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CIRCULAR TO ALL OTHER FINANCIAL INSTITUTIONS IN NIGERIA

EXPOSURE DRAFT OF THE CODES OF CORPORATE GOVERNANCE FOR OTHER FINANCIAL INSTITUTIONS IN NIGERIA

To strengthen governance practices, ensure high ethical conduct and provide minimum acceptable governance standards for Other Financial Institutions in Nigeria, the CBN has developed distinct governance codes of corporate governance for the following institutions:

- a. Primary Mortgage Banks
- b. Micro Finance Banks
- c. Mortgage Refinance Companies
- d. Development Finance Institutions
- e. Bureau de Change; and
- f. Finance Companies.

Pursuant to its resolve to engage stakeholders on policy issues, we attach herewith, the exposure draft of the governance codes for your comments and inputs. The exposure draft may also be accessed at the Bank's website, www.cbn.gov.ng.

Hard copies of your comments may be sent to the Director, Financial Policy and Regulation Department while soft copies should be e-mailed to corpgovteam@cbn.gov.ng within three (3) weeks from the date of this letter, please.


KEVIN N. AMUGO

DIRECTOR, FINANCIAL POLICY & REGULATION DEPARTMENT

CODE OF CORPORATE GOVERNANCE FOR BUREAUX DE CHANGE

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1.0 INTRODUCTION

Bureaux De Change (BDCs) are financial institutions licensed to carry on small scale foreign exchange business on a stand-alone basis in Nigeria, serve as tools for the management of exchange rate and provide economic data for monetary policy decisions. Their activities impact on exchange rates; hence BDCs are important players in the money market.

In 2014, the Central Bank of Nigeria observed some deficiencies in the operational effectiveness of BDCs which militate against the achievement of their objectives. To address this challenge, the CBN commenced the reform of the sub-sector and issued revised guidelines which, among others, reviewed upwards the minimum capital requirement for BDCs.

To further strengthen the institutions and reposition them to perform their statutory roles, the CBN hereby issues the Code of Corporate Governance for BDCs in Nigeria to complement extant operational guidelines and regulations on BDC business.

1.1 Application

The code shall apply to BDCs in Nigeria.

1.2 Compliance

External auditors of BDCs shall report annually to the CBN, the extent of the BDCs' compliance with the provisions of this Code.

1.3 Effective Date

This code shall take effect from XX 2016.

2.0 BOARD AND MANAGEMENT

2.1 Responsibilities of the Board and Management

- 2.1.1 The Board is accountable and responsible for the performance and affairs of the BDC. Specifically, and in line with the provisions in the Companies and Allied Matters Act (CAMA) 1990 (as amended), Directors owe the institution the duty of care and loyalty and shall act in the interest of the BDC's employees and other stakeholders.
- 2.1.2 The Board shall define the institution's strategic goals, approve its long and short-term business strategies and monitor their implementation by management.
- 2.1.3 The Board shall determine the skills, knowledge and experience that members require and work effectively as a team to achieve the institution's objectives.
- 2.1.4 The Board shall ensure that its human, material and financial resources are effectively deployed towards the attainment of set goals of the BDC.
- 2.1.5 The Board shall appoint the MD/CEO as well as top management staff and establish a framework for the delegation of authority in the BDC.
- 2.1.6 The Board shall ensure that a succession plan is in place for the MD/CEO and other management staff.
- 2.1.7 Members of the Board are severally and jointly liable for the activities of the institution.
- 2.1.8 The Board shall ensure strict adherence to the Code of Conduct for BDC Directors.

2.2 Board Size and Composition

- 2.2.1 The size of the Board of any BDC shall be limited to a minimum of three (3) and a maximum of five (5).
- 2.2.2 Members of the Board shall be qualified persons of proven integrity and shall be knowledgeable in business and financial matters or as may be prescribed by their respective guidelines.
- 2.2.3 The Board of BDCs shall comprise of at least one independent director with proven integrity and knowledgeable in business and financial matters for a term not more than five years

2.3 Board Appointment and Tenure

- 2.3.1 Existing CBN guidelines on appointment to the Board of financial institutions shall continue to be applied.
- 2.3.2 Track record of appointees shall be an additional eligibility requirement. Such records shall cover both integrity and past performance, in accordance with the extant CBN Guidelines on Fit and Proper Persons Regime.
- 2.3.3 To enhance their effectiveness, Directors shall have access to corporate information under conditions of confidentiality; facilitate training, continuing education and access to independent professional advice.

2.4 Board Committees

- 2.4.1 The Board of BDC may establish Committees as appropriate to support it in the discharge of its responsibilities.

2.5 Board Meetings

- 2.5.1 To effectively perform its oversight function and monitor management's performance, the Board shall meet at least once every quarter.
- 2.5.2 Every Director is required to attend all meetings of the Board. In order to qualify for re-election, a Director must have attended at least two-thirds of all Board meetings.
- 2.5.3 The Board shall disclose, in the Corporate Governance Section of the Annual Report, the total number of Board meetings held in the financial year and attendance by each Director.

2.6 Remuneration

- 2.6.1 BDCs shall align top management and Board remuneration with the long term interests of their institutions and their shareholders.
- 2.6.2 Levels of remuneration shall not be excessive but sufficient to attract, retain and motivate top officers of the institutions and this shall be balanced against the BDC's long term interest.

3.0 SHAREHOLDERS

3.1 Rights and Functions of Shareholders

- 3.1.1 Shareholders shall have the right to obtain relevant and material information from the BDC on a timely and regular basis.
- 3.1.2 Shareholders shall have the right to participate actively and vote in general meetings.

3.2 Equity Ownership

- 3.2.1 No government, ministry, department or agency shall have direct and/or indirect equity holding in any BDC.

3.3 Protection of Shareholders' Rights

- 3.3.1 Every shareholder shall be treated fairly
- 3.3.2 The Board shall ensure that minority shareholders are adequately protected from overbearing influence of controlling shareholders.
- 3.3.3 The Board shall ensure that the shareholders are promptly provided with documentary evidence of ownership interest in the BDCs such as share certificates, dividend warrants and related instruments. Where these are rendered electronically, the Board shall ensure that they are sent in a secure manner.

3.4 General Meetings

- 3.4.1 Notice of general meetings shall be as prescribed by the CAMA 1990 (as amended).
- 3.4.2 The Board shall ensure that the venue of a general meeting shall be convenient and easily accessible to the majority of shareholders.
- 3.4.3 The Board shall ensure that unrelated issues for consideration are not lumped together at general meetings. Statutory business shall be clearly and separately set out. Separate resolutions shall be proposed and voted on each substantial issue.
- 3.4.4 The Board shall ensure that decisions reached at general meetings are properly and fully implemented.

4.0 RIGHTS OF OTHER STAKEHOLDERS

- 4.1.1 Employees, customers and other stakeholders of BDCs shall be able to freely communicate their concerns about illegal or unethical practices to the Board. Where such concerns bother on the activities of the Board, such individuals shall have recourse to the CBN in accordance with Section 3.4 of the Guidelines for Whistle Blowing for Banks and Other Financial Institutions in Nigeria.
- 4.1.2 Where such stakeholders' interests are protected by law, stakeholders shall have the opportunity to obtain effective redress for violation of their rights.
- 4.1.3 BDCs shall demonstrate good Corporate Social Responsibility (CSR) to their stakeholders such as customers, employees, host communities, and the general public.

5.0 DISCLOSURE AND TRANSPARENCY

- 5.1.1 In order to foster good corporate governance, BDCs are required to make timely, quality and robust disclosure beyond the statutory requirements in BOFIA 1991 as amended, CAMA 1990, monetary policy guidelines, all rules and regulations as well as circulars issued by the CBN on foreign exchange activities/business from time to time.
- 5.1.2 Disclosure in the annual and periodic financial reports or by any other appropriate means shall include, but not limited to, material information on:
- (a) Exchange Rates applied in the preparation of the accounts.
 - (b) Rationale for all material estimates;
 - (c) Details on Directors:
 - i. Total NEDs' remuneration, including fees, allowances, etc;
 - ii. Total Executive compensation, including bonuses paid/payable;
 - iii. Organizational Structure.
 - (d) All regulatory/supervisory contraventions during the year under review and infractions uncovered through whistle blowing, including regulatory sanctions and penalties.
 - (e) Any service contracts and other contractual relationships with related parties.
 - (f) Frauds and Forgeries.
 - (g) Sources and application of funds during the period of reporting.
 - (h) Details of all domiciliary accounts owned and maintained by the BDC.
 - (i) All customers' complaints during the reporting period and actions taken thereon.
 - (j) Any matter not specifically mentioned in this code but which is capable of affecting in a significant form, the financial condition of the BDC or its status as a going concern.

- 5.1.3 Each BDC should have an Internal Auditor who shall report directly to the Board. The Internal Audit and Compliance functions may be merged and headed by one individual.
- 5.1.4 The appointment and removal of the Chief Compliance Officer/Head of Internal Audit shall be the responsibility of the Board subject to CBN's ratification. The CBN must be notified of any change and reasons thereof, within fourteen (14) days of such change.
- 5.1.5 The qualification and experience of the Chief Compliance Officer/ Head of Internal Audit shall be in accordance with the provisions of the CBN's Competency Framework for the Banking Industry. The Chief Compliance Officer (CCO) shall, in addition to monitoring compliance with Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) requirements, monitor the implementation of the corporate governance code.
- 5.1.6 Appointment of external auditors shall be approved by the CBN.
- 5.1.7 External auditors shall render reports to the CBN on practices, internal controls and level of compliance with regulatory directives.
- i. The external auditor shall review the work of the internal auditor on each of the bank's key risk elements to cover risk identification, measurement, monitoring and control.
 - ii. The external auditor shall review compliance with policies and internal control procedures put in place by the Board to manage and mitigate the institution's risks.
 - iii. Copies of their report shall be forwarded to the CBN together with the external auditor's management letter on the BDC's audited financial statements.
- 5.1.8 External auditors of BDCs shall not provide bookkeeping or other services related to the accounting records or financial statements of the audit client;
- 5.1.9 The tenure of auditors in a given BDC shall be for a maximum period of ten (10) cumulative years after which the audit firm shall not be reappointed in the BDC until after a period of another ten (10) consecutive years.

5.2 Whistle Blowing

- 5.2.1 BDC shall have a whistle-blowing policy made known to employees, customers and other stakeholders.
- 5.2.2 The policy shall contain mechanisms, including assurance of confidentiality, that encourage all stakeholders to report any unethical activity to the BDC and/or the CBN.

6.0 RISK MANAGEMENT

- 6.1.1 Every board of BDC shall put in place adequate systems, policies and procedures for the identification, measurement, monitoring and control of the risks inherent in its operations.

7.0 ETHICS & PROFESSIONALISM AND CONFLICT OF INTEREST

7.1 Ethics & Professionalism

- 7.1.1 To make ethical and responsible decisions, BDCs shall comply with their legal obligations and have regard to the reasonable expectations of their stakeholders.
- 7.1.2 BDCs shall ensure compliance with extant laws and regulations on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT).
- 7.1.3 BDCs shall put in place a code of conduct and disclose in the code or a summary of the code such information as:
 - i. the practices necessary to maintain confidence in the institution's integrity;
 - ii. the practices necessary to take into account their legal obligations and the expectations of their stakeholders;
 - iii. the responsibility and accountability of individuals reporting and investigating reports of unethical practices.
- 7.1.4 The Code should:
 - (a) commit the BDC, its Board and management (and employees) to the highest standards of professional behaviour, business conduct and sustainable business practices;
 - (b) be developed in collaboration with management and employees;

(c) receive commitment for its implementation from the Board, the Managing Director/Chief Executive Officer and individual Directors of the company;

(d) be sufficiently detailed as to give clear guidance to users including advisers, consultants and contractors;

(e) be formally communicated to the persons to whom it applies; and

(f) be reviewed regularly and updated when necessary.

7.2 Conflict of Interest

7.2.1 The Board of Directors shall be responsible for managing conflicts of interest.

7.2.2 Directors shall promptly disclose to the Board any real or potential conflict of interest that they may have regarding any matter that may come before the Board.

7.2.3 Directors shall abstain from discussions and voting on any matter in which they have or may have a conflict of interest.

7.2.4 Directors who are aware of a real, potential or perceived conflict of interest on the part of a fellow Director, have a responsibility to promptly raise the issue for clarification, either with the Director concerned or with the Chairman of the Board.

7.2.5 Disclosure by a Director of a real, potential or perceived conflict of interest or a decision by the Board as to whether a conflict of interest exists shall be recorded in the minutes of the meeting.

8.0 SANCTIONS

8.1.1 Compliance with the code is mandatory for BDCs.

8.1.2 Returns on the status of each institution's compliance with this code shall be rendered by BDCs to the CBN semi-annually or as may be specified by the CBN from time to time.

8.1.3 Failure to comply with the code will attract appropriate sanctions in accordance with Section 60 of BOFIA 1991 as amended or as may be specified in any applicable legislation or regulation.

DRAFT CODE OF CORPORATE GOVERNANCE FOR DEVELOPMENT FINANCE INSTITUTIONS IN NIGERIA

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1.0 INTRODUCTION

Development Finance Institutions (DFIs) are specialized financial Institutions with specific mandate established in Nigeria to support the critical sectors of the economy such as agriculture and manufacturing as well as micro, small and medium scale enterprises (MSMEs). The objective is to provide funds for MSMEs and large enterprises for economic development.

In an environment where there is constant pressure for management of DFIs to deliver on its objective of meeting socio-economic development and financial system stability, strong corporate governance becomes critical safeguards against unethical practices.

To achieve their mandates, DFIs need to adhere to accepted governance standards, code of ethics and best practices as well as formal laws and extant regulations. This Code is developed to guide licensed DFIs towards entrenching good corporate governance standards and practices to ensure that they are managed safely and soundly where risk-taking activities and business prudence are appropriately balanced so as to maximize shareholders' returns and protect the interests of all stakeholders.

1.1 **Application**

The code shall apply to DFIs in Nigeria.

1.2 **Compliance**

External auditors of DFIs shall report annually to the CBN, the extent of the DFIs' compliance with the provisions of this Code.

1.3 **Effective Date**

This code shall take effect from XX 2016.

2.0 BOARD AND MANAGEMENT

2.1 Responsibilities of the Board

- 2.1.1 The Board of Directors shall have the ultimate responsibility for the management of a DFI. Specifically, and in line with the provisions in the Companies and Allied Matters Act (CAMA) 1990 as amended, Directors owe the DFI a duty of care and loyalty and shall act in the interest of the DFI and its stakeholders.
- 2.1.2 The Board shall define the DFI's strategic goals, approve its long and short-term business strategies and monitor their implementation by management.
- 2.1.3 The Board shall determine the skills, knowledge and experience that members require and work effectively as a team to achieve the institution's objectives.
- 2.1.4 The Board shall ensure that its human, material and financial resources are effectively deployed towards the attainment of the goals of the DFI.
- 2.1.5 Upon meeting the qualification and experience requirements of extant laws and regulations (including but not limited to the CBN Fit and Proper Persons Regime), every appointment to the Board of Directors and top management positions in a DFI shall be approved by the CBN.
- 2.1.6 The Board shall ensure that a succession plan is in place for the MD/CEO and other Executive Directors.
- 2.1.7 The Board shall set limits of authority, specifying the threshold for large transactions which it must approve before they take place.

2.1.8 Members of the Board are severally and jointly liable for the activities of the institution.

2.1.9 The Board shall ensure strict adherence to the Code of Conduct for Directors of Banks and OFIs as well as compliance with extant laws and regulations.

2.1.10 The Board shall have in place a charter.

2.2 Size and Composition

2.2.1 The number of Directors on the Board of a DFI shall be a minimum of seven (7) and a maximum of eleven [11] or in accordance with the Act establishing the institution.

2.2.2 The Board shall consist of Executive (EDs) and Non-Executive Directors (NEDs) with more than fifty per cent comprising of NEDs.

2.2.3 The Board of a DFI shall consist of a minimum of one (1) and a maximum of two (2) independent directors as stipulated in the CBN guidelines on the Appointment of Independent Directors.

2.3 Appointment

2.3.1 Procedure for appointment to the Board shall be formal, transparent and documented in the board charter.

2.3.2 Existing CBN guidelines on appointment to the Board of financial institutions shall continue to be applied to DFIs or as provided in the enabling Act establishing the institution.

2.3.3 Track record of appointees shall be an additional eligibility requirement. Such records shall cover both integrity and past performance, in accordance with the extant CBN Guidelines on Fit and Proper Persons Regime.

2.3.4 No Director, either Executive or Non-Executive, shall be allowed to serve on the Boards of a DFI and a holding company within a Group at the same time.

2.3.5 To enhance the effectiveness of Directors, the Directors shall have access to corporate information under conditions of confidentiality; provide training and continuing education and facilitate access to independent professional advice.

2.4 Tenure

2.4.1 Except as stipulated in the enabling Act, the tenure of the CEO of a DFI shall be in accordance with the terms of engagement with the DFIs subject to a maximum period of ten (10) years. Such tenure shall be broken down into periods not exceeding five (5) years at a time. Such a CEO shall not be eligible for appointment in that capacity in the DFI or its subsidiaries until after a period of three (3) years.

2.4.2 To ensure continuity and injection of fresh ideas, Non-Executive Directors of DFIs shall serve for a maximum of three (3) terms of four (4) years each.

2.4.3 The tenure of the MD/CEO of the DFI shall be in accordance with the terms of engagement subject to a maximum period of ten (10) years. Such tenure shall be broken down into periods not exceeding five (5) years at a time. Any person who has served as MD/CEO for the maximum tenure (of ten years) in a DFI shall not qualify for appointment in any capacity in the same DFI or its subsidiaries until after a period of three years after the expiration of his tenure as MD/CEO.

2.4.4 In the event that the Board of Directors of a DFI is dissolved, a transition period of not more than ninety (90) days shall be permitted for the reconstitution of a new Board of Directors.

2.5 Separation of Powers of the Board

2.5.1 The positions of the Board Chairman and the Managing Director/Chief Executive Officer (MD/CEO) shall be separate except otherwise prescribed by the enabling Act of the DFI. No one person shall combine the two positions in any DFI at the same time. For the avoidance of doubt, no executive Vice Chairman shall be recognized in the Board structure.

2.5.2 Where the DFI is a member of a holding company, not more than two extended family members shall be allowed to serve on the Boards of the DFI and the holding company

2.5.3 No two members of the same extended family shall occupy the positions of Chairman and MD/CEO or Executive Director of the DFI.

2.6 Board Committees

2.6.1 The Board of a DFI shall establish the following Committees to assist it in the discharge of its responsibilities:

i) A Committee, responsible for the oversight of Risk Management and Audit functions. These functions may be carried out by one committee, depending on the size and complexity of the institution. This is without prejudice to the requirements of the Companies and Allied Matters Act (CAMA), 1990, as amended on the Statutory Audit Committee which is not a board committee.

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

ii) Board Governance and Nominations Committee

iii) Board Credit Committee

2.6.2 All Board Committees shall have a charter to be approved by the CBN.

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

2.6.4 All Board Committees shall be headed by Non-Executive Directors

2.6.5 The Board Audit Committee (BAC) shall have unrestricted access to the financial records of the DFI, including external auditors' reports.

2.6.6 The MD/CEO shall not be a member of the BAC.

2.7 Board Meetings

2.7.1 To effectively perform its oversight function and monitor management's performance, the Board shall meet at least once every quarter.

2.7.2 Every Director is required to attend all meetings of the Board, and Board Committees in which he is a member. In order to qualify for re-election, a Director must have attended at least two-thirds of all Board and Board Committee meetings.

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

2.8 Remuneration

- 2.8.1 DFIs shall align Board and top management remuneration with the long term interests of their institutions and those of their shareholders, where applicable.
- 2.8.2 Levels of remuneration should not be excessive but sufficient to attract, retain and motivate top officers of the institutions and this should be balanced against the DFIs long term interest.
- 2.8.3 Where remuneration is linked to performance, it shall be designed in such a way as to prevent excessive risk taking.
- 2.8.4 Every DFIs shall have a remuneration policy put in place by the Board of Directors, which shall be disclosed to the shareholders in the annual report.
- 2.8.5 A Committee of Non-Executive Directors shall determine the remuneration of executive Directors.
- 2.8.6 The MD/CEO and other Executive Directors shall not receive sitting allowances and Directors' fees.
- 2.8.7 Non-Executive Directors' (NEDs) remuneration shall be limited to Directors' fees, sitting allowances for Board and Board Committee meetings and reimbursable travel and hotel expenses. NEDs shall not receive salaries and benefits whether in cash or in kind, other than those mentioned above.
- 2.8.8 Where stock options are adopted as part of executive remuneration or compensation, the Board shall ensure that the stock options are not priced at a discount except with the prior authorization of the relevant regulatory agencies.
- 2.8.9 Stock options shall be tied to performance and subject to the approval of the shareholders at AGMs.

2.8.10 Share options shall not be exercisable until one year after the expiration of the tenure of the Director.

2.8.11 DFIs shall disclose in their annual reports, details of the shares held by Directors and their related parties.

2.8.12 Where there is a Remuneration Committee in addition to the three Committees prescribed in Section 2.5.1, the membership shall comprise NEDs only while the Board Governance and Nomination Committee shall have a combination of EDs and NEDs. However, where both Committees are combined, its membership shall be drawn only from NEDs.

2.9 Board Appraisal

2.9.1 There shall be annual Board and Directors' review/appraisal covering all aspects of the Board's structure, composition, responsibilities, processes and relationships, as may be prescribed by the CBN.

2.9.2 Each Board should identify and adopt, in the light of the company's future strategy, its critical success factors or key strategic objectives.

2.9.3 The annual Board appraisal shall be conducted by an independent consultant. The report shall be presented to shareholders at the AGM and a copy forwarded to the CBN.

3.0 SHAREHOLDERS

3.1 Rights and Functions of Shareholders

- 3.1.1 Shareholders shall have the right to obtain relevant and material information from the DFI on a timely and regular basis.
- 3.1.2 Shareholders shall have the right to participate actively and vote in general meetings.
- 3.1.3 In addition to the traditional means of communication, DFIs are encouraged to have a website and communicate with shareholders via the website, newsletters, village meetings and regular Annual General Meetings (AGMs) and/or Extraordinary General Meetings (EGMs). Such information shall include major developments in the bank, risk management practices, executive compensation, local branch expansion, establishment of investment in subsidiaries and associates, Board and top management appointments, sustainability initiatives and practices, and any other relevant information.

3.2 Equity Ownership

- 3.2.1 Except for DFIs established by an enabling Act, an equity holding of 5% and above by any investor shall be subject to CBN's prior approval. Where such shares are acquired through the capital market, the bank shall apply for a no objection letter from the CBN immediately after the acquisition.
- 3.2.2 Ownership structure shall be in line with the provisions of the enabling Act establishing the DFI or as may be specified from time to time by the CBN.

3.3 Protection of Shareholders' Rights

- 3.3.1 Every shareholder shall be treated fairly.

3.3.2 The Board shall ensure that minority shareholders are adequately protected from overbearing influence of controlling shareholders.

3.3.3 The Board shall ensure that the DFI promptly provides to shareholders documentary evidence of ownership interest in the DFIs such as share certificates, dividend warrants and related instruments. Where these are rendered electronically, the Board shall ensure that they are sent in a secure manner.

3.4 General Meetings

3.4.1 Notice of general meetings shall be as prescribed by the enabling Act or the Companies and Allied Matters Act (CAMA) 1990.

3.4.2 The Board shall ensure that the venue of a general meeting shall be convenient and easily accessible to the majority of shareholders.

3.4.3 The Board shall ensure that unrelated issues for consideration are not lumped together at general meetings. Statutory business shall be clearly and separately set out. Separate resolutions shall be proposed and voted on each substantial issue.

3.4.4 The Board shall ensure that decisions reached at general meetings are properly and fully implemented.

3.5 Shareholders' Associations

3.5.1 The Board shall ensure that dealings of the DFIs with shareholders' associations are in strict adherence with the Code for Shareholders' Associations issued by the Securities and Exchange Commission (SEC). Where a DFI is not listed, its dealings with the Association shall be transparent and in line with the relevant governance codes.

4.0 RIGHTS OF OTHER STAKEHOLDERS

- 4.1.1 Employees, customers and other stakeholders of DFIs shall have the right to freely communicate their concerns about illegal or unethical practices to the Board. Where such concerns border on the activities of the Board, such individuals shall have recourse to the CBN in accordance with Section 3.4 of the Guidelines for Whistle Blowing for Banks and Other Financial Institutions in Nigeria.
- 4.1.2 Where such stakeholders' interests are protected by law, stakeholders shall have the opportunity to obtain effective redress for violation of their rights.
- 4.1.3 DFIs shall demonstrate good sense of Corporate Social Responsibility (CSR) to their stakeholders such as customers, employees, host communities, and the general public.

5.0 DISCLOSURE AND TRANSPARENCY

- 5.1.1 In order to foster good corporate governance, DFIs are encouraged to make timely, accurate and robust disclosures beyond the statutory requirements in BOFIA 1991 as amended, CAMA 1990, other applicable laws and standards.
- 5.1.2 Disclosure in the annual report shall include, but not limited to, material information on:
- (a) Major items that have been estimated in accordance with applicable accounting and auditing standards;
 - (b) Rationale for all material estimates;
 - (c) Corporate governance:
 - i. The DFI's remuneration policy for members of the Board and executives;

- ii. Total NEDs remuneration, including fees, allowances, etc;
- iii. Total Executive compensation, including bonuses paid/payable;
- iv. Details and reasons for share buy-backs, if any, during the period under review;
- v. Board of Directors' performance evaluation; and
- vi. Details of Directors, shareholders and their related parties who own 5% and above of the banks' shares as well as other shareholders who, in concert with others, control the bank.

- vii. Governance structure;
- viii. Composition of Board Committees including names of chairmen and members of each Committee

(e) Risk Assets:

- i. Concentration of assets, liabilities and off-balance sheet engagements by sector, geography, and product.
- ii. Loan quality.
- iii. Lending/borrowing to/from subsidiaries and associates.
- iv. Loans and advances/funding or commitment lines from institutions outside Nigeria.
- v. Related party transactions.
- vi. Insider-related credits in accordance with the extant CBN circular."

(f) Risk management:

- i. All significant risks.
- ii. Risk management practices indicating the Board's responsibility for the entire process of risk management as well as a summary of external auditors' observed lapses thereon."

(g) Information on strategic modification to the core business.

(h) All regulatory/supervisory contraventions during the year under review and infractions uncovered through whistle blowing, including regulatory sanctions and penalties.

(i) Capital Structure/Adequacy.

(j) Any service contracts and other contractual relationships with related parties.

(k) Frauds and Forgeries.

(l) Contingency Planning Framework.

5.1.3 Members of the board and executives are required to disclose to the board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the DFIs.

5.2 Transparency and Integrity in Reporting

5.2.1 DFIs shall have a structure in place to independently verify and safeguard the integrity of their financial reporting, which shall:

- i. entail the review and consideration of the financial statements by the BAC/Board; and
- ii. enhance the independence and competence of the DFIs internal and external auditors.

5.2.2 The BAC shall be structured in such a way that it:

- i. consists only of at least one Non-ED and two shareholders;
- ii. is chaired by a Non-ED;
- iii. Has at least three members.

5.2.3 The BAC shall be of sufficient size, independence and technical expertise to discharge its mandate effectively.

5.2.4 The BAC shall include members who are financially literate (that is, be able to read and understand financial statements). At least one of the members shall have relevant qualifications and experience in banking, financial and accounting matters).

5.2.5 The BAC shall review the integrity of the bank's financial reporting and oversee the independence of the internal and external auditors.

5.2.6 The BAC shall meet at least once every quarter.

5.2.7 "The appointment and removal of the Chief Compliance Officer/ Head of Internal Audit shall be the responsibility of the Board subject to CBN's ratification.

The CBN must be notified of any change and reasons thereof, within fourteen (14) days of such change."

5.2.8 "The qualification and experience of the Chief Compliance Officer/ Head of Internal Audit shall be in accordance with the provisions of the CBN's Competency Framework for the Banking Industry.

The office of the Chief Compliance Officer (CCO) and that of Internal Auditor may be combined depending on the size and complexity of the DFI's business.

The Internal Auditor shall, in addition to ensuring the internal control in the DFI, monitoring compliance with Anti-Money

Laundering and Combating the Financing of Terrorism (AML/CFT) requirements, monitor the implementation of the corporate governance code."

5.2.9 Appointment of external auditors shall be approved by the CBN.

5.2.10 External auditors shall render reports to the CBN on banks' risk management practices, internal controls and level of compliance with regulatory directives.

i. The external auditor shall review the work of the internal auditor on each of the DFI's key risk elements to cover risk identification, measurement, monitoring and control.

ii. The external auditor shall review compliance with policies and internal control procedures put in place by the Board to manage and mitigate the institution's risks.

iii. The external auditors shall report on the level of each key risk element as well as the composite risk profile of the DFI and make recommendations to the Board to enhance the effectiveness of risk management processes in the institution.

Copies of their report shall be forwarded to the CBN together with the external auditor's management letter on the DFI's audited financial statements."

5.2.11 External auditors of DFIs shall not provide client services that shall amount to conflict of interest including the following:

i. Bookkeeping or other services related to the accounting records or financial statements of the audit client;

ii. Appraisal or valuation services, fairness opinion or contribution-in-kind reports;

iii. Actuarial services;

iv. Internal audit outsourcing services;

v. Management or human resource functions including broker or dealer, investment banking services and legal or expert services."

5.2.12 The tenure of auditors in a given DFI shall be for a maximum period of ten (10) cumulative years after which the audit firm shall not be reappointed in the bank until after a period of another ten (10) consecutive years.

5.2.13 An audit firm shall not provide audit services to a DFI if one of the bank's top officials (Directors, Chief Finance Officer, Chief Audit Officer, etc) was employed by the firm and worked on the DFI's audit during the immediate past two (2) years.

5.3 Whistle Blowing

5.3.1 DFIs shall have a whistle-blowing policy made known to employees, customers and other stakeholders.

5.3.2 The policy shall contain mechanisms, including assurance of confidentiality, that encourage all stakeholders to report any unethical activity to the DFI and/or the CBN.

6.0 RISK MANAGEMENT

6.1.1 Every DFIs shall have a risk management framework specifying the governance architecture, policies, procedures and processes for the identification, measurement, monitoring and control of the risks inherent in its operations.

6.1.2 The Board is responsible for the DFIs policies on risk oversight and management and shall satisfy itself that management has developed and implemented a sound system of risk management and internal control.

6.1.3 Risk management policies shall reflect the DFI's risk management mandate, which shall include:

- a. Clear objectives and enterprise-wide authority for its activities;
- b. Risk philosophy, vision and mission;
- c. Authority to carry out its responsibilities independently;
- d. Scope of Enterprise Risk Management (ERM);
- e. A requirement for it to be communicated throughout the organization to promote transparency;
- f. Periodic review to ensure continued appropriateness;
- g. A requirement for management to report regularly on the effectiveness of the institution's risk management processes and on its aggregate exposures compared to approved limits; and
- h. Authority to follow-up on action taken by management in response to identified issues and related recommendations."

6.1.4 DFIs shall disclose a summary of its risk management policies. Such policies shall be disclosed in their annual financial statements.

6.1.5 DFIs risk management policies shall clearly describe the roles and responsibilities of the Board, BRMC, management and internal audit function.

6.1.6 Boards of DFIs shall ensure that the framework provides for regular and independent reviews of the risk management policies and procedures as well as periodic assessment of the adequacy and effectiveness of the risk management function.

6.1.7 The composition of a DFI's BRMC shall include at least 2 non-EDs and the executive Director in charge of risk management but chaired by a non-ED.

7.0 ETHICS & PROFESSIONALISM AND CONFLICT OF INTEREST

7.1 Ethics & Professionalism

7.1.1 To make ethical and responsible decisions, DFIs shall comply with their legal obligations and have regard to the reasonable expectations of their stakeholders.

7.1.2 DFIs shall establish a code of conduct and disclose in the code or a summary of the code such information as:

- i. the practices necessary to maintain confidence in the institution's integrity;
- ii. the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;
- iii. the responsibility and accountability of individuals reporting and investigating reports of unethical practices."

7.1.3 The Code should:

- (a) commit the DFI, its Board and management (and employees) to the highest standards of professional behaviour, business conduct and sustainable business practices;
- (b) be developed in collaboration with management and employees;
- (c) receive commitment for its implementation from the Board and the Managing Director/Chief Executive Officer and individual Directors of the company;

(d) be sufficiently detailed as to give clear guidance to users including advisers, consultants and contractors;

(e) be formally communicated to the persons to whom it applies; and

(f) be reviewed regularly and updated when necessary."

7.1.4 Where applicable, DFIs shall establish and disclose a policy concerning trading in its securities by Directors, senior executives and employees.

7.1.5 Where applicable, the trading policy shall contain appropriate compliance standards and procedures to ensure that the policy is properly implemented. There shall also be an internal review mechanism to assess compliance and effectiveness.

7.2 Conflict of Interest

7.2.1 Every DFI shall have in place an approved Conflict of Interest Policy. The policy shall, at the minimum, cover the following areas:

a) Approval & Revision date;

b) Definition of conflict of interest;

c) Purpose of the Policy;

d) Examples of conflict of interest situations;

e) Procedures to follow in situations of conflict of interest."

7.2.2 The Board of Directors shall be responsible for managing conflicts of interest.

7.2.3 Directors shall promptly disclose to the Board any real or potential conflict of interest that they may have regarding any matter that may come before the Board or its Committees.

- 7.2.4 Directors shall abstain from discussions and voting on any matter in which they have or may have a conflict of interest.
- 7.2.5 Directors who are aware of a real, potential or perceived conflict of interest on the part of a fellow Director, have a responsibility to promptly raise the issue for clarification, either with the Director concerned or with the Chairman of the Board.
- 7.2.6 Disclosure by a Director of a real, potential or perceived conflict of interest or a decision by the Board as to whether a conflict of interest exists shall be recorded in the minutes of the meeting.

8.0 SANCTIONS

- 8.1.1 Compliance with the code is mandatory for all DFIs.
- 8.1.2 Returns on the status of each DFI's compliance with this code shall be rendered to the CBN semi-annually or as may be specified by the CBN from time to time.
- 8.1.3 Failure to comply with the code will attract appropriate sanctions in accordance with Section 60 of BOFIA 1991 as amended or as may be specified in any applicable legislation or regulation.

CODE OF CORPORATE GOVERNANCE FOR FINANCE COMPANIES

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1.0 Introduction

Finance companies play a complimentary role to banks in the business of financial intermediation. This segment of the financial system is expected to mobilize funds by way of borrowings, debt issuance and fund raising from foreign investors for lending to small, micro and medium enterprises. Their activities were expected to deepen the market and complement the financial inclusion drive of the CBN.

The operational guidelines for finance companies in Nigeria was revised in 2014 as part of initiatives to establish financial stability as well as reposition the finance company sub-sector for greater effectiveness in the financial sector landscape.

To complement these efforts, the CBN hereby issues the Code of Corporate Governance for Finance Companies. The Code is expected to enhance good governance practices, engender public confidence to attract investments and promote efficiency and transparency in the sub-sector.

The Code is issued pursuant to the relevant provisions of the Central Bank of Nigeria (CBN) Act 2007, Banks and Other Financial Institutions Act (BOFIA) CAP B3, Laws of the Federation of Nigeria (LFN 2004, other relevant laws and extant CBN Guidelines and Circulars.

1.1 Application

The code shall apply to FCs in Nigeria.

1.2 Compliance

External auditors of FCs shall report annually to the CBN, the extent of the FCs' compliance with the provisions of this Code.

1.3 Effective Date

This code shall take effect from XX 2016.

2.0 BOARD AND MANAGEMENT

2.1 Responsibilities of the Board and Management

- 2.1.1 The Board is accountable and responsible for the performance and affairs of the FC. Specifically, and in line with the provisions in the Companies and Allied Matters Act (CAMA) 1990 (as amended), Directors owe the FC the duty of care and loyalty and to act in the interest of the FC's employees and other stakeholders.
- 2.1.2 The Board shall define the FC's strategic goals, approve its long and short-term business strategies and monitor their implementation by management.
- 2.1.3 The Board shall determine the skills, knowledge and experience that members require and work effectively as a team to achieve the institution's objectives.
- 2.1.4 The Board shall ensure that its human, material and financial resources are effectively deployed towards the attainment of set goals of the FC.
- 2.1.5 The Board shall appoint the MD/CEO as well as top management staff and establish a framework for the delegation of authority in the FC.
- 2.1.6 The Board shall ensure that a succession plan is in place for the MD/CEO and other executive Directors.
- 2.1.7 The Board shall set limits of authority, specifying the threshold for large transactions which it must approve before they take place. There shall be no exception for such large transactions.
- 2.1.8 Members of the Board are severally and jointly liable for the activities of the institution.
- 2.1.9 The Board shall ensure strict adherence to the Code of Conduct for Directors.
- 2.1.10 "The Board shall establish and monitor agreed performance targets for the Management.
- 2.1.11 The Board shall consider, approve and monitor the implementation of the FC's budget, including setting expenditure limits for Management and Board Committees.

2.2 Board Size and Composition

- 2.2.1 The size of the Board of any FC shall be limited to a minimum of 5 and a maximum of 9 with more than fifty per cent of the board of director comprising non-executive directors (NEDs).

- 2.2.2 Members of the Board shall be qualified persons of proven integrity and shall be knowledgeable in business and financial matters or as may be prescribed by their respective guidelines.
- 2.2.3 The Board shall have a minimum of one (1) and a maximum of two (2) independent directors. The maximum tenure of independent directors in an FC shall be two terms of four (4) years each.

2.3 Separation of Powers

- 2.3.1 The positions of the Board Chairman and the Managing Director/Chief Executive Officer (MD/CEO) shall be separate. No one person shall combine the two positions in any FC at the same time.
- 2.3.2 No two members of a family shall occupy the positions of Chairman and MD/CEO or Executive Director of the FC and Chairman or MD/CEO of a FC's subsidiary at the same time. The expression 'family' includes director's spouse, parents, children, siblings, cousins, uncle, aunts, nephews, nieces and inlaws.

2.4 Board Appointment and Tenure

- 2.4.1 Procedure for appointment to the Board shall be formal, transparent and documented in the board charter.
- 2.4.2 The appointment to the Board of FCs shall be in accordance with extant regulations issued by the CBN.
- 2.4.3 To ensure continuity and injection of fresh ideas, NEDs of FCs shall serve for a maximum of three (3) terms of four (4) years each.
- 2.4.4 The tenure of the CEO of a FC shall be in accordance with the terms of engagement subject to a maximum period of ten (10) years. Such tenure shall be broken down into periods not exceeding five (5) years at a time. Such a CEO shall not be eligible for appointment in that capacity in the FC or its subsidiaries after the expiration of three (3) years following cessation of the tenure..
- 2.4.5 To enhance the effectiveness of Directors, they shall have access to corporate information and independent professional advice under conditions of confidentiality, undergo training and continuing education.

2.5 Board Committees

- 2.5.1 The Board of FCs shall establish the following Committees:

- i) A Committee responsible for the oversight of Risk Management and Audit functions. These functions may be carried out by one committee, depending on the size and complexity of the institution. This is without prejudice to the requirements of CAMA 1990 (as amended) on the Statutory Audit Committee which is not a board committee.

Each FC should have a Risk Officer and Internal Auditor who shall report directly to the Committee(s) responsible for Risk Management and Audit function(s);

- ii) Board Governance and Nominations Committee; and

- iii) Board Credit Committee

2.5.2 All Board Committees shall have a charter to be approved by the CBN.

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

2.5.4 All Board Committees shall be headed by NEDs.

2.5.5 The Board Audit Committee (BAC) shall have unrestricted access to the financial records of the FC including external auditors' reports.

2.5.6 No director of a FC shall be allowed to serve concurrently as an employee or a director in a bank or other financial institution except where the finance company is promoted by the banks or other financial institution and is representing the interest of such institution.

2.5.7 The MD/CEO shall not be a member of the BAC.

2.6 Board Meetings

2.6.1 To effectively perform its oversight function and monitor management's performance, the Board shall meet at least once every quarter.

2.6.2 Every Director is required to attend all meetings of the Board, and Board Committees in which he is a member. In order to qualify for re-election, a Director must have attended at least two-thirds of all Board and Board Committee meetings.

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

2.6.4 Board/Board Committee meetings shall be deemed to be duly constituted where two-third of members are present, provided that a majority of NEDs are present at the meeting.

2.7 Remuneration

2.7.1 An FC shall align top management and Board remuneration with the long term interests of their institutions and their shareholders, where applicable.

2.7.2 Levels of remuneration shall not be excessive but sufficient to attract, retain and motivate top officers of the institutions and this shall be balanced against the FC's long term interest.

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

2.7.4 Every FC shall have a remuneration policy put in place by the Board of Directors, which shall be disclosed to the shareholders in the annual report.

2.7.5 The MD/CEO and other Executive Directors shall not receive sitting allowances and Directors' fees.

2.7.6 Non-Executive Directors' (NEDs) remuneration shall be limited to Directors' fees, sitting allowances for Board and Board Committee meetings and reimbursable travel and hotel expenses. NEDs shall not receive salaries and benefits whether in cash or in kind, other than those mentioned above.

2.7.7 Where stock options are adopted as part of executive remuneration or compensation, the Board shall ensure that the stock options are not priced at a discount except with the prior authorization of the relevant regulatory agencies.

2.7.8 Stock options shall be tied to performance and subject to the approval of the shareholders at AGMs.

2.7.9 Share options shall not be exercisable until one year after the expiration of the tenure of the Director.

2.7.10 FCs shall disclose in their annual reports, details of the shares held by Directors and their related parties.

2.7.11 Where there is a Remuneration Committee in addition to the three Committees prescribed in Section 2.4.1, the membership shall comprise NEDs only while the Board Governance and Nomination Committee shall have a combination of EDs and NEDs. However, where both Committees are combined, its membership shall be drawn only from NEDs. The

Remuneration Committee shall determine the remuneration of executive Directors, management and members of staff.

2.8 Board Appraisal

- 2.8.1 There shall be annual Board and Directors' review/appraisal covering all aspects of the Board's structure, composition, responsibilities, processes and relationships, as may be prescribed by the CBN.
- 2.8.2 Each Board shall identify and adopt, in the light of the company's future strategy, its critical success factors or key strategic objectives.
- 2.8.3 The annual Board appraisal shall be conducted by an independent consultant. The report shall be presented to shareholders at the AGM and a copy forwarded to the CBN.

3.0 SHAREHOLDERS

3.1 Rights and Functions of Shareholders

- 3.1.1 Shareholders shall have the right to obtain relevant and material information from the FC on a timely and regular basis.
- 3.1.2 Shareholders shall have the right to participate actively and vote in general meetings.
- 3.1.3 In addition to the traditional means of communication, FCs are encouraged to have a website and communicate with shareholders via the website, newsletters, and regular Annual General Meetings (AGMs) and/or Extraordinary General Meetings (EGMs). Such information shall include major developments, risk management practices, executive compensation, establishment of investment in subsidiaries and associates, Board and top management appointments, sustainability initiatives and practices, and any other relevant information.

3.2 Equity Ownership

- 3.2.1 Except as approved by the CBN, no individual, group of individuals, their proxies or corporate entities and/or their subsidiaries shall own controlling interest in more than one (1) FC. Controlling Interest occurs where a shareholder or group of shareholders own enough shares in a company to influence key company decisions/policy.

3.3 Protection of Shareholders' Rights

- 3.3.1 Every shareholder shall be treated fairly.
- 3.3.2 The Board shall ensure that minority shareholders are adequately protected from overbearing influence of controlling shareholders.

3.3.3 The Board shall ensure that the FC promptly provides to shareholders documentary evidence of ownership interest in the FCs such as share certificates, dividend warrants and related instruments. Where these are rendered electronically, the Board shall ensure that they are sent in a secure manner.

3.4 General Meetings

3.4.1 Notice of general meetings shall be as prescribed by the CAMA 1990 (as amended).

3.4.2 The Board shall ensure that the venue of a general meeting is convenient and easily accessible to the majority of shareholders.

3.4.3 The Board shall ensure that unrelated issues for consideration are not lumped together at general meetings. Statutory business shall be clearly and separately set out. Separate resolutions shall be proposed and voted on each substantial issue.

3.4.4 The Board shall ensure that decisions reached at general meetings are properly and fully implemented.

3.5 Shareholders' Associations

3.5.1 The Board shall ensure that dealings of the FC with shareholders' associations are in strict adherence with the Code of Conduct for Shareholders' Associations issued by the Securities and Exchange Commission (SEC). Where an FC is not listed, its dealings with the Association shall be transparent and in line with the relevant governance codes.

4.0 RIGHTS OF OTHER STAKEHOLDERS

4.1.1 Employees, customers and other stakeholders of FCs shall be able to freely communicate their concerns about illegal or unethical practices to the Board. Where such concerns border on the activities of the Board, such individual shall have recourse to the CBN in accordance with Section 3.4 of the Guidelines for Whistle Blowing for Banks and Other Financial Institutions in Nigeria.

4.1.2 Where such stakeholders' interests are protected by law, stakeholders shall have the opportunity to obtain effective redress for violation of their rights.

4.1.3 FCs shall demonstrate good Corporate Social Responsibility (CSR) to their host communities and the general public.

5.0 DISCLOSURE AND TRANSPARENCY

5.1. Disclosure

5.1.1 In order to foster good corporate governance, FCs are required to make timely, quality and robust disclosure beyond the statutory requirements in BOFIA 1991 as amended, CAMA 1990, International Financial Reporting Standards (IFRS), extant guidelines for FCs and other applicable laws and regulations.

5.1.2 Disclosure in the website, annual and periodic financial reports or by any other appropriate means shall include, but not limited to, material information on:

(a) Major items that have been estimated in accordance with applicable accounting and auditing standards.

(b) Rationale for all material estimates;

(c) Corporate Governance:

- i. The FC's remuneration policy for members of the Board;
- ii. Total remuneration of NEDs;
- iii. Total executive compensation, including bonuses paid/payable;
- iv. Details and reasons for share buy-backs, if any, during the period under review;
- v. Board of Directors' performance evaluation;
- vi. Policy for handling related party transactions as well as lending to directors, officers, employees or controlling shareholders;
- vii. Policy on potential conflict of interests;
- viii. Process for nominating Board members and key executives;
- ix. Details of Directors, shareholders and their related parties who own 5% and above of the FC's shares as well as other shareholders who, in concert with others, control the FC;
- x. Organizational Structure;
- xi. Composition of Board and Board Committees including names of Chairmen and members of each Committee;
- xii. The recruitment approach for selection of members of the Board; and
- xiii. The content of any corporate governance code or policy and the process by which it is implemented.

d) Risk Assets:

- i. Concentration of assets, liabilities and off-balance sheet engagements by sector, geography, and product;
- ii. Loan quality;
- iii. Borrowings/funding or commitment lines from institutions outside Nigeria;

- iv. Related party transactions; and
 - v. Insider-related credits in accordance with the extant CBN circular.
- e) Risk management:
- i. All significant risks; and
 - ii. Risk management practices indicating the Board's responsibility for the entire process of risk management as well as a summary of external auditors' observed lapses thereon.
- f) Information on strategic modification to the core business.
- g) All regulatory/supervisory contraventions during the year under review and infractions uncovered through whistle blowing, including regulatory sanctions and penalties.
- h) Capital Structure/Adequacy.
- i) Any service contracts and other contractual relationships with related parties.
- j) Frauds and Forgeries.
- k) Contingency Planning Framework.
- l) All customers' complaints during the reporting period and actions taken thereon.
- m) Any matter not specifically mentioned in this code but which is capable of affecting in a significant form, the financial condition of the FC or its status as a going concern.
- 5.1.3 Members of the board and executives are required to disclose to the board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the FCs.

5.2 Transparency and Integrity Reporting

- 5.2.1 FCs shall have a structure to independently verify and safeguard the integrity of their financial reporting, which shall:
- i. entail the review and consideration of the financial statements by the BAC/Board; and
 - ii. enhance the independence and competence of the FC's internal and external auditors.
- 5.2.2 The BAC shall be structured in such a way that it:

- i. consists only of NEDs;
- ii. is chaired by an INED;
- iii. has at least three members.

5.2.3 The BAC shall be independent and possess the technical expertise to discharge its mandate effectively.

5.2.4 The BAC shall include members who are financially literate (that is, be able to read and understand financial statements). At least one of the members shall have relevant qualifications and experience in banking, financial and accounting matters.

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5.2.9 The qualification and experience of the Chief Compliance Officer/ Head of Internal Audit shall be in accordance with the provisions of the CBN's Competency Framework for the Banking Industry. The Chief Compliance Officer's (CCO) responsibilities shall include monitoring compliance with Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) requirements the implementation of the corporate governance code.

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5.2.11 External auditors shall render reports to the CBN on the FC's risk management practices, internal controls and level of compliance with regulatory directives. The auditors shall also:

- i. review the work of the internal auditor on each of the FC's key risk elements to cover risk identification, measurement, monitoring and control.
- ii. review compliance with policies and internal control procedures put in place by the Board to manage and mitigate the institution's risks.
- iii. report on the level of each key risk element as well as the composite risk profile of the FC and make recommendations to the Board to enhance the effectiveness of risk management processes in the FC.

- iv. Forward copies of their report to the CBN together with the external auditor's management letter on the FC's audited financial statements.

5.2.12 External auditors of FCs shall not provide client services that shall amount to conflict of interest including the following:

- i. Bookkeeping or other services related to the accounting records or financial statements of the audit client;
- ii. Appraisal or valuation services, fairness opinion or contribution-in-kind reports;
- iii. Actuarial services;
- iv. Internal audit outsourcing services;
- v. Management or human resource functions

5.2.13 The tenure of auditors in an FC shall be for a maximum period of ten (10) cumulative years after which the audit firm shall not be reappointed in the FC until after a period of another ten (10) consecutive years.

5.2.14 An audit firm shall not provide audit services to an FC if one of the FC's top officials such as Directors, Chief Finance Officer and Chief Auditor was employed by the firm and worked on the FC's audit during the immediate past two (2) years.

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- d) be sufficiently detailed as to give clear guidance to users including advisers, consultants and contractors;
- e) be formally communicated to the persons to whom it applies; and
- f) be reviewed when necessary.

7.1.4 Where applicable, FCs shall establish and disclose a policy concerning trading in the company's securities by Directors, senior executives and employees. The trading policy shall contain appropriate compliance standards and procedures to ensure that the policy is properly implemented. There shall also be an internal review mechanism to assess compliance and effectiveness.

7.2 Conflict of Interest

- 7.2.1 Every FC shall have in place an approved policy on conflict of interest. The policy shall, at the minimum, cover the following areas:
- a) Approval and Revision date;
 - b) Definition of conflict of interest;
 - c) Purpose of the Policy;
 - d) Examples of conflict of interest situations; and
 - e) Procedures to follow in situations of conflict of interest.
- 7.2.2 The Board of Directors shall be responsible for managing conflicts of interest.
- 7.2.3 Directors shall promptly disclose to the Board any real or potential conflict of interest that they may have regarding any matter that may come before the Board or its Committees.
- 7.2.4 Directors shall abstain from discussions and voting on any matter in which they have or may have a conflict of interest.
- 7.2.5 Directors who are aware of a real, potential or perceived conflict of interest on the part of a fellow Director, have a responsibility to promptly raise the issue for clarification, either with the Director concerned or with the Chairman of the Board.
- 7.2.6 Disclosure by a Director of a real, potential or perceived conflict of interest or a decision by the Board as to whether a conflict of interest exists shall be recorded in the minutes of the meeting.

8.0 SANCTIONS

- 8.1.1 Compliance with the code is mandatory for all FCs.
- 8.1.2 Returns on the status of each institution's compliance with this code shall be rendered to the Director, Other Financial Institutions Supervision Department of the Central Bank of Nigeria semi-annually for FCs or as may be specified by the CBN from time to time.
- 8.1.3 Failure to comply with the code will attract appropriate sanctions in accordance with Section 60 of BOFIA 1991 as amended or may be specified in any applicable legislation or regulation.

DRAFT CODE OF CORPORATE GOVERNANCE FOR MICROFINANCE BANKS

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1.0 INTRODUCTION

In view of the importance of micro and small enterprises to the growth of an economy, the Central Bank of Nigeria in 2005 introduced the Microfinance Policy and Regulatory Framework to support the development of this subsector. However, by 2014, some of the licensed microfinance banks (MFBs) had become insolvent, a development attributed to poor governance practices such as large scale mismanagement and gross insider abuses.

To reinforce the provisions of the Revised Guidelines for microfinance banks in Nigeria and other extant regulations, and in line with Section 57 of the Banks and Other Financial Institutions Act (BOFIA) 1991 (as amended), the CBN hereby issues this Code of Corporate Governance for Microfinance Banks in Nigeria.

The objectives of this code are to:

- a) Define minimum acceptable corporate governance standards for all licensed microfinance banks in Nigeria;
- b) Promote high ethical standards among operators; and
- c) Enhance public confidence in microfinance banks in Nigeria.

1.1 Application

The code shall apply to MFBs in Nigeria.

1.2 Compliance

External auditors of MFBs shall report annually to the CBN, the extent of the MFBs' compliance with the provisions of this Code.

1.3 Effective Date

This code shall take effect from XX 2016.

2.0 BOARD OF DIRECTORS AND MANAGEMENT

2.1 Responsibilities of the Board

- 2.1.1 The Board shall be accountable and responsible for the performance and affairs of the MFB. Specifically, and in line with the provisions in the Companies and Allied Matters Act (CAMA) 1990, Directors owe the MFB the duty of care and loyalty and to act in the interest of the MFB's employees and other stakeholders.
- 2.1.2 Members of the Board are severally and jointly liable for the activities of the MFB.
- 2.1.3 The Board shall define the MFB's strategic goals, approve its long and short-term business strategies and monitor their implementation by management.
- 2.1.4 The Board shall determine the skills, knowledge and experience that members require and work effectively as a team to achieve the MFB's objectives.
- 2.1.5 The Board shall ensure that its human, material and financial resources are effectively deployed towards the attainment of set goals of the MFB.
- 2.1.6 The Board shall appoint the Managing Director/Chief Executive Officer (MD/CEO) as well as management staff and establish a framework for the delegation of authority in the MFB.
- 2.1.7 The Board shall establish and monitor agreed performance targets for the management;
- 2.1.8 The Board shall set limits of authority, specifying the threshold for large transactions which it must approve before they take place.
- 2.1.9 The Board shall ensure that a succession plan is in place for the MD/CEO, executive directors and management staff of the MFB.
- 2.1.10 The Board shall consider, approve and monitor the implementation of the MFB's budget, including setting expenditure limits for management and Board Committees.

2.1.11 The Board shall consider for approval all credit facilities as proposed by the management.

2.1.12 The Board shall ensure strict adherence to the code of conduct for directors.

2.2 Composition and Size of the Board

2.2.1 The minimum number of Directors on the Board of a MFB shall be five (5) while the maximum shall be seven (7), ten (10) and fifteen (15) for Unit, State and National MFBs, respectively.

2.2.2 No Executive Director, other than the MD/CEO, shall be appointed by a Unit MFB. For a State or National MFB, however, the maximum number of Executive Directors (MD/CEO inclusive) shall be five (5).

2.2.3 Members of the Board shall be qualified persons of proven integrity and shall be knowledgeable in business and financial matters. At least two (2) members of the Board of Directors other than the Executive Directors shall be required to have banking or related financial industry experience.

2.2.4 The Board shall consist of Executive and Non-Executive Directors. The number of Non-Executive Directors shall be more than that of Executive Directors.

2.2.5 The Board of MFBs shall consist of a minimum of one (1) and a maximum of two (2) independent directors. This requirement is optional for Unit MFBs. An Independent Director is a member of the Board of Directors who has no direct material relationship with the MFB or any of its officers, major shareholders, subsidiaries and affiliates; a relationship which may impair the director's ability to make independent judgments or compromise the director's objectivity in line with Corporate Governance best practices.

2.3 Separation of Powers

2.3.1 The positions of the Board Chairman and the MD/CEO shall be separate. No one person shall combine the two positions in any MFB at the same

time. For the avoidance of doubt, no executive Vice Chairman shall be recognized in the Board structure.

2.3.2 Where the MFB is a member of a holding company, not more than two family members shall be allowed to serve on the Boards of the MFB and the holding company. The expression 'family' includes director's spouse, parents, children, siblings, cousins, uncle, aunts, nephews, nieces and inlaws.

2.3.3 No two members of a family shall occupy the positions of Chairman and MD/CEO or Executive Director of the MFB and Chairman or MD/CEO of a MFB's subsidiary at the same time. The expression 'family' includes director's spouse, parents, children, siblings, cousins, uncle, aunts, nephews, nieces and inlaws.

2.4 Appointment and Tenure

2.4.1 Members of the Board of Directors shall be appointed by the shareholders and approved by the CBN.

2.4.2 To qualify for the position of a Non-Executive Director, it is required that the nominee shall not be an employee of a bank or other financial institution, except where the MFB is promoted by the bank or other financial institution and the proposed Director is representing the interest of such an institution.

2.4.3 The procedure for appointment to the Board shall be formal, transparent and documented in the Board charter.

2.4.4 The appointment to the Board of Microfinance Banks shall be in accordance with extant regulations issued by the CBN from time to time.

2.4.5 To ensure continuity and injection of fresh ideas, Non-Executive Directors of MFBs shall serve for a maximum of three (3) terms of four (4) years each.

- 2.4.6 The tenure of the MD/CEO of the MFB shall be in accordance with the terms of engagement subject to a maximum period of ten (10) years. Such tenure shall be broken down into periods not exceeding five (5) years at a time. Any person who has served as MD/CEO for the maximum tenure (of ten years) in a MFB shall not qualify for appointment in any capacity in the same MFB or its subsidiaries until after a period of three years after the expiration of his tenure as MD/CEO.
- 2.4.7 Where the MFB is a member of a Group or is owned by another financial institution, a director in the MFB maybe allowed to serve on the Boards of the MFB and its holding company at the same time, provided the aggregate number of directors from the subsidiaries and associates at any point in time shall not exceed 30 per cent of the membership of the Board of Directors of the holding company.
- 2.4.8 To enhance the effectiveness of Directors, all Directors shall have access to corporate information under conditions of confidentiality; undergo training and continuing education and have access to independent professional advice.

2.5 Board Committees

- 2.5.1 The Board shall establish at a minimum the following Committees:
- a) Risk Management and Audit Committee. The functions of this committee may be carried out by one committee for a Unit or State MFB while the functions should be separated into two different committees for National MFBs. This is without prejudice to the requirements of CAMA on the Statutory Audit Committee which is not a Board Committee.
Each MFB shall have a Risk Officer and Internal Auditor who shall report directly to the Committee(s) responsible for Risk Management and Audit function(s).
 - b) Board Governance and Nominations Committee

c) Board Credit Committee

- 2.5.2 The Board and its Committees shall have a charter to be approved by the CBN.
- 2.5.3 The Chairman of the Board shall not be a member of any Board Committee.
- 2.5.4 All Board Committees shall be headed by Non-Executive Directors.
- 2.5.5 The Board Audit Committee (BAC) shall have unrestricted access to the financial records of the bank including external auditors' reports.
- 2.5.6 The MD/CEO shall not be a member of the BAC.
- 2.5.7 The Board shall not replace members of the BAC and External Auditors at the same time.

2.6 Board/Board Committees Meetings

- 2.6.1 To effectively perform its oversight functions and monitor management's performance, the Board and each of the Board Committees shall meet at least once every quarter.
- 2.6.2 Minutes of meetings of the Board/Board Committees shall be properly written in English language, adopted and signed off by at least two members of the Board of Directors and documented at the MFBs office.
- 2.6.3 Every Director shall attend all meetings of the Board, and Board Committees in which he is a member. In order to qualify for re-election, a Director must have attended at least two-thirds of all Board and Board Committee meetings.
- 2.6.4 Board/Board Committee meetings shall be deemed to be duly constituted where two-thirds of members are present, provided that a majority of directors at the meeting are Non-Executive Directors' (NEDs).
- 2.6.5 The Board shall disclose, in the Corporate Governance Section of the Annual Report, the total number of Board and Board Committee meetings held in the financial year and attendance by each Director.

2.7 Remuneration

- 2.7.1 MFBs shall align executive and Board remuneration with the long term interests of their institutions and their shareholders.
- 2.7.2 Levels of remuneration should not be excessive but sufficient to attract, retain and motivate executive officers, management and members of staff of the MFB and this should be balanced against the MFB's long term interest.
- 2.7.3 Where remuneration is linked to performance, it shall be designed in such a way as to prevent excessive risk taking.
- 2.7.4 Every MFB shall have a remuneration policy put in place by the Board of Directors, which shall be disclosed to the shareholders in the annual report.
- 2.7.5 The MD/CEO and other Executive Directors shall not receive sitting allowances and Directors' fees.
- 2.7.6 NEDs remuneration shall be limited to Directors' fees, sitting allowances for Board and Board Committee meetings and reimbursable travel and hotel expenses. NEDs shall not receive salaries and benefits whether in cash or in kind, other than those mentioned above.
- 2.7.7 Where stock options are adopted as part of executive remuneration or compensation, the Board shall ensure that the stock options are not priced at a discount except with the prior authorization of the relevant regulatory agencies.
- 2.7.8 Stock options shall be tied to performance and subject to the approval of the shareholders at AGMs.
- 2.7.9 Share options shall not be exercisable until one year after the expiration of the tenure of the Director.
- 2.7.10 MFBs shall disclose in their annual reports, details of the shares held by Directors and their related parties.
- 2.7.11 Where there is a Remuneration Committee in addition to the three Committees prescribed in Section 2.5.1, the membership shall comprise

NEDs only, while the Board Governance and Nomination Committee shall have a combination of EDs and NEDs. However, where both Committees are combined, its membership shall be drawn only from NEDs. The Remuneration Committee shall determine the remuneration of executive Directors, management and members of staff.

2.8 Board Appraisal

- 2.8.1 There shall be annual Board and Directors' appraisal covering all aspects of the Board's structure, composition, responsibilities, processes, relationships and performance, as may be prescribed by the CBN.
- 2.8.2 Each Board should identify and adopt, in the light of the company's future strategy, its critical success factors or key strategic objectives.
- 2.8.3 The annual Board appraisal shall be conducted by an independent consultant. The report shall be presented to shareholders at the AGM and a copy forwarded to the CBN.

3.0 SHAREHOLDERS

3.1 Rights and Functions of Shareholders

- 3.1.1 Shareholders shall have the right to obtain relevant and material information from the MFB on a timely and regular basis.
- 3.1.2 Shareholders shall have the right to participate actively and vote in general meetings.
- 3.1.3 In addition to the traditional means of communication, MFBs are encouraged to have a website and communicate with shareholders via the website, newsletters, village meetings and regular Annual General Meetings (AGMs) and/or Extraordinary General Meetings (EGMs). Such information shall include major developments in the MFB, risk management practices, executive compensation, establishment of investment in subsidiaries and associates, Board and top management appointments, sustainability initiatives including Corporate Social Responsibilities (CSR), and any other relevant information.

3.2 Equity Ownership

- 3.2.1 Except as approved by the CBN, no individual, group of individuals, their proxies or corporate entities and/or their subsidiaries shall own controlling interest in more than one (1) MFB.
- 3.2.2 In order to discourage government(s) from having majority shareholding in MFBs, government(s) direct and indirect equity holding in any MFB shall be divested to private investors within a maximum period of five (5) years from the date of licensing and/or investment. After this period, government shareholding shall not exceed 10%.

3.3 Protection of Shareholders' Rights

- 3.3.1 Every shareholder shall be treated fairly.
- 3.3.2 The Board shall ensure that minority shareholders are adequately protected from overbearing influence of controlling shareholders.
- 3.3.3 The Board shall ensure that the MFB promptly provides to shareholders documentary evidence of ownership interest in the MFB such as share certificates, dividend warrants and related instruments. Where these are rendered electronically, the Board shall ensure that they are sent in a secure manner.

3.4 General Meetings

- 3.4.1 Notice of general meetings shall be as prescribed by the Companies and Allied Matters Act (CAMA) 1990.
- 3.4.2 The Board shall ensure that all general meetings of the shareholders hold at a convenient and easily accessible venue to the majority of shareholders.
- 3.4.3 The Board shall ensure that unrelated issues for consideration are not lumped together at general meetings. Statutory business shall be clearly and separately set out. Separate resolutions shall be proposed and voted on each substantial issue.

3.4.4 The Board shall ensure that decisions reached at general meetings are properly and fully implemented.

3.5 Shareholders' Associations

3.5.1 The Board shall ensure that dealings of the MFB with shareholders' associations are in strict adherence with the Code of Conduct for Shareholders' Associations issued by the Securities and Exchange Commission (SEC). Where a MFB is not listed, its dealings with the Association shall be transparent and in line with the relevant governance codes.

4.0 RIGHTS OF OTHER STAKEHOLDERS

4.1.1 Stakeholders shall have the right to freely communicate their concerns about any illegal or unethical practices to the Board. Where such concerns border on the activities of the Board, such individuals shall have recourse to the CBN in accordance with Section 3.4 of the Whistle Blowing Guidelines.

4.1.2 Where stakeholder interests are protected by law, stakeholders shall have the opportunity to obtain effective redress for violation of their rights.

4.1.3 MFBs shall demonstrate good Corporate Social Responsibility to their stakeholders such as customers, employees, host communities, and the general public.

5.0 DISCLOSURE AND TRANSPARENCY

5.1 Disclosure

5.1.1 In order to foster good corporate governance, MFBs are encouraged to make timely, accurate and robust disclosures beyond the statutory requirements in BOFIA 1991 as amended, CAMA 1990, other applicable laws and standards.

5.1.2 Disclosure in the annual report shall include, but not limited to, material information on:

- a) Major items that have been estimated in accordance with applicable accounting and auditing standards;
- b) Rationale for all material estimates;
- c) Details on Directors;
- d) Governance structure;
- e) Risk Assets;
- f) Risk management;
- g) Information on strategic modification to the core business;
- h) All regulatory/supervisory contraventions during the year under review and infractions uncovered through whistle blowing, including regulatory sanctions and penalties.
- i) Capital Structure/Adequacy;
- j) Opening and closure of branch/cash centre (for state and national MFBs);
- k) Any service contracts and other contractual relationships with related parties;
- l) Frauds and Forgeries;
- m) Contingency Planning Framework;
- n) Contingent Assets and Liabilities (off balance sheet engagement)

5.2 Transparency and Integrity in Reporting

5.2.1 MFBs shall have a structure to independently verify and safeguard the integrity of their financial reporting, which shall:

- i. entail the review and consideration of the financial statements by the BAC; and
- ii. enhance the independence and competence of the MFB's internal and external auditors.

5.2.2 The BAC shall be structured in such a way that it:

- i. has at least three members.
- ii. consists of at least two NEDs;

iii. is chaired by an independent NED (INED) except in the case of a unit MFB where a NED may serve as chairman

.

5.2.3 The BAC shall be independent and possess technical expertise to discharge its mandate effectively.

5.2.4 The BAC shall include members who are financially literate (that is, be able to read and understand financial statements). At least one of the members shall have relevant qualifications and experience (that is, shall be a qualified accountant or other finance professional with experience in finance and accounting matters).

5.2.5 The BAC shall review the integrity of the MFB's financial reporting and oversee the independence of the internal and external auditors.

5.2.6 The BAC shall meet at least once every quarter. Deliberations shall include at least consideration of the quarterly reports of the internal auditor. All audit queries shall be investigated and resolved promptly.

5.2.7 The appointment and removal of the Chief Compliance Officer/Head of Internal Audit shall be the responsibility of the Board subject to CBN's ratification. The CBN must be notified of any change and reasons thereof, within fourteen (14) days of such change. The Head of Internal Audit shall report directly to the Board Audit Committee.

5.2.8 The responsibilities of the Chief Compliance Officer (CCO) shall include monitoring compliance with Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) requirements and the implementation of the corporate governance code. The office of the Chief Compliance Officer (CCO) and that of Internal Auditor may be combined depending on the size and complexity of the MFB.

5.2.9 Appointment of external auditors shall be approved by the CBN.

5.2.10 External auditors shall render reports to the CBN on MFB's risk management practices, internal controls and level of compliance with regulatory directives. In addition to the above, the external auditor shall:

- i. review the work of the internal auditor on each of the MFB's key risk elements to cover risk identification, measurement, monitoring and control.
- ii. review compliance with policies and internal control procedures put in place by the Board to manage and mitigate the institution's risks.
- iii. report on the level of each key risk element as well as the composite risk profile of the MFB and make recommendations to the Board to enhance the effectiveness of risk management processes in the MFB.
- iv. forward copies of their report to the CBN, together with the external auditor's management letter on the MFB's audited financial statements.

5.2.11 External auditors of MFBs shall not provide client services that shall amount to conflict of interest and self-review including the following:

- i. Bookkeeping or other services related to the accounting records or financial statements of the audit client;
- ii. Appraisal or valuation services, fairness opinion or contribution-in-kind reports;
- iii. Actuarial services;
- iv. Internal audit outsourcing services; and
- v. Management or human resource functions including broker or dealer, investment banking services and legal or expert services.

5.2.12 The tenure of auditors in a given MFB shall be for a maximum period of ten (10) cumulative years after which the audit firm shall not be re-appointed in the MFB until after a period of another ten (10) consecutive years.

5.2.13 An audit firm shall not provide audit services to a MFB if one of the MFB's top officials (Directors, Chief Finance Officer, Chief Audit Officer, etc.) was employed by the firm and worked on the MFB's audit during the immediate past two (2) years.

- 5.2.14 The MD/CEOs of MFBs shall certify in each statutory returnsubmitted to the CBN that they (the signing officers)have reviewed the reports, and that based on theirknowledge:
- i. The report does not contain any untrue statement of a material fact.
 - ii. The financial statements and other financial information in the report, fairly represent, in all material respects the financial condition and results of operations of the MFB as of, and for the periods presented in the report.
- 5.2.15 False rendition to CBN shall attract very stiff sanction of fine in addition to the suspension of the MD/CEO for six months in the first instance and removal and blacklisting subsequently. In addition, the erring staff would be referred to the relevant professional body for disciplinary action.
- 5.2.16 There shall be due process in all the procedures of MFBs.
- 5.2.17 All insider credit applications pertaining to directors andmanagement staff and parties related to them, irrespective of size, shall be sent for consideration/approval to the Board Credit Committee.
- 5.2.18 5.2.18 Any director whose facility or that of his/her related interests remains non-performing for more than one year shall cease to be on the board of the MFB and could be blacklisted from sitting on the board of any other financial institution.
- 5.2.19 The Board Credit Committee shall be composed of members knowledgeable in credit analysis.
- 5.2.20 The practice/use of anticipatory approvals by Board Committees shall be limited strictly to emergency cases only and ratified at the next board meeting.
- 5.2.21 No director-related credit facilities and/or interest thereon shall be written off without CBN prior approval.

5.3 Whistle Blowing

- 5.3.1 MFBs shall have a whistle-blowing policy made known to employees and other stakeholders.
- 5.3.2 The policy shall contain mechanisms, including assurance of confidentiality that encourages all stakeholders to report any unethical activity to the bank and/or the CBN.

6.0 RISK MANAGEMENT

- 6.1.1 Every MFB shall have a risk management framework specifying the governance architecture, policies, procedures and processes for the identification, measurement, monitoring and control of the risks inherent in its operations.
- 6.1.2 The Board is responsible for the MFB's policies on risk oversight and management and shall satisfy itself that management has developed and implemented a sound system of risk management and internal control.
- 6.1.3 Risk management policies shall reflect the MFB's risk management mandate, which shall include:
- a. Clear objectives and enterprise-wide authority for its activities;
 - b. Risk philosophy, vision and mission;
 - c. Authority to carry out its responsibilities independently;
 - d. Scope of Enterprise Risk Management (ERM);
 - e. A requirement for it to be communicated throughout the organization to promote transparency;
 - f. Periodic review to ensure continued appropriateness;
 - g. A requirement for management to report regularly on the effectiveness of the institution's risk management processes and on its aggregate exposures compared to approved limits; and
 - h. Authority to follow-up on action taken by management in response to identified issues and related recommendations.
- 6.1.4 MFBs shall disclose a summary of its risk management policies in their annual financial statements
- 6.1.5 An MFB's risk management policy shall clearly describe the roles and responsibilities of the Board, Board Risk Management Committee(BRMC), management and internal audit function.

6.1.6 Boards of MFBs shall ensure that the framework provides for regular and independent reviews of the risk management policies and procedures as well as periodic assessment of the adequacy and effectiveness of the risk management function.

6.1.7 The composition of the BRMC shall include at least 2 NEDs and the Managing Director for a Unit MFB or Executive Director in charge of risk management for a State or National MFB. The Committee shall be chaired by a NED.

7.0 ETHICS & PROFESSIONALISM AND CONFLICTS OF INTEREST

7.1 Ethics and Professionalism

7.1.1 To make ethical and responsible decisions, MFBs shall comply with their legal obligations and have regard to the reasonable expectations of their stakeholders.

7.1.2 MFBs shall establish a code of conduct and disclose in the code or a summary of the code such information as:

- i. the practices necessary to maintain confidence in the MFB's integrity;
- ii. the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and
- iii. the responsibility and accountability of individuals reporting and investigating reports of unethical practices.

7.1.3 The Code shall:

- a) commit the MFB, its Board and management (and employees) to the highest standards of professional behaviour, business conduct and sustainable business practices;
- b) be developed in collaboration with management and employees;
- c) receive commitment for its implementation from the Board and the MD/CEO and individual Directors of the company;

- d) be sufficiently detailed as to give clear guidance to users including advisers, consultants and contractors;
- e) be formally communicated to the persons to whom it applies; and
- f) be reviewed regularly and updated when necessary.

7.1.4 Where applicable, MFBs shall establish and disclose a policy concerning trading in the MFB's securities by Directors, senior executives and employees. The trading policy shall contain appropriate compliance standards and procedures to ensure that the policy is properly implemented. There shall also be an internal review mechanism to assess compliance and effectiveness.

7.1.5 MFBs shall publish the policy concerning the issue of Board and employee trading in its securities.

7.2 Conflict of Interest

7.2.1 Every MFB shall have in place an approved policy on conflict of interest. The policy shall, at the minimum, cover the following areas:

- a) Approval & Revision date;
- b) Definition of conflict of interest;
- c) Purpose of the Policy;
- d) Examples of conflict of interest situations; and
- e) Procedures to follow in situations of conflict of interest.

7.2.2 The Board of Directors shall be responsible for managing conflicts of interest.

7.2.3 Directors shall promptly disclose to the Board any real or potential conflict of interest that they may have regarding any matter that may come before the Board or its Committees.

7.2.4 Directors shall abstain from discussions and voting on any matter in which they have or may have a conflict of interest.

7.2.5 Directors who are aware of a real, potential or perceived conflict of interest on the part of a fellow Director, have a responsibility to promptly raise the issue for clarification, at the board meeting for consideration by all members.

7.2.6 Disclosure by a Director of a real, potential or perceived conflict of interest or a decision by the Board as to whether a conflict of interest exists shall be recorded in the minutes of the meeting.

8.0 SANCTIONS

8.1.1 Compliance with the code is mandatory for all MFBs.

8.1.2 Returns on the status of each institution's compliance with this code shall be rendered to the CBN semi-annually or as may be specified by the CBN from time to time. The returns shall be addressed to the Director, Other Financial Institutions Supervision Department.

8.1.3 Failure to comply with the code will attract appropriate sanctions in accordance with Section 60 of BOFIA 1991 as amended or may be specified in any applicable legislation or regulation.

DRAFT CODE OF CORPORATE GOVERNANCE FOR MORTGAGE REFINANCE COMPANIES (MRCs) IN NIGERIA

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1.0 INTRODUCTION

A mortgage refinance company (MRC) was conceived by the Central Bank of Nigeria (CBN) as a specialized, non-deposit taking financial institution established primarily to provide liquidity, medium to long-term funding and/or guarantees to mortgage originators and housing finance lenders. The institution is expected to fund the housing deficit in Nigeria. It is also expected to intermediate between mortgage originators and the capital market through the purchase of eligible mortgages and issuance of bonds to finance the purchases.

To achieve these objectives and the long-term strategic goals of its stakeholders, it is imperative that the MRC operates in an efficient manner based on sound corporate governance and ethical principles consistent with extant laws and regulations and international best practices.

This Code is therefore developed to guide an MRC in its governance arrangement including the duties and responsibilities of its Board of Directors, Board Composition, Tenure, Committees and Appraisal. Other critical governance elements covered in the Code include Disclosure and Transparency, Rights of Shareholders and Other Stakeholders, Whistle Blowing, Code of Conduct and Ethics, Risk Management and Conflict of Interest.

The Code is issued pursuant to the relevant provisions of the Central Bank of Nigeria (CBN) Act 2007, Banks and Other Financial Institutions Act (BOFIA) as amended CAP B3, Laws of the Federation of Nigeria (LFN 2004, other relevant laws and extant CBN Guidelines and Circulars.

1.1 Application

The code shall apply to MRCs in Nigeria.

1.2 Compliance

External auditors of MRCs shall report annually to the CBN, the extent of the MRCs' compliance with the provisions of this Code.

1.3 Effective Date

This code shall take effect from XX 2016.

2.0 BOARD AND MANAGEMENT

2.1 Responsibility of the Board and Management

- 2.1.1 The ultimate responsibility for every MRC's operations shall be vested in its Board of Directors. Directors shall oversee the MRC's operations in conformity with the requirements set forth in extant laws and regulations as well as other requirements and directives as the CBN shall issue from time to time. Directors owe the company the duty of care and loyalty and shall act in the interest of the company and its stakeholders.
- 2.1.2 The Board shall define the company's strategic goals, approve its long and short-term business strategies and monitor their implementation by management.
- 2.1.3 The Board shall determine the skills, knowledge and experience that members require and work effectively as a team to achieve the company's objectives.
- 2.1.4 The Board shall ensure that its human, material and financial resources are effectively deployed towards the attainment of set goals of the company.
- 2.1.5 The Board shall appoint the Chief Executive Officer as well as top management staff and establish a framework for delegation of authority, which shall comply with the provisions of extant regulations issued by the CBN from time to time.
- 2.1.6 The Board shall ensure that a succession plan is in place for the MD/CEO and other executive Directors and Top Management Staff.
- 2.1.7 The Board shall set limits of authority, specifying the threshold for large transactions which it must approve before they take place. The Board shall establish, document, and communicate an organizational structure for the MRC that clearly shows the lines of authority, provides for effective communication, and ensures that there are no gaps in the lines of authority.
- 2.1.8 Members of the Board are severally and jointly liable for the activities of the company.
- 2.1.9 The board shall ensure strict adherence to the Code of Ethics and Business Conduct.

2.2 Board Size and Composition

- 2.2.1 The number of directors on the board of a MRC shall be a minimum of seven [7] and a maximum of fifteen [15].
- 2.2.2 Members of the Board shall be qualified persons of proven integrity and shall be knowledgeable in business and financial matters, in accordance with extant CBN guidelines.
- 2.2.3 The Board shall consist of Executive and Non-Executive Directors. The non-executive members must be at least twice the number of the executive directors at any point in time.
- 2.2.4 The Board of MRCs shall consist of a minimum of one (1) and a maximum of two (2) independent directors as defined in the CBN guidelines on the Appointment of Independent Directors.

2.3 Separation of Powers of Board

- 2.3.1 The positions of the Board Chairman and the Managing Director/Chief Executive Officer (MD/CEO) shall be separate. No one person shall combine the two positions in any company at the same time. For the avoidance of doubt, no executive Vice Chairman shall be recognized in the Board structure.
- 2.3.2 Where the MRC is a member of a holding company, not more than two family members shall be allowed to serve on the Boards of the MRC and the holding company. The expression 'family' includes director's spouse, parents, children, siblings, cousins, uncle, aunts, nephews, nieces and inlaws.
- 2.3.3 No two members of a family shall occupy the positions of Chairman and MD/CEO or Executive Director of the MRC and Chairman or MD/CEO of a MRC's subsidiary at the same time. The expression 'family' includes director's spouse, parents, children, siblings, cousins, uncle, aunts, nephews, nieces and inlaws.

2.4 Board Appointment and Tenure

- 2.4.1 Procedure for appointment to the Board shall be formal, transparent and documented in the board charter.

- 2.4.2 Existing CBN guidelines on appointment to the Board of financial institutions shall continue to be applied.
- 2.4.3 To ensure continuity and injection of fresh ideas, Non-Executive Directors of MRCs shall serve for a maximum of three (3) terms of four (4) years each.
- 2.4.4 Track record of appointees shall be an additional eligibility requirement. Such records shall cover both integrity and past performance, in accordance with extant CBN guidelines.
- 2.4.5 The tenure of the CEO of a MRC shall be in accordance with the terms of engagement with the MRC subject to a maximum period of ten (10) years. Such tenure shall be broken down into periods not exceeding five (5) years at a time. Such a CEO shall not be eligible for appointment in that capacity in the MRC or its subsidiaries after the expiration of three (3) years following cessation of the tenure.
- 2.4.6 To enhance their effectiveness, Directors shall have access to corporate information under conditions of confidentiality; provide training and continuing education and facilitate access to independent professional advice.

2.5 Board Committees

- 2.5.1 The Board shall establish at a minimum the following Committees:
- i) A Committee, responsible for the oversight of Risk Management and Audit functions. These functions may be carried out by one committee, depending on the size and complexity of the institution. This is without prejudice to the requirements of CAMA on the Statutory Audit Committee which is not a board committee.

Each MRC shall have a Chief Risk Officer and Chief Internal Auditor who shall report directly to the Committee(s) responsible for Risk Management and Audit function(s).
 - ii) Board Governance and Nominations Committee.
 - iii) Board Credit Committee
- 2.5.2 All Board Committees shall have a charter to be approved by the CBN.

- 2.5.3 The Chairman of the Board shall not be a member of any Board Committee.
- 2.5.4 All Board Committees shall be headed by Non-Executive Directors
- 2.5.5 The Board Audit Committee (BAC) shall have unrestricted access to the financial records of the company including external auditors' reports.
- 2.5.6 The MD/CEO shall not be a member of the BAC.

2.6 Board Meetings

- 2.6.1 To effectively perform its oversight function and monitor management's performance, the Board shall meet at least once every quarter.
- 2.6.2 Every Director is required to attend all meetings of the Board, and Board Committees in which he is a member. In order to qualify for re-election, a Director must have attended at least two-thirds of all Board and Board Committee meetings.
- 2.6.3 The Board shall disclose, in the Corporate Governance Section of the Annual Report, the total number of Board and Board Committee meetings held in the financial year and attendance by each Director.
- 2.6.4 Board/Board Committee meetings shall be deemed to be duly constituted where two-thirds of members are present, provided that a majority of Non-Executive Directors are present at the meeting.

2.7 Remuneration

- 2.7.1 MRCs shall align top management and Board remuneration with the long term interests of their institutions and their shareholders.
- 2.7.2 Levels of remuneration shall be sufficient to ensure that members of the executive management are provided with appropriate incentives to encourage enhanced performance in a fair and responsible manner.
- 2.7.3 Where remuneration is linked to performance, it shall be designed in such a way as to prevent excessive risk taking.
- 2.7.4 Every MRC shall have a remuneration policy put in place by the Board of Directors, which shall be disclosed to the shareholders in the annual report.

- 2.7.5 A Committee of Non-Executive Directors shall determine the remuneration of executive Directors.
- 2.7.6 The MD/CEO and other Executive Directors shall not receive sitting allowances and Directors' fees.
- 2.7.7 Non-Executive Directors' (NEDs) remuneration shall be limited to Directors' fees, sitting allowances for Board and Board Committee meetings and reimbursable travel and hotel expenses. NEDs shall not receive salaries and benefits whether in cash or in kind, other than those mentioned above.
- 2.7.8 Where stock options are adopted as part of executive remuneration or compensation, the Board shall ensure that the stock options are not priced at a discount except with the prior authorization of the relevant regulatory agencies.
- 2.7.9 Stock options shall be tied to performance and subjected to the approval of the shareholders at AGMs.
- 2.7.10 Share options shall not be exercisable until one year after the expiration of the tenure of the Director.
- 2.7.11 MRCs shall disclose in their annual reports, details of the shares held by Directors and their related parties.
- 2.7.12 Where there is a Remuneration Committee in addition to the Committees prescribed in Section 2.5.1, the membership shall comprise NEDs only while the Board Governance and Nomination Committee shall have a combination of EDs and NEDs. However, where both Committees are combined, its membership shall be drawn only from NEDs.

2.8 Board Appraisal

- 2.8.1 There shall be annual Board and Directors' review/appraisal covering all aspects of the Board's structure, composition, responsibilities, processes and relationships, as may be prescribed by the CBN.
- 2.8.2 Each Board should identify and adopt, in the light of the company's future strategy, its critical success factors or key strategic objectives.
- 2.8.3 The annual Board appraisal shall be conducted by an independent consultant. The report shall be presented to shareholders at the AGM and a copy forwarded to the CBN.

3.0 SHAREHOLDERS

3.1 Right and Functions of Shareholders

- 3.1.1 Shareholders shall have the right to obtain relevant and material information from the MRC on a timely and regular basis.
- 3.1.2 Shareholders shall have the right to participate actively and vote in general meetings.
- 3.1.3 In addition to the traditional means of communication, MRCs are encouraged to have a website and communicate with shareholders via the website, newsletters, town hall meetings and regular Annual General Meetings (AGMs) and/or Extraordinary General Meetings (EGMs). Such information shall include major developments in the company, risk management practices, executive compensation, branch expansion, investments, Board and top management appointments, sustainability initiatives and practices, and any other relevant information.

3.2 Equity Ownership

- 3.2.1 Except for investors established by an enabling Act, an equity holding of 5% and above by any investor shall be subject to CBN's prior approval. Where such shares are acquired through the capital market, the company shall apply for a no objection letter from the CBN immediately after the acquisition.
- 3.2.2 Ownership structure shall be in line with the provision of the enabling Act establishing the MRC or as may be specified from time to time by the CBN.

3.3 Protection of Shareholders' Rights

- 3.3.1 Every shareholder shall be treated fairly.
- 3.3.2 The Board shall ensure that minority shareholders are adequately protected from overbearing influence of controlling shareholders.
- 3.3.3 The Board shall ensure that the company promptly provides to shareholders documentary evidence of ownership interest in the company such as share certificates, dividend warrants and related instruments. Where these are rendered electronically, the Board shall ensure that they are sent in a secure manner.

3.4 General Meetings

- 3.4.1 Notice of general meetings shall be as prescribed by the Companies and Allied Matters Act (CAMA) 1990 (as amended).
- 3.4.2 The Board shall ensure that all general meetings of the shareholder hold at a convenient and easily accessible venue to the majority of shareholders.
- 3.4.3 The Board shall ensure that unrelated issues for consideration are not lumped together at general meetings. Statutory business shall be clearly and separately set out. Separate resolutions shall be proposed and voted on each substantial issue.
- 3.4.4 The Board shall ensure that decisions reached at general meetings are properly and fully implemented.

3.5 Shareholders' Association

- 3.5.1 The Board shall ensure that dealings of the company with shareholders' associations are in strict adherence with the Code for Shareholders' Associations issued by the Securities and Exchange Commission (SEC). Where a company is not listed, its dealings with the Association shall be transparent and in line with the relevant governance codes.

4.0 RIGHTS OF OTHER STAKEHOLDERS

- 4.1.1 Stakeholders shall have the right to freely communicate their concerns about illegal or unethical practices to the Board. Where such concerns border on the activities of the Board, such individuals shall have recourse to the CBN in accordance with Section 3.4 of the Guidelines for Whistle Blowing for Banks and Other Financial Institutions in Nigeria.
- 4.1.2 Where stakeholder interests are protected by law, stakeholders shall have the opportunity to obtain effective redress for violation of their rights.
- 4.1.3 MRCs shall demonstrate good Corporate Social Responsibility (CSR) to their stakeholders such as customers, employees, host communities, and the general public.

5.0 DISCLOSURE AND TRANSPARENCY

5.1 Disclosure

5.1.1 In order to foster good corporate governance, MRCs are encouraged to make timely, accurate and robust disclosures beyond the statutory requirements in BOFIA 1991 as amended, CAMA 1990, other applicable laws and standards.

5.1.2 Disclosure in the annual report shall include, but not limited to, material information on:

(a) Major items that have been estimated in accordance with applicable accounting and auditing standards.

(b) Rationale for all material estimates;

(c) Details on Directors:

- i. The company's remuneration policy for members of the Board and executives;
- ii. Total NEDs remuneration, including fees and allowances.
- iii. Total Executive compensation, including bonuses paid/payable;
- iv. Details and reasons for share buy-backs, if any, during the period under review;
- v. Board of Directors' performance evaluation; and
- vi. Details of Directors, shareholders and their related parties who own 5% and above of the company's' shares as well as other shareholders who, in conjunction with others, control the company.

(d) Corporate governance:

- i. Governance structure;
- ii. Composition of Board Committees including names of chairmen and members of each Committee.

(e) Risk Assets:

- i. Concentration of assets, liabilities and off-balance sheet engagements by sector, geography, and product.

- ii. Loan quality.
 - iii. Lending/borrowing to/from subsidiaries and associates.
 - iv. Loans and advances/funding or commitment lines from institutions outside Nigeria.
 - v. Insider-related credits in accordance with the extant CBN circular.
- (f) Risk management:
- i. All significant risks.
 - ii. Risk management practices indicating the Board's responsibility for the entire process of risk management as well as a summary of external auditors' observed lapses thereon.
- (g) Information on strategic modification to the core business.
- (h) All regulatory/supervisory contraventions during the year under review and infractions uncovered through whistle blowing, including regulatory sanctions and penalties.
- (i) Capital structure/adequacy.
- (j) Any service contracts and other contractual relationships with related parties.
- (k) Frauds and Forgeries.
- (l) Contingency Planning Framework.
- (m) Any matter not specifically mentioned in this code but which is capable of affecting in a significant form, the financial condition of the company or its status as a going concern.

5.2 Transparency and Integrity in Reporting

- 5.2.1 MRCs shall have a structure to independently verify and safeguard the integrity of their financial reporting, which shall:
- i. entail the review and consideration of the financial statements by the BAC; and
 - ii. enhance the independence and competence of the Institution's external auditors.

- 5.2.2 The BAC shall be chaired by an independent NED and be of sufficient size, independent and have the technical expertise to effectively discharge its mandate.
- 5.2.3 The BAC shall include members who are financially literate (that is, be able to read and understand financial statements). At least one of the members shall be a qualified accountant or other finance professional with experience in financial and accounting matters.
- 5.2.4 The BAC shall review the integrity of the company's financial reporting and oversee the independence of the external auditors.
- 5.2.6 The BAC shall meet at least once every quarter.
- 5.2.7 The appointment and removal of the Chief Compliance Officer/ Head of Internal Audit shall be the responsibility of the Board subject to CBN's ratification. The CBN must be notified of any change and reasons thereof, within fourteen (14) days of such change.
- 5.2.8 The qualification and experience of the Chief Compliance Officer/ Head of Internal Audit shall be in accordance with extant regulations issued by the CBN from time to time. The Chief Compliance Officer (CCO) shall, in addition to monitoring compliance with Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) requirements, monitor the implementation of the corporate governance code.
- 5.2.9 Appointment of external auditors shall be approved by the CBN.
- 5.2.10 External auditors shall render reports to the CBN on the company's risk management practices, internal controls and level of compliance with regulatory directives. In addition, the external auditor shall:
- i. review the work of the internal auditor on each of the company's key risk elements to cover risk identification, measurement, monitoring and control;
 - ii. review compliance with policies and internal control procedures put in place by the Board to manage and mitigate the institution's risks;
 - iii. report on the level of each key risk element as well as the composite risk profile of the company and make recommendations to the Board to enhance the effectiveness of risk management processes in the company; and

- iv. forward copies of their report to the CBN together with the external auditor's management letter on the company's audited financial statements.

5.2.10 External auditors of MRC shall not provide client services that shall amount to conflict of interest including the following:

- i. Bookkeeping or other services related to the accounting records or financial statements of the audit client;
- ii. Appraisal or valuation services, fairness opinion or contribution-in-kind reports;
- iii. Actuarial services;
- iv. Internal audit outsourcing services; and
- v. Management or human resource functions including broker or dealer, investment companying services and legal or expert services.

5.2.11 The tenure of auditors in a given company shall be for a maximum period of ten (10) cumulative years after which the audit firm shall not be reappointed in the company until after a period of another ten (10) consecutive years.

5.2.12 An audit firm shall not provide audit services to a company if one of the company's top officials (Directors, Chief Finance Officer, Chief Audit Officer) was employed by the firm and worked on the company's audit during the immediate past two (2) years.

5.2.13 False rendition to CBN shall attract very stiff sanction of fine in addition to the suspension of the MD/CEO for six months in the first instance and removal and blacklisting subsequently. In addition, the erring staff would be referred to the relevant professional body for disciplinary action.

5.2.14 The practice/use of anticipatory approvals by the board committees should be limited strictly to emergency cases only and ratified in the next board meeting

5.3 Whistle Blowing

- 5.3.1 MRCs shall have a whistle-blowing policy made known to employees and other stakeholders.
- 5.3.2 The policy shall contain mechanisms, including assurance of confidentiality, that encourage all stakeholders to report any unethical activity to the company and/or the CBN.

6.0 RISK MANAGEMENT

- 6.1.1 Every MRC shall have a risk management framework specifying the governance architecture, policies, procedures and processes for the identification, measurement, monitoring and control of the risks inherent in its operations.
- 6.1.2 The Board is responsible for the MRC's policies on risk oversight and management and shall satisfy itself that management has developed and implemented a sound system of risk management and internal control.
- 6.1.3 Risk management policies shall reflect the MRCs risk management mandate, which shall include:
 - a. Clear objectives and enterprise-wide authority for its activities;
 - b. Risk philosophy, vision and mission;
 - c. Authority to carry out its responsibilities independently;
 - d. Scope of Enterprise Risk Management;
 - e. A requirement for it to be communicated throughout the organization to promote transparency;
 - f. Periodic review to ensure continued appropriateness;
 - g. A requirement for management to report regularly on the effectiveness of the institution's risk management processes and on its aggregate exposures compared to approved limits; and
 - h. Authority to follow-up on action taken by management in response to identified issues and related recommendations.
- 6.1.4 MRCs shall disclose a summary of its risk management policies in their annual financial statements.

- 6.1.5 A MRC's risk management policy shall clearly describe the roles and responsibilities of the Board, Board Risk Management Committee (BRMC), management and internal audit function.
- 6.1.6 Boards of MRCs shall ensure that the framework provides for regular and independent reviews of the risk management policies and procedures as well as periodic assessment of the adequacy and effectiveness of the risk management function.
- 6.1.7 The composition of the BRMC shall include at least 2 NEDs and the executive Director in charge of risk management.

7.0 ETHICS, PROFESSIONALISM AND CONFLICT OF INTEREST

7.1 Ethics & Professionalism

- 7.1.1 To make ethical and responsible decisions, MRCs shall comply with their legal obligations and have regard to the reasonable expectations of their stakeholders.
- 7.1.2 MRCs shall establish a code of business ethics and conduct and disclose in the code or a summary of the code, such information as:
- i. The practices necessary to maintain confidence in the MRC's integrity;
 - ii. The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and
 - iii. The responsibility and accountability of individuals reporting and investigating reports of unethical practices.
- 7.1.3 The Code should:
- (a) Commit the company, its Board, management and employees to the highest standards of professional behaviour, business conduct and sustainable business practices;
 - (b) Be developed in collaboration with management and employees;
 - (c) Receive commitment for its implementation from the Board and the Managing Director/Chief Executive Officer and individual Directors of the company;

(d) Be sufficiently detailed as to give clear guidance to users including advisers, consultants and contractors;

(e) Be formally communicated to the persons to whom it applies; and

(f) Be reviewed regularly and updated when necessary.

7.1.4 Where applicable, MRCs shall establish and disclose a policy concerning trading in the company's securities by Directors, senior executives and employees.

7.1.5 Where applicable, the trading policy shall contain appropriate compliance standards and procedures to ensure that the policy is properly implemented. There shall also be an internal review mechanism to assess compliance and effectiveness.

7.1.6 MRCs shall publish the policy concerning the issue of Board and employee trading in its securities.

7.2 Conflict of Interest

7.2.1 MRC shall have a policy on conflict of interest which shall, at the minimum, cover the following areas:

a) Approval & Revision date;

b) Purpose of the policy;

c) Definition of conflict of interest;

d) Examples of conflict of interest situations;

e) Procedures to follow in situations of conflict of interest.

7.2.2 The Board of Directors shall be responsible for managing conflicts of interest.

7.2.3 Directors shall promptly disclose to the Board any real or potential conflict of interest that they may have regarding any matter that may come before the Board or its Committees.

7.2.4 Directors shall abstain from discussions and voting on any matter in which they have or may have a conflict of interest.

7.2.5 Directors who are aware of a real, potential or perceived conflict of interest on the part of a fellow Director, have a responsibility to promptly

raise the issue for clarification, either with the Director concerned or with the Chairman of the Board.

- 7.2.6 Disclosure by a Director of a real, potential or perceived conflict of interest or a decision by the Board as to whether a conflict of interest exists shall be recorded in the minutes of the meeting.

8.0 SANCTIONS

- 8.1.1 Compliance with the code is mandatory for all MRCs.
- 8.1.2 Returns on the status of each institution's compliance with this code shall be rendered to the CBN semi-annually or as may be specified by the CBN from time to time.
- 8.1.3 Failure to comply with the code will attract appropriate sanctions in accordance with Section 60 of BOFIA 1991 or as may be specified in any applicable legislation or regulation.

CODE OF CORPORATE GOVERNANCE FOR PRIMARY MORTGAGE BANKS IN NIGERIA

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1.0 INTRODUCTION

Corporate Governance came to fore in the Nigerian Banking Industry in 2006 with the introduction of Code of Corporate Governance for Banks and Discount Houses by the Central Bank of Nigeria. This was to address the issue of poor governance practices in the banks, which contributed to the failure of most of the banking institutions.

Neither the 2006 Code nor its subsequent review in 2014 prescribed governance requirements specific to Other Financial Institutions (OFIs). The non-existence of specific codes for these classes of institutions contributed to governance failures experienced in many of the institutions in recent times. The intent of this code, therefore, is to entrench good corporate governance in Primary Mortgage Banks (PMBs) in view of the fact that the safety and soundness of a financial institution depends on the effectiveness of the board of directors' in discharging their oversight functions.

1.1 Application

The code shall apply to PMBs in Nigeria.

1.2 Compliance

External auditors of PMBs shall report annually to the CBN, the extent of the PMBs' compliance with the provisions of this Code.

1.3 Effective Date

This code shall take effect from XX 2016.

2.0 BOARD AND MANAGEMENT

2.1 Responsibilities of the Board and Management

- 2.1.1 The Board is accountable and responsible for the performance and affairs of the PMB. Specifically, and in line with the provisions in the Companies and Allied Matters Act (CAMA) 1990 (as amended), Directors owe the bank the duty of care and loyalty and to act in the interest of the bank's employees and other stakeholders.
- 2.1.2 The Board shall define the bank's strategic goals, approve its long and short-term business strategies and monitor their implementation by management.
- 2.1.3 The Board shall determine the skills, knowledge and experience that members require and work effectively as a team to achieve the bank's objectives.
- 2.1.4 The Board shall ensure that its human, material and financial resources are effectively deployed towards the attainment of set goals of the bank.
- 2.1.5 The Board shall appoint the CEO as well as top management staff and establish a framework for the delegation of authority in the bank, which shall comply with extant regulations issued by the CBN from time to time.
- 2.1.6 The Board shall ensure that a succession plan is in place for the MD/CEO and other executive Directors.
- 2.1.7 The Board shall set limits of authority, specifying the threshold for large transactions which it must approve before they take place. There shall be no exception for such large transactions.
- 2.1.8 Members of the Board are severally and jointly liable for the activities of the bank.
- 2.1.9 The board shall ensure strict adherence to the Code of Conduct for bank Directors.

2.2 Board size and composition

- 2.2.1 The number of directors on the board of a Mortgage Bank shall be a minimum of seven [7] and a maximum of fifteen [15].

- 2.2.2 Members of the Board shall be qualified persons of proven integrity and shall be knowledgeable in business and financial matters, in accordance with the extant CBN Guidelines on Fit and Proper Persons Regime.
- 2.2.3 The non-executive members must be at least twice the number of the executive directors at any point in time.
- 2.2.4 The Board of State and National PMBs shall consist of a minimum of one (1) and a maximum of two (2) independent directors, respectively, as defined in the CBN guidelines on the Appointment of Independent Directors.

2.3 Separation of powers of the board

- 2.3.1 The positions of the Board Chairman and the Managing Director/Chief Executive Officer (MD/CEO) shall be separate. No one person shall combine the two positions in any bank at the same time. For the avoidance of doubt, no executive Vice Chairman shall be recognized in the Board structure.
- 2.3.2 Where the PMB is a member of a holding company, not more than two family members shall be allowed to serve on the Boards of the PMB and the holding company. The expression 'family' includes director's spouse, parents, children, siblings, cousins, uncle, aunts, nephews, nieces and inlaws.
- 2.3.3 No two members of a family shall occupy the positions of Chairman and MD/CEO or Executive Director of the PMB and Chairman or MD/CEO of a MFB's subsidiary at the same time. The expression 'family' includes director's spouse, parents, children, siblings, cousins, uncle, aunts, nephews, nieces and inlaws.

2.4 Board Appointment and Tenure

- 2.4.1 Procedure for appointment to the Board shall be formal, transparent and documented in the board charter.
- 2.4.2 Existing CBN guidelines on appointment to the Board of financial institutions shall continue to be applied.

- 2.4.3 To ensure continuity and injection of fresh ideas, Non-Executive Directors of PMBs shall serve for a maximum of three (3) terms of four (4) years each.
- 2.4.4 Track record of appointees shall be an additional eligibility requirement. Such records shall cover both integrity and past performance, in accordance with the extant CBN Guidelines on Fit and Proper Persons Regime.
- 2.4.5 The tenure of the CEO of a PMB shall be in accordance with the terms of engagement with the PMB subject to a maximum period of ten (10) years. Such tenure shall be broken down into periods not exceeding five (5) years at a time. Such a CEO shall not be eligible for appointment in that capacity in the PMB or its subsidiaries after the expiration of three (3) years following cessation of the tenure..
- 2.4.6 To enhance their effectiveness, Directors shall have access to corporate information under conditions of confidentiality; provide training and continuing education and facilitate access to independent professional advice.

2.5 Board Committees

- 2.5.1 The Board shall establish at a minimum the following Committees:
- i. A Committee, responsible for the oversight of Risk Management and Audit functions. These functions may be carried out by one committee, depending on the size and complexity of the institution. This is without prejudice to the requirements of CAMA on the Statutory Audit Committee which is not a board committee. Each PMB shall have a Chief Risk Officer and Chief Internal Auditor who shall report directly to the Committee(s) responsible for Risk Management and Audit function(s).
 - ii. Board Governance and Nominations Committee
 - iii. Board Credit Committee
- 2.5.2 All Board Committees shall have a charter to be approved by the CBN.
- 2.5.3 The Chairman of the Board shall not be a member of any Board Committee.

- 2.5.4 All Board Committees shall be headed by Non-Executive Directors
- 2.5.5 The Board Audit Committee (BAC) shall have unrestricted access to the financial records of the bank including external auditors' reports.
- 2.5.6 The MD/CEO shall not be a member of the BAC.

2.6 Board Meetings

- 2.6.1 To effectively perform its oversight function and monitor management's performance, the Board shall meet at least once every quarter.
- 2.6.2 Every Director is required to attend all meetings of the Board, and Board Committees in which he is a member. In order to qualify for re-election, a Director must have attended at least two-thirds of all Board and Board Committee meetings.
- 2.6.3 The Board shall disclose, in the Corporate Governance Section of the Annual Report, the total number of Board and Board Committee meetings held in the financial year and attendance by each Director.
- 2.6.4 Board/Board Committee meetings shall be deemed to be duly constituted where two-third of members are present, provided that a majority of Non-Executive Directors are present at the meeting.

2.7 Remuneration

- 2.7.1 PMBs shall align top management and Board remuneration with the long term interests of their institutions and their shareholders.
- 2.7.2 Levels of remuneration should not be excessive but sufficient to attract, retain and motivate top officers of the institutions and this should be balanced against the PMBs long term interest.
- 2.7.3 Where remuneration is linked to performance, it shall be designed in such a way as to prevent excessive risk taking.
- 2.7.4 Every PMB shall have a remuneration policy put in place by the Board of Directors, which shall be disclosed to the shareholders in the annual report.
- 2.7.5 A Committee of Non-Executive Directors shall determine the remuneration of executive Directors.

- 2.7.6 The MD/CEO and other Executive Directors shall not receive sitting allowances and Directors' fees.
- 2.7.7 Non-Executive Directors' (NEDs) remuneration shall be limited to Directors' fees, sitting allowances for Board and Board Committee meetings and reimbursable travel and hotel expenses. NEDs shall not receive salaries and benefits whether in cash or in kind, other than those mentioned above.
- 2.7.8 Where stock options are adopted as part of executive remuneration or compensation, the Board shall ensure that the stock options are not priced at a discount except with the prior authorization of the relevant regulatory agencies.
- 2.7.9 Stock options shall be tied to performance and subjected to the approval of the shareholders at AGMs.
- 2.7.10 Share options shall not be exercisable until one year after the expiration of the tenure of the Director.
- 2.7.11 PMBs shall disclose in their annual reports, details of the shares held by Directors and their related parties.
- 2.7.12 Where there is a Remuneration Committee in addition to the three Committees prescribed in Section 2.5.1, the membership shall comprise NEDs only while the Board Governance and Nomination Committee shall have a combination of EDs and NEDs. However, where both Committees are combined, its membership shall be drawn only from NEDs.

2.8 Board Appraisal

- 2.8.1 There shall be annual Board and Directors' review/appraisal covering all aspects of the Board's structure, composition, responsibilities, processes and relationships, as may be prescribed by the CBN.
- 2.8.2 Each Board should identify and adopt, in the light of the company's future strategy, its critical success factors or key strategic objectives.
- 2.8.3 The annual Board appraisal shall be conducted by an independent consultant. The report shall be presented to shareholders at the AGM and a copy forwarded to the CBN.

3.0 SHAREHOLDERS

3.1 Rights and Functions of Shareholders'

- 3.1.1 Shareholders shall have the right to obtain relevant and material information from the PMB on a timely and regular basis.
- 3.1.2 Shareholders shall have the right to participate actively and vote in general meetings.
- 3.1.3 In addition to the traditional means of communication, PMBs are encouraged to have a website and communicate with shareholders via the website, newsletters, town hall meetings and regular Annual General Meetings (AGMs) and/or Extraordinary General Meetings (EGMs). Such information shall include major developments in the bank, risk management practices, executive compensation, branch expansion, investments, Board and top management appointments, sustainability initiatives and practices, and any other relevant information.

3.2 Equity Ownership

- 3.2.1 An equity holding of 5% and above by any investor shall be subject to CBN's prior approval. Where such shares are acquired through the capital market, the bank shall apply for a no objection letter from the CBN immediately after the acquisition.
- 3.2.2 In order to discourage government(s) from having majority shareholding in PMBs, government(s) direct and indirect equity holding in any bank shall be divested to private investors within a maximum period of five (5) years from the date of licensing and/or investment.

3.3 Protection of Shareholders' Rights

- 3.3.1 Every shareholder shall be treated fairly.
- 3.3.2 The Board shall ensure that minority shareholders are adequately protected from overbearing influence of controlling shareholders.
- 3.3.3 The Board shall ensure that the bank promptly provides to shareholders documentary evidence of ownership interest in the bank such as share certificates, dividend warrants and related instruments. Where these are rendered electronically, the Board shall ensure that they are sent in a secure manner.

3.4 General Meetings

- 3.4.1 Notice of general meetings shall be as prescribed by the Companies and Allied Matters Act (CAMA) 1990 (as amended).
- 3.4.2 The Board shall ensure that all general meetings of the shareholder hold at a convenient and easily accessible venue to the majority of shareholders.
- 3.4.3 The Board shall ensure that unrelated issues for consideration are not lumped together at general meetings. Statutory business shall be clearly and separately set out. Separate resolutions shall be proposed and voted on each substantial issue
- 3.4.4 The Board shall ensure that decisions reached at general meetings are properly and fully implemented.

3.5 Shareholders' Associations

- 3.5.1 The Board shall ensure that dealings of the bank with shareholders' associations are in strict adherence with the Code for Shareholders' Associations issued by the Securities and Exchange Commission (SEC). Where a bank is not listed, its dealings with the Association shall be transparent and in line with the relevant governance codes.

4.0 RIGHTS OF OTHER STAKEHOLDERS

- 4.1.1 Stakeholders shall have the right to freely communicate their concerns about illegal or unethical practices to the Board. Where such concerns border on the activities of the Board, such individuals shall have recourse to the CBN in accordance with Section 3.4 of the Guidelines for Whistle Blowing for Banks and Other Financial Institutions in Nigeria..
- 4.1.2 Where stakeholder interests are protected by law, stakeholders shall have the opportunity to obtain effective redress for violation of their rights.
- 4.1.3 PMBs shall demonstrate good Corporate Social Responsibility (CSR) to their stakeholders such as customers, employees, host communities, and the general public.

5.0 DISCLOSURE AND TRANSPARENCY

5.1 Disclosures

5.1.1 In order to foster good corporate governance, PMBs are encouraged to make timely, accurate and robust disclosures beyond the statutory requirements in BOFIA 1991 as amended, CAMA 1990, other applicable laws and standards.

5.1.2 Disclosure in the annual report shall include, but not limited to, material information on:

- a) Major items that have been estimated in accordance with applicable accounting and auditing standards.
- b) Rationale for all material estimates.
- c) Details on Directors:
 - i. The bank's remuneration policy for members of the Board and executives;
 - ii. Total NEDs remuneration including fees, allowances;
 - iii. Total Executive compensation, including bonuses paid/payable;
 - iv. Details and reasons for share buy-backs, if any, during the period under review;
 - v. Board of Directors' performance evaluation; and
 - vi. Details of Directors, shareholders and their related parties who own 5% and above of the bank's shares as well as other shareholders who, in conjunction with others, control the bank.
- d) Corporate governance:
 - i. Governance structure; and
 - ii. Composition of Board Committees including names of chairmen and members of each Committee.
- e) Risk Assets:
 - i. Concentration of assets, liabilities and off-balance sheet engagements by sector, geography, and product.
 - ii. Loan quality.
 - iii. Lending/borrowing to/from subsidiaries and associates.
 - iv. Loans and advances/funding or commitment lines from institutions outside Nigeria.
 - v. Related party transactions.

- vi. Insider-related credits in accordance with the extant CBN circular.
- f) Risk management:
 - i. All significant risks; and
 - ii. Risk management practices indicating the Board's responsibility for the entire process of risk management as well as a summary of external auditors' observed lapses thereon.
- g) Information on strategic modification to the core business.

All regulatory/supervisory contraventions during the year under review and infractions uncovered through whistle blowing, including regulatory sanctions and penalties.

- i) Capital Structure/Adequacy.
- j) Any service contracts and other contractual relationships with related parties.
- k) Frauds and Forgeries.
- l) Contingency Planning Framework.
- m) Any matter not specifically mentioned in this code but which is capable of affecting in a significant form, the financial condition of the bank or its status as a going concern.

5.1.3 Institutions shall have a structure to independently verify and safeguard the integrity of their financial reporting, which shall:

- i. Entail the review and consideration of the financial statements by the BAC; and
- ii. Enhance the independence and competence of the Institution's external auditors.

5.1.4 The BAC shall be of sufficient size, independence and technical expertise to discharge its mandate effectively.

5.1.5 The BAC shall include members who are financially literate (that is, be able to read and understand financial statements). At least one of the members shall be a qualified accountant or other finance professional with experience in financial and accounting matters.

- 5.1.6 The BAC shall review the integrity of the bank's financial reporting and oversee the independence of the external auditors.
- 5.1.7 The BAC shall meet at least once every quarter.
- 5.1.8 The appointment and removal of the Chief Compliance Officer/Head of Internal Audit shall be the responsibility of the Board subject to CBN's ratification. The CBN must be notified of any change and reasons thereof, within fourteen (14) days of such change.
- 5.1.9 The qualification and experience of the Chief Compliance Officer/Head of Internal Audit shall be in accordance with the provisions of extant regulations issued by the bank from time to time. The Chief Compliance Officer (CCO) shall, in addition to monitoring compliance with Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) requirements, monitor the implementation of the corporate governance code.
- 5.1.10 Appointment of external auditors shall be approved by the CBN.
- 5.1.11 External auditors shall render reports to the CBN on banks' risk management practices, internal controls and level of compliance with regulatory directives. The auditors shall:
- i. review the work of the internal auditor on each of the bank's key risk elements to cover risk identification, measurement, monitoring and control.
 - ii. review compliance with policies and internal control procedures put in place by the Board to manage and mitigate the institution's risks.
 - iii. report on the level of each key risk element as well as the composite risk profile of the bank and make recommendations to the Board to enhance the effectiveness of risk management processes in the bank.
 - iv. forward copies of their report to the CBN together with the external auditor's management letter on the bank's audited financial statements.
- 5.1.12 External auditors of banks shall not provide client services that shall amount to conflict of interest including the following:

- i. Bookkeeping or other services related to the accounting records or financial statements of the audit client;
- ii. Appraisal or valuation services, fairness opinion or contribution-in-kind reports;
- iii. Actuarial services;
- iv. Internal audit outsourcing services; and
- v. Management or human resource functions including broker or dealer, investment banking services and legal or expert services.

5.1.13 The tenure of auditors in a given bank shall be for a maximum period of ten (10) cumulative years after which the audit firm shall not be reappointed in the bank until after a period of another ten (10) consecutive years.

5.1.14 An audit firm shall not provide audit services to a bank if one of the bank's top officials (Directors, top management, Chief Finance Officer, Chief Audit Officer) was employed by the firm and worked on the bank's audit during the immediate past two (2) years.

5.2 Whistle Blowing

5.2.1 PMBs shall have a whistle-blowing policy, which shall be made known to employees and other stakeholders.

5.2.2 The policy shall contain mechanisms, including assurance of confidentiality, that encourage all stakeholders to report any unethical activity to the bank and/or the CBN.

6.0 Risk Management

- 6.1.1 Every PMB shall have a risk management framework specifying the governance architecture, policies, procedures and processes for the identification, measurement, monitoring and control of the risks inherent in its operations.
- 6.1.2 The Board is responsible for the PMB's policies on risk oversight and management and shall satisfy itself that management has developed and implemented a sound system of risk management and internal control.
- 6.1.3 Risk management policies shall reflect the PMBs risk management mandate, which shall include:
- i. Clear objectives and enterprise-wide authority for its activities;
 - ii. Risk philosophy, vision and mission;
 - iii. Authority to carry out its responsibilities independently;
 - iv. Scope of Enterprise Risk Management;
 - v. A requirement for it to be communicated throughout the organization to promote transparency;
 - vi. Periodic review to ensure continued appropriateness;
 - vii. A requirement for management to report regularly on the effectiveness of the institution's risk management processes and on its aggregate exposures compared to approved limits; and
 - viii. Authority to follow-up on action taken by management in response to identified issues and related recommendations.
- 6.1.4 PMBs shall disclose a summary of its risk management policies in its annual financial statements
- 6.1.5 A PMB's risk management policy shall clearly describe the roles and responsibilities of the Board, Board Risk Management Committee (BRMC), management and internal audit function.
- 6.1.6 Boards of PMBs shall ensure that the framework provides for regular and independent reviews of the risk management policies and procedures as well as periodic assessment of the adequacy and effectiveness of the risk management function.

6.1.7 The composition of the BRMC shall include at least 2 non-EDs and the executive Director in charge of risk management but chaired by a non-ED.

7.0 ETHICS & PROFESSIONALISM AND CONFLICT OF INTEREST

7.1 Ethics and Professionalism

7.1.1 To make ethical and responsible decisions, PMBs shall comply with their legal obligations and have regard to the reasonable expectations of their stakeholders.

7.1.2 PMBs shall establish a code of conduct and disclose in the code or a summary of the code such information as:

- i. The practices necessary to maintain confidence in the PMB's integrity;
- ii. The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;
- iii. The responsibility and accountability of individuals reporting and investigating reports of unethical practices.

7.1.3 The Code should:

- (a) Commit the bank, its Board, management and employees to the highest standards of professional behaviour, business conduct and sustainable business practices;
- (b) Be developed in collaboration with management and employees;
- (c) Receive commitment for its implementation from the Board and the Managing Director/Chief Executive Officer and individual Directors of the company;
- (d) Be sufficiently detailed as to give clear guidance to users including advisers, consultants and contractors;
- (e) Be formally communicated to the persons to whom it applies; and
- (f) Be reviewed regularly and updated when necessary.

7.1.4 Where applicable, PMBs shall establish and disclose a policy concerning trading in the bank's securities by Directors, senior executives and employees.

7.1.5 Where applicable, the trading policy shall contain appropriate compliance standards and procedures to ensure that the policy is

properly implemented. There shall also be an internal review mechanism to assess compliance and effectiveness.

7.1.6 PMBs shall publish the policy concerning the issue of Board and employee trading in its securities.

7.2 Conflict of Interest

7.2.1 PMBs shall have a policy on conflict of interest which shall, at the minimum, cover the following areas:

a) Approval & Revision date;

b) Purpose of the policy;

c) Definition of conflict of interest;

d) Examples of conflict of interest situations;

e) Procedures to follow in situations of conflict of interest.

7.2.2 The Board of Directors shall be responsible for managing conflicts of interest.

7.2.3 Directors shall promptly disclose to the Board any real or potential conflict of interest that they may have regarding any matter that may come before the Board or its Committees.

7.2.4 Directors shall abstain from discussions and voting on any matter in which they have or may have a conflict of interest.

7.2.5 Directors who are aware of a real, potential or perceived conflict of interest on the part of a fellow Director, have a responsibility to promptly raise the issue for clarification, either with the Director concerned or with the Chairman of the Board.

7.2.6 Disclosure by a Director of a real, potential or perceived conflict of interest or a decision by the Board as to whether a conflict of interest exists shall be recorded in the minutes of the meeting.

8.0 SANCTIONS

- 8.1.1 Compliance with the code is mandatory for all PMBs.
- 8.1.2 Returns on the status of each institution's compliance with this code shall be rendered to the CBN semi-annually or as may be specified by the CBN from time to time.
- 8.1.3 Failure to comply with the code will attract appropriate sanctions in accordance with Section 60 of BOFIA 1991, as amended or may be specified in any applicable legislation or regulation.