders;

iii. provide performance bond;

CHAPTER FOUR

4.0 MANAGEMENT AND ADMINISTRATION

The Central Bank of Nigeria shall be responsible for the overall management and administration of the Programme. The Project Management Team (PMT) shall be setup at the state level on project basis. It shall be responsible for the operational management of projects and shall comprise key stakeholders under the ABP.

4.1 Models under the ABP

There shall be two windows for accessing funds under the Programme, namely:

a) Private Sector-led window

b) Public Sector-led Window

Under each window, a Project Management Team (PMT) shall be established in each state for each project to coordinate and monitor the implementation in line with the provisions of the Guidelines.

4.2 Membership of the PMT shall include:

i. Representatives of PFIs – Chairman;
ii. Head DFO, CBN;
iii. Representative of Anchor/Commodity Association/ Cooperative/State Government - Co-Chairman;
iv. Head, State Agricultural Development Programme (ADP);
v. Representatives of farmers;

vi. Insurance Company

**Note:*

a) the membership of the PMT may vary depending on the model;

b) In the case of national commodity association, the PMT at the Head Office shall comprise Commodity Champion, RACD, RMD, AMD, the PFI, Commodity Association and Insurance Company for each commodity.

4.3 Private Sector-led Window

Under this Window, the Programme shall be accessed through the following models:

I. Prime Anchor Model

II. Commodity Association/Cooperative Model

4.3.1 Prime Anchor Model

This is a model where the agro-processor/off-taker is the primary obligor and takes full responsibilities of anchoring the farmers or deploying full mechanization for production.

4.3.2 Commodity Association/Cooperative Model

Under this model, the farmers are the primary obligors. The commodity association/cooperative at the state level is to identify and organize its members to participate under the Programme.

The commodity association/cooperative would be required to provide collateral to support the loan for its members.

4.4 Public Sector (State) Model

The state government shall guarantee the farmers participating under the Programme and be responsible for loan repayment as well as off-take of produce.

4.5 Procedures for Accessing ABP Facility

The following are the procedures for accessing the ABP facility:

i. Expression of Interest from anchor to the PFI;

ii. Expression of Interest from PFI to the CBN in favour of Anchor, Commodity Association/Cooperative and State Government indicating the targeted agricultural commodities;

iii. The PFI shall upload the farm and farmers details on the CBN system;

iv. Upon the notification to stakeholders, PMT begins operations by overseeing the initial meeting to review the checklist and agree on verification;

iv. The PMT shall organize Town Hall Meetings to agree on the Economics of Production (EoP), off-take price and other relevant issues;

v. PFI, anchor and farmers representative shall sign tripartite agreement;

vi. Upon receipt of validated list of farmers from the PFI, the service providers shall commence mapping of farmlands;

vii. PFI shall submit loan applications;

ix. CBN shall issue offer-letter to the PFI and release funds on receipt of acceptance and confirmation that all conditions precedent to disbursement have been met;

x. PFI shall register farmers on the National Collateral Registry (NCR);

xi. PFI shall disburse to farmer's/obligor's accounts within 10 working days of receipt of funds;

xii. Payments to input suppliers and service providers must be debited from the farmer's/obligor's bank accounts;

xiii. PFI, Anchor and DFO shall render periodic reports to the DFD in a prescribed format;

xiv. PFI and Anchor/Commodity Association/Cooperative shall recover and repay loan to the CBN.

4.6 Risk Sharing and Procedure for Write-off

The CBN shall bear 50 per cent credit risk after satisfactory evidence that every means of loan recovery has been exhausted by the PFI.

CBN may vary the risk sharing ratio based on the specific peculiarities/prospects of the Anchor/Project.

For losses arising from the negligence and/or inaction of the PFI in the execution of any project, the PFI shall bear the full risk and financial losses thereof.

The PFI shall foreclose on pledged collateral one year after expiration of initial facility and the risk sharing ratio prescribed above shall apply on the amount net in default.

4.7 Determination of Farming Season

The farming season to be adopted shall be based on the cropping calendar of the State Ministry of Agriculture/State Agricultural Development Programme (ADP) applicable to the State.

The NiMET annual weather forecast shall also be taken into consideration.

4.8 Provision of Extension Services

The anchor/state governments shall engage reputable service providers or relevant agencies to provide extension services to complement the training and ensure good agricultural practices.

CHAPTER FIVE

5.0 ROLES AND RESPONSIBILITIES OF STAKEHOLDERS

5.1 Smallholder Farmer

Shall:

i. Be a member of a group, cooperative or commodity association;

ii. Be ready to guarantee another farmer;

iii. Demonstrate evidence of farm ownership/lease or rent and agree to work with extension workers;

iv. Utilize the facility (kind and cash) for the purpose for which it was granted;

v. Abide by the terms of agreement;

vi. Not side sell produce;

vii. Release the produce to the Anchor as repayment;

viii. Ensure full repayment of the facility granted;

ix. Provide equity contribution of a minimum of 10 per cent of the loan amount;

x. Open bank account and obtain Bank Verification Number (BVN).;

xi. Make his/her farms/livestock available for mapping/tagging.

5.2 Commodity Association/Cooperative

Shall:

i. Identify and organize farmers into groups.;

ii. Coordinate and monitor farmers throughout the production season;

iii. Monitor harvest and facilitate full evacuation of produce;

iv. Establish produce collection centers;

v. Facilitate the purchase of produce from farmers at agreed price by the millers and aggregators;

vi. Pay into farmers' loan account for the produce delivered within 5 days;

vii. Ensure full repayment of the loan;

viii. Carry out any other responsibilities as may be prescribed by the CBN from time to time.

5.3 Anchor/Off-taker

Shall:

i. Co-Chair the PMT (Private Anchor Window);

ii. Identify and organize farmers into groups/co-operatives;

iii. Train identified farmers on best agricultural practices, Farm management and Group dynamics;

iv. Coordinate and monitor farmers throughout the production season;

v. Monitor harvest and facilitate full evacuation of produce;

vi. Establish produce collection centers;

vii. Buy-up produce from farmers at agreed price;

viii. Pay into farmers' loan accounts for the produce delivered within 5 days;

ix. Carry out any other responsibilities as may be prescribed by the CBN from time to time.

5.4 Participating Financial Institutions (PFIs):

Shall:

i. Chair the PMT;

ii. Conduct due diligence on the anchor and farmers. This shall include, and not be limited to, validating the list of farmers submitted for participation under the Programme and conducting relevant CRMS and KYC checks on the farmers and anchors;

iii. Register loan beneficiaries on the National Collateral Registry (NCR);

iv. Open individual loan accounts for validated farmers for the loan facility;

v. Apply for release of funds after fulfilling conditions precedent to drawdown;

vi. Credit farmer's/obligor's account with the approved amount within 10 working days of receipt and unutilized funds returned to the CBN immediately;

vii. Ensure due diligence on loan administration, monitoring and recovery;

viii. Confirm the supply of inputs with the PMT;

ix. Authorize and monitor distribution of inputs by the PMT;

x. Liaise with services providers to confirm actual inputs received by the farmers to determine their loan obligation

xi. Render monthly returns to the CBN;

xii. Serve as member of PMT;

xiii. Repatriate principal and interest to the CBN at the end of the loan tenor;

xiv. Carry out any other responsibilities as may be prescribed by the CBN from time to time.

5.5 Insurance Company

Shall:

i. Provide insurance cover for the projects;
ii. Ensure timely processing and settlement of claims;
iii. Provide technical assistance to farmers on insurance policies;
iv. Monitor projects for early warning signals or red flags;
v. Render periodic report on farm conditions;
vi. Serve as member of the PMT;

vii. Carry out any other responsibilities as may be prescribed by the CBN from time to time.

5.6 State Government/FCT

Shall:

i. Provide logistic support for the success of the Programme including training of the farmers and extension services;

ii. Co-Chair the PMT for state-owned projects;

iv. Identify targeted agricultural commodities of comparative advantage;

v. Provide ISPO to cover 100 per cent of the principal and accrued interest;

vi. Carry out any other responsibilities as may be prescribed by the CBN from time to time.

5.7 Central Bank of Nigeria

Shall:

i. Coordinate the entire Programme;

ii. Provide funds to PFIs for on-lending to approved projects under the Programme;

iii. Monitor the Programme implementation;

iv. Review the provisions of the Guideline from time to time;

v. Assume any other responsibilities as it deems fit from time to time.

5.8 Development Partner

Shall provide technical assistance to farmers, extension workers and Participating Financial Institutions (PFIs).

5.9 Project Management Team (PMT)

Shall:

i. Coordinate project implementation;

ii. Organize stakeholders' meeting and communicate the decisions;

iii. Agree on the Economics of Production (EoP);

iv. Monitor supply and distribution of inputs;

v. Monitor project;

vi. Ensure repayment;

vii. Carry out any other responsibilities as may be prescribed by the CBN from time to time.

5.10 Service Provider

Shall:

i. Capture biometric data of validated farmers in the agreed format;

ii. Capture farmers' farm size with their coordinates;

iii. Provide extension services to farmers under the project;

iv. Monitor input distribution to farmers;

v. Aggregate produce (output) at end of the season;

vi. Ensure system has Application Programme Interface (API) with CBN.

CHAPTER SIX

6.0 INFRACTIONS AND SANCTIONS

S/N	Infractions	Sanctions
6.1	**PFI**	
1	Diversion of funds	i. Amount diverted shall be recovered by the CBN. ii. Penal charge at the PFI's maximum lending rate
2	Charging of unauthorized fees	i. Reversal of the charged fees ii. The amount involved shall attract penal charge at the PFI's maximum lending rate
3	Charging of interest rates higher than prescribed	i. Reversal of excess interest charged ii. The amount involved shall attract penal charge at the PFI's maximum lending rate.
4	Failure to disburse funds within specified period	i. Recovery of the undisbursed amount plus interest ii. The amount involved shall attract penal charge at the PFI's maximum lending rate. iii. Bear 100% of Credit Risk for failures in production and/or aggregation

6.2	Anchor	
1	Diversion of funds	i. Blacklisting of the Anchor and promoters from all CBN interventions ii. Immediate foreclosure of pledged collateral iii. Recovery of proceeds of the diversion iv. Prosecution at the discretion of the PFI
2	Failure to offtake quality produce from farmers	Anchor shall cease to participate under the ABP and any other CBN interventions
2	Failure to pay for collected commodities within the specified period	i. Anchor shall be sanctioned in line with the provisions of the off-take agreement ii. The value of the produce collected shall be paid with interest iii. The PFI shall invoke the right of set-off
6.3	**Smallholder Farmer (SHF)**	
1	Side-selling	v. Blacklisting of the SHF from all CBN interventions vi. Prosecution of the SHF by anchors/association vii. Payment of the loan by the guarantors/cooperatives/commodity associations
2	Input Diversion	i. Blacklisting of the SHF from all CBN interventions

		ii. Prosecution of SHF by anchors/associations iii. Repayment of the loan by the guarantors/cooperatives/commodity associations

3	Refusal to deliver produce to the Anchor	i. Blacklisting of the SHF from all CBN interventions ii. Prosecution of SHF by anchors/associations iii. Repayment of the loan by the guarantors/cooperatives/commodity associations
4	Diversion of Funds	i. Blacklisting of the SHF from all CBN interventions ii. Prosecution of the SHF by anchors/associations iii. Repayment of the loan by the guarantors/cooperatives/commodity associations
6.4 Commodity Associations		
1	Falsification of farmers list	i. Prosecution of the leadership by the PFI ii. Blacklisting of the leadership from all CBN interventions
2	Failure to repay facility as and when due	i. Suspension from accessing new facility until the existing facility is recovered ii. Call-in the personal guarantee of the leadership iii. Foreclose on all pledged collateral

3	Diversion of Funds	i. Blacklisting of the association and its leadership from all CBN interventions ii. Prosecution of the leadership by the PFI iii. Repayment of the loan by the guarantors/cooperatives/commodity associations
4	Input Diversion	i. Blacklisting of the association from all CBN interventions ii. Prosecution of the leadership by the PFI iii. Repayment of the loan by the guarantors/cooperatives/commodity associations
5	Refusal to deliver produce to the Off-taker	Association shall be sanctioned in line with the provisions of the off-take agreement
6.5	**Project Management Team**	
1	Insider related contracts	i. Suspension ii. Prosecution of the culpable member(s)
2	Over pricing of contracts	iii. Suspension iv. Prosecution of the culpable member(s)

7.0 AMENDMENTS

The CBN may amend this Guidelines from time to time and may waive any part of it upon the approval of the Governor.

All Enquiries and Returns should be addressed to:

Director
Development Finance Department
Central Bank of Nigeria
Corporate Headquarters
Abuja.

DFD/DIR/PUB/CIR/01/002

November 1, 2021

GUIDELINES FOR IMPLEMENTATION OF 100 for 100 POLICY ON PRODUCTION AND PRODUCTIVITY (100 FOR 100 PPP)

In an effort to stimulate the flow of credit to the real sector of the economy in order to reverse the nation's over-reliance on import, the Central Bank of Nigeria hereby issues the Guidelines for the implementation of the 100 for 100 Policy for Production and Productivity (100 for 100 PPP) for eligible private companies with potential to immediately transform and catalyse the productive base of the economy.

Enquiries on the Guidelines may be referred to the Director, Development Finance Department, Central Bank of Nigeria, Abuja,

Philip Yila Yusuf
Director, Development Finance Department

CENTRAL BANK OF NIGERIA

GUIDELINES FOR THE IMPLEMENTATION OF THE 100 FOR 100 PPP (POLICY ON PRODUCTION AND PRODUCTIVITY)

November 2021

TABLE OF CONTENTS

1. Introduction 3
2. Objectives of the initiative 4
3. Key Performance Indicators (KPIs) 4
4. Activities Covered 4
5. Funding 5
6. Financial Instrument Features 5
   6.1 Loan Type 5
   6.2 Loan Limit 5
   6.3 Interest Rate 6
   6.4 Loan Tenor and Moratorium 6
   6.5 Collateral Requirements 6
   6.6 Repayment 6
   6.7 Participating Financial Institutions (PFIs) 6
7. Modalities 7
8. Selection Criteria 8
9. Responsibilities of Stakeholders 9
   9.1 Central Bank of Nigeria 9
   9.2 Participating Financial Institution (PFI) 10
   9.3 Obligors 11
10. Verification and Monitoring 12
11. Discontinuation of Credit Facility 12
12. Dispute Resolution 12
13. Infractions 12
14. Exit Date 12
15. Management of the initiative 12
16. Enquiries and Returns 13

CENTRAL BANK OF NIGERIA

GUIDELINES FOR THE IMPLEMENTATION OF 100 FOR 100 POLICY ON PRODUCTION AND PRODUCTIVITY (PPP)

1. Introduction

In furtherance of its core mandates of delivering price and financial system stability, and promoting sustainable economic development, the 100 for 100 Policy on Production and Productivity (PPP) is introduced by the Central Bank of Nigeria (CBN) to stimulate investments in Nigeria's manufacturing sector with the core objective of boosting production and productivity, necessary to transform and catalyse the productive base of the economy. The overarching goal of the initiative is to reverse the nation's over reliance on import.

The initiative, 100 for 100 PPP, is a financial instrument designed to create the flow of finance and investments to enterprises with potential to catalyse sustainable economic growth trajectory, accelerate structural transformation, promote diversification, and improve productivity.

Quarterly, starting from 1st November 2021, the initiative shall select 100 private sector companies with projects that have potential to significantly increase domestic production and productivity, reduce imports, increase non-oil exports, and overall improvements in the foreign exchange generating capacity of the Nigerian economy. The initiative, which shall be bank-led, will be rolled over every 100 days (that is, quarterly) with new set of companies selected for financing under the initiative. The initiative shall be implemented in collaboration with relevant stakeholders with focus on micro and macroeconomic impacts, in terms of contribution to GDP and

exports, sustainable jobs created, local content development, production output, and capacity utilisation and integration into the global value chain.

This Guidelines outlines the operational modalities for the instrument.

2. Objectives of the initiative

The broad objective of the initiative is to reverse the nation's over-reliance on imports, by creating an ecosystem that targets and supports the right projects with potential to transform and catalyse the productive base of the economy. The specific objectives of the initiative include:

i. catalyse import substitution of targeted commodities;
ii. increase local production and productivity;
iii. increase non-oil exports; and
iv. improve foreign exchange earning capacity of the economy.

3. Key Performance Indicators (KPIs)

A comprehensive, regular monitoring of specific benchmarks and key performance indicators (KPIs) under the initiative shall be undertaken regularly. The KPIs (specific and relevant) shall include:

i. Percentage increase in production output of financed companies;
ii. Percentage increase in capacity utilisation;
iii. Percentage increase in export volume;
iv. Percentage increase in export value;
v. Percentage decrease in import volume of industrial raw materials;
vi. Percentage decrease in import value of industrial raw materials;
vii. Increase in number of jobs created.

4. Activities Covered

Focal activities covered under the initiative shall be existing businesses and projects (brownfield) with potential to immediately transform and catalyse the productive base of the economy. New projects (greenfield) with equal

potential may be considered under the initiative, subject to CBN Management's approval.

The activities can be in any of the following:

i. Manufacturing;
ii. Agriculture and agro-processing;
iii. Extractive industries;
iv. Petro-chemicals and renewable energy;
v. Healthcare and pharmaceuticals
vi. Logistics services and trade-related infrastructure e.g. cold chain solution, quality assurance infrastructure; and
vii. Any other activities as may be prescribed by the CBN.

5. Funding

The 100 for 100 Policy on Production and Productivity (PPP) initiative shall be funded from the CBN's Real Sector Support Facility – Differentiated Cash Reserve Requirement (RSSF-DCRR) window or any other funding window as may be determined by the CBN.

6. Financial Instrument Features

The initiative shall be implemented in line with the provisions of the guidelines for the implementation of the underlying intervention (RSSF-DCRR), which include:

6.1 Loan Type

i. Long-term loan for acquisition of plant and machinery
ii. Working capital

6.2 Loan Limit

Loan amount shall be a maximum of ₦5 billion per obligor. Any amount above ₦5 billion shall require the special approval of CBN's Management.

6.3 Interest Rate

Interest rate under the intervention shall be at not more than 5.0% p.a. (all inclusive) up to 28th February 2022, thereafter, interest on the facility shall revert to 9% p.a. (all inclusive) effective from 1st March 2022.

6.4 Loan Tenor and Moratorium

i. Term loans shall have a maximum tenor of ten (10) years depending on the complexity of the project, not exceeding 31st December 2031. Each project tenor shall be determined in relation to its cash flow and life span of the underlying collateral.
ii. Moratorium: Term loans shall have two (2) years moratorium.
iii. Working capital facility shall have a tenor of one (1) year with provision for roll over for a maximum of three (3) years.
iv. The participating financial institution (PFI) shall bear the credit risk.
v. Refinancing of existing facilities allowed under the initiative, subject to Management's approval.

6.5 Collateral Requirements

The collateral acceptable under the intervention facility shall be as may be acceptable by the PFI under the RSSF-DCRR.

6.6 Repayment

Monthly interests on the facility shall be amortised and transferred quarterly with principal repayments to the CBN.

6.7 Participating Financial Institutions (PFIs)

Only CRR contributing Deposit Money Banks (DMBs) shall be eligible to participate under the initiative.

7. Modalities

i. Interested private sector companies shall submit their applications to their PFIs with requisite documentation which shall include, amongst others:

   a. Certified true copies of company registration documents evidencing the incorporation of the Company with the Corporate Affairs Commission (CAC);
   b. Three (3) years audited financials including the latest management account of company;
   c. Evidence creditworthiness of the company, its promoters and directors;
   d. At least two (2) credit reports of the company and the directors;
   e. Business plan of the underlying project for which the facility is to be applied;
   f. Detailed status report on project's capacity utilisation, production output, productivity/efficiency level, employment level, export capacity and value creation; and
   g. Projected post-financing economic benefit of project – increase in capacity utilisation, production output, productivity/efficiency level, employment level, export capacity and value creation after financing.

ii. Applicants shall notify CBN of submitted applications via a dedicated online portal (https://100for100ppp.ng) for tracking and monitoring status of applications;

iii. The lending bank shall receive applications and carry out due diligence on applications based on business and credit considerations;

iv. Upon approval by the appropriate PFI's Credit Committee, lending bank shall forward applications of their eligible private sector companies to the CBN;

v. The CBN shall screen and finance eligible private sector companies in 100 days, and rolling over every 100 days;

vi. Central Bank of Nigeria shall conduct internal review of the applications received to ensure compliance with the stipulated requirements for participation under the initiative

vii. The CBN shall release the approved sum to the PFI for onward disbursement to the selected private sector companies;

viii. The successful beneficiaries would be published in National Dailies for Nigerians to verify and confirm with details of facility granted, operating sector, manufacturing activities financed, and PFI.

8. Selection Criteria

The selection criteria shall comprise the following key areas, parameters (with weights assigned) and indicators:

Key Areas	Parameters	Indicators
Production Efficiency and Scalability	Capacity Utilization and Scalability (20)	▪ Historical Financial performance (3 years audited report of the company) (5) ▪ Viability of the Business (5) ▪ Project Innovation (5) ▪ Creditworthiness of Directors (5)
Local Content Capacity	Scale of locally sourced raw materials (20)	▪ >50% of raw material input sourced locally (10) ▪ >80% of jobs created should be for Nigerians (10)

Key Areas	Parameters	Indicators
Job Creation & Human Capital Development	Job Creation and Capacity Building (20)	▪ Job creation (10) ▪ Detailed plan for training the workforce with requisite skills to enhance productivity (10)
Operating Sector Relevance	Operating sector potential (20)	▪ Alignment with focal business activities (10) ▪ Integration into the Global Export Value Chain (10)
Contribution to Economic Growth	Impact on key macroeconomic indicators (20)	▪ Contribution to GDP potential (5) ▪ Share of domestic market (5) ▪ Foreign exchange earning potential (5) ▪ Export value potential (5)

9. Responsibilities of Stakeholders

For the effective implementation of the initiative, the responsibilities of the stakeholders shall include:

9.1 Central Bank of Nigeria

The Central Bank of Nigeria shall:

i. The CBN shall screen and finance eligible private sector companies in 100 days, and rolling over every 100 days;

ii. conduct internal review of the applications received from the PFIs to ensure compliance with the stipulated requirements for participation under the initiative;
iii. rank and select for financing, 100 private sector companies per quarter with potential to immediately transform and catalyse the productive base of the economy;
iv. release the approved sum to the PFI for onward disbursement to the selected private sector companies within two (2) week of receipt of applications from PFI;
v. publish in at least three (3) national dailies the list of selected private sector companies with details of facility granted, operating sector, manufacturing activities financed, and PFI;
vi. carry out periodic verification and monitoring of projects financed with the lending PFI;
vii. maintain and provide periodic reports to the CBN Management on the performance of the intervention;
viii. ensure compliance with the provisions of the Guidelines; and
ix. review the Guidelines as may be necessary from time to time.

9.2 Participating Financial Institution (PFI)

The PFI shall:

i. receive applications submitted for selection and financing under the initiative from private sector companies;
ii. carry out due diligence on application and ensure that all conditions precedent are met;
iii. ensure compliance with PFI's credit policy;
iv. forward approved applications to CBN for verification and final approval within two (2) weeks of receipt of applications;

v. disburse the approved sum to the enterprise, within five (5) working days, in accordance with the approved disbursement schedule;
vi. failure to disburse the approved funds in accordance with item (iv) above shall attract a penalty of MPR+2
vii. register movable collaterals with the National Collateral Registry (NCR);
viii. obtain at least two (2) credit reports on the company and its directors;
ix. monitor financed projects and render periodic returns as may be specified by the CBN from time to time;
x. ensure repayments of facilities by obligors; and
xi. comply with the Guidelines of the Facility.

9.3 Obligors

The Obligor shall:

i. submit application to its PFIs, within the advertised deadline for submission of applications with complete documentation, as may be stipulated for participation under the initiative
ii. notify CBN of submitted applications via a dedicated online portal (https://100for100ppp.ng) for tracking and monitoring of application status;
iii. ensure prudent utilisation of facility for the purpose for which it was granted;
iv. insure projects financed under the initiative;
v. keep up-to-date records of the enterprise's activities under the intervention;
vi. undertake to allow unrestricted access to the project and records by the CBN and PFI;

vii. repay the facility in accordance with the approved repayment schedule; and

viii. comply with the provisions of the Guidelines.

10. Verification and Monitoring

Projects financed under the initiative shall be subject to verification and monitoring during the loan period by the CBN and PFI.

11. Discontinuation of Credit Facility

In the event that the initiative is discontinued, the PFI shall return the undisbursed fund to the CBN, within 5 (five) days of the discontinuation.

12. Dispute Resolution

All disputes shall be resolved in line with the Consumer Protection Regulations of the Central Bank of Nigeria.

13. Infractions

The infractions and sanctions, stipulated in the RSSF guidelines, shall be applicable under this intervention facility.

14. Exit Date

The initiative shall be operated in the first instance for a period not exceeding 31st December 2031 depending on the complexity of the project.

15. Management of the initiative

The initiative shall be managed by the Development Finance Department of the Central Bank of Nigeria.

a. The CBN reserves the right to reject an application from any applicants that does not meet the requirements of the Guidelines.

b. The CBN may amend this Guidelines from time to time and may waive any part of this Guidelines upon the approval of the Governor.

16. Enquiries and Returns

All enquiries and returns should be addressed to:

The Director,
Development Finance Department,
Central Bank of Nigeria,
Corporate Headquarters
Central Business District, Abuja.

____

Philip Yila Yusuf
Director, Development Finance Department
Central bank of Nigeria,
Abuja.
November 2021

CENTRAL BANK OF NIGERIA

GUIDELINES FOR THE IMPLEMENTATION OF TERTIARY INSTITUTIONS ENTREPRENEURSHIP SCHEME (TIES)

October 2021

Table of Content

1.	Introduction	3
2.	Objectives of the Scheme	3
3.	Targets	4
4.	Eligible Activities	5
5.	Funding	5
6.	Focal Components of the Scheme	5
7.	Stakeholders and Responsibilities	14
8.	Verification/Monitoring of Projects	17
9.	Discontinuation of Credit Facility	17
10.	Dispute Resolution	18
11.	Exit Date	18
12.	Infractions and Penalties	18
13.	Management of Scheme	19
14.	Enquiries and Returns	19

CENTRAL BANK OF NIGERIA

GUIDELINES FOR THE IMPLEMENTATION OF TERTIARY INSTITUTIONS ENTREPRENEURSHIP SCHEME (TIES)

1. Introduction

The Central Bank of Nigeria, pursuant to the CBN Act, 2007 and as part of its policy measures to address rising youth unemployment and underemployment, developed the Tertiary Institutions Entrepreneurship Scheme (TIES), in partnership with Nigerian polytechnics and universities to harness the potential of graduate entrepreneurs (gradpreneurs) in Nigeria. The Scheme is designed to create a paradigm shift among undergraduates and graduates from the pursuit of white-collar jobs to a culture of entrepreneurship development for economic development and job creation. The Scheme thus aims to provide an innovative financing model that will create jobs, enhance the entrepreneurial ecosystem and support economic growth and development.

The Guidelines outlines the operational modalities for the Scheme.

2. Objectives of the Scheme

The broad objective of the Scheme is to enhance access to finance by undergraduates and graduates of polytechnics and universities in Nigeria with innovative entrepreneurial and technological ideas. Other specific objectives of the Scheme include:

i. Provide an enabling environment for co-creation, mentorship and development of entrepreneurial and technological innovations;

ii. Fast track ideation, creation and acceleration of a culture of innovation-driven entrepreneurship skills among graduates of polytechnics and universities in Nigeria;
iii. Promote gender balance in entrepreneurship development through capacity development and improved access to finance;
iv. Leapfrog entrepreneurial capacity of undergraduates and graduates for entrepreneurship and economic development in partnership with academia and industry practitioners; and
v. Boost contribution of non-oil sector to the nation's GDP.

3. Focal Targets

In order to ensure that the Scheme achieves its desired objective and targetss, the focal targets under the Scheme shall include the number of:

i. Gradpreneur-led innovative start-ups and businesses with access to finance under the Scheme – 25,000 annually;
ii. Sustainable jobs created by gradpreneur-led businesses financed under the Scheme – 75,000 annually;
iii. Female-gradpreneurs financed as a percentage of total projects financed under the Scheme – 50 per cent per annum;
iv. Agropreneurs financed as a percentage of total projects financed under the Scheme – 40 per cent per annum;
v. Creative entrepreneurs financed as a percentage of total projects financed under the Scheme – 20 per cent per annum;
vi. Techpreneurs financed as a percentage of total projects financed under the Scheme – 20 per cent per annum; and
vii. Other gradpreneurs financed as a percentage of total projects financed under the Scheme – 20 per cent per annum.

4. Eligible Activities

Activities to be covered under the Scheme shall include innovative start-ups and existing businesses owned by graduates of Nigerian polytechnics and universities in the following areas:

i. Agribusiness – production, processing, storage and logistics;
ii. Information technology – application/software development, business process outsourcing, robotics, data management;
iii. Creative industry – entertainment, artwork, publishing, culinary/event management, fashion, photography, beauty/cosmetics;
iv. Science and technology – medical innovation, robotics, ticketing systems, traffic systems, renewable energy, waste management; and
v. Any other activity as may be determined by the CBN from time to time.

Note: Priority will be given to innovative entrepreneurial activities with high potentials for export, job creation and transformational impact.

Trading activities shall not be eligible for financing under the Scheme.

5. Funding

The take-off capital will be sourced from both the Agribusiness / Small and Medium Enterprise Investment Scheme (AgSMEIS).

6. Focal Components of the Scheme

The Scheme shall be implemented through three (3) components:

i. Term Loan Component;
ii. Equity Investment Component; and
iii. Developmental Component

6.1 Term Loan Component

Graduates of Nigerian polytechnics and universities shall be eligible to

participate under the Term Loan Component, which shall be implemented as detailed below:

S/No.	Classification	Dynamics	Documentation Requirements	Collateral Requirements
1.	Tier 1 – Individual projects	Loan Limit: ₦5.0 million Tenor: 5 years Interest Rate: 5% per annum (9% effective from March 1, 2022 or as may be prescribed by the CBN) Moratorium: Maximum of 12 months on principal and interest	▪ The applicant shall apply as a business entity registered with the Corporate Affairs Commission (CAC) and certified true copies (CTC) of relevant forms submitted; ▪ Bank Verification Number (BVN); ▪ First degree certificate (BSc/HND or its equivalent); ▪ National Youth Service Certificate (NYSC) discharge or exemption certificate; and ▪ Certificate of Participation issued by polytechnics and universities evidencing entrepreneurship training.	▪ Duly signed Global Standing Instruction (GSI); and ▪ Third party guarantee from a senior federal/state civil or public servant (not below level 10 and not having less than 5 years to retire from service), clergy of note and reputation or recognized traditional ruler.

2.	Tier 2 – Partnership / Company projects	Loan Limit: ₦25.0 million Tenor: 5 years Interest Rate: 5% per annum (9% effective from March 1, 2022 or as may be prescribed by the CBN) Moratorium: Maximum of 12 months on principal and interest	The partnership or company shall apply as a registered business with the Corporate Affairs Commission (CAC) and certified true copies (CTC) of relevant forms submitted. Each member of the partnership or company shall also submit: ▪ Bank Verification Number (BVN); ▪ First degree certificate (BSc/HND or its equivalent); ▪ National Youth Service Certificate (NYSC) discharge or exemption certificate; and ▪ Certificate of Participation issued by polytechnics and universities evidencing entrepreneurship training.	▪ Duly signed Global Standing Instruction (GSI) by member of the partnership or company; and ▪ Third party guarantee from a senior federal/state civil or public servant (not below level 10 and not having less than 5 years to retire from service), clergy of note and reputation or recognized traditional ruler.

6.1.1 Eligibility Criteria for Participation

Applicants under the Scheme shall be graduates of Nigerian polytechnics and universities with:

i. First degree certificate (BSc/HND/ or its equivalent);
ii. National Youth Service Certificate (NYSC) discharge or exemption certificate;
iii. Certificate of Participation issued by polytechnics and universities evidencing entrepreneurship training; and
iv. Not more than 7 years post-NYSC.

6.1.2 Other Features

i. Focus shall be on both greenfield (new) and brownfield (existing) projects in ratio 40:60, respectively.
ii. To promote gender equality, 50 per cent of the Term Loan Component of the Scheme shall be earmarked for female-led or -owned projects.
iii. Facilities accessed under the Term Loan Component shall be revolving, as upon full repayment, beneficiaries shall be eligible to apply for additional and or increased funding to ensure sustainability of financing support to projects.
iv. The facility shall be disbursed in tranches and subject to approved terms and milestones.
v. The tenor of projects financed under the Scheme shall be determined in relation to its cash flow and life of the underlying collateral.
vi. The applicants
vii. All movable assets financed under the Scheme or used as collateral to secure the loan shall be registered with the National Collateral Registry (NCR).
viii. Risk sharing (including recoveries) shall be in ratio 80:20 between the Central Bank of Nigeria and the PFI for the amount in default after all recoveries have been made.

ix. In the event of three (3) consecutive monthly repayment defaults by any beneficiary, the CBN and PFI shall review the repayment schedule with the beneficiary with recovery notification issued to that effect.

x. Beneficiaries of other CBN's interventions shall be eligible to participate under the Scheme upon full repayment of amount outstanding under the other earlier accessed intervention facility.

xi. This facility could be used for the refinancing of existing projects subject to Management's special approval.

6.1.3 Transaction Dynamics

i. Prospective applicants shall attend mandatory entrepreneurship trainings with their respective Nigerian polytechnics and universities and certificates of completion issued to trainees;

ii. Applications shall be submitted on a dedicated online portal (https://cbnties.com.ng), with copies of relevant documents attached for review, which shall include:
   a. First degree certificate (BSc/HND/or its equivalent);
   b. National Youth Service Certificate (NYSC) discharge or exemption certificate;
   c. Certificate of Participation issued by polytechnics and universities evidencing entrepreneurship training;
   d. Letter confirming the applicants' deposit of required certificates from PFI;
   e. Projected Statement of Income, Statement of Affairs, and cash flow projections for start-ups and businesses with less than 3 years of operations;
   f. Business plan outlining details, financials and economic benefits of the projects.

iii. Submitted applications and certificates shall be transmitted directly to the PFI for evaluation and documentation;

iv. The portal shall be designed to allow the applicants select its PFI of choice, which shall receive copies of the submitted applications for due diligence checks and subsequent disbursement and monitoring of financed projects;

v. The PFI shall provide to the applicants and forward to the CBN, the following documents:

   a. Copies of duly executed offer documents between the bank and the loan applicants;
   b. At least one (1) Credit Report of the promoter/entrepreneur;
   c. Duly signed Global Standing Instruction (GSI); and
   d. Proposed schedule of fund disbursement and repayment;

vi. The PFI shall register the submitted certificates with the National Collateral Registry (NCR);

vii. Upon approval of application by the CBN, the approved sum shall be released to applicants' PFIs of choice in accordance with the approved disbursement schedule;

viii. The PFI shall disburse the released funds into the applicants' accounts within five (5) working days with no restriction on access, upon compliance with the terms for withdrawal;

ix. The PFI shall register all financed equipment under the Scheme with the National Collateral Registry (NCR); and

x. The location of the business shall be mapped or tagged for monitoring and evaluation purpose.

6.1.4 Repayment

Interest payment and principal repayment shall be made on monthly or quarterly basis by the obligor depending on the established cash flow cycle and in line with the approved repayment schedule.

6.1.5 Participating Financial Institutions

The PFIs under this Scheme shall be deposit money banks (DMBs) and other financial institutions as may be approved by the CBN.

6.2 Equity Investment Component

The Equity Investment Component shall be in the form of injection of fresh capital for start-ups, expansion of established businesses or reviving of ailing entrepreneurial businesses. The Component shall be implemented under the AgSMEIS Equity window, with application for participation submitted on https://cbnties.com.ng.

i. The Bankers' Committee Trust shall hold the equity on behalf of the AgSMEIS Fund.
ii. The equity investments shall be in enterprises operating within the eligible focal areas.

6.2.1 Investment Limit

The investment limit shall be subject to the limit prescribed in the AgSMEIS Guidelines.

6.2.2 Investment Period

This shall be as follows:

i. Investment made shall be for a maximum period of ten (10) years (not exceeding December 31, 2031).
ii. There shall be a 3-year lock-in period before exit in order to encourage value creation and boost managerial capacity of businesses.

6.3 Developmental Component

The Developmental Component shall be disbursed in the form of grants to Nigerian polytechnics and universities in a national biennial entrepreneurship competition. The competition is aimed at raising awareness and visibility of high-impact entrepreneurial/technological ideas among undergraduates,

promote entrepreneurial talent hunts in Nigerian polytechnics and universities, as well as encourage innovations that are commercially viable and with transformational impact.

The Developmental Component shall also be utilized for the general development of the MSME segment in the following areas:

i. Finance the development of the award-winning innovative entrepreneurial/technological ideas;
ii. Research and development of high-impact technological innovations and projects; and
iii. Support the development of financial infrastructure to facilitate the entrepreneurship in Nigerian polytechnics and universities.

6.3.1. Award of Grants

Five (5) top Nigerian polytechnics and universities with the best entrepreneurial pitches/ideas shall be awarded as follows:

- First place – ₦150.0 million;
- Second place – ₦120.0 million;
- Third place – ₦100.0 million;
- Fourth place – ₦80.0 million; and
- Fifth place – ₦50.0 million.

The grants shall be in the following areas:

i. Agribusiness;
ii. Information technology;
iii. Creative industry; and
iv. Science and technology.

The Bank shall constitute a Body of Experts (BoE) from the private and public sector for the biennial regional and national entrepreneurship competitions to evaluate entrepreneurial and technological innovations submitted by Nigerian

polytechnics and universities. The Body of Experts (BoE) shall recommend projects with high potential and transformational impact for the grant award.

The composition of the BoE shall be as detailed below:

i. Four (4) representatives from the Bankers' Committee;
ii. One (1) representative from consulting industry;
iii. One (1) nominee from SMEDAN;
iv. One (1) nominee from the NUC;
v. One (1) nominee from the NBTE; and
vi. One (1) nominee from the CBN (Secretary).

The Chair of the BoE shall be appointed by the CBN from the Banker's Committee.

Participation under the Developmental Component shall be restricted to undergraduates of Nigerian polytechnics and universities.

6.3.2 Modalities

i. Interested Nigerian polytechnics and universities shall apply to participate in the national biennial entrepreneurship competition on a dedicated online portal (https://cbnties.com.ng), outlining brief details of the project, potential impact and evidence of originality of project;
ii. The submitted applications shall be evaluated by the BoE through engagements that showcase undergraduates competing by pitching entrepreneurial and technological innovations at regional levels, with finalists proceeding to the national event for final consideration and ranking by the BoE;
iii. The showcasing programmes shall be broadcasted for four (4) weeks on platforms such as social media and national television stations (at least

two) to help highlight the value of entrepreneurship and change attitudes, as well as social perceptions about entrepreneurship;

iv. Final top five (5) entrepreneurial and technological innovations at the national level shall be awarded the grant on recommendation of the BoE; and

v. The Grant shall be disbursed in tranches of 55:45 ratio directly to a dedicated account opened for the purpose of the grant by the Nigerian polytechnics and universities, subject to approved milestones.

7. Stakeholders and Responsibilities

The responsibilities of the stakeholders shall include:

7.1 Central Bank of Nigeria (CBN)

The Central Bank of Nigeria shall:

i. Articulate clear Guidelines for the implementation of the Scheme;

ii. Partner with the private sector and Nigerian polytechnics and universities in the development of the online application portal, constituting the BoE and organising the national entrepreneurship contest;

iii. Approve and disburse loan request to successful beneficiaries through their PFIs;

iv. Engage independent monitors to carry out periodic verification and monitoring projects financed;

v. Conduct project impact assessment in conjunction with the Monitoring Team and other relevant stakeholders;

vi. Sensitize stakeholders and the general public on the activities of the Scheme;

vii. Facilitate meetings of the BoE; and

viii. Review the Guidelines from time to time

7.2 Participating Polytechnics and Universities

Participating polytechnics and universities shall:

i. Develop a curriculum or programme for the training or retraining of graduates in entrepreneurship development;
ii. Issue certificates of completion to its graduates evidencing participation in the entrepreneurship development training programmes;
iii. Authenticate applicants' first-degree certificates;
iv. Develop a recourse platform for registering, digitization and offboarding of submitted certificates under the Scheme;
v. Create a central platform for digitizing submitted certificates and provide a feedback loop with PFIs on collateralised certificates;
vi. Provide ideation, creation and acceleration hubs for undergraduates to actualise their entrepreneurial ideas;
vii. Present entrepreneurial projects for participation in the regional and national contests under the Grant Component;
viii. Carry out all relevant due diligence and plagiarism checks on all entrepreneurship projects presented for the regional and national contests;
ix. Forward list of all trained and certified graduates on entrepreneurship to the CBN;
x. Facilitate the actualisation/implementation of the winning projects within the community it was projected to be implemented;
xi. Render periodic status reports on the winning projects as may be specified by the CBN from time to time; and
xii. Provide awareness and training sessions for undergraduates on entrepreneurship development.

7.3 Participating Finance Institutions

The PFIs shall:

i. Participate in the development of the online application portal to facilitate submission of applications by prospective beneficiaries for the term loan;
ii. Carry out all relevant due diligence on applicants and submitted certificates under the term loan component of the Scheme;
iii. Provide at least one credit report on promoter(s) for all projects;
iv. Register all movable assets accepted or financed, including submitted certificates, as collaterals for the loan with the National Collateral Registry (NCR);
v. Issue a letter evidencing the registration of the applicant's certificates with the NCR;
vi. Forward verified and approved applications to the CBN for further processing and approval;
vii. Disburse released funds to beneficiaries' accounts within 5 working days of receipt;
viii. In line with 8.3(vii), return undisbursed funds to the CBN after a period of 14 working days of receipt of the funds;
ix. Remit monthly or quarterly interest and principal repayments to the CBN within 5 working days of the subsequent month depending on the approved repayment schedule;
x. Collaborate with the CBN in engaging independent monitors to carry out periodic verification and monitoring projects financed;
xi. The PFI shall remit interests and principal repayments received to the Scheme on monthly or quarterly basis depending on the established cash flow cycle and in line with the approved repayment schedule;
xii. Render periodic returns as may be specified by the CBN from time to time;

xiii. Discharge all movable collaterals used to securitize the loan on the National Collateral Registry within one month of repayment, and notify the customer accordingly; and

xiv. Comply with the Guidelines of the Programme.

7.4 Beneficiary

The beneficiary shall:

i. Apply on the dedicated online portal and provide all requisite documentation to support the application;

ii. Present for verification original copies of submitted certificates and documents;

iii. Submit business proposal and other documentation requirements

iv. Adhere strictly to the terms and conditions of the Scheme and avoid any forms of plagiarism in the project idea;

v. Utilize the funds for the purpose for which it was granted;

vi. Present the business and its location for mapping/tagging, as well as monitoring and evaluation;

vii. Maintain accurate and up-to-date records available for inspection/verification by the CBN and Monitoring Team; and

viii. Adhere strictly to the terms and conditions of the Scheme.

8. Verification/Monitoring of Projects

Projects financed under the Scheme shall be monitored by independent monitors jointly engaged by the CBN and PFI.

9. Discontinuation of Credit Facility

i. Whenever a loan is repaid or the Scheme is otherwise discontinued, the PFI shall return the fund to the CBN.

ii. The PFI shall discharge the movable collaterals from the National Collateral Registry (NCR).

10 Dispute Resolution

All disputes shall be resolved in line with the Consumer Protection Regulations of the Central Bank of Nigeria.

11. Exit Date

The Scheme shall be operated for a period of 10 years in the first instance (*not exceeding 31st December 2031)* depending on the complexity of the project.

12. Infractions and Penalties

The following, among others, shall constitute infractions under the Guidelines:

S/No.	Infraction	Penalty
1.	Delay in disbursement of funds to beneficiaries' accounts	Monetary Policy Rate (MPR) plus 2 per cent of the amount undisbursed to beneficiaries
2.	Delay in remittance of monthly interest and principal repayments to the CBN by PFIs	Monetary Policy Rate (MPR) plus 2 per cent on cumulative interest and principal unremitted to CBN as and when due

13. Management of the Scheme

The Scheme shall be managed by the Development Finance Department of the Central Bank of Nigeria.

a. The CBN reserves the right to reject an application from any applicants that does not meet the requirements of the Guidelines.

b. The CBN may amend this Guidelines from time to time and may waive any part of this Guidelines upon the approval of the Governor.

14. Enquiries and Returns

All enquiries and returns should be addressed to:

The Director,
Development Finance Department,
Central Bank of Nigeria,
Corporate Headquarters
Central Business District, Abuja.

October 2021

CENTRAL BANK OF NIGERIA

GUIDELINES FOR THE PRIVATE SECTOR-LED ACCELERATED AGRICULTURE DEVELOPMENT SCHEME

November 2020

CENTRAL BANK OF NIGERIA

GUIDELINES FOR THE PRIVATE SECTOR-LED ACCELERATED AGRICULTURE DEVELOPMENT SCHEME

1. Introduction

The Central Bank of Nigeria (CBN), in line with its developmental mandate, continues to develop and introduce development finance programmes and schemes to expand access to finance to critical sectors and segments of the economy to achieve food self-sufficiency as well as diversification. While pursuing this mandate, the population of the country has continued to rise at nearly 3% annually. Recent studies indicated that the country's population pyramid is bulging around the youth segment, with an estimated 75 per cent of the population identified to be aged below 35 years. A large segment of this population would have eked out a living if adequate opportunities were harnessed in agriculture given its potential of employing over 70% of the nation's workforce.

While addressing the rising food security challenge due to unproportionate production compared to population growth; value addition to agriculture; including provision of more land for cultivation has remained stagnant over the years.

To address the food security and youth unemployment challenges across the country, the CBN introduced the Accelerated Agriculture Development Scheme (AADS) to engage 370,000 youth in agricultural production, in collaboration with state governments. The Private Sector-Led Accelerated Agriculture Development Scheme (P-AADS) was also developed to complement AADS by exploring private sector partnership to facilitate more rapid land clearing for production of key agricultural commodities.

2. Objectives of the Scheme

The broad objective of the P-AADS is to facilitate increased private sector agricultural production of staple foods and industrial raw materials, as well as support food security, job creation and economic diversification.

The specific objectives are to:

i. Fast track land clearing for primary production of agricultural commodities;
ii. Promote food security through the provision of large contiguous land for agricultural production across all states;
iii. Collaborate with agro-processors engaged in backward integration by providing financing for extended land clearing in proximal locations for cultivating commodities for supply of industrial raw materials;
iv. Support other capable stakeholders interested in unlocking land for agriculture through appropriate financing; and
v. Engender job creation for individual farmers that will cultivate on the cleared land.

3. Eligible Participants

i. Agro-processors of agricultural commodities engaged in backward integration;
ii. Prime anchors and commodity associations participating under the Anchor Borrowers' Programme (ABP) with evidence of contiguous land readily available for clearing and cultivation of agricultural commodities; and
iii. Other companies and individuals with evidence of ownership of contiguous land readily available for clearing and cultivation of agricultural commodities.

4. Focal Commodities

Agricultural commodities eligible for consideration under the Scheme are:

i. Rice
ii. Maize
iii. Cassava
iv. Cotton
v. Wheat
vi. Tomato
vii. Poultry
viii. Fish
ix. Sorghum
x. Oil Palm
xi. Cocoa
xii. Livestock/Dairy
xiii. Any other commodities as may be listed by the CBN from time to time.

5. Eligibility Criteria

Prospective P-AADS participants must:

i. be existing or new firms engaged in agricultural production with proven capacity and bankable proposal
ii. possess acceptable title for contiguous lands of not less than 20 hectares;
iii. have good credit record
iv. be able to provide the required collateral for participation and
v. Provide evidence of capacity to cultivate a focal commodity directly or engagement of farmers, including youths as in-growers or out-growers to cultivate on the land after clearing

6. Funding

The Private Sector-Led Accelerated Agriculture Development Scheme (P-AADS) shall be funded from the Anchor Borrowers' Programme (ABP).

7. Loan Limit

The maximum loan accessible under the Scheme shall be N2 billion per obligor. The facility shall be repaid from the Economics of Production (EOP) for cultivating on the cleared farmland.

8. Interest Rate

Interest rate under the intervention shall be 5.0% p.a. (all inclusive) up to 28th February 2021.

Interest on the facility from 1st March 2021 shall be 9% p.a. (all inclusive).

9. Loan Tenor

Annual crops: Maximum tenor of six (6) years with six (6) months moratorium.

Perennial crops: Maximum tenor of ten (10) years with one-year moratorium.

10. Collateral Requirement

The collateral to be pledged by participants under the Scheme shall be title of the cleared land and other acceptable collateral prescribed under the ABP.

CBN shall bear 50% of the credit risk in the event of default by the participant.

11. Repayment

Repayment of the facility shall be made on instalment basis through the participating banks and spread over the EOP of the cultivated commodities.

The participating banks shall remit repayments received to the CBN on quarterly or annual basis depending on the commodity financed.

12. Modalities

i. Contiguous land of not less than 20 hectares shall be provided for specified agricultural commodities cultivation.

i. Evidence of land ownership in form of any acceptable title including lease of a minimum of 15 years.

ii. Soil analysis and testing shall be carried out on the land to assess the suitability for cultivation of the intended crop.

iii. Anchor/commodity association/processor submits Expression of Interest (EOI) with all requisite documents including crop to cultivate, to participating banks for consideration.

iv. Participating bank conducts due diligence and applies to the CBN for release of funds for land clearing in line with approved schedule of average cost per hectare

v. CBN approves and releases funds to participating banks for disbursement.

vi. CBN bears 50% of the credit risk in the event of default by the participants

vii. Anchor/Processor/Aggregators with proven capacity or service providers engaged to clear the farmland within the approved schedule of average cost per hectare and spread over the facility tenor in the EOP.

viii. Cleared land shall be parcellated to farmers aggregated and coordinated into clusters by identified anchor/commodity associations.

ix. Anchors/Processors/Aggregators shall sign purchase agreement with farmers for offtake of crops produced on the cleared land

x. Farmers cultivate focal commodity on the cleared land

xi. Produce off-taken on cash and carry basis to enable farmers meet obligations

13. Verification/Monitoring of Projects

Periodic monitoring of projects financed under the Scheme shall be conducted jointly by the PB and CBN.

14. Responsibilities of Stakeholders:

For the effective implementation of the intervention facility, the responsibilities of the stakeholders shall include:

14.1 Central Bank of Nigeria (CBN) shall:

i. Provide the fund.
ii. Act as Managing Agent.
iii. Issue and review modalities and operating guidelines from time to time.
iv. Provide regulatory and supervisory oversight.
v. Monitor, evaluate and conduct impact assessment of the programme In conjunction with other stakeholders.
vi. Provide periodic reports on the programme.

14.2 Participating Banks (PB) shall**:**

i. Conduct due diligence on prospective participants.
ii. Access funds from the CBN for on-lending.
iii. Ensure that payments are made directly to mechanization service providers for the land clearing
iv. Book loans for the successful applicants at the prescribed interest rate.
v. Monitor the utilisation of the facility to ensure achievement of the objectives of the scheme

14.3 Anchor/Processor/Off-taker shall**:**

i. Sign off-take agreement with the farmers that will cultivate on the land
i. Off-take produce at the prevailing market price or average of 3 prices within the State
ii. Make payment for all produce collected within 5 working days of collection
iii. Be responsible for the management of the farm
iv. Provide extension services
v. Commit to abide by the terms of agreement
vi. Monitor farmers and repay the loan as and when due

14.4 Private Land Clearing Service Provider shall:

i. Clear the land in line with the service level agreement and approved costs schedule by the CBN
ii. Provide suitable farmland feeder access paths
iii. Provide farmland drainage
iv. Remove logs and stumps and ensure land is ready for cultivation.

14.5 Smallholder Farmers

i. Cultivate focal crop on the land for within the loan period until full repayment of the land clearing facility.
ii. Sell harvested produce to the processor/anchor.
iii. Repay instalment as and when due till full liquidation of the facility where facility is sourced by commodity association on behalf of members.

15. Infractions and Sanctions – Participating Banks

i. Diversion of funds by the participating banks shall attract a penalty at its maximum lending rate at the time of infraction. In addition, such PFI shall be barred from further participation under the scheme;
ii. Non- rendition or false returns shall attract the penalty stipulated by BOFIA
iii. Charging interest rate higher than prescribed shall attract the penalty stipulated by BOFIA
iv. Any participating that fails to disburse the fund within the stipulated days of receipt to the borrower, shall be charged penalty interest at the PFI's maximum lending rate for the period the fund was not disbursed;
v. Failure to remit repayments received to CBN within the stipulated period shall attract penalty interest at the PFIs maximum lending rate.

The CBN reserves the right to impose the appropriate sanction in respect of any other breach of the guidelines not specified in this section.

Yusuf Yila Philip
Director Development Finance Department
Central Bank of Nigeria
November 2020

CENTRAL BANK OF NIGERIA

FRAMEWORK FOR FINANCING OF NATIONAL MASS METERING PROGRAMME (NMMP)

October 2020

FRAMEWORK FOR FINANCING OF NATIONAL MASS METERING PROGRAMME (NMMP)

1.0 Introduction

The introduction of the service-based tariff (**SBT**) in the Nigeria Electricity Supply Industry (**NESI**) effective from 1st September 2020 has put increased emphasis on the need to close the metering gap in the NESI. The closing of this gap will enhance efficiency of revenue collection by Distribution Companies (**DisCos**) and thereby facilitate meeting their obligations to other upstream market participants.

According to analysis provided by Nigeria Electricity Regulatory Commission (NERC), the current metering gap in the NESI – based on recent customer enumeration data – is over 10 million, this comprises of unmetered customers as well as customers with obsolete meters that need to be replaced. To deal with this, His Excellency, President Muhammadu Buhari approved the National Mass Metering Program (**NMMP**) implementation.

This Framework outlines the operational modalities of the CBN financing support to the DisCos (Downstream) and Local Meter Manufacturers (Upstream).

2.0 Objectives

The key objectives of the NMMP are:

i) Increase Nigeria's metering rate
ii) Elimination of arbitrary estimated billing;
iii) Strengthen the local meter value chain by increasing local meter manufacturing, assembly and deployment capacity
iv) Support Nigeria's economic recovery by creating jobs in the local meter value chain
v) Reduction of collection losses and increasing financial flows to achieve 100% market remittance obligations of the DisCos; and
vi) Improve network monitoring capability and availability of data for market administration and investment decision making.

3.0 This framework is sub-divide into three sections namely:

i) **Section A**: Electricity Distribution Companies
ii) **Section B**: Local Meter Manufacturers
iii) **Section C**: Additional Requirements

SECTION A: ELECTRICITY DISTRIBUTION COMPANIES

4.0 Definition

A NERC licensed Electricity Distribution Company (DisCo) or body corporate engaged in:

i) Bulk purchase of energy and onward retail to electricity customers
ii) Collection of tariff and charges and remittance of payment to the market
iii) Collection of retail energy related data for the industry
iv) Ownership and management of electricity distribution infrastructure including meters and metering infrastructure

4.1 Eligible Activities

The NMMP CBN facility is restricted to the procurement and deployment of meters and the associated infrastructure (software and hardware) to support the metering network. These include, but not limited to:

i) Procurement of NERC approved meters
ii) Payments for installation and deployment of meters
iii) Procurement of other metering infrastructure related production and service provision as may be prescribed by NERC in relevant orders or by prevailing rules and regulations
iv) Procurement of backend metering platform and data management systems
v) Procurement of customer enumeration services

4.2 Prohibited Activities

i) Procurement of fully assembled meters from overseas is prohibited except meters imported by Meter Asset Providers (MAP) already in the country as at September 30, 2020 and verified by NERC; and.

iii) Importation of related metering infrastructure that are currently being produced in the country is also prohibited.

4.3 Participating Financial Institutions (PFI)

Financial institutions licensed by the CBN to provide banking services in Nigeria.

5.0 Modalities/ Types of Facilities

5.1 Tenor

The facility granted shall have a maximum tenor of 10 years but not exceeding 2030

5.2 Moratorium

There shall be a moratorium on the principal amount for a period not exceeding 24 months from date of loan disbursement.

5.3 Interest Rate

The facility shall be administered at an "all-in" interest rate of NOT more than 9 per cent per annum or any other rate as may be specified by CBN.

As part of the Bank's Covid-19 relief package, the interest rate to be charged up to 28th February 2021 shall not exceed 5 per cent per annum.

Interest shall be payable by the loan beneficiaries in accordance with the approved repayment schedule outlined in the Transaction Documents.

The "all-in" interest rate of 9% to be shared as follows:

a) Participating Financial Institution - 6%

b) Sponsor (CBN) - 3%

PFIs are to remit the interest due to the CBN on quarterly basis not later than 10 days after the end of the quarter.

5.4 Collateral Requirement

NERC's approval of a DisCos loan request as a regulated debt obligation to be charged against all energy collections for the Nigeria Electricity Supply Industry (NESI) as the next line charge in the payment waterfalls of each DisCo below the existing payment to the Nigeria Electricity Market Stabilization Facility (NEMSF), will serve as a collateral for the lending.

6.0 The financing of the bulk procurement of Meters by the Electricity Distribution Companies is covered under phase 0 and phase 1.

6.1 Phase 0 - Financing of orders covered under the Meter Asset Provider (MAP) programme.

6.2 Amount to be Accessed

To be determined based on the volume and type of meters to be procured by the DisCo for the contracted MAP.

6.3 Documents Required

i) NERC allocation of verified stock assigned to the DisCo under Phase 0.

ii) Invoice (including account details of the vendor) for the Meters to be purchased

iii) Evidence of MAP procurement from local manufacturer (where applicable)

iv) Agreement(s) signed with MAPs

v) Certification of the meters by Nigeria Electricity Management Services Agency (NEMSA);

vi) Latest 2 - year audited financial statements;

vii) Tax clearance certificate.

6.4 Application Procedure

i) DisCo apply to its Guarantee Bank (GB) for financing under the programme through RSSF/DCRR.
ii) The GB conducts due diligence and obtain internal approval for the facility.
iii) The GB applies to CBN for release of funds attaching the documents specified in section 5.2 above.
iv) CBN reviews and communicate approval to the GB.
v) CBN release the funds to the GB after satisfactory confirmation of the fulfilment of the contract by the Disco.
vi) DisCos will work within the allocation approved by NERC and the AMSL provided by NERC to determine how they plan to meet their allotted volumes. If an MAP is required by a DisCo to supply a volume greater than its declared inventory in the AMSL, the DisCo/MAP must provide evidence that the excess capacity has been procured from a local manufacturer; evidence will be in the form of purchase orders, payment evidence, and evidence of delivery of meters from the manufacturer to the MAP.
vii) For the purpose of payment to the MAP by each DisCo's Bank Guarantee (BG) bank, DisCos will submit NERC approved Meter Service Agreement(s) signed with MAPs, payment invoice for the Meters to be purchased and a performance bond from the MAP linked to installation of volumes to be purchased.
viii)The MAP's performance bond will be issued jointly to the DisCo and the PFI
ix) BG Bank to make payment to MAPs only based on terms contained in the submissions made by the DisCos.

6.5 Phase 1 (CBN funded bulk procurement from local meter manufacturers/assemblers)

6.6 Amount to be Accessed

To be determined based on the volume and type of meters to be procured by each DisCo as well as the prices at which meters are bought during the bulk procurement.

6.7 Documents Required:

i) Copy of NERC allocation of the quantity of meters to be procured by the DisCo in phase 1;
ii) Meter Agreement with local meter manufacturer after bulk procurement process;

iii) Invoice (including the bank details of the vendor);

iv) Latest 2-year audited financial statements;

v) Tax clearance certificate.

6.8 Application Procedure

i) DisCo apply to its Guarantee Bank (GB) for financing under the programme (attaching the signed meter purchase agreement with local meter manufacturer) through Real Sector Support Facility/Differentiated Cash Reserve Requirement (RSSF/DCRR);;
ii) The PFI conducts due diligence and obtain internal approval for the facility;
iii) The PFI applies to CBN for release of funds attaching the documents specified in section 6.2 above.
iv) CBN reviews and release the funds to the GB to be paid to the local meter supplier's account within 3 working days from the date of release.
v) Respective DisCos will sign Meter Purchase Agreement (MPA) with successful bidders from the procurement exercise; this will be submitted to CBN and each DisCo's BG bank.
vi) CBN through the BG bank will make payments to the preferred bidders on behalf of the DisCos based on the terms contained in DisCo submissions

SECTION B: LOCAL METER MANUFACTURERS

7.0 Definition

A local meter manufacturer is hereby defined as any company or body corporate engaged in:

i) Manufacturing of electricity meters and its components
ii) Assembly of Completely and/or Semi Knock Down components into meters

7.2 Eligible Activities

i) Procurement of manufacturing or assembly equipment for Meters
ii) Set up or expansion of manufacturing or assembly facilities
iii) Procurement of production data management and software systems
iv) Working capital

7.3 Prohibited Activities

The facility shall NOT be used to finance the importation of fully assembled meters

7.4 Eligibility Criteria

The eligible obligors should demonstrate verifiable evidences of:

i) Technical capacity:

(a) Brownfield - Eligible manufacturers must demonstrate a track record of experience in manufacturing of key meter components up to the quality standards instituted by the Nigerian Electricity Regulatory Commission (NERC) and/or Nigerian Electricity Management Services Agency (NEMSA) and/or Standards Organizations of Nigeria (SON).

(b) Greenfield – Bankable business plans acceptable to the PFIs.

ii) Financial capacity: Eligible entities must demonstrate financial capacity to repay the loan through a sufficient debt service current ratio (DSCR).
iii) Local content: Eligible component manufacturers are Nigerian-owned entities or consortiums involving a minimum of 70% local ownership.
iv) Job creation focus: In line with the program's job creation objectives, eligible manufacturers must demonstrate commitment to employing local talent with a detailed vocational and technical training plan.

7.5 Participating Financial Institutions (PFIs)

Financial institutions licensed by the CBN to provide banking services in Nigeria.

8.0 Modalities/Types of Facilities

8.1 Term Loan

8.2 Amount to be Accessed

Funding shall not exceed 70 percent of the total cost of the applicable costs/expenses related to meter manufacturing/assembly.

8.3 Tenor

The facilities granted shall have a maximum tenor of up to 10 years as determined by the project's cash flow profile but not exceeding 31st December 2030.

8.4 Moratorium

The moratorium on principal shall depend on the type and nature of the project but shall not exceed 2 years or the construction/ completion period.

8.5 Working Capital

Working capital facility shall be for one year with provision for roll-over not more than twice (i. e. maximum tenor of 3 years).

8.3 Interest Rate

The facility shall be administered at an "all-in" interest rate of NOT more than 9 per cent per annum or any other rate as may be specified by CBN..

As part of the Bank's Covid-19 relief package, the interest rate to be charged up to 28th February 2021 shall not exceed 5 per cent per annum.

Interest shall be payable by the loan beneficiaries in accordance with the approved repayment schedule outlined in the Transaction Documents.

The “all-in” interest rate of 9% to be shared as follows:

a) Participating Financial Institution - 6%

b) Sponsor (CBN) - 3%

PFIs are to remit the interest due to the CBN on quarterly basis not later than 10 days after the end of the quarter.

9.0 Application Procedure

i) An eligible company that meets the requirements should submit its request to the Participating Financial Institution (PFI) under the RSSF/DCRR;
ii) The PFI should conduct due diligence and obtain internal approval for the facility.
iii) The PFI submits request to CBN for approval and release of funds.

9.1 Documents Required

Required documentation for the obligor to access funding includes:

i) Written request from the project promoter
ii) Certified True Copy of Certificate of Incorporation
iii) Certified True Copy of MEMART
iv) Certified True Copy of Form CAC 1.1
v) Business plan including:
    a. Organizational chart
    b. Health and safety guidelines
    c. 3-year financial projections
    d. Detailed vocational and technical training plan
vi) Latest three (3) years audited financial statements for existing companies or a 6-months Management Account for new companies;

SECTION C: ADDITIONAL REQUIREMENTS

10.0 Responsibilities of Stakeholders

10.1 Central Bank of Nigeria (CBN)

The Central Bank of Nigeria shall:

i) Articulate clear guidelines for the implementation of the Facility
ii) Provide funds for the Intervention
iii) Monitor and evaluate implementation of the Scheme
iv) Review the Guidelines of the Facility as may be necessary

10.3 Participating Financial Institutions

The Participating Financial Institutions shall:

i) Receive and process requests for funding under the Scheme
ii) Exercise due diligence and care in appraising requests under the Scheme
iii) Bear the credit risk
iv) Retain copies in both physical and digital version of the mandate executed by the Borrower.
v) Disburse funds released from CBN to the approved beneficiaries as provided in the operational guidelines
vi) Monitor the funded projects and render periodic reports to the CBN.

10.4 Nigeria Electricity Regulatory Commission (NERC)

NERC shall:

i) Provide the specification of meters that can be procured in both phases
ii) Provide Approved Meter Supplier List for Phase 0
iii) Monitor meter deployment and validate quality and quantity specifications
iv) Approve the repayment of loans through NESI collections with the requisite seniority as detailed above.

10.5 Borrowers (DisCos and Manufacturers)

The Borrowers shall, with respect to this Scheme:

i) Comply with this guideline and the terms and conditions outlined in the Transaction Documents
ii) Utilize the funds granted under the Scheme for the purpose for which it was granted.
iii) Insure the project being financed by a reputable Insurance Company
iv) Adhere strictly to the terms and conditions of the credit facility
v) Make the project and records available for inspection/verification by the CBN, PFI and NERC
vi) For the Discos, comply in full, with all conditions for the implementation of the President's accompanying directive on Payment Discipline as determined by the Federal Ministry of Finance and the Central Bank of Nigeria.

11.0 Sanctions arising from Infractions

i) Diversion of funds by the PFIs shall attract a penalty at the bank's maximum lending rate at the time of infraction.
ii) Non-rendition of returns or the rendition of false returns shall attract penalty
iii) In the event of default in loan repayment (principal and interest), the PFIs shall have the right to charge commercial interest rate on the amount of default
iv) Unauthorized withdrawals from revenue collection account – the DMB to refund the money within 48 hours of discovery
v) Banks that flout the Terms & Conditions of the facility would be sanctioned

12.0 Discontinuation of Credit Facility

Whenever a loan is repaid or the facility is otherwise discontinued, the PFIs shall advise the CBN immediately, giving particulars of the credit facility.

Enquiries

The Director, Development Finance Department
Central Bank of Nigeria, Abuja.

October 2020

HIGHLIGHTS OF THE RECOMMENDATIONS OF THE BOE:

REVIEW OF HSRDIS GUIDELINE	
OLD	NEW (AMENDMENT)
1. Introduction	**1. Introduction**
The Central Bank of Nigeria (CBN), as part of its policy response to the COVID-19 pandemic, introduces the Healthcare Sector Research and Development Intervention Scheme (HSRDIS) to help strengthen the public healthcare system with innovative financing of research and development (R&D) in new and improved drugs, vaccines and diagnostics of infectious diseases in Nigeria. Specifically, the HSRDIS is designed to trigger intense national R&D activities to develop a Nigerian vaccine, drugs and herbal medicines against the spread of COVID-19 and any other communicable or non-communicable diseases through the provision of grants to biotechnological and pharmaceutical companies, institutions, researchers, and research institutes for the research and development of drugs, herbal medicines and vaccines for the control, prevention and treatment of infectious diseases. The Scheme is intended to boost domestic manufacturing of critical drugs and	The Central Bank of Nigeria (CBN), as part of its policy response to the COVID-19 pandemic, introduces the Healthcare Sector Research and Development Intervention Scheme (HSRDIS) to help strengthen the public healthcare system with innovative financing of research and development (R&D) in new and improved drugs, vaccines and diagnostics of infectious diseases in Nigeria. Specifically, the HSRDIS is designed to trigger intense national R&D activities to develop a Nigerian vaccine, drugs and herbal medicines/medical devices against the spread of COVID-19 and any other communicable or non-communicable diseases through the provision of grants to biotechnological and pharmaceutical companies, institutions, researchers, and research institutes for the research and development of drugs, herbal medicines/medical devices and vaccines for the control, prevention and treatment of infectious

vaccines to ensure their sustainable domestic supply and reduce the bulk manufacturing costs of the drugs, herbal medicines and vaccines in Nigeria. The Framework outlines the operational modalities for the Scheme.	diseases. The Scheme is intended to boost domestic manufacturing of critical drugs and vaccines to ensure their sustainable domestic supply and reduce the bulk manufacturing costs of the drugs, herbal medicines/medical devices and vaccines in Nigeria. The Framework outlines the operational modalities for the Scheme.
2. Objectives of the Scheme The broad objectives of Scheme include: 2.1 Providing grants for R&D in new or revalidation of drug molecule, phytomedicines and vaccines for the control, prevention and treatment of infectious diseases in Nigeria; 2.2 Boosting domestic manufacturing of validated drugs (Active Pharmaceutical Ingredients or APIs), herbal medicines and vaccines for the control, prevention and treatment of infectious diseases in Nigeria and reduce the nation's dependence on other countries for these drugs and	**2. Objectives of the Scheme** The broad objectives of Scheme include: 2.1 Providing grants for R&D in new or revalidation of drug molecule, phytomedicines and vaccines for the control, prevention and treatment of infectious diseases in Nigeria; 2.2 Boosting domestic manufacturing of validated drugs (Active Pharmaceutical Ingredients or APIs), herbal medicines/medical devices and vaccines for the control, prevention and treatment of infectious diseases in Nigeria and reduce the nation's dependence on other

vaccines;	countries for these drugs and vaccines;
2.3 Improving the capacity of the biotechnological and pharmaceutical companies, institutions, researchers, and research institutes in the development of approved Nigerian drugs, herbal medicines and vaccines for infectious diseases;	2.3 Improving the capacity of the biotechnological and pharmaceutical companies, institutions, researchers, and research institutes in the development of approved Nigerian drugs, herbal medicines/medical devices and vaccines for infectious diseases;
2.4 Supporting capacity of relevant health agencies towards attaining WHO Maturity Level 3, a prerequisite for manufacturing of vaccines in Nigeria;	2.4 Supporting capacity of relevant health agencies towards attaining WHO Maturity Level 3, a prerequisite for manufacturing of vaccines in Nigeria;
2.5 Facilitating partnership between academia (researchers, research institutes and universities) and industry into the research and development of drugs, phytomedicines and vaccines for the control, prevention and treatment of infectious diseases in Nigeria; and	2.5 Facilitating partnership between academia (researchers, research institutes and universities) and industry into the research and development of drugs, phytomedicines and vaccines for the control, prevention and treatment of infectious diseases in Nigeria; and
2.6 Reduce dependence on imported drug products	

(synthetic and herbal) and vaccines for the control, prevention and treatment of infectious diseases in Nigeria.	2.6 Reduce dependence on imported drug products (synthetic and herbal) and vaccines for the control, prevention and treatment of infectious diseases in Nigeria.
3. Eligible Research and Development Activities Activities eligible for consideration under the Scheme shall include: i. Research and development of candidate drugs, herbal medicines and vaccines validated by relevant health authorities for the control, prevention and treatment of infectious diseases; ii. Manufacturing of drugs, herbal medicines and vaccines validated by relevant health authorities for the control, prevention and treatment of infectious diseases; iii. Red biotechnological R&D in new health technology for the control, prevention and treatment of infectious diseases; iv. Research partnership between	**2. Eligible Research and Development Activities** Activities eligible for consideration under the Scheme shall include: i. Research and development of candidate drugs, herbal medicines/medical devices and vaccines validated by relevant health authorities for the control, prevention and treatment of infectious diseases; ii. Manufacturing of drugs, herbal medicines/medical devices and vaccines validated by relevant health authorities for the control, prevention and treatment of infectious diseases; iii. Red biotechnological R&D in new health technology for the control, prevention and treatment of infectious diseases; iv. Research partnership between

academia and industry into the development drugs and vaccines for the control, prevention and treatment of infectious diseases;	academia and industry into the development drugs and vaccines for the control, prevention and treatment of infectious diseases;
v. Research and development into validated phytomedicines for the control, prevention and treatment of infectious diseases; and	v. Research and development into validated phytomedicines for the control, prevention and treatment of infectious diseases; and
NOTE: Candidate vaccines undergoing pre-clinical testing or trials shall not be eligible for consideration under this Scheme. However, candidate vaccines undergoing clinical testing or trials shall be eligible for consideration under the Scheme if considered to have high potentials to cross the clinical trial stage and prospects of scale by the BoE.	**NOTE:** Candidate vaccines undergoing pre-clinical testing or trials shall not be eligible for consideration under this Scheme. However, candidate vaccines undergoing late preclinical and early clinical testing or trials shall be eligible for consideration under the Scheme if considered to have high potentials to cross the clinical trial stage and prospects of scale by the BoE.
In applying for the grant, the applicant shall be required to have conducted pre-clinical testing of the candidate drugs, herbal medicines and vaccines, and obtained certification from relevant health authorities for further research and development.	In applying for the grant, the applicant shall be required to have conducted pre-clinical testing of the candidate drugs, herbal medicines/medical devices and vaccines, and obtained certification from relevant health authorities for further research and development.
Special consideration shall be given to candidate drugs, herbal medicines and vaccines with high scientific merit against emerging infections and contribute to the development of the	Special consideration shall be given to

Nigerian vaccine. For this purpose, a Body of Experts (BoE) shall be constituted from the academia and industry to review validated research proposal submitted and recommend for financing, as appropriate. The BoE shall meet regularly to appraise the research and development project and submit progress reports to the CBN.	candidate drugs, herbal medicines/medical devices and vaccines with high scientific merit against emerging infections and contribute to the development of the Nigerian vaccine. For this purpose, a Body of Experts (BoE) shall be constituted from the academia and industry to review validated research proposal submitted and recommend for financing, as appropriate. The BoE shall meet regularly to appraise the research and development project and submit progress reports to the CBN.
4. Funding The Scheme shall be funded from the Developmental Component of the Micro, Small and Medium Enterprise Development Fund (MSMEDF).	**4. Funding** No Amendment
5. Grant Limit i. **Research activities**: Maximum of ₦50.0 million. ii. **Development/Manufacturing activities**: Maximum of ₦500.0 million. **NOTE:** Disbursement under the Scheme	**5. Grant Limit** No Amendment

shall be made to beneficiaries in tranches subject to approved milestones achieved.	
6. Research and Development Timeframe i. **Research activities**: Not more than two (2) years from the date of release of fund. ii. **Development/Manufacturing activities**: Not more than one (1) year from the date of release of fund.	**6. Research and Development Timeframe** No Amendment
7. Body of Experts The Body of Experts (BoE) shall be responsible for the review and evaluation of submitted research proposals, as well as recommend for financing R&D projects with high potentials to contribute to the development of the Nigerian vaccines for infectious diseases. The composition of the BoE shall be as detailed below: i. Two (2) independent research specialists appointed by the CBN; ii. One (1) nominee from National Agency for Food and Drug	**7. Body of Experts** The Body of Experts (BoE) shall be responsible for the review and evaluation of submitted research proposals, as well as recommend for financing R&D projects with high potentials to contribute to the development of the Nigerian vaccines for infectious diseases. The composition of the BoE shall be as detailed below: i. Two (2) independent research specialists appointed by the CBN; ii. One (1) nominee from National Agency for Food and Drug

Administration and Control (NAFDAC); iii. One (1) nominee from Nigeria Institute for Pharmaceutical Research and Development (NIPRD); iv. One (1) nominee from Nigeria Centre for Disease Control (NCDC); and v. One (1) nominee from Nigeria Institute of Medical Research (NIMR) **NOTE:** The Chair of the BoE shall be appointed by the CBN.	Administration and Control (NAFDAC); iii. One (1) nominee from Nigeria Institute for Pharmaceutical Research and Development (NIPRD); iv. One (1) nominee from Nigeria Centre for Disease Control (NCDC); and v. One (1) nominee from Nigeria Institute of Medical Research (NIMR) vi. One (1) nominee from National Biotechnological Development Agency (NABDA) **NOTE:** The Chair of the BoE shall be appointed by the CBN.
8. Modalities i. The applicant(s) shall submit its application, with relevant documentation of validation from relevant health authorities, trial results, patent registration details (if any) and development timetable to the Body of Experts (BoE). ii. The BoE shall evaluate applications	**8. Modalities** i. The applicant(s) shall submit its application, with relevant documentation of validation from relevant health authorities, trial results, patent registration details (if any) and development timetable to the Body of Experts (BoE). ii. The BoE shall evaluate applications

and recommend to the CBN iii. The CBN shall review for documentation adequacy and completeness; iv. Upon approval, the approved grant sum shall be released to the applicant's account with any PFI of his/her choice. v. The beneficiary shall submit periodic report on the project to the CBN. **NOTE:** The CBN shall have proprietary right over all financed R&D outcomes or products. Equally, licensing protocol for the mass manufacturing of developed drugs, phytomedicines and vaccines shall be defined by the BoE in accordance with the World Health Organisation's current Good Manufacturing Practices (cGMP).	and recommend to the CBN iii. The CBN shall review for documentation adequacy and completeness; iv. Upon approval, the approved grant sum shall be released to the applicant's account with any PFI of his/her choice. v. The beneficiary shall submit periodic report on the project to the CBN. **NOTE:** Inventions arising from HSRDIS financed research and development projects must be reported to CBN that funded the grants. Individual researchers and pharmaceutical manufacturers are to retain substantial (80%) ownership of the drugs, medical devices, herbal medicines and vaccines made under HSRDIS funded research. Inventors are expected to file for patent protection and to ensure commercialization upon licensing for the benefit of public health.

9. Monitoring	9. Monitoring
Periodic joint monitoring of research and development activities shall be conducted by the BoE and periodic progress reports submitted to the CBN.	No Amendment
10. Amendments	**10. Amendments**
The Framework shall be subject to review from time to time as may be deemed necessary by the CBN.	No Amendment
11. Enquiries and Returns	**11. Enquiries and Returns**
All enquiries and returns should be addressed to: **Director, Development Finance Department, Central Bank of Nigeria, Abuja.** **May 2020**	All enquiries and returns should be addressed to: **Director, Development Finance Department, Central Bank of Nigeria, Abuja.** **September, 2020**

CENTRAL BANK OF NIGERIA

FRAMEWORK FOR THE IMPLEMENTATION OF FAMILY HOMES FINANCING INITIATIVE

1.0 Introduction

Mass housing construction is among the key economic activities with potentials to create significant number of jobs rapidly. It is in the light of this that the Bank introduces this financing initiative to support the Federal Government's Economic Sustainability programme to fast track the deployment of 300,000 homes in the 36 states of the federation and the Federal Capital Territory and to create up to up to 1.5m jobs in 5 years.

This initiative is to be implemented in collaboration with Family Homes Fund Ltd as the lead developer.

2.0 Objectives

Create Jobs at Scale – The programme will aim at creating rapidly, up to 1.5 million direct construction sector jobs (at the rate of 5 jobs/home) particularly young people on low income. In addition, the programme has potential to create a further 1m jobs through its supply chain.

Boost Local Manufacturing – The programme is designed to utilize at least 90% locally manufactured inputs and as a result conserve foreign exchange. In that regard the programme will deliberately aim to revitalize local manufacture of construction materials including doors and windows, ironmongery, sanitary fittings, concrete products, tiles, glass, electrical fittings/fixtures and bricks etc. For example, it is estimated that the programme will require up to 1.7m doors, 7m door hinges and locks etc.

Quality of Life – The programme will house up to 900,000 children and adults (at an average of 3 persons/home) on low income with direct impact on health, education and economic outcomes. Most of these would currently live in informal settlements with shared facilities in unsanitary environments. Towards targeting people on low income level across the country.

3.0 Purpose

A construction finance Facility to enable FHFL implement the Federal Government's Social Housing programme as part of the Economic Sustainability Plan 2020.

4.0 Eligible Obligor:

Family Homes Funds Limited (FHFL)

5.0 Technical Advisor

CBN shall appoint a Technical Advisor to, among others, appraise the requests for funding by FHFL, recommend for the release of funds and monitor the delivery of the programme and utilization of funds including quality of the portfolio.

6.0 Funding

Funds would be released to FHF on project basis subject to the cumulative maximum limit of ₦200 billion. A project is defined as cluster of homes in the same geographical location and covered with the same title documents and approvals.

7.0 Loan Type

Term loan to enable FHF finance the construction of social housing units for people on low income.

8.0 Tenor

Three (3) years from date of disbursement.

9.0 Interest Rate

Interest rate under the intervention shall be at not more than 5.0% p.a. (all inclusive).

10.0 Transaction Dynamics for the Facility

10.1 Approval Stage

Formal written application by FHF to the CBN Governor to be accompanied with copies of the Federal Executive Council (FEC) approval, Guarantee document from the Federal Ministry of Finance, Comprehensive project plan.

10.2 Implementation Stage

i) FHF shall open a dedicated Project Account with a bank of its choice.

ii) FHF submits funding request to the Technical Advisor in batches tied to specific projects as defined in s6.0.

iii) Each batch must be in the same location and accompanied with:

a) Written request for the release of funds
b) Evidence of land availability from State Government, FCT, Government Agencies or Co-operatives
c) Site Plan
d) Building approval from the relevant authority
e) Project delivery timeline
f) Repayment Plan
g) Other documents as may be required by CBN or TA.

The TA will receive and appraise the proposal and recommend to CBN.

Upon approval, the CBN shall release the approved sum to the dedicated account of the FHF.

11.0 Construction

Work should begin at the site within 2 weeks of receipt of funds from CBN.

FHF shall implement the housing projects subject to:

a) use labour intensive system to maximum the use of labour from the project catchment area;
b) exclusively use local materials (unless where it is not available).
c) Allow the TA or any other CBN representative(s) access to the project site and information as deemed necessary for monitoring.

12.0 Loan Repayment

The facility related to any batch should be repaid in not more than 3 instalments within the tenor of the Facility.

13.0 Collateral Requirements

Guarantee of the Federal Ministry of Finance.

14.0 Verification/Monitoring of Projects

Periodic monitoring of projects financed under the initiative shall be conducted by the TA and CBN.

15.0 Management of the Facility

The Development Finance Department of the Central Bank of Nigeria shall be responsible for the management of the intervention facility.

16.0 Responsibilities of Stakeholders:

For the effective implementation of the intervention facility, the responsibilities of the stakeholders shall include:

16.1 Central Bank of Nigeria

The Central Bank of Nigeria shall:

i. Provide the funding for the initiative;
ii. Appoint Technical Advisor with requisite skills in Housing Construction and Financing
iii. Release funds to the FHF on the recommendation of the TA;
iv. Carry out periodic verification and monitoring of projects financed;
v. Review the framework as may be necessary from time to time

16.2 Family Homes Funds (FHF)

FHF shall:

i. Ensure prudent utilisation of facility for the purpose for which it was granted;
ii. Adhere strictly to the terms and conditions of the Facility;
iii. Keep up-to-date records of developments on each project site;
iv. Allow access to the project and records by the CBN and TA;

v. Repay the facility in accordance with the approved repayment schedule; and

vi. Comply with the provisions of the Loan Agreement and the Framework.

16.3 Federal Ministry of Finance

The Federal Ministry of finance shall:

i) Issue guarantee to the FHF in respect of the facilities granted under the initiative

ii) Partner the CBN and the TA in monitoring the project till full repayment;

iii) Comply with the provisions of the Framework

17.0 Force Majeure

As stipulated in the Agreement

18.0 Amendments

The Framework shall be subject to review from time to time as may be deemed necessary by the CBN.

19.0 Enquiries and Returns

All enquiries and returns should be addressed to:

The Director,
Development Finance Department,
Central Bank of Nigeria, Corporate Headquarters
Central Business District, Abuja.

September 2020

CENTRAL BANK OF NIGERIA

FRAMEWORK FOR IMPLEMENTATION OF THE SOLAR CONNECTION FACILITY

September 2020

CENTRAL BANK OF NIGERIA

FRAMEWORK FOR IMPLEMENTATION OF THE SOLAR CONNECTION FACILITY

1.0 Introduction

The pathways to energy access, financial inclusion and poverty reduction are closely linked and requires rapid scale of pay-as-you-go (PAYG) off-grid technologies that will create a $2 billion (~₦7.5 trillion) annual market opportunity as penetration today is less than 5% of total market potential. To support the economic recovery in response to the COVID-19 pandemic, the Federal Government of Nigeria (FGN) has launched an initiative as part of the Economic Sustainability Plan (ESP) to achieve the roll out of 5 million new solar-based connections in communities that are not grid connected. This program is expected to generate an additional N7 billion increase in tax revenues per annum and $10 million in annual import substitution.

The solar connection Scheme is a Federal government initiative whose objectives are to expanding energy access to 25 million individuals (5 million new connections) through the provision of solar home systems (SHS) or connection to a mini grid; increasing local content in the off-grid solar value chain and facilitating the growth of the local manufacturing industry; and incentivizing the creation of 250,000 new jobs in the energy sector.

The Central Bank hereby introduce the Solar Connection Intervention Facility to complement the Federal government's effort of providing affordable electricity to rural dwellers through the provision of long term low interest credit facilities to the Nigeria Electrification Project (NEP) pre-qualified home solar value chain players that include manufacturers and assemblers of solar components and off-grid energy retailers in the country.

The guidelines is sub-divided into 2 sections as follows:

SECTION A: **UPSTREAM PARTICIPANTS**

2.0 Definition:

An **Upstream Participant** is hereby defined as any company or body corporate engaged in the:

i) Manufacturing of solar components and Balance of System
ii) Establishment/expansion/upgrade of solar manufacturing facilities
iii) Assembly of solar components and Balance of System
iv) Repair and maintenance of solar home systems and mini grid equipment
v) Solar component Research and Development (R&D)
vi) Any other off-grid solar value chain activity as may be prescribed by CBN

2.1 Prohibited Activities

The facility shall not be used to finance the importation of fully assembled solar components and Balance of System.

2.2 Eligible Criteria

The eligible obligors should demonstrate verifiable evidences of:

i) Technical capacity: Eligible manufacturers must demonstrate a track record of experience in manufacturing of key off-grid components up to the quality standards instituted by the Rural Electrification Agency (REA) and/or Standards Organizations of Nigeria (SON)
ii) Financial capacity: Eligible manufacturers must demonstrate financial capacity to repay the loan through a sufficient debt service current ratio (DSCR).
iii) Off-take agreement: Eligible manufacturers must provide evidence of an irrevocable off-take agreement with one or more Nigeria Electrification Project (NEP) prequalified companies
iv) Local content: Eligible component manufacturers are Nigerian-owned entities or consortiums involving a minimum of 70% local ownership
v) Job creation focus: In line with the program's job creation objectives, eligible manufacturers must demonstrate commitment to employing local talent with a detailed vocational and technical training plan

vi) Vertically integrated participants: Downstream participants (SHS distributors and mini gird developers) planning to manufacture or assemble their own products will need to comply with the criteria above, including terms of technical capacity by demonstrating ability to comply with the REA and SON quality standards

2.3 Participating Financial Institutions (PFIs)

Financial institutions licensed by the CBN to provide banking services in Nigeria.

3.0 Modalities/Types of Facilities

3.1 Term Loan

3.1.1 Amount

Funding shall not exceed 70 percent of the total cost of the project

3.1.2 Tenor

The facilities granted shall have a maximum tenor of up to 10 years as determined by the project's cash flow profile but not exceeding 31st December 2030.

3.1.3 Moratorium

i) The moratorium on principal shall depend on the type and nature of the project but shall not exceed 2 years or the construction/ completion period, whichever is shorter.

ii) Additional moratorium of up to 12 months may be added to the moratorium period (as above) in order to address the risk of completion delays (request to be supported with evidences).

iii) Protracted completion delays could be addressed through other mechanisms such as adequate sponsor support and contingencies to be determined on a project specific basis.

3.2 Working Capital

Working capital facility shall be for one year with provision for roll-over not more than twice (i.e maximum tenor of 3 years)

3.3 Interest Rate

The facility shall be administered at an “all-in” interest rate of NOT more than 9 per cent per annum.

However, as part of the Bank’s Covid-19 relief package, the interest rate to be charged up to 28th February, 2021 shall not exceed 5 per cent per annum.

Interest shall be payable by the loan beneficiaries in accordance with the approved repayment schedule outlined in the Transaction Documents

The “all-in” interest rate of 9% to be shared as follows:

a) Participating Financial Institution 6%
b) Sponsor (CBN) 3%

PFIs are to remit the interest due to the CBN on quarterly basis not later than 10 days after the end of the quarter.

4.0 Application Procedure

i) An eligible company that meets the Nigeria Electrification Project (NEP) requirement should submit its request to the Participating Financial Institution (PFI).
ii) The PFI should conduct due diligence and obtain internal approval for the facility.
iii) The PFI submits request for approval and release of funds to CBN.

4.1 Documents Required

Required documentation for the obligor to access funding includes:

i) Written request from the project promoter
ii) Certificate of Incorporation
iii) Copy of MEMART
iv) Copy of Form CAC 2A (Return of allotment of shares);
v) Business plan including:
   - Completed Environmental and Social Management System (ESMS) template

- Organizational chart
- Health and safety guidelines
- 3-year financial projections
- Detailed vocational and technical training plan
- Bill of Materials

vi) Off-taker agreements with prequalified NEP companies;

vii) Three (3) years audited financial statements for existing companies or a 6-months Management Account for new companies;

SECTION B: **DOWNSTREAM PARTICIPANTS**

5.0 Definition

A Downstream Participant is any company or body corporate involved in:

i) Distribution and after-sales support of solar home systems (SHS)

ii) Mini grid project development activities including site identification and assessment, design and planning and customer acquisition

iii) Engineering, procurement and/or construction of Mini grids

iv) Any other retail-based off-grid solar value chain activity as may be prescribed by CBN

5.1 Prohibited Activities

Activities that shall not be financed by this Facility include:

i) Sales or deployment of fully (100%) imported solar home systems components with no proof of existing local content or credible plan for near-term integration of local content

ii) Deployment of mini grid projects with 100% imported components solar PV and Balance of System with no proof of existing local content or credible plan for near-term integration of local content

5.2 Eligibility Criteria

i) NEP prequalification: Companies would be required to pre-qualify under the World Bank Nigeria Electrification Program and have satisfied the minimum technical and financial requirements under the program

ii) Local content: Eligible off-grid companies are Nigerian-owned entities or consortiums involving a minimum of 70% local ownership

iii) Job creation focus: In line with the program's job creation objectives, eligible companies must demonstrate commitment to employing local talent with a detailed vocational and technical training plan

6.0 Modalities/Types of Facilities

6.1 Term Loan (for civil works, project expansion, equipment purchase, etc)

6.1.1 Mini grid Developers

a) **Amount:** Maximum of 70 per cent of project cost

b) **Tenor:** Up to 7 years (depending on the nature and cash flow stream)

c) **Moratorium: up to 2** years depending on the nature of the project.

6.1.2 Working Capital

a) Amount: To be determined as a percentage of the average of 3 year adjusted projected cash flows subject to the maximum of limit of N500 million.

b) Tenor: 12 months subject to roll-over not more than twice (i. e. maximum tenor of 3 years) (depending on the nature and cash flow stream)

c) Interest Rate: 10%

6.2 Home Solar System Retailers and Distributors

6.2.1 Distribution/Retail Facility

a) **Amount:** To be determined as a percentage of the average of 3 year adjusted projected cash flows subject to the maximum of limit of N500 million.

b) **Tenor:** Up to 5 years depending on the cash flow stream

c) **Interest Rate:** 10%

d) **Moratorium:** 6 months

7.0 Application Procedure

7.1 Mini grid developers

Pre – Requirements - the qualification procedure for Mini grid developers shall follow the 8-step process at REA:

i) NEP prequalification conducted by the Rural Electrification Agency
ii) Application received from developer
iii) Administrative screening of application
iv) Evaluation of application (Company and Sites)
v) Background checks
vi) Verification of site-specific components e.g. proof of NERC registration, land acquisition, etc.
vii) Approval by NEP Investment Committee
viii) Obtain World Bank "No Objection"
ix) Site specific evaluation and approval

7.5. Documents Required

Required documentation for the obligors to access funding include:

a) Three (3) years Actual Cash Flows (minimum of one full year CF for new companies could be accepted).
b) Five - year Projected Cash Flow
c) List of Revenue Accounts with DMBs
d) List of 3rd Party Revenue Collecting Agents
e) Certificate of Incorporation
f) Copy of MEMART
g) Form CAC 2A (Return of allotment of Shares)

i) Business plan including:
- Completed Environmental and Social Management System (ESMS) template
- Organizational chart

- Health and safety guidelines
- 3-year financial projections
- Localisation plan
- Historical sales (for SHS)

7.6 Other Requirements

Mini grid developers would be required to provide evidence of the following:

i) Finalized business/financial model
ii) Lease agreement or Land rights approval showing ownership or control of land.
iii) Completed ESIA for category 1 sites with environmental concerns, while an ESMP suffices for category 2 sites
iv) Water rights secured
v) Permits or registration secured or evidence of receipt of payment submitted to NERC
vi) Tariffs approval
vii) Rules for community engagement
viii) Tender for equipment supply
ix) Community engagement and signed exclusivity agreement to power community

8.0 Funding for SHS Retailers & Distributors Under the Proposed CBN - Electricity Market Stabilization Model

8.1 Eligibility: Mini grid Developers and Home Solar Distributors and Retailers as defined above

8.2 Conditions

The company must

i) sign written Agreements with CBN and other stakeholders to participate in the scheme
ii) disclose all revenue accounts with banks and other financial institutions to CBN
iii) disclose all 3rd party revenue collection agents to CBN
iv) appoint a DMB to act as its Principal Collection Account bank

v) Make arrangements to ensure that all revenues collected in a month are swept to a single account with the Principal Collection Bank.
vi) Allow the Administrator appointed by the CBN to monitor all the revenue accounts
vii) Allow CBN to have first line charge on its revenue accounts
viii) Allow CBN to restrict withdrawals from all revenue accounts for certain number of days till loan repayment to CBN is effected.

8.3 Other Conditions

i) Only CBN licensed entities are to be appointed as revenue collection agents.
ii) Loanable amount to any company would be determined as a factor of its Actual and Adjusted Projected Cash Flows.
iii) The gross monthly repayment to CBN (i. e. the sum of Principal and Interest payments) shall not exceed 20% of the company's monthly revenue.

9.0 Collateral Requirement

Directors' guarantee to contribute the amounts payable to CBN in case of significant reduction in monthly revenues.

SECTION C – GENERAL (DOWN & UPSTEREAM)

10.0 Verification/Monitoring of Projects

Periodic joint monitoring and evaluation (M&E) of financed projects shall be conducted by CBN in conjunction with REA and the respective PFIs.

11.0 Responsibilities of Stakeholders:

11.1 Rural Electrification Agency (REA)

i) Obtain necessary approvals for the initiative
ii) Provide appropriate institutional arrangements for seamless implementation of the Scheme
iii) Set standards for off-taker agreements
iv) Identify/ confirm the companies prequalified under the NEP

v) Ensure that borrowers are properly educated about the Solar Connection Intervention Facility and its implications
vi) Provide capacity building and technical support to stakeholders
vii) Participate in joint monitoring of the funded projects

11.2 Central Bank of Nigeria (CBN)

The Central Bank of Nigeria shall:

i) Articulate clear guidelines for the implementation of the Facility
ii) Provide funds for the Intervention
iii) Appoint an Administrator to manage the Downstream Window of the Facility
iv) Monitor and evaluate implementation of the Scheme
v) Review the Guidelines of the Facility as may be necessary

11.3 Participating Financial Institutions

The Participating Financial Institutions shall:

i) Receive and process requests for funding under the scheme.
ii) Exercise due diligence and care in appraising requests under the scheme
iii) Bear the credit risk
iv) Retain copies of physical or digital version of the mandate executed by the Borrower.
v) Disburse funds released from CBN to the approved beneficiaries as provided in the operational guidelines
vi) Monitor the funded projects and render periodic reports to the CBN.

11.4 Borrowers

The borrowers shall:

i) Utilize the facility for the purpose for which it was granted
ii) Adhere strictly to the terms and conditions of the facility and Transaction Documents
iii) Insure the project being financed
iv) Make the project and records available for inspection/verification by the CBN and the relevant PFI

12.0 Sanctions arising from Infractions

i) Diversion of funds by the PFIs shall attract a penalty at the bank's maximum lending rate at the time of infraction.

ii) Non-rendition of returns or the rendition of false returns shall attract the penalty stipulated by BOFIA section 60

iii) In the event of default in loan repayment (principal and interest), the PFIs shall have the right to charge commercial interest rate on the amount of default

iv) Unauthorized withdrawals from revenue collection account – the DMB to refund the money within 48 hours of discovery

v) Banks that flout the Terms & Conditions of the facility to be sanctioned in line with provisions of the BOFIA s60.

13.0 Discontinuation of Credit Facility

Whenever a loan is repaid or the facility is otherwise discontinued, the PFIs shall advise the CBN immediately, giving particulars of the credit facility.

14.0 Amendment

This Guidelines is subject to review from time to time as may be deemed necessary by the Central Bank of Nigeria.

For Enquiries

Director,
Development Finance Department
Central Bank of Nigeria
Abuja

Tel 09 462 38644

September 2020

CENTRAL BANK OF NIGERIA

FRAMEWORK FOR THE IMPLEMENTATION OF INTERVENTION FACILITY FOR THE NATIONAL GAS EXPANSION PROGRAMME

August 2020

CENTRAL BANK OF NIGERIA

FRAMEWORK FOR THE IMPLEMENTATION OF INTERVENTION FACILITY FOR THE NATIONAL GAS EXPANSION PROGRAMME

1. Introduction

Nigeria is richly endowed with both energy resources, such as coal, tar sand, crude oil, petroleum and other derivatives of crude oil, natural gas, and various gas liquids and condensates. With proven gas reserves of 188 trillion cubic feet (tcf) of gas, the natural gas industry presents an opportunity to diversify the economy through domestic commercial utilisation of its natural gas. Historical non-viability of domestic commercial production and utilisation of gas continues to severely constrain private investments in the industry. Consequently, the low level of investment in the industry has resulted in the minimal production and utilization of Compressed Natural Gas (CNG) and Liquefied Petroleum Gas (LPG) as clean alternative sources of domestic energy in Nigeria. Failure to harness its gas resources has had negative consequences for the country – economic, environmental, fiscal and social, particularly as the industry has the potential to engender rapid growth in Nigeria's non-oil economy.

To this end, the National Gas Expansion Programme (NGEP) was introduced to make CNG the fuel of choice for transportation and LPG, the

fuel of choice for domestic cooking, captive power and small industrial complexes. Equally, gas-based industries, most especially the petrochemical (fertilizer, methanol, etc) are to be enabled to support large industries, such as agriculture, industrial applications, textile and so on.

Therefore, as part of its efforts at stimulating finance to critical sectors of the economy, the Central Bank of Nigeria (CBN) introduces the ₦250 billion intervention facility to help stimulate investment in the gas value chain. Large-scale projects under the intervention will be financed under the Power and Airlines Intervention Fund (PAIF), in line with existing guidelines regulating the PAIF, while small-scale operators and retail distributors will be financed by the NIRSAL Microfinance Bank (NMFB) and / or any other Participating Financial Institution (PFI) under the Agribusiness/Small and Medium and Medium Enterprises Investment Scheme (AgSMEIS).

The initiative is to be implemented in collaboration with the Ministry of Petroleum Resources (MPR).

This framework outlines the operational modalities for the intervention.

2. Objectives

The objectives of the Facility include:

i. Improved access to finance for private sector investments in the domestic gas value chain;
ii. Stimulate investments in the development of infrastructure to optimize the domestic gas resources for economic development;

iii. Fast-track the adoption of CNG as the fuel of choice for transportation and power generation, as well as LPG as the fuel of choice for domestic cooking, transportation and captive power;
iv. Fact-track the development of gas-based industries particularly petrochemical (fertilizer, methanol, etc) to support large industries, such as agriculture, textile, and related industries;
v. Provide leverage for additional private sector investments in the domestic gas market;
vi. Boost employment across the country.

3. Eligible Activities

Eligible activities under the intervention shall include:

i. Establishment of gas processing plants and small-scale petrochemical plants;
ii. Establishment of gas cylinder manufacturing plants;
iii. Establishment of L-CNG regasification modular systems;
iv. Establishment of auto gas conversion kits or components manufacturing plants
v. Establishment of CNG primary and secondary compression stations;
vi. Establishment and manufacturing of LPG retail skid tanks and refilling equipment;
vii. Development/enhancement of auto gas transportation systems, conversion and distribution infrastructure,
viii. Enhancement of domestic cylinder production and distribution by cylinder manufacturing plants and LPG wholesale outlets;

ix. Establishment/expansion of micro distribution outlets and service centres for LPG sales, domestic cylinder injection and exchange; and

x. Any other mid to downstream gas value chain related activity recommended by the Ministry of Petroleum Resources (MPR).

4. Funding

4.1 Aggregators, manufacturers, processors, wholesale distributors and related activities shall be funded under the Power and Airline Intervention Fund (PAIF).

4.2 Small and medium-scale enterprises (SMEs) and retail distributors shall be funded by NIRSAL Microfinance Bank (NMFB) under AgSMEIS.

5. Loan Type and Limit

5.1 Manufacturers, Processors, Wholesale Distributors, etc

i. **Term loan**: Shall be determined based on the activity and shall not exceed ₦10 billion per obligor.

ii. **Working capital**: Maximum of ₦500 million per obligor

5.1 Small & Medium Enterprises (SMEs) and Retail Distributors

i. **Term loan**: Shall be determined based on the activity and shall not exceed ₦50 million per obligor.

ii. **Working capital**: Maximum of ₦5 million per obligor.

6. Interest Rate

Interest rate under the intervention shall be at not more than 5.0% p.a. (all inclusive) up to 28th February 2021, thereafter, interest on the facility shall revert to 9% p.a. (all inclusive) effective from 1st March 2021.

7. Loan Tenor and Moratorium

7.1 Manufacturers, Processors, Wholesale Distributors, etc.

i. Term loans shall have a maximum tenor of 10 years *(not exceeding 31st December 2030)* depending on the complexity of the project. Each project tenor shall be determined in relation to its cash flow and life of the underlying collateral.
ii. Term loans shall be allowed maximum of two years moratorium on principal repayment only.
iii. Working capital facility of one (1) year with a maximum roll over of not more than twice, subject to prior approval.

7.2 Small & Medium Enterprises (SMEs) and Retail Distributors

i. Term loans shall have a maximum tenor of 5 years *(not exceeding 31st December, 2030)*. Each project tenor shall be determined in relation to its cash flow and life of the underlying collateral.
ii. Term loans shall be allowed a maximum of two years moratorium on principal repayment only.
iii. Working capital facility of one (1) year with a maximum roll over of not more than twice and subject to prior approval.

8. Repayment

8.1 **Deposit Money Banks**: Monthly interests on the facility shall be amortised and transferred to CBN monthly.

8.2 **NMFB**: Monthly interests on the facility shall be paid monthly after the moratorium period.

9. Participating Banks (PBs)

All Deposit Money Banks and the NMFB will be eligible as PBs under this Facility.

10. Transaction Dynamics for the Facility

10.1 Manufacturers, Processors, Wholesale Distributors, etc

i. Eligible applicant or sponsor shall submit applications through any Participating Banks (PBs) to the CBN;

ii. The PB shall carry out due diligence on the application based on business and credit considerations;

iii. Each request must be accompanied with documents as may be required by the PB under PAIF, including relevant endorsements and permits from the Ministry of Petroleum Resources (MPR) for the project;

iv. Upon approval by appropriate Credit Committee, the PB shall forward approved application under the intervention to the CBN;

v. The Central Bank of Nigeria shall conduct internal review of the application to ensure compliance with the guidelines. All applications

that meet the specified requirements under the intervention shall be processed and the PB notified of the status of the request.

*(**Note:** The CBN reserves the right to reject any application from any lending bank that does not meet the requirements of this Guidelines);*

vi. Upon approval, the CBN shall release the approved sum to the PB according to mutually agreed disbursement schedule tied to specific milestones; and

vii. The PB shall, within 5 working days, disburse the approved sum to the enterprise.

10.2 SMEs and Retail Distributors

i. Eligible SMEs shall approach NMFB with bankable proposals.

ii. The NMFB shall carry out due diligence on applications based on business and credit considerations.

iii. Applications that meet disbursement criteria shall be forwarded to CBN for review and release of funds to NMFB;

iv. The Central Bank of Nigeria shall conduct internal review of applications to ensure that laid down criteria are met. All applications that meet the specified requirements under the interventions shall be processed and the NMFB notified of the status of the request.

*(**Note:** The CBN reserves the right to reject any application from any lending bank that does not meet the requirements of this Guidelines);* and

v. Upon approval, the CBN shall release the approved sum to NMFB for disbursement to the obligor according to the disbursement schedule not later than 5 working days after receipt of funds from the CBN

11. Collateral Requirements

11.1 The collateral acceptable for projects to be financed under the intervention shall be as may be acceptable by the PB under PAIF.

11.2 The collateral acceptable for SMEs will be as determined by the NMFB.

12. Verification/Monitoring of Projects

Periodic monitoring of projects financed under the Scheme shall be conducted jointly by the PB, MPR and CBN.

13. Management of the Facility

The Development Finance Department of the Central Bank of Nigeria shall be responsible for the management of the intervention facility.

14. Responsibilities of Stakeholders:

For the effective implementation of the intervention facility, the responsibilities of the stakeholders shall include:

14.1 Central Bank of Nigeria

The Central Bank of Nigeria shall:

i. Provide the funding for the intervention facility;
ii. Release funds to the DMBs and NMFB for disbursement to approved financing requests;
iii. Carry out periodic verification and monitoring of projects financed;
iv. Provide periodic reports to the CBN Management on the performance of the intervention;

v. Ensure compliance with the provisions of the Guidelines; and
vi. Review the Guidelines as may be necessary from time to time.

14.2 Participating Banks (PBs)

The PBs shall:

i. Appraise and approve requests under the Facility based on normal business consideration and due diligence;
ii. Forward such approved requests to CBN for verification and final approval;
iii. Monitor financed projects and render periodic returns as may be specified by the CBN from time to time;
iv. Ensure repayments of facilities by obligors; and
v. Comply with the Guidelines of the Facility.

14.3 Ministry of Petroleum Resources (MPR)

The Ministry of Petroleum Resources shall:

i. Receive and endorse project proposals for financing under the intervention;
ii. Ensure first class independent diligence is undertaken to ascertain the economic impact and commercial viability of proposed projects;
iii. Partner the CBN and Participating Bank in monitoring the project till full repayment;
iv. Comply with the provisions of the Guidelines.

14.4 Beneficiaries

Beneficiaries shall:

i. Adhere strictly to the terms and conditions of the Facility;

ii. Ensure prudent utilisation of facility for the purpose for which it was granted;
iii. Keep up-to-date records of the enterprise's activities under the intervention;
iv. Allow access to the project and records by the CBN and PB;
v. Repay the facility in accordance with the approved repayment schedule; and
vi. Comply with the provisions of the Guidelines.

15. Discontinuation of a Credit Facility

Whenever a loan is repaid or the Facility is otherwise discontinued, the PB shall return the fund to the CBN within 3 working days, providing details of the credit facility.

16. Infractions

Sanctions on infractions shall be applicable as determined by the CBN.

17. Amendments

The Guidelines shall be subject to review from time to time as may be deemed necessary by the CBN.

18. Enquiries and Returns

All enquiries and returns should be addressed to:

The Director,
Development Finance Department,
Central Bank of Nigeria, Corporate Headquarters
Central Business District, Abuja.

August 2020

CENTRAL BANK OF NIGERIA

HEALTHCARE RESEARCH AND DEVELOPMENT GRANT GUIDELINES

May 2020

CENTRAL BANK OF NIGERIA

HEALTHCARE RESEARCH AND DEVELOPMENT GRANT GUIDELINES

1. Introduction

The Central Bank of Nigeria (CBN), as part of its policy response to the COVID-19 pandemic, introduces the Healthcare Sector Research and Development Intervention Scheme (HSRDIS) to help strengthen the public healthcare system with innovative financing of research and development (R&D) in new and improved drugs, vaccines and diagnostics of infectious diseases in Nigeria. Specifically, the HSRDIS is designed to trigger intense national R&D activities to develop a Nigerian vaccine, drugs and herbal medicines against the spread of COVID-19 and any other communicable or non-communicable diseases through the provision of grants to biotechnological and pharmaceutical companies, institutions, researchers, and research institutes for the research and development of drugs, herbal medicines and vaccines for the control, prevention and treatment of infectious diseases. The Scheme is intended to boost domestic manufacturing of critical drugs and vaccines to ensure their sustainable domestic supply and reduce the bulk manufacturing costs of the drugs, herbal medicines and vaccines in Nigeria.

The Framework outlines the operational modalities for the Scheme.

2. Objectives of the Scheme

The broad objectives of Scheme include:

2.1 Providing grants for R&D in new or revalidation of drug molecule, phytomedicines and vaccines for the control, prevention and treatment of infectious diseases in Nigeria;

2.2 Boosting domestic manufacturing of validated drugs (Active Pharmaceutical Ingredients or APIs), herbal medicines and vaccines for the control, prevention and treatment of infectious diseases in Nigeria and

reduce the nation's dependence on other countries for these drugs and vaccines;

2.3 Improving the capacity of the biotechnological and pharmaceutical companies, institutions, researchers, and research institutes in the development of approved Nigerian drugs, herbal medicines and vaccines for infectious diseases;

2.4 Supporting capacity of relevant health agencies towards attaining WHO Maturity Level 3, a prerequisite for manufacturing of vaccines in Nigeria;

2.5 Facilitating partnership between academia (researchers, research institutes and universities) and industry into the research and development of drugs, phytomedicines and vaccines for the control, prevention and treatment of infectious diseases in Nigeria; and

2.6 Reduce dependence on imported drug products (synthetic and herbal) and vaccines for the control, prevention and treatment of infectious diseases in Nigeria.

3. Eligible Research and Development Activities

Activities eligible for consideration under the Scheme shall include:

i. Research and development of candidate drugs, herbal medicines and vaccines validated by relevant health authorities for the control, prevention and treatment of infectious diseases;

ii. Manufacturing of drugs, herbal medicines and vaccines validated by relevant health authorities for the control, prevention and treatment of infectious diseases;

iii. Red biotechnological R&D in new health technology for the control, prevention and treatment of infectious diseases;

iv. Research partnership between academia and industry into the development drugs and vaccines for the control, prevention and treatment of infectious diseases;

v. Research and development into validated phytomedicines for the control, prevention and treatment of infectious diseases; and

NOTE: Candidate vaccines undergoing pre-clinical testing or trials shall not be eligible for consideration under this Scheme. However, candidate vaccines

undergoing clinical testing or trials shall be eligible for consideration under the Scheme if considered to have high potential to cross the clinical trial stage and prospects of scale by the Body of Experts (BoE).

In applying for the grant, the applicant shall be required to have conducted pre-clinical testing of the candidate drugs, herbal medicines and vaccines, and obtained certification from relevant health authorities for further research and development.

Special consideration shall be given to candidate drugs, herbal medicines and vaccines with high scientific merit against emerging infections and contribute to the development of the Nigerian vaccine.

For this purpose, a BoE shall be constituted from the academia and industry to review validated research proposal submitted and recommend for financing, as appropriate. The BoE shall meet regularly to appraise the research and development project and submit progress reports to the CBN.

4. Funding

The Scheme shall be funded from the Developmental Component of the Micro, Small and Medium Enterprise Development Fund (MSMEDF).

5. Grant Limit

i. **Research activities**: Maximum of ₦50.0 million.
ii. **Development/Manufacturing activities**: Maximum of ₦500.0 million.

NOTE: Disbursement under the Scheme shall be made to beneficiaries in tranches subject to approved milestones achieved.

6. Research and Development Timeframe

i. **Research activities**: Not more than two (2) years from the date of release of fund.
ii. **Development/Manufacturing activities**: Not more than one (1) year from the date of release of fund.

7. Body of Experts

The Body of Experts (BoE) shall be responsible for the review and evaluation of submitted research proposals, as well as recommend for financing R&D projects with high potential to contribute to the development of the Nigerian vaccines for infectious diseases. The composition of the BoE shall be as detailed below:

i. Two (2) independent research specialists appointed by the CBN;
ii. One (1) nominee from National Agency for Food and Drug Administration and Control (NAFDAC);
iii. One (1) nominee from Nigeria Institute for Pharmaceutical Research and Development (NIPRD);
iv. One (1) nominee from Nigeria Centre for Disease Control (NCDC)
v. One (1) nominee from Nigeria Institute of Medical Research (NIMR) and;
vi. One (1) nominee from the Federal Ministry of Health

NOTE: The Chair of the BoE shall be appointed by the CBN.

8. Modalities

i. The applicant(s) shall submit its application, with relevant documentation of validation from relevant health authorities, trial results, patent registration details (if any) and development timetable to the Body of Experts (BoE).
ii. The BoE shall evaluate applications and recommend to the CBN
iii. The CBN shall review for documentation adequacy and completeness;
iv. Upon approval, the approved grant sum shall be released to the applicant's account with any PFI of his/her choice.
v. The beneficiary shall submit periodic progress report on the project to the CBN.

NOTE: The CBN shall have proprietary right over all financed R&D outcomes or products. Equally, licensing protocol for the mass manufacturing of developed drugs, phytomedicines and vaccines shall be defined by the BoE in accordance with the World Health Organisation's current Good Manufacturing Practices (cGMP).

9. Monitoring

Periodic joint monitoring of research and development activities shall be conducted by the BoE.

10. Amendments

The Framework shall be subject to review from time to time as may be deemed necessary by the CBN.

11. Enquiries and Returns

All enquiries and returns should be addressed to:

Director,
Development Finance Department,
Central Bank of Nigeria,
Abuja.

May 2020

PART F

FINANCIAL MARKETS CIRCULARS, POLICIES AND GUIDELINES

OUR REF: FMD/DIR/PUB/GUI/01/001 **DATE: APRIL 12, 2021**

TO ALL DEPOSIT MONEY BANKS

GUIDELINES FOR THE CONDUCT OF REPURCHASE TRANSACTIONS UNDER CBN STANDING FACILITIES

I. Introduction

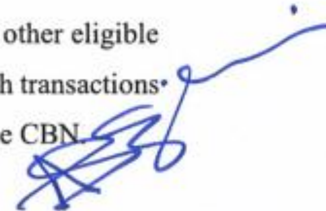
1. The Central Bank of Nigeria (CBN) offers to enter into repurchase transactions (repos) under its Standing Lending Facility (SLF) and Term Repurchase Facility (TRF). The objective of these facilities is to provide naira liquidity to eligible institutions that are unable to access funds at the inter-bank market. The rates on the facilities are set at margins above expected market rates, so as to provide sufficient incentives for banks to explore the interbank market, before seeking recourse to the CBN for funds.

2. These guidelines contain the terms and conditions for the operation of the SLF and the TRF and should be read in conjunction with the Nigerian Master Repurchase Agreement (NMRA). All references are made to sections in the NMRA.

3. The NMRA is the legal document that governs all repos between the two parties that have signed it. The legal nature of a repo involves an agreement to sell securities at an agreed price, and to buy them back at a set future date at an agreed price. Important aspects of the NMRA are contained in these guidelines and counterparties must ensure they are fully conversant with all aspects of the NMRA.

II. Eligibility

4. The SLF and TRF are available only to Deposit Money Banks (DMBs) and other eligible financial institutions **that have executed the NMRA with the CBN**. All such transactions will be conducted under the NMRA, signed between the counterparty and the CBN.



III. Facility Structure

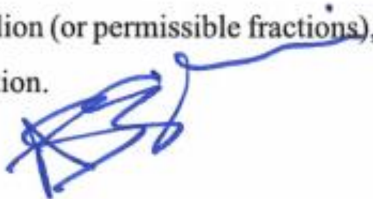
5. The SLF is to provide naira liquidity to eligible institutions that are unable to access funds in the inter-bank market. Its tenor spans from one business day to the next, at a time as set by the CBN. The facility is available on all business days, between the hours of 5.00 p.m. and 6:30 p.m., (or such hours as stipulated by CBN from time to time). Settlement is for the same day value and the rate is set at the Monetary Policy Rate (MPR), plus its upper corridor, as set by the Monetary Policy Committee (MPC) of the CBN and published on the CBN website (www.cbn.gov.ng). This is the applicable 'Pricing Rate' pursuant to *Section 2 of the NMRA*.

6. The TRF is a term facility. It is available on all business days between the hours of 9 a.m. and 6:30 p.m (or such hours as stipulated by the CBN from time to time). Term Repos can be transacted with the CBN for periods that range from 4 - 90 days (i.e. 4 - 30 days, 31 - 60 days and 61 - 90 days). Settlement is for same day value, at rates anchored to the prevailing MPR as set by the MPC and published on the CBN website (www.cbn.gov.ng). This is the applicable 'Pricing Rate' pursuant to *Section 2 of the NMRA*.

IV. Transaction Amount

7. Transactions under the SLF shall be conducted in amounts of a minimum of ₦100 million and multiples of ₦1 million (or permissible fractions), based on the market value of securities placed for the transaction.

8. Transactions under TRF shall be conducted in amounts of a minimum of ₦100 million and in multiples of ₦1 million (or permissible fractions), based on the market value of securities placed for the transaction.



V. Other Terms and Conditions of CBN Repo Transactions

Purchase and Repurchase Prices

9. The Purchase Price is the price at which the Purchased Securities are to be transferred from Seller (borrower) to Buyer (lender) on the Purchase Date. The price will be calculated using appropriate market yields and applicable margin ratio.

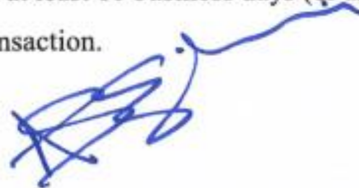
10. The Repurchase Price is the price at which the Purchased Securities are to be transferred from Buyer to Seller on the Repurchase Date. It is calculated using a money market formula with the applicable rate, which is either the rate applied to the SLF (in the case of an SLF transaction) or the relevant Term Repo Rate (in the case of a TRF transaction). In the terminology of the NMRA, the applicable interest rate is defined as the Pricing Rate.

11. Repurchase Price = Purchase Price + (Purchase Price x Pricing Rate x Days/365[1])

Purchased Securities

12. Purchased Securities are the securities that the Seller (borrower) must deliver to the Buyer (lender) on the Purchase Date. The CBN (Buyer) will accept the following eligible securities for the facilities covered in these guidelines:
    - Nigerian Treasury Bills (NTBs)
    - Federal Government of Nigeria Bonds (FGN Bonds)
    - CBN Bills
    - Any other security that may be approved from time to time

13. The maturity date of the securities must be at least 10 business days (or as specified by the Bank) after the Repurchase Date of the transaction.



Margin Maintenance

14. Pursuant to section 4 of the NMRA, Margin Transfer may be requested by the CBN or a counterparty.

    a) The CBN may make such a request in circumstances where the Market Value of Purchased Security (MVPS) together with the market value of Margin Transfers (cash and securities transferred when meeting previous Margin Transfers) falls below the threshold approved by the CBN from time to time.

    b) Without prejudice to Section 4(g) of the NMRA, where a margin transfer can be made in either cash (Cash Margin) or in securities (Margin Securities), the CBN requires that all margin transfers are in the form of Margin Securities.

    c) The value of the Margin Transfer must be such that the ratio of "MVPS plus Margin Transfer divided by the aggregate of all Repurchase Prices" restores the Margin Ratio to the ratio applicable at the commencement of the repos (the ratio shall be a weighted-average in circumstances where securities have various term-to-maturity cutting across bands).

    d) When the CBN gives notice of a Margin Transfer, the counterparty must transfer to the CBN, the Margin Securities by 3pm of the following day from the Margin Transfer request.

Margin Ratio

15. The Margin Ratio as defined in *Section 2(y) of the NMRA* is the 'Market value of the Purchased Securities at the time the transaction was entered into divided by the Purchase Price'. The CBN will apply a Margin Ratio to compensate for the risk that the value of securities could fall during the period of the repo transaction. The longer the duration of the securities, the higher the price volatility; and therefore, the higher the risk that the value of the securities could fall during the period of the transaction.

16. The Margin Ratio will be as stipulated by CBN from time to time.

Market Value of Purchased Securities (MVPS)

17. The MVPS will be based on yields as obtained from recognised sources e.g. FMDQ Securities Exchange, etc.

Zero Coupon Bonds

18. In the absence of secondary markets yields for Zero Coupon Bonds, the CBN will use the equivalent modified duration for FGN Bond yields for valuation. A margin may be added if the CBN considers that the Zero-Coupon Bond should trade at a premium yield to FGN bonds.

Treatment of coupon payments

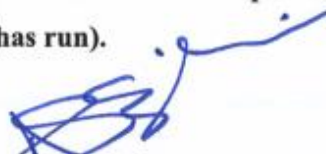
19. Pursuant to *Section 5 of the NMRA*, where a transaction extends over the Income Payment Date (i.e. coupon payment date) the buyer (i.e. CBN) shall credit the seller with premium yield on the same day that it receives the income.

Substitution of securities

20. Substitution of securities is not permissible under these facilities.

Termination of Transaction

21. Repurchase transactions with the Bank are fixed term; hence, termination of a transaction will be effected on the date fixed at the initiation of the transaction *(Section 3d of the NMRA)*.
22. The term of the transaction precludes pre-termination. **Termination before the due date shall attract an additional 10% penal charge on the relevant Term Repo Rate, as agreed, for the effective term (the period the facility has run).**



Penalty for non-repayment on the Repurchase Date

23. Despite the rights of a non-defaulting party in *Section 10 of the NMRA*, where a counterparty under SLF does not repay the Repurchase Price on the next business day, collateral execution is triggered on S4. Thus, securities placed for the transaction revert fully into the CBN position at a rediscounted value.
24. Despite the rights of a non-defaulting party in *Section 10 of the NMRA*, where a counterparty under Term Repo does not repay the Repurchase Price on agreed date, a new repo transaction will have been deemed to have been entered into between the parties. The Repurchase Price becomes the new Purchase Price and the new Pricing Rate is set at the applicable rate on the Standing Lending Facility plus five percentage points (or any percentage point as stipulated by CBN).

    a) The duration of the new repo will be over-night and it would be treated as SLF.

    b) Failure to buy back the new overnight repo on the next business day triggers collateral execution on S4, whereby, securities placed for the transaction revert fully into the CBN position at a rediscounted value.

    c) To calculate the rediscounted value of the collateral to be executed, up-to-date secondary market yield will be obtained from FMDQ Securities Exchange and other recognised sources. The CBN has the right to determine the yield applicable to each security.

Computation of price of each security

i. **Nigerian Treasury Bills and CBN Bills**

Settlement Price = FV – (FV x R x Days / 365)

Where: FV = the face value
R = the applicable discount rate
Days = are the days to maturity

ii. Federal Government of Nigeria Bonds

Settlement Price =

$$FV \left\{ \frac{\frac{1}{(1+i)^n} + r\left[c + \frac{1 - \frac{1}{(1+i)^n}}{i}\right]}{(1+i)^{a/b}} \right\}$$

FV = the face value
r = the annual coupon divided by two hundred (i.e. the semi-annual coupon interest rate (%)
i = the yield divided by two hundred
c = if the settlement date is the coupon payment date 'c' has the value of 0, otherwise it has the value of 1.
n = the number of full half years between the next coupon payment date and the maturity date
a = the number of days from the settlement date to the next coupon payment date
b = the number of days in the half year ending on the next coupon date

VI. Initiation and settlement

25. A counterparty wishing to access funds through these facilities must submit a request on the S4 by moving its security to CBN as appropriate. The cash value is settled after applying necessary yields and margin ratio.

26. On the Repurchase Date, the counterparty's RTGS account at the CBN will be debited with the Repurchase Price and the Purchased Securities will be transferred to the counter party as appropriate.

27. In the event of a leap year, the base days are adjusted to 366 from 365.

Angela Sere-Ejembi, PhD
Director, Financial Markets Department
12th April 2021

CENTRAL BANK OF NIGERIA
Corporate Head Office,
Central Business District,
P.M.B. 0187,
Garki, Abuja – F.C.T.

Website: www.cbn.gov.ng
Email: financialmarkets@cbn.gov.ng
Tel: 09 462 36700, 09 462 36703

FMD/DIR/CON/OGC/12/019

July 10, 2019

CIRCULAR TO ALL BANKS

RE: GUIDELINES ON ACCESSING THE CBN STANDING DEPOSIT FACILITY

With reference to the Circular to all Banks and Discounts Houses, Re: Guidelines on Accessing the CBN Standing Deposit Facility,
Ref: FMD/DIR/GEN/CIR/05/020 and dated November 6, 2014, after further review:

1. The remunerable daily placements by banks at the SDF shall not exceed ₦2billion
2. The SDF deposit of ₦2 billion shall be remunerated at the interest rate prescribed by the Monetary Policy Committee from time to time
3. Any deposit by a bank in excess of ₦2 billion shall not be remunerated.

The provisions of this circular take effect from Thursday, July 11, 2019.

Thank you.

Angela Sere-Ejembi (Ph.D)
Director, Financial Markets Department

PART G

FINANCIAL POLICY AND REGULATION CIRCULARS, POLICIES AND GUIDELINES

CENTRAL BANK OF NIGERIA

Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09 - 46237401
E-mail:fprd@cbn.gov.ng

FPR/DIR/PUB/CIR/001/023

October 25, 2021

CIRCULAR TO ALL STAKEHOLDERS

REGULATORY GUIDELINES ON THE eNAIRA

The Central Bank of Nigeria, under the Central Bank of Nigeria (CBN) Act 2007 and the Banks and Other Financial Institutions Act (BOFIA) 2020, is empowered to issue legal tender currency, ensure financial system stability and promote the development of electronic payments system. The Bank, in furtherance of these mandates, hereby issues the following Guidelines for the operation of the eNaira.

The eNaira is the digital form of the Fiat currency (Naira), issued by the CBN in line with Section 19 of the CBN Act. It is a direct liability of the CBN, a legal tender and will form part of the currency-in-circulation. The eNaira will complement cash as a less costly, more efficient, generally acceptable, safe and trusted means of payment and store of value. Additionally, it will improve monetary policy effectiveness, enhance government's capacity to deploy targeted social interventions, provide alternative less costly channel for collection of government revenue and boost remittances through formal channels.

The Guidelines seek to provide simplicity in the operation of the eNaira, encourage general acceptability and use, promote low cost of transactions, drive financial inclusion while minimizing inherent risks of disintermediation or any negative impact on the financial system.

The Regulatory Guidelines on the eNaira takes effect from **October 25, 2021**.

CHIBUZO A. EFOBI
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

REGULATORY GUIDELINES
ON
THE eNAIRA

October 25, 2021

APPROVED

Table of Contents

Glossary of Terms 3

1.0 Introduction 4

2.0 Scope 4

3.0 The eNaira Platform 4

3.1 The Digital Currency Management System (DCMS) 4

3.2 The Financial Institution Suite 4

3.3 The eNaira Wallets 4

3.3.1 eNaira Stock Wallets 4

3.3.2 eNaira Treasury Wallets 5

3.3.4 eNaira Merchant Speed Wallets 5

3.3.5 eNaira Speed Wallets 5

3.4 Security and Privacy 5

3.5 Technical Requirements 5

3.6 AML/CFT 5

4.0 Participants and Roles 5

4.1 Central Bank of Nigeria (CBN) 5

4.2 Financial Institutions (FIs) 6

4.3 Merchants 6

4.4 Ministries, Departments and Agencies (MDAs) 6

4.5 Consumers 6

5.0 Onboarding and Transactional Processes 7

5.1 Financial Institutions (FIs) 7

5.2 Merchants 7

5.3 MDAs 7

5.4 Consumers 7

6.0 Disclosure 8

7.0 Unique Identifier 8

8.0 Transaction Types 8

8.1 Consumer Transactions 8

8.2 Merchant Transactions 8

8.3 FI Transactions 8

8.4 MDA Transactions 9

APPROVED

9.0 Charges and Cost Structure 9
10.0 AML/CFT Compliance 9
10.1 Tier 0 9
10.2 Tier 1 - 3 9
10.3 Merchants 9
10.4 Transaction and Balance Limits 10
11.0 Risk Management 10
12.0 eNaira Speed Wallet Recovery Process 10
12.1 Roles and Responsibilities of the Stakeholders 10
12.2 Banks 11
12.3 eNaira Speed Wallet Users 11
13.0 eNaira Speed Wallet Recovery 11
13.1 Loss/Theft of Device 11
13.2 Compromise of eNaira Speed Wallet 12
14.0 Financial and Regulatory Reporting 12
15.0 Dispute Resolution 12
16.0 Effective date 12

APPROVED

Glossary of Terms

Acronym	Definition
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
BVN	Bank Verification Number
CBN	Central Bank of Nigeria
DCMS	The Digital Currency Management System
eNAIRA	Electronic Naira issued by the Central Bank of Nigeria as a legal tender
FIs	Financial Institutions such as Banks, Other Financial Institutions, Mobile Money Operators
KYC	Know Your Customer
MERCHANT	Duly accredited individuals and non-individual (corporates) authorized to conduct business in Nigeria
MDAs	Ministries, Departments and Agencies
NIN	National Identification Number
TIN	Taxpayer Identification Number

APPROVED

1.0 Introduction

The Central Bank of Nigeria, under the Central Bank of Nigeria (CBN) Act 2007 and the Banks and Other Financial Institutions Act (BOFIA) 2020, is empowered to issue legal tender currency, ensure financial system stability and promote the development of electronic payments system. The Bank, in furtherance of its mandate, hereby issues the following Guidelines for the operation of the eNaira.

The eNaira is the digital form of the Naira, issued by the CBN in line with Section 19 of the CBN Act. It is a direct liability of the Bank, a legal tender and will form part of the currency-in-circulation and will be at par with the physical Naira (that is 1:1). The eNaira shall complement traditional Naira as a less costly, more efficient, generally acceptable, safe and trusted means of payment. In addition, it will improve monetary policy effectiveness, enhance government's capacity to deploy targeted social interventions and boost remittances through formal channels.

The eNaira wallet is required to access, use and hold eNaira. The eNaira will be exchangeable for other Central Bank Digital Currencies (CBDC).

2.0 Scope

The provisions of these Guidelines shall apply to all financial institutions and users of the eNaira.

3.0 The eNaira Platform

This section gives an overview of the key components of the eNaira platform.

3.1 The Digital Currency Management System (DCMS)

The eNaira shall be administered by the CBN through the Digital Currency Management System (DCMS) to mint and issue eNaira.

Financial institutions shall maintain a treasury eNaira wallet for holding and managing eNaira on the DCMS.

3.2 The Financial Institution Suite

The FI Suite is the primary application used by the FIs to manage their digital currency holdings, requests, and redemption with the CBN.

3.3 The eNaira Wallets

The eNaira platform shall host eNaira wallets for different stakeholders.

3.3.1 eNaira Stock Wallets

The eNaira stock wallet belongs solely to the CBN and it shall warehouse all minted eNaira.

APPROVED

3.3.2 eNaira Treasury Wallets

A financial institution (FI) shall maintain one treasury eNaira wallet to warehouse eNaira received from the CBN eNaira stock wallet. FIs may create eNaira sub-treasury wallets for branches tied to it and fund them from its single eNaira treasury wallet with the CBN.

3.3.3 eNaira Branch Wallets

An FI may create eNaira branch sub-wallets for its branches. The eNaira branch sub-wallet shall be funded from the treasury eNaira wallet.

3.3.4 eNaira Merchant Speed Wallets

eNaira Merchant speed wallets shall be used solely for receiving and making eNaira payments for goods and services.

3.3.5 eNaira Speed Wallets

eNaira speed wallets shall be available for end users to transact on the eNaira platform.

3.4 Security and Privacy

The two-factor authentication and other measures shall be adopted to ensure the security of eNaira wallet.

3.5 Technical Requirements

FIs shall integrate their backend systems to the DCMS for efficient transfer of eNaira between bank accounts and eNaira wallets.

3.6 AML/CFT

AML/CFT checks for fraud prevention and detection shall apply on the eNaira platform.

4.0 Participants and Roles

4.1 Central Bank of Nigeria (CBN)

The CBN shall exclusively perform the following roles:

a) Mint, issue, distribute, redeem and destroy the eNaira;
b) Determine the technical, regulatory and operational standards for the eNaira;
c) Manage unresolved eNaira issues and complaints escalated from the FIs and disputes arising between FIs;
d) Monitor compliance with applicable regulations; and
e) Issue directives and review Guidelines on eNaira periodically as may be required.

APPROVED

4.2 Financial Institutions (FIs)

The Financial Institutions are intermediaries between the CBN and customers. Their roles within the eNaira ecosystem shall include:

a) Facilitating eNaira speed wallet onboarding for bank customers (merchants and individuals) including sensitizing them on the need to familiarize themselves with details of their BVN particulars, especially email address. This is a major requirement for the self-service enrollment process into the eNaira Speed App.
b) Integrating the eNaira speed wallet feature into their electronic banking channels;
c) Requesting eNaira from CBN for self and on behalf of its customers;
d) Managing eNaira across its branches;
e) Developing and/or updating reports and internal frameworks to ensure compliance with KYC and AML/CFT requirements;
f) Receiving and resolving customers' complaints on eNaira (including prompt update of customers' BVN particulars in NIBSS); and
g) Ensuring that eNaira enquiries and complaints are included in the periodic reports to CBN.

4.3 Merchants

Merchants' roles include:

a) Providing customers with alternative channels for making transactions using eNaira;
b) Providing cashback services for customers;
c) Publicising the option of eNaira payment for transactions at merchant locations; and
d) Protecting their eNaira speed wallet credentials against fraudulent access.

4.4 Ministries, Departments and Agencies (MDAs)

MDAs may:

a) Receive revenue in eNaira; and
b) Make payments in eNaira.

4.5 Consumers

Consumers are the end users of the eNaira and their roles are specified below:

a) Creating eNaira speed wallets and funding it;
b) Utilising eNaira as an alternative payment option for legitimate transactions;
c) Protecting their eNaira speed wallet access credentials; and
d) Notifying financial institutions in the event of fraud/complaints/disputes.

APPROVED

5.0 Onboarding and Transactional Processes

This section describes the process of onboarding participants on the eNaira platform. The onboarding process shall vary based on the role of each participant.

5.1 Financial Institutions (FIs)

The onboarding of FIs shall be done automatically by the CBN.

5.2 Merchants

Merchants shall be onboarded by the FIs upon downloading the **"eNaira Speed Merchant App"** from the app stores and fulfillment of the following requirements:

a) Provision of all mandatory information;
b) Acceptance of the Terms and Conditions of eNaira speed app;
c) Acceptance of the Privacy Policy of eNaira speed wallet; and
d) Validation and activation by their preferred FI.

5.3 MDAs

MDAs shall be onboarded by the CBN upon receipt of the appropriate mandate.

5.4 Consumers

Consumer onboarding shall be self-service upon downloading of the **"eNaira Speed App"** from the app stores and fulfillment of the following requirements:

a) Provision of all mandatory requirements;
b) Acceptance of the Terms and Conditions of eNaira speed app; and
c) Acceptance of the Privacy Policy of eNaira speed app.

NOTE: For a successful self-service enrollment on the eNaira Speed App, the mandatory requirements for some BVN details **must** match similar details attached to the consumer's profile at the BVN database. Consequently, there is need for consumers to familiarize themselves with details of their BVN profile to identify and rectify gaps or stale information (especially email address) through their banks. The relevant information for a successful BVN validation check are:

a) First Name;
b) Last Name;
c) Date of Birth (DD/MM/YYYY);
d) State of Origin;
e) Email; and
f) Phone Number.

APPROVED

CENTRAL BANK OF NIGERIA

Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-46237401
E-mail:fprd@cbn.gov.ng

FPR/DIR/PUB/CIR/001/024

October 13, 2021

CIRCULAR TO ALL NON-INTEREST FINANCIAL INSTITUTIONS (NIFIs)

GUIDELINES ON DISPOSAL OF NON-PERMISSIBLE INCOME

The Central Bank of Nigeria (CBN) in its efforts to standardise the treatment and disposal of Non-Permissible Income (NPI) by the Non-Interest Financial Institutions in Nigeria, hereby issues Guidelines on Disposal of Non-Permissible Income.

The Guidelines may be accessed from the CBN website (www.cbn.gov.ng), and all Non-Interest Financial Institutions are therefore required to comply accordingly as non-compliance will attract appropriate sanctions.

The Guidelines becomes effective **October 13, 2021**.

CHIBUZO A. EFOBI

DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA

GUIDELINES

ON

DISPOSAL OF NON-PERMISSIBLE INCOME

FOR

NON-INTEREST FINANCIAL INSTITUTIONS (NIFIs)

OCTOBER 13, 2021

APPROVED

GUIDELINES ON DISPOSAL OF NON-PERMISSIBLE INCOME

In line with the CBN Guidelines on Governance of Advisory Committees of Experts (ACE) for Institutions Offering Non-Interest Financial Services, it is part of the duties and responsibilities of the ACE to supervise and monitor the disposal of Non-Permissible Income (NPI) by the institution.

Non-Permissible Income is any income that accrues to the institution in a Shari'ah non-compliant manner, such as interest income, penalties for delayed payment of debt obligations, or any income declared by the ACE of the institution as impermissible according to the Shari'ah.

The following guidelines is issued to guide the ACE of Non-Interest Banks (NIB) in supervising and monitoring the disposal of NPI by the institutions.

1. NPI is not an object of ownership of the NIB and does not confer any ownership rights on it.

2. The NPI shall be put in a dedicated NPI account and shall not be commingled with the funds of the NIB.

3. The NIB is under obligation to dispose of any NPI that accrues to it.

4. Disposing the NPI to a charitable cause is regarded as proper disposal of the NPI on the following conditions:
    a. The NIB does not stand to benefit from the charitable cause in any way, even if by goodwill.
    b. The charitable cause does not give benefit to any shareholder, director, ACE member or management staff of the NIB.
    c. The disposal to the charity shall not be constituted nor included as part of the Corporate Social Responsibility of the NIB.

5. The disposal of the NPI directly by the NIB or through a third party is acceptable, provided it fulfils the conditions mentioned under Paragraph (4) above.

6. Whether the disposal is directly by the NIB or through a third party, the ACE shall review the disposal ex-ante and ex-post to ascertain that the conditions mentioned under Paragraph (4) above are fulfilled.

7. The ACE shall ensure that the NIB does not delay the disposal of the NPI without justifiable cause, as any unjustifiable delay shall be tantamount to the NIB deriving benefit from the prohibited NPI.

APPROVED

8. The ACE shall submit a quarterly report to the CBN on the disposal of the NPI by the respective NIB, in the following format:

   The Advisory Committee of Experts (ACE) of ______________________________ Bank has reviewed the amount of Non-Permissible Income (NPI) declared by the bank for the period covering ______________________ to _____________________, and has also reviewed the procedure for its disposal, either directly by the bank or through a third party, and certifies that the declared amount is correct, and the process of disposal is also acceptable. The ACE also certifies that neither the bank, its shareholders, its ACE nor management staff have benefitted financially or otherwise from the disposed NPI.

9. The ACE shall include in its annual report on the financial statements of the respective NIB a report on the disposal of the NPI in the following format:

   The Advisory Committee of Experts (ACE) of _________________________________ Bank has reviewed the financial statement of the bank, and taken note of the Non-Permissible Income (NPI) declared by the bank during the review period. The ACE hereby certifies that the declared amount is correct and that the NPI has been disposed by the bank to the satisfaction of the ACE.

APPROVED

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-46237401
E-mail:fprd@cbn.gov.ng

FPRD/DIR/PUB/CIR/01/020

August 19, 2021

CIRCULAR TO ALL MICROFINANCE BANKS

CESSATION OF NON-PERMISSIBLE ACTIVITIES BY MICROFINANCE BANKS

The Central Bank of Nigeria (CBN) has observed the activities of some Microfinance Banks (MFBs) that have gone beyond the remit of their operating licenses by engaging in non-permissible activities especially wholesale banking, foreign exchange transactions and others.

Given the comparatively low capitalization of MFBs, dealing in wholesale and/or foreign exchange transactions are a significant risk with dire consequences for financial system stability. It has therefore become imperative to remind all MFBs to strictly comply with the extant Revised Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria 2012 (the Guidelines).

For the avoidance of doubt and consistent with the permissible activities of specialized micro-institutions:

1. MFBs are strictly prohibited from foreign exchange transactions.
2. MFBs are to primarily focus on providing financial services to retail and/or micro- clients.
3. Micro credit and retail transactions carried out by MFBs are limited to ₦500,000 per transaction for Tier 2 Unit MFBs and ₦ 1,000,000 for other categories.
4. Micro credit facilities shall constitute a minimum of 80 per cent of total loans portfolio for MFBs.

The CBN will continue to monitor developments in the MFB sector and apply severe regulatory sanctions for breaches of extant regulations, including revoking the license of non-compliant MFBs (in line with Section 19 of the Guidelines).

IBRAHIM S. TUKUR
For: FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-46237401
E-mail:fprd@cbn.gov.ng

FPR/DIR/PUB/CIR/001/019 July 28, 2021

CIRCULAR TO PROMOTERS OF BUREAUX DE CHANGE AND ALL DEPOSIT MONEY BANKS

REFUND OF MINIMUM CAPITAL DEPOSITS AND LICENSING FEES TO BUREAUX DE CHANGE PROMOTERS WITH PENDING LICENCE APPLICATIONS

Further to the Monetary Policy Committee (MPC) briefing of July 27, 2021, the Central Bank of Nigeria (CBN) will commence the immediate refund of capital deposits and licensing fees (where applicable) to promoters who have pending Bureaux de Change (BDC) licence applications with the CBN.

Accordingly, the CBN hereby advises as follows:

1. Such BDC promoters should forward their requests for the refund in writing to the Director, Financial Policy and Regulation Department, Central Bank of Nigeria, Abuja.
2. The requests should be accompanied with the following documents:
   a. Telex copy of the capital deposit of ₦35 million
   b. Account details for the refund, which should be the same as the account from which the capital deposit originated, including the:
      i. Bank name
      ii. Account name
      iii. Account number
   c. Copy of the bank draft/telex for payment of licensing fee of ₦1 million (if any)
3. Hardcopy of the request in '1' above should be submitted to CBN Head Office, Central Business District, Abuja or CBN Head Office Annex, Tinubu Square, Lagos in an envelope clearly marked **"Refund of BDC Capital Deposit"** at its top left corner.
4. Softcopy of the request in '1' above may be sent in advance of the hard copy to fprdlicensing@cbn.gov.ng

In addition, all **Deposit Money Banks** are hereby directed to henceforth stop accepting instructions from customers to transfer capital deposit of ₦35 million to the designated CBN account for the purpose of applying for BDC licences.

Please be guided accordingly.

IBRAHIM S. TUKUR
For: DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-46237401
E-mail:fprd@cbn.gov.ng

FPR/LAD/CON/BDC/006/100

June 23, 2021

CIRCULAR TO ALL BUREAUX DE CHANGE

PAYMENT OF ANNUAL LICENSING RENEWAL FEES

The Central Bank of Nigeria (CBN) has observed recurring discrepancies in the payments of Annual Licence Renewal Fees by Bureaux De Change (BDCs) operators. The discrepancies include postings with incomplete or unclear narrations as well as the use of third party names that cannot be linked to any BDC.

Going forward, **All BDCs** are hereby required to pay their Annual Licence Renewal Fees from their operating accounts with Deposit Money Banks by 31st March of every year. Only payments made in the names of the BDCs within the regulatory deadline will be processed.

In line with the requirements of the Revised Operational Guidelines for Bureaux De Change in Nigeria (2015), the CBN reiterates that failure to comply with the above directive would attract necessary sanction against the defaulting BDCs.

KEVIN N. AMUGO, Ph.D.
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-46237401
E-mail:fprd@cbn.gov.ng

FPR/DIR/PUB/CIR/01/004

May 26, 2021

CIRCULAR TO BANKS AND OTHER FINANCIAL INSTITUTIONS

GUIDELINES FOR SHARED SERVICES ARRANGEMENTS

The absence of standards on shared services and transfer pricing arrangements in the Nigerian banking industry was evidenced on the uneven management of shared services with the attendant concerns on governance, financial and tax management practices.

The Central Bank of Nigeria (CBN) in response thereto, issued an Exposure Draft on November 18, 2019 to streamline the activities of institutions engaged in shared services and transfer pricing. The Exposure Draft also sought to harvest stakeholders' opinions on the abuses including the use of shared services arrangements as a tax shield.

In consideration thereof, the following Guidelines on Shared Services Arrangements for Banks and Other Financial Institutions in Nigeria is hereby issued for compliance.

The effective date for the full compliance with the provisions of the Guidelines shall be June 1, 2022.

KEVIN N. AMUGO, Ph. D.
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA

GUIDELINES

FOR

SHARED SERVICES ARRANGEMENTS

FOR

BANKS AND

OTHER FINANCIAL INSTITUTIONS

MAY, 2021

TABLE OF CONTENTS

1 INTRODUCTION 2
2 SCOPE/LIMITATIONS OF THE GUIDELINES 2
3 OBJECTIVES....................3
4 GENERAL PRINCIPLES....................3
5 APPROVED SERVICES 3
6 GOVERNANCE 4
7 TRANSFER PRICING....................6
8 REGULATORY REPORTING 7
9 COMPLIANCE 7
10 GLOSSARY 8

1 INTRODUCTION

Nigerian banks with foreign parents and banks within the non-operating financial holding company (HoldCo) structure participate in centralized or shared services arrangements with their parent companies and other entities in the group. The main drivers for sharing of services among group entities are the need to ensure cost efficiencies, leverage existing expertise and maintain consistency throughout the group. An intra-group charge is billed to the benefitting group members, in consideration of the services provided to them.

The absence of standards for the application of costs related to shared services and ensuing pricing arrangements has resulted in uneven management of shared services in the banking industry and has been a source of concern for regulators, especially in view of its governance, financial and tax implications.

This Guidelines is, therefore, issued to provide guidance to banks and other financial institutions under the regulatory and supervisory purview of the Central Bank of Nigeria (CBN) on the initiation and evaluation of shared service arrangements and other matters connected thereto. It sets operational standards for banks and other financial institutions in line with best practice and ensures compliance with Executive Order 5 of the Federal Government of Nigeria, signed on February 12, 2018, which seeks to promote the development of indigenous capacity and local content in contracts and science, engineering and technology, as a necessary tool to drive national competitiveness and productivity.

This Guidelines, issued in exercise of the powers conferred on the CBN under the Central Bank of Nigeria Act, 2007 (CBN Act) and the Banks and Other Financial Institutions Act, 2020 (BOFIA), complements the CBN's Guidelines for Licensing and Regulation of Financial Holding Companies in Nigeria. It covers the general principles that guide shared services arrangements in Nigeria, approved shared services, transfer pricing and regulatory reporting requirements. Compliance with the provisions of this Guidelines is mandatory for all institutions licensed by the CBN.

The Guidelines shall be read in conjunction with the provisions of the CBN Act, the BOFIA, other subsidiary legislations made under the Acts, as well as written directives, notices, circulars, frameworks and other guidelines that the CBN and other regulators in the financial services sector have issued or may issue from time to time.

2 SCOPE/LIMITATIONS OF THE GUIDELINES

The provisions of this Guidelines shall apply to the following financial institutions:

a. Commercial banks;
b. Merchant banks;
c. Financial Holding Companies;
d. Other Financial Institutions;

e. Payment Services Banks; and
f. Other payment services as licensed by the CBN.

Provided that the financial institution is either:

(i) A parent company operating in Nigeria and licensed by the CBN; or

(ii) A subsidiary company licensed by the CBN and carrying on its operations in Nigeria.

3 OBJECTIVES

The objectives of this Guidelines include:

(i) To set out supervisory expectation in respect of shared services arrangements between a parent company and its subsidiary.

(ii) To ensure that the fees received or paid reflect the services rendered, taking into account the assets used and the risks assumed.

(iii)To ensure that financial institutions comply with the extant transfer pricing regulation in Nigeria.

(iv)To reduce operational cost of benefitting institutions.

4 GENERAL PRINCIPLES

4.1 Financial institutions are expected to establish policies and procedures to ensure that shared services are conducted at arm's length. In particular, the institutions should submit their shared services policies as approved by the board to the Central Bank of Nigeria which should, at the minimum:

- Detail the services to be shared;
- Indicate how the services would be shared, including the roles and responsibilities of the parties involved;
- Indicate the methodology for pricing shared services, including standards for timely recording and settlement (including frequency of settlement);
- Specify the governance structure for reporting exceptions to policy; and
- Be reviewed annually.

5 APPROVED SERVICES

5.1 A financial institution may, with the approval of the CBN, enter into Shared Services Agreement with its parent company in respect of:

a. Human Resources services;
b. Risk Management services;
c. Internal Control services;
d. Compliance services;
e. Marketing and Corporate communications;
f. Information and Communication Technology;
g. Legal services;
h. Facilities (Office Accommodation including Electricity, Security, Cleaning Services in that accommodation); and
i. Any other services as may be approved by the CBN from time to time.

Provided that:

i. the recipient entity does not have the expertise and capacity to carry out these services; and
ii. any other service provided outside the aforementioned SHALL NOT be charged to the recipient entity.

5.2 Financial institutions seeking to acquire technology on behalf of their foreign subsidiaries shall allocate the associated costs based on the actual volume and complexity of services consumed by the subsidiary. This is without prejudice to the local regulation of the host country.

5.3 Financial institutions with foreign parents shall ensure that in the case of technology transfer, the agreements thereto shall expressly convey rights to the local financial institution for the beneficial use of the technology.

6 GOVERNANCE

6.1 It is the responsibility of the board of the relevant financial institution to ensure that:

(i) approved Shared Services Agreements are in line with extant laws and regulations; and
(ii) the institutions have appropriate governance structures and policies in place for the Shared Services Arrangement.

6.2 The board shall be responsible for the oversight of shared service arrangements and ensure the reasonableness of fees charged for the services. The board may, however, delegate the responsibility for the monitoring and management of shared services to an appropriate specific board committee.

6.3 Where the Board delegates oversight to a Board Committee, the Committee must be headed by an independent director.

6.4 A Shared Services Agreement shall be executed between the recipient institution and the provider company, and should at the minimum include:

i. Commencement Clause
ii. Agreement to Provide Services
iii. Scope of services
iv. Applicable costing methods
v. Compensation and Cost Sharing
vi. Reporting and Timing of Payments
vii. Standards for Performance of Service
viii. Access to Employees and Information
ix. Confidentiality
x. Notices
xi. Force Majeure
xii. Indemnification
xiii. Duration
xiv. Termination (Termination for cause and Termination for convenience)
xv. Dispute resolution mechanism/procedure
xvi. Governing Law
xvii. Capacity building
xviii. General Provisions

6.5 The board of the recipient financial institution shall be responsible for the on-going viability of a shared service, set performance goals and metrics, and shall commission an independent consultant to determine the efficiency of the shared service arrangements on an annual basis.

6.6 All Shared Service Agreements must include a clause requiring parties to the agreement to review the agreement to reflect the recommendations arising from the independent review of the shared service arrangements.

6.7 The board of the recipient institution shall inform the board of the provider company, in a timely manner, of any issues that may impact the ongoing viability of the shared service arrangement or any significant deviation from the Shared Service Agreement.

6.8 Financial institutions shall demonstrate that the service to be shared is of strategic importance to their institutions and would contribute significantly to their overall vision and mission.

6.9 Financial institutions shall disclose in their annual report and website, the services shared within the group and the importance of those services to their institutions.

6.10 A financial institution that is the recipient of shared services shall ensure that the benefits offered by the shared services meet the quality control standards approved by its board. A financial institution shall retain the right to review performance criteria for the services rendered by the shared service provider.

6.11 All Shared Services Agreements involving foreign parents and their Nigerian subsidiaries shall include a provision for capacity building, where applicable. The Nigerian subsidiaries shall demonstrate that both the subsidiaries and their officials are benefiting from the technical service agreements. In addition, the CBN shall collaborate with relevant agencies to determine the adequacy or otherwise of the capacity building.

6.12 It is the responsibility of the provider of shared services to pay the salary and allowances of the staff used to provide shared services to other entities in a group.

7 TRANSFER PRICING

7.1 Shared services within a group, whether domestic or cross–border, have implications for both the taxpayers (that is, provider and recipient entities). The Federal Inland Revenue Service Income Tax (Transfer Pricing) Regulations, 2018 (the Regulations) provides guidance on treatment of related party transactions.

7.2 Financial institutions are required to comply with the provisions of the Regulations. In addition, they are required to note the following:

   i. The transfer pricing method applied, in line with Section 5 of the Regulation, shall be clearly noted in the Shared Services Agreement. Accordingly, the permitted transfer pricing methods are as follows:

      a. Comparable Uncontrolled Price (CUP) method;
      b. Resale Price method;
      c. Cost Plus method;
      d. Transactional Net Margin method;
      e. Transactional Profit Split method;
      f. Any other method which may be approved by the CBN.

ii. Shared service fees shall be documented for all transactions between the service provider and the recipient in the same manner as if they were between unrelated parties. Such documentation shall not be by mere journal entries or set-off against any other inter-company account, and shall include contracts, invoices, bills or other similar documents.

iii. All Shared Services Agreements shall be entered on an arm's length basis. That is, the terms and conditions of the agreement shall be such that it must be consistent with similar agreements reached by unrelated parties.

8 REGULATORY REPORTING

8.1 The Shared Services Agreement shall be submitted to the CBN for approval.

8.2 The report of an independent consultant's review of the fees and services rendered, which must reflect the extent of compliance with extant laws and regulations, must be submitted to the CBN annually.

8.3 The Shared Service Agreement shall be reviewed yearly to reflect current economic realities and submitted to the CBN for approval.

8.4 The report of the independent review regarding the shared services shall be submitted annually to the Director, Banking Supervision Department, or the Director, Other Financial Institutions Supervision Department, or the Director, Payment System Management Department, for commercial, merchant banks and financial holding companies; other financial institutions; or payment service banks, respectively, not later than January 31 of each accounting year. Other reports required by the section shall be submitted to the appropriate Director not later than 15 days after they are approved by the parties to the agreement.

9 COMPLIANCE

9.1 All financial institutions having shared services arrangements within their group shall comply with the provisions of this Guidelines.

9.2 Failure to comply with this Guidelines is an offence punishable under Section 96 of the BOFIA.

9.3 Failure to comply with the Guidelines may also render the officers of the concerned financial institution liable to administrative sanctions.

10 GLOSSARY

S/N	TERM/PHRASE	MEANING
1	Arm's length	This means the principle that the conditions of a controlled transaction should not differ from the conditions that would have applied between independent persons in comparable transactions carried out under comparable circumstances.
2	Comparable Uncontrolled Price Method	This is a method in which the price charged for property or services transferred in a controlled transaction is compared with the price charged for property or services transferred in a comparable uncontrolled transaction.
3	Cost Plus Method	This is a method in which the mark up on the costs directly and indirectly incurred in the supply of goods, property or services in a controlled transaction is compared with the mark up on those costs directly or indirectly incurred in the supply of goods, property or services in a comparable uncontrolled transaction.
4	Financial Holding Company	Financial Holding Company (FHC) is an "other financial institution" licensed and regulated by the CBN for the purpose of making and managing (for its own account) equity investment in companies engaged in the provision of financial services.
5	Independent Director	An Independent Director is a member of the Board of Directors who has no direct material relationship with the bank or any of its officers, major shareholders, subsidiaries and affiliates; a relationship which may impair the director's ability to make independent judgments or compromise the director's objectivity in line with Corporate Governance best practices.
6	Independent consultant	This means an entity separate from the shared service provider or recipient, which has experience in appraisal or valuation of services.
7	Parent Company	A company that owns enough voting stock in another firm to control management and operation by influencing or electing its board of directors.
8	Provider institution/company	An institution/company that renders shared services to other institutions within the group under a shared services arrangement.
9	Reasonableness	This refers to the quality of being plausible or acceptable to a reasonable person. What is considered reasonable by many people is that about which there is agreement, if not among all, at least among a substantial number of people.

10	Recipient institution/company	An institution/company in a group that benefits from shared services rendered by another institution within the group under a shared services arrangement.
11	Resale Price Method	This means a method in which the resale margin that a purchaser of property in a controlled transaction earns from reselling the property in an uncontrolled transaction is compared with the resale margin that is earned in a comparable uncontrolled purchase and resale transaction.
12	Shared services	Shared services are services provided by a member of a group to one or more members of the group. Thus, the funding and resourcing of the service is shared.
13	Subsidiary	A subsidiary is a company controlled by another company, usually referred to as the parent company or the holding company.
14	Transactional Net Margin Method	This refers to a method in which the net profit margin relative to the appropriate base, including costs, sales or assets that a person achieves in a controlled transaction is compared with the net profit margin relative to the same basis achieved in a comparable uncontrolled transaction
15	Transactional Profit Split Method	This is a method in which the division of profit and loss that a person achieves in a controlled transaction is compared with the division of profit and loss that would be achieved when participating in a comparable uncontrolled transaction.
16	Transfer Pricing	Transfer pricing refers to the rules and methods for pricing transactions within and between institutions under common ownership or control.

FINANCIAL POLICY AND REGULATION DEPARTMENT
May, 2021

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-46237401
E-mail:fprd@cbn.gov.ng

FPRD/DIR/PUB/CIR/01/002 April 8, 2021

CIRCULAR TO OTHER FINANCIAL INSTITUTIONS

CREDIT RISK MANAGEMENT SYSTEM (CRMS): COMMENCEMENT OF ENROLLMENT OF ALL DEVELOPMENT FINANCE INSTITUTIONS (DFIs), MICROFINANCE BANKS (MFBs), PRIMARY MORTGAGE BANKS (PMBs) AND FINANCE COMPANIES (FCs)

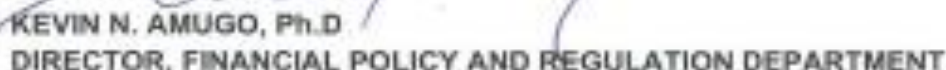
As part of the efforts to promote a safe and sound financial system in Nigeria, the CBN introduced the CRMS to improve credit risk management in commercial, merchant and non-interest banks as well as to prevent predatory borrowers from undermining the banking system. With the successful implementation of the CRMS in deposit money banks, it has become expedient to commence the enrollment of Other Financial Institutions (OFIs) on the CRMS Platform.

Accordingly, all DFIs, MFBs, PMBs and FCs are required to report **ALL** credit facilities (principal and interest) to the CRMS and to update same on monthly basis. OFIs shall note that Bank Verification Numbers (BVN) and Tax Identification Numbers (TIN) are the only basis for regulatory renditions.

To ensure full compliance, OFIs are reminded to conclude the tagging of **ALL** live credit files for **ALL** individual and non-individual borrowers with BVN and TIN respectively by **May 14, 2021**.

Furthermore, the concerned OFIs are advised to acquaint themselves with the Regulatory Guidelines for the Operations of the Redesigned CRMS for Commercial, Merchant and Non-Interest Banks in Nigeria (February 2017) and the additional regulatory guidelines of September 2017.

Kindly note that the CBN will monitor compliance with the requirements of this circular and non-compliance will attract appropriate sanctions.



KEVIN N. AMUGO, Ph.D
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-46237401
E-mail:fprd@cbn.gov.ng

FPR/DIR/PUB/CIR/01/001

March 3, 2021

CIRCULAR TO ALL BANKS AND OTHER FINANCIAL INSTITUTIONS (OFIs)

RE: REGULATORY FORBEARANCE FOR THE RESTRUCTURING OF CREDIT FACILITIES OF OTHER FINANCIAL INSTITUTIONS IMPACTED BY COVID-19

The Central Bank of Nigeria reduced the interest rates on the CBN intervention facilities from 9% to 5% per annum for one-year effective March 1, 2020, as part of measures to mitigate the negative impact of COVID-19 Pandemic on the Nigerian economy. Credit facilities, availed through participating banks and OFIs, were also granted a one-year moratorium on all principal payments with effect from March 1, 2020.

Following the expiration of the above timelines, the CBN hereby approves as follows:

1) The extension by another twelve (12) months to February 28, 2022 of the discounted interest rate for the CBN intervention facilities;

2) The roll-over of the moratorium on the above facilities shall be considered on a case by case basis.

Further enquiries on the provisions of this Circular may be addressed to the Director, Development Finance Department.

KEVIN AMUGO, PhD
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-46237401
E-mail:fprd@cbn.gov.ng

08 February 2021

FPR/AML/CON/BOF/006/002

LETTER TO BANKS, OTHER FINANCIAL INSTITUTIONS AND PAYMENT SERVICE PROVIDERS

ACCEPTANCE OF MACHINE READABLE CONVENTION TRAVEL DOCUMENT (MRCTD) AND REFUGEE IDENTIFICATION CARD AS MEANS OF IDENTIFICATION

The attention of the Central Bank of Nigeria has been drawn to challenges encountered by Refugees and Asylum seekers in Nigeria with regards to means of identification with respect to the conduct of financial transactions.

To address these concerns, all banks and other financial institutions are referred to the provisions of the CBN AML/CFT Regulations, 2013 (as amended) on customer due diligence, especially, Regulations 40 and Regulations 80, and to note that the Machine Readable Convention Travel Document (MRCTD) issued by the Nigeria Immigration Services; and the Refugee Identity Card issued by the National Commission for Refugees, Migrants and Internally Displaced Persons are adequate as means of identification for banking transactions.

Banks and other financial institutions are also required to continue to ensure that effective customer due dilligence policies and procedures are implemented to combat money laundering, financing of terrorist and proliferation of weapons of mass destruction.

DR. KEVIN N. AMUGO
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

PAYMENTS SYSTEM MANAGEMENT DEPARTMENT
Tel: 09 462 38300, 09 462 38346
e-mail: psmd@cbn.gov.ng
website: www.cbn.gov.ng

CENTRAL BANK OF NIGERIA
Central Business District,
Cadastral Zone AO
P.M.B. 0187, Garki
Abuja.

PSM/DIR/CON/CWO/16/106 **January 12, 2021**

CIRCULAR TO ALL DEPOSIT MONEY BANKS, MOBILE MONEY OPERATORS AND PAYMENT SERVICE PROVIDERS

ISSUANCE OF THE FRAMEWORK FOR REGULATORY SANDBOX OPERATIONS

The Central Bank of Nigeria (CBN) is committed to building a financial services sector that promotes stability, fosters innovation and deepen financial inclusion. In this regard, the CBN has implemented several reform initiatives towards the achievement of these objectives.

In continuation of these efforts, the CBN hereby issues the framework for Regulatory Sandbox Operations in Nigeria. The framework details the requirements for conduct of live tests on innovative products, services and other solutions in a controlled environment. To this end, the CBN shall review the products and solutions of applicants (Licensed institutions, Fintechs, Innovators and Researchers) during its implementation.

All stakeholders in the Regulatory Sandbox are required to ensure strict compliance with the requirements of the framework and all other payments system regulations, as the CBN continues to monitor developments and issue guidance as may be appropriate.

Musa I. Jimoh
Director, Payments System Management Department

Kevin Amugo
Director, Financial Policy & Regulation Department

CENTRAL BANK OF NIGERIA

Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09 - 46237401
E-mail:fprd@cbn.gov.ng

FPR/DIR/GEN/CIR/07/056

October 21, 2020

CIRCULAR TO ALL BANKS AND OTHER FINANCIAL INSTITUTIONS

REGULATORY AND SUPERVISORY FRAMEWORK FOR THE OPERATIONS OF A MORTGAGE REFINANCE COMPANY (MRC) – APPROVAL TO REFINANCE NON-MEMBER BANKS

The extant Regulatory and Supervisory Framework for the Operations of a Mortgage Refinance Company provides in Section 7.3.1.5 that a mortgage refinance company (MRC) shall not, without the prior approval of the CBN, extend total outstanding credit to any single borrower which is equal to or more than twenty times the value of the borrower's shares with the MRC or 25 percent of its shareholders' funds unimpaired by losses. This provision negatively impacts the mortgages sub-sector as it constrains MRCs from refinancing the mortgages of non-shareholder banks.

Consequently, the restriction on non-member mortgage lenders from refinancing their mortgages with MRCs has been removed. MRCs are hereby permitted to refinance the qualifying mortgages of mortgage lenders that do not hold its equity, subject to compliance with all other relevant provisions specified in the Framework. Accordingly, the provisions of Section 7.3.1.5 is hereby revised as follows: ''The MRC shall not, without prior approval of the CBN, extend total outstanding credit to any single borrower which is equal to or more than 25 per cent of its shareholders fund unimpaired by losses.''

The above amendment takes immediate effect.

IBRAHIM S. TUKUR
For: DIRECTOR FINANCIAL POLICY AND REGULATION DEPARTMENT

Tel: 09 - 46237401
E-mail:fprd@cbn.gov.ng

CENTRAL BANK OF NIGERIA

Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

FPR/DIR/GEN/CIR/07/063

09 October 2020

ADMINISTRATIVE LETTER TO ALL MERCHANT AND REGIONAL BANKS (COMMERCIAL /SPECIALISED)

RE: STATUS OF CHIEF COMPLIANCE OFFICERS

Further to the circular Referenced FPR/DIR/GEN/CIR/06/004 of 28 September 2016 on the appointment of Executive Compliance Officers (ECO) and Chief Compliance Officers (CCO) of deposit money banks, the CBN has after due consideration and presentations by stakeholders on the size, structure, operation and dynamics of classes of operators in the sectors, reviewed the requirements for the appointment of Chief Compliance Officers.

Accordingly, Merchant Banks, Regional Banks (commercial and specialized) are hereby granted dispensation to appoint CCOs on a grade not below an Assistant General Manager. The CCOs, will however report directly to the ECO of the financial institutions who have sole responsibility for compliance matters in the bank.

Meanwhile, the requirements and responsibilities of Executive Compliance Officers remain as earlier communicated in our circular of 28 September 2016.

KEVIN N. AMUGO
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA

Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09 - 46237401
E-mail:fprd@cbn.gov.ng

FPR/DIR/GEN/CIR/07/064

16 October 2020

ADMINISTRATIVE LETTER TO ALL BANKS AND OTHER FINANCIAL INSTITUTIONS

ADVISORY ON COVID-19 RELATED FINANCIAL CRMES

Changes in the trends of business activities and financial transactions precipitated by COVID-19 pandemic inadvertently led to increase in financial crimes globally. This therefore requires financial institutions to adapt rapidly and keep abreast with emerging risks and other developments while taking proactive steps to address the new and emerging ML/TF risks. This includes investing in robust data mining and artificial intelligence software to monitor transactions and also report suspicious transactions.

The Nigerian Financial Intelligence Unit (NFIU), as the central repository of suspicious transactions and other financial information, had issued an Advisory based on comprehensive analysis of STRs and other information available to it. The Advisory identified increased financial crimes such as, cybercrimes, frauds, counterfeiting and substandard goods; diversion of public funds and misuse of Non-Governmental Organisations (NGOs). Some vulnerabilities and Red flags highlighted in the Advisory are listed below for your information and necessary action, please:

Fraud

i. E-commerce merchant with little or no history or internet presence, suddenly receiving multiple payments from unrelated third parties.
ii. Individual(s) suddenly receiving multiple payments from unrelated third parties.
iii. Customer(s) suddenly engaging in the supply or purchase of medical supplies and payment for goods and services associated with known brands, yet the beneficiary is an individual not a corporate body.

Counterfeiting & Substandard goods

i. Unusual transactions dynamics from customer(s). Expect to see more transactions for medical supplies, equipment and medication.

ii. Payment for goods or services associated with a known brand, yet beneficiary is an individual not a company.

Diversion of public funds

i. Unusual volume of transactions, large and frequent cash withdrawals and deposits.

ii. Immediate disbursement of deposited funds to multiple accounts.

iii. The account signatory also a public/civil servant.

iv. Funds transferred from government account to personal account.

NGOs

i. Non-profit organisations suddenly receiving donations in favor\ of Covid-19 patients or victims.

ii. Customers' account with little or no activity suddenly receiving funds from one or more unrelated third parties only for the funds to be transferred to one or more unrelated thirds parties.

iii. NGOs under the guise of paying COVID-19 victims could actually be paying members of a criminal gang or facilitating terrorist financing.

You are therefore advised to update Alerts protocol in your AML/CFT monitoring tools, in line with the red flags and emerging trends arising from the COVID-19 related financial crimes.

J.M. GANA
for: DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-46237401
E-mail:fprd@cbn.gov.ng

FPR/DIR/GEN/CIR/07/061

September 4, 2020

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

RESTORATION OF FEES ON THE NATIONAL COLLATERAL REGISTRY (NCR) PLATFORM

The Regulation on Registration of Security Interests in Movable Property by Banks and Other Financial Institutions in Nigeria enabled the establishment of the NCR, which commenced operations in May 2016. This regulation was accorded legal backing by the Secured Transactions in Movable Assets (STMA) Act, 2017.

Section 22(2) of the Act requires the payment of fees for registration of movable assets used as collateral for accessing loans as well as other services provided by the NCR. However, the CBN, at inception, waived all payment of fees on the NCR Platform to encourage usage by financial institutions. The attainment of this objective has necessitated a review of the waiver.

Consequently, banks, other financial institutions and the general public are to note that effective **November 1, 2020**, the CBN would be restoring the fees as follows:

S/N	DESCRIPTION	FEES (₦)
1	Registration of Financing Statements for Deposit Money Banks (DMBs), Finance Companies/ Houses and Merchant Banks.	1,000.00
2	Printing of search report for Deposit Money Banks (DMBs), Finance Companies/Houses and Merchant Banks.	500.00
3	Registration of Financing Statements for Microfinance Banks (MFBs), Development Finance Institutions (DFIs) and Non-bank Financial Institutions.	500.00
4	Printing of search report for Microfinance Banks (MFBs), Development Finance Institutions (DFIs) and Non-bank Financial Institutions.	200.00
5	Update on Financing Statements	500.00
6	Subordination of Financing Statements	500.00
7	Public Search	500.00

Furthermore, financial institutions are expected to create Post-paid Accounts on the NCR platform for payment transactions. The creation of this account would enable the institutions to make payments toward registration of interest on movable assets used as collateral for credit extended to MSMEs. The procedure for creating a Post-paid Account is detailed in the NCR User Manual on the Registry's website (**www.ncr.gov.ng**). Other Financial Institutions are required to provide account details with correspondent banks to set-up the Post-paid Account.

Further enquiries on the details of this circular may be directed to the Director of Development Finance Department of the CBN, or emailed to **ncr@cbn.gov.ng**

KEVIN N. AMUGO
DIRECTOR, FINANCIAL POLICY & REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09 - 46237401
E-mail:fprd@cbn.gov.ng

FPR/DIR/GEN/CIR/07/060

August 27, 2020

Circular to Payment Service Banks

RE: GUIDELINES FOR LICENSING AND REGULATION OF PAYMENT SERVICE BANKS (PSBs) IN NIGERIA

The Central Bank of Nigeria (CBN) via a circular referenced **FPR/DIR/GEN/CIR/07/018** dated October 26, 2018, issued the Guidelines for the Licensing and Regulation of Payment Service Banks in Nigeria.

Stakeholders are invited to note that the Guidelines have been reviewed and updated in response to market developments since its first issuance.

The revised Guidelines is hereby issued to guide the operations of the licensed PSBs with immediate effect.

KEVIN N. AMUGO
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA

GUIDELINES FOR LICENSING AND REGULATION OF PAYMENT SERVICE BANKS IN NIGERIA

AUGUST 2020

CONTENTS

1 INTRODUCTION 4

2. OBJECTIVE 5

3. STRUCTURE OF PAYMENT SERVICE BANKS 5

4. PERMISSIBLE AND NON-PERMISSIBLE ACTIVITIES 6

4.1 Permissible Activities 6

4.2 Non-Permissible Activities 7

5. ELIGIBLE PROMOTERS 7

6. LICENSING REQUIREMENTS 8

6.1 Requirements for grant of Approval-In-Principle (AIP) 9

6.2 Requirements for Granting of Final License 13

6.3 Conduct of Pre-Licencing Inspection 14

6.4 Requirements for commencement of operations 15

6.5 Post-commencement Requirements 15

6.6 Financial Requirements 16

7. CORPORATE GOVERNANCE 16

8. BUSINESS CONDUCT (FAIR COMPETITION) 17

9. PRUDENTIAL REGULATION 18

9.1 Minimum Capital Requirement 18

9.2 Payment of Dividend 18

9.3 Capital Adequacy Ratio 19

9.4 Investment of Deposit Liabilities 19

9.5 Participation in Payment and Settlement System 19

9.6 Cash Reserve Requirement 19

9.7 Limit of Investment in Fixed Assets (Including Branch Expansion) 19

9.8 Revaluation of Fixed Assets 20

10. SUPERVISION OF PAYMENT SERVICE BANKS 20

11. KNOW YOUR CUSTOMER (KYC) REQUIREMENTS 20

12. CONSUMER PROTECTION 21

13. RISK MANAGEMENT 21

13.1 Credit Risk Management (including credit concentration risk) 21
13.2 Capital Measurement Approach for Credit Risk 21
13.3 Management of other Risks 22
13.4 Internal Controls 22
14. PAYMENT SYSTEM SECURITY 22
15. REVOCATION OF LICENSE 22
16. GLOSSARY 23

1 INTRODUCTION

The Central Bank of Nigeria (CBN), in furtherance of its mandate to promote a sound financial system in Nigeria and the need to enhance access to financial services for low income earners and unbanked segments of the society, continues to be innovative in deepening the financial services sector.

The National Financial Inclusion Strategy (NFIS) seeks to ensure that over 80 per cent of the bankable adults in Nigeria have access to financial services by 2020. The CBN in collaboration with stakeholders launched the NFIS on 23rd October, 2012 with a view to reducing the exclusion rate to 20 per cent by 2020.

Despite several initiatives including the Introduction of Microfinance banking, Agent Banking, Tiered Know-Your-Customer Requirements and Mobile Money Operation (MMO) in pursuit of this objective, the inclusion rate remains below expectation.

The CBN, in the circumstance and in collaboration with critical stakeholders in the digital financial ecosystem, such as the Nigerian Communication Commission, commercial banks, mobile money operators and telecommunication companies have conducted several study tours of other jurisdictions that have made significant progress in driving financial inclusion.

In view of the challenges to effective outreach to rural communities as well as the need to complement the services provided by other licensed entities, the CBN issues this regulation to provide for the licensing and operations of Payment Service Banks (PSBs) in Nigeria. PSBs are expected to leverage on mobile and digital channels to enhance financial inclusion and stimulate economic activities at the grassroots through the provision of financial services.

Accordingly, PSBs are envisioned to facilitate high-volume low-value transactions in remittance services, micro-savings and withdrawal services in a secured technology-driven environment to further deepen financial inclusion and help in attaining the policy objective of 20 per cent exclusion rate by 2020.

This Guidelines is issued pursuant to powers conferred on the CBN Governor by the CBN Act 2007 and BOFIA 1991 (as amended). It covers the definition; objectives; eligible promoters; licensing requirements; corporate governance; business conduct; and permissible activities. The requirements for prudential regulation; supervision; Know Your Customer (KYC), consumer protection as well as Risk Management of the proposed Payment Service Banks in Nigeria are also covered.

2. OBJECTIVE

The key objective of setting up PSBs is to enhance financial inclusion by increasing access to deposit products and payment/remittance services to small businesses, low-income households and other financially excluded entities through high-volume low-value transactions in a secured technology-driven environment.

3. STRUCTURE OF PAYMENT SERVICE BANKS

Payment Service Banks shall:

i. Operate mostly in the rural areas and unbanked locations targeting financially excluded persons, with not less than 25% financial service touch points in such rural areas as defined by the CBN from time to time;
ii. Enter into direct partnership with card scheme operators. Such cards shall not be eligible for foreign currency transactions;
iii. Deploy ATMs in some of these areas;
iv. Deploy Point of Sale devices;

v. Be at liberty to operate through banking agents (in line with the CBN's Guidelines for the Regulation of Agent Banking and Agent Banking Relationships in Nigeria);
vi. Roll out agent networks with the prior approval of the CBN;
vii. Use other channels including electronic platforms to reach-out to its customers;
viii. Establish coordinating centres in clusters of outlets to superintend and control the activities of the various financial service touch points and banking agents;
ix. Be technology-driven and shall conform to best practices on data storage; security and integrity; and
x. Set up consumer help desks (physical and online) at its main office and coordinating centres.

The Payment Service Banks shall use the words "Payment Service Bank" in its name to differentiate it from other banks.

Furthermore, the name of a PSB shall not include any word that links it to its parent company.

4. PERMISSIBLE AND NON-PERMISSIBLE ACTIVITIES

4.1 Permissible Activities

Payment Service Banks shall carry out the following activities:

i. Accept deposits from individuals and small businesses, which shall be covered by the deposit insurance scheme;
ii. Carry out payments and remittances (including inbound cross-border personal remittances) services through various channels within Nigeria;
iii. Sale of foreign currencies realized from inbound cross-border personal remittances to authorized foreign exchange dealers;

iv. Issue debit and pre-paid cards on its name;

v. Operate electronic wallet;

vi. Render financial advisory services;

vii. Invest in FGN and CBN securities; and

viii. Carry out such other activities as may be prescribed by the CBN from time to time.

4.2 Non-Permissible Activities

Payment Service Banks shall not carry out the following activities:

i. Grant any form of loans, advances and guarantees (directly or indirectly);

ii. Accept foreign currency deposits;

iii. Deal in the foreign exchange market except as prescribed in 4.1 (ii & iii) above;

iv. Insurance underwriting;

v. Undertake any other transaction which is not prescribed by this Guidelines;

vi. Accept any closed scheme electronic value (e.g. airtime) as a form deposit or payment;

vii. Establish any subsidiary except as prescribed in the CBN Regulation on the Scope of Banking and Ancillary Matters, No 3, 2010.

5. ELIGIBLE PROMOTERS

The following may promote PSBs:

i. Banking Agents;

ii. Telecommunications companies (Telcos), through subsidiaries;

iii. Retail chains (supermarkets, downstream petroleum marketing companies);
iv. Postal services providers and courier companies;
v. Mobile Money Operators (MMOs that desire to convert to Payment Service Banks shall comply with the requirement of this Guideline);
vi. Switching Companies;
vii. Financial technology companies (Fintech);
viii. Financial Holding Companies; and
ix. Any other entity on the merit of its application subject to the approval of the CBN.

Where the promoter of a PSB is a regulated entity, it shall be required to obtain approval or a 'no objection letter' from its primary regulator and submit same at the licensing application stage to the CBN.

6. LICENSING REQUIREMENTS

The promoters of a PSB shall be required to submit a formal application for the grant of a Payment Service Bank licence addressed to the Governor of the CBN.

The promoters of a PSB shall make a formal presentation of the proposal to the Director, Financial Policy and Regulation Department (FPRD), CBN. The proposal should cover the following amongst others:

i. business case;
ii. vision and strategy;
iii. governance arrangements;
iv. risk management;
v. compliance; and
vi. financial viability.

6.1 Requirements for grant of Approval-In-Principle (AIP)

A) The application shall be accompanied with the following:

i. A non-refundable application fee of ₦500,000 (five hundred thousand Naira only) in bank draft, payable to the Central Bank of Nigeria or such other amount as the CBN may specify from time to time;

ii. Evidence of minimum capital deposit in line with Section 6.6 of this Regulation, to be verified by the CBN;

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 PSB;

b) Justification for the application;

c) Proposed ownership structure in a tabular form, indicating the names of potential investors, profession/business and percentage shareholdings;

d) Detailed bio-data/resume of proposed shareholders;

e) Source(s) of funding of the proposed equity contribution for each investor. Where the source of funding 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;

f) Board and board committee charters stating the roles and responsibilities of the board and sub-committees;

g) Criteria for selecting board members;

h) Board composition and detailed resumes of proposed directors. The total number of directors shall be between 5 and 7, including at least two independent directors;

i) Completed Fitness and Propriety Questionnaire; and sworn declaration of net worth executed by the proposed directors and significant shareholders;

j) Bank Verification Number (BVN) and Tax Clearance Certificate of each proposed director and significant shareholders;

k) Organizational structure, showing functional units, responsibilities, reporting relationships and grade of heads of departments/units;

l) List of proposed top management staff (AGM and above) and their detailed resumes, stating qualification (including photocopies of academic and professional credentials), experience, and records of accomplishments, etc;

m) Schedule of services to be rendered;

n) Sales, distribution and marketing strategy showing geographic coverage;

o) Five-year financial projection of the proposed bank indicating expected growth, profitability and the underlying assumptions; and

p) Details of information technology requirements and facilities.

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 bank;

c) Names and addresses (business and residential) of owners, directors and their related companies, if any; and

d) Audited financial statements & reports of the company and Tax Clearance Certificate 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 bank

b) Object clause

c) Subscribers to the MEMART

d) Procedure for amendment

e) Procedure for share transfer/disposal

f) Appointment of directors

viii. A written and duly executed undertaking by the promoters that the bank will be adequately capitalized for the volume and character of its business at all times, and that the CBN shall have powers to supervise and regulate its operations;

ix. For regulated foreign institutional investors, an approval or a 'no objection letter' from the regulatory authority in the country of domicile;

x. Shareholders' agreement providing for disposal/transfer of shares as well as authorization, amendments, waivers, reimbursement of expenses;

xi. Statement of intent to invest in the bank by each investor;

xii. Technical Services Agreement;

xiii. Detailed Manuals and Policies, particularly:

a) Manual of Operations;

b) Asset/Liability Management Policy (ALM Policy) that highlights the bank's permissible assets and liabilities, sets the standards for managing its interest rate, duration risk and liquidity risk, and delineates the composition, duties, and operational procedures for the bank's Asset/Liability Management Committee;

c) Financial Management Policy that highlights the bank's financial management policies and procedures, and system of internal controls. The Policy should include, at a minimum:

i. Accounting policies and principles;

ii. Roles and responsibilities of the senior management officials responsible for financial management;

iii. Treasury operations, including funds management, vouchers, payroll and procurement;

iv. Financial record keeping and reporting; and

v. Auditing and periodic testing of internal controls.

d) Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) Policy;

e) Enterprise-Wide Risk Management Framework;

f) Code of Ethics and Business Conduct that specifies high standards for honesty, integrity, and impartiality for the bank's employees, officers, and directors and provides guidance on avoiding conflicts of interest, self-dealing, and other types of impropriety as specified in the BOFIA or by the Bank. Every director and officer of the bank shall be required to sign the Code of Ethics and Business Conduct;

xiii) Any other information that the CBN may require from time to time.

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

C) The proposed bank shall not incorporate/register its name with the CAC until an AIP has been obtained from the CBN in writing, a copy of which shall be presented to the CAC for registration.

6.2 Requirements for Granting of Final License

Not later than six (6) months after obtaining the A.I.P, the promoters of a proposed PSB shall submit 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 ₦2,000,000.00 (Two Million Naira Only) in bank draft payable to the Central Bank of Nigeria;

ii. Certified True Copy (CTC) of Certificate of Incorporation of the bank;

iii. CTC of MEMART;

iv. CTC of Form CAC 1.1;

v. Evidence of location of Head Office (rented or owned) for the take-off of the business;

vi. Schedule of changes, if any, in the Board and Shareholding after the grant of AIP;

vii. Evidence of ability to meet technical requirements and modern infrastructural facilities such as office equipment, computers, telecommunications, to perform the bank's operations and meet CBN and other regulatory requirements;

viii. Copies of letters of offer and acceptance of employment in respect of the management team;

ix. Detailed resumes of top management staff ;

x. Completed Fitness and Propriety Questionnaire; and sworn declaration of net worth executed by top management staff;

xi. Bank Verification Number (BVN) and Tax Clearance Certificate of each top management staff;

xii. Comprehensive plan on the commencement of the bank's operations with milestones and timelines for roll-out of key payment channels; and

xiii. Board and staff training programme.

6.3 Conduct of Pre-Licencing Inspection

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

a. Check the physical structure of the office building and infrastructure provided for take-off of the PSB;

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;

d. Verify the capital contributions of the promoters; and

e. Verify the integration of its infrastructure with the National Payments System.

6.4 Requirements for commencement of operations

The bank shall, through a letter, inform the CBN of its readiness to commence operations and such information shall be accompanied by one copy 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 bank's infrastructure with the National Payments System.

6.5 Post-commencement Requirements

A PSB shall:

i. Comply with all guidelines and regulations issued by the CBN and other sector regulators.

ii. Maintain adequate accounting system and keep records that capture information which reflect the financial condition of the bank.

iii. Maintain an unimpaired minimum capital at all times.

iv. Always comply with the requirements incidental to the authorization to perform banking operations as stipulated by the CBN.

6.6 Financial Requirements

The minimum capital requirement, application and licensing fees for PSBs are as follows:

Minimum capital	₦5,000,000,000.00
Non-refundable application Fee	₦500,000.00
Non-Refundable Licensing Fee	₦2,000,000.00
Change of name fee	₦1,000,000.00

The CBN may vary these requirements from time to time.

Promoters should note that in compliance with the BOFIA, the investment of the 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 applicant, together with the investment income, if any, after deducting administrative expenses and tax on the income.

7. CORPORATE GOVERNANCE

7.1 The provisions of the CBN code of corporate governance for banks shall be applicable to PSBs.

7.2 The provisions of the Revised Assessment Criteria for Approved Persons' Regime for Financial Institutions shall be applicable to PSBs.

7.3 Where a PSB is a related company to an existing infrastructure provider which provides services to other financial institutions, the PSB shall ensure that its dealings with the infrastructure provider are at arms-length.

8. BUSINESS CONDUCT (FAIR COMPETITION)

A) The following conditions shall guide business conduct between PSBs, their parent companies and other related entities (where applicable):

i. A parent company or any other related entity of a PSB, which renders services to its PSB shall extend similar services to other entities that so desire on the same terms and conditions. In other words, all intra-group transactions shall be at arms-length.

ii. A parent company or any other related entity of a PSB is prohibited from offering any preferential treatment, which negates fair competition, to its subsidiary.

iii. Preferential treatment by a parent company or any other related entity shall, among others, include:

a. Precluding its subsidiary's competitor from using its infrastructure or services.

b. Offering lower quality of service to its subsidiary's competitors.

c. Offering such infrastructure or services at differential pricing

d. Precluding any specific infrastructure or service as may be prescribed by the CBN from time to time.

iv. The parent/associate/related entities of a PSB shall not engage in discriminatory and/or differential pricing in products/services offered to other PSBs and/or CBN licensed institutions.

B) Failure of a parent company or any other related entity to abide by these fair competition clauses may lead to revocation of license of the PSB.

C) All services between the parent company and subsidiary shall be guided by service level agreements and/or shared services agreements which shall be submitted for CBN approval prior to implementation.

9. PRUDENTIAL REGULATION

9.1 Minimum Capital Requirement

i. The minimum capital of PSBs shall be ₦5,000,000,000.00 (Five Billion Naira only) or such other amount that the CBN may prescribe from time to time.

ii. Maintenance of Statutory Reserves by PSBs shall be in line with Section 16 of BOFIA.

iii. The CBN may, as it deems appropriate, require a PSB to maintain additional capital for specific risks.

9.2 Payment of Dividend

A PSB shall not declare or pay dividend on its shares until it has:

i. Completely written-off all its preliminary and pre-operational expenses;

ii. Made adequate provisions to the satisfaction of the CBN for actual and contingent losses;

iii. Satisfied the minimum Capital Adequacy Ratio requirement as stipulated in Section 9.3 of this Regulation;

iv. Met all matured obligations;

v. Comply with all relevant CBN regulations on dividend payments; and

vi. Obtained the approval of the CBN in respect thereof.

9.3 Capital Adequacy Ratio

i. The capital adequacy ratio of a PSB 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 PSBs shall be 10 per cent or as may be prescribed by the CBN from time to time.

ii. Capital measurement approach for PSBs shall be as applicable to Deposit Money Banks (DMBs) or as may be prescribed by the CBN from time to time.

9.4 Investment of Deposit Liabilities

i. PSBs shall maintain not less than 75% of their deposit liabilities in CBN securities, Treasury Bills (TBs) and other short-term federal government debt instruments at any point in time.

ii. PSBs shall have the privilege to make their investments from the CBN window.

iii. All funds in excess of the PSB's operational float should be placed with DMBs.

9.5 Participation in Payment and Settlement System

Payment Service Banks shall participate in the payment and settlement system and have access to the inter-bank and the CBN collateralised repo window for its temporary liquidity management.

9.6 Cash Reserve Requirement

Cash Reserve Requirement shall be prescribed by the CBN from time to time

9.7 Limit of Investment in Fixed Assets (Including Branch Expansion)

Investments in fixed assets by PSBs shall be as may be prescribed by the CBN from time to time.

9.8 Revaluation of Fixed Assets

Requirement for revaluation of fixed asset shall be in line with the Prudential Guidelines for DMBs or as may be prescribed by the CBN from time to time.

10. SUPERVISION OF PAYMENT SERVICE BANKS

10.1 PSBs shall be supervised by the Central Bank of Nigeria.

10.2 Where a PSB is a subsidiary or associate of a legal entity, the entity shall be required to comply with all extant CBN Guidelines and circulars as they relate to the PSB's operations.

10.3 PSBs shall render quarterly returns indicating the number of financially excluded customers on-boarded during the quarter to which the returns relate.

10.4 PSBs shall render such other returns, in such format and frequency, as the CBN may prescribe from time to time.

10.5 All PSBs shall be required to interface with the Nigeria Inter-bank Settlement System (NIBSS) platform in order to promote interconnectivity and interoperability of operations within the Nigeria banking system.

10.6 The rate of charges to be imposed on any CBN regulated institution and/or their customers on mobile payment and other payment platforms by a parent/associate/related entity of any PSB shall be subject to the provisions of the Guide to Charges by Banks, Other Financial and Non-bank Institutions where applicable or subject to prior written approval of the CBN as the case may be.

11. KNOW YOUR CUSTOMER (KYC) REQUIREMENTS

PSBs 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, other extant laws and regulations on KYC issued by the CBN.

11.1 PSBs shall adopt risk-based approach in the conduct of KYC and ensure that every customer complies with the KYC requirements. All accounts shall be subjected to continuous suspicious transactions monitoring and any suspicious transaction shall be reported to the appropriate agency.

11.2 PSBs shall maintain robust, effective and efficient AML/CFT software solutions to monitor thresholds as may be prescribed by the Bank from time to time. They shall also designate officers to monitor compliance.

11.3 For the purpose of KYC, customers under the Tier 1 account category shall require name and phone number as identification requirements.

11.4 Tier 2 and 3 account category customers shall be required to comply with the requirements of Tiered KYC.

12. CONSUMER PROTECTION

The CBN Consumer Protection Framework shall be applicable to PSBs.

13. RISK MANAGEMENT

13.1 Credit Risk Management (Including credit concentration risk)

In accordance with Section 4.2 (i) of this Regulation, PSBs are not permitted to grant any form of loans and advances. As such, the provisions for management of credit risk applicable to DMBs shall not apply to PSBs.

13.2 Capital Measurement Approach for Credit Risk

Without prejudice to Section 13.1 above, Capital measurement approach for credit risk for PSBs shall be as applicable to DMBs or as may be prescribed by the CBN from time to time.

13.3 Management of other Risks

Management of other Risks (such as Market, Operational, Liquidity, Strategic, Information Technology and Reputational Risks) shall be as may be prescribed by the CBN from time to time.

13.4 Internal Controls

i. The provisions regarding internal controls, audit and compliance by the PSBs shall be as applicable to DMBs, with appropriate enhancements to take care of the Information System related aspects and operations through agents.

ii. PSBs shall implement appropriate controls to ensure strict confidentiality of customers' data and information.

14. PAYMENT SYSTEM SECURITY

All CBN regulations on operations of electronic payment channels shall be applicable to PSBs.

15. REVOCATION OF LICENSE

The license of a PSB may be revoked by the CBN subject to any of the following conditions:

i. Failure to comply with any of the provisions of the PSB Guidelines or other circulars and Guidelines issued by the CBN from time to time.

ii. Failure to comply with the provisions of the BOFIA.

iii. Voluntary liquidation by a PSB with prior written approval of the CBN

16. GLOSSARY

For the purpose of this Guidelines, the following terms will have the meanings assigned hereunder:

S/N	TERM	MEANING
1.	Arm's-length	This describes a relationship/dealing between two parties, who act freely and independently of each other (keeping personal relationship aside where this exists). It means that terms of a transaction between related parties should not differ from the terms that would have applied between unrelated persons in a comparable transaction.
2.	Banking Agent	An entity engaged by a financial institution to provide specific financial services on its behalf using the agent's premises.
3.	Coordinating Centre	An office of a PSB that coordinates activities of its financial services touch points within a particular cluster/zone/region.
4.	Financial service touch points	A location where a customer can access basic financial service including cash-in, cash-out and transfers/remittances
5.	Electronic wallet	A pre-loaded system-based account, which may be operated using an electronic device
6.	Rural Areas	Rural areas include villages, settlements, hamlets and the hinterlands, as well as such other areas

S/N	TERM	MEANING
		without adequate banking facilities as may be prescribed by the CBN from time to time.
7.	Service Level Agreement	Service level agreement (SLA) is a contract between a service provider (either internal or external) and the end user that defines the level of service expected from the service provider.
8.	Shared services agreements	Provision of a service by one part of an organization or group where that service had previously been found in more than one part of the organization or group
9.	Significant shareholder	A shareholder who owns (directly or indirectly) up to five per cent of the equity shares of a financial institution
10.	Small Business	This is an independently owned and operated company that is limited in size and revenue, that is, has less than 300 employees and total assets that is less than 100 million Naira

FINANCIAL POLICY AND REGULATION DEPARTMENT
AUGUST 2020

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel:.....09 - 46237401.....
E-mail:fprd@cbn.gov.ng

July 16, 2020

FPR/DIR/CIR/GEN/07/058

CIRCULAR TO ALL NON-INTEREST FINANCIAL INSTITUTIONS

The Central Bank of Nigeria in its efforts to increase access to finance by Non-Interest Financial Institutions and promote financial inclusion in the country, has introduced the following intervention schemes to cater for Non-Interest Financial Institutions (NIFIs):

i. Non-Interest Guidelines for the Accelerated Agricultural Development Scheme (AADS)
ii. Non-Interest Guidelines for Intervention in the Textile Sector
iii. Guidelines for the Operations of the Agri-Business, Small and Medium Enterprises Investment Scheme (AGSMEIS) for Non-Interest Financial Institutions (NIFIs)
iv. Guidelines for Micro, Small and Medium Enterprises Development Fund for Non-Interest Financial Institutions (MSMEDF for NIFIs)
v. Non-Interest Guidelines for Non-Oil Export Stimulation Facility (ESF)
vi. Non-Interest Guidelines for the Anchor Borrowers' Programme
vii. Non-Interest Guidelines for Real Sector Support Facility (RSSF) through CRR
viii. Non-Interest Guidelines for Real Sector Support Facility (RSSF) Revised Guidelines (V3)
ix. Non-Interest Guidelines for the Operations of the Credit Support for the Healthcare Sector
x. Modalities for the Implementation of the Creative Industry Financing Initiative (Non-Interest Version)
xi. Non-Interest Guidelines for the Implementation of the N50 billion Targeted Credit Facility (TCF).

The revised guidelines may be accessed from the CBN website; www.cbn.gov.ng/circulars.asp

For further information, kindly contact the Director, Development Finance Department, Central Bank of Nigeria, Corporate Headquarters, Abuja on 0946238600.

Yours faithfully,

KEVIN N. AMUGO
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA

NON INTEREST GUIDELINES FOR THE ACCELERATED AGRICULTURAL DEVELOPMENT SCHEME (AADS)

---

1. Purpose

The objective of the Programme is to engage a minimum of 370,000 youths in agricultural production across the country over the next three years in order to reduce unemployment among the youths in the country.

2. Objectives of the Scheme

The broad objective of the AADS is to increase agricultural production towards food security, job creation and economic diversification.

a. **The specific objectives** are to:

i. Promotion of National food security in each State through sustained interactions amongst stakeholders in the agricultural value chain;

ii. Collaboration amongst State Governments, the CBN and relevant other stakeholders to create jobs in the agricultural sector, with strong focus on crops where States have comparative advantage; and

iii. Provision of short and medium term funding windows for the implementation of the Scheme

b. **Target Group:**

Nigerian youths within the ages of 18 to 35 years

c. **Focal Activities:**

Two Agricultural Commodities where the state has comparative advantage

3. Operational Framework:

3.1 Mobilization and Clustering

i. State government to mobilize prospective young farmers with representation from all Senatorial Zones

ii. State Governments/FCT to provide agricultural land in contiguous locations in all senatorial Zones. Minimum of 100 hectares per cluster

iii. Prospective entrepreneurs (that meet the eligibility criteria) shall be grouped into clusters by commodity to be produced.

iv. State government to allocate 2-5 hectares of land per beneficiary

v. State Government to provide access roads, water sources and other infrastructure that will enhance agricultural production on the land

vi. States may charge a rental on land (Max. of N10,000 per ha) to defray the cost of land clearing and other infrastructure provided. Rental charged will be embedded in the Economics of Production (EoP') of the farmer.

3.2 Financing:

i. The PFIs will act as agents of the CBN in disbursing the financing to the beneficiaries, which shall be in kind.

ii. The PFIs shall purchase the inputs for on-selling to the beneficiaries, using CBN approved non-interest financing contract of Murabaha, Istisna', etc at an all-inclusive rate of return of 9% p.a. For the financing of labour, the PFI shall use Service Ijarah or any other appropriate CBN approved contract for NIFIs with the same all-inclusive rate of return of 9%.

iii. Financing tenor is 6 months for grains and broiler production (rice, maize, soy bean etc); 18 months for cassava; 24 months for egg production and ruminants; 5 years for plantation crops etc

iv. Average financing size of N250,000 per ha for arable crops; N500,000 per unit for livestock; and N1.5 million naira for plantation crops like cocoa, cashew and oil palm.

3.3 Marketing:

i. Anchors/Processors/Aggregators shall sign uptake agreement with PMT.

ii. Produce off-take shall be on cash and carry basis.

iii. Contiguous nature of farms should reduce the logistics associated with aggregation.

3.4 Eligibility:

i. Beneficiary must be a Nigerian youth with the ages of 18 to 35 years

ii. Sign an undertaking to abide by the terms of agreement of the Scheme

4. Stakeholders:

4.1 Central Bank of Nigeria (CBN) shall:

i. Provide the fund.
ii. Act as Managing Agent.
iii. Be represented on the Programme Management Team.
iv. Issue and review modalities and operating guidelines from time to time.
v. Provide regulatory and supervisory oversight.
vi. In conjunction with other stakeholders, monitor, evaluate and conduct impact assessment of the programme.
vii. Provide periodic reports on the programme.

4.2 Federal Government of Nigeria (FGN) shall:

i. Provide strategic direction for the implementation of the Scheme through the Presidential Task Force
ii. Enhance inter-agency collaboration to provide resource optimization and synergy.
iii. Align programme objectives to National economic growth and development.
iv. Review programme objectives and activities from time to time.

4.3 State Governments/FCT shall:

i. Express interest to participate to the Presidential Task Force and choose 2 commodities or farming enterprise where the State enjoys comparative advantage.

ii. Provide enabling environment for implementation of the scheme.
iii. Inaugurate the Project Management Team.
iv. Provide cleared and contiguous farm lands for beneficiaries under the Scheme.
v. Provide accessible road and water sources.
vi. Provide basic livestock production facilities (ONLY for States involved in livestock production).
vii. Provide security for farm lands.
viii. Enrol extension officers to coordinate production and disseminate information on best agronomic practices.
ix. Training beneficiaries on best agronomic practices and other value chain support information.
x. Allocate 1-3 hectares of farm land or 1-3 units of livestock to beneficiaries.
xi. Provide logistics support for the effective operations of the PMT.
xii. Approve sanctions for erring input suppliers, service providers, anchors/processors, beneficiaries, and other stakeholders under the Scheme.

4.4 Project Monitoring Team shall:

i. Coordinate the implementation of the Scheme and ensure its success.
ii. Sign agreements with input suppliers, service providers, and anchors/processors that are willing to participate under the Scheme. Such agreements should stipulate that payment will be made with 30 working days of delivery
iii. Liaise with input suppliers, service providers, commodity associations, and anchors/processors to ensure fair pricing, timely delivery of inputs and effective marketing of produce
iv. Hold town hall meetings with all input suppliers and farmers representatives to agree on the Economics of Production (EoP) per hectare or per unit of livestock before fund disbursement for each production cycle
v. Verify payment to input suppliers or service providers based on actual inputs supplied or services provided

vi. Advise the CBN for payment to inputs suppliers or services providers through a formal letter, stating names and BVN of beneficiaries, faming activity, farm location, type and quantity of inputs supplied or services provided, date supplied or provided, agreed unit price, total amount per beneficiary, total amount payable to vendor etc.

vii. Ensure that the projects are insured with Nigeria Agricultural Insurance Corporation (NAIC)

viii. Ensure prompt payment of premiums to NAIC and follow up on all cases of claims by beneficiaries

ix. Provide routine reports on production statistics, inputs supplied, services delivered, average output per hectare/unit for each enterprise, total output for each enterprise in each production cycle etc

x. Recommend sanctions for erring input suppliers, service providers, anchors/processors, beneficiaries, and other stakeholders under the Scheme

4.5 Participating Financial Institution (PFI) shall:

i. Conduct due diligence in account opening and credit appraisal.

ii. Access funds from the CBN on Wakala basis for on-financing to eligible entrepreneurs.

iii. Ensure that payments are made directly to vendors in respect of equipment to be acquired with the purchased facility and the PFI takes lien on such assets.

iv. Charge the entrepreneurs the exact rate of return as prescribed by the CBN.

v. Monitor the beneficiaries to ensure full utilization of the facilities.

vi. Register beneficiaries' BVN on the National Collateral Registry (NCR).

vii. Monitor projects.

4.6 Input Suppliers/Service Providers shall:

i. Ensure timely delivery of inputs/services

ii. Provide technical support on usage wherever it is required

iii. Replace deficient inputs supplied to beneficiaries within 5 working days of receiving such complaints by beneficiaries

iv. Provide effective customer services to feedback and complaints management

4.7 Anchors/Processors shall:

i. Sign off-take agreement with the PMT
ii. Off-take produce at the prevailing market price or average of 3 prices within the State
iii. Make payment for all produce collected within 5 working days of collection
iv. Provide logistics for produce aggregation and evacuation
v. Provide technical support for harvesting and handling of produce

4.8 Beneficiaries shall:

i. Be responsible for the management of the farm
ii. provide third party guarantor for repayment of financing facility.
iii. Cross guarantee one another
iv. Must agree to work with extension workers
v. Commit to abide by the terms of agreement and not to side sell produce
vi. Repay the financing facility as and when due by surrendering the output to the Anchor or State

4.9 Nigeria Agricultural Insurance Corporation (NAIC) shall: provide insurance cover for agricultural enterprises.

5. Infractions and Sanctions - Participating Financial Institutions (PFIs)

i. Diversion of funds by the PFI shall attract a penalty at its maximum financing rate at the time of infraction. In addition, such PFI shall be barred from further participation under the scheme;
ii. Non- rendition or false returns shall attract the penalty stipulated by BOFIA section 60;
iii. Charging rate of return higher than prescribed shall attract the penalty stipulated by BOFIA section 60;

iv. Any PFI that fails to disburse the fund within the stipulated days of receipt to the borrower, shall be charged penalty at the PFI's maximum financing rate for the period the fund was not disbursed;

v. Failure to remit repayments received to CBN within the stipulated period shall attract penalty at the PFIs maximum financing rate.

The CBN reserves the right to impose the appropriate sanction in respect of any other breach of the guidelines not specified in this section.

Central Bank of Nigeria

June 2020

CENTRAL BANK OF NIGERIA
NON-INTEREST GUIDELINES FOR INTERVENTION IN THE TEXTILE SECTOR

1.0 Introduction

The Central Bank of Nigeria in a bid to resuscitate the Textiles Industry has put in place a N50 billion special mechanism for restructuring of existing facilities and provision of further facilities for textile companies with genuine need for intervention. This was the result of the meetings between the Governor and owners of textile mills in Nigeria on August 7, and September 29, 2015. Among the resolutions reached were that the Textile Mills articulate the status of their BOI CTG Loans stating their outstanding loan balances, tenure, interest rate, interest payment and the assistance being sought from CBN.

2.0 Activities to be covered Under the Intervention

The activities to be covered under the Intervention shall include operations in the CTG value chain as follows:

- Cotton ginning (lint production)
- Spinning (yarn production)
- Textile mills
- Integrated garment factories (for military, para-military and schools and other uniformed institutions)

3.0 Types of Facilities

- Refinancing of existing projects
- Long term financing for acquisition of plant and machinery
- Working capital

4.0 Eligibility Criteria for Participation in the Scheme

Textile Companies shall meet the following criteria to be eligible:

- Any textile company with an existing facility in the books of BOI under the CTG scheme (emphasis will be on facilities that are indicating weakness arising from tenor, structure as well as facing cash flow difficulties)
- Any textile company with existing facilities in DMBs/NIFIs
- Textile companies that are not participating under the SME/RRF
- Projects financed before June 2009 (inception of the BOI CTG Loan) shall not be eligible to participate.

5.0 Modalities of the Fund

i. Seed Fund

This is a one-off intervention with a seed fund of N50 billion and will terminate by December 31st 2025.

ii. Financing Amount

Financing amount is a maximum of N2 billion for a single obligor in respect of new facilities and N1.0 billion for refinancing.

iii. Rate of Return

- The Fund shall be administered at an all-in rate of return of 4.5 percent per annum payable on quarterly basis.
- The managing agent (BOI) shall receive 1.0% service charge from the return proceeds and remit 3.5% to CBN.

6.0 Financing Tenor

(i) Facilities shall have a maximum tenor of 10 years and or working capital facility of one year with provision for a maximum roll over of 3 years.

(ii) The Intervention allows for a maximum moratorium of 2 years in the facility repayment schedule.

7.0 Mechanism for Participation under the Intervention

7.1 Restructuring

Existing benefiting companies would submit requests to BOI for consideration on case by case basis. The BOI's consideration of the applications shall be subject to approval by the CBN.

7.2 Refinancing

- Each request must be accompanied with the following documents:

  i. Request from DMBs seeking to transfer the facilities to BOI
  ii. Three (3) years financials including the latest management account of the obligor
  iii. Copies of duly executed offer documents between the bank and the obligor evidencing existence of a facility.
  iv. 6 months loan account statements showing the current exposure
  v. An abridged business plan of the underlying project for which the facility was initially approved. The plan must include the projects cash flow projections detailing the repayment schedule.
  vi. Certificate of Incorporation evidencing the incorporation of the Company with the Corporate Affairs Commission
  vii. Evidence of proposed employment generation by the benefiting company.

- Within 14 days of the receipt of the banks' requests, BOI shall inform the companies of the status of their application and also advise each company of the amount of its facility that shall be refinanced
- BOI shall forward the applications to CBN for approval and release of funds.

7.3 Requests for New Financings

- Each request must be accompanied with the following documents:

i. Application from prospective companies seeking to access new facilities from BOI
ii. Three (3) years financials including the latest management account of the obligor
iii. CRMS report
iv. 12 months bank account statements
v. A detailed feasibility study/business plan of the underlying project for which the financing is being sought
vi. Certificate of Incorporation
vii. Evidence of proposed employment generation by the company.

8.0 Verification/Monitoring of Projects

(i) The project shall be subject to inspection by the CBN and BOI before approval.

(ii) Monitoring would also be conducted by the CBN and BOI in the course of the life cycle of the project.

9.0 Responsibilities of Stakeholders:

For the effective implementation of the Intervention and for it to achieve the desired objectives, the responsibilities of the stake holders shall include:

a. The CBN

The Central Bank of Nigeria shall:

- Articulate clear modalities for the implementation of the Intervention
- Provide Fund for the Intervention
- Determine the limits of the Fund.
- Specify the rate at which BOI will finance under the Scheme
- Carry out verification of projects with BOI under the Programme before approval.

- Monitor the implementation of the Fund with BOI and publish periodic reports on its performance.
- Request BOI to render quarterly returns as may be specified from time to time.
- Build capacity of stakeholders
- Review the modalities

b. Bank of Industry (BOI)

The BOI shall:

- Restructure/refinance existing facilities
- Finance under the intervention at 4.5% using any of the CBN-approved non-interest financing instruments. These include:
    - Murabahah (cost plus mark-up sale) for acquisition of plant and machinery;
    - Ijarah (lease-to-own);
    - Istisna' (manufacture/construction and sale)
    - Diminishing Musharakah (diminishing contractual partnership) for asset acquisition and working capital financing.
- Put in place appropriate institutional arrangements for appraising, disbursing, monitoring and recovering the amount obtained under the Intervention.
- Submit amortization schedules of projects to CBN
- Render quarterly returns on the participation of companies to the CBN
- Remit repayment by beneficiaries on a quarterly basis to CBN

c. Beneficiaries

The beneficiaries shall:

- Utilise the funds for the purpose for which it was granted.
- Ensure prompt repayment of facilities

- Ensure the project being financed adhere strictly to the terms and conditions of the Intervention
- Make the project and records available for inspection/verification by the CBN and BOI

  Comply with the guidelines of the Intervention

10.0 Discontinuation of the intervention

Whenever a financing is fully repaid or the facility is otherwise discontinued, BOI shall return the funds to CBN within 7 working days.

11.0 Amendments

These Guidelines shall be subject to review from time to time as may be deemed necessary by the CBN.

12.0 Enquiries and Returns

All enquiries and returns should be addressed to:

The Director,
Development Finance Department
Central Bank of Nigeria, Corporate Headquarters
Central Business District, Abuja.
Telephone No: 234-09-46239211

Central Bank of Nigeria,
Abuja.

June 2020

CENTRAL BANK OF NIGERIA

Guidelines for the Operations of the Agri-Business, Small and Medium Enterprises Investment Scheme (AGSMEIS) for Non-Interest Financial Institutions (NIFIs)

1.0 Introduction

1.1 The Agri-Business, Small and Medium Enterprise Investment Scheme (AGSMEIS) (hereinafter called AGSMEIS or the Scheme) is an initiative of the Bankers' Committee established at its 331st Meeting held on February 9, 2017.

1.2 The Scheme supports government's policy measures and efforts for the promotion of agricultural businesses, micro, small and medium enterprises (MSMEs) as vehicles for sustainable economic development and employment generation.

2.0 Objectives of the Scheme

The objectives of the Scheme are to:

2.1 Improve access to affordable and sustainable finance by Agri-businesses, Micro, Small and Medium Enterprises (MSMEs)

2.2 Create employment opportunities in Nigeria

2.3 Boost the managerial capacity of agri-businesses and MSMEs to grow the enterprises into large corporate organizations in line with Federal Government's agenda to develop the real sector and promote inclusive growth.

3.0 Activities covered by the Scheme

Eligible activities under the Scheme are:

3.1 Businesses across the agricultural value chain, covering production, inputs supply, storage, processing, logistics and marketing.

3.2 MSMEs in the real sector including manufacturing, mining and petrochemicals.

3.3 MSMEs in the service sector including information and communication technology (ICT) and the creative industry.

3.4 Other activities as the Central Bank of Nigeria (CBN) may determine from time to time.

3.5 Financing under the Scheme shall be for start-ups, business expansion or revival of ailing companies and shall be in compliance with provisions of BOFIA (1991) as amended and the principles underpinning operations of NIFIs.

4.0 Funding

4.1 A Fund to be known as 'AGSMEIS Non-Interest Fund' to be domiciled in a dedicated account with the CBN is to be created.

4.2 Each Non-Interest Deposit Bank, full-fledged or window, shall set aside 5% of its profit after tax (PAT) annually as contribution to the Fund.

4.3 Each Non-Interest Deposit Bank shall transfer its contribution to the CBN not later than 10 working days after the Annual General Meeting (AGM) of the participating bank.

5.0 Governance of the Scheme

5.1 Board of Directors (BOD)

The Scheme shall have a Board of Directors (BOD) which shall be constituted by the Bankers' Committee. The Board shall comprise of eight members:

i. Five from the Bankers' Committee (Top contributing banks to the Scheme)

ii. Two representatives of the CBN (DDFD and DBSD)

iii. The BOD shall select a Chairman for the Board

iv. The Managing Director/CEO of the SPV shall be appointed by the BOD.

5.2 Investment Vehicle

A Special Purpose Vehicle (SPV) shall be established to manage and monitor investments/projects under the Scheme.

5.3 Secretariat

The Development Finance Department of the Central Bank of Nigeria shall serve as the Secretariat for the Scheme.

6.0 Application of the Fund

The application of the Fund shall be categorised into three broad components: debt, equity and developmental components.

- Debt – 50%
- Equity – 45%
- Developmental – 5%.

7.0 Debt Component

The debt component shall constitute 50% of the fund which shall be disbursed as financings to eligible businesses through Non-Interest Deposit Money Banks. The debt component shall comprise term financing (including equipment finance*) and/or working capital where applicable.

*Asset purchased shall be registered with the National Collateral Registry (NCR).

The terms of the financings shall be as follows:

i. Financing limit: N10,000,000

ii. Mark-up: 5% per annum

iii. Tenor: Up to 7 years (depending on the nature/gestation period of the project)

iv. Moratorium: Maximum of 18 months for principal and 6 months on mark-up.

7.1. Documentation Requirements

7.1.1 Micro, Small and Medium Enterprises:

i. Duly completed application form.

ii. Bank Verification Number (BVN).

iii. Certificate of Training from recognised Entrepreneurship Development Institution (EDI) or evidence of membership of organised private sector association.

iv. Letter of Introduction from any of the following: Clergy, Village Head, District Head, Traditional Ruler, senior civil servant etc (for individuals/microenterprises only).

v. Evidence of registration of business name or certificate of incorporation and filing of annual returns (where applicable) in compliance with the provisions of the Companies and Allied Matters Act (1990).

vi. Tax Identification Number (TIN) and current Tax Clearance Certificate (TCC) where applicable.

7.2 Modalities:

7.2.1 Micro, Small and Medium Enterprises:

i. Eligible applicants shall submit **completed** application form to the EDIs, Apex Trade Associations (ATAs) or Non-Interest Deposit Money Banks where applicable.
ii. The EDIs, ATAs and Non-Interest Deposit Money Banks shall collate, appraise and submit applications to CBN.
iii. An eligible applicant shall submit an application to any of the PFIs.
iv. The PFI shall appraise and forward successful applications to the SPV.
v. The SPV shall review the applications for completeness, approve and forward to the CBN
vi. The CBN shall release funds to the PFIs as agents of the SPV for asset purchase.
vii. The PFI shall purchase the asset on behalf of the SPV for on-selling to the applicant using exchange-based contracts of Murabaha, Salam or Istisna'a at a mark-up of 5% which is due in whole to the SPV.
viii. The PFI shall transfer the financed asset through any of the approved exchange-based contracts to beneficiaries within 10 working days from its acquiring the asset on behalf of the SPV.
ix. The beneficiaries shall start making payments after a moratorium of 18 months for principal and 6 months for mark-up.

8.0 Equity/Corporate Debt Financing Component

The indirect component shall constitute 45% of the Fund which shall be channelled through SEC-licensed Islamic Fund Managers or Windows, for equity, quasi-equity and non-equity financing in agri-businesses and SMEs.

8.1 Equity investment

The terms of the equity investment shall be as follows:

i. Limit: 40% of investee company's equity subject to a maximum of N2,000,000,000

ii. Tenor: Up to 10 years with an initial lock-up period of 3 years.

The Articles of Association of the investee company shall not have a covenant prohibiting divestment of equity investment of the Scheme.

At the time of divestment, shareholders of the investee company shall have the right of first refusal.

Other terms to be determined by the Fund Manager, subject to compliance with the principles of non-interest banking and finance".

8.2 Quasi-equity Investment

The Quasi-equity investment shall include convertible Sukuk.

i. Limit: subject to a maximum of N2,000,000,000

ii. Tenor: Up to 10 years

Other terms to be determined by the Fund Manager, subject to compliance with the principles of non-interest banking and finance".

8.3 Non-Equity Financing

The debt financing shall include investment in, Shari'ah-compliant commercial papers and corporate Sukuk etc (excluding investment in Government bonds and Sukuk) of investee companies. The portfolio shall be managed by the Fund Managers under the oversight of the SPV.

Limit: Maximum of N2,000,000,000

Sukuk Coupon Rate: 5% per annum

Tenor: Up to 10 years (depending on the nature/gestation period of the project)

Moratorium: Maximum of 6 months for coupon payment.

8.4 Modalities:

i. An eligible applicant shall submit application to the Fund Manager.

ii. The Fund Manager shall appraise and forward successful application(s) to the SPV for approval.

iii. The SPV shall forward approved applications to the CBN for disbursement of fund to the investee company.

9.0 Developmental Component

The developmental component of the Scheme shall be for capacity building and technical assistance to MSMEs as well as operational costs of the Scheme. It shall constitute 5% of the Fund.

10.0 Risk Management

The SPV shall develop a risk management framework for the Scheme which shall be approved by the Board. The following risk management procedures shall apply:

10.1 Direct Component

i. All financings granted under the direct component shall be subject to the internal investment policy of the PFIs.
ii. PFIs shall bear the credit risk of the financings granted.
iii. PFIs shall accept all eligible collateral including movable assets registered with the National Collateral Registry (NCR) and other registries.

10.2 Indirect Component

i. Investment agreement shall be entered into between the parties which shall include exit arrangements.
ii. The Fund Managers shall render quarterly risk management reports on investments to the CBN and SPV.
iii. Submission of an Investment Committee Memo confirming due diligence on the Company and the feasibility of the project financed.

11.0 Monitoring and Evaluation

There shall be regular joint monitoring and evaluation of projects by the CBN, SPV, Fund Managers and PFIs. Reports of the exercise shall be submitted to the Board.

12.0 Responsibilities of Stakeholders

In order to achieve the desired objectives of the scheme, the responsibility of the stakeholders shall include:

12.1 The Central Bank of Nigeria

The CBN shall:

i. Articulate clear guidelines for the implementation of the Scheme;
ii. Ensure that 5% of profit after tax of each Non-Interest DMB is set aside for the Scheme
iii. Monitor the implementation of the Scheme;
iv. Ensure that the PFIs and Fund Managers comply with this Guidelines;
v. Build capacity of stakeholders;
vi. Disseminate information on the Scheme to Agri-Business, MSMEs and other stakeholders;
vii. Be the custodian of the Fund;
viii. Provide periodic reports to its Management on the performance of the Scheme;
ix. Maintain the database of all investments under the Scheme.

12.2 The Bankers' Committee

The Bankers' Committee shall:

i. Appoint a Board of Directors to oversee the Scheme;
ii. Obtain the cooperation of all stakeholders;
iii. Disseminate information on the Scheme to Agri-business, MSME promoters and the public;
iv. Monitor the implementation of the Scheme;

12.3 Board of Directors (BOD)

The Board of Directors shall:

i. Provide policy direction for the implementation of the Scheme
ii. Make presentation and recommendations to the Bankers' Committee on the Scheme
iii. Appoint the Management team of the SPV
iv. Approve the terms and conditions of the staff of the SPV

v. The Board shall appoint indigenous private equity managers to act as Fund Managers
vi. Determine the fees of the Fund Managers
vii. Appoint representatives with relevant skills on the Board of the investee company.
viii. Perform all other duties as may be prescribed by the Bankers' Committee from time to time.

12.4 Special Purpose Vehicle (SPV)

The Special Purpose Vehicle shall:

i. Review applications from Fund Manager(s) and forward to the Secretariat for disbursement;
ii. Hold and manage investments in SMEs on behalf of the Scheme
iii. Appoint representative(s) to the Board of the investee company
iv. Participate in joint monitoring of projects and submit reports to the Board
v. Provide audited statement of accounts to stakeholders
vi. Maintain the database of all investments under the Scheme;
vii. Render reports on the Scheme
viii. Comply with the guidelines of the scheme

12.5 Fund Managers

The Fund Manager shall:

i. Identify suitable private equity SMEs for investment
ii. Conduct due diligence on applications submitted
iii. Submit an Investment Committee Memo on companies being financed
iv. Report on the activities of the investment to the CBN and SPV on a monthly basis
v. Provide technical support to agri-business and MSMEs to minimise the risk of the investments
vi. Remit proceeds of dividends from investment to the Fund within 10 days of receipt
vii. Remit 5% Sukuk coupon rate on non-equity financing component to the Fund within 10 days of receipt
viii. Exit the investment and remit proceeds to the CBN at the end of investment
ix. Maintain a database of their investments under the Scheme;
x. Prepare the risk management report on their portfolios
xi. Comply with the Guidelines of the Scheme

12.6 Participating Financial Institutions

The PFIs shall:

i. Develop operational, credit and accounting framework for the Scheme

ii. Transfer the financed asset through any of the CBN-approved non-interest financing contracts to the investee company.

iii. Maintain records of their investment in the appropriate books;

iv. Conduct due diligence and appraise the applications to be submitted to SPV

v. Remit monthly principal settlements to the CBN.

vi. Retain 2.5% mark-up on the financing and remit 2.5% to the Fund.

vii. Comply with this Guidelines

viii. Carry out any other duties as the CBN/Bankers' Committee may prescribe from time to time.

12.7 Beneficiaries

Beneficiaries shall:

i. Allot shares and issue Sukuk certificate of investment to the SPV (where applicable)

ii. Ensure prudent utilisation of funds

iii. Keep up-to-date records on the companies' activities under the Scheme;

iv. Make the companies' books, records and structures available for inspection by the appropriate authorities (including the Fund Manager, the SPV and the CBN)when required;

v. Comply with Guidelines of the Scheme.

13.0 Infractions and Sanctions

A PFI/Fund Manager that:

(i) Diverts funds shall be liable to a penalty at the MPR (at the time of infraction) +300 basis points of the diverted funds. In addition, such PFI/Fund Manager shall be barred from further participation in the Scheme;

(ii) Fails to disburse/invest the fund or transfer the financed asset within 14 days of receipt to the investee shall be liable to a penalty at the MPR+300 basis points for the period the fund was not disbursed or asset not transferred;

(iii) Fails to repatriate funds realized from divestment from investee projects within 5 working days to the CBN shall be liable to a penalty at the MPR + 300 basis points for the period the fund was not repatriated.

(iv) Any breach of this Guidelines shall attract penalties as prescribed under the provisions of the BOFIA.

14.0 All enquiries should be addressed to:

Director,
Development Finance Department,
Central Bank of Nigeria, Corporate Headquarters
Central Business District
Abuja.
Tel: No.: +234 9 4623 8600

15.0 Amendments

This Guidelines shall be subject to review from time to time by the Central Bank of Nigeria.

CENTRAL BANK OF NIGERIA
June 2020

APPENDIX

Definition of Terms

1.0 Bankers' Committee

The Bankers' Committee is made up of the Governor of the CBN, the Managing Director of the Nigeria Deposit Insurance Corporation (NDIC) and the Managing Directors/CEOs of all non-interest DMB in Nigeria.

2.0 Agribusiness

Agribusiness in the context of these guidelines shall be a business involved in any of the agricultural value chain including production, processing, storage and logistics.

3.0 Profit after tax (PAT)

The PAT shall be the profit of a participating bank after making provisions for company income tax.

4.0 Participating Financial Institutions (PFIs)

Any Deposit Money Bank or Microfinance Bank licensed by the Central Bank of Nigeria to provide banking services in Nigeria.

5.0 Investee Company

Investee Companies is a company in which the Fund Managers make equity investment on behalf of the Bankers' Committee.

6.0 Bankers' Committee

The Bankers' Committee is a committee comprising the Central Bank of Nigeria, the Nigerian Deposit Insurance Corporation, Deposit Money Banks, Discount Houses and Merchant Banks operating in Nigeria.

7.0 Board of Directors

A board constituted by the Bankers' Committee to conduct due diligence on applications received from the participating banks/Fund Managers

8.0 Fund Managers

Private equity investors licensed by SEC and appointed by the BOD

CENTRAL BANK OF NIGERIA

GUIDELINES FOR MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT FUND FOR NON-INTEREST FINANCIAL INSTITUTIONS (MSMEDF FOR NIFIs)

CHAPTER ONE

1.0 ESTABLISHMENT OF THE FUND

As part of its developmental role and mandate of promoting a sound financial system, the Central Bank of Nigeria (CBN) launched the Micro, Small and Medium Enterprises Development Fund (MSMEDF) on August 15, 2013. This was in recognition of the significant contributions of the Micro, Small and Medium Enterprises (MSME) sub-sector to the economy.

The sub-sector is characterized by huge financing gap which hinders the development of MSMEs. Section 6.10 of the Revised Microfinance Policy, Regulatory and Supervisory Framework for Nigeria, stipulates that 'a Microfinance Development Fund shall be set up, primarily to provide for the wholesale funding requirements of MFBs/MFIs'. To fulfil the provisions of Section 4.2 (iv) of the Policy, which stipulates that women's access to financial services to increase by at least 15 per cent annually to eliminate gender disparity, 60 per cent of the Fund has been earmarked for providing financial services to women.

This informed the decision of the Central Bank of Nigeria to establish the Micro, Small and Medium Enterprises Development Fund (MSMEDF). The Fund prescribes 50:50 ratio for on-financing to micro enterprises and SMEs respectively by Participating Financial Institutions (PFIs).
In addition, 2% of the wholesale component of the Fund shall go to economically active persons living with disabilities (PLWD) and 10% provided for start-up businesses.

1.1 Seed Capital

The Fund shall have a take-off seed capital of N220billion.

1.2 Objective

The broad objective of the Fund is to channel low return funds to the MSME sub-sector of the Nigerian economy through Participating Financial Institutions (PFIs) enhance access by MSMEs to financial services;

- Increase productivity and output of microenterprises;
- Create jobs; and
- Engender inclusive growth.

1.3 Components of the Fund

The Fund shall have Commercial and Developmental components.

1.4 Commercial Component

The Commercial Component shall constitute 90 per cent of the Fund which shall be disbursed in the form of Wholesale Funding to PFIs in the following ratio:

- 60% of the Fund: Women
- 40% of the Fund: Others

Objectives of Wholesale Funding are to:

a) Provide facilities to eligible PFIs for on-financing to MSMEs;

b) Improve the capacity of the PFIs to meet credit needs of MSMEs; and

c) Reduce the rate of financing to the PFIs and the beneficiaries

1.5 Developmental Component

The Developmental Component makes up the remaining 10 per cent of the Fund. It shall be earmarked for developmental programmes in form of Grants.

1.5.1 Grant

The 10% Grant shall be utilized for the general development of the MSME sub-sector in the following areas:

a) Capacity building

b) Development of appropriate regulatory regime for MSMEs financing

c) Financial literacy and entrepreneurship development

d) Mobilization, training and linkage of MSMEs to financial services

e) Research and Development of MSMEs-friendly financial innovations and products

f) Business Development and Advisory Services

g) Building of financial infrastructure to support the growth of MSMEs

It shall also serve as incentive targeted at PFIs that demonstrate good performance under the Fund. The grant will position such institutions with improved capacity to expand their outreach.

In order to qualify for the grant, PFIs shall be considered based on their outreach, repayment records and percentage of women enterprises financed. In applying for the grant, a PFI shall submit clearly defined project(s) including sources of funding. A PFI shall be allowed to access the grant window up to a maximum of 25% of the project cost and at the discretion of the CBN once in three years.

Other uses of the Grant sub-component include supporting internship programme, secondment, mentoring and registration with Mix Market, rating agencies, credit bureau and movable asset registry.

The Fund shall review all proposals taking into account the capacity, organization and the proposed programs of all applicants before they are considered for the Grant. Priority shall be accorded to PFIs based in the rural areas to promote financial inclusion.

In addition, special consideration shall be given to PFIs that have signed Memorandum of Understanding (MoU) with the Central Bank of Nigeria's Entrepreneurship Development Centers (EDCs) to provide access to credit to their graduate trainees.

1.5.2 Selection Criteria

a) PFIs shall submit request to the Fund in a format prescribed by the CBN.

b) Applications shall be processed on receipt of complete documentation.

c) The CBN shall communicate the terms and conditions for the approved Grant within one month of submission.

1.6 Management and Administration of the Fund

The Fund shall have a Steering Committee chaired by the Governor, Central Bank of Nigeria. Other members shall include:

1. Deputy Governor, Financial Systems Stability, CBN and

Representatives of:

2. Federal Ministry of Finance Incorporated (MoFI)
3. Federal Ministry of Agriculture and Rural Development (FMA&RD)
4. Nigeria Deposit Insurance Corporation (NDIC)
5. National Association of Microfinance Banks (NAMB)
6. Association of Non-Bank Microfinance Institutions of Nigeria (ANMFIN)
7. Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)
8. Banker's Committee
9. Ministry of Women Affairs and Social Development (MWA&SD)
10. Director, Development Finance Department of CBN

11. Head, MSME Development Fund Office, Development Finance Department, CBN (Secretary)

The CBN shall continue to manage the Fund until a Managing Agent is appointed.

1.7 Eligible Enterprises

In line with the provisions of the Revised Microfinance Policy, Regulatory and Supervisory Framework for Nigeria, enterprises to be funded under the Scheme shall be:

a) Micro Enterprises

b) Small and Medium Enterprises (SMEs)

The following are eligible activities under the Fund:

Microenterprises

- Agricultural value chain
- Cottage Industries
- Artisans
- Services
- Renewable energy/energy efficient product and technologies
- Trade and general commerce
- Other economic activities as may be prescribed by the CBN

Note:

- Only 10% of the Commercial component of the Fund shall be channeled to trade and general commerce.
- Nigerian Agricultural Insurance Corporation (NAIC) Insurance is compulsory for primary agricultural production

Small & Medium Enterprises (SMEs)

- Manufacturing
- Agricultural value chain activities
- Services

Renewable energy, energy efficient product and Technologies
- Other economic activities as may be prescribed by the CBN

Note: (i) Refinancing under this programme is strictly prohibited.
(ii) All activities under the programme shall be in compliance with the principles underpinning the operations of Non-Interest Financial Institutions (NIFIs).

1.8 Special Economic Programmes
Special schemes or programmes on economic empowerment and grassroots development shall be eligible to access the Fund through PFIs.

CHAPTER TWO

2.0 ELIGIBILITY AND TERMS FOR PARTICIPATION

The PFIs that can participate under the fund shall include all Microfinance Banks including Non-Interest Microfinance banks, Non-Governmental Organizations-Microfinance Institutions (NGO-MFIs), Financial Cooperatives Finance Companies, Development Finance Institutions and Deposit Money Banks including Non-Interest Deposit Money Banks. The Bank of Industry (BoI) and Deposit Money Banks (DMBs) shall participate only under the SMEs window.

2.1 Non-Interest Microfinance Banks & Finance Companies
For a non-interest microfinance bank or finance company to be eligible for wholesale funding, it shall submit the following documents with its application:

a) Latest CBN or NDIC Examination Report

b) Current Audited or Management Accounts

c) Certificate of Incorporation or Registration

d) Board Resolution or Trustee consent to access the Fund

e) Membership of Apex Association

f) Any other requirement stipulated by the CBN.

2.2 Microfinance Institutions (NGO-MFIs and Financial Cooperatives)

a) Registration with Corporate Affairs Commission (CAC) or Relevant Ministries, Departments and Agencies (MDAs) of States/FCT.

b) Board Resolution or Trustee consent to access the Fund

c) Corporate, Trustee and Management profile

d) Financial asset of the institution or the third-party guarantor

e) Twelve (12) months Statement of Account

f) Current Audited Account or Management Account

g) Membership of the Apex Association

h) Any other requirement as stipulated by the CBN from time to time.

2.3 Other Requirements for Participation by PFIs (Excluding DMBs & DFIs)

All applications shall be accompanied with the following documents:

a) Completed Application Form

b) List of prospective beneficiaries (showing the financing amount, purpose of the financing, contact addresses, telephone numbers and gender)

c) Evidence of submission of names of beneficiaries to licensed Credit Bureaux for credit check

d) Letter authorizing CBN to debit PFIs account with correspondent bank for the recovery of principal and any other associated payments in case of default.

2.4 Non-Interest Financial Institutions

For a NIFI to be eligible to access the Fund, it shall satisfy the following conditions:

a) Sign an MOU with the CBN.

b) Report of due diligence on the project

c) Undertake to bear all the credit risks of the financings.

2.5 PFI Limit per Cycle

The maximum financing amount per cycle to a NIFI shall be as indicated in the table below or 50% of its Shareholder's Fund unimpaired by losses whichever is higher.

a) PFIs

S/No.	NIFI	Facility Limit
1	Unit Microfinance Bank	N10 million
2	State Microfinance Bank	N50 million
3	National Microfinance Bank	N500 million
4	Finance Companies	N10 Million

b) Beneficiaries

The structure and limits of financings to beneficiaries of PFIs are as shown in the table below:

Enterprise	%	Maximum Financing Limit (N)
Micro	50	500,000
SMEs (financed by NIMFBs)	50	5,000,000
SMEs (financed by NIFIs)		50,000,000

2.6 Financing Tenor

The facility shall have a maximum tenor of one (1) year for micro enterprises. Financing tenor for SMEs shall be from one (1) to five (5) years with the option of moratorium as may be deemed necessary. PFIs shall re-access the fund upon full repayment of the outstanding.

2.7 Financing Repayment

Principal and Profit repayment for micro and SME financings shall be annually.

2.8 Rates of Return

All PFIs shall access funds at a is targeted rate of 2% per annum based on a restricted Mudarabah contract between the CBN as fund provider and the PFI as manager. The restricted Mudarabah shall be based on a business plan to be submitted by the PFI to the CBN confirming the PFI's commitment to achieve the 2% targeted rate of return.

The PFI shall on-finance to beneficiaries at 9% per annum inclusive of all charges using non-interest financing contracts approved by the CBN for NIFIs.

The rate of return chargeable under the MSMEDF may be reviewed by the Central Bank of Nigeria from time to time.

2.9 (a) Acceptable Collateral from PFIs (excluding NIFIs)

Collateral requirement under the Fund shall be a minimum of 30% of the financing amount requested.

Any of the following collateral shall be accepted as security for financings to PFIs:

(i) Non-Interest Financial Assets including CBN Safe Custody Account (CSCA), CBN Non-Interest Note (CNIN) and CBN Asset-Backed Securities (CBN-ABS) and Sukuk given regulatory treatment by the CBN.

(ii) Third Party Guarantee backed by financial assets.

However, collateral shall be waived for Non-Interest Microfinance Banks with PAR of 10% and below as indicated in their latest CBN/NDIC Examination Report.

2.9 (b) Collateral Requirement for NIFIs

Signed MoU with CBN and undertake to bear all credit risks for projects presented.

2.10 Start-ups

PFIs are required to fund start-up projects under the MSMEDF. To encourage NIFIs, some incentives shall apply (see Section 3.0).

PFIs are expected to accept charge on fixed and floating assets of the financed projects as collateral for start-ups.

Collateral requirement from start-ups by PFIs (NIFIs) shall be educational certificates such as SSCE, National Diploma (ND), National Certificate of Education (NCE), National Business and Technical Examination Board (NABTEB), Higher National Diploma (HND), University degree (NYSC Certificate where applicable) and a guarantor.

The start-ups to access the MSMEDF must present their Bank Verification Number (BVN).

2.11 Monitoring and Evaluation (M&E)

A Monitoring & Evaluation (M&E) framework has been put in place to track the MSMEDF operations. The M&E framework includes the following:

a) On-site verification and routine monitoring of projects under the Fund by the CBN and PFIs during the financing period;

b) Off-site ICT-based reporting system to provide up-to-date information on the Fund's activities;

c) Make available reports of the monitoring exercise to the concerned PFIs;

d) Leverage on the capacities and information in monitoring and evaluation of relevant Apex Associations; and

e) Periodic evaluation of the activities of all PFIs to ensure achievement of the objectives of the Fund.

2.12 Discontinuation of the Facility

Where the facility is discontinued for any reasons, all undisbursed funds, repaid funds or discontinued facilities shall be reported and repatriated to the CBN within 5 working days.

CHAPTER THREE

3.0 INCENTIVES

Incentive shall be offered to PFIs that repay financings as and when due.

a) Start-Ups

(i) NIFIs playing in this space, shall access MSMEDF facility at rate of return of 0% for on-financing at 9% (all-inclusive) to start-ups.

(ii) The PFIs shall qualify for a 50% risk shared on the net outstanding balance in the case of default.

b) Other Incentives

Non-Interest Microfinance Banks with PAR of 10% and below shall be exempted from providing financial assets as collateral to access facility under the MSMEDF.

3.1 INFRACTIONS AND SANCTIONS

3.1.1 Sanctions for NIFIs

The following sanctions shall apply to NIFIs that contravene the Guidelines under the Fund:

a) Established cases of collusion with other PFIs to either divert monies into private accounts or unduly with-hold any part or outright conversion of the purpose of the released funds by NIFIs under the MSMEDF shall attract a penalty at MPR+300 basis points at the time of infraction. The CBN shall recover the diverted fund by debiting the

NIFIs' account. In addition, such NIFIs shall be barred from further participation under the Fund.

b) Non-rendition of returns for three consecutive quarters or rendition of false returns, shall attract the penalty stipulated by BOFIA Section 60.

c) Charging of upfront rates of return under the Fund is not allowed.

d) Charging of rates of return higher than prescribed shall attract the penalty stipulated by BOFIA section 60.

e) Any NIFI that fails to disburse the fund within 10 working days of receipt to the beneficiary shall be charged a penalty at MPR+300 basis points for the period the fund was not disbursed.

f) Any other breach of the Guidelines as may be specified from time to time.

g) Notwithstanding the agreement between the NIFI and the project promoter, the CBN has the right to reject an application from any PFI that did not conform to requirements of the Guidelines.

3.1.2 Sanctions for Other PFIs

No	INFRACTIONS	SANCTIONS
1	Diversion of funds to unauthorized activities	□ Amount diverted shall be recovered by the CBN □ Penal charge of the MPR+300 basis points on the amount diverted □ Outright ban from participating under the Fund
2	Non rendition of returns	□ Fine of 2.5% of the financing amount □ Issuance of warning letter to the Management of the PFI □ Failure to render returns for three consecutive months shall lead to recall of the outstanding financing amount and 1 year suspension from the Fund.

3	False returns	False returns shall attract a recall of the financing and two (2) years suspension from the Fund.
4	Non-compliance with 60% exposure of the financing amount to women entrepreneurs	Issuance of warning letter to Management Suspension of financing to other clients until the recommended ratio is complied with Exclusion from the incentives under the Fund.
5	Charging of upfront fees/profits or rates of return higher than the prescribed.	Reversal of excess profit charged Penal charge of the MPR+200 basis on the over charge Issuance of warning letter to Management
6	Failure to disburse approved funds within 10 working days to the beneficiaries	Penal charge of MPR + 300 basis points for NIFIs and maximum financing rate for other PFIs for the period the funds were not disbursed.
	Failure of Venture Capital Firm (VCF) to inject equity in the enterprise	The fund shall be called up while the VCF will be blacklisted.

CHAPTER FOUR

4.0 ROLES AND RESPONSIBILITIES OF STAKEHOLDERS

4.1 Central Bank of Nigeria

a) Provide the Seed Fund

b) Act as Managing Agent (pending the appointment of one).

c) Chair the Steering Committee

d) Issue the MSMEDF Guidelines

e) Set the facility limits and collateral requirements under the Fund

f) Specify the rate at which PFIs on-finance under the Fund

g) Provide regulatory and supervisory oversight

h) Determine sanctions under the Fund

i) Sanction PFIs in case of infractions

j) Review the Guidelines of the Fund as may be necessary

k) Monitor, Evaluate and Conduct impact assessment of the programme

l) Invoke ISPO/ Bank Guarantee in case of default.

4.2 The Managing Agent (MA)

a) Appraise applications from PFIs

b) Release funds to qualified PFIs

c) Verify/monitor projects

d) Receive periodic returns from PFIs

e) Ensure compliance with the Funds' Guideline and publish periodic report on its performance

f) Make periodic report to relevant stakeholders

g) Retrieve funds from PFIs at the expiration of the financing tenor or infractions on the Guidelines.

h) Build capacity of stakeholders

4.3 Non-Interest Deposit Money Banks (NIDMBs) and Development Finance Institutions (NIDFIs)

a) Serve as PFIs for State Governments to channel funds to SME beneficiaries under the MSMEDF.

b) Act as correspondent banks to other PFIs

c) Participate under the SME window (NIFIs only)

d) Access the fund for on-financing to eligible SMEs

e) Bear the credit risk of facilities accessed for on-financing under the Fund

f) Ensure due diligence is followed in the administration of credit facilities

g) Monitor and ensure proper utilization of the funds

h) Advance financing under the Fund at the specified rate

i) Submit to the CBN, Letter of offer by the bank and full details of the projects to be financed, disbursement schedule, repayment schedule, the Credit Risk Management System (CRMS) report of the beneficiary

j) Render monthly returns under the Scheme to the Managing Agent and CBN in the prescribed reporting format.

4.4 Non-Interest Microfinance Banks and Non-Interest Finance Companies

a) Grant financing facilities to MSMEs

b) Approve financing requests based on normal business consideration.

c) Open dedicated account with their correspondent banks for this window and forward details of the account to the CBN

d) Issue a letter authorizing the CBN to debit its account with the correspondent bank for recovery of outstanding principal and any other associated payments.

e) Disburse released funds to eligible beneficiaries within ten (10) working days

f) Ensure that 60 per cent of the accessed fund is disbursed to women entrepreneurs.

g) Put in place appropriate institutional arrangements for facility disbursement, monitoring and recovery.

h) Obtain credit information on beneficiaries from the Credit Bureaux

i) Report all disbursed financings to at least two (2) Credit Bureaux

j) Render periodic returns on all financings granted under the Fund

k) Any other responsibility that may be required by the CBN

4.5 Federal Government (FG)

a) Contribute to the Fund

b) Support the Fund to achieve its objectives

c) Serve on the Steering Committee

4.6 Development Partners

a) Contribute to the Fund

b) Provide technical assistance for the Fund's activities

c) Promote and support the development of the MSME sub-sector

4.7 Apex Associations

a) Register their members

b) Provide information on their members to the Managing Agent/CBN periodically or as may be required.

4.8 Beneficiary

a) Utilize the funds for the purpose for which it was granted.

b) Adhere strictly to the terms and conditions of the Fund.

c) Make the project and records available for inspection by the CBN and PFIs.

d) Repay the facility as and when due.

CHAPTER FIVE

STATE GOVERNMENTS' AND FEDERAL CAPITAL TERRITORY (FCT) PARTICIPATION UNDER THE FUND

5.0 Background

In recognition of State Governments/Federal Capital Territory (FCT) strategic role in grassroots economic development, the Fund considers them as a major partner in the

development of the MSME sub-sector. They are allowed to participate through the nominated PFIs approved by the CBN in their respective jurisdictions.

5.1 Requirements

To participate in the Fund, a State Government/FCT shall satisfy the following conditions:

a) Provide Resolution of the State House of Assembly authorizing the State to access the Fund.

b) Establish a Micro Credit/MSME Special Purpose Vehicle (SPV) which shall coordinate the applications and activities of the PFIs under the Fund and also monitor disbursement and recovery of all financings.

c) Provide a Bank Guarantee/Irrevocable Standing Payment Order (ISPO) equivalent to the amount requested including profit.

d) Sign a Memorandum of Understanding (MoU) with the CBN.

e) Make repayment to the CBN as and when due.

f) Submit to the CBN, the States' empowerment programme for the utilization of the fund to be accessed.

5.2 Capacity Building

The State Government/FCT shall build capacity of beneficiaries through State-owned Skills Acquisition/Vocational Centres, CBN Entrepreneurship Development Centres (EDCs) or any such relevant agencies while the CBN shall do same for the PFIs.

5.3 Utilization of Fund

a) Limit per State Government / FCT shall access a maximum of N2.0 billion.

b) The facility tenor shall have a maximum tenor of one (1) year for micro enterprises and up to five (5) years for SMEs.

c) The Rate of Return shall be a targeted rate of 2% per annum based on a restricted Mudarabah contract between the CBN as fund provider and the nominated PFI as

manager. The restricted Mudarabah shall be based on a business plan to be submitted by the PFI to the CBN confirming the PFI's commitment to achieve the 2% targeted rate of return.

The PFI shall on-finance to beneficiaries at 9% per annum inclusive of all charges using non-interest financing contracts approved by the CBN for NIFIs.

5.4 Participating Financial Institutions (PFIs)

The State Government/FCT shall participate in the Fund through any of these PFIs (government or privately owned) across the State:

a) Non-Interest Microfinance Banks (NIMFBs)

b) Non-Governmental Organization – Microfinance Institutions (NGO-MFIs)

c) Accredited Financial Cooperatives

d) Finance Companies, including Non-Interest Finance Companies

e) Non-Interest Deposit Money Banks (NIDMBs)

5.5 State-Special Purpose Vehicle (S-SPV)

An entity established or nominated by a State Government for the sole purpose of coordinating the activities of the PFIs that shall access funds under the MSMEDF. A PFI is therefore not eligible to function as an S-SPV under the Fund.

5.6 Mode of Application

a) The beneficiaries shall apply to the nominated PFIs for financing.

b) The PFIs shall appraise the applications for economic and financial viability.

c) The PFIs shall forward their applications through the State SPV to the CBN in the prescribed format.

d) CBN shall undertake a pre-disbursement assessment of financing request presented to it by the SPVs on behalf of the nominated PFIs.

e) CBN shall approve and disburse funds directly to the PFIs' correspondent bank accounts.

5.7 Roles and Responsibilities of Stakeholders:

5.7.1 Central Bank of Nigeria

a) Articulate clear guidelines for the implementation of the Fund.

b) Provide funds for the programme.

c) Open a Repayment/Sinking Fund Account for the ISPO proceeds and the profit from the State Governments/FCT

d) Build capacity of PFIs

e) Release approved fund to the PFIs through their correspondent banks and advise them accordingly.

f) Notify the State Government/FCT through the State-SPV of all disbursements made to the PFIs

g) Monitor the implementation of the Fund and prepare periodic reports

h) Receive returns from PFIs as may be specified

i) Ensure compliance of all parties to the Guidelines.

5.7.2 State Government/FCT

a) Provide the Resolution of State House of Assembly. In the case of FCT, the Executive Council Resolution shall be required.

b) Establish a Micro Credit/MSME Special Purpose Vehicle (SPV) for the purpose of coordinating applications by PFIs for the Fund. The PFIs shall be responsible for the administration (disbursement to the beneficiary and recovery) of the Fund.

c) Provide a bank guarantee or Irrevocable Standing Payment Order (ISPO) signed by the State Governor, Commissioner for Finance and State Accountant General, for the financing amount plus profit and comply with terms and conditions of the MoU. In the case of FCT, the Honourable Minister and Director of Finance of FCT shall sign.

d) Access the Fund on behalf of their nominated PFIs

e) Submit acceptable empowerment programme for the utilization of the fund.

f) Build capacity of beneficiaries through State-owned Skills Acquisition/ Vocational Centres, CBN Entrepreneurship Development Centres (EDCs) or any such relevant agencies.

g) Establish a State Technical Committee which shall include relevant MDAs and the Development Finance Officers (DFOs) of the CBN Branch as members.

5.7.3 State Special Purpose Vehicle (S-SPV)

a) Collate applications by approved PFIs and forward to the CBN

b) Carry out quarterly monitoring of the PFIs under the Fund

c) Render quarterly report on performance of the financings to the State Government and CBN.

d) Build capacity of MSMEs

5.7.4 Participating Financial Institution (PFIs)

a) Advance financings to MSMEs

b) Disburse funds to beneficiaries within ten (10) working days of receipt.

c) Monitor funds utilization by beneficiaries

d) Ensure repayment by beneficiaries

e) Open dedicated account with their correspondent banks and forward details to the CBN

f) Repay principal and profits on the approved facility to the CBN as and when due

g) Render periodic returns to CBN and State SPV

h) Not be eligible to function as SPVs for State Governments under the Fund.

5.7.5 Non-Interest Banks (NIFIs)

a) Open a dedicated account for the nominated PFIs by the State.

b) Release funds to the PFIs within 48 hours of receipt.

c) Remit repayments by PFIs to CBN within 5 working days.

5.7.6 Beneficiaries

a) Utilize the funds for the purpose for which it is granted and repay same as and when due

b) Make the project records available for verification and inspection by the PFIs and CBN;

c) Adhere strictly to the terms and conditions of financing

d) Satisfy all the requirements specified by the PFI and

e) Insure all primary agricultural production activities with takaful operators or NAIC where applicable

5.8 Monitoring & Evaluation (M & E) Framework

a) The projects shall be subject to on-site verification and monitoring by the CBN in conjunction with the PFIs/SPVs during the financing period.

b) There shall be off-site monitoring through quarterly reports submitted by the PFIs to State SPVs and the CBN.

c) Reports of the monitoring exercise by the Managing Agent/CBN shall be made available to the PFIs and State Governments.

d) The State SPVs and CBN can leverage the services of the Apex Associations in the monitoring and evaluation exercises.

e) CBN shall periodically evaluate the activities of the State SPVs and PFIs to ensure compliance with the Fund Guidelines.

5.9 Infractions

PFIs and State Governments/FCT may be suspended or black listed from participating under the Fund for any infractions etc.

6.0 Amendments

The provisions of this Guideline may be reviewed from time to time as deemed necessary.
All Enquiries and Returns should be addressed to:

Director,
Development Finance Department,
Central Bank of Nigeria,
Abuja.

June 2020

NON-INTEREST GUIDELINES FOR NON-OIL EXPORT STIMULATION FACILITY (ESF)

1.0 Introduction

The Non-Oil Export Stimulation Facility (NESF) was introduced by the Central Bank of Nigeria (CBN) to diversify the revenue base of the economy and to expedite the growth and development of the non-oil export sector. The Facility will help redress the declining export financing and reposition the sector to increase its contribution to economic development.

2.0 Objectives of the Facility

The objectives of the Facility are to:

(i) Improve access of exporters to concessionary finance to expand and diversify the non-oil export baskets;
(ii) Attract new investments and encourage re-investments in value-added non-oil exports production and non-traditional exports;
(iii) Shore up non-oil export sector productivity and create more jobs;
(iv) Support export-oriented companies to upscale and expand their export operations as well as capabilities; and
(v) Broaden the scope of export financing instruments.

3.0 Eligibility Criteria

3.1 Eligible /Beneficiaries

Export-oriented enterprise that fulfils the under-listed conditions shall be eligible to participate under the NESF:

3.1.1 Duly incorporated in Nigeria under the Companies and Allied Matters Act (CAMA).

3.1.2 Has verifiable export off-take contract(s).

3.1.3 Satisfactory credit reports from at least two Credit Bureaux in line with the provisions of CBN Circular BSD/DIR/GEN/CIR/04/014 dated April 30, 2010.

All applications shall be in compliance with CBN circulars BSD/DIR/GEN/LAB/07/015 and BSD/DIR/GENLAB/07/034 on **"Prohibition of Loan Defaulters from Further Access to Credit Facilities in the Nigerian banking System"** and **"Guidelines for Processing Requests from DMBs to Extend New/Additional Credit Facilities to Loan Defaulters and AMCON Obligors"** dated June 30, 2014 and October 10, 2014, respectively.

3.2 Eligible Transactions

Eligible transactions that shall qualify for funding under the NESF shall include:

(i) Export of goods processed or manufactured in Nigeria;

(ii) Export of commodities and services, which are allowed under the laws of Nigeria and do not violate the principles of non-interest banking and finance;

(iii) Imports of plant & machinery, spare parts and packaging materials, required for export-oriented production that cannot be sourced locally;

(iv) Resuscitation, expansion, modernization and technology upgrade of non-oil export industries;

(v) Export value chain support services such as transportation, warehousing and quality assurance infrastructure;

(vi) Working capital/stocking facility; and

(vii) Structured trade finance arrangements.

4.0 Participating Financial Institutions (PFIs)

The following shall be eligible to participate under the Facility:

(i) Non-Interest Banks (NIBs).

(ii) Non-Interest Development Finance Institutions (NI-DFIs).

5.0 Features of the NESF

5.1 Financing Limit

Term financings under the Facility shall not exceed 70% of verifiable total cost of the project subject to a maximum of ₦5,000,000,000.00.

5.2 Tenor

The NESF shall have a tenor of up to 10 years and shall not exceed the 31st December, 2027.

a) Working capital/stocking facility shall be for one year. Where applicable, the facility can be rolled-over twice on a reducing balance basis of 33.3% of the original amount.

5.3 Repayment

Repayments of principal and return shall be quarterly and in accordance with the agreed repayment schedule.

5.4 Moratorium

a) Moratorium shall be project specific and shall not exceed two (2) years.

b) In case of construction, additional moratorium of up to one (1) year may be allowed, subject to approval by the CBN.

5.5 Rates of Return

The Facility shall be granted at an all-inclusive rate of return of 9% per annum.

5.6 Modalities of the Facility

The facility shall be structured as a two-tiered structure:

a. Tier 1: Between the CBN and the NIFI: A Restricted Profit-Sharing Agreement (Restricted Mudarabah) shall be executed between the CBN and NIFI. The CBN as Capital Provider disburses the funds for investment by the NIFI as the

Implementing Party, based on a Business Plan Commitment to be signed by the NIFI committing itself to the following terms:

a. Investment shall only be for financing of projects under the activities covered under the facility;
b. The financing shall have an overall target profit rate of 9.0 per cent.
c. The profit distribution ratio between the CBN as Capital Provider and the NIFI as the Implementing Party shall be in the ratio of 2:7.
d. The NIFI commits itself to achieving a target profit rate of 2% accruing to the CBN.
e. In the event where the NIFI realises that the targeted 2% due to the CBN is not achievable, the arrangement is to be extended and re-structured subject to a maximum tenor not exceeding 31st December 2027, in case there is no negligence on the part of the investor. Otherwise, the Mudarabah is to be stopped, and the funds recalled.
f. If after realisation as mentioned in (e) above, the NIFI does not stop the arrangement and return the funds, the NIFI shall be liable for negligence and breach of investment mandate, and shall refund the capital.
g. In a situation where there is unavoidable loss, the CBN as the capital provider shall, pursuant to the principle of profit and loss sharing, bear the loss, and the NIFI shall forfeit its profit share.

b. Tier 2: Between the NIFI and the Investor: The NIFI finances the Customer (Investor) using CBN approved non-interest financial contracts appropriate with the type of financing requested, like Murabahah, Salam, Istisna', Ijarah, Wakalah etc.

6.0 Application Procedures

6.1. Submission of Requests

A PFI shall submit application to CBN on behalf of its customer in the prescribed format.

In the case of financing syndication, the lead bank shall submit application on behalf of other banks. All correspondence with respect to the application shall be with the lead bank.

6.2 Documentation Requirement

Each request for a facility is to be accompanied by the following documents:

a) Written request from the project promoter to a PFI seeking financing under the NESF.

b) Completed application form.

c) Certified true copies of documents on business incorporation.

d) Three (3) years tax clearance certificate.

e) Audited statement of accounts for the last three (3) years (where applicable) or the most recent management account for companies less than three (3) years in operations.

f) Feasibility study/ business plan of the project.

g) Relevant permits/ licenses/ approvals (where applicable).

h) Verifiable export orders/ contracts or other export agreement and arrangements/ commitments.

i) Environmental Impact Assessment (EIA) report (where applicable).

j) Draft letter of offer by PFI, financing repayment schedule and credit risk report of the customer.

k) Any other document(s) that may be required by CBN.

6.3 Collateral Requirement

Eligible securities shall include the following:

a. Federal Government of Nigeria Sukuk (where available);
b. CBN Non-Interest Liquidity Management Instruments (i.e. CBN Safe Custody Account (CSCA), CBN Non-Interest Note (CNIN) and CBN Asset-Backed Securities (CABS));
c. Sukuk backed by the guarantee of the Federal Government;
d. Sukuk given regulatory treatment by the CBN;

e. Any other securities that are Shariah-compliant and acceptable to the CBN.

6.4 Participation Agreement

A participation agreement shall be signed between CBN and each PFI.

7.0 Monitoring and Evaluation (M & E)

Monitoring and Evaluation of projects funded under the Facility shall include on-site and off-site verification and routine monitoring of projects by CBN and PFIs.

8.0 Roles and Responsibilities of Stakeholders

The roles and responsibilities of stakeholders under the scheme shall be as follows:

8.1 The Central Bank of Nigeria (CBN)

The CBN shall:

a) Provide fund for the implementation of the scheme.
b) Issue the NESF guidelines.
c) Act as the managing agent.
d) Determine financing limits and applicable rates.
e) Provide regulatory and supervisory oversight.
f) Sanction PFIs for infractions.
g) Monitor and evaluate the projects.
h) Conduct impact assessment from time to time.
i) Review the NESF guidelines as may be deemed necessary from time to time.
j) Invoke collateral in case of default.

8.2 The Participating Financial Institutions (PFIs)

The PFIs shall:

a) Disburse funds to eligible export companies at the approved rates.
b) Ensure timely disbursement of funds to approved projects.
c) Ensure due diligence is followed in the administration of financing facilities.

d) Bear the credit risk on financings granted to beneficiaries under the NESF.

e) Ensure timely remittance of principal and return payments due to the CBN.

f) Monitor and ensure proper utilization of funds.

g) Comply with the operating guidelines of the Facility.

h) Comply with documentation requirements in section 6.2 above; and

i) Render periodic returns in prescribed formats or as may be specified by CBN from time to time.

8.3 Beneficiary

The beneficiary shall:

a) Utilize the funds for the purpose for which it was granted.

b) Adhere strictly to the terms and conditions of the financing and comply with all relevant laws and regulations.

c) Make the project site(s) and records accessible to CBN and PFIs for inspection.

d) Provide periodic reports on the status of the project in prescribed format as well as periodic financial statements in line with extant company registration regulations.

e) Comply with the operating guidelines of the Facility; and

f) Pay maturing financing obligations in line with approved payment schedule.

9.0 Discontinuation of the Facility

All undisbursed funds, repaid amounts or discontinued facility shall be reported and funds returned to CBN within 5 working days giving details of the facility and reasons for discontinuation.

10.0 Infractions and Sanctions

10.1 Penalty for defaults

a) In the event of default in repayment of principal and/ or return by the beneficiary, the PFI shall have the right to charge a penalty at a rate determined by its Advisory

Committee of Experts, which shall be treated in line with extant CBN Regulations for NIFIs regarding penalties.

b) Failure of PFI to disburse funds to the beneficiary within the period agreed in the financing agreement shall attract a penal charge of the maximum financing rate of the PFI for the period that funds were not disbursed;

c) Failure to remit principal and return to the CBN shall attract a penal charge of the maximum financing rate of the PFI for the period that funds were not remitted; and

d) Non-rendition of returns or the rendition of false returns shall attract the penalty stipulated by section 60 of the Banks and Other Financial Institutions Act (BOFIA).

11.0 Amendments

These Guidelines shall be subject to review from time to time as may be deemed necessary by the CBN. The Amendment would not have retroactive effect.

All enquiries and returns should be addressed to:

The Director,
Development Finance Department,
Central Bank of Nigeria,
Corporate Headquarters,
Central Business District,
Abuja, Nigeria.
Tel.: +234-9-46238644.

June 2020

Anchor Borrowers' Programme Guidelines

(Non-Interest)

CHAPTER ONE

1.1. BACKGROUND

The Central Bank of Nigeria (CBN) in line with its developmental function established the Anchor Borrowers' Programme (ABP). The Programme which was launched by President Muhammadu Buhari (GCFR) on November 17, 2015 is intended to create a linkage between anchor companies involved in the processing and small holder farmers (SHFs) of the required key agricultural commodities. The programme thrust of the ABP is provision of farm inputs in kind and cash (for farm labour) to small holder farmers to boost production of these commodities, stabilize inputs supply to agro processors and address the country's negative balance of payments on food. At harvest, the SHF supplies his/her produce to the Agro-processor (Anchor) who pays the cash equivalent to the farmer's account.

The Programme evolved from the consultations with stakeholders comprising Federal Ministry of Agriculture & Rural Development, State Governors, millers of agricultural produce, and smallholder farmers to boost agricultural production and non-oil exports in the face of unpredictable crude oil prices and its resultant effect on the revenue profile of Nigeria.

1.2. Objective

The broad objective of the ABP is to create economic linkage between smallholder farmers and reputable large-scale processors with a view to increasing agricultural output and significantly improving capacity utilization of processors. Other objectives include:

- Increase banks' financing to the agricultural sector
- Reduce agricultural commodity importation and conserve external reserves
- Increase capacity utilization of agricultural firms
- Create new generation of farmers/entrepreneurs and employment
- Deepen the cashless policy and financial inclusion

- Reduce the level of poverty among smallholder farmers
- Assist rural smallholder farmers to grow from subsistence to commercial production levels.

1.3. Targeted Beneficiaries

The financing shall be targeted at smallholder farmers engaged in the production of identified commodities across the country. The Farmers should be in groups/cooperative(s) of between 5 and 20 for ease of administration.

1.4. Identified Agricultural Commodities

The targeted commodities of comparative advantage to the State shall include but not limited to:

- Cereals (Rice, Maize, wheat etc.)
- Cotton
- Roots and Tubers (Cassava, Potatoes, Yam, Ginger etc.)
- Sugarcane
- Tree crops (Oil palm, Cocoa, Rubber etc.)
- Legumes (Soybean, Sesame seed, Cowpea etc.)
- Tomato
- Livestock (Fish, Poultry, Ruminants etc.)

Any other agricultural commodity as requested by off-taker and approved based on viability by the CBN from time to time.

1.5. Eligible Participating Financial Institutions (PFIs)

The financing shall be disbursed through any of these Non-Interest Financial Institutions (NIFIs):

- Non-Interest Deposit Money Banks
- Non-Interest Windows of Deposit Money Banks;
- Development Finance Institutions (DFIs) through a non- interest window;
- Non-Interest Microfinance Banks (NIMFBs).

1.6. The Anchor

This shall be private large-scale integrated processors, aggregators, commodity associations etc who have entered into an agreement with the SHFs to off-take the harvested produce at the agreed prices or as may be reviewed by the PMT. State Governments may act as Anchor upon meeting the prescribed conditions.

1.7. Inputs Suppliers

The input suppliers shall submit **expression of interest letter** to the office of the PMT for consideration and issuance of local purchase orders by the Anchor which shall be ratified by the PFI.

1.8. The Facility Amount

Financing amount for each SHF shall be arrived upon from the economics of production agreed with stakeholders. The fund shall be provided from the Micro, Small and Medium Enterprises Development Fund (MSMEDF).

1.9. Rate of Return

Rate of return under the ABP shall be guided by the rate on the MSMEDF, which is currently at 9% p.a (all inclusive, pre and post disbursement). The PFIs shall access based on a structure compliant with non-interest banking principles at 2% from the CBN, and finance at a maximum of 9% p.a (all inclusive).

1.10. Tenor

The tenor of financing under the ABP shall be the gestation period of the identified commodities or as agreed with stakeholders not exceeding 60 months.

1.11. Settlement

Financing granted to the SHFs shall be settled with the harvested produce that shall be mandatorily delivered to the Anchor at designated collection center in line with the provisions of the Agreement signed. The value of the produce to be delivered must cover the financing principal and return.

CHAPTER TWO

2.0 Management and Administration of the ABP

There shall be two models of administration of ABP based on the anchor arrangement namely: **Private Sector-led** and **State windows**. Under each model, a Project Management Team (PMT) shall be established to coordinate the implementation of the programme.

2.1 Private Sector-led Window

The PMT under the Private Sector-led Window shall be constituted as follows:

- Head DFO, CBN – Chairman
- Representatives of Anchor Firms – Co-Chairman
- Programme Manager, State Agricultural Development Programme (ADP)
- Representatives of participating Banks
- Representatives of farmers associations
- Nigerian Agricultural Insurance Corporation (NAIC)

2.1.1 Operating Models under the Private Sector Window

The following models are operated under the private-sector window

1) Prime Anchor Model
2) Private Sector Model
3) NIRSAL Guarantee Model

The models vary operationally in the roles and responsibilities of the stakeholders as follows:

2.1.2 STAKEHOLDERS OPERATIONAL ROLES AND RESPONSIBILITIES -PRIME ANCHOR MODEL

- **CBN:**

a. Ratifies the Economics of Production (EoP)
b. Validate farmers' list for participation
c. Carries out monitoring of project to ensure compliance
d. Bears 50% credit risk on outstanding amount in default

- **PFI:**

a. Processes financing request based on number of farmers/Hectares validated and the ratified EoP.
b. PFI Management approves financing to Anchor as primary obligor
c. Receives collateral from Anchor to cover 70% of total financing amount
d. Ratifies the supply of input as requested by the Anchor
e. Manages the project through its life cycle
f. Bears 50% credit risk on outstanding amount in default

- **Anchor:**

a. Provides list of farmers for participation in the project
b. Provides collateral cover to the Bank for financing amount requested
c. Primarily responsible for supply of quality inputs and Services through LPO issuance
d. Manages the project through its life cycle

-PRIVATE SECTOR MODEL

- **CBN:**

a. Ratifies the Economics of Production (EoP)
b. Validate farmers' list for participation
c. Carries out monitoring of project to ensure compliance
d. Bears 50% credit risk on outstanding amount in default

- **PFI:**

a. Processes facility request based on number of farmers/Hectares validated and ratified EoP.
b. PFI Management approves financing to farmers as primary obligor
c. Receives collateral from Anchor/Aggregator/Commodity Association to cover 20% of total financing amount
d. Ratifies the supply of input as agreed by the PMT and requested by the Anchor
e. Manages the project through its life cycle
f. Bears 50% credit risk on outstanding amount in default

- **Anchor:**

a. Provides list of farmers for participation in the project
b. Provides collateral cover to the Bank for financing amount requested
c. Issues LPO for input supply and service provided as agreed by PMT
d. Manages the project through its life cycle

-NIRSAL GUARANTEE MODEL

This model involves the collaboration with NIRSAL and deployment of its Credit Risk Guarantee (CRG) Instrument to participating PFIs. It is expected that the CRG will effectively reduce the risks of the PFIs further and enhance more participation under the Programme.

Under this model,

- NIRSAL will provide a maximum guarantee of 75% of the financing to the PFI at cost of 1% CRG fee.
- CBN shall bears 50% credit risk on outstanding amount in default

NIRSAL's participation will include both the Private sector led and the State Government Windows of the ABP in addition to the requirements under each window.

2.2 Public Sector (State) Window

The PMT under the State Window shall be constituted with representatives of stakeholders as follows:

- Head DFO, CBN as Chairman to be co-chaired by the person appointed by the State Government.
- A representative of State Governments/Ministry of Agriculture and Rural Development/Agricultural Development Programme (ADP)
- Participating Banks
- Anchor Firms
- Nigerian Agricultural Insurance Corporation (NAIC)
- Representatives of farmers associations

Under the window, the roles and responsibilities of stakeholders shall include;

- **CBN:**

a. Ratifies the Economics of Production (EoP)
b. Validate farmers' list for participation
c. Carries out monitoring of project to ensure compliance

- **STATE GOVERNMENT:**

a. Provides ISPO to the PFI to cover 100% of Principal and return to be applied for equal monthly repayments through the facility tenor
b. Provide list of farmers to the PFI for BVN validation and farmland mapping by appointed service providers
c. Recover funds from the farmers

- **PFI:**

a. Processes financing request based on number of farmers, Hectares and ratified EoP.
b. PFI Management approves financing to State Government as primary obligor
c. Receives ISPO from State for 100% principal plus return
d. Effects monthly repayment to the CBN
e. Manages the project through its life cycle

2.3 Process Flow of The Anchor Borrowers' Programme (ABP)

The activities shall include:

1. Expression of Interest Letter to the CBN by the Anchor/State Government indicating the targeted agricultural commodities,

proposed number of farmers, the hectares to be covered and the PFI(s) etc.

2. Formation of the PMT
3. Verification of the farmers and farm sizes by the PMT
4. Confirmation of participation by the Head Offices of the PFI(s)
5. Identification of reputable agricultural inputs suppliers by the PMT
6. Organization of Town Hall Meeting to agree on the economics of production per hectare, offtake price, signing of Agreement, and any other relevant issues. The meeting shall have in attendance all the stakeholders including the inputs suppliers.
7. Signing of Multipartite Agreement by the CBN, PFI, Anchor and the farmers under the following:
   i. A Master Agreement between the CBN and the PFI, which shall include the following:
      a. Individual Salam agreements that will be effected at the point of disbursement of funds to the PFI for a total amount of agricultural produce that will sell at 1.02% per annum of the total disbursed amount, based on the unit selling price agreed between the Anchor and the farmers. The time of delivery of the Salam produce and sale of same to the Anchor is at harvest time.
      b. An undertaking by the PFI to sell the Salam produce to the Anchor at the agreed unit price and credit the amount to the CBN.
      c. All collaterals and guarantees as specified in the section on collaterals.
   ii. Master Agreement between the PFI and the farmers consisting of individual Salam Agreements that will be effected at the point of disbursement to the farmers by the PFI for a total amount of agricultural produce that will sell at 1.09% per annum of the total disbursed amount, based on the unit selling price agreed between the Anchor and the farmers.
   iii. Irrevocable Undertaking by the Anchor to purchase the agricultural produce from the PFI and the farmers as and when due.
   iv. Irrevocable Undertaking by the farmers to sell the agricultural produce to the Anchor.
   v. Sale Agreement between the PFI and the Anchor for the procured

produce at the agreed selling price. From the delivery of the produce at the collection center by the farmers to the signing of the sale agreement, the produce is at the risk of the PFI.

vi. Sale Agreement between the Anchor and the farmer for the remaining amount of his agricultural produce at the agreed selling price and payment into the farmer's account with the PFI.

vii. Submission of applications from Head Offices of PFIs with the list of farmers in the prescribed format with accounts numbers, gender, farm size, BVN, Telephone numbers, cooperative name and LGA

viii. Registration of farmers on the National Collateral Registry (NCR).

2.4 Capacity Building of the Farmers

A mandatory training programme shall apply for farmers that will participate under the ABP covering;

- Farming as a business
- Improved agricultural practices
- Group management dynamics

The cost of such training shall be borne by the participating anchor. However, partnerships with Development Partners are encouraged on the training of the farmers.

Certificates issued at the end of the training shall constitute a requirement for farmers to access the facility in kind and cash under the programme.

2.5 Provision of Extension Services

The Anchor/State Governments shall be required to provide extension services to complement the training, ensure adherence to good agricultural practices and mitigate side selling.

2.6 Collateral Under the ABP

The following shall be collateral to be pledged by SHFs under the programme:

- Cross and several guarantee by farmers in cooperatives
- Multipartite Agreement signed by the parties
- Cross and several guarantee by farmers in cooperatives registered on the National Collateral Registry (NCR)
- Commitment deposit by each farmer of a minimum of 5% to secure his commitment to sell the produce to the Anchor as per the terms of the MoU.

Note:

- Participating farmers under the Programme must deposit the minimum commitment deposit in their accounts with the PFI before disbursement of the facility
- No input would be distributed to any farmer that has not provided the commitment deposit.
- Any PFI that contravenes this basic risk requirement would be sanctioned.

  The Prime Anchor provides collateral to the PFI covering 70% of the financing amount to guarantee his undertaking under the MoU.

The Private Sector Anchor provides collateral to the PFI covering 20% of the financing amount to guarantee his undertaking under the MoU.

The Public Sector Anchor provides an ISPO covering 100% of the financing amount to guarantee its undertaking under the MoU.

2.7 Determination of Planting Season

The planting season to be adopted shall be advised by the Ministry of Agriculture/ State Agricultural Development Programme (ADP) from the state planting calendars and reputable Agricultural Research Institutes.

2.8 Side Selling

Side-Selling by the farmers is prohibited and shall attract applicable sanctions as indicated in Section 4.3

2.9 Risk Sharing

In order to engender participation of PFIs in the programme, the CBN shall absorb 50% of the amount in default after satisfactory evidence that every means of settlement have been exhausted by the PFI. The PFI shall bear the credit risk of the balance.

CHAPTER THREE

3.0 ROLES AND RESPONSIBILITIES OF STAKEHOLDERS

3.1 Central Bank of Nigeria

Shall:

i. Provide the funds through the MSMEDF

ii. Coordinate the entire Programme

iii. Serve as Secretariat

iv. Chair/Co-chair the PMT

v. Review the provisions of the guidelines as deemed necessary

3.2 Nigerian Agricultural Insurance Corporation (NAIC)

Shall:

i. Provide insurance cover to the projects under the Programme in line with the non-interest banking principle

ii. Ensure timely processing and settlement of claims

iii. Serve as member of the PMT

3.3 Development Partners

Shall:

i. Provide technical assistance to farmers, extension workers and banks

ii. May serve as member of the PMT in partner States

3.4 Participating Financing Institutions:

Shall:

i. Verify eligible farmers and their farmlands

ii. Open account for the farmers

iii. Ensure due diligence on facility administration, monitoring and recovery

iv. Conduct searches on the National Collateral Registry (NCR) to ensure that none of the group member is in default of any other facility in any financial institution.

v. First applications for release of funds by PFIs MUST be accompanied by copies of executed multipartite Agreements. (See 2.3)

vi. Obtain written authorization from the farmers to purchase seeds from input suppliers from their accounts on their behalf.

v. Register their interest in the collateral on the National Collateral Registry (NCR) as second and any subsequent applications for release of funds by PFIs MUST be accompanied by evidence of COMPLETE registrations.

vi. Sensitize the group members on the implication of the cross-guarantee as default by one member of the cooperative automatically puts all members in default irrespective of other members paying their individual financings.

viii. Ratify the issuance of the Local Purchase Order by the Anchor

ix. Apply for release of funds after completion of all the required conditions precedent to drawdown Credit individual farmer's account with the released funds within 5 working days

x. Ensure that the financing products used under the non-interest ABP window complies with the CBN Guidelines on Regulation and Supervision of non-interest banking.

xi. Render monthly returns under the Scheme to the CBN in the prescribed reporting format Serve as member of PMT

x. Carry out any other responsibilities as may be prescribed by the CBN from time to time

3.5 Small Holder Farmers

Shall:

i. Organize themselves into groups/cooperatives

ii. Cross guarantee one another

iii. Must demonstrate evidence of farm ownership/lease/rent and agree to work with extension workers

iv. Utilize the facility (kind and cash) for the purpose for which it was granted

v. Commit to abide by the terms of agreement and not to side sell produce

vi. Settle the facility as and when due by surrendering the output to the PFI and Anchor or State

vii. Provide commitment deposit of a minimum of 5% to secure his commitment to sell the produce to the Anchor as per the terms of the MoU.

viii. Representative of the Small Holder Farmer association to serve on the PMT

ix. Ensure participating member opens bank account and obtain Bank

Verification Number (BVN).

3.6 State Government/FCT

Shall:

i. Co-Chair the public sector ABP PMT
ii. Submit Expression of Interest to participate under the ABP
iii. Identification of the two-targeted agricultural commodities
iv. Provide extension services to all participating farmers
v. Provide logistics support for the success of the programme including training for the farmers and extension services.
vi. Establish a special 'farmers court' to try defaulting parties
vii. Train identified farmers for participation under ABP
viii. Where State act as Anchor, must uptake the farmers produce and pay the farmers through the PFI within 5 days at an agreed price
ix. Carry out any other responsibilities as may be prescribed by the CBN from time to time

3.7 Anchor Company

Shall:

i. Co-Chair the PMT of the private sector ABP
ii. Identify and organize farmers into groups/co-operatives.
iii. Participate in the identification of input suppliers
iv. Train identified farmers for participation under ABP
v. Provide extension service experts to support and ensure achievement of the targeted yield
vi. Monitor harvest and facilitate full evacuation of produce
vii. Establish produce collection centers which must be within close proximity to farming localities for ease of aggregation.
viii. Buy-up produce from PFIs and farmers at agreed price
ix. Pay into farmers' facility account for the produce delivered within 48 hours
x. Provide guarantee as stipulated in the guidelines
xi. Carry out any other responsibilities as may be prescribed by the CBN from time to time

3.8 ROLE OF PROJECT MANAGEMENT TEAM (PMT)

Shall:

i. Coordinate project implementation
ii. Coordinate discussions on cost of production per hectare
iii. Communicate the decisions taken on the project to stakeholders
iv. Identify genuine input suppliers who must have capacity to supply required inputs within time frame allocated
v. Coordinate and monitor project to ensure settlement
vi. Ensure timely distribution of inputs
vii. Escalate issues that cannot be resolved in the team to the relevant authorities
viii. Make sure the programme is delivered and implemented as scheduled and within scope.

3.9 Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL)

Shall:

i. Collaborate on Technical Assistance.
ii. Shall provide CRG for projects that meet pre-conditions
iii. Carry out any other responsibilities as may be required by the CBN from time to time under the programme

CHAPTER FOUR

4.0 INFRACTIONS AND SANCTIONS

S/N	Infractions	Sanctions
4.1	**PFI**	
1	Diversion of funds to unauthorized activities	• Amount diverted shall be recovered by the CBN. • Penal charge at the maximum Murabahah/Ijarah rate of the PFI on the amount diverted. • Outright ban from participating under other CBN Interventions following another infraction

2	Charging of un-authorized fees/rates	• Reversal of the charged fees/rates • Issuance of warning letter to the PFI • Outright ban from participating under other CBN Interventions after two infractions
3	Charging of rates higher than prescribed	• Reversal of excess rates charged. • Penal charge at the maximum Murabahah/Ijarah rate of the PFI • Issuance of warning letter to the PFI
4	Failure to disburse funds within specified period to the beneficiaries	• Penal charge at the maximum Murabahah/Ijarah rate of the PFI • Recovery of the undisbursed amount plus any returns.
4.2	**Anchor**	
1	Failure to collect certified quality output from farmers after going into agreement as the Anchor to the farmers	• Anchor will cease to participate under the programme. • Anchor will not be allowed to access agricultural and other CBN interventions • PFI will sell output to a third party at the prevailing market price and make up the difference, if any, from the guarantee of the Anchor. Any surplus from the sales shall go the SHF.
2	Failure to pay for collected commodities within the specified period	• Anchor to pay selling price and mark-up based on the Murabahah/Ijarah rate of the PFI from the due date, and the mark-up shall be channeled to charity by the PFI and not form part of its income.
4.3	**Small Holder Farmers (SHF)**	
1	Side-selling	• Total prohibition from all CBN interventions. • Blacklisting of the SHF on any intervention by the CBN • Prosecution of the SHF • Settlement of the facility by the guarantors and cooperatives

2	Input Diversion	• Blacklisting of the SHF on any intervention by the CBN • Settlement of the facility by the guarantors and cooperative members
3	Refusal to Submit Commodities to the Anchor	• Blacklisting of the SHF on any intervention by the CBN • Prosecution of the SHF • Settlement of the facility by the guarantors and cooperative members
4	Diversion of Funds	• Blacklisting of the SHF on any intervention by the CBN • Prosecution of the SHF • Settlement of the facility by the guarantors and cooperative members
4.4 Project Monitoring Team		
1	Insider related contracts and inflation of contract figures	• Suspension/Prosecution of the culpable member(s) • Report the culpable member(s) to the relevant institution(s)

LIST OF ABBREVIATIONS AND ACRONYMS

ABP: Anchor Borrowers' Programme
ADP: Agricultural Development Programme
BVN: Bank Verification Number
CBN: Central Bank of Nigeria
DFIs: Development Finance Institutions
DFO: Development Finance Officer
DMBs: Deposit Money Banks
FCT: Federal Capital Territory
LGA: Local Government Area
MFBs: Microfinance Banks
MSMEDF: Micro, Small and Medium Enterprises Development Fund
NAIC: Nigerian Agricultural Insurance Corporation
NCR: National Collateral Registry
NIFI: Non-Interest Financial Institution
NIRSAL: Nigerian Incentive-Based Risk Sharing System for Agricultural Lending
P.A: Per Annum
PFIs: Participating Financial Institutions
PMT: Project Management Team
SHF: Small Holder Farmer

All Enquiries and Returns should be addressed to:

The Director,
Development Finance Department,
Central Bank of Nigeria,
Corporate Headquarters
Central Business District,
Abuja, Nigeria
Fax: 09-46238655
www.cbn.gov.ng

June 2020

CENTRAL BANK OF NIGERIA

NON-INTEREST GUIDELINES FOR REAL SECTOR SUPPORT FACILITY (RSSF)

REVISED GUIDELINES (V3)

1. Introduction

The Central Bank of Nigeria, as part of efforts to stimulate output growth, enhance value addition and engender productivity in the economy established the Real Sector Support Facility (RSSF). The Facility will be channeled towards increasing credit to priority sectors of the economy with sufficient employment capabilities, high growth potentials, increase accretion to foreign reserves, expand the industrial base and consequently diversify the economy. The RSSF will be used to support start-ups and expansion financing needs of enterprises.

2. Objectives of the Fund

The objectives of the Facility include:

i. Improve access to finance by the agricultural value chain, manufacturing, mining, solid minerals activities and other strategic sub-sectors of the Nigerian economy.
ii. Increase output, create jobs, diversify the economy, increase accretion to foreign reserves and provide inputs for the industrial sector on a sustainable basis.

3. Activities Covered under the Facility

The activities to be covered under the Facility are:

(a) Manufacturing SMEs
(b) Agricultural Value Chain
(c) Services
(d) new and expansion projects in the real sector.
(e) Priority will be given to projects with high local content, import substitution, foreign exchange earnings and huge potentials for job creation.
(f) Trading activities shall not be accommodated under this Facility.

4. Type of Facilities

i. Term Financing for the Acquisition of Plant and Machinery

ii. Working capital Financing

5. Financing Tenor

i. Term financing facilities shall have a maximum tenor of 10 years *(not exceeding 31st December, 2025)* depending on the complexity of the project. Each project tenor shall be determined in relation to its cash flow and life of the underlying collateral.
ii. Working capital facility of 1 year with a maximum roll over of 1 year subject to approval. The roll over shall not attract interest charges, but could attract returns based on Shariah-compliant re-financing arrangements.
iii. The Facility allows for moratorium of 1 year in the facility repayment schedule.

6. Modalities of the Facility

i. The Non-Interest Scheme shall be in the form of financing of projects/working capital under the Activities Covered under the Facility.

ii. The Scheme shall be structured as a two-tiered structure:

a. Tier 1: Between the CBN and the NIFI: A Restricted Profit-Sharing Agreement (Restricted Mudaraba) shall be executed between the CBN and NIFI. The CBN as Capital Provider disburses the funds for investment by the NIFI as the Implementing Party, based on a Business Plan Commitment to be signed by the NIFI committing itself to the following terms:

    a. Investment shall only be for financing of projects under the activities covered under the facility;
    b. The financing shall have an overall target profit rate of 9.0 per cent.
    c. The profit distribution ratio between the CBN as Capital Provider and the NIFI as the Implementing Party shall be in the ratio of 3:6.
    d. The NIFI commits itself to achieving a target profit rate of 3% accruing to the CBN.
    e. In the event where the NIFI realises that the targeted 3% due to the CBN is not achievable, the arrangement is to be extended and re-structured subject to a maximum tenor not exceeding 31st December 2025, in case there is no negligence on the part of the investor. Otherwise, the Mudarabah is to be stopped, and the funds recalled.
    f. If after realisation as mentioned in (e) above, the NIFI does not stop the arrangement and return the funds, the NIFI shall be liable for negligence and breach of investment mandate, and shall refund the capital.
    g. In a situation where there is unavoidable loss, the CBN as the capital provider shall, pursuant to the principle of profit and loss sharing, bear the loss, and the NIFI shall forfeit its profit share.

b. Tier 2: Between the NIFI and the Investor: The NIFI finances the Customer (Investor) using CBN approved non-interest financial contracts appropriate with the type of financing requested, like Murabahah, Salam, Istisna', Ijarah, Wakalah etc.

7. Acceptable Collaterals

The NIFI shall deposit securities to the CBN equivalent to 120% of the facility amount. This is to secure it against misconduct, negligence or breach of terms or stipulations of the Mudarabah and Business Plan Commitment by the NIFI. Eligible securities shall include the following:

a. Federal Government of Nigeria Sukuk (where available);
b. CBN Non-Interest Liquidity Management Instruments (i.e. CBN Safe Custody Account (CSCA), CBN Non-Interest Note (CNIN) and CBN Asset-Backed Securities (CABS));
c. Sukuk backed by the guarantee of the Federal Government;
d. Sukuk given regulatory treatment by the CBN
e. Any other securities that are Shariah-compliant and acceptable to the CBN.

8. Repayment

Repayments under this facility shall be amortized and quarterly principal repayments shall be *to RSSF repayment account in CBN.*

8.1 Default rate on repayment by Beneficiaries

The bank shall not charge more than MPR+2 as penalty on defaulted amount on quarterly payment by customers. The charging of penalty shall be subject to the decision of the bank's Advisory Committee of Experts (ACE) The penalty amount shall be channeled to charity and shall not form part of the bank's income.

8.2 Default in Payment by Banks

8.2.1 *The CBN shall charge MPR+2 as penalty on the bank for defaulted amount on quarterly repayment.*

8.2.2 *Defaulted quarterly repayment crystalizes after one week due.*

9. Eligibility Criteria for Participation in the Facility

9.1 Participating Financial Institutions (PFIs)

All Non-Interest Deposit Money Banks will be eligible as PFIs under this facility.

9.2 Beneficiary

A beneficiary shall be an entity registered in Nigeria under the Companies and Allied Matters Act of 1990 to be eligible to borrow from the Facility.

10. Mechanism for the Facility

i. Participating banks shall receive; process; approve; and forward requests for the facility from their customers to the CBN.

ii. Each request must be accompanied with the following documents:

a. Business plan which should state expressly, the financing plan, economic benefits, environmental impact assessment report, etc.

b. Audited Accounts (3 years) for existing company.

c. Statement of Affairs for startups and companies with less than 3 years of existence.

d. Copies of duly executed offer documents between the bank and the facility applicants.

e. Certificate of Incorporation

f. Brief on directors

g. At least two (2) Credit Report of the company and directors

h. Proposed schedule of fund disbursement.

i. Business Plan Commitment from the participating bank as mentioned under 6 (ii)(a).

iii. Within 5 working days of the receipt of the banks' requests, Central Bank of Nigeria shall inform the banks of the status of their request.

iv. Upon disbursement of the Fund by CBN, the participating bank shall within 5 working days disburse the approved limit according to the proposed disbursement schedule.

11. Verification/Monitoring of Projects

i. Projects under the Facility shall be subject to verification by the CBN. Acceptance or rejection of an application for the facility shall be communicated to the PFIs and the beneficiary within 5 working days after verification.

ii. Central Bank of Nigeria reserves the right to reject an application from any lending bank that does not meet the requirements of the Guidelines.

iii. The Project shall be monitored, and impact evaluation conducted by the CBN periodically.

12. Management of the Facility

The Development Finance Department of the Central Bank of Nigeria shall be responsible for the management of the Facility.

13. Responsibilities of Stakeholders:

For the effective implementation of the Facility, the responsibilities of the stakeholders shall include:

13.1 Central Bank of Nigeria

The Central Bank of Nigeria shall:

i. Articulate clear Guidelines for the implementation of the Facility

ii. Determine the limits.

iii. Carry out verification and monitor projects financed.

iv. Conduct impact evaluation.

v. Generate periodic reports on its performance.

vi. Sensitize stakeholders

vii. Review the Guidelines as may be necessary from time to time

13.2 Non-Interest Deposit Money Banks (DMBs)

The DMBs shall:

i. Appraise and approve requests under the Facility based on normal business consideration and due diligence.

ii. Forward such approved requests to CBN for verification and final approval.

iii. Consider the grant of facility ONLY to real sector projects at a rate of return of 9% per annum all inclusive.

iv. Monitor the Projects during the facility period.

v. Render periodic returns as may be specified by the CBN from time to time

vi. Comply with the Guidelines of the Facility

13.3 Beneficiary

The beneficiary shall:

i. Adhere strictly to the terms and conditions of the Facility.

ii. Utilize the funds for the purpose for which it was granted.

iii. Make the Project and records available for inspection/verification by the CBN.

iv. Comply with the Guidelines.

14. Discontinuation of a Facility

Whenever a facility is repaid or is otherwise discontinued, the participating bank shall return the fund to the RSSF repayment account in CBN within 3 working days, providing details of the facility.

15. Infractions

The following among others shall constitute infractions under the Guidelines:

i. Facility diversion

ii. Delay in disbursement to beneficiaries

iii. Delay in remittance of quarterly repayments.

(a) For item (i) above, any established case of facility diversion, the bank must within 48 hours return the fund to CBN and the penalty shall be a minimum of Monetary Policy Rate (MPR) plus 2 per cent of the amount or as may be determined from time to time by the CBN.

(b) On item (ii) above, the penalty shall be Monetary Policy Rate (MPR) plus 2 percent of the amount.

(c) In the case of quarterly repayment default by the beneficiary, the participating bank shall be liable to pay back the amount due within two (2) weeks, failing which the CBN shall debit the participating bank.

iv. Non-compliance with Section 8.1 of the Guidelines is tantamount to infraction and will attract a penalty of MPR+2.

15. Amendments

These Guidelines shall be subject to review from time to time as may be deemed necessary by the CBN.

16. Enquiries and Returns

All enquiries and returns should be addressed to:
Director,
Development Finance Department,
Central Bank of Nigeria, Corporate Headquarters
Central Business District, Abuja.
Telephone No: 234-09-46238600

June 2020

NON-INTEREST GUIDELINES FOR REAL SECTOR SUPPORT FACILITY (RSSF) THROUGH CRR

1.0 Introduction

At its 119th Meeting held on 23rd and 24th July, 2018, the Monetary Policy Committee (MPC) of Central Bank of Nigeria emphasized the need to increase the flow of credit to the real sector of the economy in order to consolidate and sustain economic recovery. To achieve this objective Deposit Money Banks (DMBs) would henceforth be incentivized to direct affordable, long-term bank credit to the manufacturing, agriculture, as well other sectors considered by the CBN as employment and growth stimulating. The CBN will therefore lay more emphasis on projects targeted not only at backward integration but also at those that will enhance Nigeria's Import Substitution Strategy.

1.1 Differentiated Cash Reserves Requirement (DCRR) Regime

Under this programme, DMBs interested in providing Credit Financing to greenfield (new) and brownfield (new/expansion) projects in the real sector (Agriculture and Manufacturing) may request for the release of funds from their CRR to finance the projects subject to DMBs providing verifiable evidence that the funds shall be directed at the projects approved by the CBN.

2.0 Objectives of the Facility

The objectives of the Facility are to:

2.1 Improve access to affordable finance to the manufacturing, agricultural, and other related sectors that are employment and growth stimulating to the economy.

2.2 Stimulate growth in employment-elastic sectors.

3.0 Activities to be Covered

3.1 The activities to be covered under this program shall be Greenfield (new) and expansion (brownfield) projects in manufacturing, agriculture, and other related sectors approved by the CBN and not violating the principles of non-interest

banking and finance. Emphasis will however be placed on Greenfield (new) projects.

3.2 Priority shall be accorded projects with high local content, import substitution, foreign exchange earnings and potential for job creation.

3.3 Trading activities are PROHIBITED under the Facility and any attempt by a Non-Interest Financial Institution (NIFI) to falsify through presentation of projects that do not meet the eligibility criteria/specified terms and conditions shall attract severe penalties from the CBN.

3.4 Financings shall be based on CBN approved non-interest financial contracts appropriate with the type of financing requested, like Murabahah, Salam, Istisna', Ijarah, Wakalah etc.

4.0 Types of Facilities

4.1 Differentiated CRR (DCRR)

This shall comprise financings to Greenfield or expansion projects using CRR. Emphasis shall however be on new projects.

4.1.1 Tenor: Minimum of seven years.

4.1.2 Moratorium: Two years moratorium.

4.1.3 The participating financial institution (PFI) shall bear the credit risk.

4.1.4 Refinancing of existing facilities is PROHIBITED for funding under this program and any attempt to falsify information shall attract severe sanctions from the CBN.

5.0 Modalities of the Facility

5.1 Maximum Amount

The maximum facility shall be ₦10 billion per project.

5.2 Rate of Return

Facilities are to be administered at an all-in rate of return of 9 per cent per annum. Bank Customers are encouraged to report any bank to the CBN's Director of Banking Supervision, Where such DMB may have charged rates above the prescribed maximum of 9 per cent per annum.

5.3 Repayment

Repayments shall be amortized and remitted on quarterly basis to the CBN.

6.0 Eligibility Criteria for Participation in the Facility/CB

6. 1 Participating Financial Institutions (PFIs)

a) Only CRR contributing DMBs shall be eligible to participate under the DCRR.

7.0 Responsibilities of Stakeholders

For effective implementation of the Facility, the responsibilities of the stakeholders shall include:

7.1 Central Bank of Nigeria

i. Articulate and review guidelines for the implementation of the Facility.

ii. Determine the limits of DCRR investments.

iii. Appraise, monitor and evaluate projects and the Facility.

iv. Render periodic reports on performance.

v. The CBN shall disburse funds to projects through NIFIs in agreed TRANCHES.

7.2 Participating Financial Institution (PFI)

i. Undertake due diligence based on normal business consideration.

ii. Forward an initial financing request on the proposed project to the CBN for pre-funding assessment/ approval in- principle to proceed.

iii. Forward final approved requests to CBN for funding after meeting all Conditions precedent to disbursement of the facility.

iv. Disburse funds to obligors through their NIFIs in agreed TRANCHES based on disbursement schedules submitted by NIFIs to the CBN within five working days of release from the CBN.

v. Render periodic returns as specified by the CBN from time to time.

vi. Monitor the projects.

vii. Comply with the guidelines of the Facility.

7 .3 Beneficiary

i. Adhere strictly to the terms and conditions of the Facility.

ii. Utilize the funds for the purpose for which it was granted.

iii. Make the project and records available for inspection/ verification by the CBN.

iv. Comply with the guidelines

8.0 Discontinuation of a Financing Facility

Where a facility is repaid or otherwise discontinued, the PFI shall advise the CBN immediately, giving particulars of the facility. Any outstanding amount under the facility is to be refunded to the CBN.

9.0 Amendments

These Guidelines shall be subject to review from time to time as may be deemed necessary by the CBN.

10.0 Enquiries and Returns

The Director,
Development Finance Department,
Central Bank of Nigeria,
Corporate Headquarters
Central Business District,
Abuja, Nigeria
Fax: +234-09-46238600

Development Finance Department,
Central Bank of Nigeria,
Abuja,

June 2020

CENTRAL BANK OF NIGERIA

NON-INTEREST GUIDELINES FOR THE OPERATIONS OF THE CREDIT SUPPORT FOR THE HEALTHCARE SECTOR

1. Introduction

Demand for healthcare in Nigeria currently outstrips supply, presenting a wide range of opportunities for foreign investment and expertise. The domestic healthcare sector is estimated to be worth US$5 billion per annum. Equally, Nigerians spend over US$1 billion on medical tourism each year, as many Nigerian patients travel abroad for treatments ranging from diagnostics to surgeries. The high rates of healthcare tourism in the country are not due to lack of local physicians, as close to 3,000 doctors are trained in Nigeria every year. However, over 63% of trained doctors end up practicing medicine abroad. Beyond this, the annual budgetary allocation to the sector remains low, as government health spending was about 0.6% as a share of GDP or just US$11 per capita. This trend has left a gap in the domestic healthcare sector, suggesting potential for a wide range of opportunities.

Nigeria's pharmaceutical market is worth US$2bn but only eight out of over 130 companies are listed on the Nigeria Stock Exchange. Potential, therefore, exists for further investment by private investors to spur growth in the sector to expand to service the regional market. Diagnostic services also hold massive untapped potential. The diagnostic services industry has seen healthy growth of close to 10% in recent years. Our resolve is to explore innovation and deepen the sector through the provision of long-term, low cost financing and the encouragement of shared services to reduce the cost of healthcare delivery in the country.

The recent corona virus (COVID-19) pandemic has brought to fore, the need for increasing investment, both private and public, in the healthcare sector in Nigeria. More importantly, as the aftermath effect of the pandemic has had severe

implications for the sector – increasing demand for domestic medical services and accessories and perked up demand for locally produced pharmaceutical products. In realization of this, the Central Bank of Nigeria hereby introduce the Credit Support Scheme for the Healthcare Industry to expand financing opportunities to practitioners and manufacturers in the industry, particularly pharmaceutical companies and healthcare practitioners.

This Guidelines outlines the operational modalities for the Non-Interest version of the Scheme.

2. Objectives of the Scheme

The broad objectives of the Scheme include:

2.1 Reduce health tourism in Nigeria, thereby conserving foreign exchange;

2.2 Provide long-term, low cost finance for healthcare infrastructure development that would lead to the evolvement of world-class healthcare facilities in the country;

2.3 Improve access to affordable financing facility by indigenous pharmaceutical companies to expand their operations and comply with the WHO Good Manufacturing Practices (WHO GMP);

2.4 Support the provision of shared services through one-stop healthcare solution to enhance competition and reduce the cost of healthcare delivery in the country.

3. Eligible Participants

i. Drug Manufacturing Companies
ii. Medical Equipment Manufacturers
iii. Hospitals/Clinics
iv. Other Healthcare Service Providers – Diagnostic Centres, Medical Laboratories, Fitness and Wellness Centres, etc

4. Activities Covered

Eligible activities under the Scheme include:

i. Medical Drugs manufacturing
ii. Medical equipment manufacturing
iii. Establishment/Expansion of Specialized Hospitals/Clinics
iv. Establishment/Expansion of Medical Diagnostic Centres, as well as Wellness and Fitness Centres
v. Pharmaceutical Supplies
vi. Any other healthcare value chain activity as may be prescribed by the CBN that is Shari'ah compliant.

5. Funding

The Scheme shall be financed from the Real Sector Support Facility (RSSF).

6. Participating Financial Institutions

6.1 The eligible financial institutions shall be Non-Interest Deposit Money Banks (NIBs); and

6.2 Non-Interest Development Finance Institutions (NI-Dis).

7. Financing Limit

7.1 Working Capital: 20% of the average of 3 years of the company's turnover subject to a maximum of ₦500 million per obligor (where the enterprise is not up to 3 years in operation, 20% of the previous year turnover will suffice).

7.2 Term Financing: Maximum of ₦2 billion per obligor.

8. Rate of Return

Rate of return under the intervention shall be at not more than 5% p.a. (all inclusive) up to 28th February, 2021.

Return on the financing as from 1st March, 2021 shall be not more than 9% p.

Working capital facility shall be for 1 year with a maximum roll over of 1 year subject to approval. The roll over shall not attract interest charges but could attract returns based on Shariah-compliant re-financing arrangements.

The Facility allows for moratorium of 1 year in the facility repayment schedule.

The sharing formula of the return between CBN and the PFI shall be as per the terms of the RSSF Scheme.

9. Financing Tenor

9.1 Working capital shall be for a maximum period of one year.

9.2 Term financing shall have a maximum tenor of not more than 10 years with at least one-year moratorium. However, in case of construction, the tenor should be determined by the completion date.

10. Collateral Requirement

The collateral to be pledged by beneficiaries under the programme shall be as may be required under RSSF.

11. Principal Repayment

Repayment shall be made on installment basis by the beneficiaries to the Participating Financial Institutions (PFIs) according to the nature of enterprise.

The PFI shall remit repayments received to the Fund on quarterly basis.

12. Modalities

i. A corporate entity shall submit application to a PFI of its choice with bankable business plan.
ii. PFI shall appraise and conduct due diligence applications.
iii. Once approved by the PFI's Credit Committee, the application should be submitted to CBN attaching the relevant documents.
iv. CBN will process and disburse funds to the PFI for onward release to the project. The disbursement of the funds by CBN to the PFI shall be based

on a Restricted Mudarabah Contract between the CBN and the PFI as in the RSSF Scheme.

v. The PFI shall release funds to the project based on CBN approved contracts for NIFIs that can accommodate variable returns only.

13. Monitoring and Reporting

Periodic joint monitoring of activities financed under the Scheme will be conducted by the PFI and CBN.

14. Responsibilities of Stakeholders

14.1. CBN shall:

i. Provide the seed fund for the Scheme
ii. Release funds to PFIs for disbursement to successful applicants.
iii. Review the Guidelines of the Facility as may be necessary
iv. Receive and process periodic returns from PFIs.
v. Monitor and evaluate implementation of the Scheme.

14.2. The PFIs shall:

i. Confirm receive and review applicants submitted by the customers;
ii. Conduct due diligence on all applications;
iii. Issue offer letters and forward qualified applications to CBN;
iv. Disburse the released funds to successful applicants;
v. Monitor the project and recover the financing amounts from the beneficiaries
vi. Maintain adequate records of all beneficiaries and facilities;
vii. Forward periodic returns on the prescribed format on the Scheme to CBN;
viii. Comply with the Guidelines; and
ix. Carry out any other duties as the CBN may prescribe from time to time.

17. Infractions

Delay and non-release of funds to beneficiaries within the timelines agreed on the

Offer Letter shall attract penalty at the PFI's maximum financing rate.

18. Exit Date

The exit date of this Intervention is 31st December, 2030.

19. Amendments

This framework shall be subject to review from time to time as may be deemed necessary by the CBN.

20. Enquiries and Returns

All enquiries and returns should be addressed to:

Director,
Development Finance Department,
Central Bank of Nigeria,
Abuja.

June 2020

CENTRAL BANK OF NIGERIA

MODALITIES FOR THE IMPLEMENTATION OF THE CREATIVE INDUSTRY FINANCING INITIATIVE (NON-INTEREST)

---

1. Introduction

The Central Bank Nigeria (CBN), in collaboration with the Bankers' Committee, as part of efforts to boost job creation in Nigeria, particularly among the youth, recently introduced the Creative Industry Financing Initiative (CIFI) with a view to improving access to long-term low-cost financing by entrepreneurs and investors in the Nigerian creative and information technology (IT) sub-sectors.

In furtherance to the above, the CBN hereby issues modalities and transaction dynamics for the seamless implementation of the initiative.

2. Objectives of CIFI

The objectives of the Initiative are:

i. Improve access to low-cost and sustainable financing by entrepreneurs and investors in the Nigerian creative and information technology (IT) sub-sectors;
ii. Boost job creation, particularly among the youth;
iii. Harness the entrepreneurial potentials of youth within the Nigerian creative and information technology (IT) sub-sectors for economic development; and
iv. Complement other development finance initiatives of the CBN to accelerate financial inclusion.

3. Activities covered under CIFI

Eligible activities under the initiative are:

i. Existing enterprises in the creative industry;

ii. Start-ups engaged in the creative industry; and

iii. Students of higher institutions engaged in software development.

3.1 Verticals (Focal sub-sectors)

The verticals for financing under the eligible activities shall include:

i. Fashion

ii. Information Technology

iii. Movie

iv. Music

Verticals	Target Markets
Fashion	• Designers
Information Technology	• Information Technology • Student Software Development Loan
Movie	• Movie Distribution • Movie Production
Music	• Music Production (Musicians) • Music Distribution

Provided that both the activities covered and the verticals shall not violate the principles of non-interest banking and finance.

4. Funding

The initiative shall be funded from the Agri-Business, Small and Medium Enterprises Investment Scheme (AGSMEIS), an initiative of the Bankers' Committee, with a seed fund of N22.9 billion appropriated as follows:

4.1 Student Software Development Loan – N1.0 billion

4.2 Information Technology – N5.5 billion

4.3 Movie Production – N3.0 billion disaggregated into:

4.3.1 Production – N1.5 billion

4.3.2 Equipment Financing – N1.5 billion

4.4	Movie Distribution	–	N4.0 billion
4.5	Music	–	N5.4 billion
4.6	Fashion	–	N4.0 billion

5. Operational Features of CIFI

The key features of the CIFI include:

5.1 Software Development and Movie

Features	Student Software Development Facility	Movie Production	Movie Distribution
Single Obligor Limit	N3.0 million	N50.0 million	N500.0 million
Rate of Return	9.0% p.a. (all inclusive)	9.0% p.a. (all inclusive)	9.0% p.a. (all inclusive)
Tenor	3 years	10 years	10 years
Moratorium	9 months from date of facility disbursement	24 months from date of facility disbursement	24 months from date of facility disbursement
Repayment	Monthly	Quarterly	Monthly
Security Arrangement	• Minimum Equity Contribution - 0% • University degree certificate • NYSC certificate • Credible Guarantor • Personal Guarantee	• Minimum Equity Contribution - 30% • Equitable mortgage • All asset debenture • Credible Guarantor • Personal Guarantee	• Minimum Equity Contribution - 30% • Equitable mortgage • All asset debenture • Personal Guarantee
Other Conditions	• Must gain admission into a training organisation that has job placement contracts • No bad credit history with CRMS or any	• Minimum of three (3) years relevant experience • No bad credit history with CRMS or	• Minimum of three (3) years relevant experience • No bad credit history with CRMS or

	commercial banks in Nigeria • Preference for areas with low IT penetration	any commercial banks in Nigeria • Preference for areas with low cinema penetration	any commercial banks in Nigeria • Preference for areas with low cinema penetration
Funding Structure	• Minimum Equity Contribution - 0% • NIB (Term Facility) – 100%	• Minimum Equity Contribution - 30% • NIB (Term Facility) – 70%	• Minimum Equity Contribution - 30% • NIB (Term Facility) – 70%
Disbursement	In phases in accordance with agreed milestones	In phases in accordance with agreed milestones	In phases in accordance with agreed milestones
Repayment Source	From the proceeds of software sale or patent usage	From the proceeds of movie tickets at the box office and other channels of distribution	From the proceeds of movie tickets at the box office and other channels of distribution

5.2 Fashion, IT and Music

Features	Fashion	Information Technology	Music
Monetization (To be financed)	• Equipment purchase • Rental/service fees	• Equipment purchase • Rental/service fees	• Equipment purchase/rentals • Rental/service fees
Rate of Return	9.0% p.a. (all inclusive)	9.0% p.a. (all inclusive)	9.0% p.a. (all inclusive)
Tenor	10 years	10 years	10 years
Moratorium	36 months from date of facility disbursement	36 months from date of facility disbursement	36 months from date of facility disbursement
Repayment	Quarterly	Quarterly	Quarterly
Security Arrangement	• Minimum Equity Contribution - 20% • Mortgage debenture • Equitable mortgage	• Minimum Equity Contribution - 20% • Mortgage debenture	• Minimum Equity Contribution - 20% • Mortgage debenture

	• Lien on stock of trade and items of equipment	• Equitable mortgage • Lien on stock of trade and items of equipment	• Equitable mortgage • Lien on stock of trade and items of equipment
Other Conditions	• At least three (3) referrals from recognised sponsors or bodies or associations. • Minimum of three (3) years relevant experience • No bad credit history with CRMS or any commercial banks in Nigeria	• At least three (3) referrals from recognised sponsors or bodies or associations • Minimum of three (3) years relevant experience • No bad credit history with CRMS or any commercial banks in Nigeria	• At least three (3) referrals from recognised sponsors or bodies or associations • Minimum of three (3) years relevant experience • No bad credit history with CRMS or any commercial banks in Nigeria
Funding Structure	• Minimum Equity Contribution - 20% • NIB (Term Facility) – 80%	• Minimum Equity Contribution - 20% • NIB (Term Facility) – 80%	• Minimum Equity Contribution - 20% • NIB (Term Facility) – 80%
Disbursement	In phases in accordance with agreed milestones	In phases in accordance with agreed milestones	In phases in accordance with agreed milestones
Repayment Source	From proceeds of the business	From the proceeds of sales or income form services provided	From the proceeds of music record sale or shows

6. Transaction Dynamics

i. The prospective applicant approaches any bank of his/her choice with a business plan or statement detailing how much is needed for his/her business proposal.

ii. The bank provides the applicant with the documentation requirements for accessing any of the verticals.

iii. The documentation requirements shall be as acceptable by the respective bank for credit requests by its customers.

iv. The bank carries out due diligence of the application and documentation submitted.

v. Successful applicants are issued offer letters, which shall have therewith repayment schedules in accordance with the business dynamics.

vi. The successful applicants shall accept the offer, as well as, meeting all conditions specified in the offer letter precedent to draw down.

vii. The bank forwards successful applications with copies of the offer letter to the Director, Development Finance Department, Central Bank of Nigeria, for consideration and release of aggregate facility amount to the bank for onward financing to successful applicants.

viii. The bank disburses facility to successful applicants within ten (10) days of receipt of funds from the CBN.

ix. The bank bears the credit risk and shall be responsible for the monitoring the performance of the facility.

6.1 The CBN shall release funds to the PFIs as agents of the Fund. The PFIs shall finance the eligible activity using any of the approved CBN non-interest financing products of NIFIs (Murabahah, Salam, Istisna', Ijarah etc). The rate of return shall be an all-inclusive 9%, to be shared among the parties at a ratio to be determined from time to time by the CBN.

7. Participating Financial Institutions (PFIs)

All non-interest banks (NIBs) and non-interest microfinance banks shall be eligible to participate under the initiative.

8. Monitoring and Evaluation

There shall be regular joint monitoring and evaluation of financed projects by the CBN and respective PFIs. Reports of the exercise shall be submitted to the Director, Development Finance Department.

9. Infractions and Penalties

The infractions and penalties shall be as specified in the AGSMEIS Guidelines (NIB Version).

10. Discontinuation of Facility

Whenever a financing is repaid or the facility is otherwise discontinued, the PFIs shall advise the CBN immediately, giving particulars of the facility. Any outstanding amount under the facility is to be refunded to the AGSMEIS Fund Account within seven (7) days of discontinuation.

11. Amendments

These modalities shall be subject to review from time to time as may be deemed necessary by the CBN and the Bankers' Committee.

12. Enquiries and Returns

All enquiries and returns should be addressed to:

The Director
Development Finance Department
Central Bank of Nigeria,
Corporate Headquarters;
Central Business District,
Abuja.
Telephone No: 234-09-4623860

Development Finance Department
Central Bank of Nigeria

Abuja,

June 2020

APPENDIX

Definition of Terms

Agribusiness
Agribusiness in the context of these guidelines shall be a business involved in any of the agricultural value chain including production, processing, storage and logistics.

Facility Disbursement
The actual commencement of the underlying contract used in the financing, between the PFI and the beneficiary

Participating Financial Institutions (PFIs)
Any Non-Interest Bank or Non-Interest Microfinance Bank licensed by the Central Bank of Nigeria to provide banking services in Nigeria.

Abbreviations and Acronyms

AGSMEIS	Agri-Business Small, and Medium Enterprises Investment Scheme
CBN	Central Bank of Nigeria
CIFI	Creative Industry Financing Initiative
CRMS	Credit Risk Management System
DMB	Deposit Money Bank
PFI	Participating Financial Institution
NIB	Non-Interest Bank
NIFI	Non-Interest Financial Institution

CENTRAL BANK OF NIGERIA

AMENDMENT TO THE GUIDELINES FOR THE IMPLEMETATION OF THE N50 BILLION TARGETED CREDIT FACILITY (TCF) (NON-INTEREST)

1.0 Introduction

As part of the efforts of the Central Bank of Nigeria (CBN) to cushion the impact of the COVID-19 pandemic, the Bank recently introduced the Targeted Credit Facility (TCF) to support affected households and business enterprises affected. The amendment to the Guidelines is hereby revised to fast track the implementation of the Scheme and deepen the reach of the initiative.

The revised TCF Guidelines is designed to complement other special of the Bank in providing concessionary financing for households and enterprises affected by COVID-19.

2.0 Objectives of the Facility

The broad objectives of the CBN's N50 billion Targeted Credit Facility include:

i. Cushion the adverse effects of COVID-19 on households and MSMEs;

ii. Support households and MSMEs whose economic activities have been significantly disrupted by the COVID-19 pandemic.

iii. Stimulate credit to MSMEs to expand their productive capacity through equipment upgrade, and research and development.

3.0 Targeted Participants

For the purpose of this Scheme, the following targeted participants shall be eligible to participate under TCF:

i. Households or employees with verifiable evidence of livelihood adversely impacted by COVID-19 and willing to establish a new business enterprise.

ii. Micro enterprises with 1 – 5 staff and verifiable evidence of business activities adversely affected as a result of the COVID-19 pandemic, with evidence of job protection for its staff.

NOTE: Small and Medium Enterprises (SMEs) with verifiable evidence of business activities adversely affected as a result of the COVID-19 pandemic shall be eligible to submit their applications under the Bank's Micro, Small and Medium Enterprises Development Fund (MSMEDF) through their PFIs.

4.0 Criteria for Participation under the Scheme

Targeted enterprises or households shall be required to provide one or more verifiable and documented evidence of adverse impact of COVID-19, which shall include:

i. Evidence of lay-off due to COVID-19 pandemic;
ii. Evidence of loss of income by household or employee due to infection of corona virus by the household head;
iii. Evidence of loss of income by enterprise or business closure including due to the coronavirus;
iv. Verifiable drop, by at least 50 per cent, in combined/ aggregate incomes period on period because the primary source(s) of income is/are directly tied, vertically or horizontally, to another activity heavily impacted by the coronavirus pandemic;
v. Favourable report from at least one (1) credit bureau and CRMS;
vi. Evidence of jobs protected by the micro enterprises; and
vii. Submission of a viable and feasible business proposal.

5.0 Activities Covered

Eligible activities under the Scheme include:

i. Agricultural value chain activities
ii. Hospitality (accommodation and food services)
iii. Health (pharmaceuticals and medical supplies)
iv. Airline service providers
v. Manufacturing/value addition
vi. Trading
vii. Any other income generating activities as may be prescribed by the CBN and are Shari'ah compliant.

6.0 Funding

The Scheme shall be financed from the Micro, Small and Medium Enterprises Development Fund (MSMEDF).

7.0 Participating Financial Institutions

All non-interest microfinance banks and non-interest deposit money banks shall be eligible to participate under the Scheme.

8.0 Financing Limit

The obligor limit under the Scheme has be categorized to reflect the tenor of the facility for affected households:

8.1 Households

i. N1.0 million: 0 – 6 months
ii. N2.0 million: 6 – 24 months
iii. N3.0 million: 24 – 36 months

8.2 Micro enterprises

The obligor limit for micro enterprises, under the Scheme, shall be N5.0 million.

9.0 Rate of Return

Rate of return under the Scheme shall be 5% p.a. (all inclusive) up to 28th February 2021 and thereafter, the rate of return on the financing shall revert to 9% p.a. (all inclusive) as from 1st March 2021.

The sharing formula between CBN and the PFI shall be as per the terms of the MSMEDF Scheme.

10.0 Financing Tenor

The facility shall have a maximum tenor of not more than 3 years with, at least, six (6) months moratorium.

11.0 Collateral Requirement

The collateral acceptable under the Scheme shall be as may be acceptable by the PFI, but may include any one or more of the following:

i. Moveable asset(s) duly registered on the National Collateral Registry (NCR);
ii. Cash deposit certificates;
iii. Simple deposit of title documents, in perfectible state;
iv. Irrevocable domiciliation of proceeds;
v. Two (2) acceptable Guarantors;
vi. Personal Guarantee of the promoter of the business;
vii. Family Takaful policy of the Key-Man, with the PFI noted as the First Loss Payee; and
viii. Comprehensive Takaful over the asset.

12.0 Transaction Dynamics

i. Eligible households or micro enterprises shall submit applications to their PFIs;
ii. The application must, among others, contain BVN number, business registration (where applicable) and business plan with clear evidence of the opportunity or adverse impact as a result of COVID-19 pandemic.
iii. The PFI shall appraise the applications and conduct due diligence;
iv. Upon satisfactory appraisal of application, The PFI shall forward the applications to the CBN for final approval
v. CBN reviews applications and gives final approval for disbursement to PFI.
vi. The disbursement to the PFI shall be under a Restricted Mudarabah Contract between CBN and the PFI as in the MSMEDF Scheme.
vii. The PFI shall release the funds the participant for the project based on CBN approved contracts for NIFIs that can accommodate variable returns only.

13.0 Monitoring and Reporting

Periodic monitoring of projects financed under the Scheme shall be conducted by the PFI with CBN.

14.0 Responsibilities of Stakeholders

14.1.1 CBN shall:

i. Provide the seed fund for the Scheme
ii. Release funds to the PFI for disbursement to successful applicants.
iii. Review the Guidelines of the Facility as may be necessary

iv. Receive and process periodic returns from PFI.
v. Monitor and evaluate implementation of the Scheme by PFI.

14.1.2 The PFI shall:

i. Validate the status and BVN of the applicants;
ii. Process and disburse funds to approved beneficiaries;
iii. Maintain records of all beneficiaries and disbursements;
iv. Forward periodic returns on the prescribed format on the Scheme to CBN;
v. Comply with the Guidelines; and
vi. Carry out any other duties as the CBN may prescribe from time to time.

15. Exit Date

The exit date of this Intervention is 31st December 2024.

16. Amendments

This framework shall be subject to review from time to time as may be deemed necessary by the CBN.

17. Enquiries and Returns

All enquiries and returns should be addressed to:

Director,

Development Finance Department
Central Bank of Nigeria,
Abuja.

June 2020

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-46237401
E-mail:fprd@cbn.gov.ng

FPRD/DIR/GEN/CIR/07/056

July 13, 2020

CIRCULAR TO ALL BANKS AND OTHER FINANCIAL INSTITUTIONS

OPERATIONAL GUIDELINES ON GLOBAL STANDING INSTRUCTION (GSI) - INDIVIDUALS

The Bankers' Committee at its meeting of February 18, 2020 approved the Go-Live on the Global Standing Instruction (GSI), which is aimed at:

i. Facilitating an improved credit repayment culture;
ii. Reducing Non-Performing Loans in the Nigerian Banking System; and
iii. Watch-listing consistent loan defaulters.

The Central Bank of Nigeria in collaboration with stakeholders has developed the necessary protocols to facilitate a seamless implementation of the GSI process, including eligible loans granted from August 28, 2019.

Accordingly, the following Guidelines to regulate the operations of the Global Standing Instruction is hereby issued for implementation by all banks and other financial institutions with effect from **August 1, 2020**.

The Guidelines may be accessed from the CBN website: www.cbn.gov.ng

KEVIN N. AMUGO
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA

GUIDELINES ON GLOBAL STANDING INSTRUCTION (GSI) (INDIVIDUALS)

July, 2020

TABLE OF CONTENTS

DEFINITION OF TERMS 2

1.0. INTRODUCTION 4

1.1 Objectives of GSI 4

2.0 ELIGIBLE ACCOUNT TYPES 4

3.0 STAKEHOLDERS-ROLES AND RESPONSIBILITIES 4

3.1 Stakeholders..........4

3.2 Roles and Responsibilities 5

3.2.1 Borrower 5

3.2.2 Creditor Bank 5

3.2.3 Participating Financial Institutions 5

3.2.4 Nigeria Inter-Bank Settlement System 6

3.2.5 The Central Bank of Nigeria 6

4.0 GSI TRANSACTION REPORTS.......... 6

4.1 Report to Creditor 6

4.2 Report to Participating Financial Institutions 6

4.3 Reports to CBN 6

5.0 ACCOUNTABILITY IN PARTICIPATING FINANCIAL INSTITUTIONS 7

6.0 PENALTIES 7

7.0 PARTICIPATION REQUIREMENTS 9

8.0 TRAINING 9

DEFINITION OF TERMS

TERM	DEFINITION
Account Search	The process of identifying all qualifying bank accounts maintained by a Customer across Participating Financial Institutions by NIBSS. The search may be done on the Industry Customer Accounts Database (ICAD) or any other service created or provisioned for this purpose.
Accrued Interest	Amount of interest that has been incurred, as of a specific date, on a loan or other financial obligation but has not yet been paid.
Arbitrator	A person(s) or institution(s) appointed to resolve a dispute between two parties by arbitration and pursuant to an arbitration clause, in compliance with relevant laws.
Balance Enquiry	A request initiated for the balance in a qualifying bank account based on a mandate by the account holder.
Bank Verification Number (BVN)	Bank Verification Number (BVN) is a biometrics based unique identification number issued & administered by NIBSS, issued to every bank customer and can be verified across all financial institutions in Nigeria.
Borrower	A customer who has executed a GSI Mandate and has utilised a loan/credit from a Participating Financial Institution.
CBN	Central Bank of Nigeria
Creditor Bank	A Participating Financial Institution which has granted a loan/credit to a Borrower for which a GSI Mandate was executed. The Creditor is responsible for set-up, updating, triggering and deletion of GSI mandates.
Credit Risk Management System (CRMS)	A regulatory credit database where participating institutions submit specific information on borrowers.
Customer	An Individual, uniquely identified by BVN in the Nigerian banking system
Debit Logic	The Business Rules that guide the execution of a GSI Trigger. The debit logic defines: i. The types/categories of Accounts that are valid for a GSI Trigger ii. The criteria of preference by which these Accounts are ordered iii. The computation of the specific amount to be recovered from each identified account
Default	Failure to repay a loan according to the terms in the executed offer letter and its classification consistent with CBN's Prudential Guidelines.
GSI	Global Standing Instruction

GSI Available Balance	The funds in a customer's qualifying account, that is available for GSI trigger.
GSI Mandate	An instruction (written or digital) executed by a borrower being an Account Holder in a Participating Financial Institution, authorizing the recovery of an amount specified by the Creditor from any/all accounts maintained by the Account Holder across all Participating Financial Institutions.
GSI-Reversal	An electronic instruction by a Creditor bank requesting the reversal or withdrawal of a GSI Trigger.
GSI Stakeholders	Borrower(s), Creditor bank, PFIs, NIBSS and CBN.
GSI Transaction	All balance enquiry, debit and credit activity that results when a Creditor bank attempts recovery using GSI.
GSI Transaction ID	A unique number that is the same as a CRMS reference number.
GSI Trigger	An electronic instruction from a Creditor bank to initiate a GSI Transaction (upon default by the borrower) subject to the provisions of the CBN Prudential Guidelines.
GSI Trigger Amount	Outstanding Principal Amount and Accrued Interest (consistent with the terms stated in an executed offer letter).
NIBSS	Nigeria Inter-Bank Settlement System Plc
Participating Financial Institutions (PFIs)	All CBN-licensed Financial Institutions that are connected to NIBSS Instant Payment (NIP) platform.
Penal Rate or Charges	This is the interest rate that financial institutions charge customers for failing to make payments on loans and advances as at when due. It is charged in addition to the agreed interest rate (s).
Principal Amount	The credit/loan amount granted and utilized/disbursed.
Qualifying Accounts	All bank accounts maintained by a Borrower across Participating Financial Institution(s) that are valid for GSI Transactions.
Repayment Account	Borrower's NUBAN account in a Creditor bank where the credit/loan was initially disbursed or granted.
Successful GSI Trigger	Where all or part of the GSI Trigger Amount is recovered.
Unavailable Accounts	Borrower's qualifying and funded account types but have CBN approved/recognized restrictions placed on them (e.g. Court Order, Probate, Fraud, CBN Directive, etc)
Unsuccessful GSI Trigger	A GSI Trigger where no funds are recovered i.e. total recovery equals ₦0.00

1.0. INTRODUCTION

In pursuant of the powers conferred on the Central Bank of Nigeria (CBN) by Section 2 (d) of the Central Bank of Nigeria Act, 2007; to promote a sound financial system in Nigeria; the CBN hereby issues this guideline on Global Standing Instruction (GSI) to enhance loan recovery across the banking sector.
The GSI shall serve as a last resort by a Creditor bank, without recourse to the Borrower, to recover past due obligations (Principal and Accrued Interest only, excluding any Penal Charges) from a defaulting Borrower through a direct set-off from deposits/investments held in the Borrower's qualifying bank accounts with participating financial institutions.

1.1 Objectives of GSI

The objectives of GSI include:

a) Facilitate an improved credit repayment culture;
b) Reduce Non-Performing Loans (NPLs) in the banking industry; and
c) Watch-listing consistent loan defaulters.

NOTE: The GSI shall not serve as a tool to recover **ANY** Penal Charges that may have accrued on a credit/loan and included as part of outstanding balances/obligations of a borrower.

2.0 ELIGIBLE ACCOUNT TYPES

The following types of accounts qualify for GSI:

a) Individual Savings Accounts;
b) Individual Current Accounts;
c) Individual Domiciliary Accounts;
d) Investment/Deposit Accounts (₦ & Foreign Currency); and
e) Electronic Wallets.

NOTE: Above also applies to <u>Joint account(s)</u>

3.0 STAKEHOLDERS-ROLES AND RESPONSIBILITIES

3.1 The underlisted are GSI stakeholders:

a. Borrower
b. Creditor Bank
c. Participating Financial Institutions
d. Nigeria Inter-Bank Settlement System (NIBSS)
e. Central Bank of Nigeria (CBN)

3.2 Roles and Responsibilities

3.2.1 Borrower

The Borrower shall:

a) Execute a GSI mandate in hard copy or digital form.
b) Ensure that the terms and conditions of the mandate are clearly understood before execution.
c) Ensure that all qualifying accounts are linked to his/her BVN.

NOTE: In the event that a borrower's qualifying account which is not linked to his/her BVN is identified, such BVN shall be Watch-Listed.

3.2.2 Creditor Bank

The Creditor Bank shall:

a) Ensure that borrowers are properly educated about the GSI mandate and its implications; and enshrine same in their loan application process.
b) Review and validate the GSI mandate instrument prior to loan disbursement.
c) Indemnify NIBSS and other Participating Financial Institutions from all liabilities that may arise from inappropriate use of the GSI infrastructure.
d) Retain copies of physical or digital version of the executed GSI mandate and to provide same when required.
e) Ensure that the GSI Trigger Amount is only for outstanding Principal Amount and Accrued Interest (excluding **ANY** Penal Charges).
f) Comply with CBN's Prudential Guidelines as it applies to classification of loans.
g) As a risk management tool, the MD/CEO of each PFI shall routinely update the Board of Directors on the GSI process as it relates to frequency of use and amounts recovered or released.

3.2.3 Participating Financial Institutions

Participating Financial Institutions shall:

a) Execute the GSI Mandate Agreement with NIBSS.
b) Ensure all qualifying accounts are properly maintained and visible to NIBSS on the Industry Customer Accounts Database (ICAD) or by any other service created or provisioned for this purpose.
c) Ensure that accounts in NIBSS' ICAD are correctly tagged with correct BVN.
d) Ensure and maintain connectivity to the Nigeria Central Switch.
e) Honour **ALL** balance enquiry and debit advice received from NIBSS for GSI Trigger in accordance with master agreement, including GSI recall instructions.
f) As a risk management tool, the MD/CEO of each PFI shall routinely update the Board of Directors on the GSI process as it relates to frequency of use and amounts recovered or released.

3.2.4 Nigeria Inter-Bank Settlement System

NIBSS shall:

a) Execute the Master GSI agreement between PFIs.
b) Administer the back-end of the GSI services (utilizing NIP protocols) where upon trigger undertakes balance enquiry, debit instructions on identified accounts and completes the GSI operations by instantly transferring the collated funds to the borrowers pre-designated repayment account in the creditor bank.
c) Ensure that the availability of the ICAD database is uninterrupted for PFIs to update.
d) Render periodic reports as may be prescribed by the CBN.

3.2.5 Central Bank of Nigeria

The CBN shall ensure uninterrupted availability of the CRMS platform and connectivity to NIBSS platform.

4.0 GSI TRANSACTION REPORTS

The following transaction reports shall be provided for GSI transactions:

4.1 Report to Creditor Bank

A report detailing outcome of a GSI transaction may be provided to the Creditor bank, upon written request from the Chief Risk Officer (CRO), and shall include the following:

a) GSI Transaction ID
b) Total Amount Recovered.
c) Any other information deemed relevant.

4.2 Report to Participating Financial Institutions

The report for all GSI Transactions and reversals shall be contained in respective PFIs settlement reports on the CRMS.

4.3 Reports to the CBN

4.3.1 Participating Financial Institutions - PFIs are required to submit monthly returns (including NIL) to the CBN, capturing the following:

- Total Volume of Triggers (the count shall be by BVN and CRMS Reference No.);
- Total Amount Triggered; and
- Total Amount Recovered
- Cover letter to be signed by atleast the Chief Risk Officer or Chief Compliance Officer

(Soft copies of the returns shall be submitted to ***GSI-Returns@cbn.gov.ng*** no later than the 8th day after each month end; in alignment with routine monthly update of CRMS records' outstanding balances).

4.3.2 Nigeria Interbank Settlement System - NIBSS shall provide back-end related report(s) to the CBN in a format and frequency, as may be required.

5.0 ACCOUNTABILITY IN PARTICIPATING FINANCIAL INSTITUTIONS

To ensure completeness, integrity, accuracy and timeliness of the GSI processes consistently, the:

a) **Chief Risk Officer (CRO)** shall be accountable for the appropriateness of the entire GSI process. This shall be in addition to his/her responsibilities under section 6.2 of the Regulatory Guidelines for the Operations of the Redesigned Credit Risk Management System (CRMS).

b) **Chief Information/Technology Office (CIO or CTO)** shall ensure continuous connectivity to the GSI platform and availability of all internal systems to honour all GSI instructions and protocols (including the tagging of "Unavailable Accounts" for audit log/trail purposes.

NOTES:

- This does not absolve the PFI's MD/CEO of the overall responsibility over activities of the bank.
- Any loan for forbearance review must show evidence of GSI trigger otherwise full provisioning would be required (except where there are CBN permitted waivers).

6.0 PENALTIES

Whereas the Chief Risk Officer has overall responsibility for ensuring appropriate use of the GSI infrastructure (consistent with similar oversight of CRMS related activities); below are the specific GSI related breaches/violations and their penalties:

	VIOLATION	SANCTION
6.1	Where a Creditor Bank activates a Global Standing Instruction mandate in error (including when it is inconsistent with Prudential Guidelines)	i. The Creditor Bank assumes **ALL** liability thereto. ii. The erring Creditor Bank shall pay a flat fine of ₦500,000.00 per incident. iii. Associated GSI charges borne by the Creditor Bank shall not be refundable.
6.2	Where a PFI incorrectly places a CBN approved restriction on an eligible account in order to shield it from the GSI Trigger and it results in the GSI being unable to either perform an Account Status Check Enquiry or debit the account	i. The erring PFI shall be fined to the tune of the amount in that 'restricted/shielded' eligible account (This amount will not be considered as part of any subsequent GSI Trigger Amount, successful or otherwise). ii. In addition, for each incident, the Chief Risk Officer (CRO) of the erring PFI shall submit a formal explanation letter to the Director Banking Supervision and Director Financial Policy & Regulation Departments.

6.3	Where a PFI fails to grant the GSI permission to perform an Account Status Enquiry Check/Request.	i. The erring PFI shall pay a flat fine of ₦100,000.00 (per initial incident and each subsequent repeat request/instruction), regardless of the GSI Trigger Amount. ii. In addition, for each incident, the Chief Information/Technology Officer (CIO/CTO) of the erring PFI shall submit a formal explanation letter to the Director Banking Supervision and Director Financial Policy & Regulation Departments.
6.4	Where a PFI fails to grant the GSI permission to debit an eligible account	i. The erring PFI shall pay a flat fine of ₦100,000.00 (per initial incident and each subsequent repeat request/instruction), regardless of the GSI Trigger Amount. ii. Additionally, the erring PFI shall pay a fine equivalent of the balance in the account shielded from the GSI's Debit Request, regardless of the GSI Trigger Amount. iii. For each incident, the Chief Information/Technology Officer (CIO/CTO) of the erring PFI shall submit a formal explanation letter to the Director Banking Supervision and Director Financial Policy & Regulation Departments.
6.5	Where debits are unsuccessful due to reduction in an amount previously blocked by the GSI (where the Amount Block feature was used). Consequently, where an available balance is identified in an account, the PFI must honour subsequent Amount Block and/or Debit advice	i. This amount shall be paid by the erring PFI to the Creditor Bank. ii. The erring PFI shall also pay a flat fine of ₦100,000.00 per incident, regardless of the GSI Trigger Amount.
6.6	Where an account is debited in error due to a PFI incorrectly tagging an account in NIBSS' ICAD with the wrong unique identifier	i. The erring PFI primary responsibility shall be to a. immediately **NOTIFY** the Creditor Bank of the incident, quoting relevant customer & GSI details; b. promptly refund the wrongly impacted/debited amount with the same amount of the GSI Debit; c. ensure no additional charges accrue in same account; d. bear any other liabilities that may follow thereon.

		ii. In addition, the erring PFI shall pay a fine equivalent to the amount erroneously debited to the wrong account. iii. The creditor bank shall thereafter based on CBN confirmation of i & ii above, return the erroneous amount to the erring PFI.
6.7	Where the Arbitrator rules against the Creditor Bank for a disputed GSI Transaction	i. The Creditor Bank shall pay an additional fine of ₦10m or 10% of the disputed sum, whichever is greater. ii. This shall be in addition to the fines for any erroneous or otherwise disputed transaction.
6.8	Where a Creditor Bank includes Penal Charge in the GSI Trigger Amount	i. In event of a Successful GSI Trigger, regardless of the amount recovered, the erring Creditor Bank shall refund the **full** Penal Charge amount to the borrower (with interest calculated using the penal rate from date of GSI trigger to refund date). ii. In event of both a Successful and Unsuccessful GSI Trigger, the erring Creditor Bank shall pay a fine of ₦100,000.00 or equivalent of the Penal Charge amount; whichever is greater.

In all cases CBN shall apply the prescribed penalty to the erring Creditor Bank/Participating Financial Institution.
An Arbitrator may propose additional sanctions for grievous violations, malfeasance by a PFI and/or disputes arising from other incidents not described here in.

7.0 PARTICIPATION REQUIREMENTS

Each of the participants in this scheme shall conform to the requirements for admission into the scheme as outlined below:

a) Be a Financial Institution duly licensed by the Central Bank of Nigeria.
b) Adequate IT infrastructure to meet **ALL** the connectivity and protocol requirements at NIBSS and CBN.
c) Provide access to customers' NUBAN accounts.
d) Execute the GSI Master Agreement with NIBSS (a copy sent to CBN).

8.0 TRAINING

CBN/NIBSS shall provide adequate training for PFIs on GSI related processes and settlement procedures upon.

Tel: 09 - 46237401
E-mail:fprd@cbn.gov.ng

CENTRAL BANK OF NIGERIA

Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

FPR/DIR/GEN/CIR/07/057

June 26, 2020

CIRCULAR TO ALL REGIONAL BANKS

EXPANSION OF THE SCOPE OF REGIONAL BANKS IN NIGERIA

The Central Bank of Nigeria, pursuant to Section 8 (g) of the CBN Scope, Conditions & Minimum Standards for Commercial Banks Regulations No. [1] 2010 as revised on September 4, 2019; and in furtherance of its objective to Promote financial inclusion, hereby prescribes additional requirements for licensed regional banks (Commercial and non-interest).

Effective the date of this Circular, all banks with regional authorization shall be required to operate from one additional geo-political zone as may be prescribed for each institution by the CBN, without prejudice to the existing requirement of minimum of two (2) geo-political zones of the federation. The essence is to promote spread and balance of regional banks across the country.

The Compliance timeline to establish operational footprint at the advised zone shall not exceed six (6) months from the issuance of the regulatory advice to each regional bank by the CBN.

Please be guided accordingly.

KEVIN N. AMUGO
FINANCIAL POLICY AND REGULATION DEPARTMENT

09 - 46237401
Tel:................................
E-mail:fprd@cbn.gov.ng

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

REF: FPR/DIR/GEN/CIR/06/055 **May 27, 2020**

CIRCULAR TO ALL OTHER FINANCIAL INSTITUTIONS (OFIs)

REGULATORY FORBEARANCE FOR THE RESTRUCTURING OF CREDIT FACILITIES OF OTHER FINANCIAL INSTITUTIONS IMPACTED BY COVID-19

The Central Bank of Nigeria (CBN), in keeping with its monetary and financial stability mandate, has released several policy measures to address the effect of the COVID-19 pandemic on the Nigerian economy. In order to further mitigate the impact of the pandemic on households, businesses and regulated institutions, the CBN has approved regulatory forbearance for the restructuring of credit facilities in the Other Financial Institutions (OFI) sub-sector as follows:

1. CBN intervention facilities availed through participating OFIs are granted a further one-year moratorium on all principal repayments, effective March 1, 2020.

2. Interest rates on the CBN intervention facilities through participating OFIs hereby reduced from 9% to 5% per annum for 1-year effective March 1, 2020.

3. OFIs are granted leave to consider temporary and time limited restructuring of the tenor and loan terms for households and businesses affected by COVID 19, subject to the recently issued guidelines for restructuring affected credit facilities in the OFI sub-sector.

The CBN shall continue to monitor developments and implement appropriate measures to safeguard financial stability and support stakeholders impacted by the COVID-19 pandemic.

KEVIN AMUGO
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

Tel: 09 - 46237401
E-mail:fprd@cbn.gov.ng

CENTRAL BANK OF NIGERIA

Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

April 29, 2020

REF: FPR/DIR/GEN/CIR/07/054

CIRCULAR TO ALL MICROFINANCE BANKS

RE: REVIEW OF MINIMUM CAPITAL REQUIREMENTS FOR MICROFINANCE BANKS IN NIGERIA

The Central Bank of Nigeria in consideration of the impact of the Corona Virus (COVID-19) pandemic on economic activities has revised the deadlines for compliance with the minimum capital requirements for Microfinance Banks (MFBs) in Nigeria communicated vide its circular dated March 7, 2019 referenced FPRD/DIR/GEN/CIR/07/024.

Consequently, the CBN has extended the deadlines for compliance with the revised minimum capital requirements for all categories of MFBs by **one year** as follows:

1) MFBs operating in rural, unbanked and under banked areas (Tier 2) shall meet the ₦35 million capital threshold by April 2021 and ₦50 million by April 2022;

2) MFBs operating in urban and high density banked areas (Tier 1) are expected to meet the ₦100 million capital threshold by April 2021 and ₦200 million by April 2022;

3) State MFBs shall increase their capital to ₦500 million by April 2021 and ₦1 billion by April 2022; and

4) National MFBs are expected to meet minimum capital of ₦3.5 billion capital by April 2021 and ₦5 billion by April 2022.

Please be guided accordingly.

KEVIN N. AMUGO
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

Tel: 09-46237401
E-mail:fprd@cbn.gov.ng

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

FPR/DIR/GEN/CIR/07/051

March 25, 2020

CIRCULAR TO DEPOSIT MONEY BANKS AND THE GENERAL PUBLIC

GUIDELINES FOR THE OPERATIONS OF THE ₦100 BILLION CREDIT SUPPORT FOR THE HEALTHCARE SECTOR

Pursuant to the ongoing efforts at ameliorating the effects of COVID-19 pandemic in Nigeria, the Central Bank of Nigeria hereby issues the attached operational Guidelines for Credit Support to the Healthcare Sector for indigenous pharmaceutical companies and healthcare practitioners intending to build or expand their capacity.

Further enquiries in respect thereof may be referred to the Director, Development Finance Department, Central Bank of Nigeria, Abuja.

KEVIN N. AMUGO
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA

GUIDELINES FOR THE OPERATIONS OF THE ₦100 BILLION CREDIT SUPPORT FOR THE HEALTHCARE SECTOR

1. Introduction

The Central Bank of Nigeria, as part of proactive measures to cushion the impact of the coronavirus (COVID-19) pandemic on the economy, introduced a ₦100 billion credit support intervention for the healthcare industry. This is with a view to strengthening the sector's capacity to meet potential increase in demand for healthcare products and services. Specifically, the scheme is to provide credit to indigenous pharmaceutical companies and other healthcare value chain players intending to build or expand capacity. The Scheme is expected to increase private and public investment in the healthcare sector, facilitate improvements in healthcare delivery and reduce medical tourism to enhance foreign exchange conservation.

This Guidelines outlines the operational modalities for the Scheme.

2. Objectives of the Scheme

The broad objectives of Scheme include:

2.1 Reduce health tourism to conserve foreign exchange;

2.2 Provide long-term, low cost finance for healthcare infrastructure development that would lead to the evolvement of world-class healthcare facilities in the country;

2.3 Improve access to affordable credit by indigenous pharmaceutical companies to expand their operations and comply with the World Health Organization's Good Manufacturing Practices (WHO GMP); and

2.4 Support the provision of shared services through one-stop healthcare solution to enhance competition and reduce the cost of healthcare delivery in the country.

3. Eligible Participants

Eligible participants under the Scheme shall include:

i. Healthcare product manufacturers – pharmaceutical drugs and medical equipment;
ii. Healthcare service providers/medical facilities – hospitals/clinics, diagnostic centres/laboratories, fitness and wellness centres, rehabilitation centres, dialysis centres, blood banks, etc.;
iii. Pharmaceutical/medical products distribution and logistics services; and
iv. Other human healthcare service providers as may be determined by the CBN from time to time.

4. Activities Covered

Eligible activities under the Scheme shall include:

i. Manufacturing of pharmaceutical drugs and medical equipment;
ii. Establishment/expansion/upgrade of basic and specialized healthcare facilities (as in 3 (ii and iii) above);
iii. Medical/pharmaceutical supplies;
iv. Medical/pharmaceutical Research and Development (R&D);
v. Distribution of medical/pharmaceutical drugs and supplies;
vi. Manufacturing of medical/pharmaceutical drugs distribution technology; and
vii. Any other healthcare value chain activity as may be prescribed by the CBN from time to time.

5. Funding

The Scheme shall be funded from the Real Sector Support Facility – Differentiated Cash Reserves Requirement (RSSF-DCRR).

6. Participating Financial Institutions (PFIs)

The eligible financial institutions shall be:

i. Deposit Money Banks (DMBs); and
ii. Development Finance Institutions (DFIs).

7. **Loan Limit**

i. Working Capital: 20% of the average of 3 years of the company's turnover subject to a maximum of ₦500 million per obligor (where the enterprise is not up to 3 years in operation, 20% of the previous year's turnover will suffice).

ii. Term Loan: Maximum of ₦2 billion per obligor.

8. **Interest Rate**

Interest rate under the intervention shall be at not more than 5.0% p.a. (all inclusive) up to 28th February 2021 and thereafter, interest on the facility shall revert back to 9% p.a. (all inclusive) as from 1st March 2021.

9. **Loan Tenor**

i. Working capital shall be for a maximum period of one (1) year, with provision for rollover not more than three (3) years.

ii. Term loan shall have a maximum tenor of not more than 10 years with a maximum of one year moratorium on repayment. However, in case of construction, the tenor shall be determined by the completion date.

10. **Collateral Requirement**

The collateral to be pledged by borrowers under the programme shall be as may be required under the RSSF-DCRR.

11. **Interest and Principal Repayment**

Interest and principal repayment shall be made on installment basis by the borrowers to the PFIs according to the approved repayment schedule.

The PFI shall remit interests and principal repayments received to the Scheme on quarterly basis.

12. **Modalities**

i. A corporate entity shall submit its application to a PFI of its choice with a bankable business plan.

ii. PFI shall appraise and conduct due diligence on the application.
iii. Upon approval by the PFI's Credit Committee, the application shall be submitted to CBN with relevant documents attached.
iv. CBN will process and disburse funds to the PFI for onward release to the project.

13. Monitoring and Reporting

Periodic joint monitoring of activities financed under the Scheme will be conducted by the PFI and the CBN.

14. Responsibilities of Stakeholders

For effective implementation of the Scheme, the repsonsibilities of the stakeholders shall include:

14.1 CBN shall:

i. Provide the seed fund for the Scheme;
ii. Release funds to PFIs for disbursement to successful applicants;
iii. Review the Guidelines of the Facility as may be necessary;
iv. Receive and process periodic returns from PFIs; and
v. Monitor and evaluate implementation of the Scheme.

14.2 The PFI shall:

i. Receive and review applications submitted by its customers;
ii. Undertake due diligence based on normal business considerations;
iii. Bear the credit risk;
iv. Issue offer letters and forward qualified applications to CBN;
v. Disburse the released funds to successful applicants;
vi. Monitor the project and recover the loans from the beneficiaries;
vii. Maintain adequate records of all beneficiaries and facilities;
viii. Register all movable assets with the National Collateral Registry;
ix. Forward periodic returns in the prescribed format on the Scheme to CBN;
x. Comply with the Guidelines; and
xi. Carry out any other duties as the CBN may prescribe from time to time.

14.3 The borrower shall:

i. Utilise the funds granted under the Scheme for the purpose for which it was granted;
ii. Insure the project being financed;
iii. Adhere strictly to the terms and conditions of the credit facility;
iv. Make the project and records available for inspection/verification by the CBN and PFI; and
v. Comply with the Guidelines of the Scheme.

15. Infractions

Delay and non-release of funds to beneficiaries within the timelines agreed on the offer letter shall attract penalty at the PFI's maximum lending rate.

16. Exit Date

The exit date of this Intervention is 31st December 2030.

17. Amendments

This Guidelines shall be subject to review from time to time as may be deemed necessary by the CBN.

18. Enquiries and Returns

All enquiries and returns should be addressed to:

Director,
Development Finance Department,
Central Bank of Nigeria,
Abuja.

March 2020

CENTRAL BANK OF NIGERIA

GUIDELINES FOR THE OPERATIONS OF THE ₦100 BILLION CREDIT SUPPORT FOR THE HEALTHCARE SECTOR

1. Introduction

The Central Bank of Nigeria, as part of proactive measures to cushion the impact of the coronavirus (COVID-19) pandemic on the economy, introduced a ₦100 billion credit support intervention for the healthcare industry. This is with a view to strengthening the sector's capacity to meet potential increase in demand for healthcare products and services. Specifically, the scheme is to provide credit to indigenous pharmaceutical companies and other healthcare value chain players intending to build or expand capacity. The Scheme is expected to increase private and public investment in the healthcare sector, facilitate improvements in healthcare delivery and reduce medical tourism to enhance foreign exchange conservation.

This Guidelines outlines the operational modalities for the Scheme.

2. Objectives of the Scheme

The broad objectives of Scheme include:

2.1 Reduce health tourism to conserve foreign exchange;

2.2 Provide long-term, low cost finance for healthcare infrastructure development that would lead to the evolvement of world-class healthcare facilities in the country;

2.3 Improve access to affordable credit by indigenous pharmaceutical companies to expand their operations and comply with the World Health Organization's Good Manufacturing Practices (WHO GMP); and

2.4 Support the provision of shared services through one-stop healthcare solution to enhance competition and reduce the cost of healthcare delivery in the country.

3. Eligible Participants

Eligible participants under the Scheme shall include:

i. Healthcare product manufacturers – pharmaceutical drugs and medical equipment;
ii. Healthcare service providers/medical facilities – hospitals/clinics, diagnostic centres/laboratories, fitness and wellness centres, rehabilitation centres, dialysis centres, blood banks, etc.;
iii. Pharmaceutical/medical products distribution and logistics services; and
iv. Other human healthcare service providers as may be determined by the CBN from time to time.

4. Activities Covered

Eligible activities under the Scheme shall include:

i. Manufacturing of pharmaceutical drugs and medical equipment;
ii. Establishment/expansion/upgrade of basic and specialized healthcare facilities (as in 3 (ii and iii) above);
iii. Medical/pharmaceutical supplies;
iv. Medical/pharmaceutical Research and Development (R&D);
v. Distribution of medical/pharmaceutical drugs and supplies;
vi. Manufacturing of medical/pharmaceutical drugs distribution technology; and
vii. Any other healthcare value chain activity as may be prescribed by the CBN from time to time.

5. Funding

The Scheme shall be funded from the Real Sector Support Facility – Differentiated Cash Reserves Requirement (RSSF-DCRR).

6. Participating Financial Institutions (PFIs)

The eligible financial institutions shall be:

i. Deposit Money Banks (DMBs); and
ii. Development Finance Institutions (DFIs).

7. Loan Limit

i. Working Capital: 20% of the average of 3 years of the company's turnover subject to a maximum of ₦500 million per obligor (where the enterprise is not up to 3 years in operation, 20% of the previous year's turnover will suffice).

ii. Term Loan: Maximum of ₦2 billion per obligor.

8. Interest Rate

Interest rate under the intervention shall be at not more than 5.0% p.a. (all inclusive) up to 28th February 2021 and thereafter, interest on the facility shall revert back to 9% p.a. (all inclusive) as from 1st March 2021.

9. Loan Tenor

i. Working capital shall be for a maximum period of one (1) year, with provision for rollover not more than three (3) years.

ii. Term loan shall have a maximum tenor of not more than 10 years with a maximum of one year moratorium on repayment. However, in case of construction, the tenor shall be determined by the completion date.

10. Collateral Requirement

The collateral to be pledged by borrowers under the programme shall be as may be required under the RSSF-DCRR.

11. Interest and Principal Repayment

Interest and principal repayment shall be made on installment basis by the borrowers to the PFIs according to the approved repayment schedule.

The PFI shall remit interests and principal repayments received to the Scheme on quarterly basis.

12. Modalities

i. A corporate entity shall submit its application to a PFI of its choice with a bankable business plan.

ii. PFI shall appraise and conduct due diligence on the application.
iii. Upon approval by the PFI's Credit Committee, the application shall be submitted to CBN with relevant documents attached.
iv. CBN will process and disburse funds to the PFI for onward release to the project.

13. Monitoring and Reporting

Periodic joint monitoring of activities financed under the Scheme will be conducted by the PFI and the CBN.

14. Responsibilities of Stakeholders

For effective implementation of the Scheme, the **repsonsibilities of the stakeholders** shall include:

14.1 CBN shall:

i. Provide the seed fund for the Scheme;
ii. Release funds to PFIs for disbursement to successful applicants;
iii. Review the Guidelines of the Facility as may be necessary;
iv. Receive and process periodic returns from PFIs; and
v. Monitor and evaluate implementation of the Scheme.

14.2 The PFI shall:

i. Receive and review applications submitted by its customers;
ii. Undertake due diligence based on normal business considerations;
iii. Bear the credit risk;
iv. Issue offer letters and forward qualified applications to CBN;
v. Disburse the released funds to successful applicants;
vi. Monitor the project and recover the loans from the beneficiaries;
vii. Maintain adequate records of all beneficiaries and facilities;
viii. Register all movable assets with the National Collateral Registry;
ix. Forward periodic returns in the prescribed format on the Scheme to CBN;
x. Comply with the Guidelines; and
xi. Carry out any other duties as the CBN may prescribe from time to time.

14.3 The borrower shall:

i. Utilise the funds granted under the Scheme for the purpose for which it was granted;
ii. Insure the project being financed;
iii. Adhere strictly to the terms and conditions of the credit facility;
iv. Make the project and records available for inspection/verification by the CBN and PFI; and
v. Comply with the Guidelines of the Scheme.

15. Infractions

Delay and non-release of funds to beneficiaries within the timelines agreed on the offer letter shall attract penalty at the PFI's maximum lending rate.

16. Exit Date

The exit date of this Intervention is 31st December 2030.

17. Amendments

This Guidelines shall be subject to review from time to time as may be deemed necessary by the CBN.

18. Enquiries and Returns

All enquiries and returns should be addressed to:

Director,
Development Finance Department,
Central Bank of Nigeria,
Abuja.

March 2020

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-46237401
E-mail:fprd@cbn.gov.ng

FPRD/DIR/GEN/CIR/07/050

March 23, 2020

CIRCULAR TO DEPOSIT MONEY BANKS AND THE GENERAL PUBLIC

GUIDELINES FOR THE IMPLEMENTATION OF THE ₦50 BILLION TARGETED CREDIT FACILITY

Further to the CBN Governor's Press Release of March 16, 2020 and our circular referenced FPR/DIR/GEN/CIR/07/049 in response to COVID-19 outbreak and spillovers, the CBN hereby issues the following attached Guidelines for the Implementation of the ₦50 billion Targeted Credit Facility for households and small and medium sized enterprises (SMEs) that have been particularly hard hit by COVID-19.

Enquiries on the Guidelines may be referred to the Director, Development Finance Department, Central Bank of Nigeria, Abuja.

KEVIN N. AMUGO
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA

GUIDELINES FOR THE IMPLEMENTATION OF THE ₦50 BILLION TARGETED CREDIT FACILITY

1.0 Introduction

The corona virus (COVID-19) pandemic has led to unprecedented disruptions to global supply chains, sharp drop in global crude oil prices, turmoil in global stock and financial markets, massive cancellation of sporting and entertainment event, lockdown of large swaths movements of persons in many countries, and intercontinental travel bans/restrictions across critical air routes across the world. These outcomes have had severe consequences on households' livelihoods and business activities, resulting from drop in global demand, declined consumer confidence and slowdown in production.

In this respect, the Central Bank of Nigeria (CBN) introduced the N50 billion Targeted Credit Facility (TCF) as a stimulus package to support households and micro, small and medium enterprises (MSMEs) affected by the COVID-19 pandemic.

This Guidelines outlines the operational modalities for the Scheme.

2.0 Objectives of the Facility

The broad objectives of the CBN's N50 billion Targeted Credit Facility include:

i. Cushion the adverse effects of COVID-19 on households and MSMEs;

ii. Support households and MSMEs whose economic activities have been significantly disrupted by the COVID-19 pandemic.

iii. Stimulate credit to MSMEs to expand their productive capacity through equipment upgrade, and research and development.

3.0 Eligible Participants

i. Households with verifiable evidence of livelihood adversely impacted by COVID-19; and
ii. Existing enterprises with verifiable evidence of business activities adversely affected as a result of the COVID-19 pandemic.
iii. Enterprises with bankable plans to take advantage of opportunities arising from the COVID-19 pandemic.

4.0 Activities Covered

Eligible activities under the Scheme include:

i. Agricultural value chain activities
ii. Hospitality (accommodation and food services)
iii. Health (pharmaceuticals and medical supplies)
iv. Airline service providers
v. Manufacturing/value addition
vi. Trading
vii. Any other income generating activities as may be prescribed by the CBN.

5.0 Funding

The Scheme shall be financed from the Micro, Small and Medium Enterprises Development Fund (MSMEDF).

6.0 Participating Financial Institution

The eligible participating financial institution for the Scheme is NIRSAL Microfinance Bank (NMFB).

7.0 Loan Limit

7.1 SMEs: The loan amount shall be determined based on the activity, cashflow and industry/segment size of beneficiary, subject to a maximum of ₦25 million for SMEs; and

7.2 Households: Can access a maximum of ₦3 million

7.3 Working capital shall be a maximum of 25% of the average of the previous 3 years' annual turnover. (where the enterprise is not up to 3 years in operation, 25% of the previous year's turnover will suffice).

8.0 Interest Rate

Interest rate under the intervention shall be 5% p.a. (all inclusive) up to 28th February 2021 and thereafter, the interest on the facility shall revert to 9% p.a. (all inclusive) as from 1st March 2021.

9.0 Loan Tenor

9.1 Working capital shall be for a maximum period of one year, with no option for rollover.

9.2 Term loan shall have a maximum tenor of not more than 3 years with, at least, one-year moratorium.

8.0 Collateral Requirement

The collateral to be pledged by beneficiaries under the programme shall be as may be acceptable by NIRSAL MFB, but may include any one or more of the following:

i. Moveable asset(s) duly registered on the National Collateral Registry (NCR).
ii. Simple deposit of title documents, in perfectible state
iii. Deed of Debenture (for stocks), in perfectible state
iv. Irrevocable domiciliation of proceeds
v. Two (2) acceptable Guarantor
vi. Personal Guarantee of the promoter of the business
vii. Life Insurance of the Key-Man, with NMFB noted as the First Loss Payee
viii. Comprehensive Insurance over the asset

9.0 Principal Repayment

Repayment shall be made on installment basis by the beneficiaries to the NMFB according to the nature of enterprise and the repayment schedule/work plan provided at the application stage.

10.0 Modalities

10.1 Households/MSMEs

i. Eligible households or MSMEs shall submit applications directly to NIRSAL Microfinance Bank (NMFB);
ii. The application must, among others, contain BVN number, business registration (where applicable) and business plan with clear evidence of the opportunity or adverse impact as a result of COVID-19 pandemic.
iii. NMFB shall appraise and conduct due diligence applications.
iv. Upon satisfactory appraisal of application, NMFB shall forward the applications to the CBN for final approval
v. CBN reviews applications and gives final approval for disbursement to NMFB.

10.2 Corporate Entity

i. A corporate entity shall submit application to NMFB with clear evidence of the opportunity or adverse impact as a result of COVID-19 pandemic.
ii. NMFB shall appraise and conduct due diligence applications.
iii. Upon satisfactory appraisal of application, NMFB shall forward the applications to the CBN for final approval
iv. CBN reviews applications and gives final approval for disbursement to NMFB.

11.0 Monitoring and Reporting

Periodic monitoring of projects financed under the Scheme shall be conducted by the NIRSAL MFB.

12.0 Responsibilities of Stakeholders

12.1 CBN shall:

i. Provide the seed fund for the Scheme
ii. Release funds to NIRSAL MFB for disbursement to successful applicants.
iii. Review the Guidelines of the Facility as may be necessary
iv. Receive and process periodic returns from NIRSAL MFB.
v. Monitor and evaluate implementation of the Scheme by NIRSAL MFB.

12.2 NIRSAL MFB shall:

i. Validate the status and BVN of the applicants;
ii. Process and disburse funds to approved beneficiaries;
iii. Maintain records of all beneficiaries and disbursements;
iv. Forward periodic returns on the prescribed format on the Scheme to CBN;
v. Comply with the Guidelines; and
vi. Carry out any other duties as the CBN may prescribe from time to time.

15. Exit Date

The exit date of this Intervention is 31st December 2024.

16. Amendments

This framework shall be subject to review from time to time as may be deemed necessary by the CBN.

17. Enquiries and Returns

All enquiries and returns should be addressed to:

Director,
Development Finance Department
Central Bank of Nigeria,
Abuja.

March 2020

Tel: 09 - 46237401
E-mail:fprd@cbn.gov.ng

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

FPR/DIR/GEN/CIR/07/049

March 16, 2020

CIRCULAR TO DEPOSIT MONEY BANKS AND THE GENERAL PUBLIC ON:

CBN POLICY MEASURES IN RESPONSE TO COVID-19 OUTBREAK AND SPILLOVERS

The Corona Virus (COVID 19) pandemic is having significant adverse consequences for both the global and the Nigerian economies. It has already led to unprecedented disruptions in global supply chains, sharp reduction in crude oil prices, turmoil in global stock and financial markets, massive cancellations in sporting, entertainment and business events, lockdown of large swaths of movements of persons in many countries, and intercontinental travel restrictions across critical air routes in the world. These outcomes have had serious adverse implications for key sectors including but not limited to oil and gas, airlines, manufacturing, trade and consumer markets.

The Central Bank of Nigeria (CBN) in furtherance of its financial stability mandate is committed to providing support for affected households, businesses, regulated financial institutions, and other stakeholders in order to cushion the adverse economic impact of this pandemic.

Accordingly, the CBN hereby announces the following policy measures:

1. **EXTENTION OF MORATORIUM:**

   All CBN intervention facilities are hereby granted a further moratorium of one year on all principal repayments, effective March 1, 2020. This means

that any intervention loan currently under moratorium are hereby granted additional period of one year. Accordingly, participating financial institutions are hereby directed to provide new amortization schedules for all beneficiaries.

2. **INTEREST RATE REDUCTION:**

Interest rates on all applicable CBN intervention facilities are hereby reduced from 9 to 5 percent per annum for 1 year effective March 1, 2020.

3. **CREATION OF A N50 BILLION TARGETED CREDIT FACILITY**:

The CBN hereby establishes a facility through the NIRSAL Microfinance Bank for households and small- and medium-sized enterprises (SMEs) that have been particularly hard hit by Covid-19, including but not limited to hoteliers, airline service providers, health care merchants, etc.

4. **CREDIT SUPPORT FOR HEALTHCARE INDUSTY**:

To meet potential increase in demand for Healthcare services and products, the CBN hereby opens for its intervention facilities, loans to pharmaceutical companies intending to expand/open their drug manufacturing plants in Nigeria, as well as to Hospital and Healthcare practitioners who intend to expand/build the Health facilities to first class centres. This is in addition to growing the size of existing interventions to the Agricultural and Manufacturing sectors in Nigeria.

5. **REGULATORY FORBEARANCE**:

The CBN hereby grants all Deposit Money Banks leave to consider temporary and time-limited restructuring of the tenor and loan terms for businesses and households most affected by the outbreak of Covid-19 particularly Oil & Gas, Agriculture, and manufacturing. The CBN would

work closely with DMBs to ensure that the use of this forbearance is targeted, transparent and temporary, whilst maintaining individual DMB's financial strength and overall financial stability of the system.

6. **STRENGTHENING OF THE CBN LDR POLICY:**

In view of the success of the LDR Policy in growing credit to the economy and reducing interest rates, the CBN would further support industry funding levels to maintain DMBs' capacity to direct credit to individuals, households, and businesses. We will also consider additional incentives to encourage extension of longer tenured credit facilities. DMBs are encouraged to continue to build capital buffers in order to improve resilience of the sector.

The Bank stands ready to provide liquidity backstops as and when required in view of its role as Banker to the Federal Government and lender of last resort. The CBN shall continue to monitor developments and will issue further updates as may be appropriate.

KEVIN AMUGO
DIRECTOR, FINANCIAL POLICY AND REGULATION

CENTRAL BANK OF NIGERIA

Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja

Tel: 09 - 46237401
E-mail:fprd@cbn.gov.ng

FPR/DIR/GEN/CIR/07/042

December 20, 2019

Circular to all Banks, Other financial and non-bank financial Institutions

RE: GUIDE TO CHARGES BY BANKS, OTHER FINANCIAL AND NON-BANK FINANCIAL INSTITUTIONS

The Guide to Bank Charges issued by the Central Bank of Nigeria (CBN) provides a basis for the application of charges on various products and services offered by banks and other regulated institutions under its purview. The Guide which was first released in 2004, was revised in 2013 and 2017 in the light of market developments, such as new innovations in products and/or channels and new industry participants.

In the same vein, the CBN hereby issues a revised "Guide to Charges by Banks, Other Financial & Non-Bank Financial Institutions" in response to further evolution in the financial industry over the last few years.

The new Guide includes, amongst others:

- Downward review of charges for electronic banking transactions;
- Review of other bank charges to align with market developments; and
- Inclusion of new sections on Accountability/Responsibility and a Sanction Regime to directly address instances of excess, unapproved and/or arbitrary charges.

The revised Guide to Charges by Banks, Other Financial and Non-Bank Financial Institutions takes effect on January 1, 2020.

CHIBUZO A. EFOBI
FOR: DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

THE GUIDE TO CHARGES BY BANKS, OTHER FINANCIAL AND NON-BANK FINANCIAL INSTITUTIONS

JANUARY 1, 2020

PREFACE

The "Guide to Charges by Banks, Other Financial and Non-Bank Financial Institutions" (the Guide) provides a basis for the application of charges on various products and services offered by Financial Institutions in Nigeria to their customers. This document applies to all financial institutions licensed and/or regulated by the Central Bank of Nigeria.

The charges prescribed in the Guide were arrived at after extensive consultations with stakeholders. The intendment of the Guide is to enhance flexibility, transparency and competition in the Nigerian banking industry.

Where a charge is stipulated as "negotiable", financial institutions are required to draw the attention of customers to their rights to negotiate and the two parties are required to mutually agree on the applicable charge via a verifiable means.

Although the Guide provides for charges on various products and services of financial institutions, it is not exhaustive. Financial Institutions are required to present any new product, service or charge not covered by this Guide to the Central Bank of Nigeria for prior written approval.

A glossary of terms is provided to define/explain the terminologies used in the Guide.

This Guide, which replaces the Guide to Charges by Banks and Other Financial Institutions issued in 2017, takes effect from January 1, 2020, and may be reviewed from time to time to reflect changes in the business environment.

TABLE OF CONTENTS

PREFACE ______ *858*
TABLE OF CONTENTS ______ *859*
PART 1: Accountability and Responsibility ______ *860*
PART 2: BANKS ______ *862*
SECTION 1: INTEREST ON DEPOSITS ______ 862
SECTION 2: INTEREST RATES AND LENDING FEES ______ 864
SECTION 3: CURRENT ACCOUNT MAINTENANCE FEE ______ 867
SECTION 4: COMMISSION ON BONDS GUARANTEES & INDEMNITIES, ETC. ______ 868
SECTION 5: FOREIGN EXCHANGE COMMISSION/CHARGES ______ 869
SECTION 6: BILLS FOR COLLECTION ______ 869
SECTION 7: STRAIGHT FORWARD HANDLING OF DOCUMENTS ______ 871
SECTION 8: INWARD AND OUTWARD LETTERS OF CREDIT ______ 872
SECTION 9: INTERNAL TRANSACTIONS (WITHIN NIGERIA) ______ 874
SECTION 10: ELECTRONIC BANKING ______ 876
SECTION 11: MISCELLANEOUS ______ 878
SECTION 12: SANCTIONS ______ 882
PART 2: OTHER FINANCIAL INSTITUTIONS ______ *883*
PART 2 (A): MICRO-FINANCE BANKS ______ *884*
SECTION 1: INTEREST ON DEPOSITS ______ 885
SECTION 2: INTEREST RATES AND LENDING FEES ______ 885
SECTION 3: CURRENT ACCOUNT MAINTENANCE FEE ______ 888
SECTION 4: COMMISSION ON GUARANTEES & INDEMNITIES ______ 889
SECTION 5: INTERNAL TRANSACTIONS (WITHIN NIGERIA) ______ 889
SECTION 6: ELECTRONIC BANKING ______ 891

SECTION 7: MISCELLANEOUS Error! Bookmark not defined.

PART 2 (B): PRIMARY MORTGAGE BANKS ***895***

SECTION 1: INTEREST ON DEPOSITS 895

SECTION 2: INTEREST RATES AND LENDING FEES 897

SECTION 3: CURRENT ACCOUNT MAINTENANCE FEE 899

SECTION 4: ELECTRONIC BANKING 900

SECTION 5: MISCELLANEOUS Error! Bookmark not defined.

PART 2 (C): FINANCE COMPANIES ***904***

SECTION 1: INTEREST ON BORROWINGS 905

SECTION 2: INTEREST RATES AND LENDING FEES Error! Bookmark not defined.

SECTION 3: MISCELLANEOUS 906

PART 3: MOBILE MONEY OPERATORS ***908***

SECTION 1: AGENT-INITIATED TRANSACTIONS 908

SECTION 2: SELF-SERVICE, CUSTOMER INITIATED TRANSACTIONS 910

SECTION 3: OTHER TRANSACTIONS 911

PART 4 – GLOSSARY ***912***

PART 5 - MINIMUM DISCLOSURE REQUIREMENTS IN OFFER LETTERS FOR CREDIT FACILITIES/LOANS ***917***

GENERAL REQUIREMENTS 918

CONSUMER LOANS 920

MORTGAGE LOANS 922

OVERDRAFTS 923

MINIMUM DISCLOSURE REQUIREMENTS FOR CONTINGENT LIABILITIES 924

PART 1: ACCOUNTABILITY AND RESPONSIBILITY

i. The Executive Compliance Officers (ECO) shall monitor compliance with the requirements of this Guide and shall be held liable for any breach.

ii. The Head, Information Technology Division shall ensure that the name of all system related/generated/posted charges shall conform strictly to this Guide.

iii. The Head, Information Technology Division shall render monthly report attaching a schedule of all failed transactions on e-channels (ATM, PoS, mobile, web/internet and related channels) that originate or terminates in his bank, to the Director, Payments System Management and Consumer Protection Departments of the CBN

iv. Details of all fees and charges applicable to a transaction shall be disclosed to the customer at the point of consummation (where applicable).

v. Transaction receipt/alert/confirmation for any charge shall contain a description of the charge.

PART 2: BANKS

SECTION 1: INTEREST ON DEPOSITS

	DESCRIPTION	RATE
1.1	**Current Account in Credit Balance**	Negotiable[1]
1.2	**Savings Account**	Minimum of 30% of MPR p.a. (not applicable if a customer makes more than 4 withdrawals in a month)
1.3	**Term Deposit Accounts**	Negotiable
1.4	**Domiciliary Accounts:**	
	1.4.1 Current Accounts	Negotiable[2]
	1.4.2 Savings Accounts	Negotiable[3]
1.5	Deposits held as collateral	
	15.1 Naira Deposit	Negotiable subject to minimum of 30% of MPR p.a.
	1.5.2 Foreign Currency Deposit	Negotiable

[1] The responsibility for initiating the negotiation of interest shall be at the instance of the customer

[2] The responsibility for initiating the negotiation of interest shall be at the instance of the customer

[3] The responsibility for initiating the negotiation of interest shall be at the instance of the customer

SECTION 2: INTEREST RATES AND LENDING FEES

	DESCRIPTION	RATE
2.1	**Interest Rate[1]:**	
	2.1.1 Local Currency Loans	Negotiable (the rate should anchor MPR, reflecting the risk-based pricing model). Also, when a bank intends to introduce a new rate different from the agreed rate, the bank should notify its customers of the new rate at least 10 business days in advance of the application of the new rate.
	2.1.2 Mortgage Financing	Negotiable
	2.1.3 Interest Rate - Foreign Currency Loans	Negotiable
	2.1.4 Interest on Authorized OD	Negotiable (the rate should anchor MPR, reflecting the risk-based pricing model). Also, when a bank intends to introduce a new rate different from the agreed rate, the bank should notify its customers of the new rate at least 10 business days in advance of the application of the new rate.
	2.1.5 Unauthorized OD/Credit	Not permissible except as a result of facility repayment (where it occurs, Penal Rate as provided in Section 2.1.9 shall apply)
	2.1.6 Drawing against Uncleared Effects	Negotiable (the rate should anchor MPR, reflecting the risk-based pricing model).
	2.1.7 Equipment Leasing	Negotiable (the rate should anchor MPR, reflecting the risk-based pricing model). Also, when a bank intends to introduce a new rate different from the agreed rate, the bank should notify its customers of the new rate at least 10 business days in advance of the application of the new rate.
	2.1.8 Discountable Instruments e.g. Usance bill, Bankers' Acceptance, Commercial Papers, Promissory Notes etc.	Negotiable

	DESCRIPTION	RATE
	2.1.9 Penal Rate[4] Penal rate is in respect of past due loans & advances, including excess over authorized OD/credit limit (which may arise from 2.1.5)	Naira loans and advances: Maximum of 1% flat per month of unpaid amount in addition to charging current rate of interest on outstanding debt (without prejudice to the provisions of the Prudential Guidelines on the limitation of accruals) Foreign currency loans and advances: Maximum of 0.25% flat per month of unpaid amount in addition to charging current rate of interest on outstanding debt (without prejudice to the provisions of the Prudential Guidelines on the limitation of accruals).
2.2	**Lending Fees** **NB: Total lending fees shall not exceed 2 per cent**	
	2.2.1 Management Fee[5] covering processing, appraisal, ancillary and other related fees on a new loan application (one-off charge).	Negotiable subject to maximum of 1% of the principal amount disbursed (one off charge).
	2.2.2 Facility Enhancement Fee This fee applies when an additional amount is granted to a customer. Where this fee applies, management fee shall not apply.	Negotiable subject to maximum of 1% of the additional amount disbursed (one-off charge).
	2.2.3 Restructuring Fee (restructuring at the instance of customer)	Negotiable, subject to a maximum of 0.5% of the outstanding amount being restructured (one off charge).

[4] Seven (7) days grace period shall be allowed before penal charge shall be applied on the account. For the avoidance of doubt, there is no forbearance of penal charge for the duration of the grace period. [5] Management fee is chargeable for all fresh requests and renewal of expired facilities. No charges for requests declined'

	DESCRIPTION	RATE
	Management fee is not applicable in the case of a restructured facility	
	2.2.4 Commitment Fee	Negotiable, subject to a maximum of 1% on the undisbursed amount (one-off charge)
2.3	**Charges for Consortium Lending**	
	2.3.1 Agency Fee	Negotiable
	2.3.2 Management Fee	Negotiable subject to a maximum of 1% of principal amount (one–off charge)
	2.3.3 Commitment/Non- Drawing Fee	Negotiable subject to a maximum of 0.5% of the undisbursed amount (one-off charge)
	2.3.4 Commission Charges for Underwriting Services	Negotiable
2.6	**Credit Reference Reports**[5]	Cost recovery
2.7	**Interbank Borrowing Rate:**	
	2.7.1 Overnight /Call money	Negotiable
	2.7.2 Tenured	Negotiable

[5] This is applicable to only customer-induced credit reference reports. For loans granted, this cost would be part of the management fee and therefore, the customer should not be charged. For credits not granted as a result of negative credit report, full cost recovery should be borne by the customer.

SECTION 3: CURRENT ACCOUNT MAINTENANCE FEE

	DESCRIPTION	RATE
3.1	**Current Account Maintenance Fee (CAMF):** Applicable to current accounts **ONLY** in respect of customer-induced debit transactions to third parties and debit transfers/lodgments to the customer's account in another bank. **Note that CAMF is not applicable to Savings Accounts**	Negotiable subject to a maximum of ₦1 per mille

SECTION 4: COMMISSION ON BONDS GUARANTEES & INDEMNITIES, ETC.

	DESCRIPTION	RATE
4.1	**Bid bond/Tender Security/Bid Security**	Negotiable subject to a maximum of 1% of the Bond value for the first year and 0.5% on subsequent years on contingent liabilities
4.2	**Performance Bond (chargeable from date of contingent liability)[6]**	Negotiable subject to a maximum of 1% of the Bond value for the first year and 0.5% on subsequent years on contingent liabilities
4.3	**Advance Payment Guarantee (APG)** **(chargeable from date of contingent liability)**	Negotiable subject to a maximum of 1% of the APG value for the first year and 0.5% on subsequent years on contingent liabilities Note: Fees shall be charged based on the value of advance payment received by the bank
4.4	**Third-party Cheque Indemnities**	To be discouraged – However, negotiable for nonclearing financial institutions e.g. Micro-finance
4.5	**Bank Guarantee**	Negotiable subject to a maximum of 1% of the Guarantee value for the first year and 0.5% on subsequent years on contingent liabilities banks,
4.6	**Other Bonds, Guarantees and Indemnities**	Negotiable subject to a maximum of 1% of the value for the first year and 0.5% on subsequent years on contingent liabilities

[6] Chargeable date refers to the date that the amount is received. Where a Guarantee involves the receipt of funds from a third party, the contingent liability is deemed to arise on the date of receipt and charges based on the amount received

SECTION 5: FOREIGN EXCHANGE COMMISSION/CHARGES

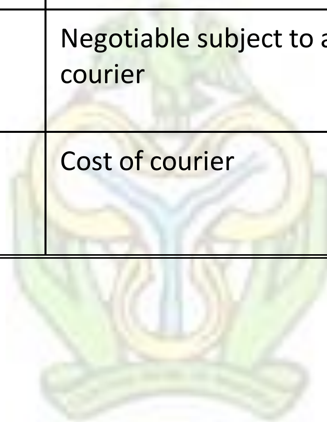
	DESCRIPTION	RATE
	Purchases:	
5.1	**Purchases from CBN**	As may be advised by the CBN.
5.2	**Inter-bank Purchases**	As may be advised by the CBN
5.3	**Inward Telegraphic/SWIFT and other transfers expressed in foreign currency**	No charge
5.4	**Travelers Cheques**	As may be advised by the CBN
5.5	**Foreign Currency Purchases from customers**	Interbank foreign exchange bid rate
	Sales:	
5.6	**Outward Telegraphic/SWIFT and other transfers**	Swift cost recovery, 0.5% commission on transfer plus associated offshore bank charges (where applicable)
5.7	**Foreign Currency Sales to Customers**	As may be advised by the CBN
5.8	**Commission on Withdrawals from Domiciliary Accounts (whether savings or current account)**	0.05% of transaction value or $10, whichever is lower
5.9	**Foreign Draft Purchase**	0.1% of the value of the cheque plus offshore charges
5.10	**Collection Charge on Cheques**	1% of cheque value or Naira equivalent of US $10, whichever is lower

SECTION 6: BILLS FOR COLLECTION

	DESCRIPTION	RATE
	Bills for Collection (Inward)	
6.1	**Collection:**	
	6.1.1 Commission on Bills for Collection	Negotiable subject to a maximum of 0.5% of the bill value
	6.1.2 Postage (where applicable)	Actual cost of postage
	6.1.3 Communication Charge (where applicable)	Actual cost of communication
6.2	**Holding Charges after Non-Payment, Chargeable One Month after Due Date**	₦5,000 per month
6.3	**Extension Charges for Sight Bills altered to Tenured (usance) Bills**	₦3,000 plus cost of SWIFT
6.4	**Protest Charges plus Notary Public Fees**	Cost of postage, (chargeable only where the agreement specifies that the customer will pay)
	Bills for Collection (Outward)	
6.5	**Collection Commission:** Commission on Bills for Collection	Negotiable subject to a maximum of 0.5% of the face value of the bill
6.6	**Bills for Collection – Negotiation**	Negotiable

SECTION 7: STRAIGHT FORWARD HANDLING OF DOCUMENTS

	DESCRIPTION	RATE
7.1	**Export Documents Delivery**	Negotiable subject to a maximum of ₦5,000 plus cost of courier
7.2	**Import Documents:**	
	7.2.1 Delivery	Negotiable subject to a maximum of ₦5,000 plus cost of courier
	7.2.2 Bills for Collection against Acceptance	Negotiable subject to a maximum of ₦5,000 plus cost of courier
	7.2.3 Bills for Collection against Payment	Cost of courier



SECTION 8: INWARD AND OUTWARD LETTERS OF CREDIT

	DESCRIPTION	RATE
	Inward Letters of Credit (Export)	
8.1	**Processing and Registration of Nigerian Export (NXP) Form**	₦3,000 in addition to maintenance fee on Form NXP as advised by the CBN.
8.2	**Advising Commission:**	
	8.2.1 Where a Nigerian bank simply verifies authenticity of the Credit and delivers same.	₦5,000 flat
	8.2.2 Where a Nigerian bank has to rewrite the Credit at the instance of the customer	0.05% of the value, subject to a minimum of Naira equivalent of US $25
8.3	**Commission on Confirmation of LC**	Minimum of ₦5,000 subject to a maximum of 0.5% of the face value
8.4	**Letter of Credit - Negotiation**	Negotiable
	Outward Letters of Credit (Import)	
8.5	**Purchase of Form A**	₦3,000 in addition to maintenance fee on Form NXP as advised by the CBN.
8.6	**Form M:**	
	8.6.1 Processing	₦3,000 in addition to maintenance fee on Form NXP as advised by the CBN.
	8.6.2 Amendment	Negotiable subject to a maximum of ₦5,000
	8.6.3 Revalidation/ Extensions	Negotiable subject to a maximum of ₦5,000
8.7	**LC Establishment Commission**	

	DESCRIPTION	RATE
	8.7.1 For credits up to 180 days	1% of face value
	8.7.2 For credits up to 270 days	1.25% of face value
	8.7.3 For credits up to 360 days (these charges are on the period of validity of the credit)	1.5% of face value
8.8	**Renewal and Extension in the LC value:**	
	8.8.1 Renewals	Commission on applicable LC establishment as specified in 8.7
	8.8.2 Extensions	₦5,000.00 flat
8.9	**Increases or Enhancements in the LC value:**	Additional establishment commission should be charged on the amount of any increase for the unexpired period of validity of credit (in line 8.7 above)
8.10	**Amendment of LC at the Instance of the Customer**	₦2,000 per application
8.11	**Usance Bill under Credit Guarantee Commissions:**	
	8.11.1 Where the bill is less than one year	₦3 per mille per month
	8.11.2 Where the bill exceeds one year	₦5 per mille per month
8.12	**Pre-Arrival Assessment Report (PAAR)**	₦2,500 flat irrespective of payment mode
8.13	**Processing of Form NCX**	₦3,000 in addition to maintenance fee on Form NCX as advised by the CBN.

SECTION 9: INTERNAL TRANSACTIONS (WITHIN NIGERIA)

	DESCRIPTION	RATE
9.1	**Bank Drafts**	
	9.1.1 Customer	Current Account: - ₦300
		Savings Account: - ₦500
	9.1.2 Non-Customer	₦500 + 0.1% of Draft value
9.2	**Draft Repurchase**	No charge
9.3	**Charge paid by non-account holders for initiating cash transactions (e.g. local money transfer, Prepaid Card loading), subject to maximum daily limit of ₦20,000**	₦200 flat. However, banks are enjoined to undertake KYC on such customers.
9.4	**Cash Handling charge**	As may be advised by the CBN
9.5	**Special Clearing of Cheques**	Negotiable
9.6	**Standing Order Charge (In-Branch) at the instance of the Customer**	(a) Intra-bank – No charge
		(b) ***maximum of ₦50 per transaction***
9.7	**Direct Debit**	
	9.7.1 Direct Debit Charge	Same as the cost of platform used
	9.7.2 Failed Direct Debit	**9**.7.2.1 Due to reasons other than the account being unfunded) - No charge 9.7.2.2 Due to the account being unfunded - 1% of amount or ₦5,000 whichever is higher (to be borne by drawer only).
9.8	**Safe Custody**	Negotiable
9.9	**Stopped Cheques**	₦500 per order
9.10		a. Processing fee – ₦100 flat

	DESCRIPTION	RATE
	Purchase/Sale of Treasury Bills for Customers	b. Custodian fee – in line with extant Guidelines on Custodianship on Money Market and Other Fixed Income Instruments (applicable on Treasury bills purchase)
		(c) Settlement of trade via S4 – Cost recovery

SECTION 10: ELECTRONIC BANKING

	DESCRIPTION	RATE
10.1	**Internet Banking:**	
	10.1.1 Hardware Token	Cost recovery subject to a maximum charge of ₦2,500.
	10.1.2 Software Token – One Time Password (OTP)	No charge. However, where the OTP is sent to the customer via SMS, charges will be on cost recovery basis.
	10.1.3 Hardware Token replacement	***Cost recovery subject to a maximum of ₦2,500.*** (Customer to bear cost only in the event of physical damage, loss of token or replacement after expiration)
	10.1.4 Bills Payment (Including Bills Payment through other E-channels)	Negotiable subject to a maximum of ₦500per beneficiary payable by the sender
10.2	**Electronic Funds Transfer:**	Below N5,000 – N10 N5,001 - N50,000 – N25 Above N50,000 – N50
10.3	**RTGS**	₦950
10.4	**Card Maintenance Fee**	
	10.4.1 Foreign Currency Denominated Debit/Credit Cards	$10 p.a. (or its equivalent)
	10.4.2 Naira Debit/Credit Card	Cards linked to current account- ***No charge*** Cards linked to savings accounts- ***maximum of N50 quarterly maintenance fee***
10.5	**Credit Card Charges:**	
	10.5.1 Issuance Fee	₦1,000 (one-off charge). The same charge applies irrespective of card type (i.e. regular or premium card)

	DESCRIPTION	RATE
	10.5.2 Replacement Fee (at customer’s instance for lost or damaged cards)	₦1,000 (one-off charge). The same charge applies irrespective of card type (i.e. regular or premium card)
	10.5.3 Renewal Fee (upon expiry of existing cards)	₦1,000 (one-off charge). The same charge applies irrespective of card type (i.e. regular or premium card)
	10.5.4 Interest Charges	Negotiable
10.6	**Debit Card Charges:**	
	10.6.1 Issuance Fee	₦1,000 (one-off charge). The same charge applies irrespective of card type (i.e. regular or premium card)
	10.6.2 Remote-On-Us (from other bank's ATM) in Nigeria.	***maximum of ₦35 after the third withdrawal within the same month***
	10.6.2 Replacement Fee (at customer’s instance for lost or damaged cards)	₦1,000 (one-off charge). The same charge applies irrespective of card type (i.e. regular or premium card)
	10.6.3 Renewal Fee (upon expiry of existing cards)	₦1,000 (one-off charge). The same charge applies irrespective of card type (i.e. regular or premium card)
	10.6.4 Prepaid Card Loading/Unloading	No charge
10.7	**ATM Transactions:**	
	10.7.1 On-Us (withdrawal from issuing bank's ATM)	No charge
	10.7.2 Not On-Us (withdrawal from other bank's ATM) in Nigeria.	₦35 after the third withdrawal within the same month
	10.7.3 International Withdrawals (per	Exact cost by international acquirer (cost recovery)

	DESCRIPTION	RATE
	transaction) whether debit/credit card	
10.8	**Merchant Service Commission (MSC)** General Merchant (Including Domestic, International Travels and Entertainment)	0.50% of transaction value but not more than N1,000
10.9	**Bulk Payments (e.g. Salaries, Dividends etc)**	Negotiable subject to a maximum of ₦15 per beneficiary payable by the sender
10.10	**Transaction Alerts**	
	10.10.1 SMS alert (Mandatory) However, where a customer opts not to receive SMS alert, the customer should issue an indemnity (for losses that may arise as a result) to the bank.	Cost recovery (on customer-induced transactions) No charge (for bank-induced transactions)
	10.10.2 Email notification	No charge
10.11	**PIN Reissue**	No charge
10.12	**PIN Reset**	No charge
10.13	**Use of Unstructured Supplementary Service Data (USSD)**	Current NIP charges apply
10.14	**Purchase with cash-back**	N100 per N20,000 subject to cumulative N60,000 daily withdrawal

SECTION 11: MISCELLANEOUS

	DESCRIPTION	RATE
11.1	**Reactivation of Accounts**	No charge
11.2	**Closure of Account (savings, current, or domiciliary)**	No charge
11.3	**Insurance Premium paid on behalf of customers**	Exact Premium (customer to choose from a list of at least 3 insurance companies to be recommended by the bank)
11.4	**Issuance of Statement of Account:**	
	11.4.1 Mandatory Monthly Issuance of Statement of Account on Current and Savings Accounts	No charge
	11.4.2 Special Request for Statement of Account (request in a manner other than agreed on mandatory issuance	Maximum of N20 per page
11.5	**Returned Cheques:**	
	11.5.1 Due to reasons other than the account being unfunded	No charge
	11.5.2 Due to the account being unfunded	1% of amount or ₦5,000 whichever is higher (to be borne by drawer only). This is without prejudice to the Dud Cheque Act
11.6	**Business Visit Initiated by Customer:**	
	11.6.1 Local	No charge
	11.6.2 Foreign	Negotiable

	DESCRIPTION	RATE
11.7	**Status Enquiry at the Request of Customer**	₦500 per request
11.8	**Letter of Discharge for Facilities Repaid by Customer**	No charge
11.9	**Verification of Customers' Documents with Government Agencies:**	
	11.9.1 Search at Corporate Affairs Commission (CAC), land registry, legal search etc.	Cost recovery
	11.9.2 Obtaining Certified True Copy (CTC)	Cost recovery
	11.9.3 Perfection of Security for Credit Facilities.	Cost recovery
11.10	**Confirmation of Overseas Enquiries to Correspondent Bank at the Instance of the Customer**	₦500 plus Cost of Postage (if applicable)
11.11	**Intermediation Fees for Commercial Papers (to be borne by the issuer)**	Negotiable
11.12	**Issuance of Withdrawal Booklet/Passbook**	No charge
11.13	**Customized Deposit Booklet**	Cost Recovery
11.14	**Over-the-counter Cash Withdrawals below the limit set by the CBN cash withdrawal/lodgment policy**	No charge

	DESCRIPTION	RATE
11.15	**Intra-bank Cash Deposits/withdrawals within limits approved by the CBN**	No charge
11.16	**Cost of Cheque Books**	
	11.16.1 Cheque Books	Cost recovery
	11.16.2 Counter Cheque	₦50 per leaflet
11.17	**Advisory/Consultancy fee**	Negotiable (only applies where there is a written advisory/consultancy agreement between the bank and the customer)
11.18	**Cashless Policy**	
	11.18.1 Individual	Cash deposit - 2% for transactions above N500,000 Cash withdrawal - 3% for transactions above N500,000
	11.18.2 Corporate	Cash deposit - 3% for transactions above N3,000,000 Cash withdrawal - 5% for transactions above N3,000,000

SECTION 12: SANCTIONS

i. Financial Institutions are to note that any breach of the provisions of this Guide carries a penalty of ₦ 2,000,000 per infraction or as may be determined by the CBN from time to time.

ii. Where a bank is found to have wrongfully imposed a particular charge on its customers, the provision of Section (i) above shall apply for the charge on each customer.

iii. Failure to comply with CBN's directive in respect of any infraction shall attract a further penalty of ₦2,000,000 daily until the directive is complied with or as may be determined by the CBN from time to time.

iv. Banks are required to log every complaint received from their customers into the Consumer Complaints Management System (CCMS) and must generate a unique reference code for each complaint lodged, which must be given to the customer. Failure to log and provide the code to the customer amounts to a breach and is sanctionable with a penalty of ₦1,000,000 per breach.

v. A penalty of ₦100,000 shall be imposed on a financial institution that contravenes the provisions of Part 6C.

PART 2: OTHER FINANCIAL INSTITUTIONS

PART 2 (A): MICRO-FINANCE BANKS

SECTION 1: INTEREST ON DEPOSITS

	DESCRIPTION	RATE
1.1	**Current Accounts**	Negotiable[7]
1.2	**Savings Accounts**	Minimum of 30% of MPR p.a. (not applicable if a customer makes more than 4 withdrawals in a month)
1.3	**Term Deposit Accounts**	Negotiable

[7] The responsibility for initiating the negotiation of interest shall be at the instance of the customer

SECTION 2: INTEREST RATES AND LENDING FEES

	DESCRIPTION	RATE
	INTEREST RATES	
2.1	**Interest Rate on loans, authorized overdrafts and other advances/facilities**[8] **Note that when there is a change in the agreed rate, the customer must be notified within 5 business days in advance of application of the new rate.**	Negotiable
2.2	**Unauthorized Overdraft**	Not permissible except overdraft occasioned by loan and advances repayment and interest. Where this occurs, Penal Rate, as in 2.5 below, shall apply
2.3	**Drawing against Uncleared Effects**	Negotiable
2.4	**Micro Leasing/Microfinance related Hire purchase**	Negotiable
2.5	**Penal Rate**[9] **for late repayment of loans, authorized overdrafts, micro leases, microfinance-related hire purchase and other advances/facilities, including unauthorized overdraft as in 2.2 above.**	Maximum of 1% flat per month on unpaid amount in addition to charging current rate of interest on outstanding debt (without prejudice to the provisions of the Prudential Guidelines on the limitation of accruals)
	Lending Fees	
2.6	**Management Fee**[10] **covering processing, appraisal, ancillary and other related fees on a new loan application (one-off charge).**	Negotiable subject to maximum of 1% of the principal amount disbursed (one off charge).
2.7	**Facility Enhancement Fee**	Negotiable subject to maximum of 1% of the additional amount disbursed (one off charge). Where this fee applies, management fee shall not apply.

[8] Three (3) days from the date of execution, shall be allowed within which the contract may be rescinded provided no draw down has been made

[9] Three (3) days grace period shall be allowed before penal charge shall be applied on the account. For the avoidance of doubt, there is no forbearance of penal charge for the duration of the grace period.

[10] Management fee is chargeable for all fresh requests and renewals of expired facilities. No charges for requests declined'

2.8	**Restructuring Fee** (Restructuring at the instance of customer) Management fee is not applicable in the case of a restructured facility	Negotiable, subject to a maximum of 0.50% on the outstanding amount being restructured (one off charge).
2.9	**Commitment Fee** A fee charged by a financial institution for an undisbursed facility in order to keep the line of credit open	Negotiable, subject to a maximum of 1% of the undisbursed amount (one-off charge)
2.10	**Credit Reference Reports**[11]	Cost recovery
2.11	**Charges for Consortium Lending**	
	2.11.1 Agency Fee	Negotiable
	2.11.2 Management Fee	Negotiable subject to a maximum of 1% of principal amount (One–off charge)'
	2.11.3 Commitment/Non-Drawing Fee	Negotiable subject to a maximum of 0.5% of the undisbursed amount (one-off charge)
	DESCRIPTION	**RATE**
	2.11.4 Commission Charges for Underwriting Services	Negotiable

[11] This is applicable to only customer-induced credit reference reports. For loans granted, this cost would be part of the management fee and therefore, the customer should not be charged. For credits not granted as a result of negative credit report, full cost recovery should be borne by the customer.

SECTION 3: CURRENT ACCOUNT MAINTENANCE FEE

	DESCRIPTION	RATE
3.1	**Current Account Maintenance Fee:** Current Account Maintenance Fee – applicable to current accounts **ONLY** in respect of customer-induced debit transactions to third parties and debit transfers/lodgments to the customer's account in another bank. **Note that CAMF is not applicable to Savings Accounts**	Negotiable subject to a maximum of ₦1 per mille

SECTION 4: COMMISSION ON GUARANTEES & INDEMNITIES

	DESCRIPTION	RATE
4.1	**Advance Payment Guarantee (APG)**	Negotiable subject to a maximum of 1% of the APG value for the first year and 0.5% on subsequent years on contingent liabilities Note: Fees shall be charged based on the value of advance payment received by the bank
4.2	**Guarantees and Indemnities**	Negotiable subject to a maximum of 1% of the value for the first year and 0.5% on subsequent years on contingent liabilities

SECTION 5: INTERNAL TRANSACTIONS (WITHIN NIGERIA)

	DESCRIPTION	RATE
5.1	**Bank Drafts**	
	5.1.1 Customer	₦350
	5.1.2 Non-Customer	₦550
5.2	**Draft Repurchase**	No charge
5.3	**Charges paid by Non-account Holders for initiating Cash Transactions** (e.g. local money transfer, Prepaid Card loading). This is subject to a maximum daily limit of ₦20,000	Correspondent bank's charge plus ₦50
5.4	**Cash Handling Charge**	As may be advised by CBN
5.5	**Special Clearing of Cheques**	Negotiable
5.6	**Standing Order Charge (In-Branch) at the instance of the customer**	
	5.6.1 Intra-bank	No charge
	5.6.2 Inter- bank	₦15 per transaction
5.7	**Direct Debit**	Correspondent bank's charge plus ₦50
5.8	**Safe Custody**	Negotiable
5.9	**Stopped cheques**	₦500 per order

SECTION 6: ELECTRONIC BANKING

	DESCRIPTION	RATE
6.1	**Internet Banking Token:**	
	6.1.1 Hardware Token	Cost recovery subject to a maximum charge of ₦2,500.
	6.1.2 Software Token (OTP)	No charge. However, where the OTP is sent to the customer via SMS, charges will be on cost recovery basis.
	6.1.3 Hardware Token Replacement	Cost recovery subject to a maximum of ₦2,500 (Customer to bear cost only in the event of physical damage, loss of token or replacement after expiration)
6.2	**Transfers within Nigeria:**	
	6.2.1 Intra-bank	No charge
	6.2.2 Inter-bank	Correspondent bank's charge plus ₦50
	6.2.3 Transfers to Non-account Holders, subject to Tiered-KYC requirements	Correspondent bank's charge plus ₦50
6.3	**Electronic Funds Transfer (on customer's Electronic Device)**	Below N5,000 – N10 N5,001 - N50,000 – N25 Above N50,000 – N50
6.4	Bills Payment	Negotiable subject to a maximum of N100
6.5	Usage of USSD Code for Transactions	Current NIP charges apply
6.6	**Naira Debit Card Charges:**	
	6.6.1 Issuance Fee	₦1,000 (one-off charge. The same charge applies irrespective of card type (i.e. regular or premium card)
	6.6.2 Replacement Fee (at customer's instance for lost or damaged cards cards)	₦1,000 (one-off charge). The same charge applies irrespective of card type (i.e. regular or premium card)
	6.6.3 Renewal Fee (upon expiry of existing cards)	₦1,000 (one-off charge). The same charge applies irrespective of card type (i.e. regular or premium card)

	DESCRIPTION	RATE
	6.6.4 ATM Bills Payment	₦50
	6.6.5 Debit Card Maintenance Fee	No charge
	6.6.6 Prepaid Card Loading/Unloading	No charge
6.7	**ATM Transactions:**	
	6.7.1 (withdrawal from issuing bank's ATM)	No charge
	6.7.2 Not On-Us (withdrawal from other bank's ATM)	₦35 after the third withdrawal within the same month
	6.7.3 On Approved Independent ATMs	No charge
6.8	**Merchant Service Commission (MSC)** General Merchant (Including Domestic, International Travels and Entertainment)	0.50% of transaction value but not more than N1,000
6.9	**Bulk Payments (e.g. Salaries, Dividends etc):**	Negotiable subject to a maximum of ₦50 per beneficiary payable by the sender
6.10	**Transaction Alert**	
	6.10.1 SMS Alert (Mandatory) However, where a customer opts not to receive sms alert, the customer should issue an indemnity (for losses that may arise as a result) to the bank.	Cost recovery (on customer-induced transactions) No charge (for bank-induced transactions)
	6.10.2 Email Notification	No charge
6.11	**Use of Unstructured Supplementary Service Data (USSD)**	Current NIP charges apply
	DESCRIPTION	**RATE**
	Purchase with cash-back	N100 per N20,000 subject to cumulative N60,000 daily withdrawal

SECTION 7: MISCELLANEOUS

	DESCRIPTION	RATE
7.1	**PIN Reissue**	₦100
7.2	**PIN Reset**	No charge
7.3	**Reactivation of Accounts**	No charge
7.4	**Closure of Accounts**	No charge
7.5	**Insurance Premium paid on behalf of customers**	Exact Premium (customer to choose from a list of at least 3 insurance companies to be recommended by the bank)
7.6	**Issuance of Statement of Account:**	
	7.6.1 Mandatory monthly issuance of statement of account on current and savings accounts. MFB and customer should agree on mode of transmission of statement (pick options from uniform account opening form)	No Charge
	7.6.2 Special request for statement of account (request in a manner other than agreed on mandatory issuance)	Maximum of ₦20 per page
7.7	**Business Visit**	No charge
7.8	**Status Enquiry at the Request of Customer** (e.g. Confirmation Letter, Embassy Letter, Reference Letter, Letter of Indebtedness/Non-indebtedness etc.)	₦500 per request
7.9	**Verification of Customers' Documents with Government Agencies:**	

	DESCRIPTION	RATE
	7.9.1 Search at Corporate Affairs Commission (CAC), land registry, Legal Search, etc.	Cost recovery
	7.9.2 Obtaining Certified True Copy (CTC)	Cost recovery
	7.9.3 Perfection of Security for Credit Facilities, Deed of Assignment, Deed of Release etc.	Cost recovery
7.10	**Issuance of Withdrawal Booklet/Passbook**	No charge
7.11	**Customized Deposit Booklet**	Cost Recovery
7.12	**Over-the-counter Cash Withdrawals below the limit set by the CBN cash withdrawal/lodgment policy**	No charge
7.13	**Intra-bank Cash Deposits/withdrawals within limits approved by the CBN**	No charge
7.14	**Cost of Cheque Books:**	
	7.14.1 Cheque Books	Cost recovery
	7.14.2 Counter Cheque	₦50 per leaflet
7.15	**Advisory/Consultancy fee**	Negotiable. But only applies where there is a written advisory/consultancy agreement between the bank and the customer
7.16	**Cashless Policy**	
	11.18.1 Individual	Cash deposit - 2% for transactions above N500,000 Cash withdrawal - 3% for transactions above N500,000
	11.18.2 Corporate	Cash deposit - 3% for transactions above N3,000,000
		Cash withdrawal - 5% for transactions above N3,000,000

PART 2 (B): PRIMARY MORTGAGE BANKS

SECTION 1: INTEREST ON DEPOSITS

	DESCRIPTION	RATE
1.1	**Current Accounts (Mortgage-focused)**	Negotiable[12]
1.2	**Savings Accounts**	Minimum of 30% of MPR p.a. (not applicable if a customer makes more than 4 withdrawals in a month)
1.3	**Term Deposit Accounts**	Negotiable

[12]The responsibility for initiating the negotiation of interest shall be at the instance of the customer

SECTION 2: INTEREST RATES AND LENDING FEES

	DESCRIPTION	RATE
2.1	**Interest Rate on:**	
	2.1.1 NHF Loan	6% per annum as prescribed for NHF loans (No additional interest is allowed). Note that the 6% is shared as follows: Contributors: 2% FMBN: 2% PMB: 2%
	2.1.2 Real Estate Construction Finance	Negotiable
	2.1.3 Mortgage Finance	Negotiable
2.2	**Lending Fees**	
	2.2.1 Management Fee[13] covering processing, appraisal, ancillary and other related fees on a new loan application (one-off charge).	Negotiable subject to maximum of 1% of the principal amount disbursed (one off charge).
	2.2.2 Facility Enhancement Fee Where this fee applies, management fee shall not apply	Negotiable subject to maximum of 1% of the additional amount disbursed (one off charge).
	2.2.3 Restructuring Fee (Restructuring at the instance of customer) Where restructuring fee applies, management fee shall not apply)	Negotiable, subject to a maximum of 0.50% on the outstanding amount being restructured (one off charge).

[13] Management fee is Chargeable for all fresh requests and renewals of expired facilities. No charges for requests declined'

	DESCRIPTION	RATE
	2.2.4 Penal Rate for Late Repayment of Loans[14]	Maximum of 1% flat per month on unpaid amount in addition to charging current rate of interest on outstanding debt (without prejudice to the provisions of the Prudential Guidelines on the limitation of accruals)
	2.2.5 Commitment Fee: A fee charged by a financial institution for an undisbursed facility in order to keep the line of credit open	Negotiable, subject to a maximum of 1% of the undisbursed amount (one-off charge)
2.3	**Credit Reference Reports[15]**	Cost recovery
2.4	**Charges for Consortium Lending**	
	2.4.1 Agency Fee	Negotiable
	2.4.2 Management Fee	Negotiable subject to a maximum of 1% of principal amount (one–off charge)'
	2.4.3 Commitment/Non-Drawing Fee	Negotiable subject to a maximum of 0.5% of the undisbursed amount
	2.4.4 Commission Charges for Underwriting Services	Negotiable

[14] Seven (7) days grace period shall be allowed before penal charge shall be applied on the account. For the avoidance of doubt, there is no forbearance of penal charge for the duration of the grace period.

[15] This is applicable to only customer-induced credit reference reports. For loans granted, this cost would be part of the management fee and therefore, the customer should not be charged. For credits not granted as a result of negative credit report, full cost recovery should be borne by the customer.

SECTION 3: CURRENT ACCOUNT MAINTENANCE FEE

	DESCRIPTION	RATE
3.1	**Current Account Maintenance Fee (CAMF):** Applicable to current accounts **ONLY** in respect of customer-induced debit transactions to third parties and debit transfers/lodgments to the customer's account in another bank. **Note that CAMF is not applicable to Savings Accounts**	Negotiable subject to a maximum of ₦1 per mille

SECTION 4: ELECTRONIC BANKING

	DESCRIPTION	RATE
4.1	**Internet Banking:**	
	4.1.1 Hardware Token	Cost recovery subject to a maximum charge of ₦2,500.
	4.1.2 Software Token – One Time Password (OTP)	No charge. However, where the OTP is sent to the customer via SMS, charges will be on cost recovery basis.
	4.1.3 Hardware Token Replacement	Cost recovery subject to a maximum of ₦2,500 (Customer to bear cost only in the event of physical damage, loss of token or replacement after expiration)
	4.1.4 Bills Payment (Including Bills Payment through other E-channels)	Negotiable subject to a maximum of N100
4.2	**Electronic Funds Transfer:**	Below N5,000 – N10 N5,001 - N50,000 – N25 Above N50,000 – N50
4.3	RTGS	₦950
4.4	**Naira Annual Debit/Credit Card Maintenance Fee**	No charge
4.5	**Credit Card Charges:**	
	4.5.1 Interest Charges	Negotiable
	4.5.2 International Withdrawals (per transaction)	Exact cost by international acquirer (Cost Recovery)
4.6	**Debit Card Charges:**	
	4.6.1 Issuance Fee	₦1,000 (one-off charge). The same charge applies irrespective of card type (i.e. regular or premium card)
	4.6.2 Replacement Fee (at customer's instance for lost or damaged cards)	₦1,000 (one-off charge). The same charge applies irrespective of card type (i.e. regular or premium card)
	4.6.3 Renewal Fee (upon expiry of existing cards)	₦1,000 (one-off charge). The same charge applies irrespective of card type (i.e. regular or premium card)
	DESCRIPTION	RATE

	4.6.4 International Withdrawals (per transaction)	Exact cost by international acquirer (Cost Recovery)
	4.6.5 Prepaid Card Loading/Unloading	No charge
4.7	**ATM Transactions:**	
	4.7.1 On-Us (withdrawal from issuing bank's ATM)	No charge
	4.7.2 Not On-Us (withdrawal from other bank's ATM)	₦40 after the third withdrawal within the same month
4.8	**Merchant Service Commission (MSC)** General Merchant (Including Domestic, International travels and Entertainment)	0.50% of transaction value but not more than N1,000
4.9	**Bulk Payments (e.g. Salaries, Dividends etc.):**	Negotiable subject to a maximum of ₦50 per beneficiary payable by the sender
4.10	**Transaction Alert**	
	4.9.1 Mandatory SMS alert. (Where a customer opts not to receive sms alert, the customer should indemnify the bank against any loss that may result from the customer's decision not to receive sms alert).	Cost recovery (on customer-induced transactions) No charge (for bank-induced transactions)
	4.9.2 Email notification	No charge
4.11	**PIN Reissue**	No charge
4.12	**PIN Reset**	No charge
4.13	**Use of Unstructured Supplementary Service Data (USSD)**	Current NIP charges apply
	DESCRIPTION	**RATE**
	Purchase with cash-back	N100 per N20,000 subject to cumulative N60,000 daily withdrawal

SECTION 5: MISCELLANEOUS

	DESCRIPTION	RATE
5.1	**Reactivation of Accounts**	No charge
5.2	**Closure of Accounts**	No charge
5.3	**Insurance Premium paid on behalf of customers**	Exact Premium (Customer to choose from a list of at least 3 insurance companies to be recommended by the bank)
5.4	**Issuance of Statement of Account:**	
	5.4.1 Mandatory monthly issuance of statement of account on current and savings accounts. PMB and customer should agree on mode of transmission of statement (pick options from uniform account opening form)	No charge
	5.4.2 Special request for statement of account (request in a manner other than agreed on mandatory issuance)	Maximum of ₦50 per page
5.5	**Reimbursement for Business Visit**	No charge
5.6	**Status Enquiry at the Request of Customer** (e.g. Confirmation Letter, Embassy Letter, Reference Letter, Letter of Indebtedness/Non-indebtedness etc.)	₦500 per request.
5.7	**Verification of Customers' Documents with Government Agencies:**	

	DESCRIPTION	RATE
	5.7.1 Search at Corporate Affairs Commission (CAC), land registry, Legal Search, etc.	Cost recovery
	5.7.2 Obtaining Certified True Copy (CTC)	Cost recovery
	5.7.3 Perfection of Security for credit facilities, Deed of Assignment, Deed of Release etc.	Cost recovery
5.8	**Issuance of Withdrawal Booklet/Passbook**	Cost recovery
5.9	**Customized Deposit Booklet**	Negotiable
5.10	**Over-the-counter Cash Withdrawals below the limit set by the CBN cash withdrawal/lodgment policy**	No charge
5.11	**Intra-bank Cash Deposits/withdrawals within CBN approved limits**	No charge
5.12	**Minimum Amount for Opening Accounts**	Subject to the CBN three-tiered KYC requirements
5.13	**Cost of Cheque Books:**	
	Cheque Books	Cost recovery
	Counter Cheque	₦100 per leaflet
5.14	**Advisory/Consultancy fee**	Negotiable (only applies where there is a written advisory/consultancy agreement between the bank and the customer)
5.15	**Cashless Policy**	
	11.18.1 Individual	Cash deposit - 2% for transactions above N500,000 Cash withdrawal - 3% for transactions above N500,000
	11.18.2 Corporate	Cash deposit - 3% for transactions above N3,000,000 Cash withdrawal - 5% for transactions above N3,000,000

PART 2 (C): FINANCE COMPANIES

SECTION 1: INTEREST ON BORROWINGS

	DESCRIPTION	RATE
1.1	**Borrowings**	Negotiable

SECTION 2: INTEREST RATES AND LENDING FEES

	DESCRIPTION	RATE
2.1	**Interest Rate on Loans and Advances**	Negotiable
2.2	**Lending Fees**	
	2.2.1 Management fee[16] covering processing, appraisal, ancillary and other related fees on a new loan application (one-off charge).	Negotiable subject to maximum of 1% of the principal amount disbursed (one off charge).
	2.2.2 Facility Enhancement Fee (Where enhancement fee applies, management fee shall not apply)	Negotiable subject to maximum of 1% of the additional amount disbursed (one off charge).
	2.2.3 Restructuring Fee (For restructuring at the instance of customer) Where restructuring fee applies, management fee shall not apply)	Negotiable, subject to a maximum of 0.5% on the outstanding amount being restructured (one off
	2.2.4 Penal Rate for late repayment of loans[17]	Maximum of 1% flat per month on unpaid amount in addition to charging current rate of interest on outstanding debt (without prejudice to the provisions of the Prudential Guidelines on the limitation of accruals)
	2.2.5 Commitment Fee	Negotiable, subject to a maximum of 1% of the Undisbursed amount (one-off charge)

[16] Management fee is chargeable on all fresh requests and renewals of expired facilities. No charges for requests declined

[17] Seven (7) days grace period shall be allowed before penal charge shall be applied on the account. For the avoidance of doubt, there is no forbearance of penal charge for the duration of the grace period

	DESCRIPTION	RATE
2.4	**Credit Reference Reports**[18]	Cost recovery
2.5	**Charges for Consortium Lending**	
	2.5.1 Agency Fee	Negotiable
	2.5.2 Management Fee	Negotiable subject to a maximum of 1% of principal amount (one-off charge)
	2.5.3 Commitment/Non-Drawing Fee	Negotiable subject to a maximum of 1% of the undisbursed amount
	2.5.4 Commission Charges for Underwriting Services	Negotiable

[18] This is applicable to only customer-induced credit reference reports. For loans granted, this cost would be part of the management fee and therefore, the customer should not be charged. For credits not granted as a result of negative credit report, full cost recovery should be borne by the customer.

SECTION 3: MISCELLANEOUS

	DESCRIPTION	RATE
3.1	**Insurance Premium paid on behalf of customers**	Exact Premium (Customer to choose from a list of at least 3 Insurance Companies to be recommended by the bank)
3.2	**Business Visit**	No charge
3.3	**Verification of Customers' Documents with Government Agencies:**	
	3.3.1 Search at Corporate Affairs Commission (CAC), land registry, Legal Search, etc.	Cost recovery
	3.3.2 Obtaining Certified True Copy (CTC)	Cost recovery
	3.3.3 Perfection of Security for Credit Facilities, Deed of Assignment, Deed of Release, etc.	Cost recovery
3.3	**Advisory/Consultancy Fee**	Negotiable. The fee only applies where there is a written advisory/consultancy agreement between the finance company and the customer
3.4	**Cashless Policy**	
	11.18.1 Individual	Cash deposit - 2% for transactions above N500,000 Cash withdrawal - 3% for transactions above N500,000
	11.18.2 Corporate	Cash deposit - 3% for transactions above N3,000,000 Cash withdrawal - 5% for transactions above N3,000,000

PART 3: MOBILE MONEY OPERATORS

SECTION 1: AGENT-INITIATED TRANSACTIONS

	MOBILE PAYMENT TRANSACTION/REQUEST	RATE
1.1	**Cash-in (Deposit into Mobile Money Operator Wallet)**	
	1.1.1 On-Us Agent (borne by customer)	₦100
	1.1.2 Off-Us Agent (borne by customer)	Minimum of ₦50 subject to 1.5% of transaction value or ₦500, whichever is lower
1.2	**Intra-Scheme Money Transfer**	
	1.2.1 Sending to Account Holder	Minimum of ₦50 subject to 1% of transaction value or ₦300, whichever is lower
	1.2.2 Sending to Non-Account Holder	Minimum of ₦50 subject to 1.5% of transaction value or ₦500, whichever is lower
1.3	**Inter-Scheme Money Transfer** (from one mobile money operator to another mobile money operator or financial institution)	Negotiable
1.4	**Bill Payment**	₦100
1.5	**Cash-out**	No charge
1.6	**Account Opening**	No charge
1.7	**BVN Verification**	Cost recovery

SECTION 2: SELF-SERVICE, CUSTOMER INITIATED TRANSACTIONS

	MOBILE PAYMENT CUSTOMER TRANSACTION/REQUEST	RATE
2.1	**Cash-in (Deposit into MPO Wallet)** Customer Initiated Direct Debit from Bank Account	₦20
2.2	**Intra-Scheme Money Transfer**	
	2.2.1 To Account Holder	₦100
	2.2.2 To Non-Account Holder	Minimum of ₦50 subject to 1.5% of transaction value or ₦500, whichever is lower
2.3	**Inter-Scheme Money Transfer** (from one mobile money operator to another mobile money operator or financial institution)	₦100
2.4	**Bill Payment**	₦100
2.5	**Cash-out (to be borne by sender)**	Minimum of ₦50 subject to 1% of transaction value or ₦500, whichever is lower
2.6	**Account Opening**	No charge
2.7	**Bulk Payments**	
	2.7.1 To Account Holder	Minimum of ₦100 subject to 1% of transaction value or ₦300, whichever is lower
	2.7.2 To Non-Account Holder	Minimum of ₦150 subject to 1% of transaction value or ₦500, whichever is lower

SECTION 3: OTHER TRANSACTIONS

	MOBILE PAYMENT CUSTOMER TRANSACTION/REQUEST	RATE
3.1	**Hardware Token**	₦2,500 (one- off)
3.2	**Software Token**	No charge. However, where the OTP is sent to the customer via SMS, charges will be on cost recovery basis
3.3	**Mobile Payment Card Issuance Fee**	₦1,000
3.4	**Mobile Payment Card Renewal Fee** **(upon expiry of existing card)**	₦1,000
3.5	**Mobile Payment Card Replacement Fee** (at customer's instance for lost or damaged cards)	₦1,000
3.6	**SMS Alerts**	Cost recovery
3.7	**PIN Reissue**	No charge
3.8	**PIN Reset**	No charge
3.9	**Use of Unstructured Supplementary Service Data (USSD)**	Current NIP charges apply
3.10	**Monthly Issuance of Statement of Account**	No charge
3.11	**Special Request for Statement of ABillccount**	₦200

PART 4 – GLOSSARY

TERMS	DEFINITION
Advance Payment Guarantee	An irrevocable commitment by a bank on behalf of its customer to secure upfront payments made to the customer by a third party or principal for a contract awarded to the customer in line with the terms of the contract.
Advising Commission	This is a commission earned by a bank for verifying the authenticity of a letter of credit and for delivering same to the beneficiary. Usually, the bank that performs this function is based in the exporter's country and is called the Advising bank.
Advisory/Consultancy fees	Fees charged by financial institutions where there is an agreement for advisory/consultancy services.
Agency Fee	Money paid to a member of the syndicate in a consortium/syndicated lending arrangement for acting as agent of other members of the syndicate.
Amendment Fee	Fee charged for modifying the terms of a letter of credit/Form M at the instance of the applicant.
Bank Guarantee	An irrevocable undertaking of a bank that the liabilities of a debtor (e.g. the bank's customer) would be met.
Bankers' Acceptance (BA)	BA is a promissory note which is drawn on and accepted by a bank. It specifies the amount, the date, and the person to which the payment is to be made.
Bid bond/Tender Security/Bid Security	This is a guarantee issued by a third party, usually a bank, to a principal (the client) on behalf of a contractor (a bank's customer) that the contractor has the financial capacity to execute the contract.
Bills for Collection	A payment mode for International Trade where transaction documents are sent by the seller's bank to the buyer's bank against which payment or acceptance are made by the buyer, before shipping documents are released. In a Bill for Collection Against Acceptance, a bank releases document to the buyer on acceptance of the bills of exchange/draft while in a Bill for Collection against Payment, the bank releases documents to the buyer upon payment.

TERMS	DEFINITION
Bills Payment	A process of e-banking used by financial institutions to collect payments for utilities (such as public utility, cable subscriptions, etc.) on behalf of their customers.
Bulk payment	This involves payment to multiple beneficiaries.
Card Issuance fee	Fee charged by bank for issuance of a plastic payment card (such as debit/credit prepaid cards) that allows a cardholder access to his/her bank account.
Cheque	A negotiable instrument drawn on a bank to pay a specific amount of money to a named beneficiary upon demand or specified date. Examples include Bills of exchange, drafts etc.
Collection Charge on Cheques	Fee charged by a bank for collection of proceeds of foreign cheques on behalf of their customers.
Commercial Papers	A commercial Paper is a short term debt financing instrument issued by a company which can be readily traded. Such instruments may or may not carry a bank's guarantee.
Commitment Fees	A fee charged by a financial institution for an unused credit line in order to keep the line of credit open.
Commission on Confirmation of LC	This is a commission charged by a bank for verifying the authenticity of an LC and for adding its name to the LC. Confirmation is normally added at the request of the Issuing Bank.
Confirming Bank	It is the bank that adds its confirmation to a credit upon the issuing bank's authorization or request
Consortium Lending	Consortium lending is a type of financing arrangement in which two or more banks come together to jointly finance a single borrower.
Contingent Liability	A contingent liability is an obligation that may arise upon the occurrence of specified condition(s) as indicated in a contract.
Counter Cheque	This is a blank cheque provided to a customer whose cheque is not available at the point of withdrawal from the current account.
Credit Reference Report	A credit reference report provides a snapshot of a borrower's credit accounts and repayment record. It is generally used to determine the creditworthiness of the borrower.

TERMS	DEFINITION
Current Account Maintenance Fee (CAMF)	This is a monthly fee chargeable on current accounts based on the level of customer-induced debit transactions that occurred in the account during the month. This fee is not applicable to all bank-induced debits and customer-induced transfers to other accounts in the same name and in the same bank.
Discountable Instruments	These are money market instruments that are issued at less than their face value and are redeemed at their face value upon maturity.
Domiciliary Account	Domiciliary Account is a bank account denominated in foreign currency and can be current or savings account.
Equipment Leasing	An arrangement through which the owner of an equipment (lessor, e.g. a bank) conveys the right to use the equipment to another party (the lessee, e.g. a bank's customer) for a specified period of time (the lease term) and for specified periodic payments (lease rental).
Establishment Commission	A commission charged by a bank for initiating a letter of credit on behalf of a customer.
Facility Enhancement Fee	This is a fee charged where there is an agreement for additional amount to be extended to a customer within the same tenor as an existing facility.
Facility Restructuring fee	Facility Restructuring Fee is a fee charged where there is an agreement to change the terms and conditions of an existing facility. This will usually apply when there is need to renegotiate a facility.
FPRD	Financial Policy and Regulation Department – A department in the CBN.
Indemnities	An undertaking given to compensate for (or to provide protection against) loss, incurred penalty or from a contingent liability.
Letter of Credit	A written undertaking by a bank on behalf of the importer (buyer) to pay specified sum in specified currency, provided the exporter (seller) meets specified condition and submit the prescribed documents within a fixed timeframe.
Letters of Credit Expiry Date	The last day the beneficiary of a letter of credit (usually the exporter) should fulfil the terms of the credit, failing which (and in the absence of an extension or renewal) the letter of credit becomes invalid.

TERMS	DEFINITION
Management Fee	This is a fee charged by a bank for processing an application for a facility and for the general administration of the facility over its lifetime. It is chargeable only once in the life of a facility.
MPR (Monetary Policy Rate)	This is the policy rate set by the Monetary Policy Committee to anchor interest rate direction in the economy.
Negotiable	This refers to a rate that is open to discussion between a financial institution and its customer.
Negotiation of Documents	Negotiation means the giving of value for draft(s) and/or document(s) by the bank authorized to negotiate. Mere examination of the documents without giving value does not constitute a negotiation.
NHF Loan	National Housing Fund Loan.
One-Off	This refers to fees/obligations that are non-recurring i.e. payable only once during the tenor of a facility.
OD (Overdraft)	This is a loan arrangement where a bank allows a current account customer to make withdrawals above the balance in the account up to a certain limit.
Past Due	Bill or loan that has not been paid on the maturity date/due date.
Penal Rate	This is the interest rate that financial institutions charge customers for failing to make payments on loans and advances as at when due. It is charged in addition to the agreed interest rate(s).
Perfection of Security	This is the process of registering a financial institution’s interest in an asset held as collateral with the appropriate statutory authority so that it is made legally enforceable in the event of default.
Performance Bond	This is a guarantee issued by a third party, usually a bank, to a principal (the client) on behalf of a contractor (a bank’s customer) against failure of the contractor to meet obligations specified in the contract.
Revalidation of Documents	Official approval or confirmation of a document after a change has been effected on the same document.
RTGS	Real Time Gross Settlement System

TERMS	DEFINITION
Sight bill	This is a bill of exchange which is payable on presentation to the drawee i.e. on demand.
Status Enquiry	
SWIFT	Society for Worldwide Interbank Financial Telecommunication (SWIFT) provides a network to allow financial and non-financial institutions (e.g. corporates) to transfer financial transactions through a 'financial message'
Third Party Cheque Indemnities	A written undertaking by a third party (such as a bank), on behalf of one of the parties (the first party) to a transaction or contract, to cover the other party (the second party) against specific loss or damage arising from dishonouring the cheque of the first party.
Usance Bill	This is a bill of exchange which allows the drawee have a period of credit. The term can begin from the date of the bill of lading or from the date of acceptance by the drawee and is stated in days or months.

PART 5 - MINIMUM DISCLOSURE REQUIREMENTS IN OFFER LETTERS FOR CREDIT FACILITIES/LOANS

GENERAL REQUIREMENTS

S/N		
1	Name of borrower	This includes the name of the borrower.
2	Contact details of the borrower	This should clearly state the address (location), telephone number, email, etc. of the borrower.
3	Credit type	This states the type of facility approved for the borrower.
4	Purpose of the credit	This states the reason for which the facility is granted.
5	Amount	This is the amount approved for the facility.
6	Collateral	The bank should disclose the asset pledged by the borrower as security for the facility (e.g. shares, landed property, cash, etc.).
7	Loan tenor	This spells out the approved duration for the facility
8	Interest rate	This is the annual interest rate to be charged by the bank on the amount outstanding (except for overdrafts).
9	Variable rate information	This should clearly state the possibility of changes in rates in line with money market conditions. It should include notification and time lines for concurrence by customers to the changes. The new rates (both increase and decrease) can only apply 10 days after the notification. The variable rate information should also outline the bank's responsibilities in the event of such movements in rates.
10	Fees and commissions	The fees and commissions are as contained in the Guide. These should be stated in percentage and Naira terms.
11	Repayment terms	This should state the frequency (i.e. monthly, quarterly, bullet etc.) of repayment of principal and interest on outstanding balance. It should also state the date on which the repayments fall due.
12	Repayment schedule	The bank should provide in details, the periodic amounts to be repaid by the borrower within the tenor of the facility.

13	Early Liquidation Terms	This includes all information the borrower needs to know, including rights/obligations, or penalties, in the event of liquidation of the facility, before the expiry date, in line with Guide.
14	Late repayment	This should detail all penalties that will be borne by the borrower in the event of default, in line with the Guide.
15	Grace period	a. Seven (7) days shall be allowed within which there will be no penal charge on late repayments. b. Seven (7) days from the date of execution, shall be allowed within which loan contracts can be rescinded.
16	Insurance requirements (where applicable)	The bank is expected to disclose the nature of insurance policy required for the facility.
17	Conditions precedent to drawdown	This details all requirements which must be fulfilled by the borrower before drawdown on the facility. Such information includes the submission of Insurance documents, receipt by the bank of collateral documentation, execution of loan offer letter, etc.

CONSUMER LOANS

This encompasses the various types of loans given to individuals either to finance the acquisition of an asset or to execute personal projects. Some of these loans are unsecured and are based on the borrower's ability to repay.

(a) Unsecured personal loans;
(b) Secured personal loans;
(c) Computer loans;
(d) Auto loans;
(e) Other forms of bridging finance availed to borrowers.

S/N	DISCLOSURE REQUIREMENT	
1	Name and address of creditor	This includes the name, address and day-time contact details of the borrower.
2	Item financed	This states the consumer good(s) to which the bank is financing.
3	Itemization of amount financed	This gives a breakdown of the item(s) being financed
4	Annual percentage rate (APR)	This is the interest rate which will be charged by the bank on the amount disbursed.
5	Variable rate information	This should clearly state the possibility of increase in rates in line with money market conditions. It should also outline the bank's responsibilities in the event of a movement in rates, including the means and timing of its notification to the customer.
6	Payment schedule	The bank should also disclose with details, all necessary repayment information including the monthly, quarterly or other repayment sums as was agreed with the borrower.
7	Prepayment Terms	This includes all information the borrower needs to know during the consummation of the facility, such as the customer's rights (and penalties) in the event of his decision to pay off the facility before its expiration, etc.
8	Late payment policy	This should detail all penalties that will be suffered by the borrower in the event of default.

9	Collateral	The bank will be required to disclose the property, goods, shares and/or other assets pledged by the borrower as security for the facility.
10	Insurance requirements (where applicable)	The bank is expected to disclose the nature of insurance policy required for the facility.
11	Repayment terms	This includes all information the borrower needs to know before the consummation of the facility, which includes information such as the bank's right to call in the facility (in the event of certain occurrences), etc.
12	Loan tenor	This spells out the approved duration for the facility.
13	Conditions precedent to drawdown	This details all requirements which must be fulfilled by the borrower before drawdown on the facility. Such information includes the submission of Insurance documents, perfection of collateral documentation, etc.

MORTGAGE LOANS

S/N	DISCLOSURE REQUIREMENT	
1	Name and address of creditor	This includes the name, address and day-time contact details of the borrower.
2	Description of the property financed	This should describe location and other features of property being financed by the bank.
3	Itemization of amount financed	This gives a breakdown of the item(s) being financed.
4	Annual percentage rate (APR)	This is the interest rate which will be charged by the bank on the amount disbursed.
5	Variable rate information	This should clearly state the possibility of increase in rates in line with money market conditions. It should also outline the bank's responsibilities in the event of a movement in rates, including the means and timing of its notification to the customer.
6	Payment schedule	The bank should also disclose with details, all necessary repayment information including the monthly, quarterly or other repayment sums as was agreed with the borrower.
7	Prepayment Terms	This includes all information the borrower needs to know during the consummation of the facility, such as the customer's rights (and penalties) in the event of his decision to pay off the facility before its expiration, etc.
8	Late payment policy	This should detail all penalties that will be suffered by the borrower in the event of default.
9	Collateral	Usually, the security for the loan is the property being financed.
10	Insurance requirements (where applicable)	The bank is expected to disclose the nature of insurance policy required for the facility.
11	Repayment terms	This includes all information the borrower needs to know before the consummation of the facility, which includes information such as the bank's right to call in the facility (in the event of certain occurrences), etc.
12	Loan tenure	This spells out the approved duration for the facility.
13	Conditions precedent to drawdown	This details all requirements which must be fulfilled by the borrower before drawdown on the facility. Such information includes the submission of Insurance documents, perfection of collateral documentation, etc.

OVERDRAFTS

S/N	DISCLOSURE REQUIREMENT	
1	Name and address of creditor	This includes the name, address and day-time contact details of the borrower.
2	Reason for the loan	This should describe the customer's needs which the overdraft is aimed to finance.
3	Overdraft limits	The limits on the OD line should be clearly stated.
4	Annual percentage rate (APR)	This is the interest rate which will be charged by the bank on the amount disbursed.
5	Variable rate information	This should clearly state the possibility of increase in rates in line with money market conditions. It should also outline the bank's responsibilities in the event of a movement in rates, including the means and timing of its notification to the customer.
6	Late payment policy	This should detail all penalties that will be suffered by the borrower in the event of default.
7	Collateral	Usually, the security for the loan should be clearly stated.
8	Insurance requirements (where applicable)	The bank is expected to disclose the nature of insurance policy required for the facility.
9	Repayment terms	This includes all information the borrower needs to know before the consummation of the facility, which includes information such as the bank's right to call in the facility (in the event of certain occurrences), etc.
10	Loan tenure	This spells out the approved duration for the facility.

MINIMUM DISCLOSURE REQUIREMENTS FOR CONTINGENT LIABILITIES

PRODUCTS	DISCLOSURE REQUIREMENTS
Bid Bond	- Bank should issue offer letter stating all terms and conditions; - Where customer provides cash – Place in an investment account at an agreed rate; - Where bank provides funds – Parties should agree on a rate and other transaction dynamics
Performance Bond	- Issue offer letter stating all terms and conditions, based on risk assessment
Advance Payment Guarantee	- Issue offer letter stating all terms and conditions, specifically utilization of proceeds to be received; - Appointment of quantity surveyor/expert
Bank Guarantee	- Issue offer letter stating all terms and conditions, most importantly when risk crystallizes; - Where customer provides cash – Place in an investment account at an agreed rate.
Indemnities	- Issue offer letter stating all terms and conditions and specify when risk crystallizes.

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-46237401
E-mail:fprd@cbn.gov.ng

FPR/DIR/GEN/CIR/07/041

NOVEMBER 25, 2019

CIRCULAR TO ALL STAKEHOLDERS IN THE MORTGAGE SUB-SECTOR

RE: REGULATION FOR THE OPERATIONS OF MORTGAGE GUARANTEE COMPANIES (MGCs) IN NIGERIA

Further to the Exposure Draft on the "Regulation for the Operations of Mortgage Guarantee Companies (MGCs) in Nigeria" dated October 17, 2018, and the incorporation of comments from various stakeholders, the Central Bank of Nigeria hereby issues the following **"Regulation for the Operations of Mortgage Guarantee Companies (MGCs) in Nigeria"**.

The Guidelines may be accessed at the Bank's website at www.cbn.gov.ng.

Further enquiries on the provision of the circular may be referred to the Director, Other Financial Institutions Supervision Department, Central Bank of Nigeria, Abuja.

CHIBUZO A. EFOBI
For: DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA

REGULATORY AND SUPERVISORY GUIDELINES FOR THE OPERATIONS

OF

MORTGAGE GUARANTEE COMPANIES (MGC)

APPROVED

NOVEMBER 2019

TABLE OF CONTENTS

1.0 INTRODUCTION 4
1.1 DEFINITION OF MGC 5
1.2 OBJECTIVES OF AN MGC 5
1.3 POWERS AND DUTIES OF THE CBN 5
2.0 PERMISSIBLE ACTIVITIES 6
2.1 NON-PERMISSIBLE ACTIVITIES 6
3.0 LICENCING REQUIREMENTS 6
3.1 REQUIREMENTS FOR GRANT OF APPROVAL-IN-PRINCIPLE 6
3.2 REQUIREMENTS FOR GRANTING OF FINAL LICENCE 9
3.3 CONDUCT OF PRE-LICENCING INSPECTION 9
3.4 REQUIREMENTS BEFORE COMMENCEMENT OF OPERATIONS 10
3.5 POST COMMENCEMENT REQUIREMENTS 10
4.0 FINANCIAL REQUIREMENTS 11
5.0 CORPORATE GOVERNANCE REQUIREMENTS 11
5.1 BOARD OF DIRECTORS 11
5.2 MINIMUM QUALIFICATIONS FOR BOARD MEMBERS 12
5.3 RESPONSIBILITIES OF THE BOARD 12
5.4 DUTIES OF DIRECTORS 13
5.5 MINIMUM QUALIFICATIONS FOR SENIOR MANAGEMENT 14
5.6 DUTIES OF SENIOR MANAGEMENT 14
6.0 SOURCES OF FUNDS 15
7.0 PERIODIC RETURNS 15
7.1 DEADLINE FOR SUBMISSION OF RETURNS 16
7.2 DOMESTIC REPORT & AUDIT OPINIONS ON GOING-CONCERN 16
7.3 PUBLICATION OF AUDITED ACCOUNTS 16
8.0 PRUDENTIAL REQUIREMENTS 17
8.1 CAPITAL STRUCTURE 17
8.2 CAPITAL ADEQUACY RATIO 18
8.3 RESTRICTION ON DIVIDEND 18
8.4 RISK SHARING 18
8.5 MORTGAGE GUARANTEE COVERAGE 19
8.6 ISSUANCE OF MORTGAGE GUARANTEE CERTIFICATE 19
8.7 MANAGEMENT OF MORTGAGE GUARANTEE RISK 19
8.8 PERMISSIBLE INVESTMENTS AND RESTRICTIONS 19
8.9 ASSET IMPAIRMENT 19
8.10 UNIFORM UNDERWRITING STANDARDS 19

APPROVED

9.0 OTHER REGULATORY APPROVALS 20
9.1 APPOINTMENT OF EXTERNAL AUDITORS 20
9.2 BRANCH EXPANSION, RELOCATION/CLOSURE 20
9.3 CHANGES IN OWNERSHIO STRUCTURE 20
10.0 ON-SITE EXAMINATION 21
11.0 COMPLIANCE WITH ANTI-MONEY LAUNDERING/COMBATTING THE FINANCING OF TERRORISM (AML/CFT) REGULATIONS 21
12.0 ADMINISTRATIVE SANCTIONS 21
13.0 REVOCATION OF LICENCE 22

APPENDIX A 23

APPENDIX B 34

APPENDIX C 36

LIST OF ACRONYMS

AIP	Approval-in-Principle
AML/CFT	Anti-Money Laundering/Combatting the Financing of Terrorism
BOFIA	Banks and Other Financial Institutions Act
CAC	Corporate Affairs Commission
CAMA	Companies and Allied Matters Act
CBN	Central Bank of Nigeria
CIBN	Chartered Institute of Bankers of Nigeria
DMB	Deposit Money Bank
FGN	Federal Government of Nigeria
FPRD	Financial Policy & Regulations Department
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principles
IFRS	International Financial Reporting Standards
MBAN	Mortgage Bankers Association of Nigeria
MIS	Management Information System
NIBSS	Nigeria Inter-Bank Settlement System Plc
OFISD	Other Financial Institutions Supervision Department
REITs	Real Estate Investment Trusts
SEC	Securities and Exchange Commission

1.0 INTRODUCTION

The Central Bank of Nigeria (CBN) has introduced several reforms and institutions to enable mortgage lenders to achieve the mandate of creating mortgages to improve homeownership in Nigeria. The reforms have all been within the framework of the Financial System Strategy (FSS) 2020 and resulted in the revision of the Guidelines for Primary Mortgage Banks to address capital requirements, improve corporate governance and restrict permissible activities to mortgage lending and real estate construction financing. It also led to the birthing of a housing finance program that focused on removing the constraints of the paucity of long term funds for mortgage lending, improving underwriting standards and overcoming foreclosure difficulties, among others.

One of the components of the housing finance program is the establishment of mortgage guarantee companies (MGCs) to further deepen the mortgage market through increased access to mortgage finance and sharing of credit risk with mortgage lending institutions. MGCs facilitate increased access to housing finance by reducing or replacing the requirement for equity contribution that would otherwise disqualify mortgagors from accessing mortgages as required by the uniform underwriting standards. As a credit risk transfer mechanism for mortgage lenders, MGCs enable management of portfolio concentration risk and serve as a basis for capital relief in the computation of capital adequacy ratios on mortgage assets.

Pursuant to the provisions of the Central Bank of Nigeria (CBN) Act 2007, Banks and Other Financial Institutions Act (BOFIA), other relevant Laws, and CBN Guidelines and Circulars, this Guideline is, therefore, issued for the regulatory and supervisory oversight of MGCs. The Guideline prescribes the basic requirements for the business of providing mortgage guarantees to mortgage lenders. It sets the capital requirements for the MGC, including its minimum paid-up capital, maximum leverage limit, and the minimum risk-weighted capital requirement. It also prescribes permissible investments and liquidity requirements in addition to procedures for the management of the MGC's risk profile as prescribed by an actuarial report.

APPROVED

1.1 DEFINITION OF MGC

A Mortgage Guarantee Company (MGC) is a financial institution established to provide guarantees or partial guarantees to lenders against losses resulting from borrower defaults on residential mortgage loans.

1.2 OBJECTIVE OF AN MGC

The objective of an MGC is to support mortgage originators such as Primary Mortgage Banks (PMBs) and commercial banks to increase mortgage lending by guaranteeing or partially guaranteeing against losses resulting from borrower defaults on their residential mortgages.

As a financial institution, the MGC would be under the regulatory and supervisory purview of the Central Bank of Nigeria (CBN).

1.3 POWERS AND DUTIES OF THE CENTRAL BANK OF NIGERIA

In line with the relevant provisions of BOFIA and CBN Act, the CBN shall exercise the following powers:

(a) Granting and revocation of licence;
(b) Determination of the minimum capital requirements;
(c) Approval of the appointment of board members and senior management staff (Assistant General Manager or its equivalent and above);
(d) Removal of board members and senior management staff (Assistant General Manager or its equivalent and above);
(e) Regulation and supervision, which includes:
    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 real estate and mortgage assets or portfolios of eligible assets and the appropriate valuation model or methodology;
    v. Conducting on-site and off-site supervision;
    vi. Imposing sanctions for infractions;
(f) Approving the appointment of External Auditors;
(g) Issuance of no objection on annual audited accounts of MGCs before presentation at the AGM and subsequent publication;

APPROVED

(h) Approving change(s) in the MGC's organisational structure before its implementation; and

(i) Any other power that may be exercised in line with the BOFIA, the CBN Act or any other relevant law.

2.0 PERMISSIBLE AND NON-PERMISSIBLE ACTIVITIES

2.1 PERMISSIBLE ACTIVITIES

The MGC shall engage in the following activities:

i. Full or partial guaranteeing of residential mortgage loans;

ii. Invest in Government securities and other investments defined in Section 8.8 of this Guideline;

iii. Assume ownership of a foreclosed residential property if a lender is unable to dispose of it. Provided that such holding shall not exceed 20% of its shareholders' fund unimpaired by losses without the Bank's prior written approval;

iv. Issue bonds and notes to fund its operations;

v. Provide technical assistance to lenders on credit and business development related activities to increase industry expertise; and

vi. Other activities as may be prescribed by the CBN from time to time.

2.2 NON-PERMISSIBLE ACTIVITIES

The MGC shall NOT engage in the following activities:

i. Acceptance of demand, savings and time deposits;

ii. Grant consumer, commercial or mortgage loans;

iii. Originate primary mortgages;

iv. Finance real estate construction;

v. Estate agency or facilities management;

vi. Project management relating to real estate development;

vii. Management of pension funds/schemes;

viii. Foreign exchange, commodity and equity trading; and

ix. Any other activity NOT expressly permitted by the CBN.

3.0 LICENSING REQUIREMENTS

The licensing process shall consist of two stages:

1. Approval in Principle (AIP); and

2. Final Approval.

APPROVED

3.1 REQUIREMENTS FOR GRANT OF APPROVAL-IN-PRINCIPLE

Any promoter(s) seeking a licence to operate an MGC in Nigeria shall apply in writing to the Governor of the CBN. The application shall be submitted along with the following documents:

a. A non-refundable application fee of N100,000 [one hundred thousand Naira only] or any other amount as may be determined from time to time and payable to the CBN.

b. Evidence of deposit of the capital requirements in line with Section 4.0 of this Guideline. The mode of payment may be through NIBSS or any other acceptable payment channel. The capital deposit will be refunded after the proposed institution obtains its final approval;

c. Evidence of proposed name reservation with the Corporate Affairs Commission (CAC) of Nigeria.

d. A detailed feasibility report which shall include:

   i. The aims and objectives of the proposed MGC (including the vision & mission statements);

   ii. Strategy for achieving the aims and objectives;

   iii. Branch expansion program [if any] within the first 5 years;

   iv. Proposed training programs for staff and management, as well as succession plan;

   v. A five-year financial projection for the operation of the MGC, indicating expected growth and profitability;

   vi. Details of the assumptions which form the basis of the financial projection;

   vii. The organisational structure of the MGC indicating the functions and responsibilities of the board and senior management;

   viii. Composition of the board of directors and interests represented;

   ix. Bank Verification Number (BVN) and Tax Clearance Certificate of each member of the Board and significant shareholders.

   x. The conclusions based on the assumptions made in the feasibility report.

e. A draft copy of the Memorandum and Articles of Association;

f. A list (in tabular form) showing the names of the promoters, amounts subscribed, business and residential addresses, names and addresses of their bankers and evidence of payment, with bank statements attached.

g. Signed and dated curricula vitae of promoters or their nominees, in the case of corporate investor(s);

APPROVED

h. Signed and dated curricula vitae of proposed directors including BVN, Tax Clearance Certificate for the last 3 years and valid means of identification;

i. The business profile of corporate investor(s), if any;

j. The "Approved Persons Regime " questionnaire (Annexure-II) shall be completed and attached to the signed Curriculum Vitae (CV) of each significant shareholder (holding at least 5 per cent of the MGC's equity), proposed directors and top management staff; and

k. A detailed Manual of Operations containing the following:
   i. Guarantee products that the MGC shall offer including the terms and conditions for assigning such guarantees and actuarial standards used to manage the risk inherent in the products.
   ii. Specify the underwriting criteria to be applied in evaluating applications for guarantees.
   iii. Specify the standards and criteria for issuing the guarantee, the portability of the guarantee, and the method of payment for securing the guarantee.
   iv. State the standards and criteria for the pricing of the MGC's products, including differential pricing of equitable and legal mortgages, non-interest mortgages, and other mortgages that might be guaranteed.
   v. Include a Master Guaranty Agreement that will govern the guaranteed provisions between the MGC and the lenders. vi. Conform to the applicable provisions of the Guide to Bank Charges.

l. Asset/Liability Management (ALM) Policy that highlights the MGC's permissible assets and liabilities, sets the standards for managing its interest rate, duration risk, and liquidity risk, and delineates the composition, duties, and operational procedures for the MGC's Asset/Liability Management Committee.

m. Financial Management Policy that highlights financial management policies, and procedures and system of internal controls. The Policy should include, at a minimum:

   i. Accounting policies and principles.
   ii. Roles and responsibilities of the senior management officials responsible for financial management.
   iii. Treasury operations, including funds management, vouchers, payroll, and procurement.
   iv. Financial record-keeping and reporting.
   v. Auditing and periodic testing of internal controls.

n. Policy on Anti-Money Laundering /Combating the Financing of Terrorism (AML/CFT).

APPROVED

o. An Enterprise-Wide Risk Management Guideline.

p. Code of Ethics and Business Conduct that specifies high standards for honesty, integrity, and fairness for the MGC's employees, officers, and directors and provides guidance on avoiding conflicts of interest, self-dealing, and other types of impropriety as specified in the BOFIA or by the Bank. Every director and officer of the MGC shall be required to sign the Code of Ethics and Business Conduct.

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

3.1.2 A proposed MGC shall not incorporate/register its name with the CAC until it has obtained an AIP from the CBN, in writing, a copy of which it shall present to the CAC for registration.

3.2 REQUIREMENTS FOR GRANTING OF FINAL LICENCE

The promoters of a proposed MGC shall submit an application for the grant of a final licence to the CBN not later than six (6) months after obtaining the A.I.P. The application shall be accompanied by the following:

i. A non-refundable licensing fee of N1,000,000.00 (One Million Naira Only) in a bank draft payable to the Central Bank of Nigeria;

ii. Evidence of capital contribution made by each shareholder;

iii. Certified true copy (CTC) of Certificate of Incorporation;

iv. CTC of MEMART;

v. CTC of Form CAC 1.1;

vi. Address of Head Office for the take-off of the business;

vii. Schedule of changes, if any, in the Board, Management and Shareholding after the grant of AIP;

viii. Signed and dated curricula vitae of proposed top management staff including BVN, Tax Clearance Certificate for the last 3 years and valid means of identification;

ix. Evidence of ability to meet technical requirements in staffing and of having set-up infrastructural facilities such as office equipment, computers,

APPROVED

telecommunications, to perform the MGC's operations and meet CBN and other regulatory requirements;

x. Copies of letters of offer and acceptance of employment in respect of the management team;

xi. Comprehensive plan on the commencement of operations with milestones and timelines for the roll-out of key payment channels; and

xii. Board and staff training programme.

3.3. Conduct of Pre-Licencing Inspection

As a requirement to the grant of a final license, the CBN shall inspect the premises and facilities of the proposed MGC to, amongst others:

a. Check the physical structure of the office building and infrastructure provided for take-off;

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 CVs had earlier been submitted; and

d. Verify the capital contributions of the promoters.

3.4. Requirements for commencement of operations

The company shall, through a letter, inform the CBN of its readiness to commence operations, and such information shall be submitted along with a copy of each of the following:

a. Shareholders' Register;

b. The share certificates issued to each investor;

c. The opening statement of affairs prepared by a firm of auditors and signed by two directors;

d. Enterprise Risk Management Framework (ERMF);

e. Internal control policy;

f. Minutes of pre-commencement board meeting; and

APPROVED

g. Evidence of integration of their infrastructure with the National Payments System.

3.5. Post-commencement Requirements

An MGC shall:

i. Comply with all guidelines and regulations issued by the CBN and other sector regulators.
ii. Maintain an adequate accounting system and records which capture its financial condition.
iii. Maintain an unimpaired minimum capital at all times.
iv. Always comply with the requirements incidental to the authorisation to perform its operations as stipulated by the CBN.

4.0 FINANCIAL REQUIREMENTS

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

Minimum paid-up capital	N10,000,000,000.00
Non-Refundable application	N100,000.00
Non-Refundable Licensing Fee	N1,000,000.00
Change of Name fee	N50,000.00

APPROVED

5.0 CORPORATE GOVERNANCE REQUIREMENTS

5.1 BOARD OF DIRECTORS

5.1.1 The ultimate responsibility for the operations of every MGC shall be vested in its Board of Directors.

5.1.2 The number of directors on the board of the MGC shall be a minimum of seven [7] and a maximum of eleven [11] with at least one member having experience actuarial or insurance work. The non-executive members shall exceed the number of the executive directors at any point in time, and at least one shall be an independent director.

5.1.3 The Bank shall approve the appointment of each director who shall meet the qualifications for licenced MGC directors as may be specified by the Bank from time to time.

5.1.4 Executive directors of the MGC shall hold office for a fixed term of not more than 5 years, and such term may be renewed only once, while non-executive directors shall serve for a fixed term of not more than 4 years and such term may be renewed only twice. For the avoidance of doubt, the maximum tenure of an executive director shall not exceed a total of 10 years while a nonexecutive director shall not serve for periods exceeding 12 years in total.

5.1.5 Any executive director who has served two 5-year terms may equally serve as Managing Director, if so appointed, for the maximum of two 5-year terms (a combined maximum of 20 years).

5.1.6 Transmutation from an executive to a non-executive director shall not be allowed until after 3 years following cessation of the executive appointment.

5.2 MINIMUM QUALIFICATIONS FOR BOARD MEMBERS

5.2.1 The following minimum qualifications and experience are mandatory for persons who may occupy the positions of Managing Director/Chief Executive or executive members of the Board.

- A minimum of first degree from a recognised University or its equivalent in any discipline (additional qualification in any business-related discipline would be an advantage); and
- A minimum of 15 years post-graduation experience, out of which, at least 10, must have been in the financial services industry (related to risk management and insurance), and at least 5, at the senior/top management level.

5.2.2 The following minimum qualifications and experience are mandatory for persons who may occupy the positions of Non-Executive members of the Board.

i. A minimum of first degree from a recognised University or its equivalent in any discipline with at least 5 years post qualification;

ii. Proven skills and competencies in their fields;

iii. Knowledge of the operations of the financial institution and relevant laws and regulations guiding the financial services industry; and

iv. Ability to interpret financial statements and make meaningful contributions to board deliberations.

APPROVED

5.2.3 For the positions of Chief Executive Officer, Chief Operating Officer Chief Financial Officer, Chief Risk Officer, or their equivalents, cognate experience shall be required.

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

5.3 RESPONSIBILITIES OF THE BOARD OF DIRECTORS

5.3.1 The responsibilities of the Board of Directors shall be as specified in the CBN Code of Corporate Governance.

5.3.2 The Board of Directors shall appoint an actuary to review the risk profile of the company on an annual basis and provide the company with an Actuarial Assessment.

5.3.3 The Board of Directors shall establish, in addition to other board committees, an audit and risk management committee, with at least one member having a background in actuarial or insurance work. Where the Board has demonstrated it was unable to meet this requirement despite its best endeavor, it shall, subject to prior approval of the CBN, allow a consultant of such background to be an advisor to the Board during its deliberations.

5.3.4 The Board of Directors shall specify the scope of the committees' powers and responsibilities, and their structures, processes and membership requirements. Every Board committee shall be headed by a Non-Executive Directors.

5.3.5 The Board of Directors shall mandate an independent consultant to conduct an annual review/appraisal of the Board in line with the requirements of the CBN Code of Corporate Governance.

5.4 DUTIES OF DIRECTORS

In addition to the duties specified under CAMA, Directors shall have the duty to:

i. Act in good faith, in a manner they believe to be in the MGC's best interests, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

ii. Administer the MGC's affairs fairly and impartially and without discrimination in favour of, or against, any shareholder or client.

iii. Direct the MGC's operations in conformity with the requirements set forth in these regulations and other such requirements and directives as the Bank shall issue from time to time.

APPROVED

iv. Periodically review the following MGC's plans and policies: Business Plan, Capital Plan, Pricing Policy, ALM Policy, Financial Management Policy, and the Code of Ethics and Business Conduct.

v. Prepare and publish the MGC's annual report, including its audited financial statements annually.

vi. Approve annual budgets, financial projections, and proposed pay-outs of dividends.

vii. Establish an Internal Audit function, which shall ensure that the operations of the company conform to internal rules and regulations. The Internal Auditor shall forward his report directly to the Board Audit Committee to strengthen corporate governance in the MGC.

5.5 MINIMUM QUALIFICATIONS FOR SENIOR MANAGEMENT

The following minimum qualifications and experience are mandatory for officers who may occupy senior management positions in the MGC.

i. A minimum of a first degree from a recognised University or its equivalent in any discipline. Additional qualification in any business-related discipline would be an advantage.

ii. A minimum of 10 years post-graduation experience, at least 5 years in the financial services industry with 3 years at top management level.

5.6 DUTIES OF SENIOR MANAGEMENT

The board shall define the duties of senior management to include:

i. Carrying out the directives of the Board of Directors and conducting the day-today operations of the MGC in a safe and sound manner, including the establishment, implementation, and maintenance of the internal control system required by these regulations;

ii. Ensuring that the employees of the MGC fully understand and comply with all policies, procedures, and legal requirements applicable to their positions and responsibilities, including adherence to approved risk tolerances and mitigation strategies;

iii. Ensuring that there is appropriate segregation of duties among employees;

iv. Ensuring that employees receive necessary and appropriate information and training;

APPROVED

v. Developing and implementing procedures that translate the major business objectives, strategies, and policies established by the Board of Directors into effective operating standards;

vi. Ensuring adherence to the lines of authority and responsibility established by the Board;

vii. Overseeing the implementation and maintenance of management information and other operating systems;

viii. Establishing and implementing an effective system to track internal control weaknesses and remedial actions;

ix. Monitoring and reporting periodically to the Board of Directors and Board Audit and Risk Committee on the achievement of business objectives and effectiveness of the internal control system;

x. Conducting an annual risk assessment that identifies and evaluates all material risks that could adversely affect the achievement of business objectives and compliance requirements. The risk assessment report shall be reviewed promptly by the Board Risk Management Committee;

xi. Developing and implementing a robust Enterprise-wide Risk Management Framework.

6.0 SOURCES OF FUNDS

The sources of funds for the MGC shall consist of the following:

a) Paid-up share capital and reserves.
b) Debentures/bonds.
c) Loans from national and supra-national governments and other bodies.
d) Donations/ Grants/ Loans from Development Partners.
e) Gifts and donations from charitable institutions.
f) Any other source as may be approved by the CBN from time to time.

7.0 PERIODIC RETURNS

An MGC shall render the following returns to the CBN:

a. Monthly Returns and schedules: Monthly Returns shall include statements of assets & liabilities, income and capital compliance, and leverage (Appendix A).

APPROVED

b. Quarterly Returns and schedules: Quarterly Returns include statements of cash flow, guarantee fees received, claims paid, capital, investments, outstanding guarantees, outstanding liabilities, and shareholders' funds (Appendix A).

c. Annual Actuarial Report: This report shall be produced in accordance with generally accepted Actuarial Reporting Practice and shall provide an assessment of the on-going financial sustainability of the MGC and appropriateness of the guarantee fees, severity ratio, loss ratio, operating expense ratio, combined ratio, return on equity, return on capital holding target and capital available to minimum capital required.

All returns shall be submitted to the Director, Other Financial Institutions Supervision Department, CBN.

7.1 DEADLINE FOR SUBMISSION OF RETURNS

The MGC shall submit the required returns to the Bank within the period specified as follows or as may be specified by the CBN from time to time:

a. Monthly - Not later than ten (10) working days after the end of each month.

b. Quarterly - Not later than ten (10) working days after the end of each quarter.

c. Annual Actuarial Report - Not later than 3 months after the end of its financial year.

7.2 DOMESTIC REPORT & AUDIT OPINION ON GOING-CONCERN STATUS

a. The External Auditors shall forward to the Bank, a copy of the domestic report [management letter] on the MGC's activities, not later than 3 months after the end of its financial year.

b. An MGC shall, as part of its audited financial statements, include a statement on the effectiveness of the internal control signed off by the Board of Directors.

c. Every annual audited financial statement of the MGC 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. This opinion will take into account the Annual Actuarial Review of the MGC.

7.3 PUBLICATION OF AUDITED FINANCIAL STATEMENTS

7.3.1 An MGC shall submit its audited financial statements, which shall be in line with IFRS and the abridged version to the Director, Other Financial Institutions Supervision Department for consideration before publication.

APPROVED

7.3.2 The annual Financial Statement shall include a description of the methodology for analysing and computing the Premium Deficiency Reserve, Unearned Premium Reserves, Loss Reserves, and Contingency reserve.

7.3.3 Subject to the prior approval in writing of the Bank, an MGC shall not later than 4 months after the end of its financial year:

a. Publish its audited financial statements on its website and in a national daily newspaper printed and circulating in Nigeria; and

b. Display the abridged financial statement in a conspicuous position in each of its offices and branches in Nigeria.

7.3.4 Every published audited financial statement of an MGC shall disclose in detail, penalties paid as a result of the contravention of the provisions of BOFIA, policies, circulars, and guidelines in force during the financial year and the auditor's report shall reflect such contravention(s).

7.3.5 An MGC shall forward a copy of the newspaper in which it publishes its audited financial statement to the Director, Other Financial Institutions Supervision Department, CBN.

8.0 PRUDENTIAL REQUIREMENTS

8.1 CAPITAL STRUCTURE

An MGC shall maintain at all times a minimum paid-up capital as the Bank may prescribe.

8.1.1 CAPITAL STANDARDS

Capital Adequacy Measurement and Restrictions: All mortgage guarantee companies shall compute capital adequacy ratio and comply with related restrictions based on the Required Solvency Approach laid out in Appendix B.

8.1.2 TIER 1 CAPITAL

Tier 1 Capital shall consist of paid-up capital and reserves plus retained earnings, contingency reserves, and other allowable current earnings less goodwill and other intangible assets and identified losses, or as otherwise defined by the Bank for mortgage guarantee companies.

8.1.3 TIER II CAPITAL

Tier II Capital shall consist of borrowings, debt, and eligible reserves with tenor not less than ten (10) years. Where the tier II capital of an MGC is guaranteed, it shall be required to submit additional reports as may be determined by the CBN from time to time.

APPROVED

8.1.4 RESERVES

MGCs shall maintain three separate reserves as follows:

a. Loss Reserve computed according to the procedures outlined in the Appendix C. This reserve will accurately reflect loss frequency and loss severity and shall include components for claims reported and for claims incurred but not reported including estimated losses on:

    i. Guaranteed loans that have resulted in the conveyance of property that remains unsold;

    ii. Guaranteed loans in the process of foreclosure;

    iii. Guaranteed loans in default for 120 days; and

b. An Unearned Guarantee fees Reserve that will be calculated according to the accounting procedures prescribed in the Operations Manual of an MGC. Current guarantee fees will be taken into income according to these procedures.

c. A Contingency Reserve that will be calculated according to the accounting procedures prescribed in Appendix C. This reserve will be the higher of the contingency reserve calculated or 5% of the total net mortgage guarantee risk assumed.

8.2 CAPITAL ADEQUACY RATIO

a) An MGC shall maintain a Capital Adequacy Ratio (CAR) of more than 100% determined by comparing the Available Solvency Margin (ASM) with the Required Solvency Margin (RSM) (as in Appendix B).

b) Where the CAR is less than 100% but above 75%, an MGC shall be required to report its solvency position and other key indicators at a frequency as may be specified by the Bank. The MGC shall also be required to provide a time-bound action plan to return the CAR above 100% to the Bank.

c) Where the CAR is less than 75% but above 50%, an MGC shall be required to provide an action plan to return the CAR above 75% within the time frame specified by the Bank.

d) Where the CAR is less than 50% but above 25%, an MGC shall be required to implement measures specified by the Bank, which may include new capital injection, within a time frame.

e) Where the CAR is less than 25%, an MGC shall cease underwriting new business and shall be required to take immediate steps as directed by the Bank.

APPROVED

8.3 RESTRICTION ON DIVIDEND

An MGC shall not declare or pay out dividends that will result in the Capital Adequacy Ratio falling below 100%.

8.4 RISK SHARING

An MGC shall retain at least 50% of its risk in force at all times. The balance may be ceded to one or more mortgage re-insurers that have been licenced to operate in Nigeria. Any risk reinsured by an MGC must be in accordance with a written reinsurance strategy submitted to the Bank.

8.5 MORTGAGE GUARANTEE COVERAGE

All requirements for a mortgage guarantee shall be documented in the MGC's program manual and Master Guarantee Agreement.

8.6 ISSUANCE OF MORTGAGE GUARANTEE CERTIFICATE

All measures to be taken to mitigate loss in the event of a delinquent mortgage shall be documented in an MGC's program manual and Master Guarantee Agreement.

8.7 MANAGEMENT OF MORTGAGE GUARANTEE RISK

Every MGC shall be required to hold a portfolio of investments that will adequately hedge the stream of liabilities identified by an Actuary in the Annual Actuarial Report.

8.8 PERMISSIBLE INVESTMENTS AND RESTRICTIONS

The fol lowing assets shall be permissible MGC investments:

(a) Government Securities .

(b) Deposits with licenced banks.

(c) Deposits held at the Bank.

(c) Other investments specifically permitted by the Bank.

(d) Financial derivatives subject to the sole purpose of hedging .

8.9 ASSEST IMPAIRMENT

APPROVED

Asset impairment shall be recognised, measured, and treated in line with the relevant IFRS provisions.

8.10 UNIFORM UNDERWRITING STANDARDS

An MGC shall uphold the industry Uniform Underwriting Standards (UUS) for residential mortgages.

9.0 OTHER REGULATORY APPROVALS

9.1 APPOINTMENT OF EXTERNAL AUDITORS

The qualifications, appointment, and removal of External Auditors and the Actuaries shall be in accordance with the provisions of BOFIA, CBN circulars and other relevant Laws.

9.2 BRANCH EXPANSION, RELOCATION/CLOSURE

a. An MGC shall not open, relocate or close a branch without the prior approval in writing of the Bank.
b. Every application for the opening of a new branch shall be submitted along with the following documents:

    (i) A copy of Board resolution.

    (ii) A detailed feasibility report on the proposed branch showing the:
    - Rationale.
    - Initial capital outlay.
    - Projected income and expenditures for a 5-year period.
    - Proposed organisational structure.
    - Staffing requirements.
    - Assumption for the financial projection in the report.

c. Every MGC seeking approval for the opening of a new branch must have good financial performance and comply with all prudential requirements.
d. Every application for the closure of a branch shall be submitted along with a copy of the Board resolution and reasons for closure.

APPROVED

9.3 CHANGES IN THE OWNERSHIP STRUCTURE

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

a. resulting in a change in control or ownership of the MGC;
b. for sale, disposal or transfer of the whole or any part of the business of the MGC;
c. for the business combination of the MGC with any other entity;
d. for the reconstruction of the MGC; and
e. to employ a management agent or to transfer its business to any such agent.

10.0 ON-SITE EXAMINATION

10.1 The Bank shall conduct periodic examinations on MGCs, following the same procedures and protocols that it uses to examine other licenced institutions within its supervisory purview.

10.2 MGCs shall make their books and records readily available for inspection and other supervisory purposes within a reasonable timeframe upon request by the Bank.

11.0 COMPLIANCE WITH ANTI-MONEY LAUNDERING/COMBATTING THE FINANCING OF TERRORISM (AML/CFT) REGULATIONS

An MGC shall comply with the Central Bank of Nigeria (Anti-Money Laundering and Combating Financing of Terrorism for Banks and Other Financial Institutions in Nigeria), Regulations, 2013.

12.0 ADMINISTRATIVE SANCTIONS

12.1 The Bank may impose one or more of the following sanctions where any of the provision of this regulation is contravened:

a. Monetary penalties on the MGC, its directors, officers or employees.
b. Prohibition from declaring or paying dividends.
c. Suspension of guarantee and investment 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 any financial institution under the regulatory purview of the Bank.

APPROVED

f. Revocation of licence.

12.2 The Bank may also issue cease and desist orders on an MGC that it believes is engaging in, has engaged in, or has probable cause to believe the MGC is about to engage in an unsafe and unsound practice in conducting the MGC business, or in any conduct that violates any provision of these regulations, any other applicable laws or Bank directives.

13.0 REVOCATION OF LICENCE

Pursuant to the provisions of BOFIA the Governor may, with the approval of the Board of Directors and by notice published in the *Gazette,* revoke the licence of an MGC if it:

a. ceases to carry on the mortgage guarantee business for which the licence was issued for any continuous period of 6 months or any period aggregating 6 months during a continuous period of 12 months;
b. goes into liquidation or is wound-up or is otherwise dissolved;
c. fails to fulfil or comply with any condition subject to which the licence was granted;
d. has insufficient assets to meet its liabilities or has a reduction in the capital adequacy ratio below 25%; and
e. fails to comply with the provisions of this Regulation or any other law.

APPROVED

Appendix A

Reporting Requirements

Non-IFRS Performance Measurement Reports (produced Quarterly)

List of Reports

1. Mortgage Guarantee Volumes; Guarantee Fees Received and Claims Paid Report
2. Geographic Distribution Report (Origination) - Volume
3. Guarantee-in-force report
4. Geographic Distribution - Guarantee-in-force Report
5. Origination Volume by loan amount - Quarterly
6. Origination Volume by loan amount – YTD
7. Loan to Value Ratio Report (Quarterly)
8. Loan to Value Ratio Report (Year to date)
9. Loan To Value Ratio report - Quarterly - Guarantee-in-force - Based on loan amount and property valuation at origination
10. Loan to Value Ratio report - Quarterly - Guarantee-in-force - Based on Outstanding loan amounts and Updated Property Values
11. Credit Score Report Quarterly
12. Credit Score Report YTD
13. Credit Score Report Guarantee- in- force
14. PTI report quarterly
15. PTI report YTD
16. DTI report - quarterly
17. DTI report YTD
18. Purchase price report quarterly
19. Purchase price report YTD

APPROVED

Non-IFRS Performance Measurement Reports (produced Quarterly)

***All reported mortgages are for Residential Properties**

1. Mortgage Guarantee Origination Volumes; Fees Received and Claims Paid Report

Period as at:	CQ		CQ -1	CQ-2	YTD	YTD
	CY	CY-1	CY	CY	CY	CY-1
Total Mortgage Guarantee Volume (Units)						
Legal Mortgages- Homeowner Units						
Equitable Mortgages – Homeowner units						
Total (units)						
Total Mortgage Guarantee Volume (NM)						
Legal Mortgages - Homeowner Loans						
Equitable Mortgages - Homeowner Loans						
Total Loans - NM						
Guarantee Fees received (NM)						
Legal Mortgages - Homeowner Loans						
Equitable Mortgages - Homeowner Loans						
Total Guarantee Fees received (NM)						
Claims paid (NM)						
Legal Mortgages - Homeowner Loans						
Equitable Mortgages - Homeowner Loans						
Total Claims paid (NM)						
Arrears rate						
Legal Mortgages - Homeowner Loans						
Equitable Mortgages - Homeowner Loans						
Arrears rate - Overall						

CQ : Current Quarter, Example: March 2018 CQ-1: Current Quarter - 1 , Example: December 2017

CQ-2: Current Quarter – 2, Example September 2017

CY: Current Year CY-1: Previous Year

APPROVED

2. Geographic Distribution Report (Origination) – Volume

Distribution of loans guaranteed during the period by Nigerian State	**Current Year (YTD)**				**Previous Year (YTD)**			
	LM		**EM**		**LM**		**EM**	
	Units	**MN**	**Units**	**MN**	**Units**	**MN**	**Units**	**MN**
State 1								
State 2								

LM – Legal Mortgages
EM – Equitable Mortgage
MN – Volume in Millions Naira

3. Financial metrics – Guarantee-In-Force

Period	**As at**	
	Current Quarter	**Previous Year end**
Legal Mortgages - Guarantee-in-force (# of loans)		
Equitable Mortgages – Guarantee-in-force (# of loans)		
Total Guarantee in force (BN)		
Legal Mortgages – Guarantee-in-force		
Equitable Mortgages – Guarantee-in-force		
Total Guarantee in force		

APPROVED

4. Geographic Distribution – Guarantee-In-Force (BN)

Percentage Distribution of Guarantee in force by Nigerian State	Current Quarter (CQ)		Current Quarter-1 (CQ-1)		Current Quarter-2 (CQ-2)	
	LM	EM	LM	EM	LM	EM
State 1						
State 2						
……..						
………						

LM – Legal Mortgages
EM – Equitable Mortgages

5. Origination Volume by loan amount - Quarterly

Percentage Distribution of loan amount guaranteed during the period loan amount (per unit)	Current Quarter CQ		Same Quarter Previous Year		Current Quarter-1 CQ-1		Current Quarter-2 CQ-2	
	LM	EM	LM	EM	LM	EM	LM	EM
Over 50NM								
40NM to 50NM								
30NM to 40NM								
20NM to 30NM								
10NM to 20NM								
Below 10NM								
Average Guaranteed loan amount								

APPROVED

6. Origination Volume by Loan amount YTD

Percentage Distribution of loan amount guaranteed during the period by loan amount (per unit)	Current Year (YTD)		Previous Year (YTD)	
	LM	EM	LM	EM
Over 50NM				
40NM to 50NM				
30NM to 40NM				
20NM to 30NM				
10NM to 20NM				
Below 10NM				
Average Guaranteed loan amount				
Average Guaranteed loan amount by state				
State 1				
State 2				

7. Loan To Value Ratio Report (Quarterly)

Percentage Distribution of loans guaranteed during the period by LTV (original property value)	Current Quarter (CQ)		Same Quarter Previous Year		Current Quarter-1 (CQ-1)		Current Quarter-2 (CQ-2)	
	LM	EM	LM	EM	LM	EM	LM	EM
<= 60%								
>60% - <=65%								
>65% - <=70%								
>70% - <= 75%								
>75% - <=80%								
>80% - <=85%								
>85% -<=90%								
Average LTV								
Average Equity								

LM – Legal Mortgages
EM – Equitable Mortgages

APPROVED

8. Loan to Value Ratio Report (Year to date)

Percentage Distribution of loans guaranteed during the period by LTV (original property value)	Current Year (YTD)		Previous Year (YTD)	
	LM	EM	LM	EM
<= 60%				
>60% - <=65%				
>65% - <=70%				
>70% - <= 75%				
>75% - <=80%				
>80% - <=85%				
>85% -<=90%				
Average LTV				
Average Equity				

LM – Legal Mortgages
EM – Equitable Mortgages

9. Loan To Value Ratio report - Quarterly - Guarantee-in-force - Based on loan amount and property valuation at origination

Percentage Distribution of Guarantee in force by LTV (original property value)	Current Quarter (CQ)		Current Quarter-1 (CQ-1)		Current Quarter-2 (CQ-2)	
	LM	EM	LM	EM	LM	EM
<= 60%						
>60% - <=65%						
>65% - <=70%						
>70% - <= 75%						
>75% - <=80%						
>80% - <=85%						
>85% -<=90%						
Average LTV						
Average Equity						

LTV is calculated on the basis of loan amount and Property Value at Origination
Distribution is based on outstanding loan amounts not number of loans
LM – Legal Mortgages
EM – Equitable Mortgages

APPROVED

10. Loan to Value Ratio report - Quarterly - Guarantee-in-force – Based on Outstanding loan amounts and Updated Property Values

Percentage Distribution of Guarantee in force by LTV based on outstanding loan amount and updated property value	Current Quarter (CQ)		Current Quarter-1 (CQ-1)		Current Quarter-2 (CQ-2)	
	LM	EM	LM	EM	LM	EM
<= 60%						
>60% - <=65%						
>65% - <=70%						
>70% - <= 75%						
>75% - <=80%						
>80% - <=85%						
>85% -<=90%						
Average LTV						
Average Equity						

LTV is calculated on the basis of outstanding loan amount and estimated updated property value (based on potential local resale values)

LM – Legal Mortgages
EM – Equitable Mortgages

APPROVED

11. Credit Score Report –Quarterly

Percentage Distribution of loans guaranteed during the period by credit score at origination	Current Quarter (CQ)		Same Quarter Previous Year		Current Quarter-1 (CQ-1)		Current Quarter-2 (CQ-2)	
	LM	EM	LM	EM	LM	EM	LM	EM
No credit score								
<600								
>=600 - <=660								
>660 - <= 680								
>680 - <=700								
>700 - <=750								
>750								
Average Credit Score								

LM – Legal Mortgages
EM – Equitable Mortgages

12. **Credit Score Report –Year-To-Date**

Percentage Distribution of loans guaranteed during the period by credit score at origination	**Current Year (YTD)**		**Previous Year (YTD)**	
	LM	**EM**	**LM**	**EM**
No credit score				
<600				
>=600 - <=660				
>660 - <= 680				
>680 - <=700				
>700 - <=750				
>750				
Average Credit Score				
Average Score by State at origination				
State 1				
State 2				
…..				

LM – Legal Mortgages
EM – Equitable Mortgages

13. **Credit Score Report –Quarterly – Guarantee-in-force**

Percentage Distribution of Guarantee in force by credit score at origination	**Current Quarter (CQ)**		**Current Quarter-1 (CQ-1)**		**Current Quarter-2 (CQ-2)**	
	LM	**EM**	**LM**	**EM**	**LM**	**EM**
No credit score						
<600						
>=600 - <=660						
>660 - <= 680						
>680 - <=700						
>700 - <=750						
>750						
Average Credit Score						
Average Score by State at origination						
State 1						
State 2						
…..						

LM – Legal Mortgages
EM – Equitable Mortgages

APPROVED

14. Payment-To-Income (PTI) Report – Quarterly

Percentage Distribution of loans guaranteed during the period by PTI ratio	Current Quarter CQ		Same Quarter Previous Year		Current Quarter-1 CQ-1		Current Quarter-2 CQ-2	
	LM	**EM**	**LM**	**EM**	**LM**	**EM**	**LM**	**EM**
<20%								
>=20 - <=25								
>25 - <=30								
>30 - <=35								
>35								
Average PTI								

LM – Legal Mortgages
EM – Equitable Mortgages

15. Payment-to-Income (PTI) report Year-To-Date (YTD)

Percentage Distribution of loans guaranteed during the period by borrower average PTI ratio	Current Year		Previous Year	
	LM	**EM**	**LM**	**EM**
<20%				
>=20 - <=25				
>25 - <=30				
>30 - <=35				
>35				
Average PTI				
Average PTI by State				
State - 1				
State - 2				
………..				

LM – Legal Mortgages
EM – Equitable Mortgages

APPROVED

16. Debt-To-Income ratio Report (Quarterly)

Percentage Distribution of loans guaranteed during the period by DTI ratio	Current Quarter CQ		Same Quarter Previous Year		Current Quarter-1 CQ-1		Current Quarter-2 CQ-2	
	LM	EM	LM	EM	LM	EM	LM	EM
<33.3%								
>=33.3 - <=40								
>40 - <=50								
>50								
Average DTI								

LM – Legal Mortgages
EM – Equitable Mortgages

17. Debt-to-Income (DTI) report Year-To-Date (YTD)

Percentage Distribution of loans guaranteed during the period by borrower average DTI ratio	Current Year		Previous Year	
	LM	EM	LM	EM
<33.3				
>=33.3- <=40				
>40 - <=50				
>50				
Average DTI				
Average DTII by State				
State - 1				
State - 2				
………..				

LM – Legal Mortgages
EM – Equitable Mortgages

APPROVED

18. Purchase Price Report

Percentage Distribution of Loans guaranteed during the period by Purchase Price	**Current Quarter (CQ)**		**Current Quarter-1 (CQ-1)**		**Current Quarter-2 (CQ-2)**	
	LM	**EM**	**LM**	**EM**	**LM**	**EM**
State 1						
Over 50NM						
40NM to 50NM						
30NM to 40NM						
20NM to 30NM						
10NM to 20NM						
Below 10NM						
Average Purchase Price Amount (NM)						

19. Purchase Price Report (YTD)

Percentage Distribution of loan amount guaranteed during the period by purchase Price	**Current Year (YTD)**		**Previous Year (YTD)**	
	LM	**EM**	**LM**	**EM**
Over 50NM				
40NM to 50NM				
30NM to 40NM				
20NM to 30NM				
10NM to 20NM				
Below 10NM				
Average Purchase Price (NM)				
Average Purchase Price by State				
State 1				
State 2				
….				

APPROVED

Appendix B: Required Solvency Approach

CAPITAL

1. Tier I Capital

a. Tier I capital shall comprise the sum of:

i. Paid-up equity capital;

ii. Retained earnings and undistributed current year earnings; and

iii. Free reserves as disclosed in the latest balance sheet of the company.

b. The Tier I capital shall be adjusted for:

i. Accumulated balance of loss, if any;

ii. Deferred revenue expenditure; and

iii. Other intangible assets; and

c. The Tier I Capital shall be further reduced by amount of:

i. Investments in shares of subsidiary companies, or companies in the same group, or all other non-banking financial companies; and

ii. Book value of debentures, bonds, outstanding loans and advances (including hire-purchase and lease finance) made to, and deposits with a subsidiary company, or companies in the same group;

iii. To the extent such amount exceeds ten per cent, of Tier I Capital as defined by (a) and (b) above.

Risk Weights	
Investments	
Cash	0%
Bank Balance & Deposits	20%
Central Government Bonds	0%
State Government Bonds	100%
Corporate Bonds	100%
Listed Equities	100%
Non-Listed Equities	100%
Other Assets	
Tangible	100%
Intangible	100%

APPROVED

d. The Tier I Capital shall be further reduced by the amount by which the balance sheet assets are discounted as a result of applying the risk weights listed in the table above.

2. Tier II Capital

a. Tier II Capital shall be the sum of:

i. Preference shares;

ii. Revaluation reserves at a discounted rate of fifty-five per cent;

iii. general provisions and loss reserves to the extent these are not attributable to an actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses and provisions made on standard assets, to the extent of one and one fourth per cent of risk-weighted assets;

iv. hybrid debt capital instruments; and

v. subordinated debt: the amount of subordinated debt to be included as Tier II Capital is its amortised value on a straight-line basis over the last 4 years to maturity in line with the table below

Years to Maturity	Amount Eligible for Inclusion in Tier II Capital
More than 4	100 per cent
Less than and including 4 but more than 3	80 per cent
Less than and including 3 but more than 2	60 per cent
Less than and including 2 but more than 1	40 per cent
Less than and including 1	20 per cent

b. Tier II Capital must not exceed Tier I Capital.

APPROVED

CAPITAL ADEQUACY RATIO

An MGC shall determine and report its Capital Adequacy Ratio in tabular form as shown in the table below:

Tier I Solvency Capital	(1)	
Tier II Solvency Capital	(2)	
Total Solvency Assets {(1) + (2)} = Available Solvency Margin (ASM)	(3)	
Contingency Margin[1] = Required Solvency Margin (RSM)	(4)	
Capital Adequacy Ratio (CAR) {(3) / (4)}		

1 Contingency Margin will be determined as outlined in "Appendix C: Reserves"

Appendix C: Reserves

An MGC shall maintain all the reserves listed below:

1. Loss Reserve on Invoked Guarantee

a. An MGC shall hold provisions for losses in respect of invoked guarantees pending its settlement and recovery of assets. The amount of provisions required to be held shall be equal to the contract-wise aggregate of 'amount of invocation' after adjusting the realisable value of the assets held by the company in respect of each housing loan where the guarantee has been invoked.

b. Where the realisable value of the assets held in respect of any called-up guarantee is more than the guaranteed amount, the excess shall not be adjusted against the shortfall in other crystalized guarantees.

c. In case the amount of provisions already held is in excess of the amount as computed above, the excess provision may be reversed after full recovery or closure of the invoked guarantee amount or after the account becomes standard.

2. Incurred But-Not-Reported (IBNR) Reserve

a. MGCs shall hold provisions in respect of defaulted housing loans where the trigger event is yet to occur or the guarantee is yet to be invoked. The potential loss to which the guarantee company is exposed to is referred to as IBNR losses. The amount of provisions required to be held shall be arrived at on an actuarial basis depending upon the estimates of loss frequency and loss severity for incurred but not reported losses which are derived from historic data, trends, economic factors and other statistical data in relation to paid claims, the provisions held for claims settled, risk statistics, etc.

3. Contingency Reserves:

MGCs shall create and maintain a "Contingency Reserve" on an ongoing basis. The MGC:

a. Shall appropriate each year at least forty per cent (40%) of the guarantee fees earned during that accounting year or twenty-five per cent (25%) of the profit (after provisions and tax), whichever is higher, to the Contingency Reserve.

   i. In case of inadequate profits, such appropriation shall either result in or increase the amount of carry forward loss.

   ii. A lower percentage of the guarantee fees earned may be appropriated during any accounting year, subject to a minimum of at least 24 % of guarantee fees earned, when the provisions made each year towards losses on account of settlement of mortgage guarantee claims exceed thirty-five per cent (35 %) of the guarantee fees earned during that accounting year.

APPROVED

b. Shall ensure that the Contingency Reserve is built up to at least five per cent (5%) of the total outstanding mortgage guarantee commitments.

c. Shall retain the amounts appropriated each year to the Contingency Reserve for a minimum period of five (5) years which shall be eligible for reversal only in the sixth year subject to the condition (b) above.

d. Shall not utilize the Contingency Reserve without the prior approval of the Bank for the purpose of making good the losses suffered by the mortgaged guarantee holders.

APPROVED

Extraordinary

Federal Republic of Nigeria Official Gazette

No. 151 **Lagos - 7th October, 2019** **Vol. 106**

Government Notice No. 89

The following is published as supplement to this *Gazette* :

S.I. No.	*Short Title*	*Page*
36	Central Bank of Nigeria (Anti-Money Laundering and Combating the Financing of Terrorism in Banks and Other Financial Institutions in Nigeria) (Amendment) Regulations, 2019	B649-662

Printed and Published by The Federal Government Printer, Lagos, Nigeria
FGP 104/102019/2,200

Annual Subscription from 1st January, 2019 is Local : ₦45,000.00 Overseas : ₦60,500.00 [Surface Mail] ₦75,000.00 [Second Class Air Mail]. Present issue ₦2,000 per copy. Subscribers who wish to obtain *Gazette* after 1st January should apply to the Federal Government Printer, Lagos for amended Subscriptions.

CENTRAL BANK OF NIGERIA (ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM IN BANKS AND OTHER FINANCIAL INSTITUTIONS IN NIGERIA) (AMENDMENT) REGULATIONS, 2019

ARRANGEMENT OF REGULATIONS

Regulation :

1. Amendment of the CBN (AML/CFT in Banks and Other Financial Institutions in Nigeria) Regulations, 2013.
2. Amendment of Regulation 4.
3. Amendment of Regulation 7.
4. Amendment of Regulation 9.
5. Amendment of Regulation 10.
6. Amendment of Regulation 11.
7. Amendment of Regulation 14.
8. Amendment of Regulation 15.
9. Amendment of Regulation 16.
10. Amendment of Regulation 17.
11. Amendment of Regulation 18.
12. Amendment of Regulation 19.
13. Amendment of Regulation 21.
14. Amendment of Regulation 23.
15. Amendment of Regulation 24.
16. Amendment of Regulation 27.
17. Amendment of Regulation 28.
18. Amendment of Regulation 29.
19. Amendment of Regulation 31.
20. Amendment of Regulation 34.
21. Amendment of Regulation 37.
22. Amendment of Regulation 39.
23. Amendment of Regulation 40.
24. Amendment of Regulation 43.
25. Amendment of Regulation 44.
26. Amendment of Regulation 45.

27. Amendment of Regulation 46.
28. Amendment of Regulation 47.
29. Amendment of Regulation 50.
30. Amendment of Regulation 73.
31. Amendment of Regulation 74.
32. Amendment of Regulation 76.
33. Amendment of Regulation 77.
34. Amendment of Regulation 78.
35. Amendment of Regulation 79.
36. Amendment of Regulation 82.
37. Amendment of Regulation 88.
38. Amendment of Regulation 89.
39. Amendment of Regulation 90.
40. Amendment of Regulation 92.
41. Amendment of Regulation 95.
42. Amendment of Regulation 98.
43. Amendment of Regulation 99.
44. Amendment of Regulation 101.
45. Amendment of Regulation 105.
46. Amendment of Regulation 107.
47. Amendment of Regulation 114.
48. Amendment of Regulation 118.
49. Amendment of Regulation 119.
50. Amendment of Regulation 120.
51. Amendment of Regulation 121.
52. Amendment of Regulation 122.
53. Amendment of Regulation 123.
54. Amendment of Regulation 124.
55. Amendment of Regulation 128.
56. Amendment of Regulation 129.
57. Amendment of Regulation 132.
58. Amendment of Schedule 1.
59. Citation.

S. I. No. 36 of 2019

CENTRAL BANK OF NIGERIA (ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM IN BANKS AND OTHER FINANCIAL INSTITUTIONS IN NIGERIA) (AMENDMENT) REGULATIONS, 2019

[*4th Day of October*, 2019] Commencement.

In exercise of the powers conferred on me by Section 23 (2) (*e*) of the Money Laundering (Prohibition) Act, 2011 (as amended) and all other powers enabling me in that behalf, I, ABUBAKAR MALAMI, SAN, Attorney-General of the Federation and Minister of Justice make the following Regulations—

Amendment of the CBN (AML/CFT in Banks and Other Financial Institutions in Nigeria) Regulations, 2013.

1. The CBN (AML/CFT in Banks and Other Financial Institutions in Nigeria) Regulations, 2013 (in these Regulations referred to as "the Principal Regulations" is amended as set out in these Regulations.

Amendment of Regulation 4.

2. Regulation 4 of the Principal Regulations is amended—

(*a*) in sub-regulation (1) by substituting the words "or terrorism" with the words "terrorism and proliferation financing," after the word "laundering" in line 5.

(*b*) in sub-regulation (3) by substituting the acronym "AML/CFT" with the acronym ML/FT after the word "their" in line 2.

Amendment of Regulation 7.

3. Regulation 7 of the Principal Regulations is amended—

(*a*) in sub-regulation (1) by substituting the words "Chief Compliance Officer" with the words "Executive Compliance Officer (ECO)" and "Chief Compliance Officer (CCO)" after the acronym "AML/CFT" in line 1.

(*b*) by substituting sub-regulation (2) with a new sub-regulation (2) as follows—

"(2) The AML/CFT Executive Compliance Officer and Chief Compliance Officer shall be appointed at management level. The CCO shall report all matters under these regulations directly to the ECO who is a member of the Board".

Amendment of Regulation 9.

4. Regulation 9 (1) of the Principal Regulations is amended by inserting the word "proliferation, including proliferation financing" after paragraph (*b*).

Amendment of Regulation 10.

5. Regulation 10 of the Principal Regulations is amended—

(*a*) in sub-regulation (1) by inserting the words "attempts, directs, organizes," after the word "who" in line 1 ; and

(*b*) in sub-regulation (1) by inserting the words "participates as an accomplice," after the word "possesses" in line 2.

Amendment of Regulation 11.

6. Regulation 11 (3) of the Principal Regulations is amended by substituting the words "Schedule 1 to these Regulations" with the words "the CBN AML/CFT (Administrative Sanctions) Regulations, 2018" after the word "in" in line 1.

Amendment of Regulation 14.

7. Regulation 14 (1) of the Principal Regulations is amended by deleting the word "their" and substitute with the word "its" in line 1.

Amendment of Regulation 15.

8. Regulation 15 of the Principal Regulations is amended—

(*a*) in sub-regulation (1) by inserting the words "understand the nature of the customer's business, its ownership structure," after the word "shall" in line 1; and

(*b*) in sub-regulation (7) by inserting the words "understand and, as appropriate," after the word "shall" in line 1.

Amendment of Regulation 16.

9. Regulation 16 (*g*) of the Principal Regulations is amended by substituting the word "Professionals" with the word "Professions" in line 1.

Amendment of Regulation 17.

10. Regulation 17 (1) of the Principal Regulations is amended by substituting the words "give special attention" with the words "apply enhanced due diligence" after the word "shall" in line 1.

Amendment of Regulation 18.

11. Regulation 18 (1) of the Principal Regulations is amended by inserting "Legislators" after paragraph (*b*).

Amendment of Regulation 19.

12. Regulation 19 of the Principal Regulations is amended—

(*a*) in sub-regulation (1) (*d*) by inserting the words "clearly understand and" before the word "document" and inserting the word "each" after the word "of" in line 1 ; and

(*b*) in sub-regulation (2) (*b*) by substituting the words "customer identification data" with the words "CDD information" after the word "relevant" in line 1.

(*c*) by adding sub regulation (3) as follows—

"(3) Establish clear understanding of the respective AML/CFT responsibilities of each corresponding institution".

Amendment of Regulation 21.

13. Regulation 21 of the Principal Regulations is amended—

(*a*) in sub-regulation (1) by substituting the words "Banking and Payment Systems Department of the CBN" with "CBN" in line 2 ;

(*b*) in sub-regulation (4) by inserting paragraph (*d*) (*e*) and (*f*) as follows—

"(*d*) provide accurate originator and beneficiary information, on wire transfers and related messages, and that the information remains with the wire transfer or related message throughout the payment chain ;

(*e*) take appropriate measures to monitor all transfers for the purpose of detecting those which lack originator and beneficiary information ;

(*f*) take freezing action in processing transfers to prohibit transactions with designated persons and entities in line with the obligations set out in the relevant United Nations Security Council Resolutions, Nigerian laws, and other relevant authorities."

(*c*) by inserting sub-regulation (5) as follows—

(5) MVTS provider that controls both the ordering and the beneficiary side of the wire transfer shall—

(*a*) take into account all the information from both the ordering and beneficiary sides in order to determine whether STR shall be filed ; and

(*b*) file an STR of the wire transfer and provide relevant transaction information to the NFIU immediately.

Amendment of Regulation 23.

14. Regulation 23 of the Principal Regulations is amended—

(*a*) in sub-regulation (1) by substituting the word "more" with the words "its equivalent in other foreign currencies" after the word "or" in line 1;

(*b*) in sub-regulation (1) (*a*) by inserting the words "and beneficiary" after the word "originator" ;

(*c*) by inserting a new paragraph (*d*), (*e*) and (*f*) as follows—

" (*d*) unique identification number ;

(*e*) the name of the beneficiary ; and

(*f*) the beneficiary account number where such an account is used to process the transaction or, in the absence of an account, a unique transaction reference number which permits traceability of the transaction"

(*d*) by substituting sub-regulation (2) with a new sub-regulation (2) as follows—

"(2) For every wire transfer of USD $1,000 or its equivalent in other currencies, the—

(*a*) ordering financial institution shall obtain and verify the identity of the originator in accordance with the CDD requirements contained in these Regulations ; and

(*b*) beneficiary financial institution shall obtain and verify the identity of the beneficiary in accordance with the CDD requirements contained in these Regulations."

(*e*) in sub-regulation (3) by substituting the word "more" with the words "its equivalent in other foreign currencies" after the word "or" in line 1.

(*f*) (*i*) in sub-regulation (4) by substituting the word "more" with the word "its equivalent in other foreign currencies" after the word "or" in line 2 ;

(*ii*) by inserting "and full beneficiary information that is fully traceable" after the word "identifier" in line 4.

(*g*) in sub-regulation (5)—

(*i*) by inserting the words "and beneficiary" in paragraph (*a*) after the word "originator" in line 1;

(*ii*) by inserting the words "and beneficiary" in paragraph (*b*) after the word "originator" in line 1;

(*iii*) by inserting the following words in paragraph (*b*)

"provided that this number or identifier will permit the transaction to be traced to the originator or the beneficiary and can be made available to the beneficiary financial institution and to the appropriate authorities within three business days of receiving the request" after the word "form" in line 2.

(*h*) in sub-regulation (8) by inserting the words "Where cross boarder wire transfers that lacked required originator or beneficiary information, or" before the word "where" in line 1.

(*i*) in sub-regulation (9) by inserting the words "and intermediary" after the word "Beneficiary" in line 1.

(*j*)by inserting a new sub-regulation (13) as follows—

"(13) For every wire transfer, financial institutions shall take freezing action and prohibit transactions with persons and entities designated as terrorists or with terrorist activities under any relevant United Nations Security Council Resolutions, Nigerian laws, and other relevant authorities."

(*k*) by inserting a new sub-regulation (15) as follows—

"(15) The information required under sub-regulation (14) need not be verified for accuracy, provided that a financial institution shall be required to verify the information pertaining to its customer where there is a suspicion of ML/TF."

Amendment of Regulation 24.

15. Regulation 24 of the Principal Regulations is amended—

(*a*) by substituting sub-regulation (1) with a new sub-regulation (1) as follows—

"(1) Financial institutions are permitted to apply simplified CDD measures only where lower risks have been identified, through an adequate analysis of the risks. The simplified measures should be commensurate with the lower risk factors, but are not acceptable whenever there is suspicion of ML/TF, or specific higher risk scenarios apply."

(*b*) by substituting sub-regulation (5) with a new sub-regulation (5) as follows—

(5) To further deepen financial inclusion, a tiered KYC standard shall be utilized to ensure application of flexible account opening requirements for low-value and medium value accounts which shall be subject to caps and restrictions as the amounts of transactions increase where the account opening requirements shall increase progressively with less restriction on operations.

(*c*) by substituting sub-regulation (6) with a new sub-regulation (6) as follows—

(6) A financial institution shall put in place additional monitoring for accounts opened under the Tiered Know Your Customer procedures to ensure that such accounts are not misused.

Amendment of Regulation 27.

16. Regulation 27 of the principal Regulations is amended—

(*a*) in sub-regulation (1) by substituting the word "fails" with the words "is unable" after the word "that" in line 1.

(*b*) in sub-regulation (1) (*a*) by inserting the words "with the concern persons" after the word "transaction" in line 2.

(*c*) in sub-regulation (3) (*b*) by substituting the words "without delay" with the word "immediately" after "NFIU".

(*d*) in sub-regulation 4 (*b*) by substituting the words "without delay" with the word "immediately" after "NFIU".

Amendment of Regulation 28.

17. Regulation 28 of the Principal Regulations is amended—

(*a*) by substituting sub-regulation (1) with a new sub-regulation (1) as follows—

"(1) a financial institution that relies upon another FI or DNFBP to conduct its CDD shall—

(*a*) ensure that the financial institution or DNFBPs are subject to keeping standards prescribed under these Regulations ; and

(*b*) satisfy itself that copies of identification data and other relevant documentation relating to the CDD requirements shall be made available from the third party upon request without delay."

(*b*) by inserting sub-regulations (6) and (7) as follows—

(6) When determining in which countries the third party that meets the conditions can be based, financial institutions shall have regard to information available on the level of country risk.

(7) For financial institutions that rely on a third party that is part of the same financial group, relevant competent authorities may also consider that the requirements of the criteria above are met in the following circumstances—

(*a*) the group applies CDD and record-keeping requirements in line with programmes against money laundering and terrorist financing ;

(*b*) the implementation of those CDD and record-keeping requirements and AML/CFT programmes is supervised at a group level by a competent authority ; and

(*c*) any higher country risk is adequately mitigated by the group's AML/CFT policies.

Amendment of Regulation 29.

18. Regulation 29 of the Principal Regulations is amended by inserting a new sub-regulation (5) as follows—

(5) Transaction records kept by financial institutions shall be sufficient to permit reconstruction of individual transactions so as to provide, where necessary, evidence for prosecution of any criminal activity.

Amendment of Regulation 31.

19. Regulation 31 of the Principal Regulations is amended—

(*a*) by substituting sub regulation (6) with a new sub regulation (6) as follows—

(6) Financial institutions, their directors, officers and employees are prohibited from disclosing that an STR or related information is being filed with the NFIU.

Amendment of Regulation 34.

20. Regulation 34 of the Principal Regulations is amended by substituting sub regulation (1) with a new sub regulation (1) as follows—

"(1) Failure to comply with the provisions of MLPA 2011 (as amended), other existing laws and regulations on AML/CFT shall attract appropriate sanctions in accordance with the CBN AML/CFT (Administrative Sanctions) Regulations, 2018".

Amendment of Regulation 37.

21. Regulation 37 of the Principal Regulations is amended—

(*a*) in sub-regulation (1)—

(*i*) by substituting the words "employee education and training programs" with the words "training programs for board members, management and staff" after the word "comprehensive"in line 1 ; and

(*ii*) by substituting the word "employees" with the word "them" after the word "make" in line 2.

(*b*) in sub-regulation (5) by substituting the word "employee" with the acronym "AML/CFT" after the word "an" in line 1.

(*c*) in sub-regulation (6) by substituting the word "employee with the acronym "AML/CFT" after the word "the" in line1.

Amendment of Regulation 39.

22. Regulation 39 (4) of the Principal Regulations is amended by inserting the words "in line with extant laws and regulations" after the word "protection" in line 2.

Amendment of Regulation 40.

23. Regulation 40 of the Principal Regulations is amended—

(*a*) in sub-regulation (1) by—

(*i*) inserting the word "understand" after the word "shall" in line 1;

(*ii*) inserting the words "and terrorism financing" after the word "laundering" in line 2.

(*b*) in sub-regulation (2) by—

(*i*) substituting the words "from time to time" with the word "annually" after the word "frameworks" in line 1.

(*ii*) inserting the words "Laws and" after the acronym "AML/CFT" in line 3.

Amendment of Regulation 43.

24. Regulation 43 (2) of the Principal Regulations is amended by deleting the word "annually" after the word "formulated" in line 2.

Amendment of Regulation 44.

25. Regulation 44 of the Principal Regulations is amended by inserting the words "or the funding of terrorism and proliferation" after the word "crime".

Amendment of Regulation 45.

26. Regulation 45 of the Principal Regulations is deleted.

Amendment of Regulation 46.

27. Regulation 46 (2) of the Principal Regulations is amended by substituting the words "suspicion" with the word "suspicious" in line 4.

Amendment of Regulation 47.

28. Regulation 47 (4) of the Principal Regulations is amended by substituting the words "Anti-Money Laundering Compliance Officers" ("AMLCOs") with the words "Chief Compliance Officer" (CCO) after the word "the" in line 4.

Amendment of Regulation 50.

29. Regulation 50 of the Principal Regulation is amended by substituting it with a new Regulation 50 as follows—

"50. (1) In determining a customer's identity under these Regulations, the following shall be considered—

(*a*) the name used ;
(*b*) date of birth ;
(*c*) the residential address at which the customer can be located ;
(*d*) the Bank Verification Number (BVN) ;

(*e*) in the case of a natural person, the date of birth shall be obtained as an important identifier in support of the name and there shall be no obligation to verify the date of birth provided by the customer ; and

(*f*) where an international passport, driver's license, INEC Voter's Card or National Identity Card is taken as evidence of identity, the number, date and place or country of issue (as well as expiry date in the case of international passport and driver's license) shall be recorded .

(2) In the case of legal entities, the financial institution shall ascertain the identity of beneficial owners as listed in sub-regulation (1) (*a*)-(*e*) of this regulation."

Amendment of Regulation 73.

30. Regulation 73 (2) of the Principal Regulations is amended by inserting the words "physical visitation to the stated address" after the word "evidence" in line 3.

Amendment of Regulation 74.

31. Regulation 74 (3) of the Principal Regulations is amended by substituting the word "Nigerian" with "Nigeria".

Amendment of Regulation 76.

32. Regulation 76 of the Principal Regulation is amended—

(*a*) in sub-regulation (3) by substituting the words "the cumulative nature of checking across range of sources" with the words "checking against the database of the issuing institution, or checking across a combined range of credible sources" in line 2 ;

(*b*) by deleting sub-regulation (4), (5) and (6).

Amendment of Regulation 77.

33. Regulation 77 of the Principal Regulations is deleted.

Amendment of Regulation 78.

34. Regulation 78 of the Principal Regulations is deleted.

Amendment of Regulation 79.

35. Regulation 79 of the Principal Regulations is amended by deleting sub-regulation (7).

Amendment of Regulation 82.

36. Regulation 82 of the Principal Regulations is deleted.

Amendment of Regulation 88.

37. Regulation 88 of the Principal Regulations is deleted.

Amendment of Regulation 89.

38. Regulation 89 of the Principal Regulations is amended—

(*a*) in sub-regulation (2) by substituting the words "one year" with the words "one month" after the word "within" in line 4 ; and

(*b*) by substituting sub-regulation (4) with a new sub-regulation (4) as follows—

"(4) Records of transactions undertaken in accordance with a Power of Attorney shall be maintained as part of the client's record".

39. Regulation 90 of the Principal Regulations is amended—

Amendment of Regulation 90.

(*a*) by deleting sub-regulation (3) ; and

(*b*) in sub-regulation (4) by inserting the word "and" after the figure "(1)" and deleting figure "(3)" after figure (2) in line 1.

40. Regulation 92 (2) of the Principal Regulations is amended by substituting the word "and" with the word "or" after the word "report" in line 4.

Amendment of Regulation 92.

41. Regulation 95 of the Principal Regulations is amended by substituting sub-regulation (1) with a new sub-regulation (1) as follows—

Amendment of Regulation 95.

"(1) The identity of a corporate company shall comprise—

(*a*) registration number ;

(*b*) registered corporate name and any trading names used ;

(*c*) registered address and any separate principal trading addresses ;

(*d*) directors (including BVN) ;

(*e*) owners and shareholders ;

(*f*) the nature of the company's business ;

(*g*) Tax Identification Number (TIN) ; and

(*h*) SCUML registration for DNFBPs".

42. Regulation 98 of the Principal Regulations is substituted with a new regulation 98 as follows—

Amendment of Regulation 98.

"(1) Where the applicant is an unquoted company and none of the principal directors or shareholders already have an account with the financial institution, to verify the business ; the following documents shall be obtained from an official or a recognized independent source—

(*a*) a copy of the certificate of incorporation or registration, evidence of the company's registered address and the list of shareholders and directors ;

(*b*) a search at the CAC or an enquiry through a business information service to obtain the information on the company ; and

(*c*) an undertaking from a firm of lawyers or accountants confirming the documents submitted to the CAC.

(2) A financial institution shall pay attention to the place of origin of the documents and background against which they were produced.

43. Regulation 99 (*c*) of the Principal Regulations is amended by—

Amendment of Regulation 99.

(*a*) inserting the words "addressed to the financial institution" after the words "Board of Directors" in line 1 ; and

(*b*) substituting the word "confer" with the word "conferring" in line 2.

Amendment of Schedule 1.

58. Schedule 1 to the Principal Regulations is deleted.

Citation.

59. These Regulations may be cited as the Central Bank of Nigeria (Anti-Money Laundering and Combating the Financing of Terrorism in Banks and Other Financial Institutions in Nigeria) (Amendment) Regulations, 2019.

MADE at Abuja this 4th day of October, 2019.

ABUBAKAR MALAMI, SAN
Attorney-General of the Federation and Minister of Justice

Departments and Agencies (MDAs) and any statutory office or sole corporate designated by law to carry out a function of or on behalf of Government or any of its agencies ; and

"*Taxpayer Identification Number (TIN)*" means a unique number allocated and issued to identify a person (individual or company) as a duly registered taxpayer in Nigeria.

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-46237401
E-mail:fprd@cbn.gov.ng

20th September, 2019

FPR/DIR/CIR/GEN/03/07/037

LETTER TO ALL BANKS AND OTHER FINANCIAL INSTITUTIONS

SUSPICIOUS TRANSACTION REPORTING ON UNITED NATIONS SECURITY COUNCIL RESOLUTIONS ON PROLIFERATION FINANCING

Further to the provisions of Regulation 11 of the CBN AML/CFT Regulations, 2013 and our previous Circulars on targeted financial sanctions, we write to remind all financial institutions on the need to increase surveillance and report all transactions involving persons and entities designated under the United Nations Security Council Resolution 1718 and all other subsequent resolutions relating to the Democratic People's Republic of Korea (DPRK).

Financial Institutions are advised to continuously screen both customers and transactions against global sanctions lists and stop all transactions; freeze, without delay, all funds, owned or controlled, directly or indirectly, by individuals and entities designated by the UN Sanctions Committees.

All terminated transactions or funds frozen pursuant to the UNSCR must be, immediately, reported to the Nigerian Financial Intelligence Unit (NFIU).

J.M. GANA
for: Director, Financial Policy and Regulations Department

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-46237401
E-mail:fprd@cbn.gov.ng

FPRD/DIR/GEN/CIR/07/031

July 1, 2019

CIRCULAR TO ALL DEPOSIT MONEY BANKS

MODALITIES FOR THE IMPLEMENTATION OF THE CREATIVE INDUSTRY FINANCING INITIATIVE (CIFI)

The Central Bank of Nigeria (CBN), in collaboration with the Bankers' Committee, has introduced the Creative Industry Financing Initiative (CIFI) to improve access to long-term low-cost financing for entrepreneurs and investors in the Nigerian creative and information technology (IT) sub-sectors, as part of efforts to boost job creation in Nigeria, particularly among the youth.

In furtherance of the above, the CBN hereby issues the modalities for the implementation of the initiative. These modalities may be accessed via the Bank's website www.cbn.gov.ng.

Further enquiries on the modalities may be referred to the Director, Development Finance Department, Central Bank of Nigeria, Abuja.

JOSEPH M. GANA
FOR: DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA

MODALITIES FOR THE IMPLEMENTATION OF THE CREATIVE INDUSTRY FINANCING INITIATIVE

Version: 31 May 2019

Table of Content

Glossary

1. Introduction 3

2. Objectives of CIFI 3

3. Activities covered under CIFI 3

4. Funding 4

5. Operational Features of CIFI 4

6. Transaction Dynamics 7

7. Participating Financial Institutions 8

8. Monitoring and Evaluation 8

9. Discontinuation of Credit Facility. 8

10.Infractions and Penalties 8

11.Amendments 8

12.Enquiries and Returns 8

Appendix

Definition of Terms 9

Abbreviation and Acronyms 10

1. Introduction

The Central Bank Nigeria (CBN), in collaboration with the Bankers' Committee, as part of efforts to boost job creation in Nigeria, particularly among the youth, recently introduced the Creative Industry Financing Initiative (CIFI) with a view to improving access to long-term low-cost financing by entrepreneurs and investors in the Nigerian creative and information technology (IT) sub-sectors.

In furtherance to the above, the CBN hereby issues modalities and transaction dynamics for the seamless implementation of the initiative.

2. Objectives of CIFI

The objectives of the Initiative are:

i. Improve access to low-cost and sustainable financing by entrepreneurs and investors in the Nigerian creative and information technology (IT) sub-sectors;

ii. Boost job creation, particularly among the youth;

iii. Harness the entrepreneurial potentials of youth within the Nigerian creative and information technology (IT) sub-sectors for economic development; and

iv. Complement other development finance initiatives of the CBN to accelerate financial inclusion.

3. Activities covered under CIFI

Eligible activities under the initiative are:

i. Existing enterprises in the creative industry;
ii. Start-ups engaged in the creative industry; and
iii. Students of higher institutions engaged in software development.

3.1 Verticals (Focal sub-sectors)

The verticals for financing under the eligible activities shall include:

i. Fashion
ii. Information Technology

iii. Movie

iv. Music

Verticals	Target Markets
Fashion	• Designers
Information Technology	• Information Technology • Student Software Development Loan
Movie	• Movie Distribution • Movie Production
Music	• Music Production (Musicians) • Music Distribution

4. Funding

The initiative shall be funded from the Agri-Business Small, and Medium Enterprises Investment Scheme (AGSMEIS), an initiative of the Bankers' Committee, with a seed fund of N22.9 billion appropriated as follows:

4.1 Student Software Development Loan – N1.0 billion

4.2 Information Technology – N5.5 billion

4.3 Movie Production – N3.0 billion disaggregated into:

4.3.1 Production – N1.5 billion

4.3.2 Equipment Financing – N1.5 billion

4.4 Movie Distribution – N4.0 billion

4.5 Music – N5.4 billion

4.6 Fashion – N4.0 billion

5. Operational Features of CIFI

The key features of the CIFI include:

5.1 Software Development and Movie

Features	Student Software Development Loan	Movie Production	Movie Distribution
Single Obligor Limit	N3.0 million	N50.0 million	N500.0 million
Interest Rate	9.0% p.a. (all inclusive)	9.0% p.a. (all inclusive)	9.0% p.a. (all inclusive)

Tenor	3 years	10 years	10 years
Moratorium	9 months from date of loan disbursement	24 months from date of loan disbursement	24 months from date of loan disbursement
Repayment	Monthly	Quarterly	Monthly
Security Arrangement	• Minimum Equity Contribution - 0% • University degree certificate • NYSC certificate • Credible Guarantor • Personal Guarantee	• Minimum Equity Contribution - 30% • Legal mortgage • All asset debenture • Credible Guarantor • Personal Guarantee	• Minimum Equity Contribution - 30% • Legal mortgage • All asset debenture • Personal Guarantee
Other Conditions	• Must gain admission into a training organisation that has job placement contracts • No bad credit history with CRMS or any commercial banks in Nigeria • Preference for areas with low IT penetration	• Minimum of three (3) years relevant experience • No bad credit history with CRMS or any commercial banks in Nigeria • Preference for areas with low cinema penetration	• Minimum of three (3) years relevant experience • No bad credit history with CRMS or any commercial banks in Nigeria • Preference for areas with low cinema penetration
Funding Structure	• Minimum Equity Contribution - 0% • DMB (Term Loan) – 100%	• Minimum Equity Contribution - 30% • DMB (Term Loan) – 70%	• Minimum Equity Contribution - 30% • DMB (Term Loan) – 70%
Disbursement	In phases in accordance with agreed milestones	In phases in accordance with agreed milestones	In phases in accordance with agreed milestones
Repayment Source	From the proceeds of software sale or patent usage	From the proceeds of movie tickets at the box office and other channels of distribution	From the proceeds of movie tickets at the box office and other channels of distribution

5.2 Fashion, IT and Music

Features	Fashion	Information Technology	Music
Monetization (To be financed)	• Equipment purchase • Rental/service fees	• Equipment purchase • Rental/service fees	• Equipment purchase/rentals • Rental/service fees
Interest Rate	9.0% p.a. (all inclusive)	9.0% p.a. (all inclusive)	9.0% p.a. (all inclusive)
Tenor	10 years	10 years	10 years
Moratorium	36 months from date of loan disbursement	36 months from date of loan disbursement	36 months from date of loan disbursement
Repayment	Quarterly	Quarterly	Quarterly
Security Arrangement	• Minimum Equity Contribution - 20% • Mortgage debenture • Legal mortgage • Lien on stock of trade and items of equipment	• Minimum Equity Contribution - 20% • Mortgage debenture • Legal mortgage • Lien on stock of trade and items of equipment	• Minimum Equity Contribution - 20% • Mortgage debenture • Legal mortgage • Lien on stock of trade and items of equipment
Other Conditions	• At least three (3) referrals from recognised sponsors or bodies or associations. • Minimum of three (3) years relevant experience • No bad credit history with CRMS or any commercial banks in Nigeria	• At least three (3) referrals from recognised sponsors or bodies or associations • Minimum of three (3) years relevant experience • No bad credit history with CRMS or any commercial banks in Nigeria	• At least three (3) referrals from recognised sponsors or bodies or associations • Minimum of three (3) years relevant experience • No bad credit history with CRMS or any commercial banks in Nigeria
Funding Structure	• Minimum Equity Contribution - 20% • DMB (Term Loan) –	• Minimum Equity Contribution - 20% • DMB (Term Loan) –	• Minimum Equity Contribution - 20% • DMB (Term Loan)

	80%	80%	- 80%
Disbursement	In phases in accordance with agreed milestones	In phases in accordance with agreed milestones	In phases in accordance with agreed milestones
Repayment Source	From proceeds of the business	From the proceeds of sales or income form services provided	From the proceeds of music record sale or shows

6. Transaction Dynamics

i. The prospective applicant approaches any bank of his/her choice with a business plan or statement detailing how much is needed for his/her business proposal.

ii. The bank provides the applicant with the documentation requirements for accessing any of the verticals.

iii. The documentation requirements shall be as acceptable by the respective bank for credit requests by its customers.

iv. The bank carries out due diligence of the application and documentation submitted.

v. Successful applicants are issued offer letters, which shall have therewith repayment schedules in accordance with the business dynamics.

vi. The successful applicants shall accept the offer, as well as, meeting all conditions specified in the offer letter precedent to draw down.

vii. The bank forwards successful applications with copies of the offer letter to the Director, Development Finance Department, Central Bank of Nigeria, for consideration and release of aggregate facility amount to the bank for on-lending to successful applicants.

viii. The bank disburses funds to successful applicants within ten (10) days of receipt of funds from the CBN.

ix. The bank bears the credit risk and shall be responsible for the monitoring the performance of the facility.

7. Participating Financial Institutions (PFIs)

All deposit money banks (DMBs) shall be eligible to participate under the initiative.

8. Monitoring and Evaluation

There shall be regular joint monitoring and evaluation of financed projects by the CBN and respective PFIs. Reports of the exercise shall be submitted to the Director, Development Finance Department.

9. Infractions and Penalties

The infractions and penalties shall be as specified in the AGSMEIS Guidelines.

10. Discontinuation of Credit Facility

Whenever a loan is repaid or the facility is otherwise discontinued, the PFIs shall advise the CBN immediately, giving particulars of the credit facility. Any outstanding amount under the facility is to be refunded to the AGSMEIS Fund Account within seven (7) days of discontinuation.

11. Amendments

These modalities shall be subject to review from time to time as may be deemed necessary by the CBN and the Bankers' Committee.

12. Enquiries and Returns

All enquiries and returns should be addressed to:

The Director
Development Finance Department
Central Bank of Nigeria,
Corporate Headquarters;
Central Business District,
Abuja.
Telephone No: 234-09-4623860

Development Finance Department
May 2019

APPENDIX

Definition of Terms

Agribusiness

Agribusiness in the context of these guidelines shall be a business involved in any of the agricultural value chain including production, processing, storage and logistics.

Participating Financial Institutions (PFIs)

Any Deposit Money Bank or Microfinance Bank licensed by the Central Bank of Nigeria to provide banking services in Nigeria.

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-46237401
E-mail:fprd@cbn.gov.ng

June 13, 2019

Ref: FPR/DIR/GEN/CIR/07/030

CIRCULAR TO ALL BANKS ON THE COMMENCEMENT OF THE EXPORT FACILITATION INITIATIVE (EFI)

The Bankers' Committee at its 343rd Meeting held on April 4, 2019 approved the commencement of the Export Facilitation Initiative (EFI) to compliment government efforts to engender growth in the non-oil sector of the economy as well as enhance foreign earnings and employment generation.

Under the initiative, the focal commodities for value chain development would be cashew, cocoa, palm oil, sesame seed and shea.

The commodities are to be funded under the approved guidelines of AGSMEIS, NESF and RSSF-DCRR in line with the approved limits in the Export Facilitation Initiative Funding Framework (EFIFF). The detailed operational requirements for the initiative would be released in due course.

All enquiries in respect of the EFI and EFIFF should be directed to the **Director, Development Finance Department, Central Bank of Nigeria, Abuja** or email **developmentfinancedept@cbn.gov.ng**

Copies of the EFIFF, NESF and AGMEIS guidelines may also be assessed from the CBN website: - www. cbn.gov.ng

Yours faithfully,

KEVIN N. AMUGO
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

Export Facilitation Initiative Funding Framework (EFIFF)

COCOA			
Funding Terms	Large and Mid- Sized Players (Facility A) for Land Acquisition and Cultivation	Large and Mid- Sized Players (Facility B) for Milling and Refining capacity	Small Holder Farmers (Under Clusters Via Aggregation)
Tenor	7-10 Years	5 – 7 years	5 – 7 years
Interest Rate	9%	9%	9%
Moratorium / Equity Contribution	3 years moratorium on principal Nil Equity	1 year moratorium on principal 10 – 20% Equity	2years moratorium on principal Nil Equity
Funding Source	AGSMEIS	NESF & DCCR	AGSMEIS

Export Facilitation Initiative Funding Framework (EFIFF)

OIL PALM			
Funding Terms	Large and Mid-Sized Players (Facility A) for Land Acquisition and Cultivation	Large and Mid-Sized Players (Facility B) for Milling and Refining capacity	Small Holder Farmers (Under Clusters Via Aggregation)
Tenor	7-10 Years	5 – 7 years	5 – 7 years
Interest Rate	9%	9%	9%
Moratorium / Equity Contribution	3 years moratorium on principal Nil Equity	1 year moratorium on principal 10 – 20% Equity	2years moratorium on principal Nil Equity
Funding Source	AGSMEIS	NESF & DCCR	AGSMEIS

Export Facilitation Initiative Funding Framework (EFIFF)

CASHEW			
Funding Terms	Large and Mid- Sized Players (Facility A) for Land Acquisition and Cultivation	Large and Mid- Sized Players (Facility B) for Milling and Refining capacity	Small Holder Farmers (Under Clusters Via Aggregation)
Tenor	I year 120 Days Cleanup Cycle	I year 120 Days Cleanup Cycle	I year 120 Days Cleanup Cycle
Interest Rate	9%	9%	9%
Moratorium / Equity Contribution	120 Days Clean Up Cycle	120 Days Clean Up Cycle 10 – 20% Equity	120 Days Clean Up Cycle Nil Equity
Funding Source	AGSMEIS	NESF & DCCR	AGSMEIS

Export Facilitation Initiative Funding Framework (EFIFF)

SHEA			
Funding Terms	Large and Mid- Sized Players (Facility A) for Land Acquisition and Cultivation	Large and Mid- Sized Players (Facility B) for Milling and Refining capacity	Small Holder Farmers (Under Clusters Via Aggregation)
Tenor	I year with Option of Rollover	I year with Option of Rollover	I year with Option of Rollover
Interest Rate	9%	9%	9%
Moratorium / Equity Contribution	I year with option of rollover	I year with option of rollover 10 – 20% Equity	I year with option of rollover Nil Equity
Funding Source	AGSMEIS	NESF & DCCR	AGSMEIS

Export Facilitation Initiative Funding Framework (EFIFF)

SESAME SEEDS			
Funding Terms	Large and Mid- Sized Players (Facility A) for Land Acquisition and Cultivation	Large and Mid- Sized Players (Facility B) for Milling and Refining capacity	Small Holder Farmers (Under Clusters Via Aggregation)
Tenor	I year Warehousing 4 years Asset Acquisition	I year Warehousing 4 years Asset Acquisition	I year Warehousing 4 years Asset Acquisition
Interest Rate	9%	9%	9%
Moratorium / Equity Contribution	1 year Moratorium on Principal on Asset Acquisition and Nil Equity	1 year Moratorium on Principal on Asset Acquisition and Nil Equity 10 – 20% Equity	1 year Moratorium on Principal on Asset Acquisition and Nil Equity Nil Equity
Funding Source	AGSMEIS	NESF & DCCR	AGSMEIS

CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-46237401
E-mail:fprd@cbn.gov.ng

FPRD/DIR/GEN/CIR/07/024

March 7, 2019

CIRCULAR TO ALL MICROFINANCE BANKS

RE: REVIEW OF MINIMUM CAPITAL REQUIREMENT FOR MICROFINANCE BANKS IN NIGERIA

Further to our circular dated October 22, 2018 on the above subject, the CBN has revised the categories of microfinance banks with a view to ensuring continued operations of microfinance banks in the rural, unbanked and underbanked areas of the economy. Accordingly, Unit Microfinance Banks shall comprise two Tiers: Tier 1 Unit Microfinance Bank, which shall operate in the urban and high-density banked areas of the society; and Tier 2 Unit Microfinance Bank, which shall operate only in the rural, unbanked or underbanked areas.

Following from the above, the minimum capital requirement for the categories of microfinance banks have also been revised as follows:

1) Tier 1 Unit Microfinance Bank ₦200,000,000 (Two Hundred Million Naira)
2) Tier 2 Unit Microfinance Bank ₦50,000,000 (Fifty Million Naira)
3) State Microfinance Bank ₦1,000,000,000 (One Billion Naira)
4) National Microfinance Bank ₦5,000,000,000 (Five Billion Naira)

To aid the process of recapitalization, all microfinance banks shall be required to comply with the following:

(i) Tier 1 Unit Microfinance Banks shall meet a ₦100 million capital threshold by April 2020 and ₦200 million by April 2021;

(ii) Tier 2 Unit Microfinance Banks shall meet a ₦35 million capital threshold by April 2020 and ₦50 million by April 2021;

(iii) A State Microfinance Bank shall increase its capital to ₦500 million by April 2020 and ₦1 billion by April 2021; and

(iv) A National Microfinance Bank shall hold a capital of ₦3.5 billion by April 2020 and ₦5 billion by April 2021.

This revised circular supersedes our circular referenced FPR/DIR/GEN/CIR/07/016 of October 22, 2018.

KEVIN N. AMUGO
DIRECTOR, FINACIAL POLICY AND REGULATION DEPARTMENT