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EXPOSURE DRAFT ON THE REVIEW OF THE PRUDENTIAL GUIDELINES FOR COMMERCIAL, MERCHANT AND NON-INTEREST BANKS

The Central Bank of Nigeria (CBN), in June 2010, issued the revised Prudential Guidelines to deposit money banks in Nigeria as part of its efforts at enhancing the quality of bank's assets.

Subsequent thereto, the Nigerian banking landscape witnessed significant changes arising from foreign exchange crisis, liquidity issues, uptick in the incidence of non-performing loans, deteriorating corporate governance practices, increasing competition from financial technology companies, review of major global prudential standards, among others.

These have necessitated a review of the Prudential Guidelines to make it potent and effective in addressing current developments. Accordingly, the CBN issues the attached draft of the reviewed Prudential Guidelines for Deposit Money Banks for stakeholders' observation and comments. The Exposure Draft may be downloaded from the CBN website, **www.cbn.gov.ng.**

We will be delighted to receive your comments by **Friday, September 20, 2019.** The soft copy may be forwarded to **pgreview@cbn.gov.ng**.

Thanks.

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CENTRAL BANK OF NIGERIA

PRUDENTIAL GUIDELINES FOR DEPOSIT MONEY BANKS IN NIGERIA

AUGUST 2019

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1.0 INTRODUCTION

The Central Bank of Nigeria (CBN), in May 2010 issued the revised Prudential Guidelines (PG) to Deposit Money banks in Nigeria. The guidelines, which replaced the Prudential Guidelines for Licensed Banks issued on 7th November 1990 was issued to correct the fragile financial system that was tipped into crisis by the global financial meltdown.

Since the extant guideline was issued in 2010, the Nigerian banking landscape has experienced drastic changes caused by a range of issues, including the crises in the foreign exchange (FX) market, liquidity challenges, high incidence of non-performing loans (NPLs), poor corporate governance, increasing competition among banks fueled by cutting edge technologies, new approaches adopted by global standard setters (such as Basel Committee for Banking Supervision (BCBS) and International Accounting Standard Board (IASB)), among others

The increasing importance of prudential regulation, combined with the factors earlier noted necessitated a review of the extant PG in order to address current realities.

2.0 DEFINITIONS

a) Margin loan is a loan that allows the customer to finance against shares. The term margin refers to the difference between the market value of the shares and the cost of shares. The primary and secondary sources of repayment are from the sale of the securities purchased.

b) BVN means Bank Verification Number.

c) FGN Bonds are bonds issued by the Federal Government of Nigeria, including SUKUK.

d) Non-resident individual is an individual that was resident outside Nigeria for more than 180 days in the preceding year.

e) TIN means Tax Identification Number

3.0 RISK MANAGEMENT

At the minimum banks shall have comprehensive risk management policies for Credit, Market, Liquidity and Operational (including Cyber) risks as well as verifiable records/logs of occurrences of such risks.

Credit Risk

3.01 Credit policy to be duly approved by board of directors:

Banks shall prepare a comprehensive credit policy duly approved by their Board of Directors. The policy shall, inter alia cover loan administration, disbursement and appropriate monitoring mechanism etc. The policy shall be reviewed at least every three years.

3.02 Limit on exposure to a single obligor/ connected lending:

(a) The total outstanding exposure by a bank to any single person or a group of related borrowers shall not at any point in time exceeds **20 per cent** of the bank's shareholders fund unimpaired by losses.

(b) **50 per cent** of a bank's off-balance sheet engagements shall be applied in determining the bank's statutory limit to a single obligor as per 3.2(a) above.

(c) The total outstanding exposure (on and off-balance sheet) by a bank to all tiers of government and their agencies shall not at any point in time **exceed 10%** of the total credit portfolio.

(d) A large exposure is any credit to a customer or a group of related borrowers that is **at least 10%** of a bank's shareholders fund unimpaired by losses.

(e) Aggregate large exposures in any bank shall not exceed eight times the shareholders fund unimpaired by losses.

3.03 Credit Concentration Policy:

(a) Banks shall put in place effective internal policies, systems and controls to identify, measure, monitor, and control their credit risk concentrations. The policies shall be approved by the Board of Directors and shall cover the different forms of credit risk concentrations to which a bank may be exposed. Such concentrations include:

(i) Significant exposures to an individual counterparty or group of related counterparties;

(ii) Credit exposures to counterparties in the same economic sector or geographic region;

(iii) Credit exposures to counterparties whose financial performance is dependent on the same activity or commodity; and

(iv) Indirect credit exposures arising from a bank's Credit Risk Mitigation (CRM) activities (e.g. exposure to a single collateral type or to credit protection provided by a single counterparty).

(b) A bank's framework for managing credit risk concentrations shall be clearly documented and shall include a definition of the credit risk concentrations relevant to the bank and how these concentrations and their corresponding limits are calculated. Limits shall be defined in relation to a bank's capital, total assets or, where adequate measures exist, its overall risk level.

(c) A bank's management shall, at a minimum, conduct quarterly stress tests of its major credit risk concentrations in line with the extant Guidelines on Stress Testing for Nigerian Banks and review the results of those tests to identify and respond to potential changes in market conditions that could adversely impact the bank's performance.

(d) Except for FGN bonds, supranational bonds, and corporate bonds that are quoted and marked to market, all other bonds shall be considered as credits in determining credit concentration.

(e) All banks shall put in place policies on Credit Portfolio Plan as part of their credit risk management, which shall be approved by their respective boards. The plan shall specify the target portfolio size as well as portfolio distribution by industry, economic sectors, Business Units etc. The portfolio plan shall at a minimum consider the following:

(i) Macro-economic climate including fiscal and monetary policy guidelines

(ii) Bank policies on its target market

(iii) Minimum risk acceptance criteria definition for each bank

(iv) Bank's policy on concentration risks by industry, market sector, and obligor

(v) Historical portfolio and experience of each bank, etc.

(f) In defining the portfolio concentration limits for sectors, banks shall adopt the standard industry classification (SIC) of Economic Sectors issued by the CBN from time to time.

(g) Where exposure to a particular sector (as defined by the Standard Industry Classification of Economic Sectors as issued by the CBN is in excess of 30 per cent of total credit facilities of a bank, the risk weight of the entire portfolio in that sector shall be 150 per cent.

(h) Banks shall review their credit portfolio plan on a quarterly basis to ensure that the plan remains reflective of current market circumstances. In the event of material adverse changes affecting the macro-economic environment or particular sectors, industries or regions, appropriate review and mitigation strategies shall be performed

(i) In assessing credit risk concentration of a bank, the CBN will consider the credit concentration policy, the credit portfolio plan and the extent to which the bank considers credit concentration as part of the subjective factors in making specific provisions. Non-compliance with a bank's established policy on credit concentration and monitoring shall form a basis for supervisory action which may include additional loan loss provisions under sections 6.01(e) (1) (ii); 6.01(e) (2) (ii) and 6.01(e) (3) (ii). The subjective factors shall also be extended to provisions on specialized loans.

3.04 Exposures to Directors and their related interests:

(a) A significant shareholding is defined as a holding of at least 5% (individually or in aggregate) of a bank's equity.

(b) Director, insider and significant shareholder credit exposure shall be fully disclosed by banks in their financial statements and returns prescribed by the Central Bank of Nigeria.

(c) Insiders include directors, significant shareholders, employees and investee companies (such as associates, subsidiaries, joint ventures) of banks, and other entities in which they have significant control. In line with the BOFIA, the term "director" includes director's wife, husband, father, mother, brother, sister, son, daughter and their spouses.

(d) Banks shall ensure that their credit policies specifically address lending to directors as part of related parties or insiders lending policies.

(e) The limit on credit facilities to insiders and their related parties shall be as prescribed below:

i. A director or a significant shareholder shall not borrow more than 1 per cent of shareholders' funds unimpaired by losses.

ii. The aggregate credit facilities to all insiders and their related parties shall not exceed 10 per cent of shareholders' funds.

3.05 Disclosure of Insider-related credits in financial statements:

(a) Insider-related credits include credit facilities to shareholders, employees, directors and their related interests.

(b) The disclosure required to be presented in the financial statements is as follows:

iii. The aggregate amount of insider-related loans, advances and leases outstanding as at the financial year end shall be separately stated in a note to the accounts and the non-performing component further analyzed by security, maturity, performance, provision, interest-in suspense and name of borrowers.

iv. Notes to the accounts on guarantees, commitments and other contingent liabilities shall also give details of those arising from related-party transactions.

v. The external auditors and audit committees shall **include in their report, their opinion** on related-party credits.

(c) The requirements of Sections 3.04 and 3.05 do not apply to credits extended to employees under their employment scheme of service, or to shareholders whose shareholding and related interests are less than 5 per cent of the bank's paid up capital as at the date of the financial report or to public limited liability companies in which a director has an interest that is less than 5 per cent.

3.06 Bankers Acceptances and Commercial Papers:

The issuance and treatment of BAs and CPs shall be in line with the CBN's "*Guidelines on the issuance and treatment of Bankers Acceptances and Commercial Papers" issued on November 18, 2009* or as may be advised by the CBN from time to time.

3.07 Basic Information on Borrowers and Minimum Contents of Credit files:

A bank shall:

(a) Ensure that every borrower completes the Loan Application Form (LAF) designed by the bank and that the LAF is approved by relevant officers or organs of the bank.

(b) Ensure that the LAF contains such information as the bank may require to evaluate the credit application, which may include recent audited financial statements/management accounts, projected cash flows, records of past bank accounts.

(c) Obtain credit reports within 30 days prior to the disbursement of facilities from at least **two (2) credit bureaus** before granting any facility to their customers. The result of the enquiry shall be documented in the credit file of the customer. In addition, compliance with the CBN circular BSD/DIR/GEN/CIR/04/014 issued on April 30, 2010 is mandatory.

(d) Provide evidence that a search has been conducted on the borrower in the CBN's Credit Risk Management System (CRMS) database.

(e) Obtain the Bank Verification Number (BVN) of individual borrowers and directors of corporate borrowers

(f) Obtain the Tax Identification Number (TIN) of corporate borrowers

(g) Obtain information on entities related to the borrowers

(h) Maintain credit files whether in electronic, print or other form, on all its borrowers, which shall contain adequate and timely information on the credit-worthiness of the borrowers to enable:

i. proper and effective monitoring of credit facilities extended by the bank; and
ii. examiners, as well as the bank's internal and external auditors, to have immediate and complete factual information from which they can form an objective opinion on the credit facilities.

(i) Maintain basic information (including those set out in the **Annexure 1**, where applicable) on the following to enable an objective evaluation of the quality of each facility:

i. the borrower;
ii. the credit facility;
iii. the appraisal of the credit application;
iv. the conduct and status of the account;
v. an offer letter showing conditions for draw down; and
vi. evidence of acceptance of offer by the borrower.

3.08 Minimum information on credit print-outs:

All banks shall provide the following minimum details in their credit print-outs:

(i) Account number of customer;
(ii) Name of customer;
(iii) Class of facility – 'specialized' or 'other than specialized'
(iv) Type of facility;
(v) Date facility was granted;
(vi) Authorized limit of facility;
(vii) Original expiry date;
(viii) Balance on account;
(ix) Date of last lodgment or credit operation by the customer; and
(x) Sector/Industry
(xi) Type and value of security pledged.
(xii) Borrower's BVN or TIN

3.09 Margin lending:

All banks involved in margin lending shall comply with the guidelines issued by the CBN/ Securities and Exchange Commission (SEC) on Margin Lending for banks, brokerage firms, asset managers and other financial institutions.

3.10 Revaluation of fixed assets:

Prior approval of the CBN shall be obtained by any bank before the recognition of the revaluation surplus on fixed assets in its books. The valuation shall be made by qualified professional(s) whose identity and qualifications are stated, with the valuation basis clearly shown. Banks are to note that revaluation of fixed assets is applicable to own premises only.

3.11 Foreign Exchange Risk:

All banks shall comply with Net Open Position **and Foreign Currency Trading Position** limits as advised by the Central Bank of Nigeria from time to time.

3.12 Liquidity ratios:

(a) The following liquid assets are admissible for computation of liquidity ratio:

- (i) Cash;
- (ii) Balance held with the CBN;
- (iii) Net balances held with banks within Nigeria;
- (iv) Nigerian treasury bills;
- (v) Nigerian treasury certificates;
- (vi) CBN registered certificates;
- (vii) Net inter-bank placement with other banks;
- (viii) Net placement with discount houses;
- (ix) Total certificate of deposits;
- (x) FGN bonds;
- (xi) Stabilization securities;
- (xii) Net Certificate of Deposit held under **18 months** to maturity;
- (xiii) State government bonds granted liquidity status by the CBN;
- (xiv) Non-interest Liquidity management instruments issued by the CBN; and
- (xv) Any other asset as prescribed by the CBN from time to time.

(b) The CBN shall prescribe the minimum liquidity ratio for banks in Nigeria from time to time in line with its monetary policy's directions.

(c) The basis for designating a bank as illiquid shall be in line with the CBN Supervisory Intervention Framework:

(d) The CBN will, in due course, issue guidelines relating to Liquidity Coverage Ratio and Net Stable Funding Ratio. These guidelines, when issued, will form part of this Prudential Guidelines.

3.13 Statutory reserve:

Every bank shall maintain a reserve fund appropriated out of its net profits for each year (after due provision made for taxation) and before any dividend is declared as follows:

Where the amount of the reserve funds is;

i. less than the paid-up share capital, transfer to the reserve fund a sum equal to not less than 30% of the net profits; and

ii. equal to or in excess of the paid-up share capital, transfer to the reserve fund a sum equal to not less than 15% of the net profit;

Provided that no transfer shall be made to this reserve until all identifiable losses have been made good.

3.14 Cash reserve ratio:

The CBN shall prescribe the minimum cash reserve ratio for banks in Nigeria from time to time in line with its monetary policy's directions.

3.15 Dividend Pay-out

Banks are required to comply with the provisions of CBN letters referenced BSD/DIR/GEN/LAB/11/002 and BSD/DIR/GEN/LAB/07/033 on "Internal Capital Generation and Dividend Pay-out Ratio" and dated January 31, 2018 and October 8, 2014, respectively.

3.16 Capital adequacy ratio (CAR)

(a) The CAR shall be as prescribed by the CBN from time to time.

(b) Banks are required at all times to maintain capital levels in line with the authorisation of the banking licence which they hold.

(c) Banks with national/regional authorisation are required to maintain minimum CAR of 10 per cent at all times.

(d) Banks with international authorisation are required to maintain minimum CAR of 15 per cent at all times.

(e) Banks designated as "domestic systemically important banks" are required to maintain minimum CAR of 16per cent at all times.

(f) Tier 2 capital is limited to 331/3 percent of Tier 1 capital. The general provision will not form part of Tier 2 Capital of a bank.

(g) Banks that do not possess adequate capital shall be classified in line with the Supervisory Intervention Framework and appropriate actions taken in line with the Framework.

3.17 Credit rating of counter party/obligor and sector:

(a) All banks shall put in place an internal rating policy/model and conduct internal credit ratings of all counter parties/ obligors and sectors. The ratings of obligors shall be updated, at least, on a quarterly basis.

(b) In measuring credit risk of loans and advances to customers and to banks at a counterparty level, banks must ensure that the following components are considered:

i. The probability of default of the obligor;

ii. The exposure at default;

iii. The loss given default;

iv. Forward looking information; and

v. The peculiarities of the sector in which the obligor operates.

(c) Banks are to map their internal credit rating scale to globally recognised credit rating descriptors.

3.18 Credit rating of banks:

(a) Banks shall subject themselves to periodic rating by reputable credit rating agencies.

(b) The credit rating shall be at least on annual basis, and updated continuously.

(c) The **rating report shall be submitted to the CBN** within six months from the end of the financial year.

(d) Banks shall disclose their current credit ratings prominently in the annual reports and other publications.

3.19 Reconciliation of inter-branch accounts and treatment of suspense account entries:

(a) All entries outstanding in the Inter-Branch Accounts (by whatever name called) and / or suspense Account must be reconciled / cleared and taken to the appropriate account within **30 days** from the date the entry is made in the above-named accounts.

(b) All outstanding items in the Inter-Branch Accounts/Suspense accounts not reconciled within 30 days shall be treated in line with Sub-section 3.19.

(c) Banks shall institute an effective system of internal controls for the operations of Inter-Branch and Suspense Accounts, which ensures reconciliation/clearing of the entries in the shortest possible time and also clearly assigns responsibilities to the official(s) for timely reconciliation and clearance.

3.20 Foreign currency loans:

Banks are required to comply with the CBN letters BSD/DIR/GEN/LAB/10/009 on "Review of the Limit on Foreign Borrowing by Banks" dated February 13, 2017 and BSD/DIR/GEN/LAB/08//037 on "Granting of Foreign Currency Loans to Non-Dollar Generating Businesses" dated April 4, 2015.

3.21 Policies and procedures for write-off of fully provided credit facilities:

(a) The facility must have been fully provided for in line with the loan loss provisioning guidelines and must be in bank's book for at least one year after full provision.

(b) There shall be evidence of board approval.

(c) If the facility is insider or related party credit, the approval of CBN is required.

(d) The fully provisioned facility must be appropriately disclosed in the audited financial statement.

3.22 Misreporting:

All Banks shall refrain from adopting any measures or practices whereby they would either artificially or temporarily show an ostensibly different position of bank's financial performance or position as given in their financial statements. Particular care shall be taken in showing their deposits, minimum capital requirement, non-performing loans/assets, provisioning, profit, inter-branch and inter-bank accounts, etc.

3.23 Lending to Customers

a) Banks shall not lend to corporate entities without TIN and individuals without BVN or individuals with BVN that are not resident in Nigeria. Banks that have existing exposure to such entities are required to wind down such exposures within 24 months from the effective date of these Guidelines.

b) A bank that lends to any corporate entity without TIN and individuals without BVN or non-resident individuals with BVN from the effective date of these Guidelines or a bank that fails to fully wind down its existing exposures to such entities by the date allowed above, is in contravention of this regulation. In addition to any other sanctions that the CBN may impose, the amount of such exposure shall be deducted from the bank's capital in computing capital adequacy ratio.

3.24 Margin financing:

All margin facilities shall be reported in accordance with the rules and regulations issued by the CBN and SEC.

3.25 Management of Market Risk

MFBs are required to institute strategies to manage market risk including the development of risk appetite, appropriate policies, processes, and organization structures to support ongoing management and quantification market risk.

Quantification of market risk capital charge shall be in line with the CBN Guidance Notes on the Calculation of Capital Requirement for Market Risk.

4.0 CORPORATE GOVERNANCE

As part of the efforts to promote good corporate governance in the Nigerian Banking Industry, the CBN issued the Code of Corporate Governance for Banks in Nigeria with effective date of October 1, 2014. Compliance with the provisions of the code is mandatory for all banks.

4.01 Tenured Positions

In order to ensure both continuity and injection of fresh ideas, tenures shall apply to the positions of Chief Executive Officer (CEO), Non-Executive Director (NED) and External Auditors. The following rules shall apply to the tenured positions:

(a) A CEO of a bank shall serve for a maximum tenure of 10 years.

(b) A NED shall not remain on the board of a bank continuously for more than 3 terms of 4 years each, i.e. 12 years.

(c) The tenure of external auditors in a given bank shall be for a maximum period of ten years from date of appointment after which the audit firm shall not be reappointed in the bank until after another 10 years.

(d) In determining the length of period service of a CEO, any period served in acting capacity shall be deemed to have formed part of the period of his/her service as the CEO.

(e) For all tenured positions affected by merger/acquisition/take-over or any form of combination, the length of service shall include both the periods served pre-and post the combination.

4.02 Cooling Off Period

(a) Any person who has served as CEO in a bank shall not qualify for appointment in that bank or its subsidiaries in any capacity until after a period of **3 years** after the expiration of his tenure as CEO. If appointed, he/she shall only serve as a non-executive director.

(b) Where an executive director exits his/her position in the bank, such a person shall not be eligible for appointment as a non-executive director until after a period of three years.

(c) Banks shall reflect the provisions of these guidelines in the terms of engagement of their CEOs, executive directors, NEDs and external auditors.

(d) The Governor/Deputy Governors of the CBN and the Managing Director/CEO and Executive Directors of the Nigeria Deposit Insurance Corporation, NDIC shall not be eligible for appointment in any capacity in banks until after the expiration of **5 years** from the date of their exit from the CBN or NDIC as the case may be.

(e) The Departmental Directors of the CBN and the NDIC shall not be eligible for appointment in any capacity in banks and their subsidiaries under the supervision of the CBN and NDIC until after the expiration of **3 years** from the date of their exit from the CBN or NDIC as the case may be.

5.0 KNOW YOUR CUSTOMER AND ANTI-MONEY LAUNDERING MEASURES

5.01 Know your customer:

All banks shall be required to comply with the principles and procedures of Know Your Customer (KYC) and relevant circulars as issued by the CBN from time to time.

5.02 Anti-money laundering measures:

All banks shall be required to comply with the Money Laundering (Prohibition) 2011 (as amended), the CBN AML/CFT Regulation 2013 and other relevant circulars issued by the CBN from time to time.

5.03 Record retention:

The records of transactions and identification data etc. maintained by banks occupy critical importance as far as legal proceedings are concerned. Prudence demands that such records may be maintained in systematic manner with exactness of period of preservation to avoid any set back on legal and reputation fronts. Banks shall therefore, maintain, for a minimum period of **five years**, all necessary records on transactions, both domestic and international. Banks shall, however, retain those records for longer period where transactions relate to litigation or are required by the Court of law or by any other competent authority.

5.04 Correspondent banking:

Banks shall gather sufficient information about their correspondent banks to understand fully the nature of their business. Factors to consider include:

a) Know your customer policy (KYC)

b) Information about the correspondent bank's management and ownership

c) Major business activities

d) Their location

e) Money laundering prevention and detection measures

f) The purpose of the account

g) The identity of any third party that will use the correspondent banking services (i.e. in case of payable through accounts)

h) Condition of the bank regulation and supervision in the correspondent's country

5.05 Suspicious transactions:

Banks shall pay special attention to all complex, unusually large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. Such suspicious transactions shall be as listed in Schedule III of the CBN AML/CFT Regulation, 2013. However, these are not intended to be exhaustive and only provide examples of the most basic ways in which money may be laundered. The background and purpose of such transactions shall, as far as possible, be examined, the findings established in writing, and be available to help the relevant authorities in inspection and investigation.

6.0 LOAN LOSS PROVISIONING

6.01 Credit portfolio classification system for facilities other than "Specialized loans"

a. Banks shall review their credit portfolio continuously (at least once in a quarter) with a view to recognising deterioration in credit quality. Such reviews shall classify banks' credit exposures based on the risk of default.

b. In order to facilitate comparability of banks' classification of their credit portfolios, the assessment of risk of default shall be based on criteria which shall include, but are not limited to repayment performance and borrower's repayment capacity on the basis of current financial condition.

c. For syndicated facilities, the classification shall be the same across all banks involved in the syndication. Thus, the worst classification by any of the banks involved in the syndication shall apply across board.

d. Credit facilities (financial instruments exposed to credit risk such as loans, advances, overdrafts, commercial papers, bankers' acceptances, bills discounted, leases, guarantees, and other loss contingencies connected with a bank's credit risks) shall be classified as "performing", "watchlist" or "non-performing" as defined below:

   1. Performing facility: A credit facility is deemed to be performing if all due principal and interest payments have been settled or if not past due by more than 30 days.

   2. Watchlist facility: – A facility where principal and/or interest is past due by 31 to 90 days.

   3. Non-performing facility: A credit facility shall be deemed as non-performing when any of the following conditions exists:

      i. interest or principal is past due for more than 90 days;

ii. interest past due for 91 days or more have been capitalised, rescheduled or rolled over into a new loan;

iii. off balance sheet obligations crystallise.

e. Non-performing credit facilities shall be classified into three categories namely, sub-standard, doubtful or lost on the basis of the criteria below:

(1) **Sub-Standard**

The following objective and subjective criteria shall be used to identify sub-standard credit facilities:

i. Objective Criteria: credit facilities on which past due principal and/or interest remain outstanding for at least 91 days but not more than 180 days.

ii. Subjective Criteria:

a. Credit facilities which display well defined weaknesses which could affect the ability of borrowers to repay such as inadequate cash flow to service debt, undercapitalisation or insufficient working capital, absence of adequate financial information or collateral documentation, irregular payment of principal and/or interest, non-performing facilities with other banks and inactive accounts where withdrawals exceed repayments or where repayments can hardly cover interest charges.

b. Significant deterioration in credit rating of the borrower/obligor between initial recognition and the reporting date

c. Significant financial difficulty of the borrower;

d. Grant of concessions to the borrower/obligor by its lender(s) for economic or contractual reasons relating to the borrower/obligor's financial difficulty, especially where the lender(s) would not ordinarily consider such concession(s);

e. It is probable that the borrower will enter bankruptcy or other financial reorganization;

f. The purchase or origination of a financial asset at a deep discount that reflects credit losses.

(2) **Doubtful**

The following objective and subjective criteria shall be used to identify doubtful credit facilities:

i. Objective Criteria: facilities on which unpaid principal and/or interest remain outstanding for at least 181 days but not more than 360 days.

ii. Subjective Criteria: facilities which, in addition to the weaknesses associated with sub-standard credit facilities reflect that full repayment of the debt is not certain or that realisable collateral values will be insufficient to cover bank's exposure.

(3) **Lost Credit Facilities**

The following objective and subjective criteria shall be used to identify lost credit facilities:

i. Objective Criteria: facilities on which unpaid principal and/or interest remain outstanding for more than 360 days and off-balance sheet engagements that have crystalized.

ii. Subjective Criteria: facilities which in addition to the weaknesses associated with doubtful credit facilities, are considered uncollectible and are of such little value that continuation as a bankable asset is unrealistic such as facilities that have been abandoned, facilities secured with unmarketable and unrealizable securities and facilities extended to judgment debtors with no means or foreclosable collateral to settle debts.

f. A restructured or rolled-over facility shall not be treated as a new facility.

g. Where a credit facility already classified as "non-performing" is renewed, restructured or rolled-over, that facility shall retain its previous classification as if the renewal, restructuring or roll over did not occur.

h. For a credit facility classified as "non-performing" to be reclassified as "performing", the borrower must effect cash payment such that outstanding unpaid interest **does not exceed 30 days.**

i. When a facility rescheduling is agreed with a customer, provisioning shall continue until it is clear that the rescheduling is working at a minimum, for a period of 90 days.

j. For a "non-performing" or "watchlist" facility to be re-classified as "performing", outstanding interest and due but unpaid principal shall not exceed 30 days. Similarly, for a "non-performing" to can be re-classified as "performing", outstanding interest and due but unpaid principal shall not exceed 30 days.

k. Banks are required to adopt the criteria specified in paragraphs 6.01(a) to 6.01(e) to classify their credit portfolios in order to reflect the recoverable values of their credit facilities.

l. Banks should note that the CBN reserves the right to object to the classification of any credit facility and to prescribe the classification it considers appropriate for such credit facility.

6.02 Provision for facilities other than "Specialized loans"

(a) Banks are required to make adequate provisions for perceived losses based on the credit portfolio classification system prescribed in paragraph 6.01. Two types of provisions (that is specific and general) are considered adequate to achieve this objective.

(b) Specific provisions are made on the basis of risk of default on credit facilities while general provisions are made in recognition of the fact that a performing credit facility may be inherently risky.

(c) Consequently, banks shall make provisions for credits as specified below:

i. General Provision - 2 per cent of outstanding balance of performing facilities or as may be advised by the CBN from time to time.

ii. Specific provisions shall be applied as follows:

aa. For facilities classified as non-performing, interest overdue by more than 30 days shall be suspended and recognized on cash basis only.

ab. For facilities classified as non-performing principal repayments that are past due shall be fully (100 per cent) provided for and recognized on cash basis only.

ac. For outstanding principal of credit facilities classified as "watchlist", 5 per cent provision on the outstanding principal amount.

ad. For principal repayments that are not yet due on non-performing credit facilities, provisions shall be made on the outstanding principal balance as follows:

- Sub-Standard: 20 per cent;
- Doubtful: 50 per cent;
- Lost: 100 per cent.

(d) Provisioning and classifications under 6.01 and 6.02 shall apply to commercial, commodities financing, corporate, retail and consumer credits as well as facilities granted to federal, state and local governments and their parastatals. Other credits or facilities not specifically classified as specialized loans are also subject to provisioning under section 6.01 and 6.02.

6.03 Credit portfolio classification system for "Specialized loans"

a) Without prejudice to the developmental (intervention) facilities of the CBN, a specialized loan has the following features:

i. The economic purpose of the loan is to acquire or finance an asset, which typically serves as the collateral for the loan.

ii. The tenor of the loan shall not be less than two years.

iii. The cash flow generated by the collateral is the loan's sole or almost exclusive source of repayment.

iv. The terms of the facility give the bank control over the collateral and the income it generates.

v. The primary determinant of credit risk is the variability of the cash flow generated by the collateral rather than the independent capacity of a broader commercial enterprise.

b) Banks shall review their credit portfolio continuously (at least once in a quarter) with a view to recognising deterioration in credit quality. Such reviews shall classify banks' credit exposures based on the perceived risks of default. In order to facilitate comparability of banks' classification of their credit portfolios, the assessment of risk of default shall be based on criteria which shall include, but are not limited to, cash flow performance of the asset financed/collateral and the borrower's repayment capacity on the basis of current financial condition.

c) For syndicated specialised loans, the classification shall be the same across all banks involved in the syndication. Thus, the worst classification by any of the banks in the syndicate shall apply across board.

d) Banks may consider granting obligors a moratorium on principal repayment and/or interest based on the cash flow characteristics of the asset.

e) Specialised loans shall be classified as "performing", "watchlist" or "non-performing" as defined below:

i. Performing facility: A specialised loan is deemed to be performing if all due principal and interest payments have been settled or if not past due by more than 90 days.

ii. Watchlist facility: A specialised loan shall be classified as 'Watchlist' where the overdue repayment obligation is between 5 and 15 per cent of the total outstanding amount due or aggregate instalments thereof are overdue by 91 to 180 days.

iii. Non-performing facility: A credit facility shall be deemed as non-performing when any of the following conditions exists:

iv. interest or principal is past due for more than 180 days;

v. interest past due for 181 days or more have been capitalised, rescheduled or rolled over into a new loan;

vi. off balance sheet obligations crystallise.

f) Non-performing credit facilities shall be classified into four categories, namely sub-standard, doubtful, very doubtful or lost based on the criteria below:

1. Sub-Standard

The following objective and subjective criteria shall be used to identify sub-standard credit facilities:

i. Objective Criteria: where the overdue repayment obligation is more than 15 per cent but less than 25 per cent of the total outstanding amount or aggregate instalments thereof are overdue by at least 181 days and not more than two years.

ii. Subjective Criteria: a loan regarding which:

- A project milestone has been missed,
- There are indications that financial resources needed to complete the project are insufficient,
- The contractor or borrower has recorded loss of its key management staff,
- The contractor or borrower has filed for bankruptcy or been declared bankrupt,
- There has been deterioration in the asset's debt coverage ratio,

2. Doubtful loans

The following objective and subjective criteria shall be used to identify doubtful credit facilities:

i. Objective Criteria: where the overdue repayment obligation is more than 25 per cent but less than 35 per cent of the total outstanding amount or aggregate instalments thereof are overdue by more than 2 years but not more than three years.

ii. Subjective Criteria: Loans that in addition to subjective criteria for classifying specialised loans as sub-standard, show the following weaknesses,

- Available evidence suggests that the project will not be delivered on time,
- There are indications that the contractor lacks adequate capacity to complete the project,
- A key project sponsor has failed to honour its financial commitment,
- Insolvency of any of the project participants where this will have a material adverse effect on the project, or

- For agricultural loans, where a major disease epidemic has affected the crop or animal production funded by the loan.

3. Very doubtful loans

The following objective and subjective criteria shall be used to identify very doubtful specialised loans:

i. Objective Criteria: where the overdue repayment obligation is more than 35 per cent but less than 45 per cent of the total outstanding amount or aggregate instalments thereof are overdue by more than 3 years but not more than four years.

ii. Subjective Criteria: Loans that in addition to subjective criteria for classifying specialised loans as doubtful, show the following weaknesses,

- There has been a cost overrun,
- The appraised value of the collateral become lower than the carrying value of the loan,
- There is evidence that the project may not be profitable,
- Failure of the project to pass completion test, or
- Due to any reason whatsoever, the projected cash flows cannot be realised

4. Lost loans

The following objective and subjective criteria shall be used to identify lost specialised loans:

i. Objective Criteria: where the overdue repayment obligation is more than 45 per cent of the total outstanding amount or aggregate instalments thereof are overdue by more than 4 years.

ii. Subjective Criteria: Loans that in addition to subjective criteria for classifying specialised loans as very doubtful, show the following weaknesses:

- The project has been abandoned, or
- For agricultural products, the crop funded by the loan has failed.

g) A restructured or rolled-over specialised loan shall not be treated as a new facility.

h) Where a specialised loan already classified as "non-performing" is renewed, restructured or rolled-over, the loan shall retain its previous classification as if the renewal, restructuring or roll over did not occur.

i) For a specialised loan classified as "non-performing" or "watchlist" to be reclassified as "performing", the borrower must effect cash payment such that outstanding interest and due but unpaid principal **shall not exceed 90 days.** Similarly, for a specialised loan classified as "non-performing" to be reclassified as "watchlist", outstanding interest and due but unpaid principal **shall not exceed 180 days**.

j) When a loan rescheduling is agreed with a customer, specific provisioning shall continue until it is clear that rescheduling is working at a minimum, for a period of 90 days.

k) Banks are required to adopt the criteria specified in 'a' – 'j' above to classify their specialized loans. The Central Bank of Nigeria reserves the right to object to the classification of any credit facility and to prescribe the classification it considers appropriate for such credit facility.

6.04 Provisioning for "Specialized loans"

a) Banks are required to make adequate provisions for perceived losses on their specialized loans portfolio using the classification system prescribed in paragraph 6.03 in order to reflect their true financial condition. Specific and general provisions are considered adequate to achieve this objective.

b) Specific provisions are made on the basis of risk of default on specialized loans while general provisions are made in recognition of the fact that a performing loan may be inherently risky.

c) Consequently, all banks shall make provisions for credits as specified below:

   1. General provision at 2 per cent of the outstanding balance of performing specialized loans or as the CBN may advise from time to time.
   2. Specific provisions shall be applied as follows:
      i. For facilities classified as non-performing, interest overdue by more than 90 days shall be fully provided for and recognized on cash basis only.
      ii. For facilities classified as non-performing, principal repayments that are past due by 180 days shall be fully (100 per cent) provided for and recognized on cash basis only.
      iii. For outstanding principal of facilities classified as "watchlist", 5 per cent provision on the outstanding principal amount.
      iv. For principal repayments that are not yet due on non-performing specialized loans, provisions shall be made on the outstanding principal balance as follows:
         - Sub-Standard, 20 per cent;
         - Doubtful, 50 per cent;
         - Very doubtful, 75 per cent

- Lost, 100 per cent.

d) The classifications and provisioning for specialized loans shall take into considerations the cash flows and gestation periods of the different loan types.

6.05 Collateral Adjustment for Lost Facilities

To encourage utilisation of more credit enhancement and mitigation strategies, collateral adjustments shall be applied in loan provisioning. This process considers the quality and realizability of underlying collaterals pledged against loan facilities.

1. For collateral to be considered for "Haircut Adjustments", it must be:
   i. Perfected;
   ii. Realizable, with no restrictions on sale; and
   iii. Regularly valued with transparent method of valuation

2. All documentation used in collateralized transactions must be binding on all parties and legally enforceable in all jurisdictions. Banks must conduct sufficient legal review to verify this and have a well-founded legal basis to reach this conclusion, and undertake such further review as necessary to ensure continuing enforceability.

3. Valuations of residential and commercial properties shall be carried out by an independent professional valuer. The valuer while assigning any values to the mortgaged residential and commercial property shall take into account all relevant factors affecting the saleability of such assets including any difficulty in obtaining their possession, their location, condition and the prevailing economic conditions in the relevant sector, business or industry.

4. The values of mortgaged residential and commercial properties so determined by the valuer must be a reasonably good estimate of the amount that could currently be obtained by selling such assets in a forced / distressed sale condition. Valuers shall also mention in their report the assumptions made, the calculations / formulae/ bases used and the method adopted in the determination of the values i.e. the forced sale value (FSV).

5. The following are collateral instruments eligible for collateral adjustment:
   i. Cash (as well as certificates of deposit or comparable instruments issued by the lending bank) on deposits with the bank which is incurring the counterparty exposure.
   ii. Treasury bills and other government securities.
   iii. Quoted equities and other traded securities.

iv. Bank guarantees and receivables of blue chip companies.
v. Residential legal mortgage
vi. Commercial legal mortgage
vii. Other collaterals as defined by the CBN from time to time.

6. The following hair cut adjustments shall be applicable on all loan types classified as lost:

Description of Collateral	**Haircut adjustments weightings**
Cash	0%
Treasury Bills and government securities e.g. bonds	0%
Quoted equities and other traded securities	20%
Bank guarantees and Receivables of blue chip companies	20%
Residential legal mortgage	50%
Commercial legal mortgage	50%

7. The haircuts adjustment weightings shall be taken into consideration in arriving at the adjusted provisions for facilities classified as lost. The adjusted provisions shall be derived as follows:

   Required Provision = E – {VC X (1- HW)}

   Where,

   E = Total Exposure

   HW = haircut weightings

   VC = Value of Collateral

   If {VC X (1-HW)} is greater than E then no provision is required.

   Note: The value of collateral for quoted equities and other traded securities shall be market value while for mortgages, it shall be forced sale value (FSV).

8. The CBN will review the list of eligible collaterals and the haircut adjustments applicable from time to time.

9. Other Conditions for Haircut Adjustments
   a. The non-performing facilities requiring haircut adjustments and the haircut adjustment calculations including valuation of collaterals shall be reviewed by the banks' auditors and must be ratified by the CBN.

b. For the purpose of (1) above, review of valuation by external auditors does not fall under appraisal or valuation services prohibited by the Code of Corporate Governance.
c. A maximum of 1 year is allowed for the haircut adjustments pending which the collaterals shall be realized and shortfall in provision taken.
d. If the facility on which haircut adjustment has been applied remains non-performing after one year, then the haircut adjustment will be disregarded.

6.06 Treatment of IFRS Impairment Charge for Prudential Purposes

Banks shall compute impairment charge on financial instruments and off-balance sheet engagements as prescribed in the relevant IFRS.

a) The IFRS impairment charge shall be compared with provisions determined under these Guidelines and the difference shall be treated as follows:

   i. If p**rudential provisions are greater than IFRS impairment charge**, the difference shall be transferred **from the general reserve to a non-distributable regulatory risk reserve**.

   ii. If **prudential provisions are less than IFRS impairment charge**, the difference shall be transferred from the regulatory risk reserve account to the general reserve to the extent of the non-distributable regulatory risk reserve previously recognized.

b) The non-distributable regulatory risk reserve shall not be recognized as a component of qualifying capital.

6.07 Credit Portfolio Disclosure Requirement

a) Each bank is required to provide in its audited financial statements, an analysis of its credit portfolio into "performing", "watchlist", and "non-performing" as defined in these Guidelines

b) The amount of provision for deterioration in credit quality (that is, losses) shall be segregated between principal and interest.

c) A maturity profile of credit facilities based on contracted repayment programme, shall be provided along with the maturity profile of deposit liabilities in the financial statement.

d) Banks are also to provide a vintage analysis of their portfolios as follows:

	<= 1 year	> 1 year <=3 years	> 3 years	Total
	₦	₦	₦	₦
Performing				
Watchlist				
Non-performing Total				

e) Other details as required by the CBN circular on "minimum information to be disclosed in financial statements".

6.08 Disclosure Requirement for "Specialized loans"

a) Banks shall disclose total loans outstanding under each specialized loan as at year end and provision against the loans.

b) Banks shall disclose non-performing loans by loan types in the financial statements and the percentage to total loans along with movement of specific provision under each category.

c) The non-performing loans shall be classified under each classification category i.e. substandard, doubtful, very doubtful and lost.

d) Banks are to provide a vintage analysis of their portfolios as follows:

	<= 1 year	> 1 year <=3 years	> 3 years	Total
	₦	₦	₦	₦
Performing				
Watchlist				
Non-performing Total				

6.09 Interest Accrual

a) It is the responsibility of a bank's management to recognize interest revenues when they are earned or realized and make provision for all losses as soon as they can be reasonably estimated.

b) However, interest on non-performing credit facilities overdue by more than 90 days shall be fully (100 per cent) provided for and recognized on cash basis only.

6.10 Classification and Provisioning for Other Assets

a) The term "other assets" relates to those asset items that are not shown separately in the balance sheet of a bank. These items include impersonal accounts (of various descriptions), suspense accounts such as frauds and cashiers' shortages, Cheque Purchased, Uncleared Effects and Inter-Branch Items. The accounts could contain long outstanding items, the origins of which had been forgotten, untraceable or irreconcilable. In situations like these, the items if not material shall be written off and where material (i.e. at least 10 per cent of aggregate balance of Other Assets) shall be classified as shown below. It shall be noted that items enumerated below are by no means exhaustive:

1. **Sub-Standard**

   Fraud cases of up to 1 month but less than 3 months old and under police investigation regardless of the likely outcome of the cases.

   A minimum provision of 20 per cent shall be made for "Other Assets" classified as sub-standard.

2. **Doubtful**

   Items for doubtful classification shall include, but are not limited to outstanding fraud cases of 3 to 6 months old, with slim chances of full recovery.

   A minimum of 50 per cent provision shall be made for "Other Assets" classified as doubtful.

3. **Lost**

   Items for lost classification shall include, but are not limited to the following:

   i. Cheques purchased and uncleared effects over 30 days old and for which values had been given.
   ii. Outstanding fraud cases over 6 months old and involving protracted litigation.
   iii. Inter-branch items over 30 days old whether or not the origins are known.
   iv. All other intangible suspense accounts over 30 days old.
   v. Full provision (i.e. 100 per cent) shall be accorded to items classified lost.

6.11 Revolving and Overdraft Facilities:

a) Normally the first indication that a revolving or overdraft facility may be non-performing is when the turnover on the account is considerably lower than anticipated when the facility was arranged or when interest is charged which takes the facility above its approved limit.

b) The following conditions shall be observed for a revolving or overdraft facility

   i. There shall be "clean-up period[1]" of at least two (2) weeks before a revolving or overdraft facility can be rolled-over.
   ii. There shall be a maximum of 90 days "clean-up cycle[2]" on every revolving or overdraft facility

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[1] Period during which the customer does not enjoy an overdraft/revolving facility from the bank, having paid off the last one

[2] Period during which outstanding amount must be repaid by the customer

iii. Except for new customers, the amount of facility shall not exceed 200 per cent of average monthly turnover in the last six months

c) Banks are required to classify revolving or overdraft facilities as specified below:

i. Performing: Where all conditions of the contract are met and repayments are up to date.

ii. Watchlist:

a. Where any of the conditions listed in 6.11 (b) above are not specified in the offer/contract; and/or

b. The turnover over the last 30 days is less than 75 per cent of the turnover specified in the offer/contract.

iii. Non-performing:

a. Sub-standard –

Where:

aa. One (1) clean-up cycle is not observed,

ab. The account is "above limit" for 30 consecutive days, or

ac. Turnover of the last 30 days is less than 50 per cent of the turnover specified in the offer/contract

b. Doubtful –

Where:

aa. Two clean-up cycles are not observed,

ab. The facility is "above limit" for 60 consecutive days, or

ac. Turnover of the last 30 days is less than 30 per cent of the turnover specified in the offer/contract

c. Lost –

Where:

aa. The facility has been operating "above limit" for 90 days,

ab. More than two clean-up cycles are not observed, or

ac. The facility expired but unpaid for more than 14 days

d) Banks are to make general and specific provisions on revolving/overdraft facilities as follows:

i. General provisions: 2 per cent on performing facilities

ii. Specific Provisions:

Specific provisions shall be made as follows:

- Watchlist: 5 per cent
- Sub-Standard: 20 per cent;
- Doubtful: 50 per cent; and

- Lost: 100 per cent.

e) In the case of revolving and overdraft facilities, where a facility rescheduling is agreed with a customer, provisioning shall continue until it is clear that the rescheduling is working at a minimum for a period of 90 days.

6.12 Facilities Without Approval:

Banks shall not allow accounts to be overdrawn without due approval. For accounts that were inadvertently overdrawn, the account shall be regularized within 30 days or be fully provided for.

6.13 Off- Balance Sheet Engagements

a. A proper appraisal of Off-Balance-Sheet engagements shall be undertaken with a view to determining the extent of loss a bank may likely sustain. Off-Balance-Sheet items include letters of credit, bonds, guarantees, indemnities, acceptances, and pending or protracted litigations (the outcome of which may not be easily determined).

b. The following factors shall be taken into consideration in recognizing losses on Off-Balance-Sheet engagements:

   i. Date the liability was incurred

   ii. Expiry date

   iii. Security pledge

   iv. Performance of other facilities being enjoyed by the customer, e.g. loans and advances

   v. Perceived risk.

c. Non-performing off balance sheet items shall be recognized on the balance sheet, classified lost and provisions made in line with sections 6.01 and 6.02.

d. Off-Balance-Sheet Engagements shall not form part of balance sheet totals while their disclosure in note form shall distinguish between:

   i. direct credit substitutes, e.g. general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities), and acceptances (including endorsements with the character of acceptances)

   ii. certain transaction-related contingent items (e.g. performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions;

   iii. short-term self-liquidating trade related contingencies (such as documentary credits collateralized by the underlying shipments)

iv. sale and repurchase agreements and assets sales with recourse, where the credit risk remains with the bank;
v. forward asset purchases, forward deposits and partly-paid shares and securities, which represent commitments with certain draw down;
vi. note issuance facilities and revolving underwriting facilities;
vii. other commitments (e.g. formal standby facilities and credit lines) with an original maturity of over one year;
viii. similar commitments with an original maturity of up to one year, or which can be unconditionally cancelled at any time.
ix. Commitments that are unconditionally cancellable, or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness,
x. Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions (i.e. repurchase/reverse repurchase and securities lending/securities borrowing transactions)

e. Banks shall make a general provision of 2 per cent of the credit equivalent value (CEV) of off-balance sheet engagements.

f. To compute the CEV, banks shall apply a credit conversion factor of 50 per cent to all categories of off-balance sheet engagements.

6.14 Regulators' Power Over Adequacy of Provisioning

a. Where CBN believes that based on the bank's portfolio analysis, there is excessive concentrations risk, or has industry knowledge of a delinquent obligor and other subjective factors, the CBN can mandate banks to make additional provision.

b. Some of the conditions that can make CBN to mandate banks to make additional provision include:
   i. Huge (excessive) concentrations in banks' portfolios.
   ii. High number of watch listed or restructured or rescheduled loans.
   iii. Adverse macro-economic developments affecting the industry to which the bank is exposed.
   iv. Poor board oversights and insider dealings etc.

6.15 NPL Limit

Banks are required to manage their credit risk effectively. To this end, all banks are to ensure that the level of NPLs in relation to gross loans does not exceed 5 per cent.

7.0 Financial soundness indicators and financial ratios:

a. Banks are required as part of their risk management framework to institute a process for computing financial ratios and financial soundness indicators for checking financial health of each institution.
b. Benchmarks shall be set and actual results computed and compared to the benchmarks at least on a quarterly basis. The report shall be presented to the Board of Directors or appropriate Board Committees for deliberation and remedial actions as considered necessary;
c. Illustrative examples of financial soundness indicators and financial ratios for banks are presented in **Annexures 1 and 3**

8.0 Update of the Prudential Guidelines

The CBN shall review these Guidelines as and when necessary but not later than five years from the effective date set out below.

9.0 Effective date

These Guidelines shall take effect from January 1, 2020 and supersedes the Prudential Guidelines for deposit money banks in Nigeria issued on June 30, 2010.

Annexure 1

INFORMATION TO BE MAINTAINED IN CREDIT FILES

(a) Information on borrower:

i. Natural Persons – Occupation, Employer, Salary/Income, Financial position/net worth and any other relevant information.

ii. (ii) Others – Constitution (proprietorship, partnership, private company, public company, society, club, co-operative, statutory board), business background and history, organization structure, management team/directors, shareholders/proprietor/partners, financial position and performance, and any other relevant information as may be prescribed by the CBN.

(b) Information on credit facility:

i. Description of facility type
ii. Purpose of facility
iii. Terms of facility – limits, interest rates, repayment schedules, expiry dates
iv. Collateral – types, valuation amount, valuation date and where applicable, name of the valuer
v. Guarantors – names, financial position and net worth

(c) Information for appraisal of credit application:

(Certain information would not be applicable for borrowers who are natural persons).

1. Assessment and recommendations of account officer/manager
2. Approval and basis of approval by management/credit committee
3. Qualitative analyses based on:
    i. borrower Information
    ii. history of relationship with customer
    iii. information on the banking relationship of other related groups of the borrower with the bank
    iv. information obtained on the borrower from other institutions and sources, including related offices of the bank
    v. analysis of industry and business risk
    vi. single customer concentration (if appropriate)
4. Quantitative analyses based on:
    i. Financial position and performance (previous, current and projected)
    ii. Business plans, sources and cash flow forecast for meeting repayment requirements

5. Capital resources
6. Other commitments
7. Collateral appraisal and value

(d) Information for periodic credit review

(Certain information would not be applicable for borrowers who are natural persons).

(1) Assessment and recommendations of credit review officer, including:

i. Credit grading/rating accorded
ii. Provision for losses
iii. Suspension of interest

(2) Approval and basis of approval for renewals; revision in terms and conditions; and changes in credit grading

(3) Latest available information on:

i. Outstanding facilities utilized, including contingent liabilities, commitments and other off-balance sheet transactions
ii. Conduct and servicing of account
iii. Correspondences and call reports from meetings with borrowers and site visits

Current qualitative analyses based on latest updated

information on borrower, including review comments from internal and external auditors where available

(4) Current quantitative analyses based on latest updated financial information, appraisals and valuations

(5) Information on the account conduct of other related groups of the borrower

(6) Analysis of industry and business risk

Annexure 2

Financial Soundness Indicators

Indicator	Indicates	Comments and basis of computation
Regulatory capital to risk- weighted assets	Capital adequacy	Broad measure of capital including items giving less protection against losses, such as subordinated debt, tax credits, unrealized capital gains $\frac{\text{Total qualifying capital}}{\text{Risk weighted assets}} \times 100$
Regulatory Tier 1 capital to risk weighted assets	Capital adequacy	Highest quality capital such as shareholder equity/ retained earnings, relative to risk weighted assets $\frac{\text{Total tier 1 capital}}{\text{Risk weighted assets}} \times 100$
Regulatory Tier 2 capital to risk weighted assets	Capital adequacy	Tier 2 capital relative to risk weighted assets $\frac{\text{Total tier 2 capital}}{\text{Risk weighted assets}} \times 100$
Non-performing loans net of provision to capital	Capital adequacy	Indicates potential size of additional provisions that may be needed relative to capital $\frac{\text{NPL – Provision}}{\text{Total qualifying capital}} \times 100$
Capital to assets	Capital adequacy	Broad measure of capital adequacy which is a buffer for losses $\frac{\text{Total qualifying capital}}{\text{Total assets}} \times 100$
Non-performing loans to total gross loans	Asset quality	Indicates the credit quality of banks' loans $\frac{\text{Non-performing loans}}{\text{Gross loans}} \times 100$
Sectoral distribution of loans to total loans	Asset quality	Identifies exposures concentrations to particular sectors $\frac{\text{Loans per Sector}}{\text{Gross loans}} \times 100$

Indicator	Indicates	Comments and basis of computation
Large exposures to capital	Asset quality	Identifies credit exposure to large borrowers $\frac{\text{Aggregate large exposure}}{\text{Total qualifying capital}} \times 100$ A large exposure is any credit to a customer or a group of related borrowers that is at least 10% of a bank's shareholders fund unimpaired by losses
Geographical distribution of loans to total loans	Asset quality	Identifies credit exposure concentrations to particular countries by the banking system $\frac{\text{Loans per defined geographical area}}{\text{Gross loans}} \times 100$
Return on assets	Earnings/ profitability	Assesses scope for earnings to offset losses relative to capital or loan and asset portfolio $\frac{\text{PAT}}{\text{Total assets}} \times 100$
Interest margin to gross income	Earnings/ profitability	Indicates importance of net interest income and scope to absorb losses $\frac{\text{Net interest income}}{\text{Gross Income}}$
Non-interest expenses to gross income	Earnings/ profitability	Indicates extent to which non-interest expenses weaken earnings $\frac{\text{Non-interest expense}}{\text{Gross Income}}$
Liquid assets to total assets	Liquidity	Assesses the overall liquidity status of the bank $\frac{\text{Specified liquid assets}}{\text{Total assets}} \times 100$
Liquid assets to short term liabilities	Liquidity	Assesses the vulnerability of the bank to loss of access to market sources of funding or a run on deposits

Indicator	Indicates	Comments and basis of computation
		Specified liquid assets x 100 Deposits due within one year
Spread between highest and lowest inter-bank rate	Liquidity	Market indicator of counterparty risks in the inter-bank market Highest interbank rate – Lowest interbank rate
Customer deposits to total (non-inter-bank) loans	Liquidity	Assesses the vulnerability to loss of access to customer deposits Customer deposits x 100 Loans and advances to customers
Net open position in foreign exchange to capital	Exposure to FX risk	Measures foreign currency mismatch Net Open Position Total Capital
Foreign currency-denominated loans to total loans	Exposure to FX risk	Measures risk to loan portfolios from exchange rate movements Naira value of FCY loans x 100 Loans and advances to customers and banks
Foreign currency-denominated liabilities to total liabilities	Exposure to FX risk	Measures extent of dollarization Naira value of FCY liabilities x 100 Total liabilities
Return on equity	Earnings/ profitability	Indicates extent to which earnings are available to cover losses PAT x 100 Shareholders' fund
Trading income to total income	Earnings/ profitability	Indicates dependence on trading income Net trading income x 100

Indicator	Indicates	Comments and basis of computation
		Gross earnings
Staff costs to non-interest expenses	Earnings/ profitability	Indicates the extent to which high non-interest expenses reduces earnings $\frac{\text{Staff costs}}{\text{Other operating expenses}} \times 100$
Spread between reference lending and deposit rates	Earnings/ profitability	Indicates dependence of earnings on the interest rate spread. (Reference lending rate – deposit rate) %
Total debt to equity	Leverage	Provides indication of credit risk $\frac{\text{Debt securities issued}}{\text{Shareholders fund}} \times 100$
Earnings to interest and principal expenses	Debt service capacity	Indicates extent to which earnings cover losses are reduced by interest and principal payments $\frac{\text{PAT}}{\text{Interest \& principal payments on debt securities}} \times 100$

Annexure 3

Financial Ratios

FINANCIAL RATIO	MEASURES	BASIS OF COMPUTATION
Average cost of depo	Earnings/ profitability	Interest expense Average deposit (i.e opening + closing balances)/2
Basic earnings per share	Earnings/ profitability	Profit attributable to ordinary shareholders (after deduction of debenture int. and tax) Weighted average no of shares in issue
Cost to income ratio (1)	Earnings/ profitability	Total cost (interest expense, operating cost before loan loss expense)/Gross earnings
Cost to income ratio (2)	Earnings/ profitability	Total overhead cost (operating cost including loan loss expense)/Total net revenue
Cost of interest bearing liabilities	Earnings/ profitability	Interest expense Average interest-bearing liabilities (opening + closing balances)/2
Cost of risk	Earnings/ profitability	loan loss expense Average loans (i.e opening + closing balances)/2
Marginal cost of funds	Earnings/ profitability	Increase in int. expense during the month Increase in average deposits during the same month (annualized)
Yield on interest earning assets	Earnings/ profitability	Interest income Weighted average interest earning assets
Net Interest margin (1)	Earnings/ profitability	Net Interest Income Weighted average interest-earning assets

FINANCIAL RATIO	MEASURES	BASIS OF COMPUTATION
Net Interest margin (2)	Earnings/profitability	Net interest income / Total interest income
Net revenue from funds	Earnings/ profitability	Interest income - (interest expense + loan expense)
Operating profit	Earnings/ profitability	Profit before taxation (PBT)
Operating profit margin	Earnings/ profitability	Operating profit / Gross earnings
Liquidity ratio	Liquidity	Liquid assets / Deposit liabilities (as prescribed by the CBN)
Loan to deposit ratio	Liquidity	Total loans / Total deposit
Provisioning level	Asset quality	Total provision / Total NPL
Risk asset ratio	Asset quality	Total loans / Total assets
Leverage ratio	Capital adequacy	Total debt capital / Total shareholders' fund x100

LIST OF ACRONYMS

BA	Banker's Acceptance
BVN	Bank Verification Number
CBN	Central Bank of Nigeria
CEO	Chief Executive Officer
CP	Commercial Papers
CRMS	Credit Risk Management System
FATF	Financial Action Task Force
FCA	Financial Completion Agreement
FSV	Forced Sale Value
IFRS	International Financial Reporting Standards
IRV	Integrated Voice Recording
KYC	Know Your Customer
LAF	Loan Application Form
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
NDIC	Nigeria Deposit Insurance Corporation
NPL	Non-Performing Loans
OFISD	Other Financial Institutions Supervision Department
PFA	Project Funds Agreement
PIN	Personal Identification Number
SEC	Securities and Exchange Commission
SME	Small and Medium Enterprise
TIN	Tax Identification Number