

**PROCESSING GUIDELINES FOR CONVERSION OF EXISTING
COMMUNITY BANKS TO MICROFINANCE BANKS**

S/No	SUB-TITLES	ACTION	APPRAISING OFFICER'S COMMENTS
A. <u>PROVISIONAL APPROVAL STAGE</u>			
1	Introduction	Provide introductory remarks	Brief comments on the application received, previous correspondence and response to issues raised by the institution.
2	Documents Submitted	List all the documents submitted in support of the application.	Comment on whether or not the documents submitted are complete.
3	Background Information	Review and provide background information on the converting institution, including a brief history, location, licensing and general performance to date	Briefly comment on: <ul style="list-style-type: none"> • Original name of the institution and proposed name (if different) • Certificate of incorporation number and date • CBN/NBCB Licence number and date • Ownership/shareholding structure categorized into individuals, corporate bodies and other organizations • Board & corporate governance history • Comment on CBN Approval of Audited A/c. • Confirm that CB had been rendering returns and had paid all penalties on returns and audited accounts.

4.	<p>Memorandum and Articles of Association (MEMART)</p>	<p>a) <u>Name Clause</u> Check the following:</p> <ul style="list-style-type: none"> • That the proposed name is available at CAC and has been duly reserved by promoters. • Evidence of board approval and resolution by shareholders at the AGM/EGM • Is not already taken/submitted by an earlier applicant (CB or new investor) at CBN • Not associated with any religion • Bears no linkage or similarity to any existing financial institution within CBN’s purview (except where it is a subsidiary of an existing institution) • Bears no linkage or similarity to any liquidated/failed bank • Not in conflict with BOFIA, CAMA or any other subsisting law <p><u>Object Clause</u></p> <ul style="list-style-type: none"> • Thoroughly review the MEMART to ensure that the objects are permissible activities of MFBs as stipulated in the Microfinance Policy. • Confirm that it is consistent with BOFIA, CAMA and other banking laws and regulations. • Ensure that liabilities of members are limited by shares • Determine the shareholding structure; • Ascertain if shareholding of subscribers are significantly diversified • Ensure that the subscribers sign against their names and it is dated and witnessed <p><u>Articles</u></p> <p>Ensure that it has provisions on classes of shares, transfer of shares, transferability of shares, preemptive rights of shareholders, alteration of capital (reduction – not allowed; increase – subject to CBN approval), meetings, notices, proceedings, quorum (minimum of 2\3), voting, no alternating directors (except in the case of institutional investors); a director shall not vote on matters concerning him and should declare his interest in such matters, powers & duties of directors, borrowing powers, secretaries, auditors, seal, winding-up, indemnity and subscribers have signed.</p>	<p>Comment on the acceptability of the proposed name.</p> <p>Comment on the acceptability of the object clauses and whether they are consistent with the Microfinance Policy.</p> <p>Comment on whether there are prohibited activities to be expunged</p> <p>Comment on the suitability of the Articles and whether they do not conflict with the Microfinance Policy.</p> <p>Comment on Articles that should be amended, expunged or inserted.</p>
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<p>5.</p>	<p>Capital</p> <p>Minimum Shareholders Funds unimpaired by losses of N20 million (for unit MFB and N1.0 billion (for state MFB)</p>	<p><u>Adequacy of Capital</u></p> <ul style="list-style-type: none"> • Confirm the Authorised Capital, Paid-up Capital and Shareholders’ Funds from latest CBN approved Audited Accounts, latest Examination Report and latest Returns. • Produce and insert an abridged Balance Sheet, showing key components of the Shareholders’ Funds and show the Examiners’ figures side by side. <p>Where additional capital had been injected and evidence provided in line with CBN Circular OFID/DO/CIR/Vol.1/488 of 14 Nov. 2006, confirm:</p> <ul style="list-style-type: none"> ▪ Statement of Account obtained from the correspondent bank showed details of the lodgement of the additional capital. ▪ Evidence of payment for the shares by new and existing investors ▪ Increase has been registered at CAC and Form CO2 reflecting the additional capital. ▪ Letter of intent from shareholders that the deposits were for shares. ▪ Copies of letters of allotment of additional shares to shareholders or share certificates <ul style="list-style-type: none"> • Provide details of significant shareholders with equity of 5% and above. • If new investors are corporate entities, provide a brief on the company, its ownership structure, names of directors and principal officers. • If no additional capital injection, state so <p><u>Ownership Structure</u></p> <ul style="list-style-type: none"> • If no additional injection, state that the ownership remain the same. • If there are new investors, show the new and existing shareholders and their individual percentage holding side by side. • Show directors’ holdings, percentage holding, and interest being represented • Indicate the diversification of ownership • Show the combined volume, value and percentage holdings of all directors in relation to the total holdings. 	<p>Appraise and comment on the adequacy of capital.</p> <p>Comment on the method of capital injection and adequacy of evidences provided (Note that existing CBs need not submit drafts to the CBN for the additional capital injection).</p> <p>Comment on the adequacy of new capital base and whether or not minimum capital had been met.</p> <p>Comment on the structure and diversification of ownership.</p>
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6.	Board Structure and Governance	<ul style="list-style-type: none"> • Review the CVs of all directors • Check board composition (Minimum 5; maximum 7) • Determine the size of the board and appropriateness or adequacy to promote good corporate governance and the establishment of board committees to assist the main board to function • Confirm and state whether at least two directors have requisite experience in banking or related field stipulated in the Microfinance Policy. • Check interlocking directorship. A director cannot be on the Board of more than 2 institutions under CBN's purview • Assess the composition of the board to ensure that the same family members are not in majority (not more than 2 of such related parties at all times). • Note that same family members cannot be non-executive directors and at the same time be part of the executive management. • Do a table showing the name, qualification and experience of the directors • Show the directors and related parties indebtedness to the CB (approved limit, type of facility, amount outstanding, tenor, expiry date, status of loan-whether performing or not) • If there is no new director introduced i.e. existing directors to remain, then, there is no need for any appraisal. Just disclose the fact in the reprot. • For new directors, check board resolution for their appointments and letters of acceptance to serve on the board. Carry out status enquiries at the Bankers' Committee Secretariat, NDIC and on the Credit Risk Management System (CRMS). • Check that current employees of banks had obtained clearance from employer 	<p>Comment on the qualifications and experience as well as the status enquiries carried out on the Directors</p> <p>Comment on the suitability of the proposed directors to serve on the board., or whether there is any objection.</p> <p>Comment on any recommended adjustment to the board composition</p> <p>Comment generally on the governance structure</p>
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7.	Organizational Structure	<ul style="list-style-type: none"> • Appraise the proposed organizational structure as represented in the business plan and ensure conformity with the Microfinance Policy. • Indicate and emphasize business development/marketing department and particularly proposed number of loan officers . • Where provision is made for the appointment of executive directors, this should be critically assessed for justification based on the size of the CB (total assets and capital base). 	<p>Comment on the organizational structure.</p> <p>Point out any recommended adjustments</p>
8.	Management and Staff	<ul style="list-style-type: none"> • Review the CVs of the Management team. • Check that members of the management team possess the minimum required qualification and cognate experience. • Show in tabular form, the profile of heads of departments (i.e. name, job title, key responsibilities, qualification and experience). • If they are currently in the employment of the CB and are to be upgraded to their new positions and roles in the new MFB, state so and that they had been previously cleared. However, ensure that they have the qualifications and cognate experience prescribed in the Microfinance Policy. • If they are new employees, review their CVs, check board resolution for their appointments, their acceptance letters and make a conclusion as to their suitability, subject to good reports of status enquiries at the Bankers' Committee Secretariat, NDIC and on the Credit Risk Management System (CRMS). • Review total staff and their various departments/units and determine the adequacy or otherwise of staff in the business development/marketing department based on the case load per staff. 	<p>Comment on the qualifications and experience, as stipulated in the Microfinance Policy, as well as the status enquiries carried out on the top management.</p> <p>Comment on the suitability of the top management for their proposed positions</p>

		<ul style="list-style-type: none"> Assess the reporting line of the Head of Internal Controls Appraise the overall suitability of the organogram and succession plans 	
9	Feasibility Study/ Business Plan	<p><u>Aims and Objectives of the MFB</u> Review and confirm the following:</p> <ul style="list-style-type: none"> That the aims and objectives are consistent with the MF policy Corporate vision & Mission Strategic plan and objectives Operational strategies 	Comment that the aims and objectives are consistent with the Microfinance Policy
		<p><u>Main Products and Services to be offered</u></p> <ul style="list-style-type: none"> State the main products/services to be offered as indicated in the business plan and avoid copying the permissible activities described in the Microfinance Policy Confirm that services are adequate, in conformity with the permissible activities and have strong MF orientation 	Comment on the unique products and services
		<p><u>Target Market and Customers</u></p> <ul style="list-style-type: none"> State the size of the target market and customers Describe the main activities of the catchment area (eg hair-dressing, vulcanizer, okada operators, artisans, barbers, traders, etc) Describe the community groupings and segmentation criteria, such as age groups, professional groups, trade groups, etc Review the demography of the market – location, population, gender distribution, etc Review whether the unique savings/deposit products; loan/credit products meets the aspirations of the target customers State the expected outreach – volume and percentage of the market to be captured annually over the next 5 years. Scenario testing of the target market, based on projected savings client size, loan portfolio size and projected growth rates. Test for worst case, likely case and desired case scenarios. Determine the appropriateness of the case load per loan officer based on expected volume to be captured. 	Comment on the target market, customers' demography and scenario testing

		<p><u>Microfinance Business Models</u></p> <ul style="list-style-type: none"> • Describe the lending methodologies/models as stated in the business plan • State the structure of loan, tenor, rate and other variants and ensure they fit into the lending models and demand or taste of the expected customers and make a conclusion. 	Comment on the appropriateness of the business model.
		<p><u>Business Risks and Mitigants</u></p> <ul style="list-style-type: none"> • Identify major business risks, namely, credit risk, market risk, operational risk (cash-in-transit, deposit/thrift collection, cash handling, clearing items, account opening, etc), strategic risk, liquidity risk and reputational/legal risk. • Review mitigants proposed 	Comment on the identified business risks and mitigants
		<p><u>Institutional Analysis</u></p> <ul style="list-style-type: none"> • SWOT Analysis • Strategic direction 	Comment on the institutional analysis
		<p><u>Environmental Analysis</u></p> <ul style="list-style-type: none"> • Likely competition - from number of bank branches, CBs, other MFBs, informal credit unions, co-operatives and other financial institutions in the catchment area. • Collaborations with other institutions • Areas of competitive advantage • Impact of macroeconomic policies 	Comment on the environmental analysis
		<p><u>Institutional Capacity</u></p> <ul style="list-style-type: none"> • Board and governance structure • Management and staff • Assets and shareholders' funds 	Comment on available institutional capacity
		<p><u>Branch Expansion Programme</u></p> <p>Check:</p> <ul style="list-style-type: none"> • Review the plan for branch expansion and justification for the proposed branches, expected outreach volume and value over the period of the proposed expansion. • State how expansion would be financed - availability of free funds, or injection of additional capital by directors. 	Comment on the justification, availability of free funds, and viability of proposed branches.
		<p><u>Proposed Training Programme</u></p> <ul style="list-style-type: none"> • Confirm adequacy of the training programme in terms of coverage and relevance. 	Comment on adequacy of programme

10.	Financial Projections	<p><u>Projections</u></p> <ul style="list-style-type: none"> • Show the abridged financial projections for 5 years • State the underlying assumptions in bullet points • Show the projected profitability and the appropriate financial and prudential ratios <p><u>Stress Test/Sensitivity Analysis</u></p> <ul style="list-style-type: none"> • Perform sensitivity analysis by varying the key variables used in the assumptions • Show the impact of each of the variables on the earnings and capital of the institution • Make conclusions 	<p>Comment on the reasonableness or otherwise of the financial projections and assumptions</p> <p>State specific issues or recommendations requiring the attention of the board and management.</p>
11.	<p>Management Information System</p> <p><u>Note: If not yet in place, may be stepped down till the final approval stage.</u></p>	<ul style="list-style-type: none"> • Describe the configuration of the MIS • State the reports (output) to be generated • Describe the application for loan tracking • If multiple applications are to be deployed, state how integration issue is to be addressed • Describe the personnel to man the MIS and the IT platform • Describe the monitoring and feedback procedures or mechanism • Assess the conformity of the MIS to the general and specific requirement of the CBN circular issued on MIS • Mention the plans to deploy the selected MIS and ensure compatibility with e-FASS. 	<p>Comment on the suitability of the selected MIS and its deployment plans</p>
12.	<p>Manuals of Policies and Procedures</p> <p><u>Note: If not yet in place, may be stepped down till the final approval stage.</u></p>	<ul style="list-style-type: none"> • Review all manuals submitted and ensure they meet the business requirements of the institution in ensuring that its policies and procedures are effective. • Ensure they at least cover credit, human resources, banking operations, accounting and internal controls 	<p>Comment on the adequacy and appropriateness of the manuals</p>
13.	Conclusion	Summary of findings	<p>Conclude and make specific recommendations</p> <p>Prepare draft letter conveying provisional approval and should be specific on issues to be addressed before the final approval.</p>

