FPR/DIR/GEN/CIR/01/007

May 11, 2016

Circular to all Banks and Other Financial Institutions

EXPOSURE DRAFT GUIDELINES ON THE REGULATION AND SUPERVISION OF NON INTEREST (ISLAMIC) MICROFINANCE BANKS IN NIGERIA

In response to several enquiries from persons seeking to establish Non Interest (Islamic) Micro Finance Banks (NIMFBs) and in order to encourage the development of the microfinance subsector of the Non Interest Finance sector so as to deepen financial inclusion, the CBN hereby releases the attached draft guidelines for the regulation and supervision of Non-Interest (Islamic) Microfinance Banks in Nigeria for comments/inputs.

Kindly send hard copies of your comments/inputs to the Director, Financial Policy and Regulation Department while soft copies should be emailed to: NIMFBcomment@cbn.gov.ng on or before June 1, 2016.

Thank you.

KEVIN N. AMUGO
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT
CENTRAL BANK OF NIGERIA
GUIDELINES ON THE REGULATION AND SUPERVISION OF NON-INTEREST (ISLAMIC) MICROFINANCE BANKS IN NIGERIA

DRAFT GUIDELINES ON THE REGULATION AND SUPERVISION OF NON-INTEREST (ISLAMIC) MICROFINANCE BANKS IN NIGERIA
**Table of Contents**

1.0 INTRODUCTION ........................................................................................................... 1

1.1 OBJECTIVE ................................................................................................................. 2

1.2 LEGAL FRAMEWORK ................................................................................................. 2

1.3 DEFINITION OF TERMS ............................................................................................ 2

2.0 PERMISSIBLE AND NON PERMISSIBLE ACTIVITIES .................................................. 6

2.1 PERMISSIBLE ACTIVITIES ....................................................................................... 6

2.2 NON PERMISSIBLE ACTIVITIES .............................................................................. 6

3.0 OWNERSHIP AND LICENSING REQUIREMENTS ......................................................... 7

3.1 OWNERSHIP REQUIREMENTS .................................................................................. 7

3.2 LICENSING REQUIREMENTS .................................................................................... 8

3.2.1 CATEGORIZATION ................................................................................................. 8

3.2.2 TRANSFORMATION PATH .................................................................................... 9

3.2.3 LICENSING DOCUMENTATION REQUIREMENTS ............................................... 9

3.2.4 APPLICATION AND LICENSING FEES .................................................................. 12

3.2.5 CONDITIONS FOR GRANT OF APPROVAL-IN-PRINCIPLE .................................. 13

3.2.6 CONDITIONS FOR FINAL LICENCE AND COMMENCEMENT OF BUSINESS ......... 13

3.3 ADDITIONAL REQUIREMENT .................................................................................... 14

3.4 MEMBERSHIP OF NATIONAL ASSOCIATION OF MICROFINANCE BANKS ................. 14

4.0 NDIC NON-INTEREST DEPOSIT INSURANCE COVERAGE ......................................... 14

4.1 COMPLIANCE WITH NON-INTEREST DEPOSIT INSURANCE SCHEME ..................... 14

4.2 COMPLIANCE WITH STAFF FIDELITY INSURANCE (TAKAFUL) ................................. 14

5.0 BOARD AND MANAGEMENT ...................................................................................... 15

5.1 BASIC REQUIREMENTS ............................................................................................ 15

5.1.1 DIRECTORS ....................................................................................................... 15

5.1.2 MANAGEMENT .................................................................................................... 15

5.2 CERTIFICATION AND CAPACITY BUILDING ......................................................... 17

6.0 FINANCING MODES AND INSTRUMENTS ................................................................... 18

7.0 FUNDING, ACCOUNTING AND OTHER RELATED MATTERS ....................................... 18
7.1 SOURCES OF FUNDS
7.2 BOOKS OF ACCOUNT
7.3 RENDITION OF RETURNS
8.0 COMPLIANCE WITH MONEY LAUNDERING (PROHIBITION) ACT 2013, TERRORISM
9.0 ESTABLISHMENT OF OPERATION OF A NIMFB SUBSIDIARY
10.0 COMPOSITION OF THE ADVISORY COMMITTEE OF EXPERTS (ACE)

10.1 QUALIFICATION OF MEMBERS OF ACE

10.1.1 QUALIFICATION OF MEMBERS OF ACE

10.1.2 DISQUALIFICATION

10.2 RESIGNATION, TERMINATION AND DISMISSAL

10.3 RESTRICTIONS ON ACE MEMBERSHIP

10.4 DUTIES AND RESPONSIBILITIES OF THE ACE TO THE NIMFB

10.5 DUTIES AND RESPONSIBILITIES OF NIMFB TO THE ACE

10.6 REPORTING RELATIONSHIP

10.7 REPORT OF THE ACE

10.8 INDEPENDENCE OF THE ACE

10.9 COMPETENCE OF MEMBERS OF THE ACE

10.10 CONFIDENTIALITY AND CONSISTENCY

11.0 PUBLICATION OF AUDITED FINANCIAL STATEMENTS

11.1 PROCEDURES AND PUBLICATION

11.1.1 PROCEDURES AND PUBLICATION

11.1.2 PENALTIES

11.2 PENALTIES FOR LATE/FALSE/INACCURATE ACCOUNTS, RETURNS AND OTHER FALSE/INACCURATE RENDITION

12.0 PRUDENTIAL REQUIREMENTS

12.1.1 COMPULSORY INVESTMENT IN COMPLIANT INSTRUMENTS

12.1.2 LIQUIDITY RATIO

12.1.3 CAPITAL ADEQUACY RATIO

12.1.4 LIMIT OF INVESTMENT IN FIXED ASSETS

12.1.5 REVALUATION OF FIXED ASSETS

12.1.6 FIXED ASSETS/LONG-TERM INVESTMENTS AND BRANCH EXPANSION
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.1.7 MAINTENANCE OF CAPITAL FUNDS</td>
<td>30</td>
</tr>
<tr>
<td>12.1.8 RESTRICTIONS ON DECLARATION OF DIVIDEND</td>
<td>31</td>
</tr>
<tr>
<td>12.1.9 LIMIT OF EXPOSURE TO A SINGLE Obligor AND RELATED PARTY</td>
<td>31</td>
</tr>
<tr>
<td>12.1.10 FINANCING PORTFOLIO COMPOSITION</td>
<td>32</td>
</tr>
<tr>
<td>12.1.11 MAXIMUM EQUITY INVESTMENT HOLDING RATIO</td>
<td>32</td>
</tr>
<tr>
<td>12.1.12 PROVISION FOR CLASSIFIED ASSETS</td>
<td>32</td>
</tr>
<tr>
<td>12.1.13 CONTINGENT ITEMS</td>
<td>32</td>
</tr>
<tr>
<td>12.1.14 DIVESTMENT OF GOVERNMENT’S INTEREST IN GOVERNMENT OWNED/SPONSORED NIMFBs</td>
<td>33</td>
</tr>
<tr>
<td>12.2 SPECIAL PRUDENTIAL STANDARDS</td>
<td>33</td>
</tr>
<tr>
<td>12.2.1 UNSECURED FINANCING LIMITS</td>
<td>33</td>
</tr>
<tr>
<td>12.2.2 FINANCING DOCUMENTATION REQUIREMENT</td>
<td>33</td>
</tr>
<tr>
<td>12.2.3 RESTRICTION OF CO-SIGNERS TO RECEIVE FINANCING FROM THE SAME NIMFB</td>
<td>33</td>
</tr>
<tr>
<td>12.2.4 CASH RESERVE REQUIREMENTS</td>
<td>33</td>
</tr>
<tr>
<td>12.3 PORTFOLIO - AT-RISK [PAR]</td>
<td>33</td>
</tr>
<tr>
<td>12.4 IMPLEMENTATION OF RECOMMENDATIONS IN EXAMINATION REPORT</td>
<td>35</td>
</tr>
<tr>
<td>13.0 CONDUCT OF BUSINESS STANDARDS</td>
<td>35</td>
</tr>
<tr>
<td>13.1 BRANDING</td>
<td>35</td>
</tr>
<tr>
<td>13.2 APPROVAL OF CONTRACTS, PRODUCTS AND SERVICES</td>
<td>35</td>
</tr>
<tr>
<td>13.3 PRODUCT LITERATURE</td>
<td>35</td>
</tr>
<tr>
<td>14.0 PROFIT SHARING INVESTMENT ACCOUNTS</td>
<td>35</td>
</tr>
<tr>
<td>15.0 ASSESSMENT OF SOUNDNESS</td>
<td>36</td>
</tr>
<tr>
<td>16.0 REQUIREMENTS FOR INCREASE IN SHARE CAPITAL</td>
<td>37</td>
</tr>
<tr>
<td>17.0 DISCLOSURE OF INTEREST BY DIRECTORS AND OFFICERS OF NIMFBs</td>
<td>38</td>
</tr>
<tr>
<td>18.0 DISCLOSURE OF REQUIRED INFORMATION TO CREDIT REFERENCES BUREAUX</td>
<td>38</td>
</tr>
<tr>
<td>19.0 OPERATIONAL REQUIREMENTS AND CONTROLS</td>
<td>39</td>
</tr>
<tr>
<td>19.1 OPENING/RELOCATION AND CLOSING OF BRANCHES/CASH CENTRES</td>
<td>39</td>
</tr>
<tr>
<td>19.2 CHANGE OF NAME</td>
<td>39</td>
</tr>
</tbody>
</table>
19.3 DISPLAY OF LICENCE ................................................................. 40
19.4 DISPLAY OF RATES AND FEES .................................................. 40
19.5 INTERNAL CONTROLS ............................................................... 40
20.0 APPOINTMENT OF CHIEF EXECUTIVE/ PRINCIPAL OFFICERS AND EXTERNAL
AUDITORS .................................................................................... 41
20.1 APPOINTMENT OF CHIEF EXECUTIVE AND PRINCIPAL OFFICERS ...... 41
20.2 APPOINTMENT AND RESPONSIBILITIES OF EXTERNAL AUDITORS .... 42
  20.2.3 THE RESPONSIBILITIES OF AN APPROVED EXTERNAL AUDITOR SHALL .... 43
     INCLUDE THE FOLLOWING AMONGST OTHERS .................................. 43
21.0 SCHEME OF ARRANGEMENT ..................................................... 43
22.0 RESTRUCTURING AND RE-ORGANIZATION .................................. 44
23.0 COLLABORATION TO REGULATE DEPOSIT/SAVINGS MOBILIZING
INSTITUTIONS .............................................................................. 44
24.0 CONDITIONS FOR REVOCATION OF LICENCE ................................. 45
25.0 EXIT CONDITIONS .................................................................. 45
26.0 RISK MANAGEMENT .................................................................. 46
27.0 RECOMMENDED MINIMUM OPERATIONAL TEMPLATE FOR NON-INTEREST
(ISLAMIC) MICRO FINANCE IN NIGERIA (SEE OFISD) ........................... 47
DRAFT GUIDELINES ON THE REGULATION AND SUPERVISION OF NON-INTEREST (ISLAMIC) MICROFINANCE BANKS IN NIGERIA

1.0 INTRODUCTION

The role of Microfinance Banks (MFBs) in poverty reduction, increased access to financial services, contribution to financial stability and economic development has been established in Nigeria and around the globe. Beyond making credit facilities available to Micro, Small and Medium Enterprises (MSMEs) and the promotion of savings culture; MFBs also serve as veritable means of employment generation, enhancing financial inclusion, economic growth and development.

Since 2005 when the Central Bank of Nigeria (CBN) issued the first Regulatory and Supervisory Framework for Microfinance Banks (MFBs) in Nigeria (revised in 2013), MFBs have continued to thrive and cater for the economically active poor and many MFBs have been established across all states in Nigeria.

However, despite the increased number of MFBs in Nigeria, a large percentage of Nigerians still lack access to financial services. This is attributable to high cost of transactions, abhorrence of Interest and apathy to unethical investment by a significant part of the populace. It is in the light of these and other reasons, that the development of this guidelines becomes imperative.

The Guidelines is aimed at among other things offering the public an alternative system of microfinance banking that operates based on the concept of profit and loss sharing rather than charging of interest. It is expected that the introduction of this concept would engender broader and healthier competition among MFBs which may in the long run bring down the cost of doing business.

Moreover, the introduction of the new banking model by the CBN (Central Bank of Nigeria Regulation on the Scope of Banking Activities and Ancillary Matters No. 3, 2010); the release of the Guidelines for the Regulation and Supervision of Institutions Offering Non-Interest Financial Services in Nigeria in 2011 and the licensing of some Non-Interest Financial Institutions (NIFIs) further necessitated the need to develop and issue an operating guidelines for Non Interest Microfinance Banks (NIMFB) especially given the increasing number of requests from promoters interested in setting up such banks.

It is expected that the introduction of non interest microfinance banking services will go a long way in bringing individuals, communities and corporations that are reluctant to patronize conventional MFBs based on either religious, ethical or cultural beliefs to the formal sector. It will equally assist the economically active poor that patronize these institutions in alleviating poverty in a sustainable way that will in the long run reduce their vulnerabilities, improve their earning capacity and general wellbeing.
Accordingly, this guidelines is for Non-Interest (Islamic) MFBs (NIMFBs) operating under the principles of Islamic Commercial Jurisprudence which is one of the categories of Non-Interest Financial Institutions (NIFIs) under the Central Bank of Nigeria “Guidelines for the Regulation and supervision of Institutions Offering Non Interest Financial Services in Nigeria, June 2011”.

1.1 OBJECTIVE
The objective of this Guidelines is to provide the minimum standards for the operation of NIMFBs in Nigeria and is applicable to NIMFBs only.

1.2 LEGAL FRAMEWORK
This Supervisory and Regulatory 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); 61 of Banks and Other Financial Institutions Act (BOFIA) 1991 (as amended) and Section 4(1)(c) of the “Regulation on the Scope of Banking Activities and Ancillary Matters, No. 3, 2010”. It shall be read together with the provisions of other relevant sections of BOFIA 1991 (as amended), the CBN Act 2007, Companies and Allied Matters Act (CAMA) 1990 (as amended) and circulars/guidelines issued by the CBN from time to time.

1.3 DEFINITION OF TERMS

a. NON INTEREST (ISLAMIC) FINANCIAL INSTITUTION (NIFI)
A Non Interest (Islamic) Financial Institution (NIFI) means a bank or Other Financial Institution (OFI) under the purview of the Central Bank of Nigeria (CBN) which transacts banking business, engages in trading, investment and commercial activities and also provides financial products and services in accordance with the principles of Islamic Commercial Jurisprudence.

A Non Interest (Islamic) Microfinance Bank (NIMFB) therefore means any Microfinance Bank licenced by the CBN to carry on the business of providing financial services, engages in trading, investment and commercial activities and also provides financial products and services as specified in Section 2 of this Guidelines.

b. MICROFINANCE BANK TARGET CLIENT
A NIMFB target client shall include the economically active low-income earners, low income households, the un-banked and under-served people such as: physically challenged; youths; micro-entrepreneurs; informal sector operators; subsistence farmers in urban and rural areas.
c. MICRO-ENTERPRISE

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

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

d. MICRO FINANCING

Micro financing is the provision of broad range of financial and non-financial services to low-income clients such as the operators of micro-enterprises, peasant farmers, artisans, fishermen, youths, women, retirees etc in the formal and informal sectors. The financing are usually unsecured, but typically granted on the basis of the applicant’s character and the combined cash flow of the business and household.

The tenure of micro financing is usually within 180 days (6 months). Tenures longer than six (6) months would be treated as special cases. In the case of agriculture, or projects with longer gestation period, however, a maximum tenure of twelve (12) months is permissible and in housing microfinance, a longer tenure of twenty-four (24) months is permissible.

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

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

e. FREE FUNDS

Is calculated as the Shareholders’ Funds unimpaired by losses minus net fixed assets and non-current investment (including cost of establishing the new outlet).

f. RELATED PARTY

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

Specialized Insured Institutions Department of the Nigeria Deposit Insurance Corporation (NDIC).

h. **RIBA**

Any excess compensation over and above the principal which is without due consideration. Charging or paying of interest is an example of riba.

i. **MUSHARAKA**

A joint enterprise formed for carrying out business in which all partners contribute both capital and labour and share the profit according to a pre-agreed ratio, while loss is shared according to the ratio of contributed capital.

j. **MUDARABA**

A kind of partnership where one partner provides capital to another partner for investing in a commercial enterprise. The investment comes from the first partner called *rabbul maal* while the management is carried out by the second partner called the *mudarib*. Profit is shared according to pre-agreed sharing ratio while loss is borne by the fund provider (rabbul maal) except in the case of proven negligence, misconduct or breach of contract by the manager (mudarib).

k. **MURABAHA**

A sale contract that involves the purchase of a commodity by a bank on behalf of a client and its resale to the latter on a cost-plus profit basis. The bank discloses in full the cost and profit margin to the buyer.

l. **ISTISNA**

A contract to manufacture a specific commodity for the purchaser. The manufacturer uses his materials and money to manufacture the specified goods/commodities before selling it at a profit to the purchaser. It could be used in housing finance.

i. **IJARA**

A leasing contract between a lessor who owns an asset and a lessee who needs to use the asset but cannot afford to buy same or does not want to own it. The lessee pays the lessor rentals for the use of the asset. The amount of rental and period of the rent must be agreed ab initio by the parties. Ownership of the asset remain with the lessor throughout the period of the lease and seeks to recover the capital cost of the equipment plus a profit margin out of the lease rentals receivable during the period of the lease.
j. ADVISORY COMMITTEE OF EXPERTS (ACE)

The Advisory Committee of Experts (ACE) globally known as Shari’ah Board is part of the Governance structure of NIFIs. It comprises of individuals knowledgeable in the field of Islamic Commercial Jurisprudence (Fiqh al Muamalat) who advice the NIFI on its operations to ensure compliance with the principles underpinning its operations.

k. FINANCIAL REGULATION ADVISORY COUNCIL OF EXPERTS (FRACE)

Is the central advisory regulatory body set up by the Central Bank of Nigeria comprising of individuals knowledgeable in the field of Islamic Commercial Jurisprudence to provide the following roles among others:

- Give expert opinion and assistance on non interest (Islamic) banking and finance matters referred to it by the CBN;
- Endorse and validate application documents for new products and services, advert materials etc from NIFIs to ensure that they comply with the provisions of Islamic commercial Jurisprudence;
- Resolve disputes arising between board of directors and the ACE of NIFIs, etc
2.0 PERMISSIBLE AND NON PERMISSIBLE ACTIVITIES

2.1 PERMISSIBLE ACTIVITIES
A NIMFB shall be allowed to engage in the provision of such products and services that are permissible for MFBS operating in Nigeria provided they comply with the principles under this model and approved by the CBN. It shall use only such products and services after obtaining the approval of its Advisory Committee of Experts (ACE) and the CBN.

2.2 NON PERMISSIBLE ACTIVITIES
A NIMFB shall not engage in any business operation involving any of the following:

- Riba (interest);
- Uncertainty or ambiguity relating to the subject matter, terms and conditions of a contract;
- Gambling;
- Speculation, such as short selling, and other derivatives not compliant with the principles underpinning the operations of the NIMFBs;
- Unjust enrichment;
- Exploitation/unfair trade practices;
- Dealings in pork, alcohol, intoxicants, arms & ammunition, pornography and;
- Other transactions, products and services which are not compliant with the principles of Islamic commercial jurisprudence.

In addition to the above, NIMFBs are not allowed to engage in the following activities:

i. Acceptance of public sector (government) deposits except for the provision of payment services such as salary, gratuity, pension for employees of the various tiers of government, disbursement of financing programme by government agencies, groups and individuals for poverty alleviation on non-recourse basis provided it is in compliant with the provisions of the principles underpinning this model;

ii. Foreign exchange transactions;

iii. International commercial papers;

iv. International corporate finance;

v. International electronic funds transfer;

vi. Clearing house activities except collection of money or proceeds of banking instruments on behalf of their customers including clearing of cheques through correspondent banks;
vii. Collection of third party cheques and other instruments for the purpose of clearing through correspondent banks;

viii. Leasing, renting, and sale/purchase of any kind with its directors, officers, employees or persons who either individually or in concert with their family members and beneficiaries own five per cent (5%) or more of the equity of the MFB, without the prior approval in writing of the CBN.

3.0 OWNERSHIP AND LICENSING REQUIREMENTS

3.1 OWNERSHIP REQUIREMENTS

i. A NIMFB may be established by individuals, group of individuals, community development associations, private corporate entities, foreign investors as well as local and state governments.

ii. No individual, group of individuals, their proxies or corporate entities and/or their subsidiaries shall own controlling interest in more than one NIMFB, except as approved by the CBN.

iii. A bank holding company that intends to set up any categories of MFBs as subsidiaries shall be required to meet the prescribed capital and other requirements stipulated in this guidelines.

iv. Government participation in the establishment/ownership of NIMFBs shall be structured according to the following models:

   a. Fully-Owned Government Model

      In this model, the State or Local Government (LG) is allowed to establish either a State or Unit NIMFB and own one hundred percent (100%) of the equity of the NIMFB. The State or LG shall progressively divest its interest to private investors within a maximum period of five (5) years.

   b. Public Private Partnership (PPP) Model

      Under this model, State Government could collaborate with private sector entities to set up State NIMFBs, but shall progressively divest its interest within a maximum period of five (5) years. The management and governance of the NIMFB shall be private sector led. The maximum shareholding ratio for the government shall be 60% and the contribution of public/government shall be valued at an agreed valuation method subject to CBN approval.
c. Government-Supported Co-operative Model

Here, a State Government supports a cooperative society already operating in its area to set up a Unit NIMFB with the understanding that, in the course of operations, the members of the society, through personal savings or accumulated profits, will progressively repay the Government’s investment and thus become full owners of the bank within a maximum period of five (5) years. The State Government and the cooperative society shall have 75:25 shareholding ratio in this model. The NIMFB shall be run professionally by the private sector and all facilities and infrastructure provided by the government shall be valued and capitalized.

3.2 LICENSING REQUIREMENTS

3.2.1 CATEGORIZATION

There shall be three (3) categories of NIMFBs:

Category 1: Unit NIMFB

A Unit NIMFB is authorized to operate in one location. It shall be required to have a minimum paid-up capital of N20 million (twenty million Naira) and is allowed to have only one branch outside the head office within the same Local Government Area subject to availability of free funds of at least N20 million and compliance with the prescribed minimum prudential requirements.

Category 2: State NIMFB

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

Category 3: National NIMFB

A National NIMFB is authorized to operate in all the states of the federation including the FCT. It shall be required to have a minimum paid-up capital of N2 billion (two billion Naira), and is allowed to open branches in all States of the Federation and the FCT, subject to the availability of free funds and the prior approval of the CBN for each new branch or cash centre.

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

a. A Unit NIMFB that intends to transform to a State NIMFB shall be required to surrender its licence and obtain a State NIMFB licence, subject to fulfilling the stipulated licensing requirements as provided in Section 3.2 of this guidelines.

A State NIMFB that intends to transform to a National NIMFB must have at least five (5) branches which are spread across the Local Government Areas in the State of its original operation. This is to ensure that the State NIMFB has gained the experience necessary to manage a National NIMFB. It shall also be required to surrender its State NIMFB licence and fulfill other stipulated licensing requirements as provided in Section 3.2 of this guidelines.

b. No new promoter(s) shall be allowed to apply for a National NIMFB licence, that is, a National NIMFB shall emerge through organic growth from a State NIMFB.

3.2.3 LICENSING DOCUMENTATION REQUIREMENTS

1. Promoter(s) seeking a licence for NIMFB business in Nigeria shall apply in writing to the Governor of the Central Bank of Nigeria. The application shall indicate which of the three (3) categories of licences is being applied for.

2. Such application shall be accompanied with the following:

a. Non-refundable application fee of N50,000, N100,000 and N250,000 for Unit, State and National NIMFBs respectively in bank drafts or by e-payment, in favour of the Central Bank of Nigeria;

b. The deposit of the minimum capital requirement for the relevant category of NIMFB, which shall be made through e-payment into the MFB Share Capital Deposit Escrow Account with the CBN. The capital thus deposited together with the accrued interest shall be released to the promoters after the grant of a licence;

In line with the non-interest banking model, any accrued interest earned on the deposited capital shall be treated as a Non-Permissible Income (NPI) which shall be disposed in accordance with the CBN Guidelines of the Governance of Advisory Committee of Experts (ACE) of NIFIs in Nigeria.

c. Satisfactory, verifiable and acceptable evidence of payment by the proposed shareholders of the minimum capital requirement for the category of licence being applied for; including personal statement that the capital does not originate from bank credit, any form of credit, questionable sources and any activity that is illicit or relates to money laundering;

d. Certificate of capital importation issued by an authorized dealer in the case of foreign capital;
e. A copy of detailed feasibility report disclosing relevant information that shall include:

i. The objectives and aims of the proposed NIMFB which shall be in consonance with the principles under this model;

ii. The justification for the establishment of the NIMFB;

iii. The services that the NIMFB intends to provide;

iv. The branch expansion programme (if any) within the first five years in the case of State and National NIMFBs;

v. The proposed training programme for staff and management succession plan which shall lay more emphasis on building their capacity in the field of Islamic banking and finance;

vi. A five-year financial projection for the operation of the NIMFB, indicating its expected growth and profitability;

vii. Details of the assumptions upon which the financial projection has been made;

viii. The organizational structure (Organogram) of the NIMFB, setting out in detail, the functions and responsibilities of the top management team. It should clearly show a direct reporting relationship between the Advisory Committee of Experts (ACE) and the Board of Directors (BOD) and an indirect (dotted line) relationship with the Managing Director (M.D);

ix. A structure for an Internal Shari‘ah Review Mechanism to be headed by a Senior Management staff with appropriate qualification in Islamic Commercial Jurisprudence. The functions of the head of such department/unit should be clearly spelt out. The unit should work hand-in-hand with the ACE as well as the Risk Management Department/Division/Unit and the Internal Audit Department/Division/Unit;

x. The composition of the ACE and CV of each member of the proposed ACE. The qualifications and experience expected of the ACE members shall be as contained in the “Guidelines on the Governance of Advisory Committees of Experts (A.C.E) For Non-Interest (Islamic) Financial Institutions in Nigeria” dated February 20, 2015 or as shall be stipulated by the CBN from time to time;

xi. Proposed social performance management framework indicating the social values to the clients over a five (5) year period;
xii. Appropriate management information systems (MIS), internal controls, enterprise risk management framework and procedures including manuals of operations (MOP). The risk management manual should be robust and comprehensive with clear procedure for the identification of both inherent and emerging risks attributable to Islamic banking products and services as well as mitigants to manage such risks which are compliant with the principles underpinning this model. While the MIS should take cognizance of the specificities of the products and services and the general transactions of the NIMFB;

xiii. The conclusions based on the assumptions made in the feasibility report.

f. A copy of the draft Memorandum and Articles of Association (MEMART) which shall state that its business operations will be conducted in accordance with the principles underpinning this model of operation;

3. A letter of intent to subscribe to, and payment for the shares of the proposed NIMFB, signed by each subscriber.

4. A list of promoters/proposed shareholders in tabular form, showing their business and residential addresses (not post office addresses) and the names and addresses of their bankers.

5. Names, CVs and copies of credentials of the proposed members of the Board of Directors. The CVs must be personally signed and dated. No proposed NIMFB shall incorporate/register its name with the Corporate Affairs Commission (CAC) until a written Approval-In Principle (AIP) has been communicated to the promoters by the CBN, a copy of which shall be presented to the CAC.

6. In considering an application for a licence, the CBN shall satisfy itself that:

a. The promoters and the proposed Management team are approved persons to invest in/manage the financial services industry in Nigeria by regulatory standards;

b. The promoters have submitted the names, curriculum vitae and credentials of the top management team of the proposed NIMFB;

c. The minimum paid-up capital/shareholders’ funds of the relevant category being applied for is acceptable and the source is verifiable and found satisfactory to the CBN;

d. The management of the proposed NIMFB have the requisite qualifications and experience as specified in Section 5.1.2 of this guidelines;

e. The earnings prospect of the company is realizable; and
f. The objects of the company as disclosed in its Memorandum and Articles of Association agree with the permissible activities listed in Section 2.1 of this Guidelines.

7. The CBN shall before the issuance of an Approval-in-Principle (AIP) arrange an appraisal interview for the promoters of the proposed NIMFB. The date, place and time for the interview shall be communicated to the promoters in writing.

8. If satisfied, the Governor may grant a licence to the NIMFB and where the grant of licence is declined, the promoters shall be communicated in writing and their capital deposit refunded.

9. The CBN may at any time vary or revoke any conditions of a licence or impose additional conditions.

10. Where a licence is granted subject to some conditions, the NIMFB shall comply with those conditions to the satisfaction of the CBN within such period, as the CBN may deem appropriate in the circumstances. Any NIMFB that fails to comply with such conditions shall be guilty of an offence under Section 60 of BOFIA, 1991 (as amended).

11. Every licenced NIMFB shall be required to add “Microfinance Bank” after its name which shall be registered with the Corporate Affairs Commission in compliance with the Companies and Allied Matters Act (CAMA).

The font size of all characters in its full name, which shall appear on all banking instruments, signage and sign boards, shall be the same. Failure to comply with this requirement at its Head Office and branches shall attract a penalty of N100,000, N150,000 and N250,000 for Unit NIMFB, State NIMFB and National NIMFB, respectively per office/branch where non-compliance is observed.

**3.2.4 APPLICATION AND LICENSING FEES**

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

<table>
<thead>
<tr>
<th></th>
<th>Unit NIMFB</th>
<th>State NIMFB</th>
<th>National NIMFB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-refundable Application fee</td>
<td>N50,000</td>
<td>N100,000</td>
<td>N250,000</td>
</tr>
<tr>
<td>Non-refundable Licensing fee</td>
<td>N100,000</td>
<td>N250,000</td>
<td>N1,000,000</td>
</tr>
<tr>
<td>Change of Name fee</td>
<td>N20,000</td>
<td>N50,000</td>
<td>N100,000</td>
</tr>
</tbody>
</table>

A NIMFB wishing to upgrade/downgrade its licence status shall be required to pay the applicable non-refundable application and licensing fee.
3.2.5 CONDITIONS FOR GRANT OF APPROVAL-IN-PRINCIPLE

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

3.2.6 CONDITIONS FOR FINAL LICENCE AND COMMENCEMENT OF BUSINESS

A NIMFB with an AIP shall be granted a final operating licence and may commence business upon satisfying and complying with the following conditions:

a. Submission of:
   i. A copy of the shareholders’ register in which the equity interest of each shareholder is properly reflected;
   ii. A copy of the share certificate issued to each shareholder or other verifiable and admissible evidence of the said shareholding;
   iii. Certified true copy of Form CAC 2 (Return of Allotments) filed with the CAC;
   iv. Certified true copy of Form CAC 7 (Particulars of Directors), and a written confirmation that the Certified true copy of the Memorandum and Articles of Association (MEMART) were approved by the CBN and filed with the CAC;
   v. The opening statement of affairs audited by an approved firm of accountants practicing in Nigeria;
   vi. Certified true copy of the certificate of incorporation of the company (together with the original for sighting purposes only);
   vii. A copy each of the letters of offer and acceptance of employment by top management staff and a written confirmation that the Management team approved by the CBN has been put in place; and
   viii. A letter of undertaking to comply with all the rules and regulations guiding the operations of NIMFBs.

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

d. The NIMFB shall inform the CBN in writing of the date of commencement of business.

3.3 ADDITIONAL REQUIREMENT

Every licenced NIMFB shall be required to add “Non Interest Microfinance Bank” after its name and shall be recognized by a uniform symbol designed by the CBN for all Non Interest Financial Institutions (NIFIs). All the signages and promotional materials of the NIMFBs shall bear this symbol to facilitate recognition by customers and the general public.

3.4 MEMBERSHIP OF NATIONAL ASSOCIATION OF MICROFINANCE BANKS

Every NIMFB shall be required to be a financial member of the National Association of Microfinance Banks (NAMB) and is required to pay its annual subscription to NAMB not later than 31st January of every year.

4.0 NDIC NON-INTEREST DEPOSIT INSURANCE COVERAGE

4.1 COMPLIANCE WITH NON-INTEREST DEPOSIT INSURANCE SCHEME

In accordance with Section 15(1) of the Nigeria Deposit Insurance Corporation (NDIC) Act 2006, every licenced MFB shall be required to insure its deposit liabilities with the Corporation. However, NIMFBs shall use existing NDIC non-interest deposit insurance Scheme only.

4.2 COMPLIANCE WITH STAFF FIDELITY INSURANCE (TAKAFUL)

A NIMFB shall have fidelity insurance (takaful) coverage as provided for in Section 33 of the NDIC Act 2006 or up to such level as may be prescribed from time to time by the NDIC. However, NIMFBs shall use the services of licenced takaful companies only.
5.0 BOARD AND MANAGEMENT

5.1 BASIC REQUIREMENTS

5.1.1 DIRECTORS

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

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

b. At least one (1) member of the Board of Directors other than the Executive Management shall be required to have non-interest (Islamic) finance experience/qualification;

c. The appointment of Directors and management staff shall be approved by the CBN;

d. Executive directors of a NIMFB shall hold office for a fixed term of not more than 5 years and such term may be renewed only once, while non-executive directors shall serve for a fixed term of not more than 4 years and such term may be renewed only twice. For the avoidance of doubt, the maximum tenure of an executive director (including the Managing Director) shall not exceed a total of 10 years while a non-executive director shall not serve for periods exceeding 12 years in total. Any executive director who has served two 5-year terms may also serve as Managing Director, if so appointed, for the maximum of two 5-year terms (a combined maximum of 20 years).

A Unit NIMFB shall not appoint an Executive Director other than the Managing Director.

5.1.2 MANAGEMENT

The following minimum qualifications and experiences are mandatory for officers who would occupy key/top management positions in a NIMFB:
a. MANAGING DIRECTOR/EXECUTIVE DIRECTOR:

i. A minimum of first degree or its equivalent in any discipline (additional qualification or degree in any finance or business related discipline may be an added advantage). In addition to the above, the MD shall have relevant qualification and/or experience in non-interest (Islamic) finance as the CBN deems fit;

ii. Minimum of eight (8) years post-qualification experience out of which, at least, five (5) must be in the financial services industry and at least, three (3) at the senior management level;

iii. Evidence that the candidate possesses proven skills and competences in practical microfinance banking and has undergone the Microfinance Certification Programme and obtained a Certificate in Microfinance Banking issued by the Chartered Institute of Bankers of Nigeria (CIBN).

b. DEPARTMENTAL HEADS:

i. A minimum of first degree or its equivalent in any discipline (additional qualification or degree in any finance or business related discipline may be an advantage);

ii. A minimum of five (5) years post-graduation experience out of which, at least four (4) must have been in the financial services industry and at least, two (2) at the senior management level;

iii. In addition to i and ii above, the Head of Operation, Marketing and Finance, Risk Management and Internal Audit shall have relevant qualification and/or experience in non-interest (Islamic) finance;

iv. Evidence that the candidate possesses proven skills and competences in practical microfinance banking and has undergone the Microfinance Certification Programme and obtained a Certificate in Microfinance Banking issued by the Chartered Institute of Bankers of Nigeria (CIBN).

c. HEAD INTERNAL SHARI’AH COMPLIANCE UNIT:

There shall be an Internal Shari’ah Compliance Unit to be headed by an individual with proven knowledge in the field of Islamic Commercial Jurisprudence (Fiqh al Mua’amalat), whose responsibilities shall include:

- To review and validate contract documents to ensure their compliance with the principles of Islamic commercial jurisprudence;
• Continuous review of the bank’s processes to ensure they do not contravene the provisions of the principles underpinning this model;

• To ensure that the bank’s management implements the decisions of the bank’s ACE;

• To conduct Shari’ah audit on a monthly, quarterly and yearly basis;

• To ensure the bank disposes any Non-Preliminary Income (NPI) earned by the bank in accordance with the CBN Guidelines of the Governance of Advisory Committee of Experts (ACE) of NIFIs in Nigeria; and

• To carry out any other related duty assigned to it by the management of the bank.

The Internal Audit and Internal Shari’ah Compliance functions may be combined in a Unit NIMFB where the officer possesses the requisite qualification and experience for both functions. However, the functions shall be performed by separate officers for State and National NIMFBs.

Any other qualification or experience which the CBN may deem adequate for positions (a) or (b) above.

A NIMFB shall be required to carry out status enquiry on any employed or appointed management staff with the previous employer. Any NIMFB that fails to obtain prior approval of the CBN for the appointment of its Directors and top management staff within two (2) weeks of the date of such appointment shall be liable to a penalty of N200,000 for each Director or top management staff appointed without approval.

5.2 CERTIFICATION AND CAPACITY BUILDING

In addition to the requirement for top management to possess requisite certification in microfinance management from the Chartered Institute of Bankers of Nigeria (CIBN); knowledge of Non-Interest (Islamic) finance from a recognised institution/organization is required.

The management of NIMFBs shall ensure that all staff are adequately trained in the field of non interest (Islamic) finance.

Top management staff shall therefore be required to submit evidence of the certification not later than three (3) years after assumption of office.

Failure to comply with the above conditions shall be a ground for the removal of the affected officer(s).
6.0 FINANCING MODES AND INSTRUMENTS
NIMFBs shall transact business using only such financing modes or instruments that are compliant with the principles under the Non-interest (Islamic) model and as approved by the CBN.

7.0 FUNDING, ACCOUNTING AND OTHER RELATED MATTERS

7.1 SOURCES OF FUNDS
The sources of funds of an NIMFB could consist of the following:

a. Shareholders’ funds – (paid-up share capital and reserves);

b. Deposits/Savings of customers;

c. Grants/donations from individuals, organizations, various tiers of government, and commercial funding from international sources in line with non-interest (Islamic) principles with prior approval of the CBN;

d. A NIMFB may charge such commissions or fees as may be necessary in accordance with the principles under this model and the Guide to Bank Charges. The funds received as commissions and fees shall constitute the bank's income and shall not be shared with depositors;

e. Any other source of funds that is compliant with the principles under this model as may be approved by the CBN.

7.2 BOOKS OF ACCOUNT

a. The Board of Directors of NIMFB shall ensure that the institution keeps proper books of account with respect to all transactions at the principal administrative office and in all its branches in English Language only;

b. For the purpose of sub-section (a) of this section, proper books of account shall contain all information necessary to explain all transactions and give a true and fair view of the state of affairs of the NIMFB and be presented in compliance with International Financial Reporting Standards (IFRS) and Accounting and Financial Reporting Guidelines for Small and Medium-sized Enterprises (SMEGA) as adopted by the Financial Reporting Council (FRC) of Nigeria. However, for transactions, products and activities not covered by these standards, the relevant provisions of the Accounting and Auditing Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards shall apply;
c. Where in the opinion of the CBN, books of account are not properly kept, the Bank shall apply the provision of section 24(5) of BOFIA, 1991 (as amended);

d. If any person being a Director, Manager or Officer of a NIMFB fails to take all reasonable steps to secure compliance with any of the provisions herein, he or she shall be appropriately sanctioned in line with the provisions of this Guidelines.

7.3 RENDITION OF RETURNS

In compliance with the provisions of Section 25 of BOFIA, 1991 (as amended), NIMFBs are required to submit monthly returns on their financial position and performance in the format stipulated by CBN.

All monthly returns must reach CBN and NDIC not later than 14 days after the end of each month. The Managing Director/Chief Executive Officer and the Chief Accountant [or equivalent] of the NIMFB shall sign and attest to the authenticity of the contents of the returns.

Deposit Money Banks (DMBs) having NIMFB subsidiary shall be required to submit returns on the microfinance activities separately in accordance with the provisions of this Guidelines.

The frequency and content of the returns may be reviewed from time to time by the CBN.

8.0 COMPLIANCE WITH MONEY LAUNDERING (PROHIBITION) ACT 2013, TERRORISM (PREVENTION) ACT 2013 AND Know Your Customer (KYC) CIRCULARS

NIMFBs shall comply with the Money Laundering (Prohibition) Act 2012 (as amended), Terrorism (Prevention) Act 2013, CBN AML-CFT Regulation 2013, the principles and procedures of Know Your Customer (KYC), Customer Due Diligence (CDD) and all relevant Circulars issued by the CBN from time to time.

NIMFBs shall have a Compliance Officer who shall be a management staff designated to monitor compliance with the above requirements.

Penalties for non-compliance with the aforementioned requirements and all applicable Circulars shall be in accordance with the relevant provisions enunciated in the respective Acts.
9.0 ESTABLISHMENT OF OPERATION OF A NIMFB SUBSIDIARY

Deposit Money Banks (DMBs) can own a NIMFB as a subsidiary in line with the licensing requirements for the establishment of a NIMFB as contained in this Guidelines.

10.0 CORPORATE GOVERNANCE

The cardinal objective of sound corporate governance in a bank is to ensure that the bank’s affairs are conducted in an orderly and responsible manner and that the various stakeholders’ expectations are met. Corporate governance further defines the roles and responsibilities of the Board and Management.

In view of the need to ensure that operations are effectively monitored and controlled to guard against abuses, the Code of Corporate Governance sets acceptable procedures and guidelines for the conduct of insider-related activities.

NIMFBs shall comply with the following:

i. The provisions of relevant Code of Corporate Governance issued by the CBN and any subsequent amendments thereto; and

ii. The relevant provisions of BOFIA 1991 (as amended) and CAMA 1990 (as amended).

NIMFBs shall have an internal review mechanism which ensures compliance with the principles of Islamic Commercial Jurisprudence and an Advisory Committee of Experts (ACE) as part of their governance structure. The appointment of members of the ACE shall be subject to the approval of the CBN.

10.1 COMPOSITION OF THE ADVISORY COMMITTEE OF EXPERTS (ACE)

A minimum of three (3) persons shall be appointed as members of ACE for a Unit, State and National NIMFB respectively.

However, considering the nature and size of NIMFBs’ operations, a Unit NIMFB with the prior approval of the CBN may engage the services of the ACE of an existing NIFI licenced by the CBN.

10.1.1 QUALIFICATION OF MEMBERS OF ACE

A member of ACE shall:
i. Be an individual and not a corporate body or institution;

ii. At a minimum, have an academic qualification or possess necessary knowledge, expertise or experience in the field of Islamic Commercial Jurisprudence (Fiqh al Mua'amalat);

In addition to the requirement in i & ii above, it is desirable for the member to possess the following:

- Skills in the philosophy of Islamic Law (Usul al Fiqh);
- Good knowledge of written and spoken Arabic and English languages as well as basic knowledge in the areas of business or finance especially Islamic Finance

The ACE may engage the services of consultant(s) or officer(s) of the NIMFB who have expertise in the field of business, economics, law, accounting or any other field that will assist it in making informed decisions. Such consultant(s)/officer(s) may attend meetings of the ACE but shall not take part or exercise voting rights in giving a Shari’ah legal opinion or verdict by the ACE.

10.1.2 DISQUALIFICATION

Members of the ACE shall be persons of acceptable reputation, character and integrity. The CBN reserves the right to disqualify any member or proposed member who fails to meet the requirements prescribed in the Guidelines on the Governance of Advisory Committees of Experts for Non-Interest (Islamic) Financial Institutions in Nigeria of February 2015, or any other requirement(s) as may be determined by the CBN from time to time.

No person shall be appointed or remain a member of an ACE who:

- Is of unsound mind or as a result of ill-health is incapable of carrying out his/her duties;
- Is declared bankrupt or suspends payments or compounds with his/her creditors including his/her bankers;
- Is convicted by a court of competent jurisdiction of any offence involving dishonesty or fraud;
- Is guilty of serious misconduct in relation to his/her duties;
- Fails to attend 75% of the meetings of the ACE in a year without satisfactory excuse;
- In the case of a person possessing professional qualification, is disqualified or suspended (except on his own request) from practicing his profession in Nigeria by the order of any competent authority made in respect of the person;
- No person who has been a member of an ACE, director of or directly concerned in the management of a NIMFB or any other financial institution which failed or was wound up by a court of competent jurisdiction shall,
without the express authority of the CBN, act or continue to act as an ACE member of any other NIMFB;

- Any person whose appointment with a NIMFB or any other financial institution has been terminated or who has been dismissed for reason of gross misconduct, fraud, dishonesty or conviction for an offence involving dishonesty or fraud shall not be appointed by any other NIMFB in Nigeria as an ACE member;
- Where a member of an ACE becomes unfit to hold such appointment as provided for in this Guidelines and/or in the letter of approval from the CBN, the NIMFB shall terminate the appointment of the ACE member.

10.2 RESIGNATION, TERMINATION AND DISMISSAL
A NIMFB shall notify the CBN with immediate effect of any resignation, termination of appointment or dismissal of a member of the ACE. The notice shall state the reason(s) for such resignation/termination or dismissal.

A detailed, independent notification would be required from any ACE member so affected by the said resignation, termination or dismissal.

However, in case of the resignation or termination of the appointment of an existing member of an NIMFB operating with a minimum number of three ACE members, the NIMFB shall seek for the approval of the CBN for a replacement within one month of the date of disengagement.

10.3 RESTRICTIONS ON ACE MEMBERSHIP
A member of an Advisory Committee of Experts in a bank or financial institution under the supervisory purview of the CBN shall not be a member of the Financial Regulatory Advisory Council of Experts (FRACE).

10.4 DUTIES AND RESPONSIBILITIES OF THE ACE TO THE NIMFB

- Accountability for all its decisions, opinions and views provided by them;
- Advising the NIMFB’s board and management on non-interest banking and finance and jurisprudence-related matters so as to ensure the institution’s compliance with the principles underpinning this model;
- Reviewing and endorsing policies and guidelines related to the principles underpinning non-interest (Islamic) finance. This shall include a periodic review of products and services to ensure that operational activities and transactions of the institution are made in accordance with those principles;
- Reviewing, endorsing and validating relevant documents for new products and services to ensure that they comply with the principles of Islamic Commercial Jurisprudence. These include:
i. terms and conditions contained in forms, contracts, agreements or other legal documentation used in executing the transactions; and
ii. the product manual, marketing materials, sales illustrations and brochures used to describe the product or service.

- Ensuring that the necessary ex-post considerations are observed after the product offering stage, namely the internal review processes and compliance reporting. This is in order to monitor the NIMFB's consistency in compliance with the principles underpinning this model and effectively manage Shari'ah compliance risk that may arise over time;
- Assisting or advising related parties to the NIMFB, such as its legal counsel, auditors or other consultants on Islamic jurisprudence-related matters;
- Providing written opinion to the NIMFB in respect of new products and other issues referred to it;
- Providing support to the NIMFB in respect of questions or queries that may be raised regarding the compliance of its products to the principles underpinning this model;
- Issuing recommendations on how the NIMFB could best fulfill its social role as well as promote non-interest banking and finance;
- Providing checks and balances to ensure compliance with principles underpinning this model;
- Assisting the internal audit of the NIMFB on Shari'ah Compliance Audit;
- Carrying out any other related duty (ies) assigned to it by the board of the NIMFB.

10.5 DUTIES AND RESPONSIBILITIES OF NIMFB TO THE ACE

To ensure the smooth running of the ACE, a NIMFB shall:

(i) Refer all Islamic Commercial Jurisprudence related issues to the ACE

The NIMFB shall refer all issues on Islamic Jurisprudence in its business operations to the ACE for advice and decision. The submission for advice or decision shall be made in a comprehensive manner for effective deliberation by the Committee. This shall include explaining the processes involved, documents to be used and other necessary information.

(ii) Implement the ACE's advice and decision

The NIMFB shall be responsible for implementing the ACE's advice and decision.

(iii) Ensure that product documents are validated

The NIMFB shall obtain validation of the ACE relating to Shari'ah issues in all product documentations.

(iv) Prepare a Shari'ah Compliance Manual
The NIMFB shall prepare a Shari’ah Compliance Manual which shall be endorsed by the ACE. The Manual shall provide a general guideline on the operational procedures of the ACE as well as a code of ethics and conduct for its members. The NIMFB shall ensure that adequate systems are in place to monitor compliance with the code.

(v) **Provide the ACE access to all relevant documents**

The NIMFB shall provide the ACE with the necessary assistance and access to all relevant records, transactions, manuals or other information that it may require to perform its duties.

(vi) **Provide the ACE with sufficient resources**

The NIMFB shall provide the ACE with sufficient financial resources, independent expert consultation, reference materials, training and development or any other support the ACE may require to perform its duties effectively.

(vii) **Remuneration of the Members of ACE**

The Board of the NIMFB shall determine the remuneration of ACE members. The remuneration shall be commensurate with the expected duties and functions of the Committee.

### 10.6. Reporting Relationship

a. The ACE shall directly report to the Board of Directors of the NIMFB and have a dotted line reporting relationship to the MD/CEO. All cases of non-compliance with the principles of non-interest (Islamic) banking shall be recorded and reported to the Board by the ACE, and it shall recommend appropriate remedial measures. In cases where the issue of non-compliance is not effectively or adequately addressed or no remedial measures were taken by the NIMFB, the ACE shall inform the CBN;

b. In the case of conflict of opinion among members of the ACE of a NIMFB concerning any of its rulings, the board of directors of the NIMFB may refer the matter to the FRACE, which shall have the final authority on the matter.

### 10.7. Report of the ACE

a. The Board and Management of a NIMFB shall ensure that the decisions and opinions of the ACE are appropriately issued and disseminated to all stakeholders.

b. The ACE shall issue an annual report which complies with the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) Governance Standard (No. 1) regarding the basic elements of an ACE report. The NIMFB shall also publish the ACE report in its annual financial report.

### 10.8. Independence of the ACE

10.8.1. For the effective discharge of its oversight responsibilities, the independence of the ACE shall be upheld at all times. It shall not succumb to pressure, undue
influences or similar appendages that may be caused to bear by the Management of the NIMFB.

10.8.2. Members of the ACE shall not have such relationships with the NIMFB, its related companies or officers that could interfere or be reasonably perceived to interfere with the exercise of independent judgment by the ACE.

10.8.3. The management of a NIMFB has an obligation to provide the ACE with complete, accurate and adequate information in a timely manner before all meetings and on an ongoing basis in order for the ACE to fulfill its responsibilities.

10.8.4. The ACE shall have independent access to the NIMFB's Internal Shari'ah Compliance Unit/Department to ascertain if internal control and compliance have been appropriately followed.

10.9 COMPETENCE OF MEMBERS OF THE ACE

Members of the ACE shall at all times demonstrate the competence and ability to understand:

- the technical requirements of the business;
- the inherent risks in the business; and
- the management processes required to conduct its operations effectively with due regard to the interest of all stakeholders.

10.9.2. The NIMFB shall facilitate continuous professional development of members of the ACE as well as the officer(s) of the internal Shari'ah Compliance Unit of the institution.

10.9.3 The NIMFB shall specify and adopt a process for formal assessment of the effectiveness of the ACE and of the contribution of each ACE member to its effectiveness. The process should also identify relevant gaps to enable appropriate training and exposure for the ACE members.

10.10 CONFIDENTIALITY AND CONSISTENCY

10.10.1 Internal and privileged information obtained by the ACE in the course of its duties shall be kept confidential at all times and shall not be misused.

10.10.2 Notwithstanding the above, the ACE shall not be liable for breaching the confidentiality and secrecy principle if sensitive information is reported to the CBN in good faith for corrective actions in the performance of its duty in reporting serious breaches of Shari'ah by the NIMFB or in compliance with the order of a court of competent jurisdiction.

10.10.3 The NIMFB shall ensure that the ACE follows a structured process in making its decisions and rulings in such a way as to ensure quality and consistency of the decisions and their proper documentation and disclosure.

10.10.4 The NIMFB shall ensure that the ACE adopts a specified process for changing, amending or revising any pronouncements/resolutions issued by it. Appropriate and timely disclosure shall be made to all stakeholders and/or the public whenever the
ACE and/or its members depart from or revise any of its pronouncements/resolutions.

10.10.5 In the event of divergence of opinion between a NIMFB ACE and the Financial Regulation Advisory Council of Experts (FRACE) on a particular issue, the opinion of the FRACE shall prevail.
11.0 PUBLICATION OF AUDITED FINANCIAL STATEMENTS

11.1 PROCEDURES AND PUBLICATION

All NIMFBs shall comply with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB). For transactions, products and other services not covered by the IFRS, the relevant provisions of the Financial, Accounting and Auditing Standards issued by the AAOIFI shall apply.

NIMFBs shall comply with relevant provisions of circulars issued by the CBN on disclosure requirement for financial institutions and other disclosure requirements contained in CAMA 1990 (as amended) and BOFIA 1991 (as amended). In addition, they shall comply with the relevant standards on disclosure issued by standards-setting organisations including the following:

• Financial Reporting Council (FRC) of Nigeria;

and

• Islamic Financial Services Board (IFSB).

NIMFBs shall have an internal review and audit mechanism to examine and evaluate on periodic basis the extent of compliance with the rules and principles pertinent to this model.

Every NIMFB shall submit its audited financial statements and the abridged version of the accounts to the Director, Other Financial Institutions Supervision Department (OFISD) for approval not later than four (4) months after the end of the company’s financial year. The Domestic Report on the Accounts from the External Auditors shall be forwarded to the Director, OFISD not later than three (3) months after the end of the accounting year.

Upon approval for the publication of the accounts by the Central Bank of Nigeria, the NIMFB shall be required to display the abridged version of the audited financial statements in a conspicuous place at its Head Office and all its branches.

11.1.2 PENALTIES

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

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

**11.1.3 ANNUAL GENERAL MEETING (AGM)**

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

### 11.2 PENALTIES FOR LATE/FALSE/INACCURATE ACCOUNTS, RETURNS AND OTHER FALSE/INACCURATE RENDITION.

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

### 12.0 PRUDENTIAL REQUIREMENTS

All NIMFBs shall comply with the following requirements:

#### 12.1.1 COMPULSORY INVESTMENT IN COMPLIANT INSTRUMENTS

A NIMFB shall be required to maintain not less than 5% of its deposit liabilities in liquidity management instruments compliant with the principles underpinning this model and as approved by the CBN. Non-compliance shall attract a fine of 1% of the amount not invested. Investment in such instruments by any NIMFB shall, however, not exceed 10% of its deposit liabilities at any point in time.

#### 12.1.2 LIQUIDITY RATIO

The operation of an NIMFB requires the maintenance of high level of liquid assets to meet frequent requests for funds from clients and for field operations. However, in view of the paucity of eligible liquidity management instruments, NIMFBs shall be required to maintain a minimum liquidity ratio as may be determined by CBN from time to time.
12.1.3 CAPITAL ADEQUACY RATIO

a. The Capital Adequacy Ratio (CAR) of a NIMFB shall be measured as a percentage of the shareholders' funds unimpaired by losses to its risk weighted assets. The minimum CAR (Capital/Risk Weighted Assets Ratio) for NIMFBs shall be 10 per cent. Furthermore, every NIMFB is expected to maintain a ratio of not more than 1:10 for its shareholders fund unimpaired by losses to the net financing;

b. A NIMFB shall at all times maintain the minimum capital adequacy ratio as may be prescribed by the CBN from time to time;

c. The CBN may require a NIMFB to maintain additional capital as it considers appropriate in respect of market risks, concentration risk and other specific risks.

d. When any of the above ratios (as in 12.1, 12.2 and 12.3) do not meet the prescribed benchmarks, the NIMFB shall be prohibited from any or all of the following until the required ratio is restored:

i. Financing and undertaking further investment;

ii. Mobilization of deposit from the public;

iii. Payment of dividend to shareholders;

iv. Raising funds from the investing public; and

v. Opening additional branch(es)/cash centre(s).

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

12.1.4 LIMIT OF INVESTMENT IN FIXED ASSETS

The maximum amount, which a NIMFB can invest in fixed assets, is 20% of its shareholders’ funds unimpaired by losses.

Any contravention shall attract a penalty of 1% of the excess investment in fixed assets and prohibition of further investment in fixed assets until the requirement is achieved.
12.1.5 REVALUATION OF FIXED ASSETS
Prior approval of the CBN must be obtained by a NIMFB before it could revalue any of its assets.

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

a. The basis of the underlying fixed assets valuations was stated and the valuation made by qualified professional valuer whose identity and qualifications are indicated in the valuation report;

b. The difference between the market and the carrying values of the eligible fixed assets being revalued is to be discounted by 55 per cent;

c. The revaluation of fixed assets is applicable to own premises only; and

d. The revaluation of fixed asset is permissible after a minimum period of five (5) years after the date of purchase of the asset or the last revaluation date.

12.1.6 FIXED ASSETS/LONG-TERM INVESTMENTS AND BRANCH EXPANSION
No NIMFB shall be allowed to finance any of the following other than from the shareholders’ funds unimpaired by losses:

a. Acquisition of fixed assets;

b. Equity investments in permissible activities and investments in long-term permissible instrument subject to CBN’s approval in writing; and

c. Branch expansion.

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

12.1.7 MAINTENANCE OF CAPITAL FUNDS
a. The impact of delinquent risk assets which may result in capital erosion, calls for stringent maintenance of capital funds. Every NIMFB shall therefore maintain a Reserve Fund into which it shall transfer from its profit after tax for each year (before dividend), subject to the following provisions:

i. Where the amount of the NIMFB’s reserve fund is less than 50 per cent of its paid-up capital, an amount which shall not be less than 50 per cent of the NIMFB’s net profit for the year;

ii. Where the amount of the NIMFB’s reserve fund is 50 per cent or more, but less than 100 per cent of its paid-up capital, an amount which shall not be less than 25 per cent of the NIMFB’s net profit for the year; or
iii. Where the amount of the NIMFB’s reserve fund is equal to 100 per cent or more of its paid up capital, an amount equal to 12.5 per cent of the NIMFB’s net profit for the year.

b. A NIMFB shall not appropriate any sum or sums from its reserve fund unless prior approval in writing is obtained from the CBN;

c. The CBN may however, from time to time, vary the proportion of net profit transferable to Statutory Reserves. No accretion shall be made to the reserve fund until:

i. All preliminary and pre-operational expenses have been written off;

ii. Adequate provision has been made for assets deterioration; and

iii. All identifiable losses have been fully provided for.

12.1.8 RESTRICTIONS ON DECLARATION OF DIVIDEND

a. A NIMFB shall not declare or pay out dividend until it has:

i. Completely written-off all its preliminary and pre-operational expenses;

ii. Made the required provisions for non-performing asset and other erosions in asset values;

iii. Satisfied the minimum Capital Adequacy Ratio requirement; and

iv. Met all matured obligations.

b. Where the payment of dividend would result in withdrawal of any part of the available reserves due to inadequacy of the profit for the year or where the statutory report of the auditors on the Annual Accounts of the bank is not satisfactory, the NIMFB may declare dividend only after obtaining the prior approval of the CBN.

c. Where a NIMFB declares or pays any dividend in contravention of this provision, the Directors and the Chief Executive Officer of the NIMFB shall be liable to a penalty of ten (10) per cent of the gross dividend paid and such other sanctions as may be deemed appropriate by the CBN.

12.1.9 LIMIT OF EXPOSURE TO A SINGLE OBLIGOR AND RELATED PARTY

a. The maximum exposure by a NIMFB to any individual customer, director or related parties shall not exceed 1 percent, and in the case of group customers, a maximum of five (5) per cent of the NIMFB’s shareholders’ fund unimpaired by losses or as may be prescribed by the CBN from time to time.

b. In addition, aggregate insider-related exposure at any time shall not exceed five (5) per cent of its shareholders’ funds unimpaired by losses. For this purpose, financing under a staff scheme shall not apply, but shall be in accordance with the staff conditions of service.
Any contravention will attract a penalty of N250,000.00 on the NIMFB and a letter of warning to the Managing Director. Subsequent defaults will be a ground for the removal from office of the affected Officer(s).

12.1.10 FINANCING PORTFOLIO COMPOSITION
The value of the financing portfolio of a NIMFB shall, at all times, be a minimum of 80 per cent for micro financing and a maximum of twenty (20) per cent for small and medium enterprises (SMEs).

12.1.11 MAXIMUM EQUITY INVESTMENT HOLDING RATIO
The aggregate value of the equity participation of a NIMFB in all permissible enterprises shall NOT exceed 7.5 per cent of its shareholders’ funds unimpaired by losses.

12.1.12 PROVISION FOR CLASSIFIED ASSETS
a. Provision for performing and non-performing risk assets and other assets shall be as stated hereunder:

<table>
<thead>
<tr>
<th>Days at Risk (No. of days missed payment)</th>
<th>Description</th>
<th>Provisioning Requirement or Allowance for Probable Loss (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>Performing</td>
<td>1</td>
</tr>
<tr>
<td>1 - 30 days</td>
<td>Pass and Watch</td>
<td>5</td>
</tr>
<tr>
<td>31 - 60 days</td>
<td>Substandard</td>
<td>20</td>
</tr>
<tr>
<td>61 - 90 days</td>
<td>Doubtful</td>
<td>50</td>
</tr>
<tr>
<td>91 or more days and for restructured financing</td>
<td>Lost</td>
<td>100</td>
</tr>
</tbody>
</table>

b. All NIMFBs shall be required to review their total exposures and other assets at least once every thirty days, and make appropriate provisions;

c. As part of its monthly returns, every NIMFB shall send a schedule of its total exposure, showing the provisions made for losses or deterioration in the quality of its risk assets to the Director, OFISD and Director, SIID of the NDIC.

12.1.13 CONTINGENT ITEMS
a. The following shall be construed as contingent items in the books of a NIMFB:

i. Guarantees and indemnities;

ii. On-financing funds with recourse; and
iii. Any other item as may be specified by the CBN from time to time.

b. A NIMFB’s investments in Bankers Acceptances (BAs) and Commercial Papers (CPs) compliant with its model of operation shall be treated as part of its financing portfolio.

12.1.14 DIVESTMENT OF GOVERNMENT’S INTEREST IN GOVERNMENT OWNED/SPONSORED NIMFBS

In all cases where state or local governments participate in the ownership/establishment of a NIMFB, government shall progressively divest its interest within a maximum period of five (5) years. In the case of Public Private Partnership arrangements, the first right of refusal shall be given to the private partner.

12.2 SPECIAL PRUDENTIAL STANDARDS

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

12.2.1 UNSECURED FINANCING LIMITS:

Any unsecured exposure to an individual of an aggregate amount in excess of fifty thousand naira [N50,000] is not permitted. For the purpose of applying this regulation to micro financing of NIMFBs, group guarantees or third party guarantees of an individual acceptable to the NIMFB shall qualify as collateral.

12.2.2 FINANCING DOCUMENTATION REQUIREMENTS:

In deference to the nature of micro financing as well as the relative simplicity of the customer base and the nature of financial services demanded, a reduced documentation may be applicable.

12.2.3 RESTRICTION OF CO-SIGNERS TO RECEIVE FINANCING FROM THE SAME NIMFB:

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

12.2.4 CASH RESERVE REQUIREMENTS:

The mandatory Cash Reserve Requirements (CRR) for Deposit Money Banks shall not apply to a NIMFB. A NIMFB shall however be required to have compulsory investment of five per cent (5%) of its total deposit liabilities in liquidity management instruments that are compliant with the principles underpinning this model and which shall qualify as specified liquid asset in computation of its liquidity ratio.

12.3 PORTFOLIO- AT-RISK [PAR]

a. PAR: is the outstanding principal amount of all exposures that have at least one installment past due for one or more days in all sale-based, lease and construction contracts like in Murabaha, Salam, Istisna’a, Ijara etc. The
amount includes the unpaid principal balance but excludes the accrued income. Under PAR, exposures are considered past due if payment has fallen due and remained unpaid;

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

c. **LIMIT:** PAR shall not exceed 5 per cent of the bank’s total exposure at any given time;

d. **PAST DUE EXPOSURE:** This is any exposure which repayment is past due for at least one day in accordance with the agreed repayment term in the contract. Such exposures whether restructured or refinanced shall attract appropriate provision. The past due exposure shall remain in the account of the NIMFB until it is fully repaid or written off;

e. **ACCURUAL OF INCOME EARNED:** No accrual of income to the income statement shall be allowed after the exposure has become past due, rather it should be transferred to the income-in-suspense account. All income already accrued and/or booked shall be reversed from income and the accrued income transferred to income-in-suspense account. This provision is for the purpose of passing entries in the books of the NIMFB, without prejudice to the right of the bank to collect the income due to it from its clients;

f. **RESTRUCTURED EXPOSURES:** These represent exposures that have been renegotiated or modified to either lengthen or postpone the original scheduled installment payments, or substantially alter the original terms of the contracts. Restructured exposures, which shall include refinanced exposures shall be treated as non-performing and the income thereon shall be transferred to the income-in-suspense account. No exposure shall be restructured more than two (2) times;

It should be noted that NIMFBs shall not earn extra income on a restructured sale-based contracts (like Murabaha, Istisna’a etc) but may do so on a restructured lease-based or equity-based contracts (like Ijara, Musharaka etc) based on mutual agreement between the bank and the customer.

However, a NIMFB may charge penalty for default by its customer(s), but such penalty shall be given out to charity in line with the principles underpinning this model;

g. **WRITING OFF FULLY PROVIDED NON-PERFORMING EXPOSURES:** Exposures that have been fully provided for except director-related exposures may be written off in accordance with the bank’s policy and communicated to the
CBN. Director-related exposures shall require prior approval of the CBN before such can be written off as Non-performing Exposure.

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

13.0 CONDUCT OF BUSINESS STANDARDS

13.1 BRANDING
In line with the provisions of Section 43 (1) 39 (1) of BOFIA 1991 (as amended), NIMFBs shall not include the word “Islamic” as part of their registered or licenced names except with the written consent of the Governor. They shall, however, be recognized by a uniform symbol designed by the CBN. All the signages and promotional materials of NIMFBs shall bear the symbol to facilitate recognition by customers and the general public.

13.2 APPROVAL OF CONTRACTS, PRODUCTS AND SERVICES
All contracts, products and services to be offered by NIMFBs shall be reviewed and approved by each institution’s ACE.

The introduction of new products/services shall require the prior written approval of the CBN.

13.3 PRODUCT LITERATURE
All applications for product/advertisement materials forwarded to the CBN for approval shall include names and signatures of the ACE members.

14.0 PROFIT SHARING INVESTMENT ACCOUNTS

14.1 NIMFBs shall ensure that relevant disclosures are made to Profit Sharing Investment Accounts’ (PSIA) holders in a timely and effective manner and also ensure the proper execution of investment contracts.
14.2 NIMFBs shall inform their prospective PSIA client(s) in writing, that the burden of loss rests with the client(s) and that the institution will not share in the loss unless there is proven negligence, breach of contract or misconduct for which the institution is responsible. For the avoidance of doubt, misconduct includes fraud and other illegal conduct and also willful investment of funds in breach of the principle underpinning this model or investment mandate as contained in the contract. While negligence includes failure in conducting due diligence resulting in losses or earning prohibited income.

14.3 NIMFBs may maintain a Profit Equalization Reserve (PER) which would serve as an income smoothing mechanism and risk mitigation tool to hedge against volatility of returns to investment account holders. They may also maintain an Investment Risk Reserve (IRR) for PSIA holders to cushion against future losses.

14.4 The basis for computing the amounts to be appropriated to the PER and IRR should be pre-defined and disclosed.

15.0 ASSESSMENT OF SOUNDNESS

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

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

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

- Market risk
- Operational risk (Shari’ah non-compliance risk and Fiduciary risk)
- Liquidity risk
• Legal and regulatory risk
• Strategic risk
• Credit risk
• Takaful risk (Islamic insurance)

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

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

16.0 REQUIREMENTS FOR INCREASE IN SHARE CAPITAL
All increases in share capital in any form shall be approved by the CBN. Application in respect of this shall be supported with the following documents:

a. Board resolution authorizing the increase;
b. Shareholders’ resolution to increase the share capital;
c. Evidence of payment of stamp duty;
d. Corporate Affairs Commission (CAC) registration of the increase;
e. Form CAC 2 showing the allotment of the additional capital;
f. Share certificates issued to shareholders (letter of intent);
g. Photocopy of the share register showing the entries of allotment;
h. Evidence of payment for the new allotment of shares by the shareholders. No cash payment shall be allowed for any significant acquisition i.e. up to 5% of the shares in a NIMFB;
i. Statements of accounts from banks showing evidence of payment for the shares;
j. Vouchers showing evidence of internal transfer or payment for the rights issues allotted;
k. Copies of letters to shareholders conveying allotment of shares;
l. For corporate investors, board resolution shall accompany the application; and

m. Any other information that may be required or stipulated by the CBN.

17.0 DISCLOSURE OF INTEREST BY DIRECTORS AND OFFICERS OF NIMFBs.

a. Every Director and Officer of a NIMFB, who has any personal interest, whether directly or indirectly in a financing facility or vendor services from a NIMFB in which he/she is serving, shall promptly declare the nature of his/her interest in writing to the Board of Directors of the NIMFB and the declaration shall be discussed at the Board meeting.

b. Every Director or Officer of a NIMFB who holds any office or possesses any property, whether directly or indirectly, which might create conflict with his/her duties or interest as a Director or Officer of the NIMFB, shall declare at a meeting of the Board of Directors of the NIMFB, the fact, nature, character and extent of such interests. Any Director or Officer who contravenes either of these regulations shall be liable to a fine of N500,000 or removal from office.

c. Relevant AAOIFI and IFSB guidance notes/standards should be adopted where applicable.

18.0 DISCLOSURE OF REQUIRED INFORMATION TO CREDIT REFERENCE BUREAUX

a. A NIMFB shall be required to supply information on all its financing/loan customers to licenced Credit Bureaux from time to time. In addition, every NIMFB shall provide:

i. Details of non-performing facilities in its portfolio, where the amount owed is not in dispute, the customer has not made any satisfactory proposals for repayment following formal demand, and the customer has been given at least twenty-eight (28) days notice of the intention to disclose that information to the Credit Reference Bureau;

ii. Information on its customers involved in financial malpractices, including the issuance of dud cheques;

iii. No information other than that referred to in the above sub-sections (i) and (ii) shall be divulged by any institution to the Credit Reference Bureau without customers’ consent.
b. Nothing in this section shall prevent NIMFBs and Credit Reference Bureaux from disclosing the information referred to in paragraphs (i) and (ii) above provided the information is disclosed in good faith and/or in the normal course of business;

c. Every customer of a NIMFB has a right to know his credit status that has been forwarded to the Credit Reference Bureau; and

d. In addition to the above, NIMFBs are required to comply with the relevant provisions of the Guidelines for the Licensing, Operation and Regulation of Credit Bureaux and Credit Bureau Related Transactions in Nigeria.

19.0 OPERATIONAL REQUIREMENTS AND CONTROLS

19.1 OPENING/RELOCATION AND CLOSING OF BRANCHES/CASH CENTRES

a. All NIMFBs shall obtain approval from the CBN, in writing, to open new branches or cash centres;

b. Any NIMFB that contravenes the provisions of paragraph (a) of this Section shall be liable to pay penalties of N250,000, N500,000, and N1,000,000 per branch/cash center for a Unit, State and National NIMFB respectively. In addition, such unapproved branch office or cash centre shall be closed within a period of thirty (30) days;

c. All NIMFBs shall obtain approval from the CBN, in writing, to close existing branches or cash centres;

d. Any NIMFB that contravenes the provisions of paragraph (c) of this section shall be liable to pay penalties of N250,000, N500,000, and N1,000,000 per branch/cash center for a Unit, State and National NIMFB respectively;

e. Any NIMFB that relocates its Head Office, branch or cash centre without prior approval of the CBN in writing shall be liable to pay a penalty of N500,000 irrespective of the category of NIMFB;

f. Failure to close an unapproved branch office or cash centre in line with the provisions of these Guidelines shall attract a fine of N5,000 for each day of infraction, irrespective of the category of NIMFB;

19.2 CHANGE OF NAME

Every NIMFB shall be required to obtain CBN’s approval before effecting a change of name as contained in its operational licence. The applicable fees, which may be varied at the instance of the CBN, shall be as follows:
### Change of Name Fee

<table>
<thead>
<tr>
<th>Unit NIMFB</th>
<th>State NIMFB</th>
<th>National NIMFB</th>
</tr>
</thead>
<tbody>
<tr>
<td>N20,000</td>
<td>N50,000</td>
<td>N100,000</td>
</tr>
</tbody>
</table>

Any NIMFB that fails to obtain prior approval of the CBN for change of name shall be liable to a penalty of N500,000 irrespective of the category of the NIMFB.

### 19.3 Display of Licence

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

### 19.4 Display of Rates and Fees

Every NIMFB shall display on a daily basis and in a conspicuous place at its Head Offices, branches and cash centers where applicable its indicative profit sharing rates and fees. In contravention, a NIMFB shall be liable to pay a penalty of N50,000 after which N5,000 shall be payable for each day during which the offence continues.

### 19.5 Internal Controls

a. Every NIMFB shall have an Internal Audit Unit, which shall ensure that the operations of the company conform to the laws, as well as to its internal rules and regulations. The Internal Auditor shall forward his report directly to the Board of Directors to strengthen corporate governance in the NIMFB.

b. In addition to the Internal Audit Unit, there shall be an Internal Shari’ah Compliance Unit whose responsibilities shall include monitoring compliance with the principles underpinning the operations of the NIMFB. The head of such Unit shall forward his report to the Advisory Committee of Experts (ACE) to ensure compliance with the principles underpinning this model.

The Internal Audit and Internal Shari’ah Compliance functions may be combined in a Unit NIMFB where the officer possesses the requisite qualification and experience for both functions. However, the functions shall be performed by separate officers for State and National NIMFBs.

c. Every NIMFB shall include a statement on the effectiveness of the internal control, signed off by at least two members of its Board of Directors as part of its audited financial statements. Also, a declaration on the risks inherent in the
business of the NIMFB and the controls put in place to mitigate such risks shall be part of the directors’ reports.

d. The report of the ACE of every NIMFB shall form part of the annual financial statement and shall be signed by all the members.

e. Every fraud or attempted fraud must be reported along with the statement of assets and liabilities within one month of its occurrence to the Director of ORSD (CBN) and Director of SIID (NDIC). Where no frauds/forgeries and defaults occurred during the month, a nil return shall be rendered. Where it is established that an officer of a NIMFB has been involved in fraud or unethical behavior at any time in the course of his/her career, the officer shall be removed from office by the NIMFB and blacklisted by the CBN.

f. Every NIMFB shall develop, implement and submit evidence of implementation of an internal control framework. The internal control framework adopted by the NIMFB shall be developed in line with the Committee of Sponsoring Organizations (COSO) of the Treadway Commission 2004 and shall comprise the following areas of internal control:

   - Control environment;
   - Risk assessment;
   - Control activities;
   - Information and communication; and
   - Monitoring.

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

20.0 APPOINTMENT OF CHIEF EXECUTIVE/PRINCIPAL OFFICERS AND EXTERNAL AUDITORS

20.1 APPOINTMENT OF CHIEF EXECUTIVE AND PRINCIPAL OFFICERS

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

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

20.2 APPOINTMENT AND RESPONSIBILITIES OF EXTERNAL AUDITORS

20.2.1 NIMFBs shall comply with the requirements of Section 29 of BOFIA 1991 (as amended) and applicable guidelines/directives issued by the CBN, as well as the relevant provisions of CAMA 1990 (as amended) regarding the appointment, resignation, rotation, change and removal of auditors.

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

a. The approved auditor shall satisfy the following requirements:
   i. Be a member of a recognized professional accountancy body in Nigeria;
   ii. Currently in professional practice as accountant and auditor in Nigeria.

b. No person or auditing firm shall be appointed as the auditor of a NIMFB if:
   i. He/she has interest in that NIMFB other than as a deposito;
   ii. He/she is a Director, Officer or agent of such institution;
   iii. It is a firm in which a Director of the NIMFB has interest as partner or Director;
   iv. It is a firm in which a Director of the NIMFB is the spouse of a partner or Director; and
   v. He/she is indebted to the NIMFB.

c. Any external auditor who is subsequently affected by Section 20.2.1(b) above shall immediately cease to continue as the auditor of the NIMFB.

d. If any NIMFB fails to appoint or fill a vacancy for an approved auditor, the CBN shall appoint a suitable person for that purpose and shall fix the remuneration to be paid by the NIMFB to such auditor.

e. The appointment of an approved auditor shall not be determined without a prior written approval of the CBN.
20.2.3 THE RESPONSIBILITIES OF AN APPROVED EXTERNAL AUDITOR SHALL INCLUDE THE FOLLOWING AMONGST OTHERS:

a. To immediately report to the CBN formally if he/she is satisfied that:
   i. there has been a contravention of BOFIA, 1991 [as amended] or that an offence under any other law, guidelines, circulars, etc. has been committed by the NIMFB or any of its Officers; or
   ii. losses have been sustained by the NIMFB which had substantially reduced its capital funds; or
   iii. any irregularity which jeopardizes the interest of depositors or customers of the NIMFB has occurred; or
   iv. the firm is unable to confirm that the claims of the depositors or customers are covered by the assets of the NIMFB.

b. To forward to the CBN a domestic report on the activities of the NIMFB not later than three (3) months after the end of the financial year of such NIMFB.

c. To have access, at all times, to the books, accounts and vouchers of the NIMFB and be entitled to require from Directors, Managers and Officers of the NIMFB all information and explanation considered necessary for the performance of the audit.

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

e. Any approved auditor who acts in contravention of the foregoing requirements or fails either deliberately or negligently to comply with the requirements of this Section shall be reported to his respective professional body for appropriate sanction.

In case of grave contraventions, the auditor may be suspended from further acting as the approved auditor to all financial institutions under the supervisory purview of the CBN.

21.0 SCHEME OF ARRANGEMENT

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

22.0 RESTRUCTURING AND RE-ORGANIZATION
Except with the prior consent of the Governor of the CBN, no NIMFB shall enter into an agreement or arrangement:

a. Which will result in a change in the control of the NIMFB;

b. For the sale, disposal or transfer of the whole or any part of the business of the NIMFB;

c. For the amalgamation or merger of the NIMFB with any other company;

d. For the restructuring of the NIMFB; and

e. To employ a managing agent or to transfer its business to any such agent.

Failure to obtain the consent of the CBN before going into any form of re-structuring or re-organisation shall attract a penalty of N500,000 regardless of the category of the NIMFB.

23.0 COLLABORATION TO REGULATE DEPOSIT/SAVINGS MOBILIZING INSTITUTIONS

a. To prevent regulatory arbitrage in the sub-sector, the CBN shall collaborate with other relevant agencies of the government to monitor the activities of financial cooperatives and NGOs that have significant operations due to their micro savings/deposit taking activities from their members. Any of these Institutions that attain total assets of N20,000,000 (twenty million Naira only) and or total membership/clients of two thousand (2,000) shall be encouraged to transform to the relevant category of NIMFB, subject to the licensing requirements.

b. Collaboration between the CBN, NDIC, Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM), Corporate Affairs Commission (CAC), National Association of Microfinance Banks (NAMFB), Association of Non-Bank Microfinance Institutions in Nigeria (ANMFIN), and other relevant government agencies shall be promoted to reduce arbitrage in the practice of microfinance.
24.0 CONDITIONS FOR REVOCATION OF LICENCE
The grounds for revoking a licence granted to a NIMFB may be any or all of the following:

a. Submission of false information/data during and/or after the processing of the application for licence;

b. The use of proxies or disguised names to obtain a licence to operate as a NIMFB;

c. Engaging in functions/activities outside the permissible scope of its licence as specified in Section 2.2 of this guidelines;

d. Persistent failure to comply with request for information/data in the form required/specifyed by the CBN;

e. Engaging in activities prejudicial to the Nigerian economy;

f. Failure to redeem matured obligations to customers;

g. Failure to render statutory monthly returns for a continuous period of 6 months or for a cumulative period of 6 months in a financial year;

h. Unauthorized shop closure;

i. Failure to comply with any directive issued by the CBN;

j. Technical insolvency i.e. where an NIMFB’s assets are insufficient to cover its liabilities;

k. Such other conditions applicable to Banks and Other Financial Institutions under BOFI Act (as amended) which constitute a ground for revocation of licence; and

l. Any other act(s) which in the opinion of the CBN constitute(s) a violation or a serious default.

25.0 EXIT CONDITIONS
The condition for exit of a licensed NIMFB shall be as prescribed by the relevant sections of the framework for the regulation of non-interest financial institutions and BOFI Act (as amended) as applicable to other deposit taking financial institutions and the Companies and Allied Matters Act (CAMA) 1990 as amended.
26.0 RISK MANAGEMENT

NIM FBs are required to put in place appropriate policies, systems and procedures to identify, measure, monitor and control their risk exposures. In addition, they are required to put in place a robust risk management system that recognizes the unique risks faced by NIM FBs such as displaced commercial, fiduciary, transparency, Shari’ah non-compliance, reputational, equity investment, rate of return and other emerging risks. Further details and guidance are provided in documents issued by the CBN and international standard setting organizations including:

i. CBN Prudential Guidelines;

ii. Risk Management Guidelines issued by the Basel Committee on Banking Supervision; and

iii. IFSB Guiding Principles of Risk Management for Institutions Offering Only Islamic Financial Services, etc.
## 27.0 Recommended Minimum Operational Template for Non-Interest (Islamic) Micro Finance in Nigeria (See OFSD)

<table>
<thead>
<tr>
<th>MEASURES</th>
<th>ITEM</th>
<th>RECOMMENDED STANDARD FOR NIMFBs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CAPITAL</strong></td>
<td>Capital Adequacy Ratio</td>
<td>10% minimum (S.12.1.3 of the NIMFB Guidelines)</td>
</tr>
<tr>
<td></td>
<td>Adjusted Capital to Net Financing Ratio</td>
<td>1:10 maximum (S.12.1.3 of the NIMFB Guidelines)</td>
</tr>
<tr>
<td></td>
<td>Maintenance of Capital Funds</td>
<td>S.12.1.7 of the NIMFB Guidelines</td>
</tr>
<tr>
<td></td>
<td>Maximum Investments in Fixed Assets</td>
<td>20% of Shareholders’ Funds Unimpaired by Losses (SHF) (S.12.1.14 of the NIMFB Guidelines)</td>
</tr>
<tr>
<td></td>
<td>Maximum Equity Investment Holding Ratio</td>
<td>≤ 7.5% of SHF (S.12.1.11 of the NIMFB Guidelines)</td>
</tr>
<tr>
<td><strong>ASSET</strong></td>
<td>Maximum amount per micro financing</td>
<td>N500,000.00 or 1% of SHF (S.1.3d of the NIMFB Guidelines)</td>
</tr>
<tr>
<td></td>
<td>Micro financing as a percentage of total exposures</td>
<td>Financing 80% (S.12.1.10 of the NIMFB Guidelines)</td>
</tr>
<tr>
<td></td>
<td>Portfolio at Risk (PAR)</td>
<td>≤ 5% (S.12.3 of the NIMFB Guidelines)</td>
</tr>
<tr>
<td></td>
<td>Net Financing portfolio as a percentage of total assets</td>
<td>60% minimum</td>
</tr>
<tr>
<td></td>
<td>Growth in Outreach</td>
<td>&gt;20% annually</td>
</tr>
<tr>
<td></td>
<td>Maximum aggregate insider related exposures</td>
<td>≤ 5% of SHF (S.12.1.9b of the NIMFB Guidelines)</td>
</tr>
<tr>
<td></td>
<td>Single obligor limit (Individual exposures)</td>
<td>≤ 1% of SHF (S.12.1.9a of the NIMFB Guidelines)</td>
</tr>
<tr>
<td></td>
<td>Single obligor limit (Group exposures including cooperatives and corporate bodies)</td>
<td>≤ 5% of SHF (12.1.9a of the NIMFB Guidelines)</td>
</tr>
<tr>
<td></td>
<td>Savings as a percentage of total deposits</td>
<td>60% minimum</td>
</tr>
<tr>
<td></td>
<td>Percentage financing to deposits</td>
<td>80%</td>
</tr>
<tr>
<td></td>
<td>Financing portfolio profitability (Group Lending)</td>
<td>&gt;10%</td>
</tr>
<tr>
<td><strong>Financing Officer Productivity / Case Load (No. of active clients per financing Officer)</strong></td>
<td>250 – 300</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td><strong>Provision for classified accounts</strong></td>
<td>S.12.1.12 of the NIMFB Guidelines</td>
<td></td>
</tr>
<tr>
<td><strong>Adequacy of provisioning on classified assets</strong></td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td><strong>Enterprises Risk Management Framework (ERMF)</strong></td>
<td>ERMF should be in place and operational.</td>
<td></td>
</tr>
<tr>
<td><strong>CORPORATE GOVERNANCE: BOARD, MANAGEMENT AND STAFF</strong></td>
<td><strong>Frequency of board meetings (minimum)</strong></td>
<td>At least once per quarter</td>
</tr>
<tr>
<td><strong>Minimum Board Committees</strong></td>
<td>Audit; Credit and Risk Management; and Finance &amp; General purpose</td>
<td></td>
</tr>
<tr>
<td><strong>Advisory Committee of Experts (ACE)</strong></td>
<td>The composition, qualification and experiences of the members of ACE is as contained in Section 10 of this guidelines</td>
<td></td>
</tr>
<tr>
<td><strong>Minimum number of Unit Heads</strong></td>
<td>Operations; Credit &amp; Marketing; Finance &amp; Admin.; and internal audit/shari’ah compliance audit</td>
<td></td>
</tr>
<tr>
<td><strong>Minimum management committees</strong></td>
<td>Finance &amp; Admin.; Credit; and Assets &amp; Liabilities</td>
<td></td>
</tr>
<tr>
<td><strong>No. of finance Officer per branch</strong></td>
<td>To be determined by the number of clients</td>
<td></td>
</tr>
<tr>
<td><strong>No. of customers per group</strong></td>
<td>Not less than 5 and not more than 30.</td>
<td></td>
</tr>
<tr>
<td><strong>Purpose of the financing and repayment cash flow</strong></td>
<td>Must be clearly stated and from verifiable income source(s)</td>
<td></td>
</tr>
</tbody>
</table>
| **Financing methodology** | ▪ Group solidarity model is more cost effective and highly recommended.  
▪ Individual financing but group responsibility.  
▪ Repeat financing increment, say N10,000 – N20,000, should be based on past repayment records  
▪ Cash collateral/contractual savings – not less than 10% of principal amount of financing and refundable. |
<p>| <strong>Financing / outreach</strong> | ▪ Encourage formation of and linkage with women groups. |</p>
<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Micro financing tenure</strong></td>
<td>6 months. For agriculture or projects with longer gestation a maximum tenure of 12 months is permissible. In housing microfinance, a maximum tenure of 24 months is permissible (S1.2.IV of the NIMFB Guidelines).</td>
</tr>
<tr>
<td><strong>Follow up for repayments</strong></td>
<td>7 days after disbursement, weekly collection</td>
</tr>
<tr>
<td><strong>First financing disbursement</strong></td>
<td>Minimum of 4 weeks after enrolment as a client or member of solidarity group.</td>
</tr>
<tr>
<td><strong>First repayment installment starts</strong></td>
<td>15 days after financing disbursement</td>
</tr>
<tr>
<td><strong>Financing repayment frequency</strong></td>
<td>Weekly, except agricultural financing</td>
</tr>
<tr>
<td><strong>No. of installment to complete repayment</strong></td>
<td>Should depend on the duration of the contract</td>
</tr>
<tr>
<td><strong>Group member’s mandatory savings</strong></td>
<td>Minimum of N100.00 per week</td>
</tr>
<tr>
<td><strong>Mandatory financing</strong></td>
<td>Optional</td>
</tr>
<tr>
<td><strong>Service charge</strong></td>
<td>Market determined but transparent. Display of indicative rate of return and fees board is mandatory</td>
</tr>
<tr>
<td><strong>EARNINGS</strong></td>
<td></td>
</tr>
</tbody>
</table>
| Operational Self-sufficiency (OSS) | a measure of total operating income to total costs (operating costs + financing loss provision + financing cost), that is:  
\[
\text{OSS} = \frac{\text{Operating Income}}{\text{operating costs + Loss provision + financing cost}} \times 100
\]  
>100% |
| Financial Self-sufficiency (FSS) | a measure of a MFB’s adjusted operating income to adjusted direct and indirect costs (i.e. operating costs + loss provision + financing cost), that is:  
\[
\text{FSS} = \frac{\text{Adjusted Operating Income}}{\text{operating costs + loss provision + financing cost}}
\]  
>120% |
financing cost), that is:
\[
FSS = \frac{\text{Adjusted Operating Income}}{\text{Adjusted (operating costs + loss provision + financing cost)}} \times 100
\]

NB: Operating income and expenses are adjusted for inflation and concessional loans (Qard).

Financial Sustainability
- Operate at full-cost recovery basis.
- Maintain lean operational costs in order to record positive ROA and ROE.

<table>
<thead>
<tr>
<th>Financial Sustainability</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Expenses to Total Assets</td>
<td>≤15%</td>
<td></td>
</tr>
<tr>
<td>Staff Costs to Total Assets</td>
<td>≤10%</td>
<td></td>
</tr>
<tr>
<td>Administrative Expenses to Total Assets</td>
<td>≤5%</td>
<td></td>
</tr>
<tr>
<td>Total Expenses to Total Assets</td>
<td>≤30%</td>
<td></td>
</tr>
</tbody>
</table>

**LIQUIDITY**

<table>
<thead>
<tr>
<th>Liquidity Ratio</th>
<th>10% (S.12.1.2 of the NIMFB Guidelines.)</th>
</tr>
</thead>
</table>

Minimum investment in compliant instruments

<table>
<thead>
<tr>
<th>Minimum investment in compliant instruments</th>
<th>Minimum of 5% and Maximum of 10% (S.12.1.1 of the NIMFB Guidelines.)</th>
</tr>
</thead>
</table>

**SOCIAL PERFORMANCE MEASUREMENT**

<table>
<thead>
<tr>
<th>Mission and Vision</th>
<th>Should be clear and focused on the poor, women, or vulnerable groups</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Transparent and responsible pricing</th>
<th>Prices, terms and conditions of contract (including charges and all fees) should be clear, transparent, and adequately disclosed in a form understandable and affordable to the clients</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Avoidance of over-indebtedness</th>
<th>Reasonable steps should be taken to ensure that financing will be granted only if the customers have demonstrated adequate ability to repay and will not put the customers at significant risk of over-indebtedness.</th>
</tr>
</thead>
</table>

<p>| Disclosure of required information to Credit Reference Bureaux | Information on all credit clients should be supplied to licenced CRBs from time to time (S.18 of the NIMFB Guidelines.) |</p>
<table>
<thead>
<tr>
<th><strong>BUSINESS PLAN</strong></th>
<th><strong>Funding / Financial Strategy</strong></th>
<th><strong>OTHER PARAMETERS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Plan and Annual Budgeting</td>
<td>Clear financial strategy evidenced by a diversified funding base.</td>
<td>Office accommodation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funding / Financial Strategy</td>
<td>Clear financial strategy evidenced by a diversified funding base.</td>
<td>Branch expansion (including meeting points, customer service point, cash centres and branches) - for State and National NIMFBs only</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>